Consumer Finance

Consumer Finance Tidbits: Issue 24-01

Industry Overview

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Equity
United States
Consumer Finance

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NCO: Net charge-off

Bank earnings reaffirm card issuer 4Q outlook

Earlier, large US Banks (JP Morgan, Wells Fargo, Citi, and Bank of America) reported 4Q23 results, including for their credit card portfolios, providing a read-through for pure-play card issuers. Overall, trends were in-line with our expectations – loan growth on a y/y basis decelerated slightly from the prior quarter, loss ticked up higher, yet reserve ratios were flat-to-down for the large banks (Exhibits 1-3). We are forecasting reserve ratios down about 10bps q/q for all card issuers, in-line with banks who have reported, except for Amex where we are flat given a lower relative reserve rate. For more detail see: 4Q preview: Soft landing narrative needs affirmation - 10 January 2024.

Notably, large US Banks commentary on the consumer credit environment was broadly consistent with our expectations for 2024. JP Morgan (JPM) noted that it has not seen signs of consumer credit concerns. Wells called out it expects to launch new travel cards and a small business card. Overall, banks generally expect card loan growth to slow but still remain solid in 2024, consistent with our outlook for the pure-play issuers.

JPM and Citi (branded card) guided for further increases in card losses, which suggests 2024 loss rates we be above pre-pandemic levels, consistent with our expectations for loss rates at COF and DFS. That said, Citi did guide to retail card losses at 5.75-6.25% for 2024, above pre-Covid at 5.00-5.50%. This could be a viewed as a negative readthrough for SYF. SYF loss rates have been running ~15bps above Citi retail card, and a continuation of this trend would imply SYF loss rate above 6% in 2024 (vs. BofAe/cons at 5.83%/5.85%). We view Citi's retail loss guidance as a negative read for Synchrony and Bread.

Key metrics from 4Q bank earnings

On average, credit card loan balances across the large banks were up 12.1% y/y, a slight deceleration from 3Q at 14.4%. Loan growth was supported by solid loan growth up to 3.7% y/y from +0.2% in 3Q. Loss rates increased 45bps q/q, though reserve ratios declined approximately 5bps q/q.

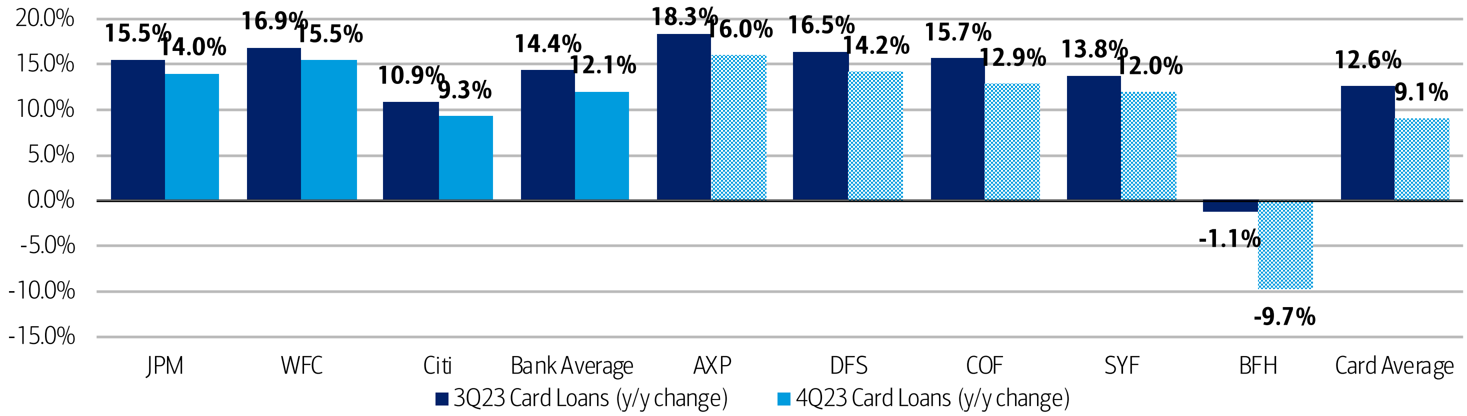
Building the mosaic: Sector news

Delta earnings: AXP's most important co-brand partner Delta Air Lines (representing 21%/10% of loans / billings), expects remuneration from AXP to grow 10% y/y in 2024. The AXP-Delta relationship is multi-faceted and payments from AXP to Delta include co-brand economics, rewards costs, and other payments. Delta also noted corporate travel continues to recover and is now at ~90% of pre-pandemic levels.

