

RUTGERS

Rutgers Business School  
Newark and New Brunswick

AMERICAN  
EXPRESS

# AMERICAN EXPRESS

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NAME: ASHUTOSH

PROFESSOR: JOHN M LONGO CFA

- "You can't create another American Express," Buffett said. "I could create another shoe store. I could create another business publication. I could do all kinds of things with hundreds of billions of dollars. But I can't put in the minds of people what is in their minds about American Express."*
- Buffet in Bloomberg Interview

Shares	Company	Percentage of Company Owned	Cost*	Market
			(in millions)	
151,610,700	American Express Company .....	19.9	1,287	24,804
907,559,761	Apple Inc. .....	5.6	31,089	161,155
1,032,852,006	Bank of America Corp. .....	12.8	14,631	45,952
66,835,615	The Bank of New York Mellon Corp. .....	8.3	2,918	3,882
225,000,000	BYD Co. Ltd.** .....	7.7	232	7,693
3,828,941	Charter Communications, Inc. .....	2.2	643	2,496
38,245,036	Chevron Corporation .....	2.0	3,420	4,488
400,000,000	The Coca-Cola Company .....	9.2	1,299	23,684
52,975,000	General Motors Company .....	3.6	1,616	3,106
89,241,000	ITOCHU Corporation .....	5.6	2,099	2,728
81,714,800	Mitsubishi Corporation .....	5.5	2,102	2,593
93,776,200	Mitsui & Co., Ltd. .....	5.7	1,621	2,219
24,669,778	Moody's Corporation .....	13.3	248	9,636
143,456,055	U.S. Bancorp .....	9.7	5,384	8,058
158,824,575	Verizon Communications Inc. .....	3.8	9,387	8,253
	Others*** .....		26,629	39,972
	Total Equity Investments Carried at Market .....		\$ 104,605	\$ 350,719

Source: Berkshire Hathaway shareholders letter 2021  
<https://www.berkshirehathaway.com/letters/letters.html>



# EXECUTIVE SUMMARY

*American Express is a globally integrated payments company, providing customers with access to products, insights and experiences that enrich lives and build business success. They are a leader in providing credit and charge cards to consumers, small businesses, midsized companies and large corporations around the world.*



# OVERVIEW

Key Statistics	
<b>First Trading Date</b>	May 18, 1977
<b>52 Week Range</b>	130.65 - 194.35
<b>Market Cap</b>	121.981B
<b>Average Trading volume</b>	3.19M
<b>Basic Shares</b>	0.751B
<b>Diluted EPS</b>	9.48
<b>Profit Margin</b>	14.83%
<b>Forward PE</b>	14
<b>Beta (5Y Monthly)</b>	1.2
<b>Div. Yield (TTM)</b>	2.4 (1.39%)
<b>ROE</b>	32.05%
<b>Revenue Growth</b>	8.7% (Quarterly)
<b>Assets/Debt</b>	4.608

Performance		
NAME	YTD Returns	MAX Returns
<b>American Express</b>	7.07%	46.81%
<b>VISA</b>	3.43%	42.12%
<b>MasterCard</b>	-0.71%	52.86%
<b>S&amp;P 500</b>	0.77%	45.64%
<b>DOW</b>	5.27%	30.13%

Recommendation	Target Price	Current Price	Upside
<b>BUY</b>	<b>236.49</b>	<b>147.10</b>	<b>43.9%</b>

## Business Performance:

- Added 9.7 million new proprietary cards.
- Grew worldwide network volumes by 24% versus the prior year, surpassing 2019 levels, with growth driven by consumer and small and mid-sized business spending.
- Sustained virtual parity coverage in the U.S., with approximately 99% of credit-card accepting merchants able to accept American Express, and remained committed to growing coverage globally, adding over 7 million merchant locations outside of the U.S.

## Financial Results:

- Delivered \$42.4 billion in revenue.
- Total revenue for the year grew by 17% versus the prior year, reflecting momentum in Card Member spending and growth in card fees as Card Member acquisition increased and retention remained high.
- Diluted earnings per share (EPS) for the full year 2021 were \$10.02, up from \$3.77 the prior year.
- Return on equity (ROE) was 33.7% and returned \$9 billion of capital to our shareholders through both share repurchases and dividends.

