

## American Express Company

## Oct Op data: Loan growth trending in-line, write-offs slightly above expectations

Reiterate Rating: BUY | PO: 198.00 USD | Price: 156.91 USD

## Higher write-offs in October

American Express (AXP) reported October operating metrics which displayed higher net-write off rates and resilient loan growth. Overall, we view today's results as slightly positive – while the 22bps increase in write-offs is trending ahead of our initial expectations, the increase was less stark than its peers. Delinquency trends were also mostly stable, which should support near-term losses. Given AXP's best-in-class credit quality we see attractive risk / reward in a more uncertain macro backdrop. Maintain Buy.

## Loan growth up 16.9% y/y, strong sequential growth

The October US loan balance of \$104.6B is up 16.9% y/y, a slowdown from 18.3% y/y in September. US Consumer growth was 15.7% y/y (17.2% in September) and US Small Business was 20.8% (21.7% in September). On a month-to-month basis, loan balances increased 165bps which is above typical seasonality of +145bps (10-year average). US loan balances are tracking in-line with our consensus-like \$109.2B forecast assuming slight seasonal outperformance in November and December.

## Net write-off rate up 22bps to 1.92%

The net write-off rate was 1.90% in US Consumer and 2.00% in US Small Business which combined for an overall 1.92% net write-off rate. Loss rates ticked up 20bps and 30bps in US Consumer and Small Business, respectively. The 22bps m/m increase in loss rates was above historical seasonality of +11bps. We note that write-off rates typically increase 2bps and 3bps in November and December, respectively. That said, we increase our write-off estimate to 2.00% up from 1.90% prior, given worse than seasonal performance. Additionally, the 30+ day delinquency at 1.30% was up only 2bps from the prior month, compared to typical seasonality of +1bps.

## Adjusting estimates

We tweak our 2023/2024 estimate to \$11.10/\$12.39 from \$11.16/\$12.49 prior as we account for higher near-term losses and subsequently lower our PO to \$198 from \$200 prior based on an unchanged 16x multiple on 2024e EPS.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	9.76	9.84	11.10	12.39	14.97
GAAP EPS	10.02	9.84	11.10	12.39	14.97
EPS Change (YoY)	158.9%	0.8%	12.8%	11.6%	20.8%
Consensus EPS (Bloomberg)		11.21	12.32	14.26	
DPS	1.72	2.08	2.40	2.40	2.40
Valuation (Dec)					
P/E	16.1x	15.9x	14.1x	12.7x	10.5x
GAAP P/E	15.7x	15.9x	14.1x	12.7x	10.5x
Dividend Yield	1.1%	1.3%	1.5%	1.5%	1.5%

15 November 2023

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	200.00	198.00

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## Stock Data

Price	156.91 USD
Price Objective	198.00 USD
Date Established	15-Nov-2023
Investment Opinion	B-1-7
52-Week Range	140.91 USD -182.15 USD
Mrkt Val / Shares Out (mn)	114,347 USD / 728.7
Average Daily Value	481.55 USD
BofA Ticker / Exchange	AXP / NYS
Bloomberg / Reuters	AXP US / AXP.N
ROE (2023E)	30.3%
ESGMeter™	High

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DQ: Delinquency

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Timestamp: 15 November 2023 12:40PM EST

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

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	7,750	9,895	12,992	14,584	15,881
% change	-2.9%	27.7%	31.3%	12.3%	8.9%
Net Fee Income	34,630	42,967	47,642	51,881	56,639
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	42,380	52,862	60,633	66,465	72,520
Operating Expenses	(33,110)	(41,095)	(45,375)	(49,808)	(53,689)
% change	22.4%	24.1%	10.4%	9.8%	7.8%
Provisions Expense	1,419	(2,182)	(4,912)	(5,358)	(5,701)
% change	-130.0%	NA	125.1%	9.1%	6.4%
Operating Pre-Tax Income	10,689	9,585	10,346	11,298	13,130
Operating Net Income to Comm S/Hold.	7,917	7,400	8,175	8,808	10,255
GAAP Net Income	8,060	7,514	8,294	8,926	10,373

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	188,548	228,354	263,407	278,714	302,165
Average Interest Earning Assets	78,268	99,413	120,719	134,913	149,066
Total Gross Customer Loans	91,905	111,747	130,370	144,344	159,558
% change	16.7%	21.6%	16.7%	10.7%	10.5%
Total Customer Deposits	84,382	110,239	130,082	140,489	150,323
% change	-2.9%	30.6%	18.0%	8.0%	7.0%
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	22,177	24,711	27,729	30,903	35,585

## Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	9.90%	9.95%	10.76%	10.81%	10.65%
Effective Tax Rate	24.6%	21.6%	19.8%	21.0%	21.0%
Loan / Deposit Ratio	108.9%	101.4%	100.2%	102.7%	106.1%
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	31.9%	31.4%	30.3%	29.7%	30.4%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	17.1%	21.1%	21.6%	19.3%	16.0%
Efficiency Ratio (Cost / Income Ratio)	78.1%	77.7%	74.8%	74.9%	74.0%
Billings Growth	23.7%	20.9%	8.4%	6.8%	7.7%

## Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	81.7%	81.3%	78.6%	78.1%	78.1%
Loan Loss Reserves / Total Loans	3.73%	3.47%	4.06%	4.25%	4.26%

## 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 a 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 AXP should also benefit from the continuing recovery in travel post-pandemic. Credit also remains firmly in check. We think risk-reward is attractive.

