

## American Express Company

## Jan Op Data: Resilient card growth and credit remains solid

Reiterate Rating: BUY | PO: 224.00 USD | Price: 212.24 USD

## Steady as she goes

American Express (AXP) reported January operating metrics highlighted by continued moderation in US loan growth and steady credit results. Overall, we view the results as slightly positive – balances are performing better than historical seasonality would predict and credit remains strong. While headline loss rate improved, it is exaggerated by one-time impacts in December. As such, we believe loss rate was likely steady m/m. Still, Amex's underwriting and card base drive best-in-class credit results which we believe will be well received by investors in a fluid macro and credit backdrop. Reiterate Buy.

## Loan growth up 15.1% y/y, fastest among peers

January US loan balance of \$107.3B, up 15.1% y/y, decelerated slightly from December at 15.8%. American Express' loan growth continues to be the fastest among pure-play card issuing peers. US Consumer balances grew 13.7% y/y (14.4% in December) and US Small Business was up 19.6% y/y (20.6% in December). Loan growth outperformed historical seasonality as balances fell by 156bps m/m compared to the 10yr average of down 271bps in January. We are comfortable with our \$107.4B estimate, slightly above consensus at \$107.2B given seasonal outperformance and typical 1Q growth trends.

## Net charge-offs at 2.1% in Jan

US Consumer NCOs improved to 2.10% from 2.50% in December and US Small Business also came in at 2.10% (2.20% in December). Loss rates improved 33bps compared to the 5bps improvement historically seen in January, though we note that US Consumer loss rates in December were adversely impacted by holiday timing, which makes a historical m/m comparison difficult. However, the improvement in US Small Business is encouraging. Overall, we would characterize loss performance as steady m/m and in-line with Amex's commentary. The 30+ day delinquency rate increased 10bps m/m to 1.50% which suggests some near term pressure in losses. We revise our 1Q card loss rate forecast higher to 2.25% from 2.10% prior. Consensus at 2.38%, may be a touch high.

## Adjusting estimates

We adjust our 1Q/2024 EPS estimate to \$2.95/\$12.91 from \$3.02/12.97 prior as we account for higher losses in 1H24 and tweaked reserve timing. We maintain a \$224 PO based on an unchanged 15x multiple to 2025E EPS.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	9.84	11.21	12.91	14.92	17.19
EPS Change (YoY)	0.8%	13.9%	15.2%	15.6%	15.2%
Consensus EPS (Bloomberg)			12.86	14.69	16.92
DPS	2.08	2.40	2.80	2.80	2.80
Valuation (Dec)					
P/E	21.6x	18.9x	16.4x	14.2x	12.3x
Dividend Yield	1.0%	1.1%	1.3%	1.3%	1.3%

15 February 2024

## Equity

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## Stock Data

Price	212.24 USD
Price Objective	224.00 USD
Date Established	26-Jan-2024
Investment Opinion	B-1-7
52-Week Range	140.91 USD -214.25 USD
Mrkt Val / Shares Out (mn)	153,634 USD / 723.9
Free Float	72.4%
Average Daily Value	774.05 USD
BofA Ticker / Exchange	AXP / NYS
Bloomberg / Reuters	AXP US / AXP.N
ROE (2024E)	30.9%
ESGMeter™	High

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DQ: Delinquencies

NCO: Net charge-off

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Timestamp: 15 February 2024 01:40PM EST

# iQprofile<sup>SM</sup> American Express Company

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	9,895	13,134	14,866	17,108	19,612
% change	27.7%	32.7%	13.2%	15.1%	14.6%
Net Fee Income	42,967	47,381	51,739	56,455	61,519
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	52,862	60,515	66,604	73,563	81,132
Operating Expenses	(41,095)	(45,079)	(48,766)	(54,165)	(59,537)
% change	24.1%	9.7%	8.2%	11.1%	9.9%
Provisions Expense	(2,182)	(4,923)	(5,790)	(5,973)	(6,585)
% change	NA	125.6%	17.6%	3.2%	10.2%
Operating Pre-Tax Income	9,585	10,513	12,049	13,425	15,010
Operating Net Income to Comm S/Hold.	7,400	8,252	9,217	10,351	11,586
GAAP Net Income	7,514	8,374	9,338	10,472	11,707