## Catalyst:

- American Express has teamed up with Microsoft to integrate AI technology into their services to improve customer experience by providing personalized and efficient services. Riding the AI catalyst trend American Express has been able to jump into the ride at an early stage with the AI focused market today.
- Berkshire Hathaway owns 20% of American Express stock, which is currently worth around \$15 billion. Buffett has long been a proponent of American Express and considers it a well-run company with a strong brand.

# THE GLOBAL CREDIT CARD BUSINESS

*The Global Credit Card market is anticipated to rise at a considerable rate during the forecast period, between 2022 and 2029. In 2021, the market is growing at a steady rate and with the rising adoption of strategies by key players, the market is expected to rise over the projected horizon.*

*The global credit card payments market revenue was valued at \$138.43 billion in 2020, and is projected to reach \$263.47 billion by 2028, growing at a CAGR of 8.5% from 2021 to 2028.*

# AMERICAN EXPRESS V/S MASTERCARD V/S VISA

VISA Market share = 52.6%  
Mastercard Market share = 23.7%  
American Express Market share = 19.6%

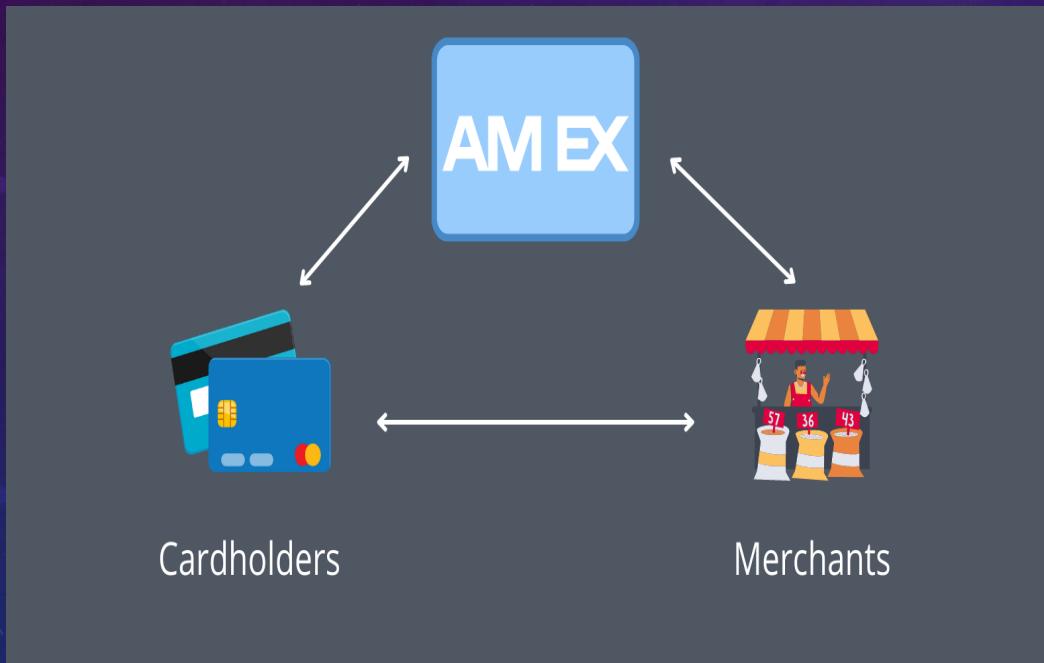
(Billion \$)	2022	2021	2020
<b>VISA Revenue</b>	29.310	24.105	21.846
<b>Mastercard Revenue</b>	22.237	18.884	15.301
<b>American Express Revenue</b>	52.846	42.380	36.087



