

Synchrony Financial(SYF)

\$35.76 (As of 01/17/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/26/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Synchrony Financial's shares have outperformed its industry in a year's time. 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 successful in revising several collaborations over the last few quarters. It has been witnessing strong revenue growth since its inception on the back of rising interest income. The company has been witnessing significant growth on the back of its PayPal credit program buyout and loan receivables growth. Moreover, its Retail Card platform and steady capital position impress. However, it has been witnessing a steep rise in expenses since 2013, which has been weighing on its bottom line. Its high allowance for loss bothers.

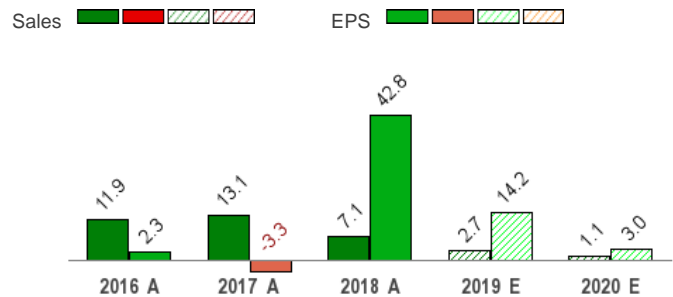
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.18 - \$26.03
20 Day Average Volume (sh)	4,042,967
Market Cap	\$23.1 B
YTD Price Change	-0.7%
Beta	1.15
Dividend / Div Yld	\$0.88 / 2.5%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 20% (202 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.9%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	01/24/2020
Earnings ESP	3.8%
P/E TTM	8.4
P/E F1	8.1
PEG F1	1.1
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,013 E	4,051 E	4,164 E	4,317 E	16,999 E
2019	4,226 A	4,155 A	4,389 A	3,970 E	16,818 E
2018	3,842 A	3,737 A	4,206 A	4,397 A	16,383 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.07 E	\$0.98 E	\$1.22 E	\$1.02 E	\$4.40 E
2019	\$1.00 A	\$0.97 A	\$1.22 A	\$1.08 E	\$4.27 E
2018	\$0.83 A	\$0.92 A	\$0.91 A	\$1.09 A	\$3.74 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 01/17/2020. The reports text is as of 01/20/2020.

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".

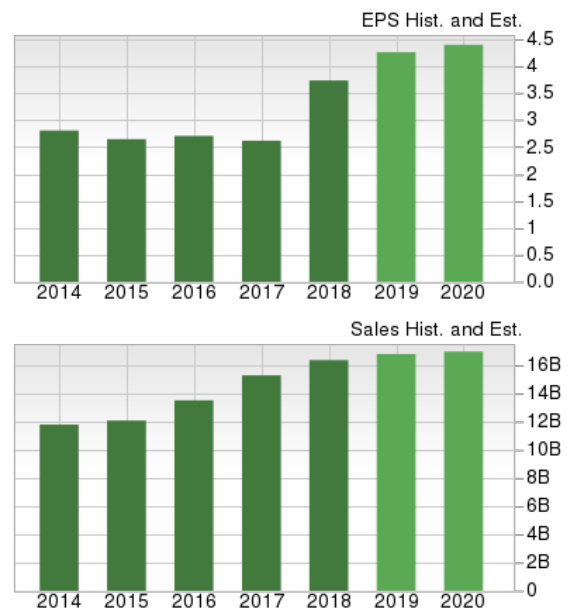
Although the company operates as a single business segment, it offers its credit products through three sales platforms – Retail Card, Payment Solutions and CareCredit. These platforms are organized by the types of products and the partners the company works with.

Retail Card (accounted for 73% the company's total interest and fees on loans for 3Q19): 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 (14.7%): This platform provides promotional financing for major consumer purchases, offering primarily private label credit cards and installment loans.

