Jul 23, 2020

## Synchrony Financial(SYF)

**$22.92** (As of 07/22/20)

Price Target (6-12 Months): **$24.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 07/22/20) Prior Recommendation: Underperform | **Neutral** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **3-Hold** |
| | Zacks Style Scores: | VGM:B |
| | Value: A \| Growth: D \| Momentum: C | |

### Summary

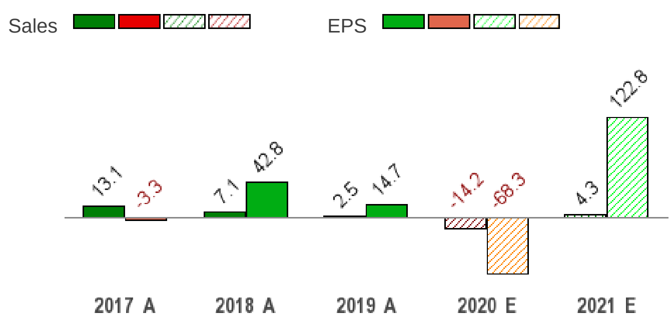

Synchrony Financial's second-quarter 2020 earnings per share of 6 cents beat the Zacks Consensus Estimate by 50%. However, the bottom line plunged 95.9% year over year due to muted revenues. It has been witnessing revenue growth for the past many years on rising interest income and inorganic growth strategies. Its Retail Card and CareCredit platforms impress. Its continuous efforts in forging alliances and making acquisitions are likely to boost business growth, enhance digital capabilities and diversify its business. We remain positive about its steady capital position as well. Its shares have underperformed its industry in a year's time. The company has been witnessing a steep rise in expenses, which has been weighing on its bottom line. Its high allowance for loan loss bothers.


### Price, Consensus & Surprise


### Data Overview

| | |
|---|---|
| 52 Week High-Low | **$38.18 - $12.15** |
| 20 Day Average Volume (sh) | **5,998,141** |
| Market Cap | **$13.4 B** |
| YTD Price Change | **-36.4%** |
| Beta | **1.67** |
| Dividend / Div Yld | **$0.88 / 3.8%** |
| Industry | **Financial - Miscellaneous Services** |
| Zacks Industry Rank | **Bottom 17% (208 out of 252)** |
| Last EPS Surprise | **50.0%** |
| Last Sales Surprise | **4.5%** |
| EPS F1 Est- 4 week change | **4.8%** |
| Expected Report Date | **10/16/2020** |
| Earnings ESP | **-7.3%** |
| P/E TTM | **7.7** |
| P/E F1 | **16.9** |
| PEG F1 | **2.2** |
| P/S TTM | **0.8** |

### Sales and EPS Growth Rates (Y/Y %)




### Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | 3,936 E | 3,562 E | 3,739 E | 3,802 E | 15,037 E |
| 2020 | 3,890 A | 3,491 A | 3,530 E | 3,658 E | 14,418 E |
| 2019 | 4,226 A | 4,155 A | 4,389 A | 4,029 A | 16,799 A |

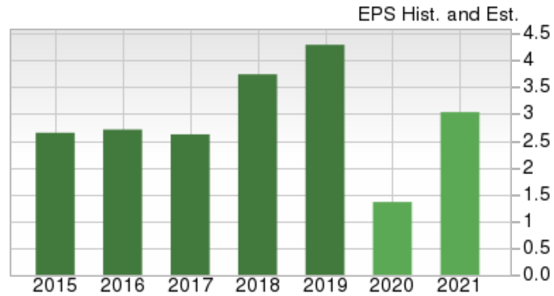
### EPS Estimates

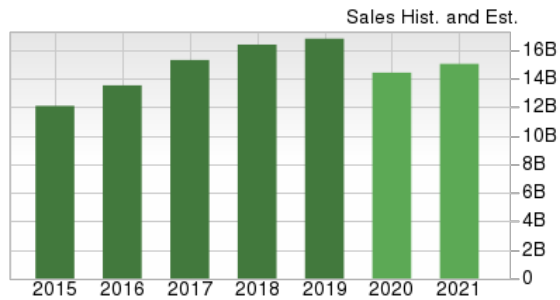
| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $0.36 E | $0.72 E | $1.14 E | $0.98 E | $3.03 E |
| 2020 | $0.58 A | $0.06 A | $0.65 E | $0.25 E | $1.36 E |
| 2019 | $1.00 A | $0.97 A | $1.22 A | $1.10 A | $4.29 A |

*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 07/22/2020. The reports text is as of 07/23/2020.

