AMERICAN EXPRESS CO.

Date: Oct 14, 2024 **Ticker:** NYSE: AXP **Recommendation:** Buy
Exchange rate: USD 1.00 **Price:** $271.06 **Price Target:** $ 343.20

Industry: Payment Solution Services	**Industry:** Short-term Business Credit
Industry: Credit Card Issuing	**Market Cap:** 196.219B (Oct 14, 2024)
Revenue: $67,364,000,000 (End of 2023)	**Net Income:** $8,374,000,000 (End of 2023)
Dividend: $2.6	**Dividend Yield:** 1.58% (Year 2023)
EPS Basic: $13.43	**PE Ratio:** 20.61 (Oct 14, 2024)

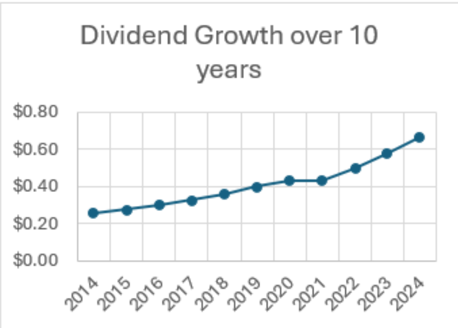

Figure 1: Market Profile

Figure 2: AMEX Stock Performance

Highlights:

Market Share:

American Express (AMEX) occupies a distinctive position in the market by catering to a smaller yet premium customer base, driven by its exceptional services and luxurious rewards strategies. This focus on high-value offerings results in significant spending on thick cards and higher interest payments, contributing to robust revenue streams. By prioritizing customer experiences and exclusive benefits, AMEX not only fosters brand loyalty but also enhances its competitive edge in the financial services industry

Closed Loop Payment Solutions:

American Express (AMEX) stands out as a leader in the realm of closed-loop payment solutions, effectively functioning as both an issuer and an acquirer. As an issuer, AMEX provides customers with credit and charge cards tailored to their needs, while also acquiring merchants to facilitate card acceptance. This integrated approach allows AMEX to maintain better control over the entire transaction process, ensuring enhanced security and a seamless customer experience. By operating within this closed-loop system, AMEX can leverage valuable data insights, enabling it to refine its offerings and strengthen customer relationships.

Return on Investment:

As of the end of 2023, American Express (AMEX) boasts a current dividend yield of 1.58%, which is relatively modest compared to its peers. However, this figure belies the substantial appreciation in share value, with the average stock price soaring by 200%, from $93.04 at the end of 2014 to $187.34 by the end of 2023. This remarkable growth reflects AMEX's strong market position and effective business strategies, ultimately delivering tremendous returns to investors. Thus, while the dividend yield may appear low, the overall investment performance highlights the company's potential for significant capital gains.

AXP vs. S&P500 vs. DowJones:

American Express (AXP) has notably outperformed both the S&P 500 and Dow Jones Industrial Average, showcasing its strength in the financial markets. This performance is not merely a short-term trend; projections suggest that the gap between AXP and these major indices is likely to widen even further in the coming years. Such resilience reflects American Express's robust business model, strategic growth initiatives, and commitment to delivering value to shareholders. As investors continue to recognize this potential, AXP's stock may further solidify its position as a top-performing asset.

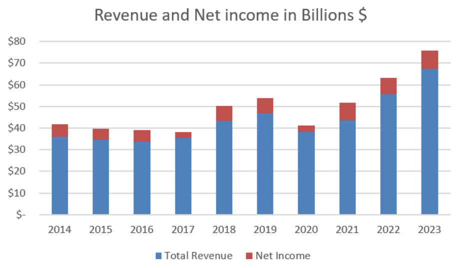

Figure 3: Total Revenue/ Net Income

Business Description

American Express Co. (AMEX), founded in 1850, is a global provider of financial, banking, travel, and insurance services. It is the fourth-largest global card network, issuing 141.2 million cards and processing over $1.7 trillion in transactions in 2023. AMEX holds a 4.16% market share by payment volume and is known for its premium card benefits, rewards, and discounts. The company's "closed-loop" network model allows it to maintain direct relationships with both cardholders and merchants, enhancing customer loyalty and data analytics capabilities (Fig 3). With a focus on high-income, affluent customers, AMEX continues to differentiate itself through exclusive services and personalized offerings.

Business Model:

Spend-Centric and Closed Loop Payment Processing: American Express (AMEX) operates a spend-centric and closed-loop payment processing model that emphasizes cardholder spending. By acting as both the issuer and acquirer, AMEX maintains better control over transactions and customer data. This dual role allows the company to deliver tailored services and personalized promotions, enhancing customer loyalty. The closed-loop system also facilitates real-time data analysis, improving fraud detection and risk management. Furthermore, AMEX focuses on high-spending customers, providing premium rewards and benefits that attract affluent users. Overall, this integration of insights and services helps AMEX maintain a competitive edge in the payment processing industry.

Key Revenue Segments:

Global Consumer Services (55% of revenue): Global Consumer Services, which constitutes 55% of American Express's revenue, encompasses a wide range of offerings. The division provides charge and credit cards tailored to meet diverse consumer needs, enabling flexible payment options. Additionally, it offers deposit products that cater to customers' savings and investment goals. AMEX also provides comprehensive travel services, enhancing customer experiences with exclusive benefits and rewards. Furthermore, small-business loans are available, supporting entrepreneurs in their financial endeavors and growth aspirations.

Global Commercial Services (31% of revenue): Global Commercial Services, accounting for 31% of American Express's revenue, focuses on delivering innovative payment solutions tailored for businesses. This division offers comprehensive payment programs that streamline transaction processes and improve cash flow management. Additionally, it provides advanced expense management tools, enabling companies to track and control spending effectively. AMEX also offers consulting services, helping businesses optimize their financial strategies and operations. Furthermore, its international payment solutions facilitate seamless cross-border transactions, supporting companies in expanding their global reach.