Synchrony signs new agreement and a renewal: Synchrony renewed its partnership with The Good Feet Store and signed a multiyear agreement with Destination Pet. Both partnerships will drive growth in the CareCredit and the Health and Wellness vertical.

SoFi headcount reduction: On Twitter, SoFi IR announced it had reduced 4% of its staff earlier this week and recommitted to its plan to deliver GAAP profitability and grow tangible book value. We expect some questions on its earnings call about expense priorities.

Exhibit 1: Large bank loan growth decelerated on a y/y basis, we expect similar trends for pure-play card issuers
3Q23 vs 4Q23 y/y credit card loan growth



Source: Company reports, BofA Global Research estimates. *Note: AXP, COF, DFS, SYF, BFH 4Q is an estimate

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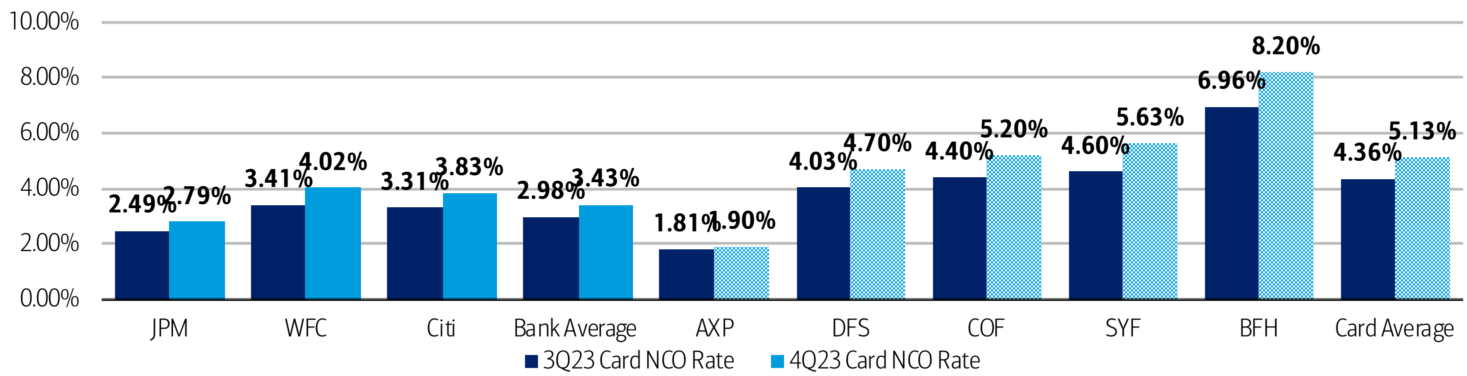
Exhibit 2: Loss rates increased materially for large banks, consistent with our outlook for pure-play card issuers
3Q23 vs 4Q23 y/y NCOs



Source: Company reports, BofA Global Research estimates. *Note: AXP, COF, DFS, SYF, BFH 4Q is an estimate