## 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:

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.

- **Share Price Performance:** Shares of the company have underperformed its industry in a year's time. However, its solid fundamentals will likely help the stock 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%. However, this growth momentum suffered in the first two quarters of 2020 with the metric dropping 13.5% year over year due to lower interest and fees on loans as well as weak interest on cash and debt securities. 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.

- **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. The company added around 4000 new merchants in the second quarter and has expanded several relationships. It also executed a successful launch of the new Verizon program. 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. Retail Card interest and fees on loans has been rising over the past many years on the back of purchase volume growth and period-end loan receivables increase. Although the same decreased 17.1% in the first six months of 2020, we expect the segment to perform well going forward. The performance in the second quarter was sequentially better on the back of higher digital volume and programs that benefited from a spike in spending on grocery, supplies, etc.

- **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 six months of 2020, its interest and fees on loans inched up 2.3% year over year on the back of average loan receivables. The company is focused on expanding this business with attention paid to health systems. It suffered a significant decline in spending on elective and planned procedures in dental and medical services. In the second quarter, it added more than 2000 new provider locations to this segment's network. This segment is well-poised for growth on the back of its current and new relationships, new programs, etc.

- **Sturdy Capital Position:** Synchrony Financial 's balance sheet position also remains positive. Its net debt constitutes 12.1% of its total capital, significantly lower than its industry average of 24.6%. As of Jun 30, 2020, it had cash and cash equivalents worth $16.3 billion and undrawn credit facilities of $5.7 billion, the sum total of which is higher than its borrowings of $16 billion. Thus, the company's solvency level looks impressive.

## Reasons To Sell:

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

- **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. However,the same dipped 5.4% in the first six months of 2020 on lower professional fees and employee costs,. 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. In the first six months of 2020, it surged 46.4% due to CECL implementation. This persistently bothers the company, which in turn, is likely to impact its risk profile adversely.

- **Weak ROE:** The company's trailing 12-month return on equity (ROE) undermines its growth potential. Its current ROE of 14.7% compares unfavorably with the industry's ROE of 21.5%. The company's negative ROE reflects its inefficiency in utilizing its shareholders' funds.

- **Strain on Purchase Volume:** Purchase volume for the first six months reported a 10.7% drop year over year due to controlled purchases. This was due to government restrictions on travel, entertainment, events, etc. and closure of several non-essential retail stores. Although the levels improved in May and June, the same poses a challenge to Synchrony Financial.

## Last Earnings Report

**Synchrony Financial's Q2 Earnings Beat, Tumble Y/Y**

| Quarter Ending | 06/2020 |
|---|---|
| Report Date | **Jul 21, 2020** |
| Sales Surprise | **4.51%** |
| EPS Surprise | **50.00%** |
| Quarterly EPS | **0.06** |
| Annual EPS (TTM) | **2.96** |

Synchrony Financial's second-quarter 2020 earnings per share of 6 cents per share beat the Zacks Consensus Estimate by 50%. However, the bottom line plunged 95.9% year over year due to muted revenues.

### Results in Detail

The company's net interest income decreased 18% to $3.4 billion in the second quarter due to the impact of the Walmart consumer portfolio sale and the COVID-19 pandemic.

However, its other income increased 6% to $95 million, mainly attributable to lower loyalty program expenses.

In the quarter under review, loan receivables dipped 4% year over year.

Deposits were $64.1 billion, down 2% from the year-ago quarter.

Provision for credit loss increased 40% year over year to $1.7 billion due to Walmart-related prior-year reserve reduction and a hike in reserve induced by COVID-19 related losses.

Total other expense fell 7% year over year to $73 million owing to Walmart-related cost reductions, decline in purchase volume and accounts along with decrease in various discretionary spend. However, the same was partly offset by increased operational losses and costs related to the COVID-19 impact as well as charitable expenses.