CareCredit (12.3%): 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 outperformed its industry. Moreover, the company's strong fundamentals such as strategic initiatives and favorable operating performance should continue to favor it in the coming quarters.
- ▲ **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 (2013-18) CAGR of 9.7%. In the first nine months of 2019, the same was up 8.4% year over year on the back of the PayPal credit program buyout and loan receivables growth. Its investments in CareCredit network expansion and boosting of digital capabilities have also 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. It has also purchased Pets Best to boost its CareCredit platform and enter the pet insurance business as a managing general agent. 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 as well as loan receivables growth, in the first nine months of 2019, Retail Card interest and fees on loans rose 12% year over year. We believe that this platform is likely to witness further revenue growth going forward, thereby boosting the company's top line.
- ▲ **Strong Capital Position:** The company also boasts a strong capital position. It buys back shares and pays out dividend to enhance shareholder value. As of Sep 30, 2019, it has shares worth \$2.7 billion remaining under its share buyback capacity, which runs through Jun 30, 2020. Currently, it has a dividend yield of 2.4%, higher than its industry's average of 1.6%. The company exited the third quarter with undrawn credit facilities of \$22 billion, which represents 20.5% of the company's total assets. Its debt to equity ratio stands at 134.7%, much lower than its industry average of 175%.

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 have increased at an average rate of 10% in the last five years (2013-18). In the first nine months of 2019, the company's total other expenses rose 4.9%, year over year. 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 an average rate of 18.5%. Although in the first nine months of 2019 the same was down 25% year over year due to reserve reduction related to the Walmart portfolio, it continues to bother the company, which in turn, is likely to impact the company's risk profile adversely.
- ▼ **Weak ROE:** Further, its trailing 12-month return on equity (ROE) undermines its growth potential. Its current ROE of 20% 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 Q3 Earnings Top Estimates, Rise Y/Y

Synchrony Financial's third-quarter 2019 earnings per share of \$1.22 beat the Zacks Consensus Estimate by 8.9%. The bottom line also surged 34% year over year on the back of higher net interest income. This excludes the impact of the Walmart portfolio.

Results in Detail

The company's net interest income increased 4% to \$4.4 billion in the third quarter, primarily owing to loan receivables growth.

However, other income rose 35% to \$85 million.

In the quarter under review, loan receivables climbed 6% year over year.

Deposits were \$66 billion, up 6% from the year-ago quarter.

Provision for loan loss plunged 30% year over year to \$1 billion on the back of a significant amount of reserve reductions pertaining to the Walmart portfolio.

Total other expenses inched up 1% to \$1.1 billion, primarily due to higher marketing and business development, information processing and other expenses.

Sales Platforms Update

Retail Card

The company's interest and fees on loans grew 5.5% year over year on the back of loan receivables.

Loan receivables reduced 11% while the average active accounts ascended 1%.

Payment Solutions

Interest and fees on loans rose 7% year over year on the back of loan receivables growth. Loan receivables augmented 7%, led by home furnishings and power products.

Purchase volume expanded 5% 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 10% growth, the average active account reported a 4% rise.

Financial Position

Total assets as of Sep 30, 2019 were \$106 billion, down 0.8% from the level as of Dec 31, 2018.

Total borrowings as of third-quarter 2019 end were \$20.3 billion, down 15.1% from 2018-end level.

The company's balance sheet was consistently strong during the reported quarter with total liquidity of \$21.7 billion, reflecting 20.5% of the total assets.

While return on assets was 3.9%, the return on equity was 28.3%.

Efficiency ratio was 30.9% in the third quarter of 2019.

Capital Deployment

During the quarter under consideration, the company purchased shares worth \$550 million and paid a dividend of 22 cents per share.

Quarter Ending 09/2019

Report Date	Oct 18, 2019
Sales Surprise	1.43%
EPS Surprise	8.93%
Quarterly EPS	1.22
Annual EPS (TTM)	4.28

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 36% over the trailing 12-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 16% and 11.7%, respectively.

The S&P 500 index is up 24% over the past year.