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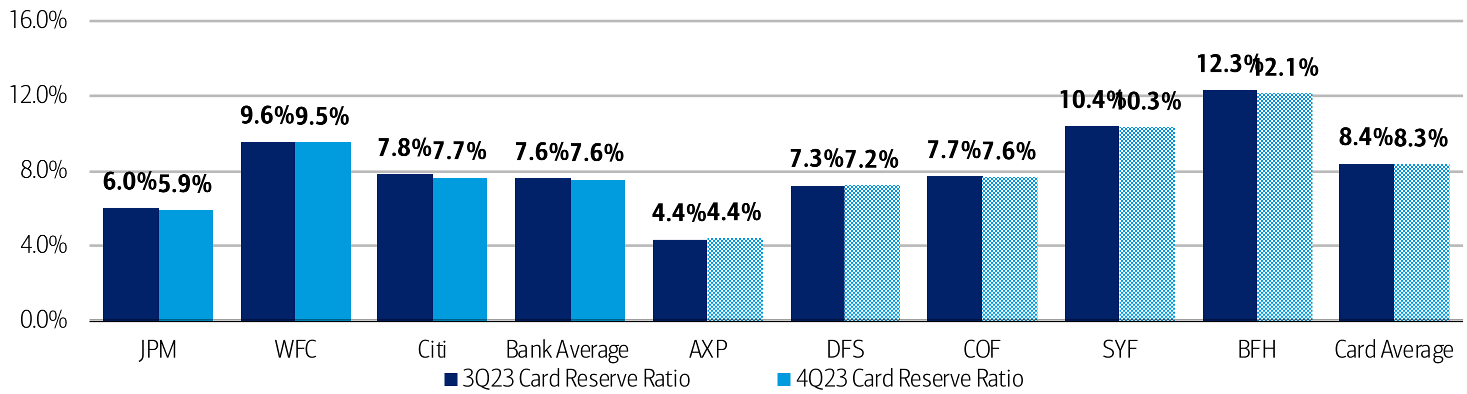
Exhibit 3: Large bank card reserve rates were flat-to-down in 4Q, in-line with our outlook for pure-play card issuers
3Q23 vs 4Q23 card reserve ratios



Source: Company reports, BofA Global Research estimates. *Note: AXP, COF, DFS, SYF, BFH 4Q is an estimate

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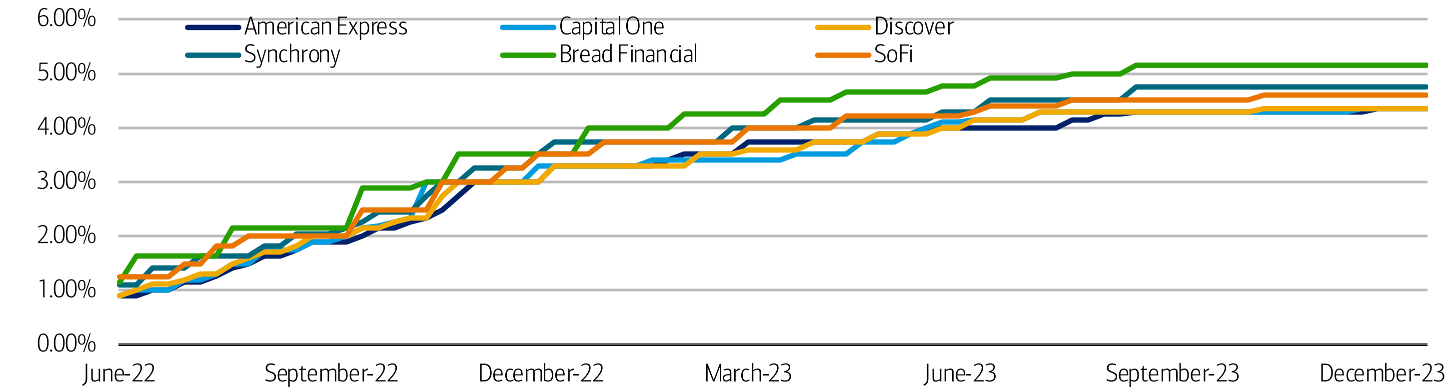
Exhibit 4: Deposit pricing has been relatively stable over the last four months
Online savings account interest rates



