

## Bread Financial Holdings Inc

## Feb op data: Sharp increase in NCOs in-line with expectations

Reiterate Rating: NEUTRAL | PO: 40.00 USD | Price: 37.66 USD

## Higher losses and tempered loan balances in February

Bread Financial (BFH) reported February operating metrics highlighted by a sharp increase in net charge-offs and a sequential decline in loan balances. Overall, we view results as mostly within expectations – Bread signaled the increase in loss rates in earlier conference appearances and the decline in balances coincides with tighter underwriting and a pressured cardholder base. We note that March will likely have losses similar to February levels given 1Q outlook for mid-to-high 8% loss rates. Earlier today, the company also reiterated that losses should peak in 2Q. We maintain a Neutral rating on Bread – the late fee rule creates a material earnings headwind and increases execution risk, however we feel this is aptly reflected as shares are trading at ~60% of tangible book value.

## Loss rates up 93bps m/m to 8.92%

The February net charge-off rate of 8.92% increased 93bps m/m from January at 7.99%. The sequential deterioration in credit is worse than what typical February seasonality would suggest at +24bps m/mm (average of last seven years). The credit weakening was signaled by the company and was driven by high roll rates and slower loan growth. Bread also reaffirmed its belief that delinquencies peak in 1H24 and losses to peak in 2Q, likely in May. Encouragingly, DQ rates declined 10bps m/m to 6.66% which is better than the +3bps increase typically observed in February. The delinquency trend is in-line with commentary that early-stage delinquency performance is improving, which should bode well for future loss development (Exhibit 1). Given the outlook for March losses, BofAe/cons 1Q estimates at 8.65%/8.58% appear reasonably calibrated.

## Loan growth reflect underwriting and tough backdrop

End of period receivables were \$18.4B, up 1.5% y/y. Note that the BJ's portfolio was sold in February 2023. Principal receivables decreased 202bps m/m which is worse than normal seasonality would suggest ('17-'22 average: -179bps). Bread noted that consumers are self-regulating their behavior and that overall spending is down across all categories in both January and February. We are tweaking our EOP receivable slightly higher to \$17.9B (\$17.7B prior) given QTD monthly trends.

## Updating estimates

We tweak our 1Q/2024 estimates to \$3.48/\$8.20 from \$3.44/\$8.25 previously as we account for slightly faster loan growth and higher 2Q losses. We maintain a \$40 price objective based on an unchanged 0.9x multiple on current book value.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.46	14.33	8.20	10.74	11.63
EPS Change (YoY)	-72.2%	221.3%	-42.8%	31.0%	8.3%
Consensus EPS (Bloomberg)			7.08	8.42	6.79
DPS	0.84	0.84	0.84	0.84	0.84
Valuation (Dec)					
P/E	8.4x	2.6x	4.6x	3.5x	3.2x
Dividend Yield	2.2%	2.2%	2.2%	2.2%	2.2%

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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## Stock Data

Price	37.66 USD
Price Objective	40.00 USD
Date Established	15-Feb-2024
Investment Opinion	C-2-7
52-Week Range	23.19 USD -41.89 USD
Mrkt Val / Shares Out (mn)	1,861 USD / 49.4
Free Float	97.6%
Average Daily Value	26.71 USD
BofA Ticker / Exchange	BFH / NYS
Bloomberg / Reuters	BFH US / BFH.N
ROE (2024E)	0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

DQ: Delinquency

EOP: End of period

NCO: Net charge-off

# iQprofile<sup>SM</sup> Bread Financial Holdings Inc

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP
<b>Net Interest Income</b>	<b>4,182</b>	<b>4,266</b>	<b>4,100</b>	<b>4,219</b>	<b>4,477</b>
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Other Income	0	0	0	0	0
<b>Total Non-Interest Income</b>	<b>(356)</b>	<b>23.0</b>	<b>(229)</b>	<b>(231)</b>	<b>(249)</b>
<b>Total Operating Income</b>	<b>3,826</b>	<b>4,289</b>	<b>3,871</b>	<b>3,988</b>	<b>4,228</b>
Operating Expenses	(1,933)	(2,092)	(1,964)	(2,000)	(2,120)
<b>Pre-Provision Profit</b>	<b>1,893</b>	<b>2,197</b>	<b>1,907</b>	<b>1,989</b>	<b>2,109</b>
Provisions Expense	(1,593)	(1,229)	(1,361)	(1,274)	(1,334)
<b>Operating Profit</b>	<b>300</b>	<b>968</b>	<b>546</b>	<b>715</b>	<b>775</b>
Non-Operating Items	NA	NA	NA	NA	NA
<b>Pre-Tax Income</b>	<b>300</b>	<b>968</b>	<b>546</b>	<b>715</b>	<b>775</b>
Net Income to sh/holders	223	737	407	533	577
<b>Adjusted Cash Earnings</b>	<b>223</b>	<b>737</b>	<b>407</b>	<b>533</b>	<b>577</b>

