

# TEAM 7

Nikhil, Bisesta, Richard, Michael  
03/03/2025

---



# Executive Summary

## Investment Strategy

- Fundamental analysis to identify an undervalued Financial Services company with strong growth potential in the consumer discretionary & travel sectors.

## Investment Pitch

- Buy 50 shares of AXP

## Target Price vs Analysis Price

- Target Price : \$459.24
- Analyst Price : \$300.60

## Rationale

- Consumer Spending continues to rise going into 2025 and American Express is positioned to benefit from increases in spending in the goods and services (G&S) and travel & entertainment (T&E) sectors.



# Company Overview

## Founding

- American Express was founded in 1850 as a freight forwarding business in Buffalo, New York. Initially, it facilitated the secure transport of valuable goods. Over time, recognizing the need for secure financial transactions, the company transitioned into financial services, notably with the introduction of the American Express money order and, later, traveler's cheques. This evolution from a transport company to a financial services leader laid the foundation for its enduring presence in the global payments industry.

## Business model

- American Express operates a "closed-loop" payments network, meaning it acts as both the card issuer and the payment processor. This unique model allows them to maintain direct relationships with both cardholders and merchants. Their business model focuses on driving spending on their cards, which generates revenue through merchant discount fees and card member fees. They also generate revenue from lending products. This spend centric model allows American express to create value added services for both merchants and card members.

## Market Position

- American Express holds a prominent position within the global payments industry, distinguishing itself with a focus on affluent consumers and business clients. It is known for its premium card offerings, extensive rewards programs, and high-quality customer service. While it may not have the sheer volume of cards in circulation as some of its competitors, American Express concentrates on higher spending cardholders, resulting in significant transaction volumes. This strategic focus has solidified its reputation as a leader in the premium segment of the payments market.

## Global Reach

- American Express has established a significant global presence, with its cards accepted in millions of merchant locations worldwide. The company operates across various regions, including North America, Europe, Asia-Pacific, and Latin America. Its global network facilitates seamless transactions for cardholders traveling and conducting business internationally. Furthermore, American Express continues to expand its reach by forging strategic partnerships and enhancing its digital payment capabilities, ensuring its relevance in an increasingly interconnected world.



# Investment Thesis

<b>Company Name:</b>	American Express	
<b>Ticker:</b>	AXP	<b>Analysis Date:</b> 03/03/2025
<b>Sector:</b>	Financial Services	<b>Current Price:</b> 300.60
<b>Industry:</b>	Credit Services	<b>Target Price:</b> 459.24
<b>Shares Out.:</b>	702.53M	<b>Monthly Volume:</b> 2.44M
<b>Market Cap.:</b>	211.43B	<b>Beta (5y monthly):</b> 1.24