Source: Company websites

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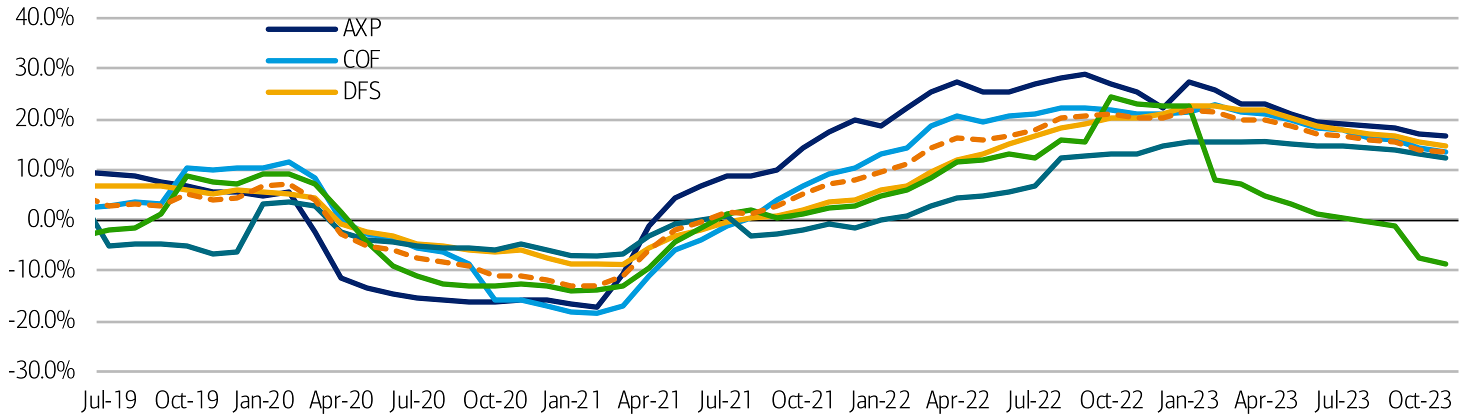
Exhibit 5: Loan growth remains strong but has begun to slow on a y/y basis, BFH is down y/y
y/y loan growth



Source: BofA Global Research estimates, company reports

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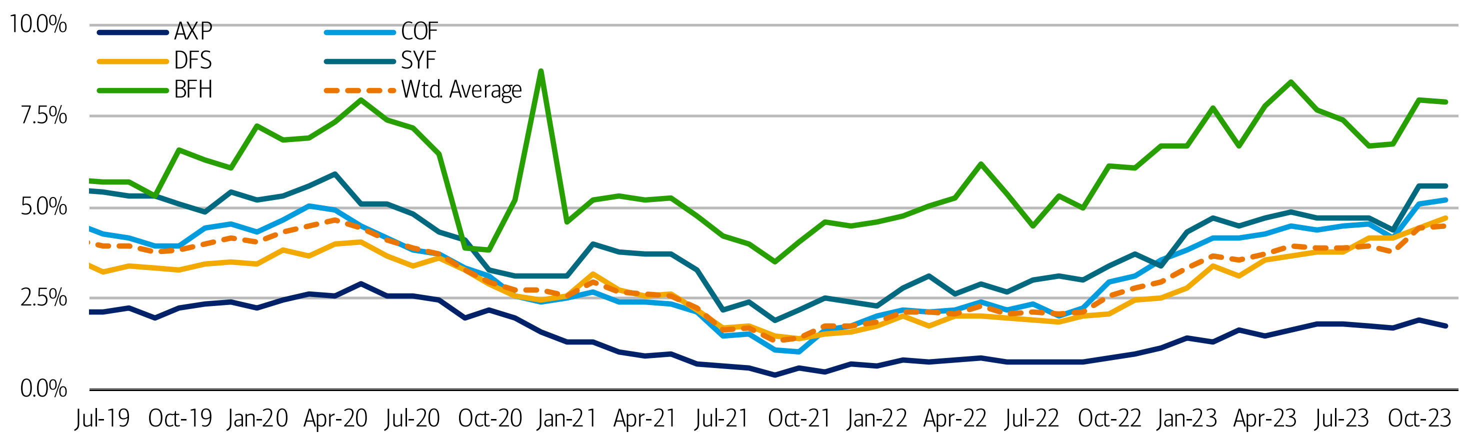
Exhibit 6: Net charge-off rates are slightly down m/m, AXP remains below pre-pandemic levels
Net charge-off rates on domestic card loans



