Jun 04, 2020

Synchrony Financial(SYF)

$23.69 (As of 06/03/20)

Price Target (6-12 Months): **$25.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/25/20) Prior Recommendation: Underperform	Neutral
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	3-Hold
	Zacks Style Scores:	VGM:C
	Value: A | Growth: D | Momentum: F	

Summary

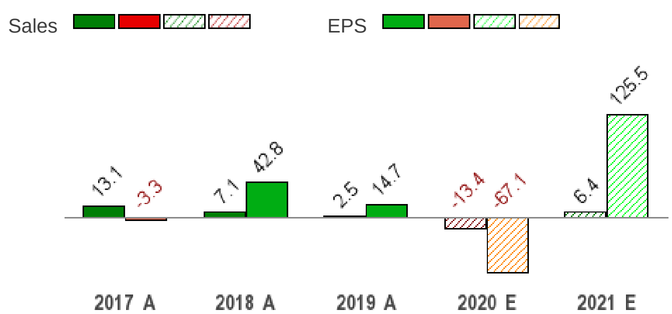
Synchrony Financial's continuous efforts in forging alliances and effecting consolidations are likely to boost business growth, enhance digital capabilities and diversify its business. It has been witnessing revenue growth since its inception on rising interest income and inorganic growth strategies. Its Retail Card and CareCredit platforms continue to boost its top-line results. We remain positive about its steady capital position as well. Shares of the company have underperformed its industry in a year's time. The company has been witnessing a steep rise in expenses due to constant investments in digitization, which has been weighing on its bottom line. Its high allowance for loan loss also bothers.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$38.18 - $12.15**
20 Day Average Volume (sh)	**8,000,575**
Market Cap	**$13.8 B**
YTD Price Change	**-34.2%**
Beta	**1.65**
Dividend / Div Yld	**$0.88 / 3.7%**
Industry	**Financial - Miscellaneous Services**
Zacks Industry Rank	**Bottom 49% (128 out of 253)**
Last EPS Surprise	**-25.6%**
Last Sales Surprise	**-2.3%**
EPS F1 Est- 4 week change	**-4.5%**
Expected Report Date	**07/17/2020**
Earnings ESP	**10,733.3%**
P/E TTM	**6.1**
P/E F1	**16.8**
PEG F1	**2.2**
P/S TTM	**0.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	4,029 E	3,643 E	3,842 E	3,957 E	15,469 E
2020	3,890 A	3,342 E	3,572 E	3,739 E	14,543 E
2019	4,226 A	4,155 A	4,389 A	4,029 A	16,799 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.28 E	$0.67 E	$1.06 E	$1.19 E	$3.18 E
2020	$0.58 A	$0.01 E	$0.54 E	$0.39 E	$1.41 E
2019	$1.00 A	$0.97 A	$1.22 A	$1.10 A	$4.29 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

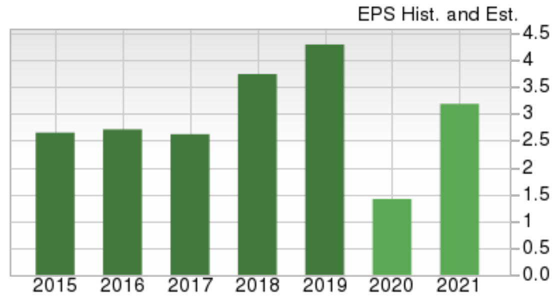
Overview

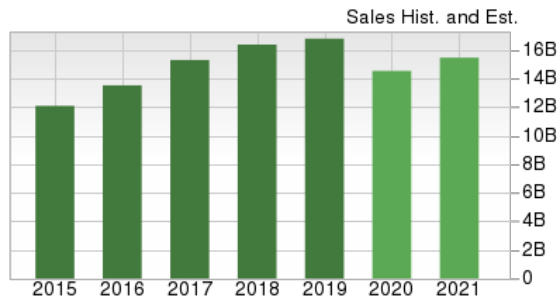
Synchrony Financial, one of the nation's premier consumer financial services companies, offers a wide range of credit products through a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and health and wellness providers. Given that the company is the largest provider of private label credit cards in the United States, it provides innovative analytics, payments, loyalty and financing solutions. Synchrony Financial focuses on generating financial flexibility for its customers by offering private label credit cards, Dual Card, and general purpose co-branded credit cards, promotional financing and installment lending, and loyalty programs.

The company used to operate as a subsidiary of GE Capital since 1932. However, in 2013, it separated itself from the parent company through an initial public offering and was listed on New York Stock Exchange under the ticker "SYF".