### Sales Platforms Update

### Retail Card

The company's interest and fees on loans fell 22% year over year due to the sale of the Walmart consumer portfolio and lower loan receivables. Loan receivables were down 4% due to COVID-19 impact while the average active accounts declined 18%.

### Payment Solutions

Interest and fees on loans dropped 8% year over year due to lower late fees. Loan receivables slid 3% year over year.

Purchase volume contracted 19% while average active account slipped 3%.

### CareCredit

Interest and fees on loans decreased 4% year over year due to fall in merchant discount as a result of shrinkage in purchase volume.

Loan receivables were down 5% year over year due to the coronavirus impact.

While purchase volume decreased 31%, the average active account fell 2%.

### Financial Position

Total assets as of Jun 30, 2020 were $96.5 billion, down 9.3% year over year.

Total borrowings as of Jun 30, 2020 were $16 billion, down 24.4% from the year-ago quarter.

The company's balance sheet was consistently strong during the reported quarter with total liquidity of $28 billion reflecting 29% of the total assets.
While return on assets was 0.2%, the return on equity was 1.6%.

Efficiency ratio was 36.3% in the second quarter of 2020.

### Capital Deployment

During the quarter under consideration, the company returned $128 million in capital through common stock dividends.

## Recent News

**Synchrony Financial Launches Verizon Visa Card** — Jun 22, 2020

Synchrony Financial introduces the Verizon Visa Card, the first credit card designed with mobile customers in mind. It will allow customers to save on their monthly Verizon bill via rewards earned on purchases and and also have the liberty to utilize those rewards toward Verizon buys.

**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 35.2% in the year-to-date period and 35.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 112% and 16.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 13.6% and 11.4%, respectively.

The S&P 500 index is up 2.5% in the year-to-date period and 11% in the past year.

The stock is currently trading at 10.01x forward earnings, which compares to 14.03x for the Zacks sub-industry, 16.5x for the Zacks sector and 23x 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 9.52x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $24 price target reflects 10.48x 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 | 10.01 | 14.03 | 16.5 | 23 |
| | 5-Year High | 15.25 | 14.14 | 16.5 | 23 |
| | 5-Year Low | 3.16 | 8.7 | 11.58 | 15.25 |
| | 5-Year Median | 9.52 | 11.59 | 14.16 | 17.52 |
| P/S F12M | Current | 0.91 | 1.29 | 6.04 | 3.61 |
| | 5-Year High | 2.57 | 1.77 | 6.66 | 3.61 |
| | 5-Year Low | 0.48 | 1.02 | 4.96 | 2.54 |
| | 5-Year Median | 1.53 | 1.34 | 6.05 | 3.01 |
| P/B TTM | Current | 1.19 | 1.87 | 2.34 | 4.46 |
| | 5-Year High | 2.57 | 2.77 | 2.9 | 4.56 |
| | 5-Year Low | 0.58 | 1.12 | 1.71 | 2.84 |
| | 5-Year Median | 1.67 | 1.98 | 2.52 | 3.71 |

As of 07/22/2020

## Industry Analysis **Zacks Industry Rank:** Bottom 17% (208 out of 252)


## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| Equitable Holdings, Inc. **(EQH)** | Outperform | 2 |
| Jefferies Financial Group Inc. **(JEF)** | Outperform | 2 |
| Alliance Data Systems Corporation **(ADS)** | Neutral | 3 |
| American Express Company **(AXP)** | Neutral | 3 |
| Capital One Financial Corporation **(COF)** | Neutral | 3 |
| Discover Financial Services **(DFS)** | Neutral | 3 |
| Standard Life PLC Unsponsored ADR **(SLFPY)** | Neutral | 4 |
| U.S. Bancorp **(USB)** | Neutral | 3 |

