

## OneMain Holdings, Inc.

## Initial 2024 guide disappoints on credit outlook; reiterates medium-term targets

Reiterate Rating: BUY | PO: 51.00 USD | Price: 45.25 USD

## Solid quarter but loss guidance is worse than expected

OneMain Holdings (OMF) reported adj. EPS of \$1.39 above our consensus-like \$1.35 estimate. The beat was primarily driven by lower provision expense, partially offset by higher expenses. While the quarter was quite solid, we view the guidance as disappointing, mainly on credit. OneMain is guiding for 2024 losses 50bps higher than consensus expectations, and we believe that is driving the weakness in the shares today. That said, OMF believes that it has solid line of sight on peak losses and remains confident in its medium-term target of 6-7% NCOs. We continue to view long-term return potential as attractive and see operating leverage as a positive. We reiterate our Buy rating.

## 2024 loss guidance is weak, other metrics are solid

We think that OneMain's loss expectations may take some shine off a solid quarter given investor concerns on credit. OneMain expects net charge-offs of 7.7-8.3%, above our consensus-like 7.5% forecast and above the 6-7% medium-term loss rate target. OMF notes that losses should peak in 2024 and are seasonally higher in 1H24. The company expects receivables of \$24.0B, above consensus at \$23.6B, and revenue growth of 6-8% versus consensus at ~5%. It expects a ~5.2% interest expense ratio for 2024, slightly above 4Q23 at 5.1%, due to 90% of its debt at a fixed rate. And OneMain sees an OpEx ratio of ~6.7%, down from 7.0% in 2023.

## Back book drives credit weakness; OMF cautious on macro

While the back book (originations pre-August 2022) represents only 35% of the portfolio currently, it accounts for 57% of the delinquent balances. OneMain also noted that consumers in the delinquent bucket are having a difficult time becoming current, which is leading to higher charge-offs. OneMain has slowed originations due to the more uncertain macro backdrop. As a result, the slower organic receivables growth should lead to higher net charge-offs in the near term due to the denominator effect. While the reserve ratio was effectively flat q/q, OMF noted that multiple factors are at play, including a growing card and auto portfolio and vintage seasoning.

## Lower our estimates and PO

We update our 2024/2025 EPS estimates to \$6.47/\$7.90 from \$7.07/\$8.63 as we account for 4Q23 results and company guidance, adjusted for Foursight reserves. We lower our PO to \$51 from \$54 prior as we update our valuation methodology to a 6.5x multiple of 2025e EPS from 7.5x 2024e prior as we roll forward our estimates and maintain an approximate 20% discount to peers given OMF's subprime exposure in a weakening macro environment.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.27	5.44	6.47	7.90	9.66
GAAP EPS	7.01	5.31	5.50	7.90	9.66
EPS Change (YoY)	-32.7%	-25.2%	19.0%	22.1%	22.2%
Consensus EPS (Bloomberg)			6.77	8.27	9.40
DPS	3.80	4.00	4.00	4.00	4.00
Valuation (Dec)					
P/E	6.2x	8.3x	7.0x	5.7x	4.7x
GAAP P/E	6.5x	8.5x	8.2x	5.7x	4.7x
Dividend Yield	8.4%	8.8%	8.8%	8.8%	8.8%

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07 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	54.00	51.00

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## Stock Data

Price	45.25 USD
Price Objective	51.00 USD
Date Established	7-Feb-2024
Investment Opinion	C-1-7
52-Week Range	32.79 USD -50.02 USD
Mkt Val / Shares Out (mn)	5,426 USD / 119.9
Free Float	99.3%
Average Daily Value	40.60 USD
BofA Ticker / Exchange	OMF / NYS
Bloomberg / Reuters	OMF US / OMF.N
ROE (2024E)	23.8%
ESGMeter™	Medium