Source: BofA Global Research estimates, company reports

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Consumer finance dashboard

In aggregate, consumer finance metrics remain solid by most measures (Exhibit 7). The unemployment rate is currently strong and was flat on a m/m in December, which was better than economists predicted (3.8% estimate). Initial and continuing jobless claims are improving m/m, though continuing claims are up y/y. Fed officials and BofA Global Research economists expect a soft landing with a benign unemployment outlook – our economists expect unemployment to peak at 4.4% in 1Q25. Adjusted retail and food sales and credit card balances are up on a y/y basis as consumers continue to spend amid higher inflation. That said, inflation has been moderating solidly and has helped drive consumer confidence up on a y/y and m/m basis.

Exhibit 7: Consumer finance dashboard
Key metrics for employment, income, spending, and lending are mixed

Item	Most recent	Reading	YoY Change	MoM Change
Employment				
Unemployment Rate	12/31/2023	3.7%	+20bps	+0bps
Initial Jobless Claims	1/5/2024	202	-1.5%	-0.5%
Continuing Jobless Claims	12/29/2023	1,834	11.5%	-1.7%
Non-Farm Payrolls (000s)	12/31/2023	157,232	1.7%	0.1%
Income				
Average Hourly earnings (y/y change)	12/31/2023	4.10%	-70bps	+10bps
Personal Income	11/30/2023	23,289	+460bps	+35bps
New Bankruptcy Cases - Nonbusiness filings	9/30/2023	111,811	13.9%	NA
Spending and lending				
Adj. Retail and Food Service Sales	11/30/2023	706	+410bps	+30bps
Consumer Confidence	12/31/2023	70	16.6%	13.7%
Revolving credit balances ($B)	12/27/2023	1,076	9.7%	1.7%
Rates				
30yr Mortgage rate	1/11/2024	7.02%	+6bps	-4bps
30yr Mortgage rate - MBS coupon spread	1/12/2024	1.04%	+10bps	+7bps

Source: BofA Global Research, Bloomberg, Census Bureau, Federal Reserve, Labor Department, Administrative office of US Courts

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EPS forecasts vs consensus

Exhibit 6 and 7 highlight BofA forecasts versus consensus for the current quarter and 2024. In 4Q23, for card issuers we are below mostly on higher reserve assumptions. For WEX we are below on lower revenues and slightly higher sales and marketing spend. We are above on FLT on better OpEx control. For mortgage insurers, we are mixed due to reserve assumptions. And we are in-line for RKT.

Exhibit 8: Next quarter forecast

BofA vs consensus

Ticker	BofAe Current Q	Bloomberg Current Q	BofA-Bb
Credit Card Issuers			
AXP	$2.65	$2.66	($0.01)
COF	$2.32	$2.68	($0.36)
DFS	$2.56	$2.53	$0.03
SYF	$0.88	$0.94	($0.06)
BFH	($0.82)	($0.70)	($0.12)
Mortgage Insurers			
ACT	$0.90	$0.93	($0.03)
ESNT	$1.63	$1.60	$0.03
MTG	$0.56	$0.57	($0.01)
NMIH	$0.97	$0.96	$0.01
RDN	$0.82	$0.89	($0.07)
Fleet Cards			
FLT	$4.54	$4.48	$0.06
WEX	$3.67	$3.71	($0.04)
Other			
OMF	$1.35	$1.38	($0.02)
SOFI	$0.00	$0.02	($0.02)
Mortgage Originators			
RKT	($0.05)	($0.05)	$0.00

