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American Express (AXP)

Analysts: Russ Anderson; Robert Waterman
Date: Nov 1, 2006



Source: Bigcharts

Last Trade:	58.91
Sector:	Financial
Industry:	Credit Services
52wk Range:	48.21 - 59.50
Market Cap:	70.93B
Shares Outstanding:	1.20B
% Held by Insiders:	0.23%
% Held by Institutions:	80.80%
Average Volume (3 month):	5,068,08
Trailing P/E (ttm, intraday):	20.81
Forward P/E (fye 31-Dec-07) :	17.38
PEG Ratio (5 yr expected):	1.51
Trailing Annual Dividend Rate:	0.54
Trailing Annual Dividend Yield:	0.90%
Beta	1.08
Trailing Annual Dividend Rate:	0.54
Trailing Annual Dividend Yield:	0.90%

SoSource: yahoo!

Company Profile:

American Express Company, together with its subsidiaries, operates as a payments, network, and travel company worldwide. The company issues cards to consumers, small businesses, and corporations through its own network, as well as by third party banks and other institutions in approximately 45 currencies. American Express offer individual consumer charge cards, revolving credit cards, and various cards sponsored by and co branded with other corporations and institutions. In addition, American Express issues travelers checks; various prepaid products, including gift cards, gift cheques, dining cards; and various incentive prepaid products. American Express also provides expense management services to approximately 100,000 firms through its corporate card program, corporate purchasing solutions, and business travel services. Its travel services include travel reservation advice and booking transaction processing; travel expense management policy consultation; supplier negotiation and consultation; management information reporting, data analysis and benchmarking; and foreign exchange and international payment services. The company, through American Express Bank, offers various investment management, trust, estate planning, and banking services; saving and investment products; various correspondent banking products, including



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international payments processing, trade-related payments and financing, cash management, loans, extensions of credit, and investment products; distributes mutual funds; provides treasury and capital market products. In addition, the company publishes luxury lifestyle magazines; travel and business resources; various general interest, cooking, wine, financial, and time management books; international magazine editions. American Express also operates various Web sites, such as travelandleisure.com, foodandwine.com, departures.com, tlgolf.com, tlfamily.com, and skyguide.net. American Express was founded in 1850 and is headquartered in New York City.

American express is broken up in to 3 main businesses (source: Reuters)

1. U.S. Card services
2. International card and Global commercial services
3. Global network and commercial services.

1. *The U.S. card services are what we are all most familiar with. As a significant part of its Card issuing business, American Express Travel Related Services Company, Inc. (TRS) and its United States banking subsidiaries issue a range of Card products and services to consumers and small businesses in the United States. The consumer travel business, which provides travel services to Card members and other consumers, complements the core Card business as does our travelers check and prepaid services business. The Card business offers a broad set of card products.*

The Company and its licensees offer individual consumer charge cards, such as the American Express Card, the American Express Gold Card, the Platinum Card and the Centurion Card; revolving credit cards, such as Blue from American Express, Blue Cash Card from American Express and the Optima Card, among others, and a range of cards sponsored by and cobranded with other corporations and institutions, such as the Delta Sky Miles Credit Card from American Express, the American Express Platinum Cash Rebate Credit Card and True Earnings Card for Costco Members and the Hilton HHonors Platinum Credit Cards from American Express. American Express and its licensees also offer a range of revolving credit Cards. These Cards have a range of different payment terms, grace periods, and rate and fee structures.

In 2005, the Company introduced products, such as the IN: Chicago Card and IN: LA, which targets younger Card members residing in those cities by offering rewards tied to each city's restaurants, clubs and in-demand events; the Blue Sky Credit Card for consumers, which enables Card members to earn points that can be redeemed toward savings on any flight, hotel, car rental or cruise charges, and One from American Express,



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a card that enables Card members to save automatically with every purchase through the Savings Accelerator plan, a benefit in which the Company contributes 1% of the Card member's purchases to an Federal Deposit Insurance Corporation (FDIC)-insured, interest-bearing savings account that is opened in the customer's name and may be accessed online.