Global Merchant and Network Services (14% of revenue): Global Merchant and Network Services, which contributes 14% to American Express's revenue, plays a crucial role in the company's payment ecosystem. This division operates a robust payment network that facilitates secure and efficient transactions for merchants and customers alike. Additionally, it provides comprehensive loyalty programs designed to enhance customer engagement and retention. Through advanced data analytics, AMEX helps merchants understand consumer behavior and preferences, enabling targeted marketing strategies. The division also works to enhance merchant acceptance, expanding the reach of American Express and ensuring that customers can utilize their cards in a variety of locations. Overall, this integrated approach strengthens relationships between merchants and cardholders, driving growth for all parties involved.

Financial Performance:

Growth Trends: American Express has experienced a consistent upward trajectory in revenue over the past decade, demonstrating significant recovery since the challenges posed by the COVID-19 pandemic in 2020. In fact, the company has achieved an impressive average annual growth rate of nearly 21% over the last three years. This robust growth signals strong consumer demand and effective business strategies, positioning American Express favorably for future opportunities. For investors, these trends are promising indicators of the company's potential for sustained success and profitability.

Profit Margins: Over the past decade, American Express has maintained an impressive average net income margin of 17% of total revenue, demonstrating strong profitability. Notably, the net income as a percentage of total revenue dipped below 10% only twice, in 2017 and 2020, reflecting the resilience of its business model. In the last three years, this margin has exceeded the historical average, indicating improved efficiency and cost management alongside rising.

Employee Cost : Over the past decade, employee costs at American Express have averaged around 15% of total revenue, with fluctuations ranging from as high as 17% to as low as 12%. However, since 2017, there has been a noticeable downward trend, with employee costs consistently remaining below the 15% threshold, touching this mark only once in the past five to six years. This shift suggests that American Express is becoming more efficient in managing its workforce expenditures relative to revenue growth. As the company continues to optimize its operations, maintaining a leaner cost structure could further enhance profitability and financial performance.

Marketing & Advertising Cost : American Express has maintained a consistent marketing and advertising cost of around 10% of total revenue, with a brief spike to 15% in 2020. This stable expenditure reflects the company's strategy of relying on its established reputation and brand equity rather than aggressive marketing tactics. By prioritizing customer experience and service quality, American Express effectively attracts and retains clientele without the need for heavy advertising investments. This approach not only conserves resources but also reinforces the brand's image as a premium provider in the financial services industry.

Key Events Impacting Revenue:

Costco Partnership Termination: The termination of the partnership between Costco and American Express marked a significant turning point for the latter, as it occurred in Canada in 2015 and in the USA in 2016. At that time, approximately 8% of American Express's revenue was derived from this lucrative collaboration, making the impact of the split quite pronounced. Following the end of the partnership, American Express experienced notable revenue declines, with growth rates plummeting to -4.33% in 2015 and -1.79% in 2016. This downturn is clearly reflected in the company's income statement, highlighting the reliance on Costco's customer base for its revenue. The transition to a new partner, Citibank, further altered the competitive landscape, prompting American Express to reassess its strategies to recapture lost growth.

COVID-19 Impact: The COVID-19 pandemic significantly impacted nearly all businesses, and American Express was no exception, experiencing a nearly 20% drop in total revenue in 2020 compared to 2019. This downturn reflected the broader economic challenges faced by the financial services sector during the crisis. However, demonstrating remarkable resilience, American Express has made a strong recovery in the years following the pandemic. Since 2020, the company has achieved an impressive average revenue growth of nearly 21%, indicating a robust rebound in consumer spending and the effectiveness of its strategic initiatives. This recovery underscores American Express's ability to adapt to changing market conditions and positions it favorably for future growth.

Revenue Growth	-	-4.33%	-1.79%	5.20%	21.63%	8.64%	-18.79%	14.35%	27.40%	21.10%
Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Interest Income	20%	22%	22%	24%	25%	26%	26%	21%	23%	30%
Interest Expense	5%	5%	5%	6%	7%	7%	5%	3%	5%	10%
Net Interest Before Provs	15%	17%	17%	18%	18%	18%	21%	18%	18%	19%
Loan Loss Provisions	6%	6%	6%	8%	8%	8%	12%	-3%	4%	7%
Net Interest After Provs	10%	11%	11%	10%	10%	11%	9%	21%	14%	12%
Non-Interest Income	80%	78%	78%	76%	75%	74%	74%	79%	77%	70%
Employee Costs	17%	14%	16%	15%	12%	13%	15%	14%	13%	12%
Marketing & Advertising	#VALUE!	9%	11%	9%	15%	#VALUE!	#VALUE!	#VALUE!	10%	8%
Other Non-Interest Expense	49%	43%	42%	42%	40%	55%	56%	63%	50%	47%
Non-Interest Expense	66%	66%	69%	65%	67%	67%	71%	78%	73%	67%
Earnings Before Tax	25%	23%	24%	21%	19%	18%	11%	24%	17%	16%
Taxation	9%	8%	8%	13%	3%	4%	3%	6%	4%	3%
Net Income	16%	15%	16%	8%	16%	14%	8%	18%	14%	12%

Figure 4: Annual Financial Performance and Key Metrics of American Express (2014-2023)

