

Synchrony Financial(SYF)

\$33.75 (As of 02/14/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/26/19)

Prior Recommendation: Outperform

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 fourth-quarter 2019 earnings per share of \$1.10 beat the Zacks Consensus Estimate by 1.9% and improved 0.9% year over year on the back of higher other income, excluding the Walmart portfolio impact. The company's concerted efforts in forging alliances and effecting consolidations are likely to boost its business growth, enhance its digital capabilities and diversify its business. It has been witnessing revenue growth since its inception on the back of rising interest income. Moreover, its Retail Card platform and steady capital position impress. Its shares have underperformed its industry in a year's time. However, it has been witnessing a steep rise in expenses, which has been weighing on its bottom line. Its high allowance for loss bothers.

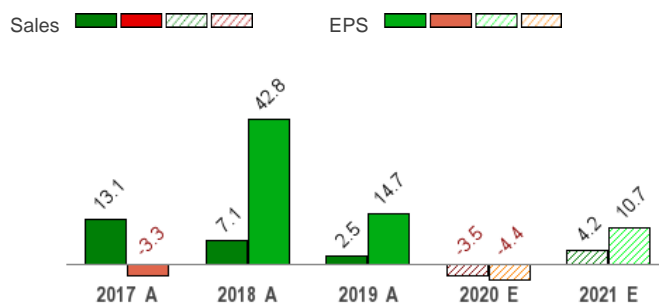
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.18 - \$31.09
20 Day Average Volume (sh)	6,705,887
Market Cap	\$21.8 B
YTD Price Change	-6.3%
Beta	1.21
Dividend / Div Yld	\$0.88 / 2.6%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 31% (175 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.9%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-6.8%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	7.9
P/E F1	8.2
PEG F1	1.1
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,212 E	4,181 E	4,252 E	4,439 E	16,901 E
2020	4,015 E	3,938 E	4,084 E	4,180 E	16,216 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	\$1.29 E	\$1.02 E	\$1.23 E	\$1.09 E	\$4.54 E
2020	\$0.96 E	\$0.83 E	\$1.04 E	\$1.12 E	\$4.10 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 02/14/2020. The reports text is as of 02/17/2020.

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".

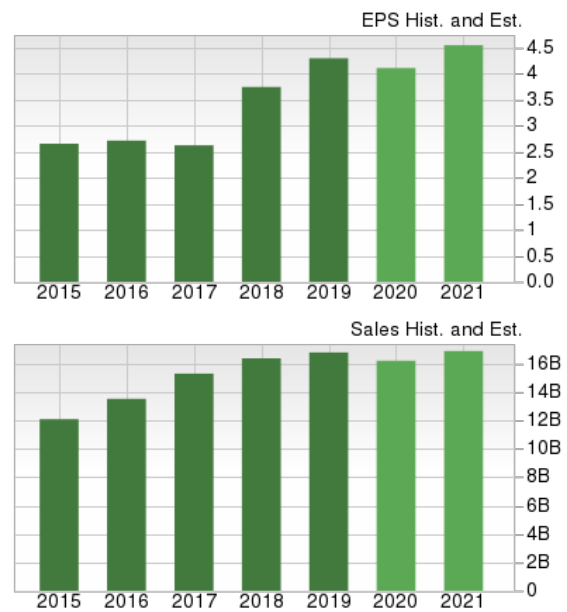
Although the company operates as a single business segment, it offers its credit products through three sales platforms – Retail Card, Payment Solutions and CareCredit. These platforms are organized by the types of products and the partners the company works with.

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:

- ▲ **Price Impact:** In a year's time, shares of the company have underperformed its industry. However, the company's strong fundamentals such as strategic initiatives and favorable operating performance should help it bounce back going forward.
- ▲ **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%. Its investments in CareCredit network expansion, strategic initiatives and boosting of digital capabilities contributed to the top line. 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.
- ▲ **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. Renewal of collaborations will help the company enrich its capabilities. 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. This segment struck a new deal with Verizon wherein Synchrony Financial would be the exclusive issuer of Verizon's co-branded consumer credit card. We believe that this platform is likely to witness further revenue growth going forward, thereby boosting the company's top line.
- ▲ **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. The company is focused on expanding this business with attention paid to health systems including the recently-announced collaborations with Kaiser Permanente. It also tied up with Demant, a global market leader in hearing health. This segment is well-poised for growth on the back of its current and new relationships, new programs, etc.
- ▲ **Strong Capital Position:** 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%. As of Dec 31, 2019, it had shares worth \$1.3 billion remaining under its share buyback capacity, which runs through Jun 30, 2020. Currently, its dividend yield is 2.7%, higher than its industry average of 1.7%. Its debt to equity ratio stands at 134.7%, much lower than its industry average of 174.7%.