- 2. Through the Global Commercial Services (GCS) group, the Company provides expense management services to more than 100,000 firms worldwide through the Corporate Card program, Corporate Purchasing Solutions and Business Travel Services. During 2005, the Company added or retained several corporate Card clients in the United States and internationally, including Procter & Gamble, Xerox and Bearing Point. GCS offers three primary products and services: Corporate Card, issued to individuals through a corporate account established by their employer and designed primarily for travel and entertainment spending; Corporate Purchasing Solutions, an account established by a company to pay for everyday business expenses, such as office and computer supplies, and Business Travel, which helps businesses manage their travel expenses through a range of travel-related products and services.*

During 2005, the Company announced or launched the Mini Excitement American Express Card, a cobrand card with BMW, aimed at a lifestyle-oriented demographic in Germany; the American Express Singapore Airlines PPS Club Platinum Credit Card, designed for Singapore Airlines most frequent first and business class travelers; a distribution agreement with Oriental Financial Group to distribute consumer and commercial cards in Puerto Rico; Platinum Credit Cards in Australia, Brazil, Hong Kong and Mexico; the Nectar Credit Card from American Express, a consumer and small-business credit card in the United Kingdom, cobranding with Loyalty Management UK, the owners and operators of Nectar, and the American Express AeroMexico Credit Card, the first cobrand credit card issued by American Express in Mexico.

GCS Global Travel Services consists of American Express Business Travel, Membership Travel Services International, Travel Services Network International and Global Foreign Exchange Services. American Express Bank (AEB) serves high-net-worth individuals and financial institutions through over 70 locations in 45 countries and regions worldwide. AEB's operations are conducted primarily through the Company's indirect wholly owned subsidiary, American Express Bank Ltd., and its subsidiaries. AEB serves financial institutions worldwide and individual clients outside the United States.



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3. *The Company operates a global general-purpose charge and credit card network through its Global Network Services (GNS) business. Network functions include operations, service delivery, systems, authorization, clearing, settlement and brand advertising and marketing; the development of new products for the network, and establishing and enhancing relationships with merchants globally. GNS focuses on partnering with third-party financial institutions, which choose to issue Cards accepted on the Company's global network.*

*GNS arrangements fall into three main categories. **The first** and most common type of GNS arrangement is known as a network card license (NCL). During the year ended December 31, 2005, the Company had 50 of these arrangements in place. In an NCL arrangement, American Express grants the third-party financial institution a license to issue American Express branded Cards. The NCL is the model that the Company implemented with banks in the United States. Examples of NCL arrangements include its relationships with MBNA America Bank, N.A. (MBNA), Citibank, Bank of America, Lloyd's TSB Bank (in the United Kingdom) and Industrial and Commercial Bank of China. **The second** type of GNS arrangement is known as an independent operator (IO) arrangement. As of the end of 2005, the Company had over 40 of these arrangements around the world. Under this type of arrangement, it licenses its bank partner to issue local currency Cards in the particular market(s), in which it is located, where, in the large majority of these arrangements, they also serve as the local merchant acquirer and processor.*

***The third** type of GNS arrangement is a joint venture. The Company has utilized this type of arrangement in Switzerland, Belgium and several other countries. In 2005, American Express entered into GNS relationships with 14 financial institutions. GNS partners launched over 50 products during 2005, bringing the total number of American Express-branded GNS partner products to approximately 450. Outside the United States, it has signed a number of agreements over the past year in markets, such as China, Russia, the United Kingdom, South Korea and Hungary. The GNS business has over 90 partners representing over 100 geographic markets. The Company operates a global merchant services business, which includes signing merchants to accept Cards (merchant acquisition), accepting and processing Card transactions, and paying merchants (transaction processing) that accept Cards for purchases made by Card members with Cards (Charges). It also provides point-of-sale and back-office products, and services and marketing programs to merchants.*



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Valuation:

Valuation Ratios				11-07-06
	Stock	Industry	S&P 500	Stock's 5Yr Average*
Price/Earnings	21.1	16.7	21.3	26.3
Price/Book	6.8	3.9	4.1	4.4
Price/Sales	2.8	4.8	2.9	2.9
Price/Cash Flow	---	23.3	15.0	---
Dividend Yield %	0.9	2.1	1.7	---

* Price/Cash Flow uses 3-year average.

Source: morningstar.com

Compared to the overall credit services industry, AXP is a little expensive with a PE ratio of 21.1. Against its few industry peers on the S&P 500, AXP's PE falls right about in the middle with ranges from 10 to 30. Versus itself, AXP's PE ratio is significantly lower than it's 5 year average of 26.3.