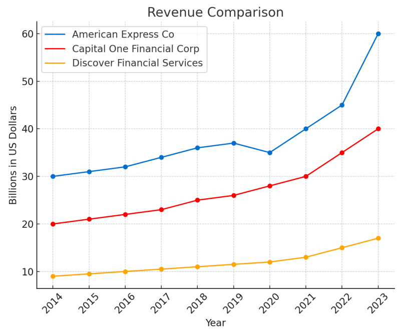

Figure 5: Revenue Comparison

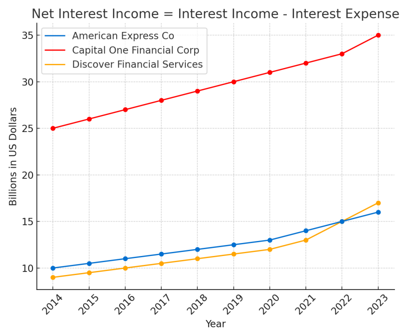

Figure 6: Net Interest Income

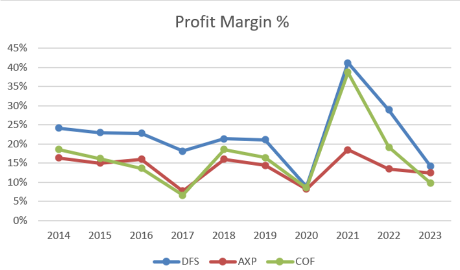

Figure 7: Profit Margin

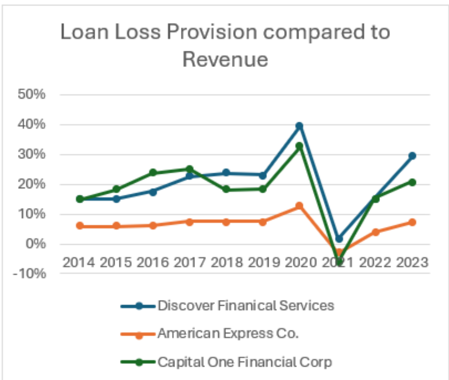

Figure 8: Loan Loss Provision Compared to Revenue

Industry Analysis & Comparison

Global Competition:

AMEX competes with various high-value businesses in the global payments industry, including card networks such as China UnionPay, Visa, Mastercard, JCB, Discover, and Diners Club International. AMEX ranks behind China UnionPay, Visa, and Mastercard in terms of the largest general-purpose card networks globally. Additionally, it faces competition from merchant acquirers, processors, and web and mobile-based payment platforms like Alipay, PayPal, and Venmo (Fig 6).

Comparison with Major Competitors:

- AMEX competes with Discover Financial Services (market cap: $33.308 billion) and Capital One Financial Corp (market cap: $53.078 billion) in the card issuer and acquirer market (Fig 7).
- Despite capturing the largest market share by revenue, AMEX leads in generating the highest net income relative to revenue, showcasing its business model's superior profit margin (Fig 8).
- Capital One holds the highest net interest income, suggesting AMEX and Discover may borrow at higher interest rates and are less effective in passing on those costs to customers, potentially reducing their profit margins (Fig 9).

Target Market and Brand Positioning:

- Known for its premium services and luxurious rewards, AMEX focuses on a high-value user base, capturing a niche segment of affluent customers with strong spending power and creditworthiness.
- This strategy contributes to AMEX having the lowest percentage of Loan Loss Provision Funds relative to revenue among its competitors.

Market Capitalization and Growth Indicators:

- AMEX's market capitalization increased by 29%, indicating a gradual but steady enhancement of its market value. While market cap doesn't directly impact share prices, it can influence share demand and supply.

Focus on Quality over Quantity:

- AMEX is committed to a strategy of "quality over quantity," prioritizing premium services and exclusive offerings over market volume.

Future Growth Prospects:

- With a strong brand and premium status, AMEX is positioned to maintain its leadership as a premier card issuer.
- A 15% rise in payment volume from millennials and Gen Z in Q4 2023 highlights its growing appeal among younger consumers.
- Amex reported an 11% increase in revenue and a 27% rise in EPS for 2023, with expectations of continued double-digit growth.
- Ongoing trends, such as the shift from cash to digital payments and increasing personal consumption expenditures, further bolster AMEX's growth outlook.
- With a Price-to-Earnings (P/E) ratio of 18.4, aligned with its five-year average, AMEX's stock appears reasonably valued and is likely to outperform the broader market over the next five years, assuming stable P/E multiples.

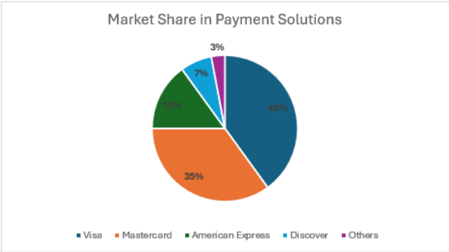

Figure 9: Market Share in Payment solutions

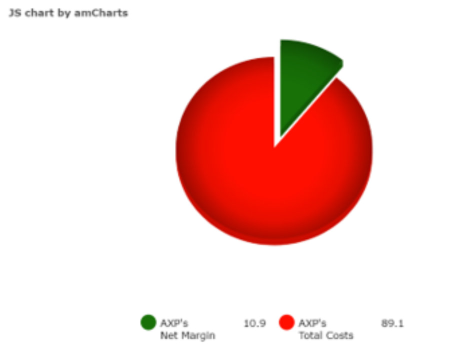

Figure 10: American Express (AXP) Cost and Net Margin Distribution

Combined Competitive Analysis of American Express (Amex)

American Express (Amex) has long positioned itself as a premium brand within the credit card and payments industry, leveraging its distinctive ”closed-loop” business model to serve both cardholders and merchants directly. Unlike competitors Visa and Mastercard, which operate ”open-loop” networks connecting multiple banks and merchants, Amex retains control over both sides of its transactions (Fig 11). This model has allowed Amex to deliver a unique customer experience with exclusive rewards and superior service to its high-spending clientele.