---

---

**Investment Thesis: BUY 50 Shares of AXP**



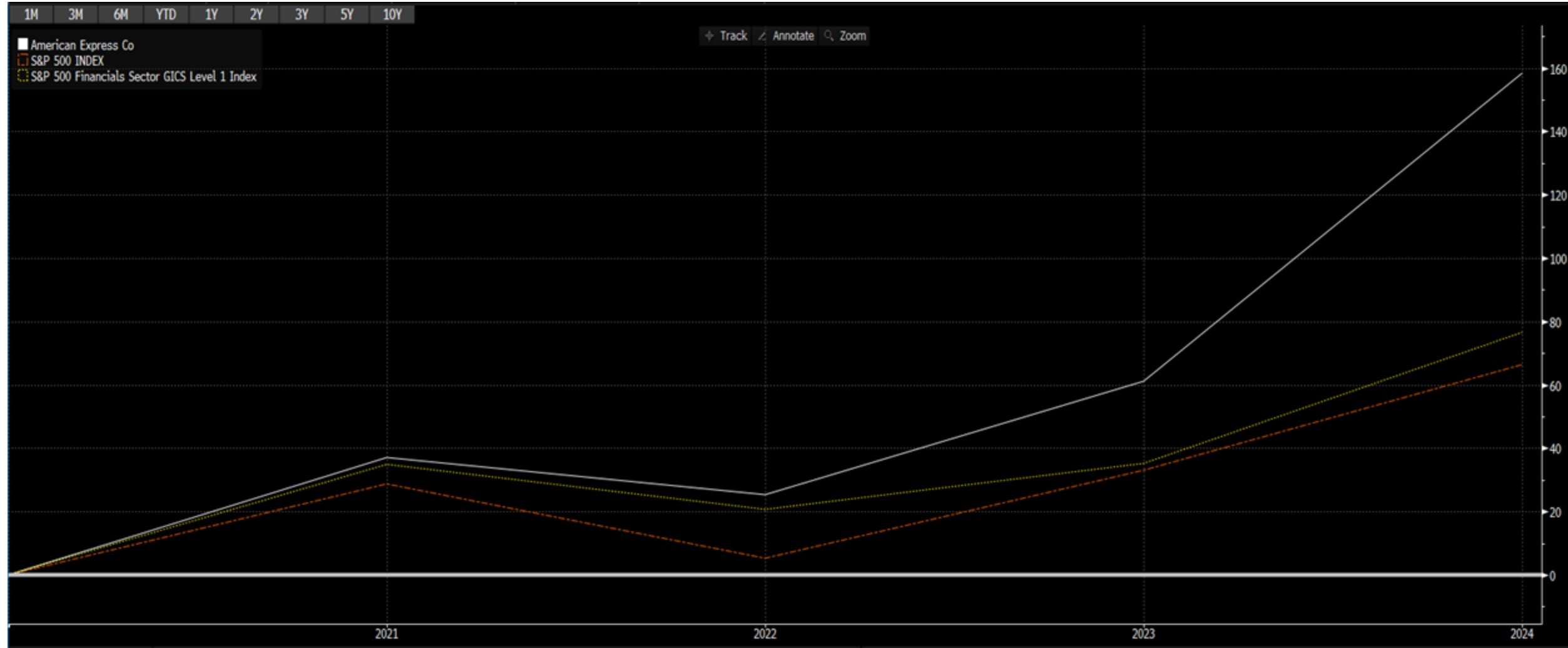
# Annual Performance History

%	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>AXP</b>	-24.2	8.6	36.2	-2.6	32.5	-1.1	36.8	-8.5	28.7	60.3	1.6
<b>SP Final</b>	-1.5	22.7	22.1	-13.0	32.1	-1.7	34.9	-10.6	12.1	30.5	8.0
<b>SPX</b>	1.4	11.96	21.8	-4.4	31.5	18.4	28.7	-18.1	26.3	25.0	1.4