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.

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. 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.
- ▼ **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 continues to bother 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 19.6% compares unfavorably with the industry's ROE of 22.4%. The company's negative ROE reflects its inefficiency in using shareholders' funds.

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

Last Earnings Report

Synchrony Financial Q4 Earnings Top Mark, Rise Y/Y

Synchrony Financial's fourth-quarter 2019 earnings per share of \$1.10 beat the Zacks Consensus Estimate by 1.9%. The bottom line also improved 0.9% year over year on the back of higher other income. The company's Payments Solution and CareCredit segments also contributed to its results. This excludes the impact of the Walmart portfolio.

Results in Detail

The company's net interest income decreased 7% to \$4 billion in the fourth quarter due to the impact of the Walmart consumer portfolio sale.

Moreover, the company's other income soared 63% to \$104 million, mainly attributable to lower loyalty program expenses.

In the quarter under review, loan receivables declined 6% year over year. Deposits were \$65.1 billion, up 2% from the year-ago quarter.

Provision for loan loss plunged 24% year over year to \$1.1 billion on the back of lower core business development and information processing along with other expenses.

Total other expenses are flat at \$1.1 billion with the year-ago reported results.

Sales Platforms Update

Retail Card

The company's interest and fees on loans fell 10% year over year due to the sale of the Walmart consumer portfolio.

Loan receivables were down 12% while the average active accounts declined 7%.

Payment Solutions

Interest and fees on loans rose 4% year over year on the back of loan receivables growth. Loan receivables augmented 4% including the impact of the reclassification of the Yamaha portfolio to loan receivables held for sale.

Purchase volume expanded 6% while average active account rose 3%.

CareCredit

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

While purchase volume registered 12% growth, the average active account reported a 5% rise.

Financial Position

Total assets as of Dec 31, 2019 were \$104.8 billion, down 1.8% from the level as of Dec 31, 2018.

Total borrowings as of fourth-quarter 2019 end were \$19.9 billion, down 17.2% from 2018-end level.

The company's balance sheet was consistently strong during the reported quarter with total liquidity of \$23.4 billion reflecting 22.3% of the total assets.

While return on assets was 2.7%, the return on equity was 19%.

Efficiency ratio was 34.8% in the fourth quarter of 2019.

Capital Deployment

During the quarter under consideration, the company purchased shares worth \$1.4 billion and paid out a dividend of 22 cents per share.

Quarter Ending 12/2019

Report Date	Jan 24, 2020
Sales Surprise	1.50%
EPS Surprise	1.85%
Quarterly EPS	1.10
Annual EPS (TTM)	4.29

Recent News

Synchrony Financial Ties Up for Digital Technology Center — Dec 16, 2019

Synchrony Financial recently extended its collaboration with the University of Connecticut (UConn) to help for next generation leaders with technology education and digital expertise.

Synchrony Financial to Enrich Customer Experiences — Oct 28, 2019

Synchrony Financial announced more seamless customer experiences. Customers would now be able to apply for credit and make Synchrony Bank deposits in a hassle-free manner.

Synchrony Financial Declares Quarterly Common Stock Dividend — Oct 23, 2019

Synchrony Financial recently cleared a quarterly cash dividend of 22 cents per share, payable Nov 14, 2019 to shareholders of record on Nov 4, 2019.

Valuation

Synchrony shares are up 6.3% over the trailing 12-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 11.8% and 9.3%, respectively.

The S&P 500 index is up 21% over the past year.

The stock is currently trading at 8.11X trailing 12-month price to earnings ratio, which compares to 12.11X for the Zacks sub-industry, 15.02X for the Zacks sector and 19.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.25X and as low as 5.19X, with a 5-year median of 9.78X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$35 price target reflects 8.41X price to earnings ratio.