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	228,354	261,000	287,535	312,171	339,508
Average Interest Earning Assets	99,413	120,850	136,495	151,931	169,062
Total Gross Customer Loans	111,747	131,118	146,262	163,125	182,094
% change	21.6%	17.3%	11.6%	11.5%	11.6%
Total Customer Deposits	110,239	129,000	139,320	149,072	159,507
% change	30.6%	17.0%	8.0%	7.0%	7.0%
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	24,711	27,869	31,161	35,643	41,417

## Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	9.95%	10.87%	10.89%	11.26%	11.60%
Effective Tax Rate	21.6%	20.3%	22.5%	22.0%	22.0%
Loan / Deposit Ratio	101.4%	101.6%	105.0%	109.4%	114.2%
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	31.4%	30.6%	30.9%	30.7%	29.6%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	21.1%	21.4%	21.7%	18.8%	16.3%
Efficiency Ratio (Cost / Income Ratio)	77.7%	74.5%	73.2%	73.6%	73.4%
Billings Growth	20.9%	8.2%	6.7%	7.3%	7.3%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(57)	(65)	(65)	(65)	(65)
Change in Debt	NA	NA	NA	NA	NA

## Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	81.3%	78.3%	77.7%	76.7%	75.8%
Loan Loss Reserves / Total Loans	3.47%	4.06%	4.25%	4.32%	4.38%

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

American Express is a fully integrated payments company. It is a card issuer, payment network and merchant acquirer. The company provides charge and credit cards to consumers and businesses, directly and to a much lesser extent through bank issuing partners across the world. It also operates a global merchant acquiring and card processing network.

## Investment Rationale

We rate AXP Buy. AXP's strong execution during the pandemic should drive faster long-term revenue and EPS growth as it benefits from improved card member retention and new card acquisitions. Operating momentum is strong and credit also remains firmly in check. We think risk-reward is attractive.