The stock is currently trading at 8.08X trailing 12-month price to earnings ratio, which compares to 11.43X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.2X 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 9.86X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 8.59X 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	8.08	11.43	14.73	19.2
	5-Year High	15.25	14.19	16.21	19.33
	5-Year Low	5.19	8.71	12	15.16
	5-Year Median	9.86	11.69	13.98	17.44
P/S F12M	Current	1.36	1.15	6.53	3.57
	5-Year High	2.6	1.93	6.62	3.57
	5-Year Low	0.95	1.05	5.2	2.54
	5-Year Median	1.59	1.44	6.04	3
P/B TTM	Current	1.53	2.05	2.86	4.55
	5-Year High	2.67	2.66	2.89	4.55
	5-Year Low	1.14	1.58	1.83	2.85
	5-Year Median	1.74	2.06	2.51	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 254)



Top Peers

AXA Equitable Holdings, Inc. (EQH)	Outperform
Alliance Data Systems Corporation (ADS)	Neutral
American Express Company (AXP)	Neutral
Capital One Financial Corporation (COF)	Neutral
Discover Financial Services (DFS)	Neutral
Standard Life PLC Unsponsored ADR (SLFPY)	Neutral
U.S. Bancorp (USB)	Neutral
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 Neutral
VGM Score	A	-	-	B	D	A
Market Cap	23.11 B	315.27 M	24.65 B	5.20 B	107.62 B	26.47 B
# of Analysts	6	3	13	10	8	8
Dividend Yield	2.46%	0.00%	1.73%	2.23%	1.31%	2.08%
Value Score	A	-	-	A	C	B
Cash/Price	0.50	0.24	0.04	0.87	0.23	0.24
EV/EBITDA	6.91	6.11	14.11	5.77	12.81	10.02
PEG Ratio	1.06	1.93	2.08	0.44	1.38	1.20
Price/Book (P/B)	1.53	1.42	3.39	3.47	4.67	2.37
Price/Cash Flow (P/CF)	8.31	9.71	13.81	3.57	14.56	10.00
P/E (F1)	8.13	11.97	19.19	5.55	14.58	8.91
Price/Sales (P/S)	1.19	1.63	2.69	0.84	2.52	1.91
Earnings Yield	12.30%	8.11%	5.21%	18.01%	6.86%	11.23%
Debt/Equity	1.35	0.42	0.72	8.91	2.54	2.19
Cash Flow (\$/share)	4.30	0.55	6.94	31.61	9.03	8.45
Growth Score	C	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	9.33%	9.30%	10.56%	13.11%	7.66%	12.36%
Proj. EPS Growth (F1/F0)	3.23%	9.51%	7.57%	20.64%	10.82%	4.66%
Curr. Cash Flow Growth	31.63%	4.38%	14.73%	10.08%	16.47%	20.79%
Hist. Cash Flow Growth (3-5 yrs)	9.82%	9.91%	9.00%	12.90%	3.90%	3.97%
Current Ratio	1.38	1.26	1.24	2.10	1.86	1.28
Debt/Capital	57.39%	39.26%	42.99%	89.90%	71.75%	67.61%
Net Margin	19.54%	13.70%	11.14%	7.54%	16.51%	20.97%
Return on Equity	20.05%	9.25%	17.16%	47.40%	29.68%	26.79%
Sales/Assets	0.18	0.22	0.55	0.21	0.22	0.13
Proj. Sales Growth (F1/F0)	1.16%	5.03%	4.16%	3.11%	7.61%	4.82%
Momentum Score	A	-	-	C	D	A
Daily Price Chg	0.79%	0.00%	0.27%	-0.98%	0.74%	0.96%
1 Week Price Chg	-0.62%	0.00%	0.39%	1.53%	2.15%	-1.43%
4 Week Price Chg	-1.87%	0.74%	2.95%	2.57%	5.36%	-2.18%
12 Week Price Chg	2.14%	6.17%	7.76%	5.50%	12.98%	5.89%
52 Week Price Chg	35.71%	0.98%	22.29%	-33.46%	32.19%	30.83%
20 Day Average Volume	4,042,967	77,616	1,536,375	572,305	2,460,487	1,209,616
(F1) EPS Est 1 week change	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.39%	0.00%	0.00%	0.00%	0.27%	-0.12%
(F1) EPS Est 12 week change	-5.31%	-2.84%	-0.40%	-8.21%	0.49%	-0.99%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.09%	-0.33%

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	C
Momentum Score	A
VGM Score	A

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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.