

# Good research paper on financial analysis: american express

[Business](#), [Company](#)



## **Executive Summary**

The report is based on financial analysis of American Express for the purpose of providing recommendation to the investors over stock purchase. We initiated the analysis process by conducting the horizontal analysis of the financial statements of the company where we found that although the increase in revenue figures and operating income were less than that in year 2012, but the company was successful in increasing its net income by 19.57% this year courtesy lower interest expenses and other expenses.

As for the ratio analysis, we found that over the year, the company has improved profitability and better solvency roots but the liquidity position still remains a concern.

Thus, since the increase in revenue and operating income was not very much appreciable and also because the company still have low liquidity, we recommended ‘ Hold’ position for our investors. Our recommendation is also in consensus with market analysts of which most of them has issued ‘ Hold’ rating for the company. Below is the summary of recommendation trend over the stock:

## **Financial Statement Analysis- Horizontal Analysis**

Income Statement

Balance Sheet

Cash Flow Statement

Ratio Analysis

In this section, in order to evaluate the financial performance of American Express over the past three years, we will be using the tool of ratio analysis

under which we will be using five categories of ratios, namely, Liquidity Ratios, Profitability Ratios, Solvency Ratios, Efficiency Ratios and Market Ratios. Important to not, each ratio is supported with a detailed analysis that will assist us in reaching a comprehensive recommendation over stock investment.

#### -Liquidity Ratios

i)Current Ratio:  $\text{Current Assets} / \text{Current Liabilities}$

\*Refer to excel sheet for calculations

ii)Cash Ratio:  $\text{Cash \& Cash Equivalents} / \text{Current liabilities}$

\*Refer to excel sheet for calculations

#### -Profitability Ratios

i)Net Income Margin:  $\text{Net Income} / \text{Revenue}$

\*Refer to excel sheet for calculations

ii)Return on Equity:  $\text{Net Income} / \text{Total Equity}$

\*Refer to excel sheet for calculations

#### -Solvency Ratios

i)Total Debt-Equity:  $(\text{ST Debt} + \text{LT Debt}) / \text{Equity}$

\*Refer to excel sheet for calculations

#### -Efficiency Ratios

i)Total Asset Turnover:  $\text{Revenue} / \text{Total Assets}$

\*Refer to excel sheet for calculations

#### -Market Ratios

i)PE Ratio:  $\text{Market Price} / \text{EPS}$

## **Trend Analysis**

Noted from the above analysis, we can witness that except for liquidity, the company has improved their financial performance in all other sections over the period of three years. Most importantly, the company now has improved profitability margins after suffering a decline during 2012 and has also been able to satisfy its shareholders with a surge in ROE from 23.79% in 2012 to 27.92% in 2013.

In addition, the company has consistently reduced their reliance on debt finance as the debt-equity ratio declined from 3.62 in 2011 to 3.09 in 2013 accompanied with high efficiency displayed through improved total asset turnover that is increasing year over year. Our conclusion related to optimistic and appreciable financial performance of the company was validated through PE ratio that has shown an increase from 11.08 in 2011 to 14.82 in 2013, indicating that the investors are expecting high growth from the company's stock performance.

## **Equity Analysis**

Below are some of the basic financial fundamentals of the company:

- Market Cap: \$96.55 Billion
- Beta: 1.24
- Dividend Yield: 1.10%
- Current PE Ratio: 17.25
- EPS(2013): \$4.91

Competitor Analysis

## Works Cited

Analyst Opinion-American Express. (n. d.). Retrieved December 11, 2014,  
from Yahoo Finance: <https://in.finance.yahoo.com/q/ao?s=AXP>

Direct Competitors-American Express. (n. d.). Retrieved December 11, 2014,  
from Yahoo Finance: <https://in.finance.yahoo.com/q/co?s=AXP>

Income Statement- American Express. (n. d.). Retrieved December 11, 2014,  
from Morningstar: <http://financials.morningstar.com/income-statement/is.html?t=AXP&ion=usa&culture=en-US>