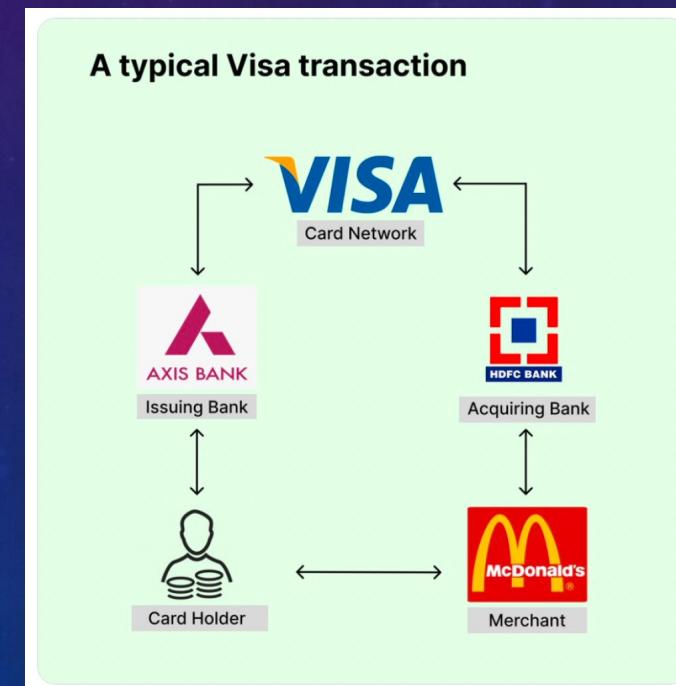
# SECRET SAUCE: BUSINESS MODEL



*The biggest cut goes to the issuer and that is Amex's secret. American Express issues its own cards to customers. It acts as an issuing bank as well as the card network. This is known as a closed loop system - where Amex controls every part of the transaction. It issues the cards, maintains the network, onboards each merchant individually and collects payments from cardholders. While Visa/Mastercard work on open loop system framework.*