Source: BofA Global Research estimates, Bloomberg

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Exhibit 9: 2024 forecast

BofA vs consensus

Ticker	BofAe 2024	Bloomberg 2024	BofA-Bb
Credit Card Issuers			
AXP	$12.89	$12.37	$0.52
COF	$14.20	$13.99	$0.21
DFS	$12.36	$12.51	($0.15)
SYF	$5.60	$5.48	$0.12
BFH	$8.33	$8.08	$0.25
Mortgage Insurers			
ACT	$3.72	$3.69	$0.03
ESNT	$6.79	$6.63	$0.16
MTG	$2.36	$2.38	($0.02)
NMIH	$4.23	$4.04	$0.19
RDN	$3.20	$3.47	($0.27)
Fleet Cards			
FLT	$19.89	$19.12	$0.77
WEX	$15.91	$16.25	($0.34)
Other			
OMF	$7.07	$6.84	$0.24
SOFI	$0.01	$0.10	($0.08)
Mortgage Originators			
RKT	$0.32	$0.30	$0.02

Source: BofA Global Research estimates, Bloomberg

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Exhibit 10: Relative valuation

Comp sheet

Ticker	Rating	1/12/2024 Stock Price	PO	QRQ	Upside / Downside	Div. yield	BofAe P/E 2022	BofAe P/E 2023	BofAe P/E 2024	'22-'24 Rev CAGR	'22-'24 EPS CAGR	Current P/BV	Current P/TBV	2023 ROE
Credit card issuers														
AXP	Buy	$183.58	$206.00	B-1-7	12.2%	0.9%	18.7x	16.3x	14.2x	12%	14%	4.9x	N/A	31%
COF	Buy	$127.42	$149.00	B-1-7	16.9%	2.0%	7.2x	10.1x	9.0x	6%	-10%	0.9x	1.4x	9%
DFS	Buy	$109.08	$130.00	B-1-7	19.2%	1.7%	7.1x	8.9x	8.8x	12%	-11%	1.9x	2.0x	21%
SYF	Neutral	$37.15	$40.00	B-2-7	7.7%	2.4%	6.0x	7.4x	6.6x	7%	-5%	1.2x	1.4x	16%
BFH	Neutral	$32.29	$34.00	C-2-7	5.3%	2.6%	7.2x	2.6x	3.9x	4%	37%	0.6x	0.8x	23%
Mortgage Insurers														
ACT	Buy	$28.29	$30.00	B-1-7	6.0%	4.3%	6.6x	7.0x	7.6x	7%	-7%	1.0x	N/A	15%
ESNT	Buy	$53.47	$58.00	B-1-7	8.5%	1.3%	6.9x	8.2x	7.9x	4%	-6%	1.2x	N/A	15%
MTG	Buy	$19.35	$19.00	B-1-7	-1.8%	1.4%	6.6x	8.0x	8.2x	1%	-10%	1.1x	N/A	15%
NMIH	Buy	$29.59	$34.00	B-1-9	14.9%	0.0%	8.7x	7.8x	7.0x	11%	12%	1.3x	N/A	18%
RDN	U/P	$28.71	$26.00	B-3-7	-9.4%	1.9%	5.9x	7.7x	9.0x	5%	-19%	1.1x	1.1x	18%
Fleet Cards														
FLT	Buy	$282.29	$288.00	B-1-9	2.0%	0.0%	17.5x	16.6x	14.2x	10%	11%	6.8x	N/A	36%
WEX	Buy	$198.54	$229.00	B-1-9	15.3%	0.0%	14.7x	13.5x	12.5x	9%	8%	5.0x	N/A	36%
Other														
OMF	Buy	$49.06	$54.00	C-1-7	10.1%	19.5%	6.7x	9.1x	6.9x	4%	-1%	1.9x	4.2x	21%
SOFI	Neutral	$8.01	$9.50	C-2-9	18.7%	0.0%	-20.0x	-20.3x	551.0x	27%	N/A	1.5x	2.3x	0%
Mortgage Originators														
RKT	U/P	$12.32	$6.00	C-3-9	-51.3%	9.0%	154.0x	-94.8x	38.5x	-12%	100%	2.9x	1.3x	-3%

Source: BofA Global Research estimates, Bloomberg

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Price objective basis & risk

American Express Company (AXP)

Our $206 price objective is based on a 16x multiple to our 2024 EPS forecast. An 16x PE multiple is on the higher end of the historical range (12-18x) for AXP, which we think is appropriate given the faster growth outlook and strong operating momentum it is experiencing.