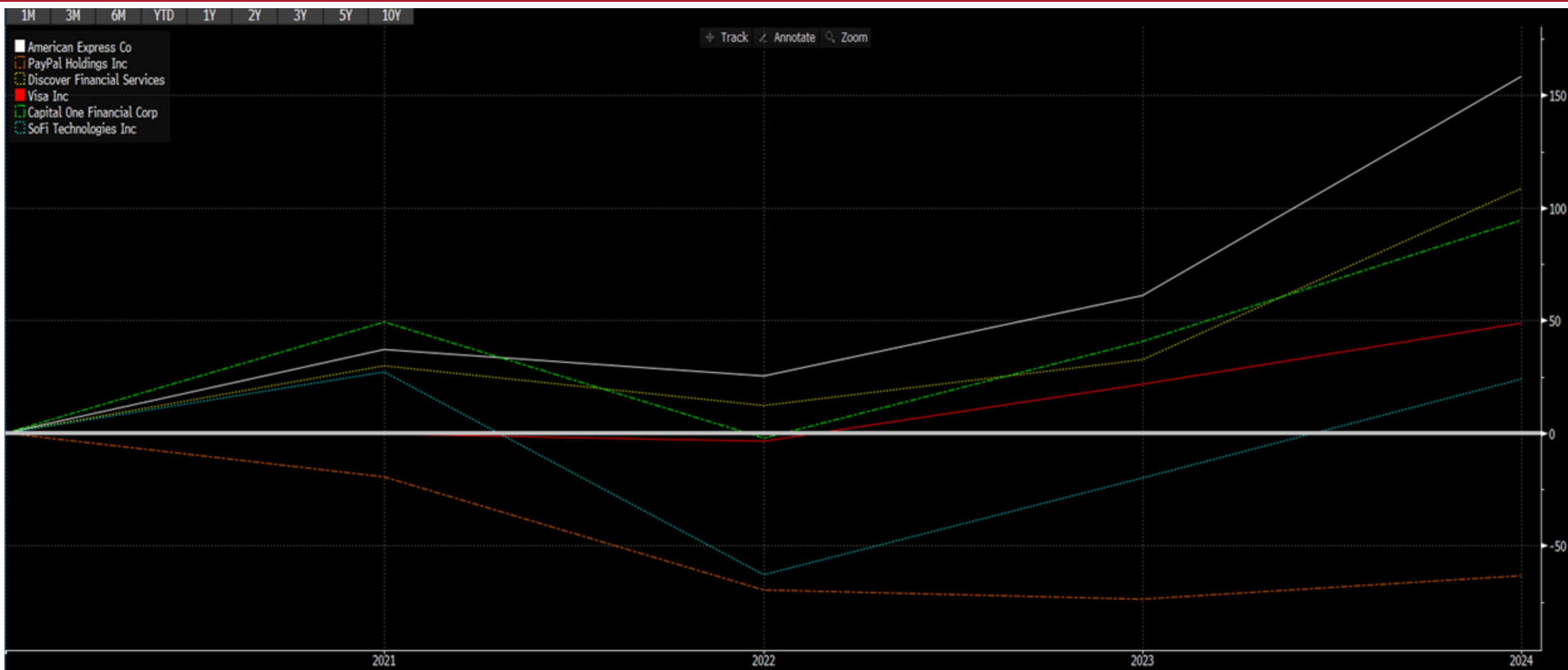
Yahoo Finance



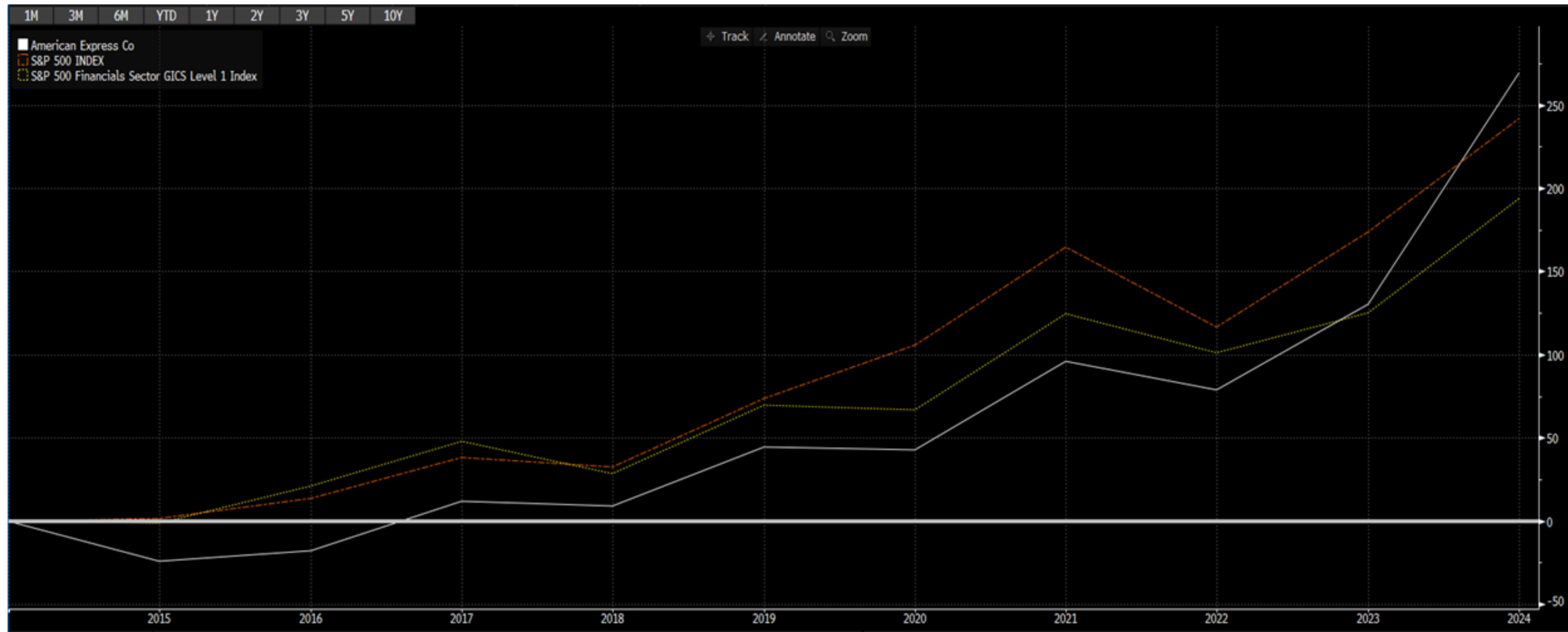
# 5Y Total Return with S&P and S&P FINL Sector



# AXP Comp Comparison



# 10Y Total Return with S&P and S&P FINL Sector





# AXP Comp Comparison

	AXP	DFS	PYPL	VISA	COF	SOFI
<b>Market Value in Billion</b>	211.4	49.1	70.3	729.0	76.5	23.6
<b>EV in billion</b>	218.8	52.3	84.6	496.4	75.4	17.5
<b>EV/EBITDA</b>	9.59	4.33	12.9	20.01	3.12	11.5
<b>Revenue in billion</b>	74.2	23.6	31.8	35.9	53.9	3.8
<b>FCF in billion</b>	12.13	8.2	6.8	18.7	16.9	-1.2
<b>ROA</b>	3.80	3.03	5.06	21.3	0.98	1.5
<b>ROIC</b>	17.0	23.09	12.6	30.5	12.5	5.1
<b>Total D/E</b>	168.61	90.7	52.1	55.4	75.3	48.9



# Comp Comparisons

	AXP	DFS	PYPL	VISA	COF	SOFI
OPERATING MARGINS	17.83%	33.9%	17.38%	68.67%	19.58%	8.32%
Gross MARGINS	16.67%	21.8%	13.04%	54.27%	17.34%	18.87%
BETA	1.24	1.45	1.44	.96	1.47	1.79



# Industry Analysis

## Technological Innovation:

- The industry is witnessing continuous innovation, with features like virtual cards, enhanced security measures, and seamless integration with mobile apps.
- The use of data analytics for fraud detection and personalized rewards is also on the rise.

## Increased Competition:

- Fintech companies and digital payment platforms are challenging traditional credit card issuers, leading to increased competition.
- "Buy Now, Pay Later" (BNPL) services are also providing alternative payment options.

## Focus on Customer Experience:

- Credit card companies are placing greater emphasis on providing a seamless and personalized customer experience, including enhanced mobile apps and improved customer service