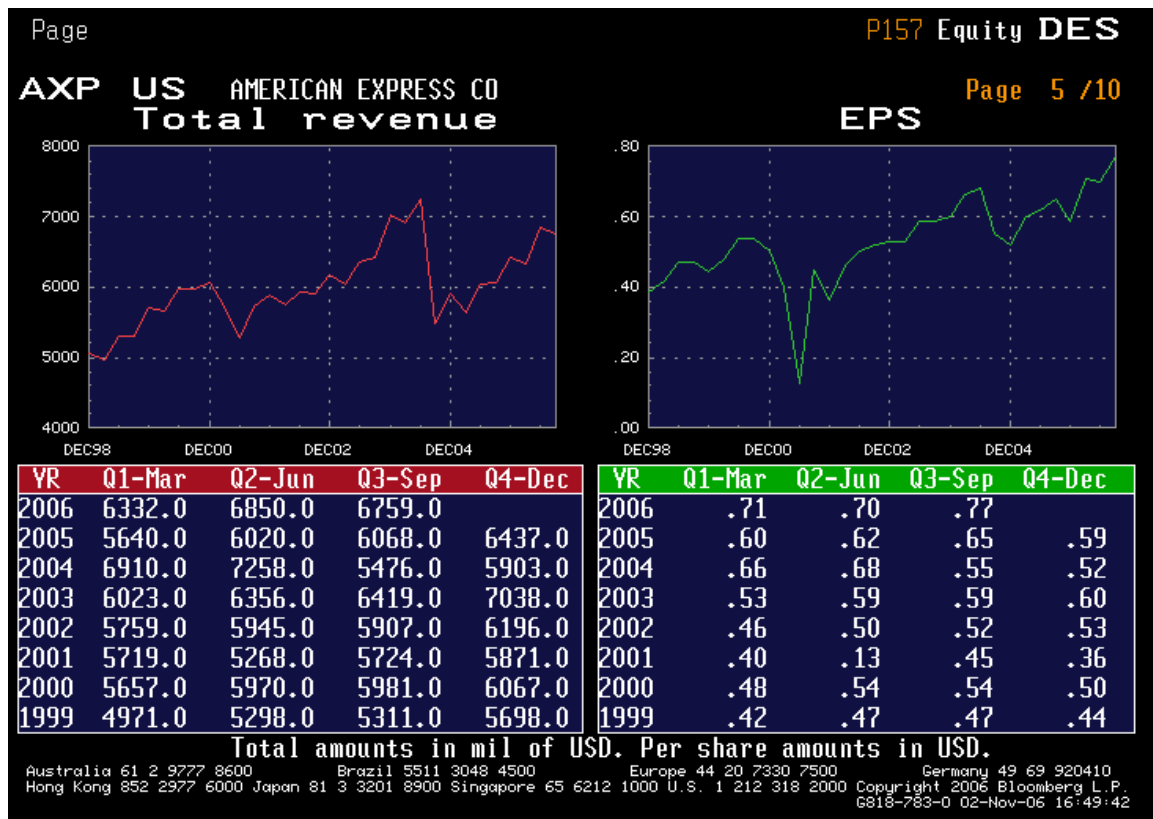
Based off of the P/E ratio of 21.1 and analysts earnings estimates for 2007, when applied together we can arrive at the following estimates.

1. Mean Earnings Estimate 3.38: Price = 71.32 + 21%
2. High Earnings Estimate 3.60: Price = 75.96 + 28.9%
3. Low Earnings Estimate 3.25: Price = 68.58 + 16.4%

*% Increases based off of closing price 11/9 of 58.91

Earnings:

AXP's earnings per share have been consistently increasing. We anticipate them to continue growing at a steady or slightly faster pace with the amount of recent partnerships and conjunctions made in the U.S. and abroad.



Source: Bloomberg

For the 3rd quarter of 2006, American express had an overall increase of 12% in net revenue due to higher spending from a growing card holder base and high finance charges for those who do not pay off their balances each month.