The table below shows summary valuation data for SYF

Valuation Multiples - SYF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.11	12.11	15.02	19.35
	5-Year High	15.25	14.15	16.21	19.35
	5-Year Low	5.19	8.7	12	15.18
	5-Year Median	9.78	11.66	14.15	17.47
P/S F12M	Current	1.34	1.12	6.55	3.57
	5-Year High	2.6	1.91	6.65	3.57
	5-Year Low	0.95	1.05	5.39	2.54
	5-Year Median	1.59	1.41	6.04	3
P/B TTM	Current	1.53	2.05	2.86	4.68
	5-Year High	2.6	2.77	2.89	4.68
	5-Year Low	1.14	1.58	1.83	2.85
	5-Year Median	1.72	2.06	2.51	3.61

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 255)



Top Peers

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

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	SYF Neutral	X Industry	S&P 500	ADS Neutral	AXP Neutral	DFS Underperform
VGM Score	C	-	-	C	C	C
Market Cap	21.81 B	257.15 M	24.61 B	4.74 B	111.18 B	23.96 B
# of Analysts	7	3	13	8	11	9
Dividend Yield	2.61%	0.00%	1.78%	2.45%	1.27%	2.30%
Value Score	A	-	-	A	C	A
Cash/Price	0.57	0.26	0.04	0.79	0.22	0.74
EV/EBITDA	6.54	5.54	14.06	7.07	13.11	6.93
PEG Ratio	1.07	1.86	2.09	0.43	1.44	1.40
Price/Book (P/B)	1.52	1.22	3.29	2.92	4.83	2.02
Price/Cash Flow (P/CF)	7.85	9.70	13.65	4.20	15.04	9.05
P/E (F1)	8.23	13.33	19.21	5.01	15.01	8.48
Price/Sales (P/S)	1.14	1.64	2.70	0.85	2.55	1.71
Earnings Yield	12.15%	7.45%	5.19%	19.96%	6.66%	11.79%
Debt/Equity	1.38	0.42	0.71	6.44	2.52	2.06
Cash Flow (\$/share)	4.30	0.55	6.92	24.48	9.03	8.45
Growth Score	D	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	11.32%	11.32%	10.85%	10.76%	8.87%	13.70%
Proj. EPS Growth (F1/F0)	-4.36%	7.61%	7.17%	22.37%	10.40%	-0.76%
Curr. Cash Flow Growth	31.63%	8.09%	8.56%	-34.53%	16.47%	20.79%
Hist. Cash Flow Growth (3-5 yrs)	9.82%	9.91%	8.36%	0.58%	3.90%	3.97%
Current Ratio	1.35	1.26	1.23	1.77	2.41	1.08
Debt/Capital	56.83%	34.62%	42.91%	86.57%	71.61%	67.61%
Net Margin	19.63%	13.92%	11.81%	5.57%	15.44%	20.94%
Return on Equity	19.62%	9.20%	16.86%	42.81%	30.24%	26.25%
Sales/Assets	0.18	0.22	0.54	0.20	0.22	0.13
Proj. Sales Growth (F1/F0)	-3.47%	5.03%	3.85%	1.17%	7.82%	4.71%
Momentum Score	F	-	-	A	C	D
Daily Price Chg	-0.21%	0.00%	0.06%	-0.64%	1.05%	0.29%
1 Week Price Chg	2.41%	1.02%	2.47%	3.05%	1.50%	0.21%
4 Week Price Chg	-4.88%	0.00%	0.59%	-9.82%	4.08%	-8.63%
12 Week Price Chg	-8.21%	3.32%	6.98%	1.51%	14.37%	-7.84%
52 Week Price Chg	9.47%	-2.40%	16.62%	-38.41%	27.43%	9.66%
20 Day Average Volume	6,705,887	49,891	2,020,569	862,093	3,135,350	2,918,881
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.75%	0.00%	-0.05%	-3.96%	0.30%	-4.92%
(F1) EPS Est 12 week change	-8.85%	-0.14%	-0.17%	-1.31%	0.73%	-5.41%
(Q1) EPS Est Mthly Chg	-9.67%	0.00%	-0.24%	0.61%	2.77%	-4.56%

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.

Disclosures

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