## Key Balance Sheet Data

Total Assets	25,407	23,141	22,365	23,044	24,332
Average Interest Earning Assets	21,659	21,806	21,103	21,760	22,738
<b>Risk Weighted Assets</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Total Gross Customer Loans	21,365	19,333	18,438	18,786	19,911
Total Customer Deposits	13,826	13,620	12,635	12,711	13,198
<b>Tier 1 Capital</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Tangible Equity	NA	NA	NA	NA	NA
<b>Common Shareholders' Equity</b>	<b>2,265</b>	<b>2,918</b>	<b>3,337</b>	<b>3,870</b>	<b>4,447</b>

## Key Metrics

Net Interest Margin	19.3%	19.6%	19.4%	19.4%	19.7%
<b>Tier 1 Ratio</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Effective Tax Rate	25.7%	23.9%	25.5%	25.5%	25.5%
Loan / Assets Ratio	84.1%	83.5%	82.4%	81.5%	81.8%
<b>Loan / Deposit Ratio</b>	<b>155%</b>	<b>142%</b>	<b>146%</b>	<b>148%</b>	<b>151%</b>
Oper Leverage (Inc Growth - Cost Growth)	2.12%	3.88%	-3.63%	1.22%	0.03%
Gearing (Assets / Equity)	11.2x	7.93x	6.70x	5.95x	5.47x
Tangible Equity / Assets	0%	0%	0%	0%	0%
Tangible Equity / RWAs	NA	NA	NA	NA	NA

## Business Performance

Revenue Growth	16.9%	12.1%	-9.74%	3.03%	6.02%
Operating Expense Growth	14.8%	8.23%	-6.11%	1.81%	5.99%
Provisions Expense Growth	193%	-22.8%	10.7%	-6.42%	4.76%
Operating Revenue / Average Assets	NA	NA	NA	NA	NA
Operating Expenses / Average Assets	NA	NA	NA	NA	NA
<b>Pre-Provision ROA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
ROA	NA	NA	NA	NA	NA
<b>Pre-Provision ROE</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
ROE	NA	NA	NA	NA	NA
RoTE	NA	NA	NA	NA	NA
RoRWAs	NA	NA	NA	NA	NA
Dividend Payout Ratio	18.8%	5.68%	10.2%	7.77%	7.18%
<b>Efficiency Ratio (Cost / Income Ratio)</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

## Quality of Earnings

<b>Total Non-Interest Inc / Operating Inc</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Market-Related Revenue / Total Revenues	0%	0%	0%	0%	0%
Provisioning Burden as % of PPP	84.2%	55.9%	71.4%	64.0%	63.3%
NPLs plus Foreclosed Real Estate / Loans	NA	NA	NA	NA	NA
<b>Loan Loss Reserves / NPLs</b>	<b>11.5%</b>	<b>12.0%</b>	<b>11.9%</b>	<b>11.6%</b>	<b>11.5%</b>
Loan Loss Reserves / Total Loans	13.0%	13.7%	13.6%	13.1%	13.0%
<b>Provisions Expense / Average Loans</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

Headquartered in Columbus, Ohio, Bread Financial is a financial services company providing simple, personalized payment, lending and saving solutions. Bread offers a comprehensive product suite of products including private label and co-brand credit cards, installment lending and buy now, pay later (split-pay).

## Investment Rationale

We rate BFH a Neutral. Bread's customer base skews more subprime and we believe they will be most pressured by inflation and the resumption of student loan payments. Additionally, the CFPB's late fee proposal is a major risk for BFH earnings, in our view. That said, these risks appear priced in given it is trading at a deep discount to book value.