THE FINANCIAL BRAND

TOPICS WEBINARS POD

## 2025 Will Be the Year of the Credit Card

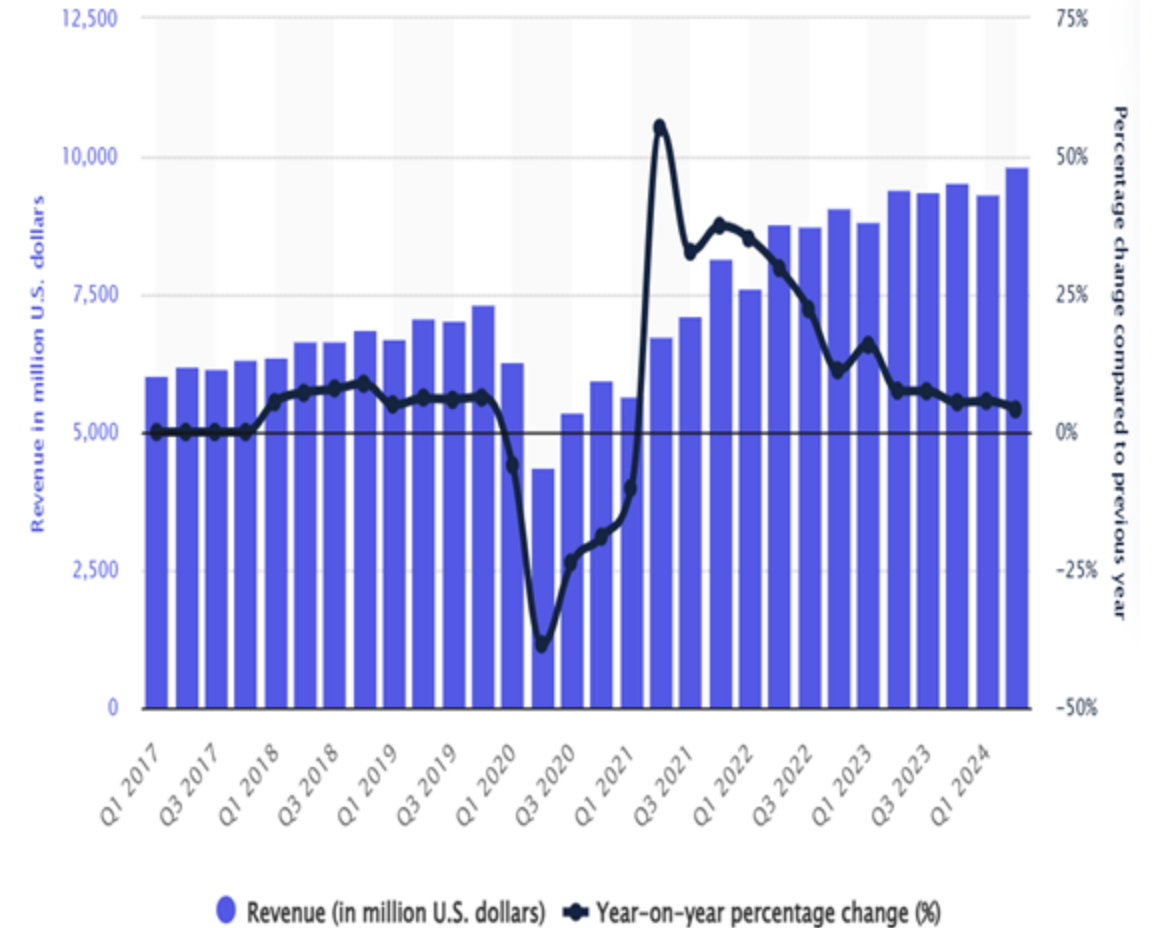
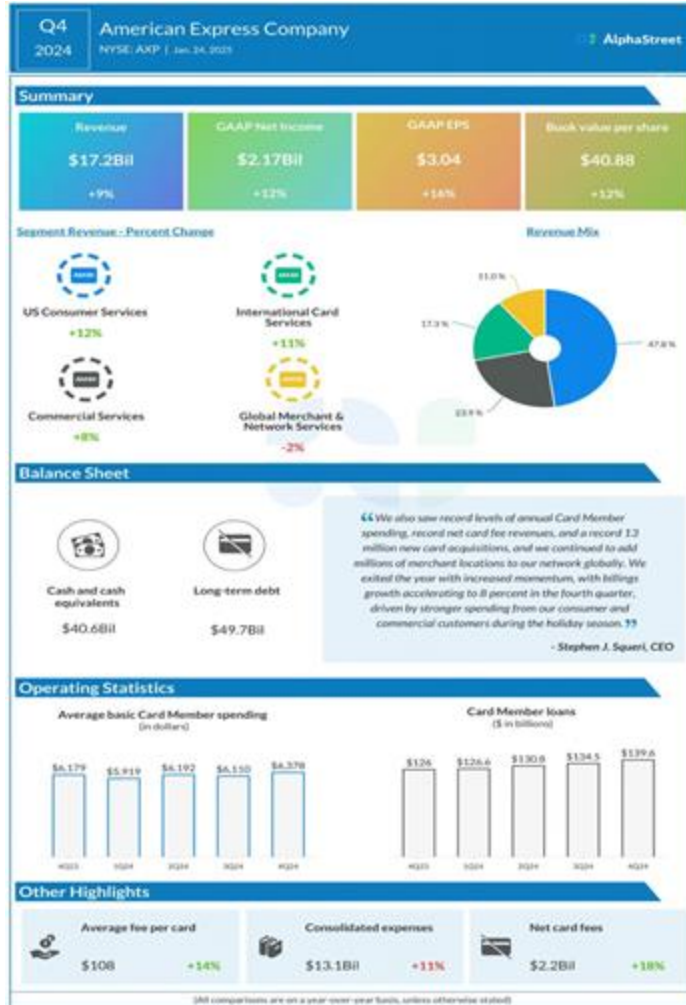
For many consumers, credit cards (not checking or savings accounts) are now the core of their relationship with their bank or credit union. In fact, almost two-thirds of consumers do no other business with their credit card issuers. In 2025, banks and credit unions need to work harder to make the credit card the beginning of the customers' journey, not the end.

