

Synchrony Financial

Solid 4Q results and initial 2024 guide is mostly in-line; Reiterate Neutral

Reiterate Rating: NEUTRAL | PO: 41.00 USD | Price: 37.26 USD

Positive quarter but CFPB overhang remains

Synchrony (SYF) reported solid 4Q EPS of \$1.03, above BofAe/cons at \$0.88/\$0.93, driven by lower provisions and RSAs, partially offset by higher OpEx. Additionally, the 2024 guide was positive with most metrics in-line with consensus forecasts and some (RSAs and OpEx) better than expected. That said, we are not surprised by the lack of positive reaction in shares as investors remain concerned about the impact of the forthcoming late fee rule. So, while execution has been quite good, we suspect sentiment is likely to remain muted for SYF shares until there is more clarity on the financial impact from the rule. Reiterate Neutral.

2024 guide in-line with expectations, RSAs a highlight

For 2024, Synchrony expects loan growth at 6-8%, net interest income at \$17.5-\$18.5B, and NCOs at 5.75-6.00% - all of which are in-line with current consensus forecasts. We estimate organic loan growth closer to 4-6%, accounting for the Ally portfolio acquisition. The net interest income outlook implies a NIM of ~14.9%, below consensus of 15.1% likely due to deposit pricing pressure. SYF expects an efficiency ratio (ex-Pets Best sale) of 32.5-33.5% which is better than consensus at 34%. Also positively, the RSA / avg loan receivable guide of 3.50-3.75%, was better than consensus at 3.90%. Underpinning the guidance is SYF's assumption of a relatively stable macro environment, including three rate cuts in 2024, a yearend unemployment rate of 4.0%, and 1.7% GDP growth. Notably, SYF has not accounted for the late fee rule in its guidance, though did note it would provide more clarity when the final rule is released.

Key metrics – call commentary + variance table on page 3

PPNR (-): at \$2,343M was below BofAe/cons at \$2,423M/\$2,382M driven by higher OpEx, specifically due to growth related items and restructuring costs of \$73M. Excluding these charges, PPNR would've been in-line with our forecast, and above cons.

See inside for more on 4Q results and call commentary.

Adjusting estimates; Increase PO to \$41

We increase our 2024/2025 estimates to \$7.35/\$6.37 from \$5.60/\$6.22 previously. We note that our forecast includes the Pets Best sale, on a core basis, EPS is closer to \$5.77. We expect slight upward revisions to 2024 forecasts given the better OpEx and RSA guidance. We tweak our price objective to \$41 (\$40 prior) based on an unchanged 6.5x multiple to our 2025e EPS forecast.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.15	5.19	7.35	6.37	7.51
EPS Change (YoY)	-16.2%	-15.6%	41.6%	-13.3%	17.9%
Consensus EPS (Bloomberg)			5.48	6.28	NA
DPS	0.90	0.96	1.00	1.00	1.00
Valuation (Dec)					
P/E	6.1x	7.2x	5.1x	5.8x	5.0x
Dividend Yield	2.4%	2.6%	2.7%	2.7%	2.7%

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12649580

Timestamp: 23 January 2024 11:58AM EST

23 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	40.00	41.00

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Stock Data

Price	37.26 USD
Price Objective	41.00 USD
Date Established	23-Jan-2024
Investment Opinion	B-2-7
52-Week Range	26.59 USD -39.34 USD
Mkt Val / Shares Out (mn)	15,418 USD / 413.8
Free Float	99.3%
Average Daily Value	167.13 USD
BofA Ticker / Exchange	SYF / NYS
Bloomberg / Reuters	SYF US / SYF.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"](#).

CFPB: Consumer Financial Protection Bureau

NCO: Net charge-off

NIM: Net interest margin

PPNR: Pre-provision net revenue

RSA: Retailer share arrangements

cons: consensus

iQprofileSM Synchrony Financial

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	NA	NA	NA	NA	NA
Return on Equity	NA	NA	NA	NA	NA
Operating Margin	NA	NA	NA	NA	NA
Free Cash Flow	NA	NA	NA	NA	NA

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NA	NA	NA	NA	NA
Asset Replacement Ratio	NA	NA	NA	NA	NA
Tax Rate	NA	NA	NA	NA	NA
Net Debt-to-Equity Ratio	NA	NA	NA	NA	NA
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
Net Interest & Other Income	NA	NA	NA	NA	NA
Net Income (Adjusted)	2,973	2,198	2,906	2,332	2,529
% Change	NA	NA	NA	NA	NA

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	3,016	2,238	2,950	2,376	2,574
Depreciation & Amortization	NA	NA	NA	NA	NA
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	NA	NA	NA	NA	NA
Capital Expenditure	NA	NA	NA	NA	NA
Free Cash Flow	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(442)	(407)	(396)	(367)	(338)
Change in Debt	NA	NA	NA	NA	NA