- For the US segment, they posted a 31% increase in net income year over year with a 46% increase in finance charge revenue.
- The Global Network and merchant services (GNS) had a 50% increase in net income
- International card and Global services (ICGS) had a -13% decrease in net income due to higher expense increases versus the revenue increases. A major portion of the drop was due to the sale of card operations in Indonesia and Malaysia to Bank Danamon and Maybank (respectively) as independent operator agreements (this will benefit GNS in the future).
- Card member spending rose 15 % to \$140.3 billion during the quarter



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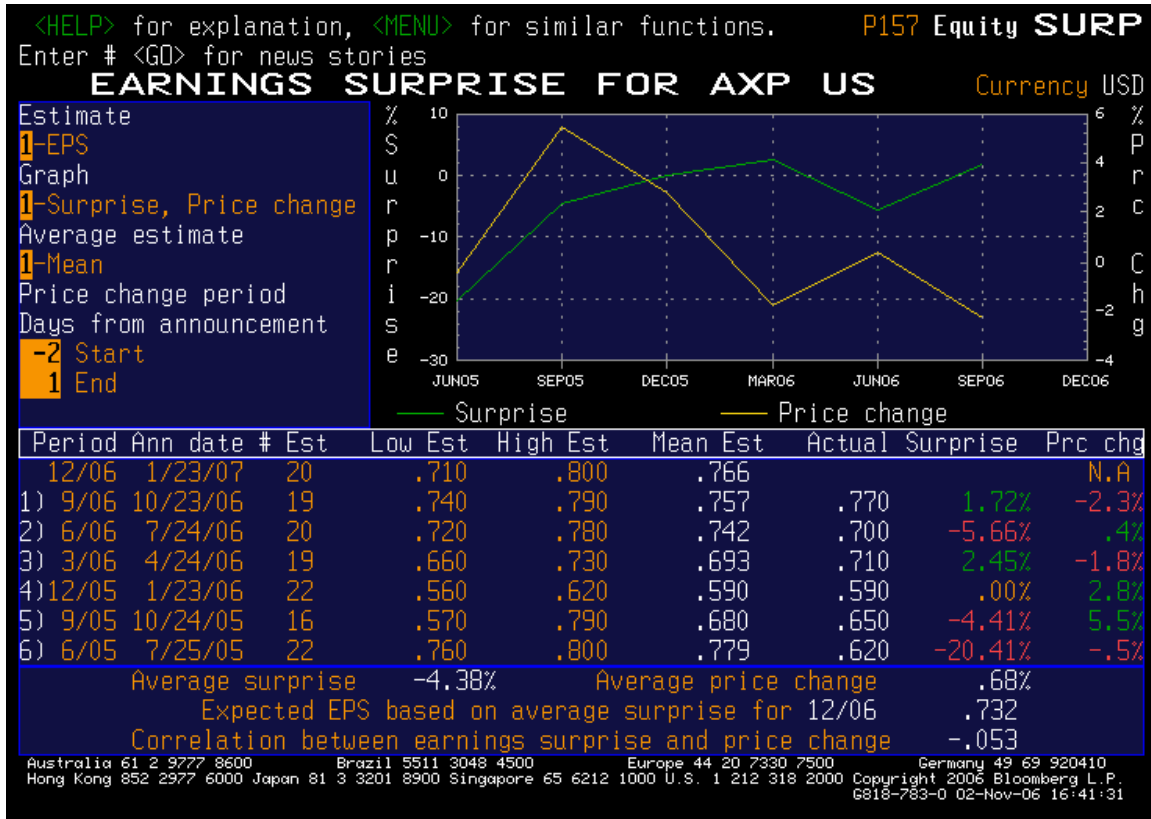
- Overall operating income was up 18% year over year after adjusting for asset sales.



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Earning Surprises:

One thing that we don't particularly like about American express is its earnings surprises. They are not always good surprises and not consistent by any means, they really are surprises.



Source: Bloomberg



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Analysts Earnings Estimates:

American Express has a very solid earnings outlook for the rest of the year and into next year.