## Industry Comparison Industry: Financial - Miscellaneous Services

| | SYF | X Industry | S&P 500 | ADS | AXP | DFS |
|---|---|---|---|---|---|---|
| | | | | Industry Peers | | |
| **Zacks Recommendation (Long Term)** | Neutral | - | - | Neutral | Neutral | Neutral |
| **Zacks Rank (Short Term)** | 3 | - | - | 3 | 3 | 3 |
| **VGM Score** | B | - | - | B | D | C |
| Market Cap | 13.38 B | 197.29 M | 22.74 B | 2.03 B | 77.71 B | 15.53 B |
| # of Analysts | 7 | 3 | 14 | 7 | 9 | 8 |
| Dividend Yield | 3.84% | 0.00% | 1.81% | 1.97% | 1.78% | 3.47% |
| **Value Score** | A | - | - | A | B | B |
| Cash/Price | 1.01 | 0.36 | 0.06 | 2.20 | 0.47 | 0.75 |
| EV/EBITDA | 2.76 | 3.93 | 13.19 | 5.96 | 8.18 | 6.46 |
| PEG Ratio | 2.20 | 3.41 | 3.05 | 0.95 | 3.72 | 5.96 |
| Price/Book (P/B) | 1.20 | 0.96 | 3.14 | 1.86 | 3.70 | 1.71 |
| Price/Cash Flow (P/CF) | 4.55 | 7.97 | 12.31 | 1.74 | 9.61 | 5.35 |
| P/E (F1) | 16.85 | 16.20 | 22.34 | 5.87 | 38.93 | 41.69 |
| Price/Sales (P/S) | 0.75 | 1.57 | 2.40 | 0.36 | 1.79 | 1.13 |
| Earnings Yield | 5.93% | 5.46% | 4.27% | 17.03% | 2.57% | 2.41% |
| Debt/Equity | 1.44 | 0.40 | 0.75 | 11.00 | 2.50 | 2.87 |
| Cash Flow ($/share) | 5.04 | 0.61 | 6.94 | 24.48 | 10.05 | 9.48 |
| **Growth Score** | D | - | - | D | F | D |
| Hist. EPS Growth (3-5 yrs) | 12.06% | 12.06% | 10.82% | 7.47% | 9.99% | 12.65% |
| Proj. EPS Growth (F1/F0) | -68.33% | -27.27% | -9.08% | -56.79% | -69.76% | -86.60% |
| Curr. Cash Flow Growth | 5.34% | 5.71% | 5.51% | -34.53% | 5.23% | 7.14% |
| Hist. Cash Flow Growth (3-5 yrs) | 9.07% | 13.95% | 8.55% | 0.58% | 3.21% | 4.70% |
| Current Ratio | 1.24 | 1.33 | 1.30 | 2.02 | 1.76 | 1.26 |
| Debt/Capital | 57.46% | 30.92% | 44.41% | 91.67% | 71.46% | 72.97% |
| Net Margin | 11.79% | 8.80% | 10.46% | 3.41% | 12.74% | 7.65% |
| Return on Equity | 14.73% | 7.13% | 15.29% | 40.98% | 30.21% | 9.97% |
| Sales/Assets | 0.18 | 0.23 | 0.54 | 0.21 | 0.22 | 0.12 |
| Proj. Sales Growth (F1/F0) | -14.17% | 0.00% | -2.27% | -8.09% | -15.83% | -5.14% |
| **Momentum Score** | C | - | - | C | F | F |
| Daily Price Chg | 1.24% | 0.00% | 0.60% | 0.71% | 0.22% | 3.45% |
| 1 Week Price Chg | 2.88% | 0.00% | 3.82% | 2.38% | 2.09% | 1.26% |
| 4 Week Price Chg | 3.76% | 0.09% | 7.55% | -6.32% | 1.11% | -0.22% |
| 12 Week Price Chg | 8.88% | 8.11% | 7.51% | -22.52% | 0.44% | 10.43% |
| 52 Week Price Chg | -37.36% | -20.13% | -3.37% | -72.94% | -24.55% | -44.89% |
| 20 Day Average Volume | 5,998,141 | 119,514 | 2,037,153 | 1,305,014 | 4,470,171 | 3,901,080 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.35% | 1.14% |
| (F1) EPS Est 4 week change | 4.83% | 0.00% | 0.14% | 0.00% | -8.78% | -27.71% |
| (F1) EPS Est 12 week change | 3.75% | -5.66% | -3.51% | -37.00% | -32.23% | -64.81% |
| (Q1) EPS Est Mthly Chg | 21.03% | 0.00% | 0.00% | 0.00% | 6.73% | -17.17% |

## 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 | C |
| VGM Score | B |

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.

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