However, the competitive dynamics of the payments industry have been shaped significantly by Visa and Mastercard, which ruled the market until 2010. These two giants effectively created a duopoly, capturing nearly 90% of the market share. In response, Amex filed a lawsuit against Visa and Mastercard for practices that allegedly restricted competition, such as preventing merchants from offering discounts or issuing other companies' cards (Fig 12). Despite these challenges, Amex has continued to carve out a niche for itself by focusing on affluent customers and delivering a differentiated value proposition.

Market Positioning and Strategic Metrics:

Amex targets high-income customers who value premium services, focusing on rewards programs, personalized services, and higher transaction values per cardholder. This strategy helps Amex maintain strong brand loyalty and capture a lucrative market segment. However, when comparing key financial metrics, Amex shows both strengths and challenges relative to its competitors (Ref Table 1).

Metric	American Express	Visa	Mastercard
Market Capitalization (USD)	$115.3 billion	$486.5 billion	$371.7 billion
Revenue Growth (2023)	10.60%	11.10%	10.70%
Profit Margin (%)	18.40%	32.10%	31.20%
Return on Equity (ROE) (%)	14.80%	22.50%	20.80%
Dividend Yield (%)	1.30%	0.70%	0.80%

Table 1: Comparison of Financial Metrics: American Express, Visa, and Mastercard

- **Market Capitalization and Growth:** Amex, with a market cap of $115.3 billion, is significantly smaller than Visa and Mastercard, reflecting its more niche market positioning. Despite this, Amex achieved a solid revenue growth rate of 10.60% in 2023, comparable to its larger rivals.
- **Profit Margin and ROE:**Amex's profit margin of 18.40% lags behind Visa and Mastercard, which enjoy higher margins due to their broader customer base and lower operational costs. The Return on Equity (ROE) for Amex, at 14.80%, also trails its competitors, indicating slightly lower efficiency in generating profit from its equity base.
- **Dividend Yield:**Amex offers a higher dividend yield (1.30%) compared to Visa (0.70%) and Mastercard (0.80%), suggesting a more shareholder-friendly policy focused on returning capital to investors.

Metric	American Express	Capital One (COF)	Discover Financial Services (DFS)	PayPal (PAYPL)
Market Capitalization (USD)	$115.3 billion	$56.7 billion	$37.7 billion	$116.0 billion
Revenue Growth (2023)	10.60%	11.10%	10.70%	12.20%
Profit Margin (%)	18.40%	16.90%	16.20%	15.60%
Return on Equity (ROE) (%)	14.80%	12.20%	13.10%	14.20%
Dividend Yield (%)	1.30%	1.50%	1.40%	0.70%

Table 2: Comparison of Key Competitors

- **Market Capitalization and Revenue Growth:** Amex's market cap closely aligns with PayPal ($116.0 billion) and is significantly higher than both Capital One and Discover. While PayPal leads in revenue growth at 12.20%, Amex's growth rate of 10.60% remains competitive among these financial services players.
- **Profit Margin and ROE:**Despite operating in different segments, Amex maintains a profit margin of 18.40%, which is higher than those of Capital One, Discover, and PayPal, showcasing its ability to extract value from its premium-focused business model. Similarly, its ROE of 14.80% is relatively robust, underscoring its capacity to generate returns on shareholder equity.
- **Dividend Yield:**Amex provides a dividend yield of 1.30%, which is competitive compared to Capital One (1.50%) and Discover (1.40%), but substantially higher than PayPal (0.70%), indicating a more consistent income return to its investors.

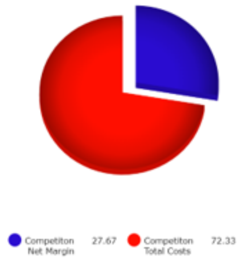

Figure 11: Competitor's Cost and Net Margin Distribution

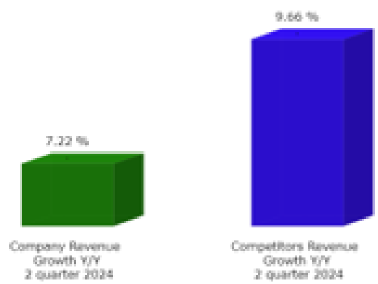

Figure 12: Year-over-Year Revenue Growth Comparison: Company vs. Competitors (Q2 2024)

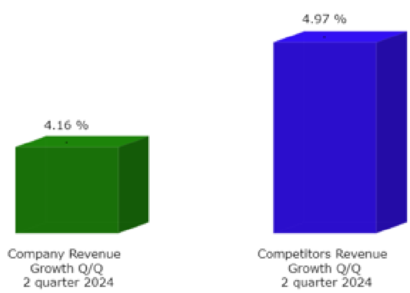

Figure 13: Quarterly Revenue Growth Comparison: Company vs. Competitors (Q2 2024)

Competitive Landscape and Threats:

Visa and Mastercard dominate the global payments market with extensive networks, lower merchant fees, and broad acceptance, making them the primary competitors to Amex. Meanwhile, Discover and Capital One offer alternative strategies: Discover operates a "closed-loop" network like Amex but with lower merchant fees, while Capital One focuses on expanding consumer credit and lending.

The rise of digital payment platforms like PayPal, Alipay, and Venmo presents a new threat to Amex's traditional card-based approach. These platforms cater to a growing preference for digital payments, particularly among younger, tech-savvy consumers, by providing flexible, low-cost, mobile-first solutions that could potentially erode Amex's market share in the long term (Fig 13).