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NCO: Net charge-off

OpEx: operating expense

PO: price objective

# iQprofile<sup>SM</sup> OneMain Holdings, Inc.

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	3,543	3,545	3,853	4,103	4,361
% change	3.4%	0.1%	8.7%	6.5%	6.3%
Net Fee Income	444	449	452	452	452
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	4,172	4,278	4,593	4,843	5,101
Operating Expenses	(1,614)	(1,719)	(1,772)	(1,851)	(1,934)
% change	-0.7%	6.5%	3.1%	4.4%	4.5%
Provisions Expense	(1,402)	(1,720)	(1,956)	(1,793)	(1,785)
% change	136.4%	22.7%	13.7%	-8.3%	-0.4%
Operating Pre-Tax Income	1,156	839	866	1,199	1,382
Operating Net Income to Comm S/Hold.	872	641	653	905	1,044
GAAP Net Income	872	641	653	905	1,044

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	22,533	24,294	25,935	27,244	28,786
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Total Customer Deposits	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	3,029	3,186	3,285	3,485	3,850

## Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	24.6%	23.6%	24.5%	24.5%	24.5%
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	4.1%	2.8%	3.1%	3.4%	3.7%
ROE	29.6%	21.1%	23.8%	26.8%	28.5%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	54.2%	75.3%	72.7%	50.7%	41.4%
Efficiency Ratio (Cost / Income Ratio)	38.7%	40.2%	38.6%	38.2%	37.9%
Billings Growth	NA	NA	NA	NA	NA
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(469)	(481)	(474)	(455)	(429)
Change in Debt	NA	NA	NA	NA	NA

## Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	15.1%	17.1%	16.1%	15.3%	14.5%
Loan Loss Reserves / Total Loans	NA	NA	NA	NA	NA

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

OneMain Holdings (OMF) is a leading direct consumer finance company active in the subprime market. The company was formed via the merger of Springleaf and OneMain Financial in 2015. OMF offers consumer loans to lower credit quality consumers through a 1,400+ retail branch network in 44 US states. Loans offered include secured and unsecured personal loans and credit cards.

## Investment Rationale

We think OMF has room to provide attractive valuation upside to shareholders as it continues to generate solid ROEs and return capital to shareholders. We think OMF is well positioned to deliver prudent loan growth and positive operating leverage. The stock could strengthen as investors appreciate the earnings power of the company in a relatively difficult environment.

## Stock Data

Average Daily Volume 897,276

## Quarterly Earnings Estimates

	2023	2024
Q1	1.47A	1.65E
Q2	1.01A	1.56E
Q3	1.57A	1.78E
Q4	1.39A	1.49E

**Managed receivables (+/-):** of \$22.3B were in line with BofAe/consensus at \$22.3B/\$22.2B. Personal loans grew 5.7% y/y, and credit cards grew 208% y/y. Personal loans growth was mostly stable with the prior quarter (5.9%), and credit cards reaccelerated q/q from 208.4% previously.

**Yields (-):** Personal loan yields were 22.1%, down from 22.2% in 3Q23. OneMain expects modestly higher yields in 2024, driven by pricing actions implemented in 2023 and incremental support from the Foursight acquisition.

**Personal loan originations:** At \$3,014M, they were down 13.2% y/y, reflecting OMF's more conservative stance and caution about the more difficult macro environment.