By **Corey Wrinn**, Rivel Banking Research

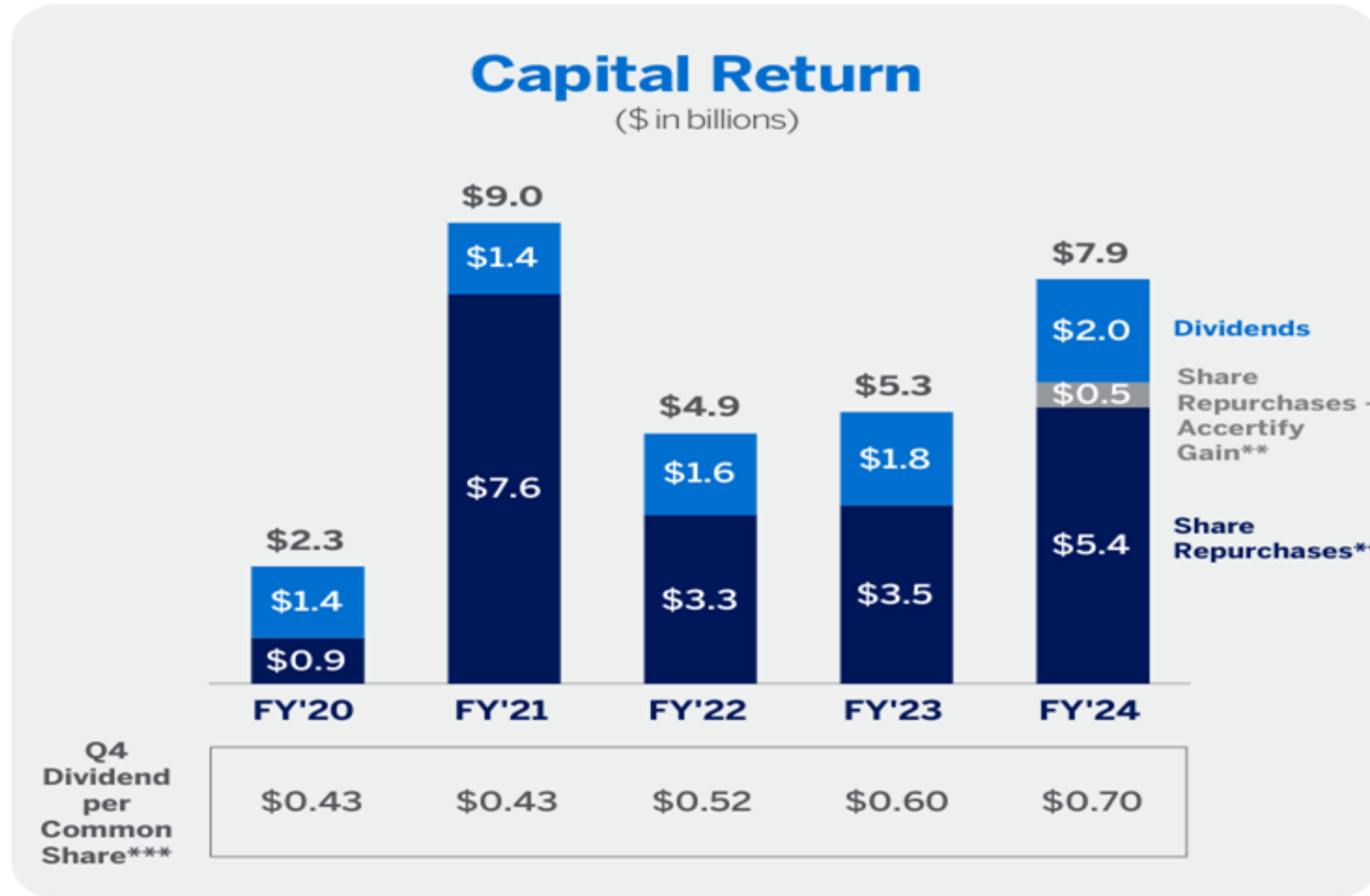
Published on January 14th, 2025 in **Credit & Debit Cards**