Risks and Adaptation:

Amex faces several risks due to its strategic focus on a premium market segment, including:

- **High Merchant Fees:** Limits acceptance among a broader range of retailers compared to Visa and Mastercard.
- **Intense Competition:** From both traditional players and digital payment platforms.
- **Economic Sensitivity:**Given its focus on affluent customers, Amex is more vulnerable to economic downturns.
- **Regulatory Challenges and Digital Shift:** The company must adapt to evolving regulations and the rapid shift towards digital and contactless payments.

To remain competitive, Amex must continue to innovate and expand its digital offerings while leveraging its strong brand and customer loyalty. Emphasizing premium value and superior service will be key to maintaining its market position.

Conclusion:

Amex competes in a highly challenging environment dominated by Visa and Mastercard, with additional threats from digital payment platforms. However, its unique business model, focus on premium customers, and strong brand differentiation provide it with a competitive edge. To sustain its growth, Amex must enhance its digital capabilities, adapt to changing market dynamics, and continue delivering exceptional value to its high-value customer base.

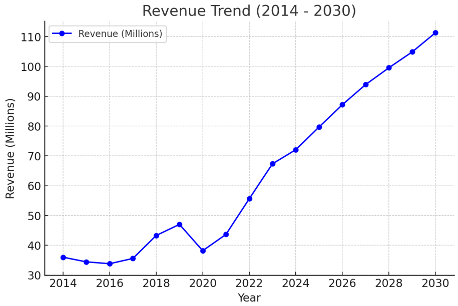

Figure 14: Revenue Trend (2014 - 2030)

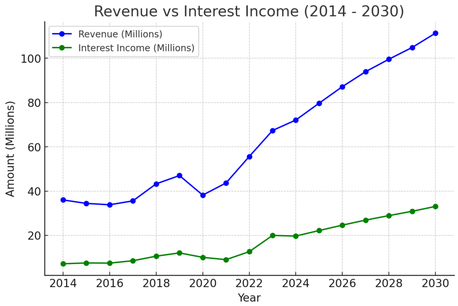

Figure 15: Revenue vs Interest Income (2014 - 2030)

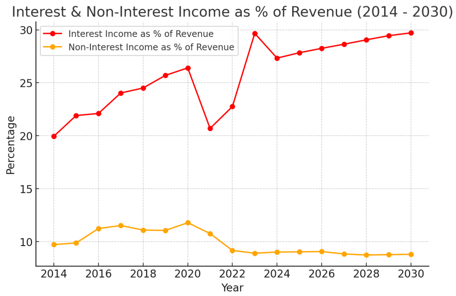

Figure 16: Interest & Non-Interest Income as a Percentage of Revenue (2014 - 2030)

Financial Projections and Insights (2024 - 2030)

Overview

This provides an analysis of the company's financial performance from 2024 to 2030, utilizing projections generated through regression analysis. Key financial metrics, including revenue, interest income, and expenses, are discussed, with insights into the company's future profitability. The projections are driven by external economic factors such as the Consumer Price Index (CPI), federal funds rate, and unemployment rate, indicating a data-driven approach to forecasting.

Key Findings:

Revenue Growth: One of the most significant observations from the financial projections is the steady growth in revenue from 2024 through 2030. This is illustrated in Figure 1, where revenue climbs consistently, possibly driven by factors such as:

- Economic expansion
- Increased market share
- New product innovations

The growth trajectory is promising and highlights the company's ability to scale effectively in the coming years.

Interest Income and Expense Trends: Both interest income and expenses are projected to rise over the forecasted period. This can be attributed to fluctuations in interest rates and shifts in the company's loan portfolio. As demonstrated in Figure 2, interest income shows a positive, though moderate, incline over the period, reflecting the company's effective capital management.

Net interest income, which represents the difference between interest income and interest expenses, is also projected to increase, enhancing the company's financial strength.

Non-Interest Income and Operating Expenses

The company has diversified its revenue streams, as evidenced by a significant rise in non-interest income. This suggests that the business is generating income from sources other than traditional interest-related activities. Meanwhile, operating expenses, including labor and marketing costs, are expected to rise, although the rate of revenue growth will outpace these costs.

This favorable balance between revenue and expense growth is anticipated to lead to steady increases in overall profitability.

Financial Ratios

In Figure 3, we observe the percentage of revenue coming from interest and non-interest income sources. The company is expected to maintain a stable interest income percentage, while non-interest income exhibits a slight upward trend. This diversification ensures financial resilience against fluctuations in the interest rate environment.

Conclusion

Overall, the company's financial outlook appears promising, supported by a data-driven regression analysis. Key drivers of growth include:

- Rising revenue and interest income
- Effective management of operational expenses
- Diversification through non-interest income

With the continued focus on managing costs while expanding revenue streams, the company is well-positioned to maintain profitability and financial health through 2030.

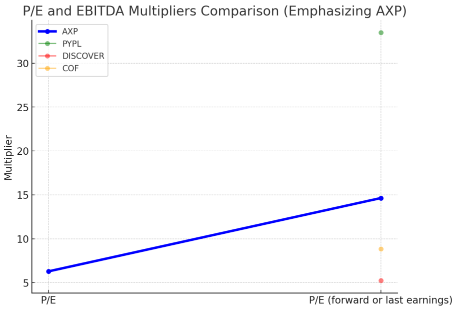

Figure 17: P/E And EBITDA Multipliers Comparison

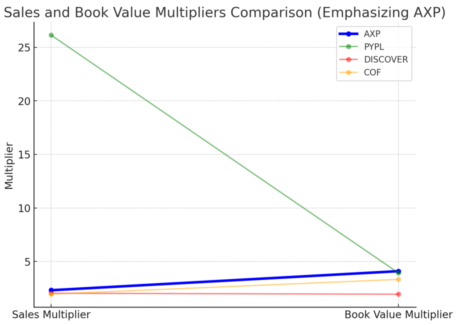

Figure 18: Sales And Book Value Multipliers Comparison

- **P/E and EBITDA Multipliers Comparison:** AXP (in blue) shows a relatively stable growth in both P/E and EBITDA multipliers compared to its peers. While PayPal (PYPL) has a much higher P/E, AXP's steady trajectory suggests investor confidence in its consistent performance without the volatility seen in other companies.
- **Sales and Book Value Multipliers Comparison:** AXP shows strong performance relative to its competitors in terms of both sales and book value multipliers. While PayPal has an exceptionally high sales multiplier, AXP remains solid and balanced across both metrics, indicating it is well-valued for its book value and revenues