Although the company operates as a single business segment, it offers its credit products through three sales platforms – Retail Card, Payment Solutions and CareCredit. These platforms are organized by the types of products and the partners the company works with.

Retail Card (accounted for 73% the company's total interest and fees on loans for 2019): This platform is a leading provider of private label credit cards and Dual Cards, general purpose co-branded credit cards and small- and medium-sized business credit products.





Payment Solutions (15%): This platform provides promotional financing for major consumer purchases, offering primarily private label credit cards and installment loans.

CareCredit (12%): This offers promotional financing to consumers for health and personal care procedures, products or services.

The performance of the segments is measured on interest and fees on loans, loan receivables, new accounts and other sales metrics.

Reasons To Buy:

▲ **Growing Interest Income:** Synchrony Financial has been witnessing strong revenue growth since its inception in 2013 on the back of rising interest income. In fact, the company's total interest income witnessed a five-year (2014-2019) CAGR of 9.3%. However, this growth momentum suffered in the first quarter of 2020 with the metric plunging around 8% year over year due to lower interest and fees on loans because of the Walmart consumer portfolio sale. Nevertheless, investments in CareCredit network expansion, strategic initiatives and boosting of digital capabilities might help it going forward. A steady rise in revenues resulted primarily from the company's rapidly-growing interest income and inorganic growth strategies are likely to pave the way for long-term growth.

Solid organic and inorganic growth, rising revenues, strategic alliance and technological moves pave the way for its long term growth. Its retail sales platform is poised well for growth.

▲ **Strategic Initiatives:** The company has been making concerted efforts in effecting strategic buyouts to boost its business growth. Its series of acquisitions and renewal of alliances have helped it enhance its digital capabilities and diversify its business. Synchrony Financial has been successful in revising several collaborations over the last few quarters as well. In 2019, the company renewed more than 50 current alliances and also inked 30 new business deals. The company significantly expanded its home and auto networks, and CareCredit business. All these integrations aim at bringing diversification to the company's business lines that in turn, drive its competitive edge.

▲ **Strong Retail Card Platform:** Retail Card is a leading provider of private label credit cards and Dual Cards, general purpose co-branded credit cards and small and medium-sized business credit products. In 2017 and 2018, Retail Card interest and fees on loans increased 10.3% and 9.3% respectively, primarily due to purchase volume growth and period-end loan receivables increase. Backed by the PayPal Credit program acquisition and loan receivables growth, in 2019, Retail Card interest and fees on loans rose 5.8% year over year. Although the same decreased 12.1% in the first quarter of 2020, we expect the segment to perform well going forward. Nevertheless, digital sales penetration in the segment was 41% in the first quarter. In this segment, the company launched a new program with Harbor Freight Tools, which in turn, will further boost its portfolio.

▲ **Solid CareCredit Platform:** The company's CareCredit platform also holds ample growth potential. The segment accounted for 12% of its total interest and fees on loans for 2019. In the first quarter of 2020, its interest and fees on loans increased 9.1% year over year on the back of average loan receivables. In CareCredit sales platform, it extended Pets Best's partnership with Progressive and even extended its agreement with Vision Group Holdings. The company is focused on expanding this business with attention paid to health systems. This segment is well-poised for growth on the back of its current and new relationships, new programs, etc.

▲ **Capital Deployment:** The company also boasts a strong capital position. It buys back shares and pays out dividend to enhance shareholder value. In April 2019, the company hiked its common dividend by 4.8%. Currently, its dividend yield is 3.7%, higher than its industry average of 1.8%. Although it halted its share buyback program due to COVID-19, the company expects to resume the same going forward.

▲ **Sturdy Capital Position:** Synchrony Financial's net debt is 12.1% of its total capital, which is significantly lower than its industry average of 24.7%. Also, the company's interest coverage ratio is 6.4x, higher than its industry average of 5.2x. Thus, the company's solvency level looks impressive.

▲ **Price Performance:** Shares of the company have underperformed its industry in a year's time. Nevertheless, its solid fundamentals would likely help the stock bounce back going forward.

Reasons To Sell:

- **Rising Level of Expenses:** The company has been witnessing a steep rise in expenses since 2013, the year of its inception. Total other expenses increased at an average rate of 10% in the last five years (2014-19) due to growth-related investments. Although the same declined 3.9% in the first quarter of 2020 due to lower professional fees and employee costs, it lingers a headwind to the stock. The company has been taking up several organic and inorganic strategies with a view to expand which in turn, has resulted in higher marketing expenses and acquisitions-related costs. Alongside, continuous investments in digitization have led to rising expenditures, which will weigh on its bottom-line before contributing to top-line growth.