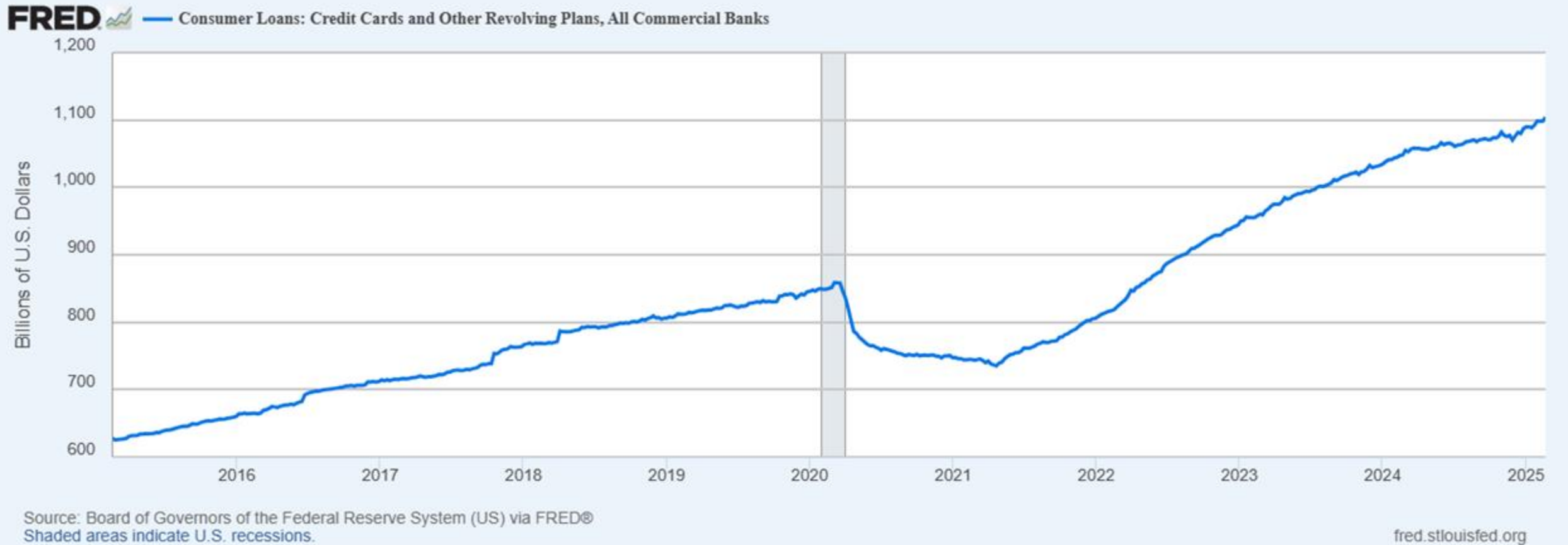
# Earnings Analysis



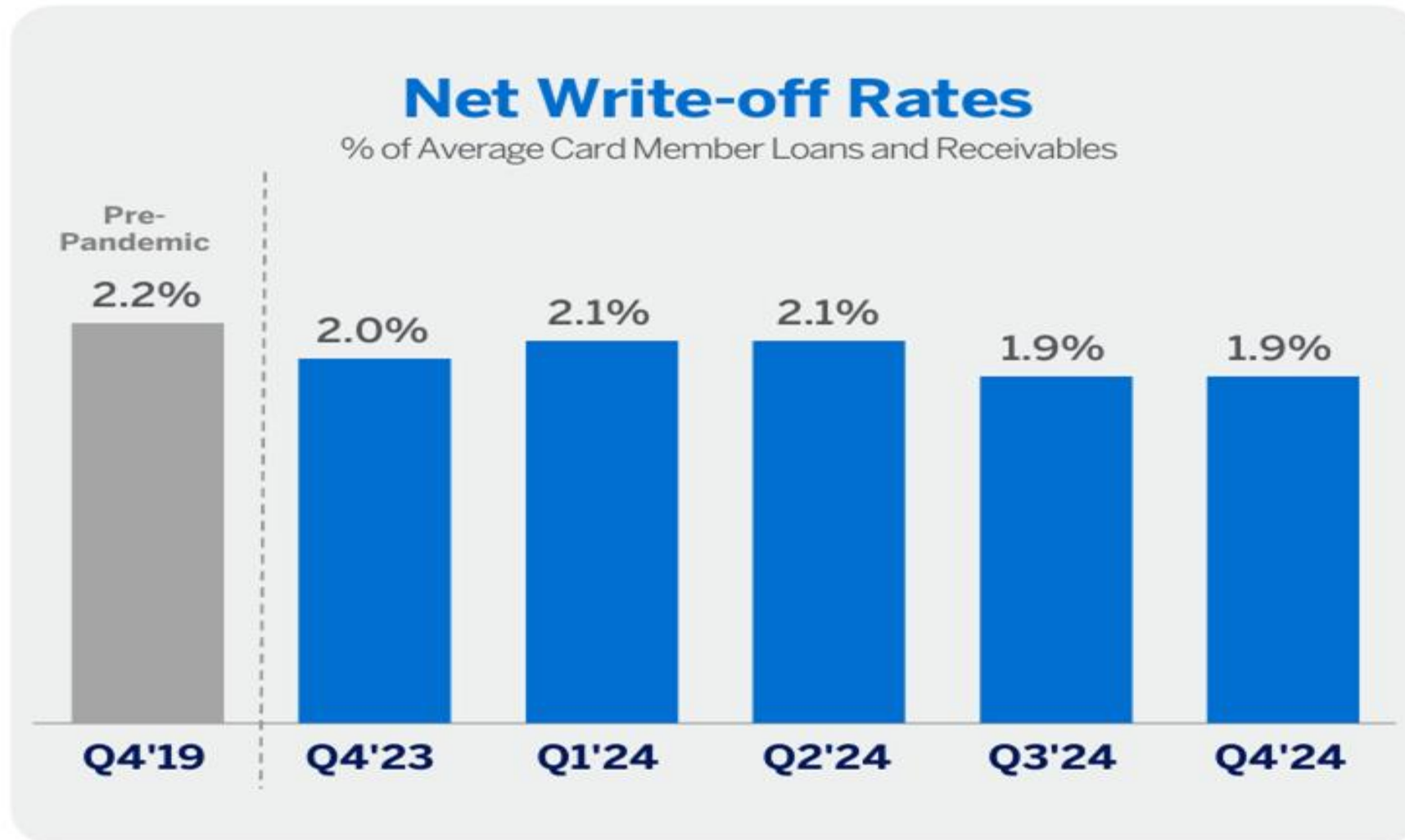
# Capital Return



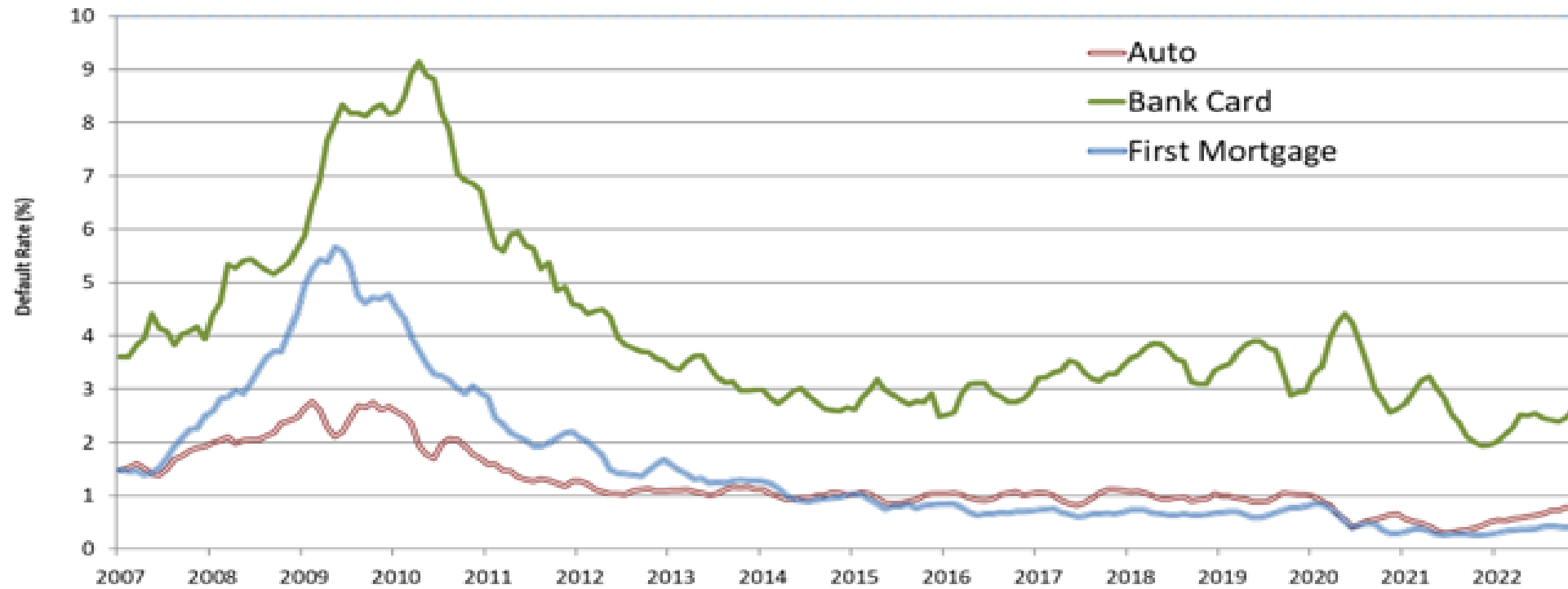
# Industry Analysis-CC Delinquency Rates



# Write-off Rates below pre-pandemic



## National S&P/Experian Consumer Credit Default Indices



Sources: S&P Dow Jones Indices & Experian





# SWOT Analysis

## Strengths

- Established Infrastructure
- Technological Advancement
- Diversification of Services

## Weaknesses

- Legacy Systems
- Cybersecurity Vulnerabilities
- Regulatory Complexity
- Reputational Risk

## Opportunities

- Perk driven revenue
- Emerging Markets
- Personalized Financial Services

## Threats

- Consumer Sentiment Decrease
- Rising Delinquency Rates
- Cyber threats



# Strengths

- **Established Infrastructure:** The industry has a well-developed infrastructure, including established networks, regulatory frameworks, and experienced professionals. Long-standing institutions possess significant capital and resources.
- **Technological Advancement:** Increasing adoption of digital technologies enhances efficiency, accessibility, and customer experience. Advanced data analytics and AI improve risk management and fraud detection.
- **Diversification of Services:** Financial institutions offer a wide range of services, including banking, insurance, investment, and wealth management, providing diverse revenue streams.



# Weakness

- **Legacy Systems:** Many institutions rely on outdated legacy systems, which can hinder innovation and increase operational costs.
- **Cybersecurity Vulnerabilities:** The increasing reliance on technology exposes the industry to significant cybersecurity risks
- **Regulatory Complexity:** The complex and evolving regulatory landscape can create compliance challenges and increase costs.
- **Reputational Risk-** When litigation and fees are announced, companies can suffer setbacks due to loss of reputation.



# Opportunities

- **Fintech Innovation-** Collaboration with fintech companies can drive innovation and expand service offerings. The growth of digital banking and mobile payments presents significant opportunities.
- **Emerging Markets:** Expanding into emerging markets can provide access to new customer bases and growth opportunities especially among SME (Small to Midsize Enterprises)
- **Personalized Financial Services:** Leveraging data analytics to provide personalized financial advice and services can enhance customer engagement.



# Threats

- **Consumer Sentiment Decrease-** Shifting consumer preferences, particularly among younger generations, require financial institutions to adapt their services and delivery channels.
- **Rising Delinquency Rates-** delinquency rates among credit card holders is on the rise over the past 5 years.
- **Cyber threats-** The increasing sophistication of cyberattacks poses a constant threat to data security and financial stability.