Key Findings:

- **Balanced Valuation:** AXP shows consistent multipliers, indicating a more stable and trusted investment compared to the fluctuations seen in PayPal and Discover.
- **Strong Book Value**: AXP's higher book value multiplier reflects investor confidence in its assets and equity, outperforming Discover and COF in this respect.
- **Moderate Growth Expectations:** AXP has a moderate but steady increase in its EBITDA and P/E multipliers, indicating it is valued for its stable earnings potential.

- In addition to its stable performance, **American Express (AXP)** benefits from a relatively strong market capitalization and solid profitability, as evidenced by its balanced EBITDA and sales multipliers. The company's lower P/E ratio compared to PayPal suggests that AXP is not overvalued, making it an attractive option for investors seeking a blend of stability and growth potential. AXP's focus on strong operational performance is further reflected in its consistent EBITDA multiplier, indicating that the company is efficiently managing its resources to generate robust earnings before interest, taxes, depreciation, and amortization.

- Moreover, AXP's high book value multiplier demonstrates strong investor confidence in the company's tangible assets and equity base, reinforcing its solid foundation in the financial services industry. This combination of reliable earnings, asset strength, and moderate valuation makes AXP a favorable choice for investors looking for a well-rounded, less volatile investment compared to higher-multiplier companies like PayPal.

Relative Valuation

	AXP	PYPL	DISCOVER	COF	Average
EBITDA multiplier	12.19	22.52	11.54	12.19	14.61
Revenue multiplier	45.42	40.86	11.45	3.40	25.28
Book Value multiplier	7.84	5.51	2.52	2.05	4.48

Figure 19: Valuation Multiples Comparison for Financial Institutions

EBITDA Multiplier: This metric measures a company's enterprise value relative to its Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). A higher EBITDA multiplier generally indicates that investors are willing to pay a premium for the company's future earnings potential. In this case, PayPal has the highest EBITDA multiplier at 22.52, suggesting that investors have high expectations for its future growth

Revenue Multiplier: This metric compares a company's enterprise value to its total revenue. A higher revenue multiplier suggests that investors are paying a premium for each dollar of revenue the company generates. American Express has the highest revenue multiplier at 45.42, indicating that investors are willing to pay a significant amount for its current and future revenue.

Book Value Multiplier: This metric measures a company's market value relative to its book value (the value of the company's assets minus its liabilities). A higher book value multiplier suggests that the market values the company's intangible assets, such as brand recognition or customer relationships, more highly than its tangible assets. Discover Financial Services has the lowest book value multiplier at 2.52, which could indicate that investors are primarily valuing the company based on its tangible assets and financial performance.

If you're looking for a company with strong growth potential and are willing to pay a premium for its future earnings and revenue, American Express is a good option.

DCF Model

Year	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Risk-Free Rate	2.20%	2.20%	2.20%	2.75%	3%	3.50%	3.70%	3.70%	3.70%	3.70%
Market Risk Premium	7.75%	7.75%	7.75%	7.75%	7%	7%	7%	7%	7%	7%
Interest Rate on Debt (Cost of Debt)	3%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Annual Sales Growth	14.35%	27.40%	21.10%	7.02%	10.55%	9.38%	7.76%	6%	5.33%	6.15%
Cost of Equity	4.60%	11.97%	13.36%	11.12%	10.56%	11.06%	11.26%	11.26%	11.26%	11.26%
Capital Structure (% debt)	87.20%	86.14%	85.30%	81.50%	83.66%	85.44%	86.79%	87.80%	88.65%	89.47%
WACC (Discount Rate)	2.77%	6.04%	11.69%	10.27%	9.92%	9.99%	9.99%	9.98%	9.97%	9.95%
Perpetual CF Growth	3%									
Perpetual Discount	9.95%									

Table 3: Enhanced DCF Model Table

Understanding DCF Model:

A discounted cash flow model is a valuation method that estimates a company's value by discounting its future cash flow to their present value. This model is widely used by investors and analysts to assess the fair value of AXP's stock.

Key Components of the AXP DCF Model:

1. External Factors: These include economic indicators like the CPI, unemployment rate, and federal funds rate. These factors can significantly impact AXP's revenue and cost of capital.
2. Risk-Free Rate: This is the interest rate on a risk-free investment, often represented by US treasury bonds. A higher risk-free rate increases the cost of capital for AXP.
3. Market Risk Premium: 7.75%, this is the additional return investors demand for investing in AXP's stock compared to a risk-free investment. A higher market risk premium reflects increased investor uncertainty or risk aversion.
4. Cost of Debt: It increased from 3% to 6%. A higher cost of debt increases AXP's financing costs.
5. Revenue Growth Rate: On average, AXP's projected revenue growth rate is 8%, which indicates optimism about AXP's future performance.
6. Cost of Equity: Around 10% to 12% from 2013 to 2030, this is the return that investors expect to earn from investing in AXP's stock. A higher cost of equity means investors demand a higher return to compensate for the perceived risk.
7. Capital Structure (% of debt): For the years 2021 to 2023, the capital structure has been in the range of 81% to 89%. As for any business in the money lending and borrowing industry, the debt-to-equity ratio is relatively higher, which indicates the increased financial risk.
8. WACC (Weighted Average Cost of Capital): The average cost of capital for the projected years has been steady at 9% to 10%, a lower WACC is generally favorable as it means AXP can finance its operations at a lower cost.
9. Perpetual Growth Rate: We are assuming a 3% constant growth rate of AXP's cash flows after the forecast period.
10. Perpetual Discount Rate: We are assuming a 9.95% perpetual discount Rate which is used to calculate the terminal value of AXP's cash flows, which is equal to WACC, assuming the company's growth rate stabilizes over time.