<HELP> for explanation. P157 Equity EE

EARNINGS ESTIMATES Page 1 / 4
 AXP US American Express Co Last Update: 10/27/06

WALL STREET ESTIMATES

	MEAN	HIGH	LOW	NUMBER EST	MEAN CHG LAST MNTH (\$)
FISC YR END 0612	3.00	3.10	2.89	17	0.02
FISC YR END 0712	3.38	3.60	3.25	16	0.02
QUARTER END 0612	0.77	0.83	0.71	15	0.00
QUARTER END 0703	0.79	0.84	0.76	7	0.00
NEXT 5 YR GRTH (%)	13.03	20.00	7.00	9	0.22

ALL ESTIMATES ARE FOR DILUTED EPS FROM CONTINUING OPERATIONS

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
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Source: Bloomberg



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Key statistics versus Industry competitors:

Name	American Express Co.	Capital One Financial Corp.	Moody's Corp.	FANNIE MAE	Alliance Data Systems Corp.
Industry	Credit Services	Credit Services	Credit Services	Credit Services	Credit Services
Current Share Price	58.16	78.68	66.06	59.56	59.93
Market Value	\$69,320 mil	\$23,265 mil	\$18,405 mil	\$56,429 mil	\$4,742 mil
Revenues	\$25,687 mil	\$13,643 mil	\$1,920 mil	\$52,584 mil	\$1,774 mil
Net Earnings	\$3,593 mil	\$2,207 mil	\$625 mil	\$7,874 mil	\$168 mil
5-yr. Sales Growth	2.89%	12.69%	19.09%	8.71%	28.08%
5-yr. Earnings Growth	21.25%	20.80%	25.92%	15.37%	NA
Net Profit Margin	13.40%	15.90%	32.60%	14.60%	9.60%
Short Interest	3.2	7.7	3.6	7.6	5.6
Est. EPS Growth Rate	13.00%	12.60%	15.10%	8.90%	17.20%
Forward P/E	19	9.9	30.2	12.7	21.6
PEG	1.46	0.79	2	1.44	1.25
Price/Sales	2.8	1.7	9.9	1.1	2.7
Price/Cash Flow	NA	NA	27.6	9.2	NA
Price/Book	6.6	1.5	475.6	2.2	4.6
ROE	33.40%	15.70%	333.10%	43.70%	17.40%
ROA	3.10%	2.70%	47.70%	0.80%	6.00%
Dividend	\$0.60	\$0.11	\$0.28	\$1.04	\$0.00
Dividend Yield	1.05%	0.14%	0.43%	1.78%	0.00%
Payout Ratio	19.10%	1.60%	12.70%	25.20%	0.00%
Total Return (12-mos.)	12.00%	-7.70%	9.80%	23.50%	53.50%
Total Return (3-yr.)	46.30%	28.70%	131.90%	-10.80%	97.50%
Beta	1.2	1.7	0.3	0.8	1.3
% Off 52-wk. High	-0.46%	-12.62%	-9.86%	-1.01%	-3.94%
% Above 52-wk. Low	20.64%	13.54%	32.76%	31.74%	71.67%
On Balance Volume Index	147	74	127	102	220
Consensus Analyst Recommendation	Moderate buy	Moderate buy	Hold	Hold	Strong buy

Source: www.fidelity.com



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Growth Rate Comparison:

Growth Rates (%)					
% Growth Rate	AXP	Industry	Sector	S&P 500	Company Rank in Industry
Sales Growth For Most Recent Quarter	12.1	7.2	24.9	16.5	48
Sales Growth For Trailing 12 Months	11.8	9.0	25.8	16.8	40
Sales Growth For Past 5 Years	0.5	16.1	9.1	9.6	25
Capital Spending Growth for Past 5 Years	(7.9)	10.8	4.5	6.5	39
EPS Growth for Most Recent Quarter	13.0	(13.7)	9.5	14.4	50
EPS Growth for Trailing Twelve Months	14.6	(0.8)	16.7	21.6	54
EPS Growth for Past 5 Years	4.4	19.3	16.6	14.8	25

Worst → Best

The 5 year revenue growth for American Express Company is slower than the industry average. The 5 year earnings growth rate is slower than the industry average.

Source: Reuters

- AXP's sales growth for the 3rd quarter of 2006 was 12.1%, about half of that of the financial sector as a whole but significantly higher than the credit services industry.
- AXP's Earnings per share growth for the 3rd quarter or 2006 was 13.0% beating the industry average as well as the financial sector.