# Valuation Assumptions

<b>Valuation Date:</b>	03/03/2025	<b>N Forecasted Years:</b>	5
<b>Revenue Growth Method:</b>	CAGR	<b>Exit EV/EBITDA Multiple:</b>	9.59X
<b>Rev. Growth Rate 2025E:</b>	10.8%	<b>WACC Calc. Method:</b>	Bloomberg
<b>Rev. Growth Rate 2026E:</b>	10.8%	<b>WACC: Cost of Equity:</b>	8.57% 9.59%
<b>Rev. Growth Rate 2027E+:</b>	10.8%	<b>N Comparable Peers:</b>	6



# Valuation Model Outcomes

	Estimated Value Per Share	Model Weights
Precedent Transaction	345.00	75%
Comparable Company	660.38	10%
Levered DCF	735.54	10%
Unlevered DCF	1217.89	5%
Dividend Discount	69.82	0%



# Valuation Target Price

Current Stock Price versus Scenarios				
	Current	Bear	Base	Bull
Stock Price (\$)	300.60	403.79	459.24	543.21
Upside (Downside)		103.19	158.64	242.61
Upside (Downside) %		34.33%	52.77%	80.71%





# Analyst Recommendation- DONE

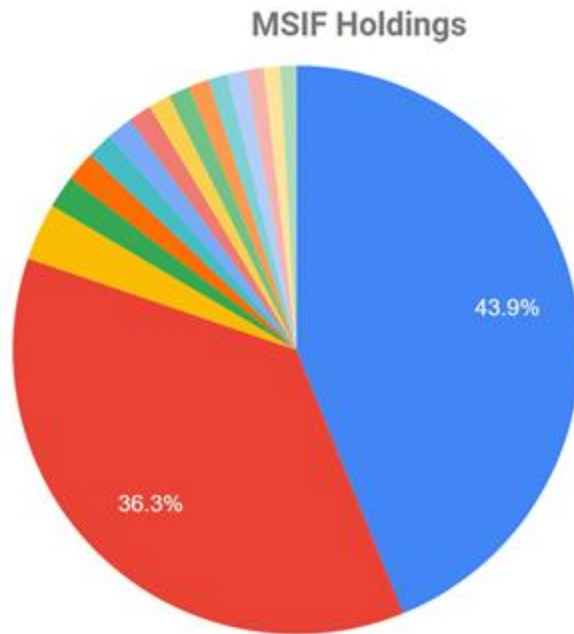
Buy- 33.33%

Hold- 59.23%

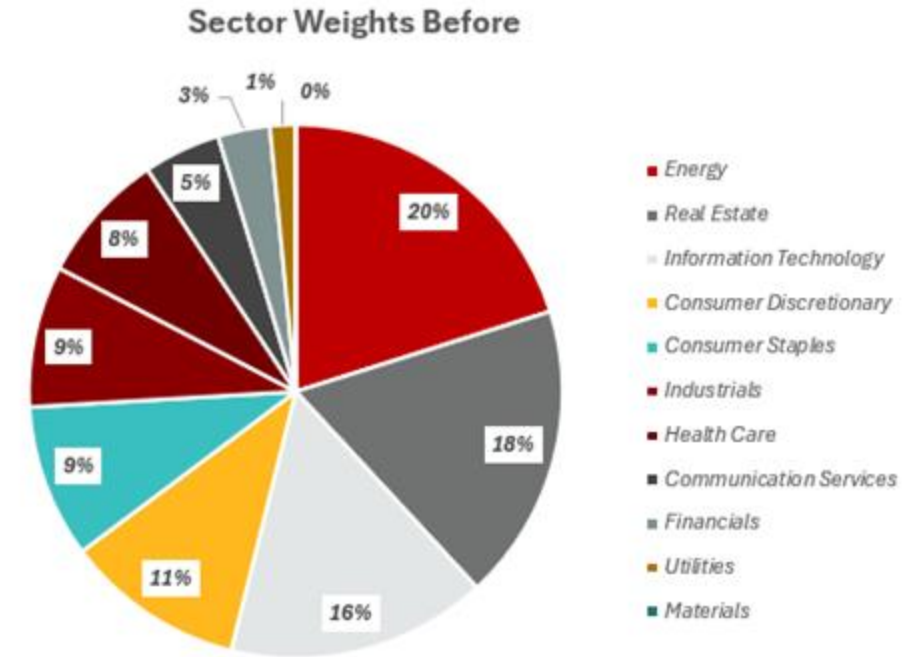
Sell- 7.44%



# Effect on the Portfolio



SPY  
 ICSH  
 XOM  
 CVX  
 CBRE  
 THC  
 AAPL  
 PPC  
 O  
 VICI  
 DOC  
 PSA  
 INGR  
 TSLA  
 JAZZ  
 PEP



Energy  
 Real Estate  
 Information Technology  
 Consumer Discretionary  
 Consumer Staples  
 Industrials  
 Health Care  
 Communication Services  
 Financials  
 Utilities  
 Materials

Portfolio	Exp. Return	St. Dev*	Beta*	Sharpe Ratio*	Idio. Risk*	Info. Ratio*
Existing	6.15%	5.37%	0.99	-0.55	-	-
AXP	52.77%	4.967%	1.10		-	-
Adjusted	6.15%	5.37%	0.99	-0.55	-	-



# Conclusion

**Investment Thesis: BUY 50 Shares of AXP  
(~\$15,000)**