Risks

When analyzing financial metrics and valuation ratios, industry-specific factors and growth prospects are essential considerations. Companies with strong future growth potential, like Visa and Mastercard, often enjoy higher valuations despite similar financial performance metrics. On the other hand, companies with elevated debt levels, such as Discover, may be valued at a discount to account for the added financial risk.

Interest rates significantly influence credit-issuing companies' profitability. As rates rise, firms may face pressure in their interest income stream because they must pay higher rates to borrow, but regulatory caps may limit the extent to which they can pass these costs onto consumers. Furthermore, changes in laws and regulations—often tied to political shifts—can alter interest rate policies and consumer protections, impacting the overall financial performance of these firms.

Economic instability also raises the risk of defaults on credit card balances, which directly affects profitability. As a company's loan portfolio grows, managing loan loss provisions proportionally becomes critical. Failure to do so could lead to higher-than-expected losses during times of economic hardship, undermining profitability and threatening the firm's long-term stability. Properly managing default risk is crucial for sustained growth.

Conclusion

In summary, American Express (AXP) emerges as the top performer among its peers, showcasing the highest market capitalization, revenue, and net income, along with premium valuation ratios. Our analysis estimates the present value of its stock to be $343.20, suggesting that American Express is currently undervalued if it continues to grow at the assumed pace. This makes it an attractive investment opportunity for potential buyers. However, for a well-rounded evaluation, longer-term data and broader industry comparisons are essential, along with an understanding of company-specific news and macroeconomic factors.

Appendix:

Appendix 1: Income Statement

American Express Income Statement Projections									
Revenue Growth		21.10%	7.02%	10.55%	9.38%	7.76%	6.00%	5.33%	6.15%
Report Date	**2022**	**2023**	**12/31/2024 F**	**12/31/2025 F**	**12/31/2026 F**	**12/31/2027 F**	**12/31/2028 F**	**12/31/2029 F**	**12/31/2030 F**
Currency	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**
Scale	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**
Total Revenue	55,625,000.00	67,364,000.00	72,090,713.00	79,694,760.00	87,170,095.00	93,932,941.00	99,566,700.00	104,874,922.00	111,328,341.00
Interest Income	12,658,000.00	19,983,000.00	19,702,428.00	22,184,516.00	24,627,871.00	26,905,060.00	28,927,566.00	30,883,834.00	33,078,392.00
Interest Expense	2,763,000.00	6,849,000.00	6,206,527.00	7,226,838.00	8,222,718.00	9,137,620.00	9,933,632.00	10,695,079.00	11,542,098.00
Loan Loss Provisions	2,182,000.00	4,923,000.00	2,189,747.00	2,362,666.00	2,524,733.00	2,688,792.00	2,823,831.00	2,971,883.00	3,257,283.00
Net Interest After Provs	7,713,000.00	8,211,000.00	11,306,154.00	12,595,012.00	13,880,420.00	15,078,648.00	16,170,103.00	17,216,872.00	18,279,011.00
Non-Interest Income	42,967,000.00	47,381,000.00	52,388,285.00	57,510,244.00	62,542,224.00	67,027,881.00	70,639,134.00	73,991,088.00	78,249,949.00
Employee Costs	7,252,000.00	8,067,000.00	8,452,808.40	9,145,164.18	9,785,051.50	10,309,364.77	10,678,766.54	10,985,898.73	11,383,588.94
Marketing & Advertising	5,458,000.00	5,213,000.00	5,831,096.77	6,725,085.93	7,660,991.50	8,584,113.21	9,447,440.81	10,318,176.59	11,342,748.94
Other Non-Interest Expense	28,083,000.00	31,647,000.00	33,326,886.81	36,244,458.50	38,990,397.77	41,310,860.77	43,041,786.94	44,549,921.55	46,456,313.22
Non-Interest Expense	40,793,000.00	44,927,000.00	48,319,778.52	53,149,411.72	57,844,130.19	62,020,144.89	66,068,588.93	69,938,873.15	73,871,309.54
Earnings Before Tax	9,585,000.00	10,513,000.00	15,374,660.48	16,955,844.28	18,578,513.81	20,086,384.11	20,740,648.07	21,269,086.85	22,657,650.46
Taxation	2,071,000.00	2,139,000.00	4,304,904.93	5,086,753.28	5,573,554.14	6,025,915.23	6,222,194.42	6,380,726.06	6,797,295.14
Net Income	7,514,000.00	8,374,000.00	11,069,755.55	11,869,090.99	13,004,959.67	14,060,468.88	14,518,453.65	14,888,360.80	15,860,355.33