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	10,294	14,259	10,503	11,143	11,706
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	NA	NA	NA	NA	NA
Property, Plant & Equipment	NA	NA	NA	NA	NA
Other Non-Current Assets	NA	NA	NA	NA	NA
Total Assets	104,564	117,479	119,059	124,890	130,751
Short-Term Debt	14,191	15,982	12,168	14,646	16,850
Other Current Liabilities	NA	NA	NA	NA	NA
Long-Term Debt	NA	NA	NA	NA	NA
Other Non-Current Liabilities	NA	NA	NA	NA	NA
Total Liabilities	91,691	103,576	103,802	108,824	113,650
Total Equity	12,873	13,903	15,257	16,066	17,102
Total Equity & Liabilities	104,564	117,479	119,059	124,890	130,751

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Financial Services-Consumer/Commercial

Company Description

Synchrony Financial is a leading consumer financial services company & the largest provider of private label credit cards in the US based on sales volume and receivables. SYF offers private label credit cards, dual cards, commercial credit products and installment loans. The company offers its products through partner programs to retailers, local merchants, manufacturers, buying groups, associations and healthcare service providers. SYF also operates Synchrony Bank, a fast-growing online bank.

Investment Rationale

We rate SYF a Neutral. We think that SYF's profit-sharing model, strong capital levels, and an enviable merchant partner portfolio are key positives that position the company to withstand a mild recession should one arise. However, given recent relative strength, we view shares as offering a more balanced risk/reward.

Stock Data

Average Daily Volume 4,485,466

Quarterly Earnings Estimates

	2023	2024
Q1	1.35A	3.51E
Q2	1.32A	1.25E
Q3	1.48A	1.51E
Q4	1.03A	1.01E

Key metrics cont.

Credit / reserves (+): The NCO rate of 5.58% was relatively in-line with BofAe/cons at 5.63%/5.55%. Reserves increased \$395M, well below BofAe/cons at \$500M/\$455M. The reserve rate decreased 14bps q/q to 10.26%

Net interest income (+/-): of \$4,466M was in-line with BofAe/cons at \$4,469M/\$4,466M as NIM came in at 15.10% vs BofAe/cons at 15.06%/15.11%. Ending balances were \$103.0B vs our consensus-like \$103.5B forecast.

RSAs (+): of \$878M were well below BofAe/cons at \$964M/\$978M which helped drive the EPS beat.

Purchase volumes (-): at \$49.3B came in slightly below BofAe/cons expectations at \$49.8B/\$50.1B.

Expect credit to peak in 1H24 + noise from portfolios

On credit, the company noted that it still expects loan losses to peak in 1H24 and then follow typical seasonal trends in the back half of the year. The confidence comes from entry rates into delinquency that are better than 2019 levels, and the credit tightening actions SYF took in 2Q/3Q 2023. SYF expects the credit actions to benefit loss rates in 2H24 – though loss rates will be higher in 1H24 than in 4Q23. Additionally, SYF's loss normalization has been slower than peers, ex-Amex. The company is not seeing a particularly stretched consumer, though sales have been slightly softer than expected YTD, but SYF noted this could be due to lower foot traffic due to inclement weather. While the reserve ratio declined in 4Q23, the company expects a slight increase in 1Q24 to account for the portfolio acquisition, but would expect the reserve rate to exit 2024 lower than 4Q23 at 10.26%.

Synchrony expects both the Pets Best sale and the Ally point-of-sale acquisition to close in 1Q24. On Pets Best, the company expects a \$750M gain on sale, net of tax, and should increase CET1 ratio by about 80bps. The Ally acquisition is expected to add \$2.2B of receivables in addition to CET1 ratio reduction of 50bps due to purchase accounting and an initial reserve build. SYF will convert underwriting on Ally merchants to its PRISM underwriting system which should improve credit performance on new loans. It also believes it can gain revenue synergies from offering merchants a revolving and closed end solution (vs. just closed end loan by Ally).

The company also noted that pricing new business / renewals have been slightly more challenging given the late fee overhang, but a majority of its portfolio is renewed through 2026 and beyond. The company expects more clarity on the CFPB rule in the next two months. It has undertaken discussions with its retail partners and has a plan in place to respond to the rule with a large majority of its partners. SYF also noted that it expects to provide more color on late fees in its 10-K filing this year.