> Rising level of expenses and increasing allowance for loan losses are some major concerns of the company.

- **Increasing Allowance for Loan Loss:** The company's allowance for loan loss (a reserve established through a provision for loss charged to expenses) has been increasing due to continuous growth of its loan portfolio. During the 2014-18 period, the metric grew at 18.5%, on average. Although in 2019, the same was down 13% year over year due to lower core reserve build and a reduction in net charge-offs, it again surged 54.4% in the first three months of 2020. This persistently bothers the company, which in turn, is likely to impact its risk profile adversely.

- **Weak ROE:** Further, its trailing 12-month return on equity (ROE) undermines its growth potential. Its current ROE of 18.3% compares unfavorably with the industry's ROE of 21.5%. The company's negative ROE reflects its inefficiency in using shareholders' funds.

- **Strain on Purchase Volume:** This saw a contraction in the last two weeks of March. Purchase volume for the first quarter reported a 1.4% dip year over year due to lower purchases. The company expects the same to continue due to the current market environment, such as closures of non-essential businesses and travel restrictions. This, in turn, might adversely impact its loan receivables growth in 2020. The present uncertainty related to the COVID-19 outbreak poses a challenge to Synchrony Financial.

Last Earnings Report

Synchrony Financial's Q1 Earnings Miss, Decline Y/Y

Quarter Ending	03/2020
Report Date	Apr 21, 2020
Sales Surprise	-2.26%
EPS Surprise	-25.64%
Quarterly EPS	0.58
Annual EPS (TTM)	3.87

Synchrony Financial's first-quarter 2020 earnings per share of 58 cents per share missed the Zacks Consensus Estimate by 25.6%. The bottom line also declined 42% year over year due to muted revenues.

Results in Detail

The company's net interest income decreased 8% to $3.9 billion in the first quarter due to the impact of the Walmart consumer portfolio sale.

Moreover, its other income increased 5.4% to $97 million, mainly attributable to lower loyalty program expenses.

In the quarter under review, loan receivables inched up 3% year over year.

Deposits were $64.6 billion, up 1% from the year-ago quarter.

Provision for credit loss increased 95% year over year to $1.7 billion due to Walmart credit loss reserve reduction, a higher reserve build related to coronavirus and CECL in the first quarter.

Total other expense dipped 3.9% year over year to $1 billion due to lower employee costs, professional fees, marketing and business development expenses.

Sales Platforms Update

Retail Card

The company's interest and fees on loans fell 12% year over year due to the sale of the Walmart consumer portfolio.

Loan receivables were up 2% while the average active accounts declined 10%.

Payment Solutions

Interest and fees on loans rose 3% year over year on the back of loan receivables growth. Loan receivables augmented 3% year over year.

Purchase volume expanded 2% while average active account rose 2%.

CareCredit

Interest and fees on loans increased 9% year over year, attributable to higher loans receivables.

Loan receivables grew 7% year over year on the back of dental and veterinary.

While purchase volume registered 2% growth, the average active account reported a 5% rise.

Financial Position

Total assets as of Mar 31, 2020 were $98 billion, down 7% year over year.
Total borrowings as of Mar 31, 2020 were $17.2 billion, down 21.2% from the year-ago quarter.

The company's balance sheet was consistently strong during the reported quarter with total liquidity of $24.8 billion reflecting 25.3% of the total assets.

While return on assets was 1.1%, the return on equity was 9.1%.

Efficiency ratio was 32.7% in the first quarter of 2020.

Capital Deployment

During the quarter under consideration, the company repurchased shares worth $1 billion. However, it suspended the rest of the buyback capacity due to the COVID-19 impact.

Moreover, it paid quarterly dividend of 22 cents per share.

Recent News

Synchrony Ties up With Verizon — Jan 23, 2020

Synchrony entered a partnership with Verizon, in which Synchrony will become the exclusive provider of Verizon's co-branded consumer credit card.

Valuation

Synchrony shares are down 33% in the year-to-date period and 29% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 15% and 19.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 15.3% and 11%, respectively.

The S&P 500 index is down 3.6% in the year-to-date period and up 11.2% in the past year.

The stock is currently trading at 10.94x forward earnings, which compares to 13.35x for the Zacks sub-industry, 16.54x for the Zacks sector and 22.29x for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.25x and as low as 3.16x, with a 5-year median of 9.54x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $25 price target reflects 11.55x forward earnings.