**Exhibit 1: Lower provision expense, slightly offset by higher expenses, drove the EPS beat**

Variance table

(\$ in millions)	Actual	Estimate	Variance	Variance per share	Consensus
	Dec-23-A	Dec-23-E	(Actual- Estimate)	(net of tax)	
<b>Income statement</b>					
Interest income	\$1,186	\$1,190	(\$4)	(\$0.03)	\$1,189
y/y growth	5.8%	6.2%			6.1%
Interest expense	(\$271)	(\$276)	\$5	\$0.03	(\$272)
y/y growth	17.8%	20.2%			18.3%
Net interest income	\$915	\$914	\$1	\$0.01	\$917
y/y growth	2.7%	2.6%			2.9%
Provision for finance receivable losses	(\$446)	(\$457)	\$11	\$0.07	(\$449)
y/y growth	10.4%	13.0%			11.2%
Net interest income after provisions	\$471	\$457	\$14	\$0.09	\$467
y/y growth	(3.3%)	(6.1%)			(4.2%)
Total other revenues	\$185	\$182	\$3	\$0.02	\$181
y/y growth	10.1%	8.3%			7.6%
Total other expenses	(\$431)	(\$424)	(\$7)	(\$0.04)	(\$434)
y/y growth	6.3%	4.6%			7.6%
Operating efficiency	39.2%	38.7%			39.6%
Income before income taxes	\$223	\$215	\$8	\$0.05	\$219
y/y growth	(10.6%)	(13.8%)			(13.7%)
Income taxes	(\$56)	(\$53)	(\$3)	(\$0.03)	(\$51)
tax rate	25.1%	24.5%			23.1%
<b>Net income</b>	<b>\$167</b>	<b>\$162</b>	<b>\$5</b>		<b>\$162</b>
y/y growth	(10.4%)	(12.9%)			(15.2%)
<b>Adjusted EPS</b>	<b>\$1.39</b>	<b>\$1.35</b>	<b>\$0.04</b>		<b>\$1.35</b>
y/y growth	(9.0%)	(11.6%)			(13.9%)
Weighted average shares outstanding	120.1	120.1			120.2
<b>Key metrics</b>					
Managed receivables	\$22,231	\$22,271			\$22,231
y/y growth	7.1%	7.3%			7.1%
Average C&I receivables	\$21,261	\$21,267			\$21,207
Pre-provision net income	\$669	\$672			\$668
Gross charge off ratio (personal loans)	8.8%	8.9%			8.9%
Recovery rate (personal loans)	(1.1%)	(1.2%)			(1.2%)
Net charge off ratio (personal loans)	7.7%	7.7%			7.7%
Allowance for loan losses (total)	\$2,480	\$2,488			\$2,487
Allowance ratio (total)	11.6%	11.6%			11.7%
Net leverage	5.3x	5.5x			5.4x
Share repurchase amount	\$20	\$11			\$20

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

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## Price objective basis & risk

### OneMain Holdings, Inc. (OMF)

Our \$51 price objective is based on a 6.5x multiple of our 2025 EPS forecast. The 6.5x PE multiple is in the middle of the historical range (4-8x), which is an approximate 20% discount to peers trading at 8x. We think that this 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.

## 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
	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
<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
	Marqeta	MQ	MQ US	Cassie Chan
	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
<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

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**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

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**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**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**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

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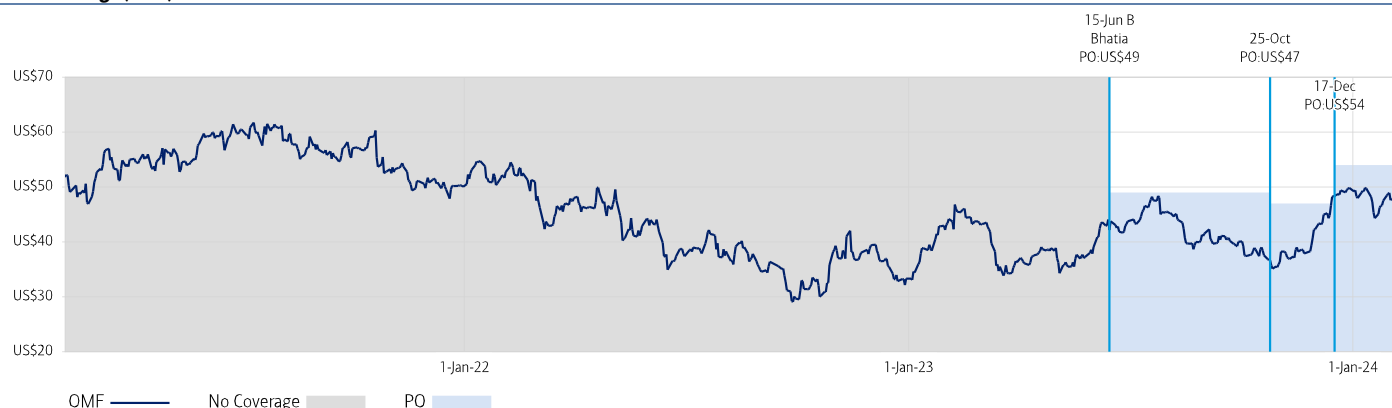
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# Disclosures

## Important Disclosures

### OneMain Holdings (OMF) Price Chart



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%

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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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