Exhibit 1: Lower provisions and RSAs drove the EPS beat, but higher OpEx drove a PPNR miss

Variance table

(\$ in millions)	Actual	Estimate	Variance	Var per share	Consensus
	Dec-23-A	Dec-23-E	(Act - Est)	(net of tax)	
Income Statement					
Interest and fees on loans	5,323	5,295	28	0.05	5,336
y/y growth	16%	16%	1%		17%
Interest on investment securities	226	215	11	0.02	212
y/y growth	71%	63%	8%		60%
Total interest income	5,549	5,511	38	0.08	5,550
y/y growth	18%	17%	1%		18%
Interest on deposits	878	844	34	(0.07)	882
Interest on securitization borrowings	99	92	7	(0.01)	96
Interest on third party debt	106	106	(0)	0.00	110
Total interest expense	1,083	1,041	42	(0.08)	1,082



Exhibit 1: Lower provisions and RSAs drove the EPS beat, but higher OpEx drove a PPNR miss

Variance table

(\$ in millions)	Actual	Estimate	Variance	Var per share	Consensus
y/y growth	80%	73%	7%		80%
Net interest income	4,466	4,469	-3	(0.01)	4,469
y/y growth	9%	9%	0%		9%
Retailer share agreements (RSAs)	878	964	(86)	0.17	978
y/y growth	-16%	-8%	-8%		-6%
Net interest income after RSAs	3,588	3,505	83	0.16	3,491
y/y growth	17%	14%	3%		14%
Provision for credit losses	1,804	1,929	(125)	0.25	1,862
y/y growth	50%	61%	-10%		55%
Net interest income after RSAs and provisions	1,784	1,575	209	0.41	1,629
y/y growth	-4%	-15%	11%		
Interchange revenue	270	283	(13)	(0.03)	278
Debt cancellation fees	139	137	2	0.00	131
Loyalty programs	(369)	(380)	11	0.02	(377)
Other	31	45	(14)	(0.03)	36
Total other income	71	86	(15)	(0.03)	68
y/y growth	137%	185%	-49%		127%
Total other expense	1,316	1,168	148	(0.29)	1,174
y/y growth	14%	1%	13%		2%
Earnings before income taxes	539	493	46	0.09	523
Pre-tax margin	12%	11%	1%		12%
Tax expense	99	121	-22		125
Net income	429	362	67	0.16	386
y/y growth	-24%	-36%	12%		-32%
Diluted EPS	\$1.03	\$0.88	\$0.16		\$0.93
y/y growth	-18%	-31%	13%		-26%
Weighted average shares outstanding	415	413	1		413
Other Key Metrics					
Pre-provision net revenue	\$2,343	\$2,423	-80		\$2,385
y/y growth	21%	25%			
Effective tax rate	18.4%	24.6%	-6.2%		23.9%
Ending loans receivables	102,988	103,524	(536)		103,382
y/y growth	11%	12%			12%
Net interest margin	15.10%	15.06%	0.04%		15.12%
Purchase volumes	49,339	49,840	(501)		50,075
y/y growth	3%	4%			4%
Efficiency ratio	36.0%	32.5%	3.4%		33.0%
Net charge-off rate	5.58%	5.63%	-0.05%		5.56%
Allowance for loan loss (as a % of receivables)	10.26%	10.31%	-0.05%		10.32%
Reserve build / (bleed)	395	500	(105)		455

Source: BofA Global Research estimates, company reports, Visible Alpha

BofA GLOBAL RESEARCH

Price objective basis & risk

Synchrony Financial (SYF)

Our \$41 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.

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				
	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
	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



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
UNDERPERFORM				
	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

iQmethodSM 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 & 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

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

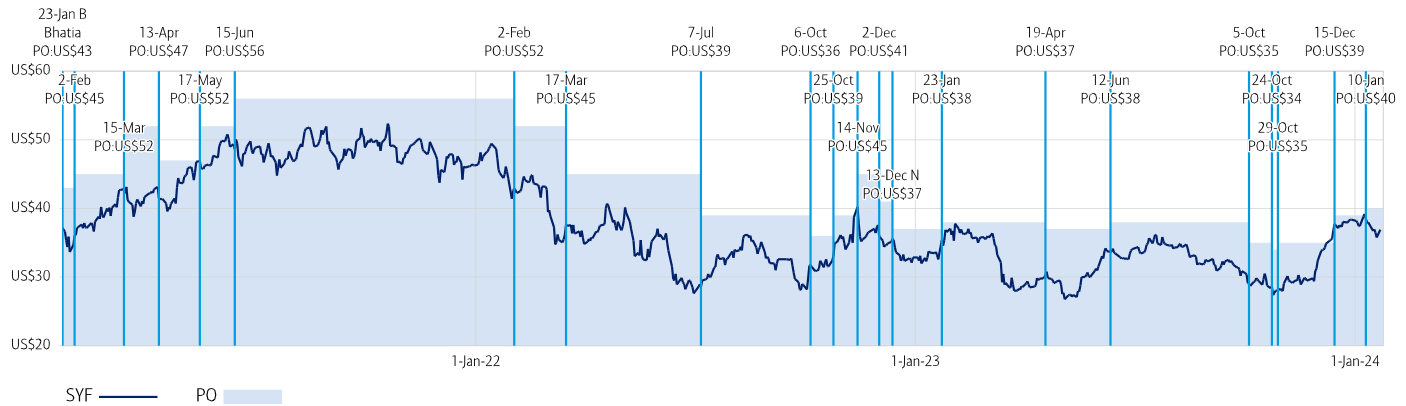
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Disclosures

Important Disclosures

Synchrony Financial (SYF) 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 ^{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: 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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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