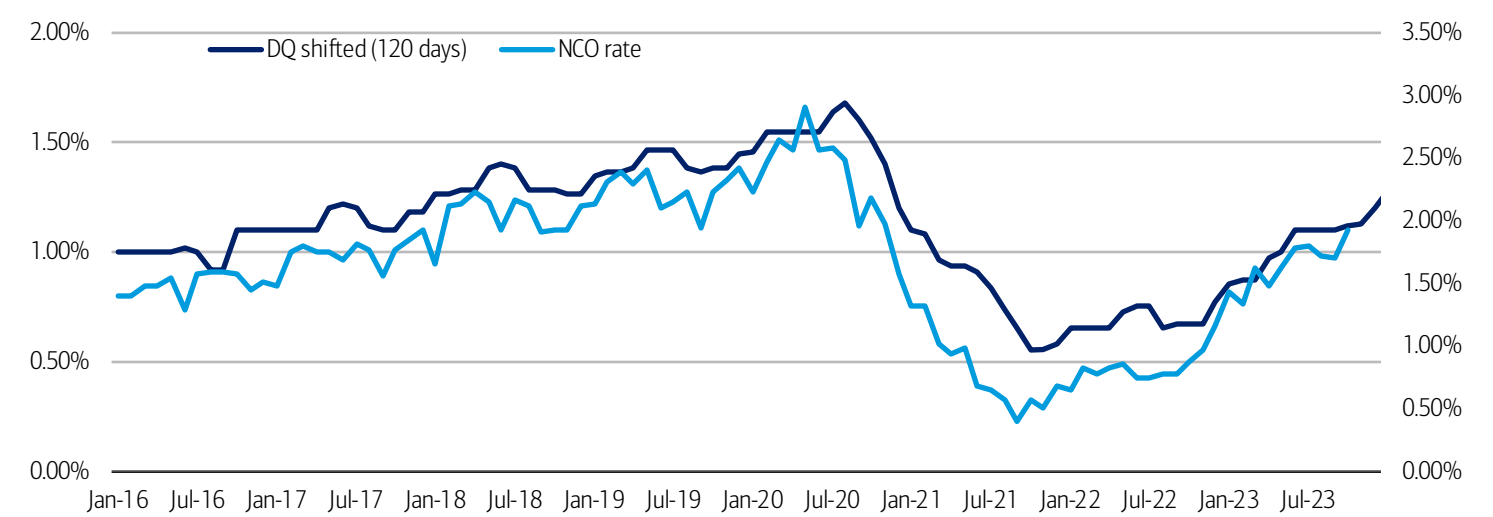
## Stock Data

Average Daily Volume 3,068,948

## Quarterly Earnings Estimates

	2022	2023
Q1	2.73A	2.40A
Q2	2.57A	2.89A
Q3	2.47A	3.30A
Q4	2.07A	2.51E

**Exhibit 1: DQ trends suggests net write-off rates could edge slightly higher**  
DQs (120 days lagged) vs net write-offs



Source: BofA Global Research estimates, company reports

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## Price objective basis & risk

### American Express Company (AXP)

Our \$198 price objective is based on a 16x multiple to our 2024 EPS forecast. An 16x PE multiple is on the higher end of the historical range (12-18x) for AXP, which we think is appropriate given the faster 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

I, Mihir Bhatia, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	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
	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
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Toast	TOST	TOST US	Jason Kupferberg
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
	TTEC Holdings	TTEC	TTEC US	Cassie Chan

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	ADP	ADP	ADP US	Jason Kupferberg
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	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
	loanDepot Inc	LDI	LDI US	Derek Hewett
	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 & 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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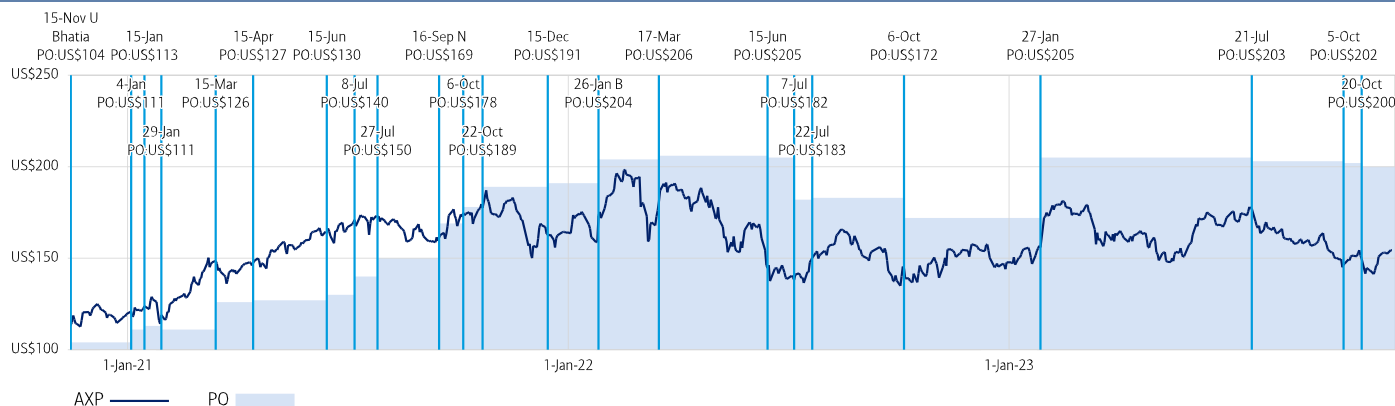
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Financial Services Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.24%	Buy	94	60.26%
Hold	79	26.96%	Hold	52	65.82%
Sell	58	19.80%	Sell	32	55.17%

### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
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