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Ratios:

Company Quality

Profitability Ratios (%)	AXP	Industry	Sector	S&P 500	Company Rank in Industry
Gross Margin for Trailing Twelve Months	80.2	NM	NM	44.7	9
Gross Margin for Past 5 Years	75.9	NM	NM	44.8	7
Operating Margin for Trailing Twelve Months	19.2	19.5	31.5	20.3	7
Operating Margin for Past 5 Years	15.0	22.8	34.4	19.2	5
EBITD Margin for Trailing Twelve Months	NA	NM	NM	22.3	N
EBITD Margin for Past 5 Years	22.2	NM	NM	20.6	5
Pretax Margin for Trailing Twelve Months	19.2	18.0	24.4	18.7	6
Pretax Margin for Past 5 Years	15.0	22.5	26.0	17.2	5
Net Margin for Trailing Twelve Months	13.5	13.7	18.3	13.6	6
Net Margin for Past 5 Years	10.9	15.5	17.8	11.6	5
Effective Tax Rate for Trailing Twelve Months	29.8	27.5	30.7	30.5	2
Effective Tax Rate for Past 5 Years	27.3	30.0	30.1	32.0	3

Efficiency Ratios (TTM)	AXP	Industry	Sector	S&P 500	Company Rank in Industry
Asset Turnover	0.2	NM	NM	1.0	5
Receivables Turnover	0.7	NM	NM	10.7	2
Inventory Turnover	NA	NM	NM	12.8	N
Revenue/Employee	\$400,684	\$5,623,209	\$999,379	\$903,500	6
Net Income/Employee	\$54,027	\$580,859	\$145,851	\$114,844	5

The revenue per employee for American Express Company is lower than the industry average.

Management Effectiveness Ratios (%)	AXP	Industry	Sector	S&P 500	Company Rank in Industry
Return on Assets for TTM	3.1	2.8	2.8	8.2	7
Return on Assets for Past 5 Years	1.5	2.8	2.3	6.6	5
Return on Investment for TTM	3.7	6.6	8.8	12.2	7
Return on Investment for Past 5 Years	1.8	6.0	7.9	10.2	5
Return on Equity for TTM	34.0	31.6	16.1	20.1	9
Return on Equity for Past 5 Years	17.9	26.2	14.5	18.1	7

Worst → Best

The trailing twelve month return on assets for American Express Company is higher than the industry average.