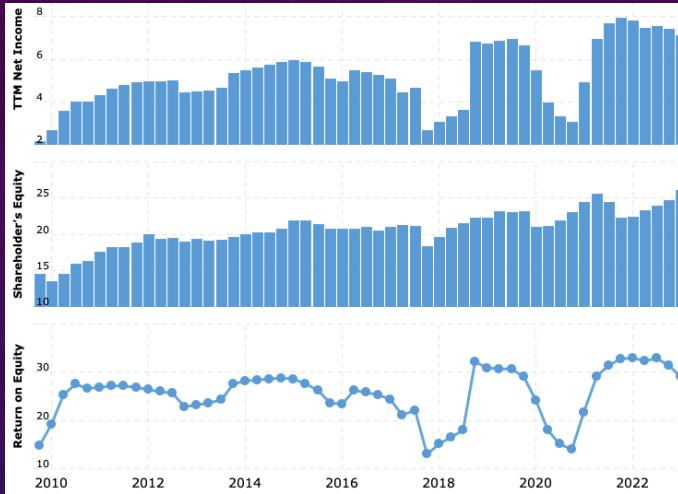


Closed Loop Solution of American Express

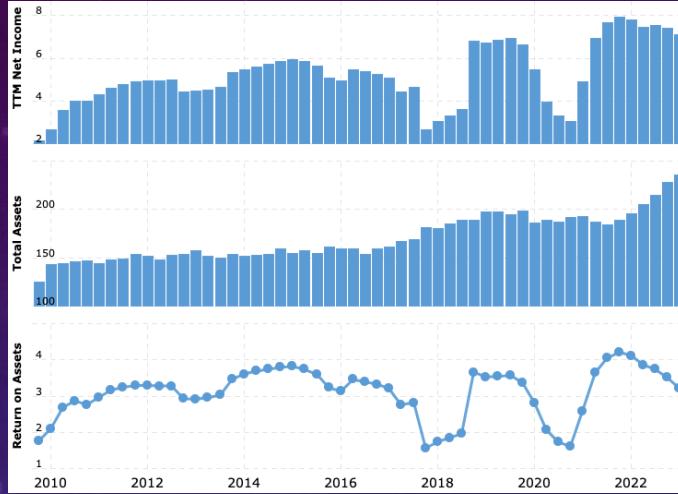


Visa/MasterCard Transaction

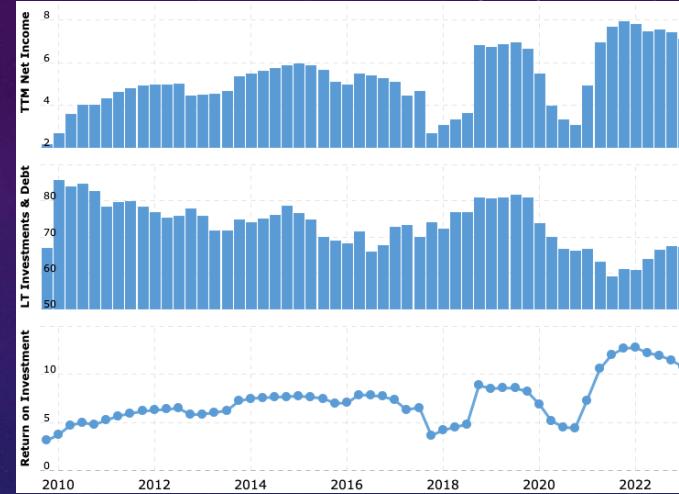
# FINANCIAL STATEMENT ANALYSIS



Equity Details



Asset Details



Debt Details

- American Express has maintained a high value in all the ratios as compared to the industrial average. The companies ROA, ROI and ROE has been on its high in comparison to the previous years. The upward trend of these ratios indicates American Express's strong potential for capitalizing on future growth with a low financial risk.
- An ROE between 15% and 25% is also relatively high in the industry, indicating the high profit. The premium customer services, along with the high employee embracement can assure American Express's sustainability in earning profit for its shareholders.

# EVALUATION

AAA Corporate bond Yield	4.47
Margin of Safety	45%

Ticker	Company	Country	Market Cap	EPS	Growth Rate	Intrinsic Value	Price	Acceptable Buy Price	Buy/Sell
V	Visa Inc.	USA	471.07B	6.39	14.50%	235.8724832	231	129.7298658	Sell
MA	Mastercard Incorporated	USA	357.54B	10.22	18.99%	467.5867204	375	257.1726962	Sell
AXP	American Express Company	USA	126.92B	9.84	13.19%	337.8444027	178.26	185.8144215	Buy

Following the Graham model of intrinsic value propagation American Express is the only company that falls under the buy bracket in comparison to its competitors keeping a margin of safety of 45%.

*Graham Intrinsic Value*

UNDERVALUED		4%	6%	7%
<b>WACC</b>		\$158,980.86		
<b>Discounted Dividends</b>		743.24		
<b>Outstanding Shares</b>		0.03		
<b>Economy average growth</b>		\$ 213.90	\$ 184.65	\$ 171.77
<b>Fair Value</b>		\$ 161.34		
<b>Current Price</b>				