Downside risks to our PO are weaker-than-expected macroeconomic conditions, softer consumer and business spending, weaker loan growth, increasing competition, weaker US consumer credit performance, disruptions in capital markets, or an increasing regulatory burden.

Bread Financial Holdings Inc (BFH)

Our $34 PO is based on a 4x PE multiple to '24e EPS. A 4x PE multiple is below peers currently trading at 7x and the typical range for card issuers (7-12x), reflecting the hostile macro backdrop and BFH's outsized exposure to the subprime consumer relative to peers.

Downside risks to our price objective are: an economic downturn, which could lead to elevated loan loss rates, increased defaults, higher credit costs and slower loan growth. Deteriorating economic conditions would likely hurt investor sentiment and drive valuations lower. Loss of retail partners also poses a risk to growth and the earnings outlook.

Capital One Financial (COF)

Our $149 PO is based on a 10.5x PE multiple to our 2024 EPS forecast. A 10.5x PE multiple is in the middle of the historical range (7-12x) which we think is appropriate given the more optimistic macro outlook and strong loan growth, partially offset by rising credit costs.

Downside risks are: slower than expected revolving credit growth, faltering economic recovery and rising loan losses, which could drive earnings below our estimates, and result in valuation compression. Cybersecurity and regulations are also risks.

Discover Financial (DFS)

We calculate a $130 PO based on an 10.5x PE multiple to our 2024 EPS forecast. A 10.5x multiple is in the middle of DFS's recent historical range (7-12x) and reflects the more optimistic macro outlook, resilient consumer balance sheets, and strong business fundamentals.

Downside risks to our price objective are: if the economy falls into a recession, credit costs could rise rapidly and compress margins more than our current forecast. Deteriorating economic conditions would likely hurt sentiment and drive DFS's valuation lower.

Enact Holdings (ACT)

Our $30 PO is based on an 8x PE multiple to our 2024 EPS forecast. An 8 PE multiple is in-line with the recent range for mortgage insurance stocks (6.5-8.5x).

Downside risks to our price objective are an economic downturn, which could lead to elevated defaults on mortgages and fewer mortgage originations, increased competitive pressures and price competition from private and / or government competitors. Changes to the regulatory environment could also impact future returns. Genworth's large concentrated ownership stake limits float and could be a risk.

Essent Group (ESNT)

Our $58 PO is based on a 8.5x PE multiple to our 2024 EPS forecast. An 8.5x PE is within the recent range for mortgage insurers (6.5-8.5x forward PE) and reflects ESNTs cost discipline, lower tax rate, and strong capital position.

Downside risks to our price objective are an economic downturn, which could lead to elevated defaults on mortgages and fewer mortgage originations, increased competitive pressures and price competition from private and / or government competitors. Changes to the regulatory environment could also impact future returns. Successful M&A integration could also be a risk.

FleetCor Technologies Inc. (FLT)
We calculate our price objective of $288 based on an approx. 14.5x multiple to our 2024 non-GAAP EPS estimate. Our PE multiple is approximately a 20% discount to the S&P, which we view as warranted given lower peer multiples and some abating idiosyncratic risks, slightly offset by FleetCor's strong fundamentals and upside potential from capital deployment.

Downside risks to our price objective are 1) weakening macro environment reduces demand for trucking/fuel, 2) increased competition, and 3) large fluctuations in fuel prices/foreign exchanges rates.

MGIC Investment Corp. (MTG)
Our $19 PO is based on an 8x PE multiple to our 2024 EPS forecast. An 8x PE multiple is within the recent range for mortgage insurers (6.5-8.5x) and reflects MTG's earnings growth, historic expense discipline, and capital return potential.

Downside risks to our price objective are an economic downturn, which could lead to elevated defaults on mortgages and fewer mortgage originations, increased competitive pressures and price competition from private and / or government competitors. Changes to the regulatory environment could also impact future returns.

