

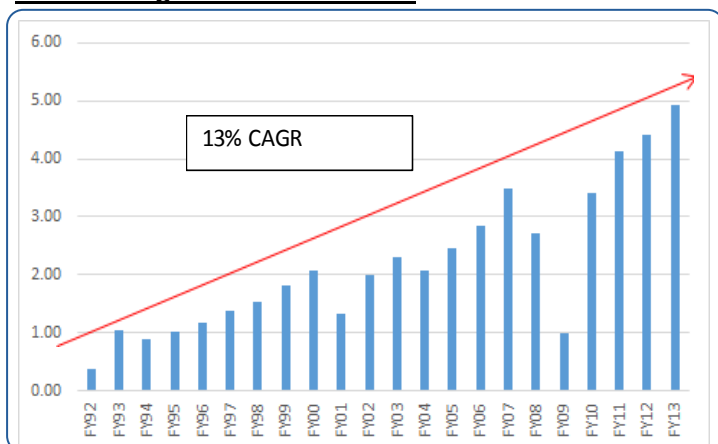
### American Express: Don't leave home without it

American Express (Amex) is the fourth-largest card payment services provider in the world behind companies such as MasterCard and Visa. However, Amex believes it differentiates itself from these other providers in the following manner:

- In many instances, Amex manages both the acquiring relationship with merchants and the card issuing side of the business – referred to as 'closed loop'. This is different from the bank card networks in that they have access to information at both ends of the card transaction. Amex believes this allows them to analyse information on card member spending and provide targeted marketing and other information services for merchants and special offers to card members.
- Amex's so-called "spend-centric" business model instead focusses on generating revenues primarily from driving spending on cards, and secondly through finance charges and fees. Spending on Amex cards is higher on a per card holder basis vs peers, allowing them the flexibility to invest in attractive awards programmes and in targeted marketing. This presumably creates a virtuous circle which incentivises cardholders to spend more on their cards.

The group's long-term growth track record is exemplary (with the exception of one or two bad years around time of the global financial crisis [GFC]) as shown in the table below:

#### Amex EPS growth track record:



Source: Bloomberg, Anchor Capital

Amex has three key financial targets that it has communicated to the market:

- Revenues net of interest expense growth of at least 8%.
- **EPS growth of 12-15% p.a.**
- Return on equity (RoE) of 25% or more.

The company further wishes to return, on average, 50% of the capital it generates to shareholders via a combination of dividends and share buybacks - the impact of the latter would obviously form part of the EPS growth target (declining shares in issue have accounted for 4%-5% EPS growth p.a. in recent years). Of course, for a business sustaining a 25% RoE or better, the basic maths suggests that if you retain 50% of profit by definition this should result in 12.5% profit growth being sustained on a trend basis.

The stock has also been a steady performer for some time, and it delivered a fantastic return in 2013 (+50%) for its shareholders.

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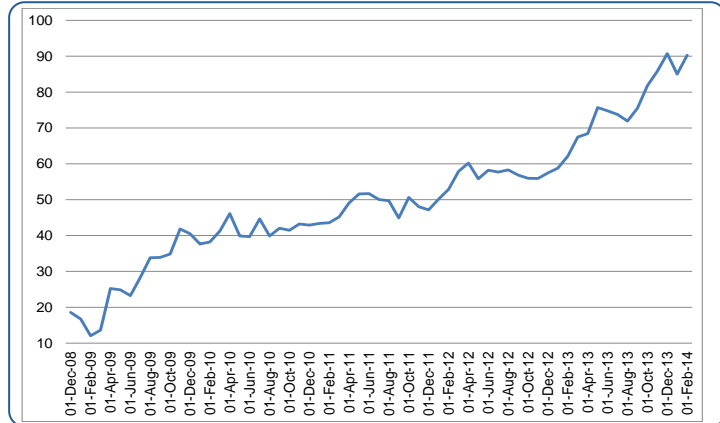
We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watchlist, which is continually reviewed and updated.

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**Amex share price performance, \$:**



Source: Bloomberg, Anchor Capital

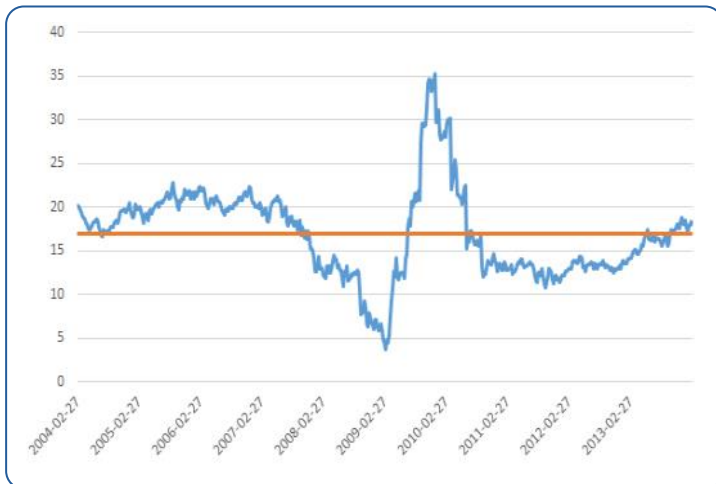
This appears to be a much better-than-average business in the global context as judged by the return on capital the company is achieving. We believe if they do deliver on their long-term targets then this share should give investors a total returns of c. 15% p.a. from current levels – this implies no re/de-rating and c. 1% of this return would come from dividends.

*We are currently assessing the merits of including Amex in our offshore portfolios.*

**Sean Ashton**

Despite this, the rating – while higher than it's been for a while – is not dramatically higher than its 10-year average:

**Amex trailing P/E multiple and average (orange line):**



Source: Bloomberg, Anchor Capital

The market is looking for 12% trend EPS growth for the next three financial years – below the bottom end of Amex's own internal targets.

**Amex metrics:**

Spot (\$)	90.29
Mkt Cap \$bn	95.94
12M trailing P/E	18.36
12M fwd P/E	16.51
10-year average P/E	19.7
FYE	31-Dec
P/Book	4.93
12M fwd DY	1.08

Source: Bloomberg, Anchor Capital



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