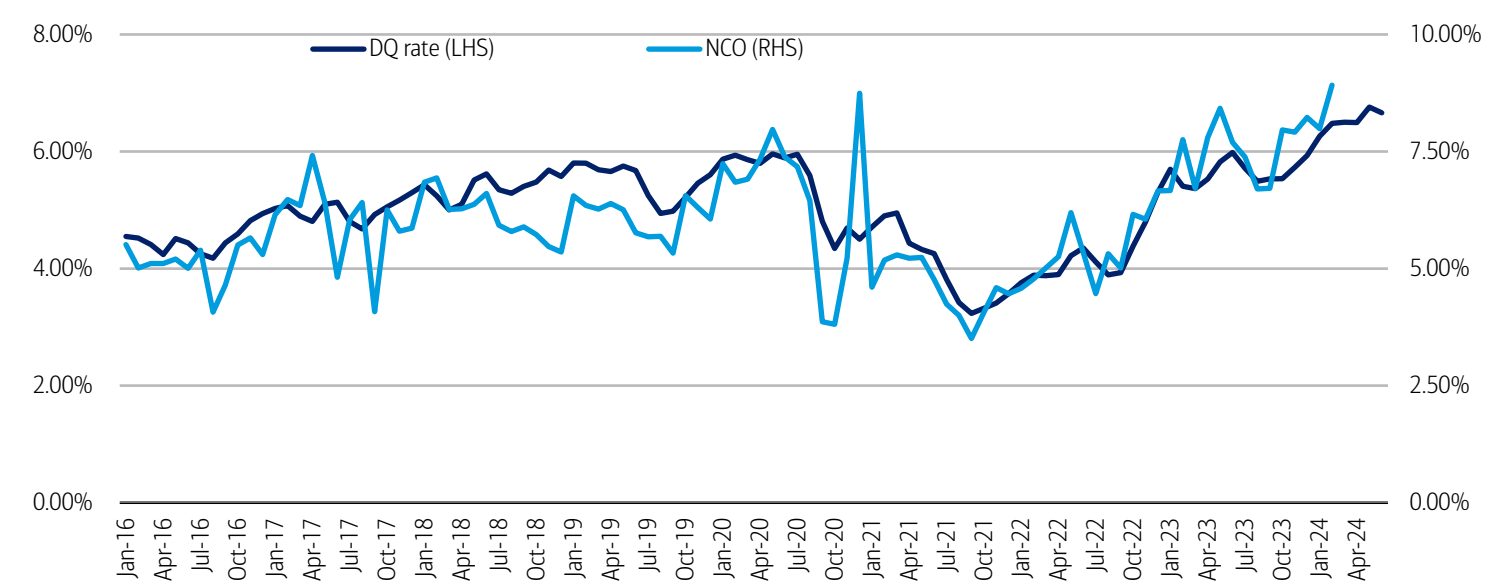
## Stock Data

Average Daily Volume 709,291

## Quarterly Earnings Estimates

	2023	2024
Q1	9.08A	3.48E
Q2	0.95A	2.10E
Q3	3.42A	2.41E
Q4	0.87A	0.21E

**Exhibit 1: Delinquency trends implies relative loss stability in the near-term**  
NCO vs DQs (lagged by 120 days)



Source: BofA Global Research estimates, company reports

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## Price objective basis & risk

### Bread Financial Holdings Inc (BFH)

Our \$40 PO is based on a 0.9x multiple to current book value. We believe more investors are looking at BFH through a book value lens given potential profitability challenges if the CFPB's late fee rule was to come into effect. We view a book value of <1.0 as appropriate in such a backdrop.

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.

## 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
<b>BUY</b>				
	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
	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
	Marqeta	MQ	MQ US	Cassie Chan
	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
<b>NEUTRAL</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	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
	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

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>	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

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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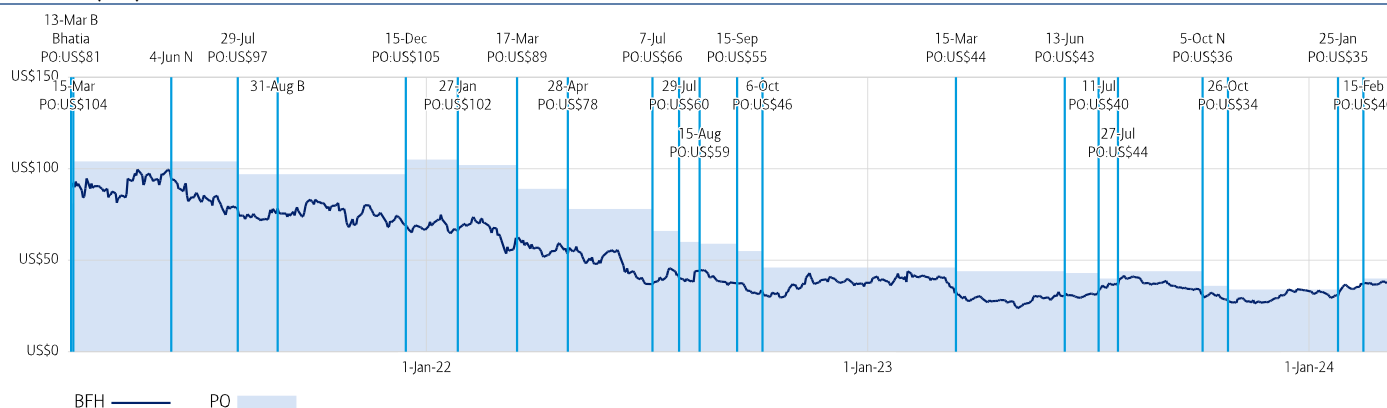
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### Bread Financial (BFH) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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

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