OneMain Holdings, Inc. (OMF)
Our $54 price objective is based on a 7.5x multiple of our 2024 EPS forecast. A 7.5x PE multiple at the higher end of historical range (4-8x), it is also an approx. 20% discount to peers trading at 9.5x. We think valuation is justified given OMF's subprime exposure heading into a weakening macro environment.

Downside risks to our price objective are deterioration in credit, execution risk on the credit card portfolio, macroeconomic risk, regulatory risk, and a dividend cut.

Radian Group Inc (RDN)
Our $26 PO is based on an 8x PE multiple to our 2024 EPS forecast. An 8x PE multiple is in line with the recent range for mortgage insurance (MI) stocks (6.5-8.5x) and reflects the solid operating backdrop for mortgage insurance, somewhat offset by execution risk from the homegenius segment.

Upside risks to our Price Objective include stronger than expected economic growth, fewer loan delinquencies and strong housing credit performance which could lead to elevated new business written and fewer mortgage defaults. Execution in the homegenius segment could also be better than forecast and lead to higher / faster profit growth.

Downside risks to our price objective are an economic downturn, which could lead to elevated defaults on mortgages and fewer mortgage originations, increased competitive pressures and price competition from private and / or government competitors. Changes to the regulatory environment could also impact future returns. Successful M&A integration could also be a risk.

Rocket Companies, Inc. (RKT)

Our $6 PO is based on a 19x PE multiple to our 2024 EPS forecast. A 19x PE multiple is in-line with mortgage comps currently trading at 19x, which we think is warranted by RKT's superior technology and brand, somewhat offset by a smaller refinance market.

Downside risks to our PO are: 1) lower-than-forecast origination volumes or gain-on-sale margins, 2) macroeconomic risk from a weaker-than-expected recovery or a downturn in the housing market, 3) regulatory changes, 4) execution risk, and 5) complex ownership structure and limited float.

Upside risks to our PO are: higher-than-forecast mortgage origination volumes or gain-on-sale margins, a stronger-than-expected housing market backdrop, and faster market share gains than expected. There is also risk RKT utilizes its strong balance sheet for M&A, dividends, and buybacks, which could improve sentiment and valuation for the shares.

SoFi Technologies Inc (SOFI)

Our $9.50 price objective is based on a sum-of-the-parts of 2x current tangible book value and 5x on Technology segment's 2024 net revenue. 2x TBV reflects SOFI's faster growth and 5x to Technology net revenue is in-line with its closest peer.

Risks are dependence on volatile gain-on-sale (GoS) margins, execution risk, consumer credit / recession risk, customer concentration risk and regulation / consumer data privacy concerns.

Synchrony Financial (SYF)

Our $40 PO is based on a 6.5x P/E multiple on 2025E EPS. Our multiple is on the low end of the typical trading range for SYF (6-12x), which we think is appropriate given the relatively uncertain macro backdrop and rising credit costs, somewhat balanced by the potential for high capital returns.

Downside risks to our price objective are an economic downturn, which could lead to elevated loan loss rates, increased defaults, higher credit costs and slower loan growth. Deteriorating economic conditions would likely hurt investor sentiment and drive valuations lower. Loss of retail partners also poses a risk to growth and earnings outlook.

Upside risks are: Consumer balance sheets continue to hold strength and credit metrics remain strong. Increased visibility in peak loss rates shifts investor sentiment. Federal reserve achieves a soft landing. Outsized capital return.

WEX Inc. (WEX)

We calculate our price objective of $229 based on 14.5x our 2024 non-GAAP EPS estimate. Our PE multiple is a 20% discount to the S&P, which we view as warranted given lower peer multiples and increased recession risk slightly offset by WEX's strong fundamentals and favorable long-term trends.

Downside risks to our price objective are 1) weakening macro environment reduces demand for trucking/fuel, 2) increased competition, 3) large fluctuations in fuel prices/foreign exchanges rates, 4) travel volumes remain muted.

Analyst Certification

I, Mihir Bhatia, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
UNDERPERFORM				
	ADP	ADP	ADP US	Jason Kupferberg
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg
RSTR				
	EngageSmart	ESMT	ESMT US	Jason Kupferberg

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster R2
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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