*Dividend Discount Model*

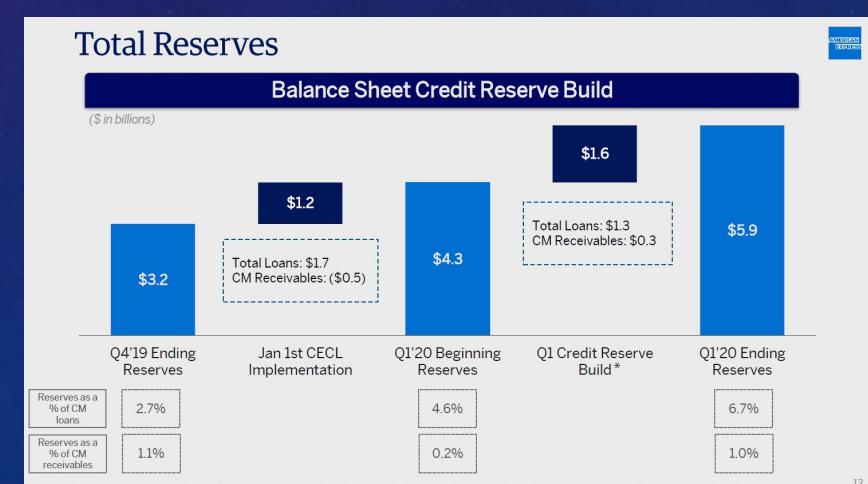
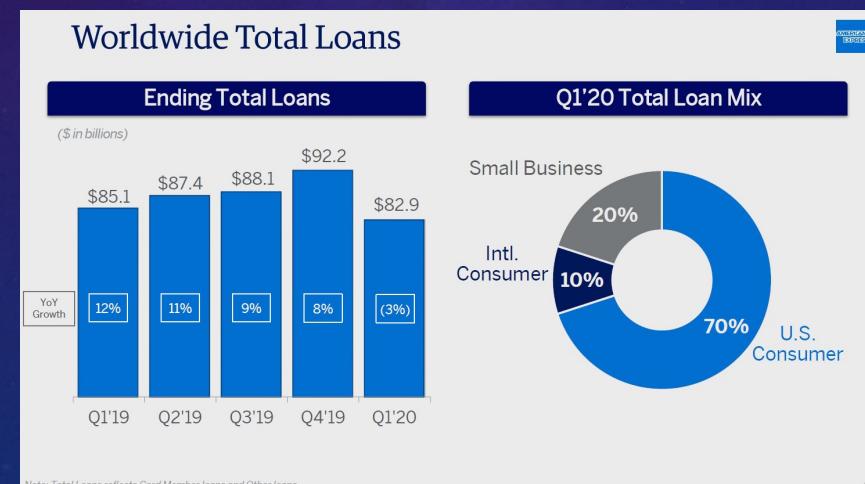
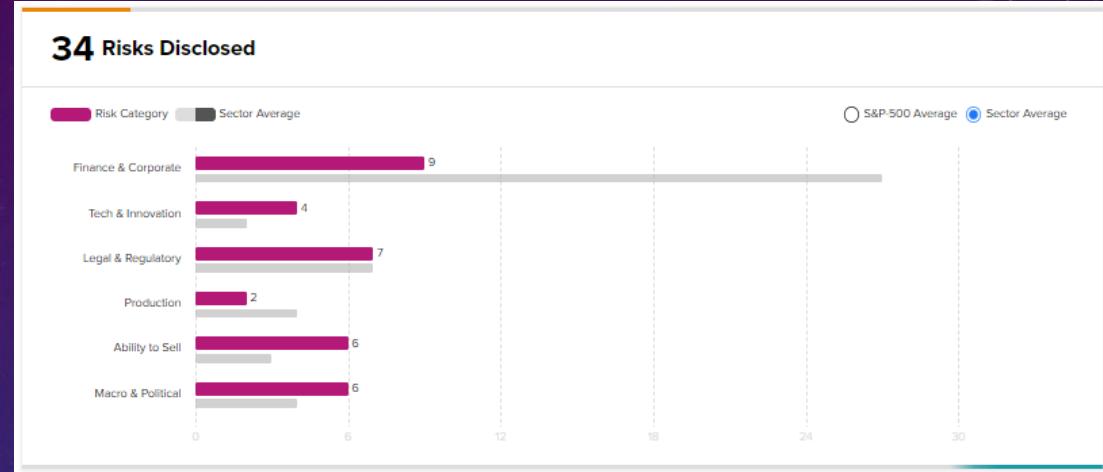
Ticker	Market Cap	P/E	Fwd P/E	PEG	P/S	P/B	P/C	P/FCF
V	471.07B	32.06	23.74	2.07	15.6	13.53	29.22	32.71
MA	357.54B	36.49	25.71	1.79	16.08	56.6	44.44	46.52
AXP	126.92B	17.93	14	2.39	2.33	5.51	4.4	9.06

- American Express has a forward P/E of 14 suggesting that earnings growth is expected to be stronger than Visa and MasterCard.
- The P/B and P/C ratios are of American Express is relatively low, indicating that the company is not trading at as high a premium to its book value and cash flows as the other two competitors which looks to be overvalued.

*Relative Evaluation*

# RISKS

- *Monetary and Market Hazard*
- *Credit Hazard:*
- *Administrative Gamble*
- *Innovation Hazard*
- *Cybersecurity*
- *Contest Hazard*
- *Notoriety Hazard*
- *Recession*
- *Political*



PERFECT STOCK  
FOR GRAHAM  
AND BUFFET!!

