AmEx Climbs as New Lending Push Shows Signs of Paying Off

Photographer: Andrew Harrer/Bloomberg

By **Jennifer Surane**

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- Loans rise 16% in first quarter, outstanding balances surge
- Shares gain in late trading after earnings beat estimates

Say "so long" to the granddaddy of charge cards.

American Express Co., long known to issue cards that had to be paid off in full every month, now wants its customers to take their time paying it back. The New York-based firm has looked to lending to bolster revenues after competitors including JPMorgan Chase & Co. and Citigroup Inc. sweetened customer rewards and cut acceptance costs to steal some of its longtime business.

There's signs the new effort is working. AmEx's loans climbed 16 percent to $75.8 billion in the first three months of the year, topping the $72 billion average of analyst estimates compiled by Bloomberg.

“Our share of our U.S. consumer customers’ lending business is about half of our share of their spending -- we are confident these numbers will grow,” AmEx Chief Executive Officer Stephen Squeri said last month at the company’s annual investor day. “We intend to use big data analytics and our marketing capabilities to get the right additional products to the right customers.”

The company said it now expects earnings per share at the high end of the previously forecast range of $6.90 to $7.30 in 2018. It also said its effective tax rate for the quarter was 22 percent, which is in line with the full-year rate it had previously forecast.

AmEx shares rose 3.5 percent to $98.45 in after-hours trading in New York. The stock had dropped 4.2 percent this year through the close of trading Wednesday, compared with the 1.8 percent decline of the S&P 500 Financials Index.

Provision Growth

The extra loan growth has come at a cost, as the company set aside more money to cover souring loans. Provisions for credit losses jumped 35 percent to $775 million, less than the $809 million average of analyst estimates compiled by Bloomberg. The company attributed the increase to higher write-off and delinquency rates.

“We have been saying for some time that we expect an increase in lending write-off rates primarily due to the mix shift of our portfolio over time towards non-co-brand products and the seasoning of loans,” Chief Financial Officer Jeff Campbell, said on a conference call with analysts.

Read more: AmEx co-brand card wins take a toll <https://www.bloomberg.com/news/articles/2018-01-18/amex-co-brand-card-wins-take-a-toll-as-rewards-costs-keep-rising>

AmEx spent much of last year working on co-brand deals with retailers such as Marriott International Inc. and Hilton Worldwide Holdings Inc. -- deals that will also fuel loan growth at the company. An additional $42 billion of co-brand deals are open for bid in 2018 and 2019. AmEx has said renewing the Marriott and Hilton deals will crimp earnings by more than $200 million this year.

The lender last year increased its outstanding balances by 10.8 percent to $102.4 billion, the fastest such growth among the 10-biggest card issuers in the U.S., according to the industry publication the Nilson Report. It now has about 11.1 percent of outstanding card loans, the Nilson Report found.

Here's a quick summary of key numbers from the results:

- Net income climbed 31 percent to $1.6 billion, or $1.86 a share, from $1.25 billion, or $1.35, a year earlier, AmEx said Wednesday in a statement. The average estimate of 26 analysts surveyed by Bloomberg was for adjusted profit of $1.71 a share.
- Worldwide billed business, a measure of customer card spending, climbed 12 percent to $283.8 billion in the quarter. That topped analysts' estimates of $267.5 billion.
- Discount revenue, a measure of the fees AmEx charges merchants, climbed 9 percent to $5.9 billion, exceeding the $5.5 billion average of analyst estimates compiled by Bloomberg.