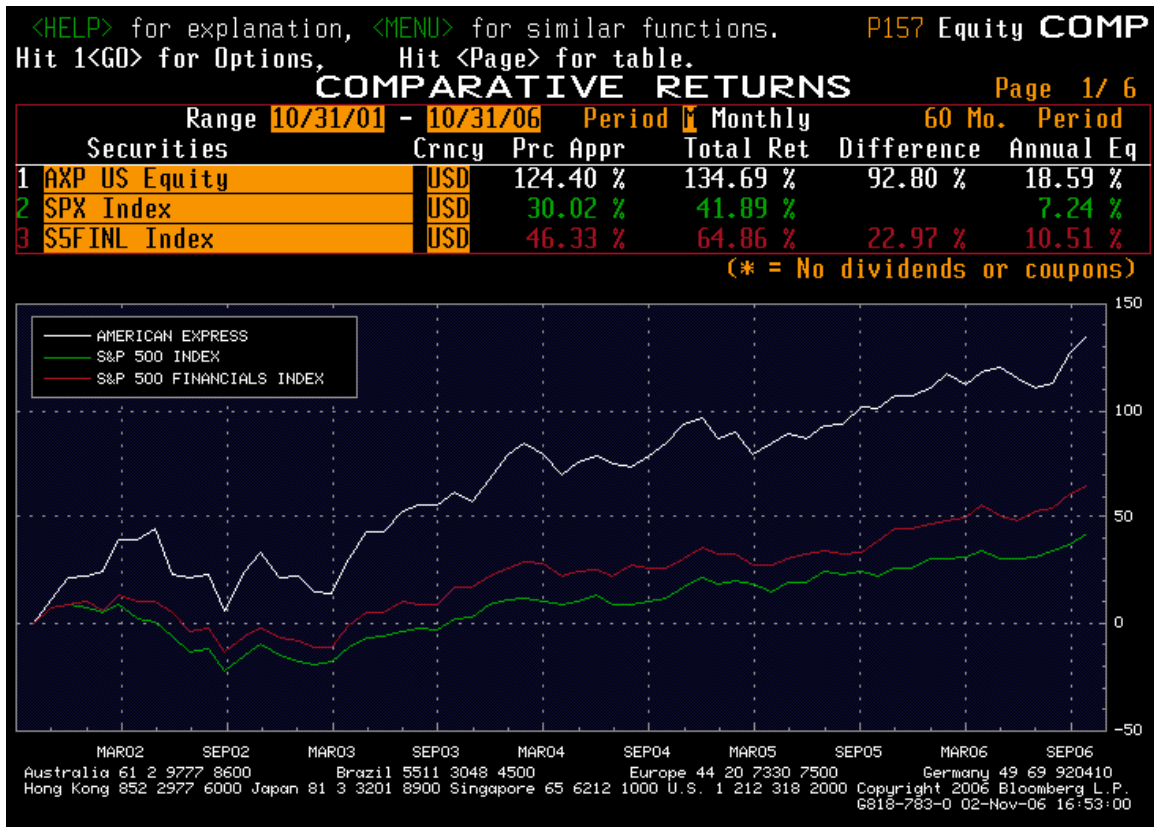
source: Reuters

- AXP's Profitability ratios are all exceeding their 5-year averages.
- Their ROE of 34% is not only higher than the S&P 500 and Sector but also the Credit Services industry as a whole.



Performance Against Competition:

AXP has been doing very well against the financial sector as a whole and the S&P 500 in the long term.



Source: Bloomberg

AXP vs. XLF (Financial Sector ETF)



Source: Yahoo

Morningstar Stock Grades:

Morningstar has rated AXP with A in Profitability and B for growth. This is better than the credit services industry average of C+ for both.



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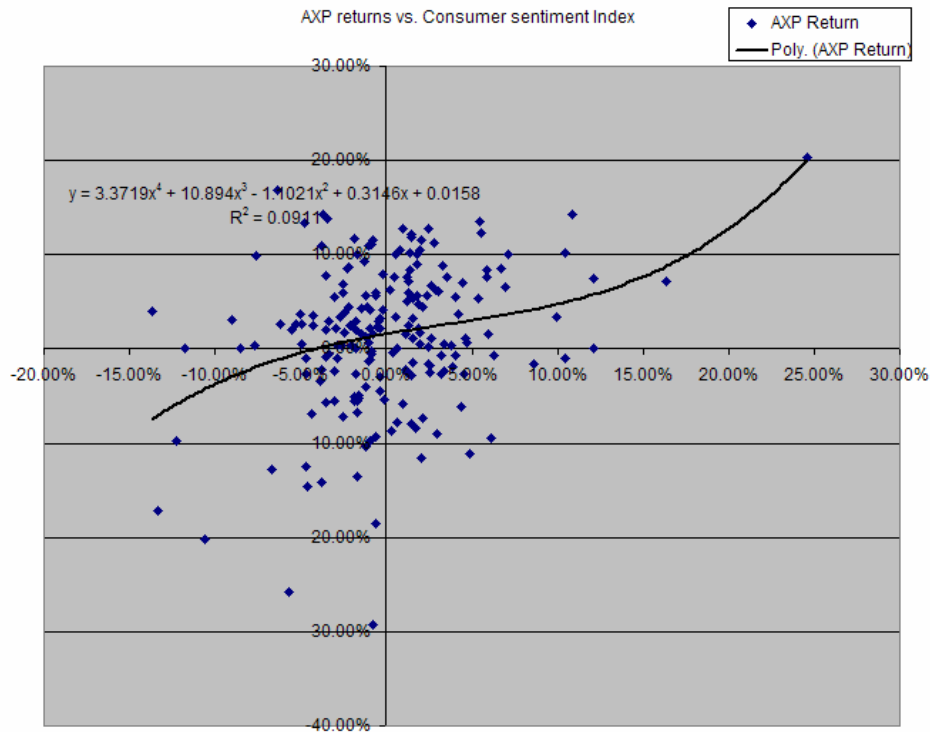
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Stock	Mkt Cap \$Mil	Sales \$Mil	Morningstar Stock Grade:		
			Growth	Profit-ability	Financial Health
American Express	71,762.0	25,776	B	A	---
Industry Average	6,087	4,042	C+	C+	C+
Fannie Mae	59,071	---	A	D+	---
Freddie Mac	48,349	---	F	D	---
MBNA	34,076	10,586	---	---	---
Capital One Financial	23,394	11,179	B-	A	---
Orix ADR	23,199	8,411	---	---	---
SLM	19,223	4,061	B-	A-	---
Brookfield Asset Mngmnt	17,874	5,256	---	---	---
Ameriprise Financial	12,473	7,744	B-	D	---
CIT Group	10,518	3,916	C-	D-	---
AMERICAN CAPITAL STRAT	6,035	620	A+	A	---
Providian Financial	5,212	2,225	---	---	---
iStar Financial	5,099	883	A-	A	---
Allied Capital	4,576	408	C	A+	---
First Marblehead	4,249	564	A	A+	---
Student Loan	3,740	678	B	C+	---
WFS Financial	3,383	795	---	---	---
AmeriCredit	3,139	1,392	B	A-	---
MoneyGram International	2,803	550	B	C+	---
Thornburg Mortgage	2,774	383	A-	C	---
Annaly Capital Mgmt	2,295	---	F	C	---