## Stock Data

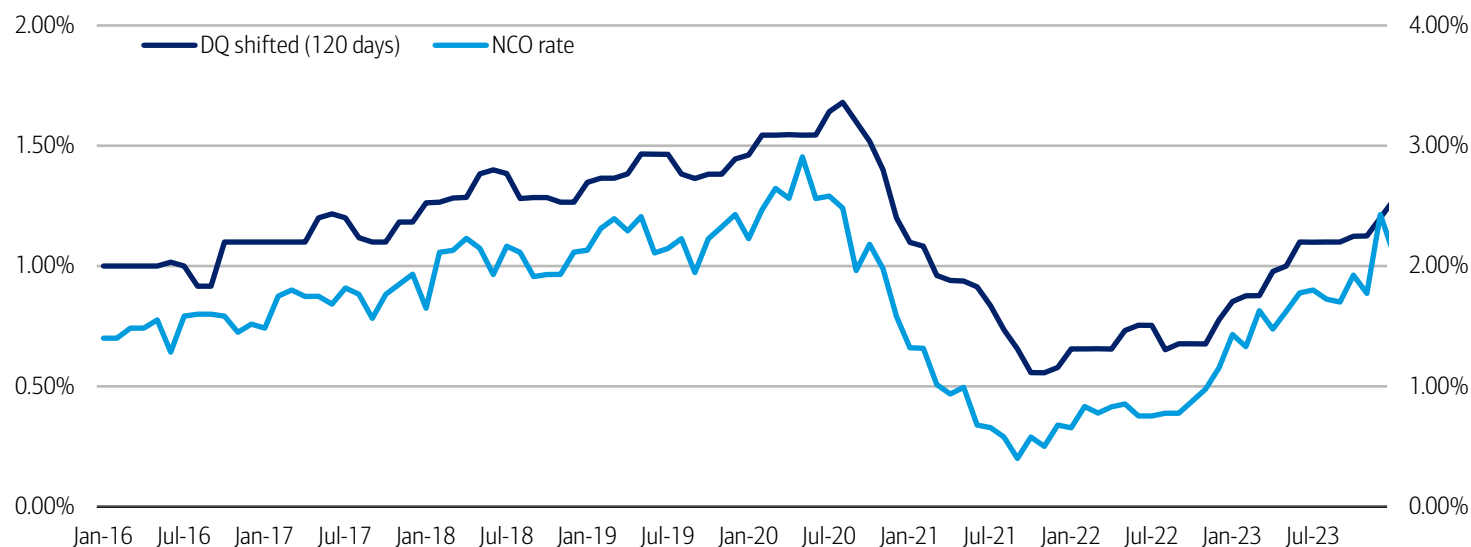
Average Daily Volume 3,647,041

## Quarterly Earnings Estimates

	2023	2024
Q1	2.40A	2.95E
Q2	2.89A	3.19E
Q3	3.30A	3.37E
Q4	2.62A	3.40E

**Exhibit 1: DQ trends suggest upward pressure on near-term losses**

DQs (shifted 120 days) vs NCOs



Source: BofA Global Research estimates, company reports

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## Price objective basis & risk

### American Express Company (AXP)

Our \$224 price objective is based on a 15x multiple to our 2025 EPS forecast. The 15x PE multiple is the middle of the historical range (12-18x) for AXP, which we think is appropriate given the growth outlook and strong operating momentum it is experiencing.

Downside risks to our PO are weaker-than-expected macroeconomic conditions, softer consumer and business spending, weaker loan growth, increasing competition, weaker US consumer credit performance, disruptions in capital markets, or an increasing regulatory burden.

## Analyst Certification

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### US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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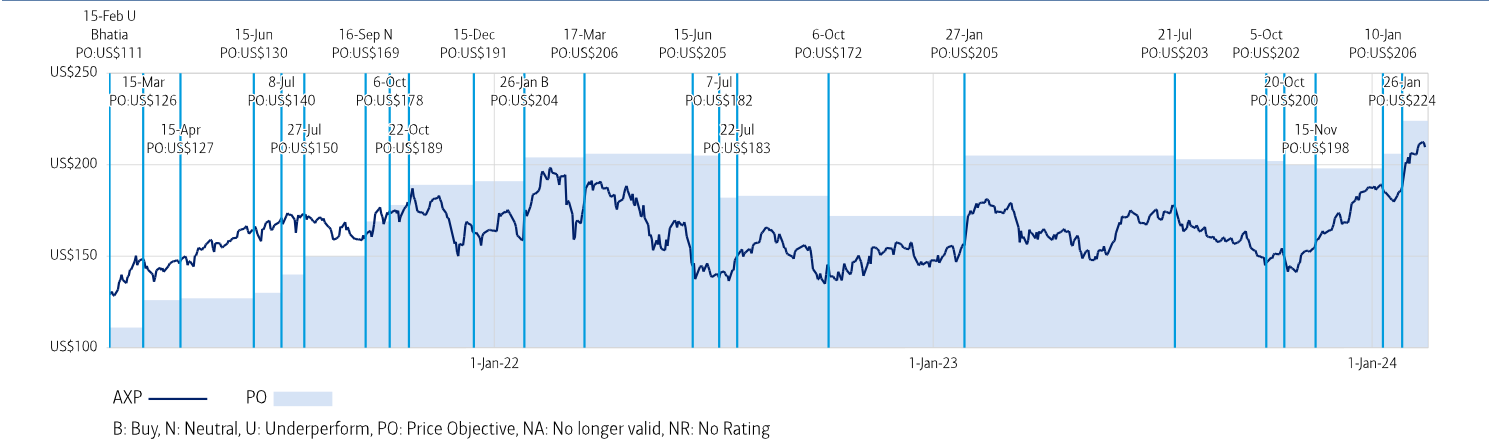
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American Express (AXP) Price Chart



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### Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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