The table below shows summary valuation data for SYF

Valuation Multiples - SYF

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.94	13.35	16.54	22.29
	5-Year High	15.25	14.15	16.54	22.29
	5-Year Low	3.16	8.7	11.58	15.23
	5-Year Median	9.54	11.47	13.96	17.49
P/S F12M	Current	0.93	1.02	5.8	3.47
	5-Year High	2.6	1.79	6.7	3.47
	5-Year Low	0.48	1.02	4.99	2.54
	5-Year Median	1.56	1.39	6.05	3.01
P/B TTM	Current	1.23	1.65	2.31	4.21
	5-Year High	2.59	2.77	2.9	4.55
	5-Year Low	0.57	1.07	1.71	2.84
	5-Year Median	1.69	1.98	2.52	3.66

As of 06/03/2020

Industry Analysis **Zacks Industry Rank:** Bottom 49% (128 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Alliance Data Systems Corporation **(ADS)**	Neutral	2
American Express Company **(AXP)**	Neutral	3
Capital One Financial Corporation **(COF)**	Neutral	3
Equitable Holdings, Inc. **(EQH)**	Neutral	3
Jefferies Financial Group Inc. **(JEF)**	Neutral	2
Standard Life PLC Unsponsored ADR **(SLFPY)**	Neutral	3
U.S. Bancorp **(USB)**	Neutral	3
Discover Financial Services **(DFS)**	Underperform	5

Industry Comparison Industry: Financial - Miscellaneous Services

Industry Peers

	SYF	X Industry	S&P 500	ADS	AXP	DFS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	3	5
VGM Score	C	-	-	B	F	D
Market Cap	13.83 B	207.71 M	22.50 B	2.63 B	84.84 B	17.50 B
# of Analysts	5	3	14	8	9	9
Dividend Yield	3.71%	0.00%	1.88%	1.52%	1.63%	3.08%
Value Score	A	-	-	A	B	B
Cash/Price	1.15	0.41	0.06	2.02	0.47	0.77
EV/EBITDA	3.03	4.58	12.98	6.33	8.80	6.88
PEG Ratio	2.25	3.42	3.05	1.10	3.42	5.89
Price/Book (P/B)	1.23	0.88	3.11	2.42	4.04	1.92
Price/Cash Flow (P/CF)	4.70	8.15	12.18	2.25	10.49	6.03
P/E (F1)	17.28	14.55	22.19	6.82	35.73	29.99
Price/Sales (P/S)	0.74	1.41	2.40	0.47	1.95	1.24
Earnings Yield	5.95%	5.95%	4.31%	14.65%	2.80%	3.34%
Debt/Equity	1.54	0.43	0.76	11.00	2.50	2.87
Cash Flow ($/share)	5.04	0.60	7.01	24.48	10.05	9.48
Growth Score	D	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	12.06%	11.02%	10.87%	7.47%	9.99%	12.65%
Proj. EPS Growth (F1/F0)	-67.04%	-25.02%	-10.74%	-51.80%	-64.02%	-79.01%
Curr. Cash Flow Growth	5.34%	5.63%	5.48%	-34.53%	5.23%	7.14%
Hist. Cash Flow Growth (3-5 yrs)	9.07%	13.16%	8.55%	0.58%	3.21%	4.70%
Current Ratio	1.26	1.26	1.29	2.02	1.76	1.26
Debt/Capital	59.03%	32.97%	44.75%	91.67%	71.46%	72.97%
Net Margin	15.58%	9.20%	10.59%	3.41%	12.74%	15.39%
Return on Equity	18.25%	7.95%	16.29%	40.98%	30.21%	20.38%
Sales/Assets	0.18	0.22	0.55	0.21	0.22	0.13
Proj. Sales Growth (F1/F0)	-13.43%	0.00%	-2.65%	-6.86%	-12.77%	-5.07%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	7.34%	0.70%	2.42%	10.89%	6.39%	9.07%
1 Week Price Chg	14.12%	3.78%	4.60%	10.18%	6.43%	17.40%
4 Week Price Chg	36.94%	12.26%	13.40%	26.22%	25.48%	45.99%
12 Week Price Chg	-3.27%	0.00%	12.78%	-3.68%	10.51%	7.41%
52 Week Price Chg	-30.47%	-20.63%	0.89%	-60.85%	-10.77%	-26.48%
20 Day Average Volume	8,000,575	102,384	2,528,787	1,770,456	6,367,767	5,236,577
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-4.88%
(F1) EPS Est 4 week change	-4.53%	0.00%	-0.14%	0.00%	-0.12%	-3.54%
(F1) EPS Est 12 week change	-65.86%	-29.66%	-16.00%	-58.79%	-48.54%	-78.66%
(Q1) EPS Est Mthly Chg	-25.00%	0.00%	-0.02%	0.00%	-12.76%	-20.35%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	D
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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