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AXP returns vs. Michigan Consumer Sentiment Index



We did a regression to see the correlation between the release of the Michigan Consumer Sentiment Index and the % returns of AXP from 1990 to 2006. The results show that there is no apparent relationship. This goes towards backing up the notion that American Express customers fall into the higher end niche of the card user market whose spending doesn't really fall into the general consensus of the overall market (which is typically indicated by the Consumer Sentiment Index).



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Recent Partnerships & Developments

- In the last year American Express has announced a few partnerships such as with Bank of America, HSBC, GE consumer finance and Citigroup to offer Amex branded cards in the U.S. American Express also recently partnered with China's largest card issuer ICBC and MBNA (through Bank of America). Going through banks such as BoA and HSBC and other partnerships to issue cards should boost spending volume and revenue growth significantly in the years to come without too many incremental costs to the company as a whole.
- Incentive and reward programs with several airlines including Jet Blue, South African Airways, Korean Air and Delta...all in the 3rd quarter of 2006.
- In 2004, American Express along with Discover filed litigation against Visa and MasterCard for anti-competitive practice for blocking member banks from issuing cards on rival networks. This is why we see the recent numerous partnerships with banks in the past year or so.

Risks

- American Express is exposed to broad economic conditions not only in the U.S. but also around the world through its partnerships as it relies on consumers going out and spending money. The positive side to this in American Express's case is that their cardholders are typically more high-end and less likely to be affected by a slowdown. Merchant fees otherwise known as the discount fees charged to merchants for allowing their customers to use Amex cards at their businesses accounts for about 50% of revenue.
- As mentioned earlier, revenue should increase through these fees with the new partnerships with Bank of America, Citibank, HSBC, GE and the international partnerships it holds as well. The negative side to these partnerships is the loss of "exclusiveness" which the company has geared towards with their cards.
- Another potential risk on the card side is the growth of the use of debit cards, which American Express doesn't offer a product for at the time and hasn't announced that it plans to.
- As Americans carry a lot of credit card debt, an increase in delinquency rates and charge off rates could potentially hurt Amex's revenues.



Performance Against Bench:



Source: Yahoo

What we like:

- Performance against the bench is good over the last many years. As of recent it has under performed the financial sector and S&P 500 by a little; which can be a good buying opportunity.
- Consistently increasing earnings
- Solid Growth Estimates
- Recent partnerships with Bank of America and HSBE, GE Consumer Finance, Citigroup and ICBC (China)
- Upcoming holiday season spending
- High ROE versus competition

What we don't like

- Earnings surprises are not consistent, they really are surprises.
- Relies on consumer spending thus healthy economies (worldwide)
- High Price to Earnings ratio although significantly lower than it's 5-year average.
- Stock has been appreciating a lot in the last couple weeks, approaching highs.



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Recent News:

[Gift Cards Rival Apparel as Gift of Choice This Holiday Season, Says 2006 American Express Gift Card Survey](#)

Thursday, November 9, 2006

[American Express Raises Its Return on Equity Target](#)

Tuesday, November 07, 2006

[New Issue-American Express Credit sells \\$600 mln floaters](#)

Tuesday, November 07, 2006

[Amex, ICBC launch corporate card in China](#)

Thursday, November 02, 2006

[American Express quarterly earnings rise](#)

Monday, October 23, 2006

[American Express profit up](#)

Monday, October 23, 2006

[Earnings Per Share from Continuing Operations Rise 13% - Net Revenues up 12% on Strong Cardmember Spending - More Than 2 Million Cards-in-Force Added in Third Quarter -](#)

Monday, October 23, 2006

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