Source: Team's Estimates and Company's Annual Report

Appendix 2: Balance Sheet

Balance Sheet for American Express Co.									
Report Date	**2022**	**2023**	**12/31/2024 F**	**12/31/2025 F**	**12/31/2026 F**	**12/31/2027 F**	**12/31/2028 F**	**12/31/2029 F**	**12/31/2030 F**
Currency	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**
Scale	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**
Cash & Equivalents	33,914,000.00	46,596,000.00	48,300,777.71	53,395,489.20	58,403,963.65	62,935,070.47	66,709,689.00	70,266,197.74	74,589,988.47
Gross Property Plant & Equip	15,065,000.00	15,049,000.00	20,012,381.93	22,123,265.38	24,198,418.37	26,075,784.42	27,639,715.92	29,113,278.35	30,904,747.46
Accumulated Depreciation	9,850,000.00	9,911,000.00	10,307,440.00	10,750,659.92	11,245,190.28	11,796,204.60	12,409,607.24	13,092,135.64	13,851,479.50
Net Property Plant & Equip	5,215,000.00	5,138,000.00	9,704,941.93	11,372,605.46	12,953,228.10	14,279,579.82	15,230,108.68	16,021,142.71	17,053,267.96
Intangible Assets	3,932,000.00	3,949,000.00	3,532,444.94	3,745,653.72	3,922,654.28	4,000,000.00	4,000,000.00	4,000,000.00	4,000,000.00
Gross Loan Portfolio	113,380,000.00	133,081,000.00	164,186,900.00	184,870,966.67	205,232,258.33	224,208,833.33	241,063,050.00	257,365,283.33	275,653,266.67
Net Loans & Leases	109,574,000.00	127,837,000.00	159,031,431.34	179,066,018.31	198,787,965.42	217,168,675.97	233,493,670.23	249,284,013.44	266,997,754.09
Securities	4,578,000.00	2,186,000.00	3,981,358.18	4,295,756.36	4,590,423.64	4,888,712.73	5,134,238.18	5,403,423.64	5,922,332.73
Other Assets	71,141,000.00	75,402,000.00	83,355,317.81	91,174,011.60	98,247,490.18	104,140,020.27	109,692,060.73	116,441,899.64	116,441,899.64
Total Assets	**228,354,000.00**	**261,108,000.00**	**307,906,271.91**	**343,049,534.65**	**376,905,725.26**	**407,412,059.26**	**434,259,766.83**	**461,416,677.16**	**485,005,242.89**
Debt & Leases	42,573,000.00	47,866,000.00	44,332,335.71	49,840,262.07	54,818,120.00	58,952,387.10	62,085,200.00	64,818,660.61	67,894,694.12
Total Deposits	110,239,000.00	129,144,000.00	151,557,138.46	170,650,123.08	189,445,161.54	206,962,000.00	222,519,738.46	237,567,953.85	254,449,169.23
Other Liabilities	48,301,000.00	56,041,000.00	51,721,058.33	60,729,731.09	70,279,641.03	79,457,565.22	87,908,247.79	96,352,063.06	105,890,807.34
Total Liabilities	**203,643,000.00**	**233,051,000.00**	**249,910,532.51**	**283,520,116.24**	**316,842,922.56**	**347,671,952.31**	**374,813,186.25**	**401,038,677.52**	**430,534,670.69**
Common Share Capital	149,000.00	145,000.00	149,350.00	153,830.50	158,445.42	163,198.78	168,094.74	173,137.58	178,331.71
Additional Paid-In Capital	11,493,000.00	11,624,000.00	11,740,240.00	11,857,642.40	11,976,218.82	12,095,981.01	12,216,940.82	12,339,110.23	12,462,501.33
Retained Earnings	16,279,000.00	19,612,000.00	11,069,755.55	11,869,090.99	13,004,959.67	14,060,468.88	14,518,453.65	14,888,360.80	15,860,355.33
Accum Other Comprehensive Income	(3,210,000.00)	(3,072,000.00)	(5,534,877.77)	(5,934,545.50)	(6,502,479.83)	(7,030,234.44)	(7,259,226.82)	(7,444,180.40)	(7,930,177.66)
Total Equity	24,711,000.00	28,057,000.00	**57,995,739.40**	**59,529,418.41**	**60,062,802.69**	**59,740,106.95**	**59,446,580.58**	**60,377,999.65**	**54,470,572.20**
Total Liabilities & Equity	**228,354,000.00**	**261,108,000.00**	**307,906,271.91**	**343,049,534.65**	**376,905,725.26**	**407,412,059.26**	**434,259,766.83**	**461,416,677.16**	**485,005,242.89**

Source: Team's Estimates and Company's Annual Report

Appendix 3: Common Size Income Statement

Common Size Income Statement for American Express Co.									
Report Date	**12/31/2022**	**12/31/2023**	**12/31/2024**	**12/31/2025**	**12/31/2026**	**12/31/2027**	**12/31/2028**	**12/31/2029**	**12/31/2030**
Currency	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**	**USD**
Scale	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**	**Thousands**
Total Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%
Interest Income	23%	30%	27%	28%	28%	29%	29%	29%	30%
Interest Expense	5%	10%	9%	9%	9%	10%	10%	10%	10%
Loan Loss Provisions	4%	7%	3%	3%	3%	3%	3%	3%	3%
Net Interest After Provs	14%	12%	16%	16%	16%	16%	16%	16%	16%
Non-Interest Income	77%	70%	73%	72%	72%	71%	71%	71%	70%
Employee Costs	13%	12%	12%	11%	11%	11%	11%	10%	10%
Marketing & Advertising	10%	8%	8%	8%	9%	9%	9%	10%	10%
Other Non-Interest Expense	50%	47%	46%	45%	45%	44%	43%	42%	42%
Non-Interest Expense	73%	67%	67%	67%	66%	66%	66%	67%	66%
Earnings Before Tax	17%	16%	21%	21%	21%	21%	21%	20%	20%
Taxation	4%	3%	6%	6%	6%	6%	6%	6%	6%
Net Income	14%	12%	15%	15%	15%	15%	15%	14%	14%

Source: Team's Estimates and Company's Annual Report

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