

Consumer Finance

COF/DFS/SYF: February operating metrics

Estimate Change

COF and SYF perform well, DFS is below expectations

Credit card issuers COF, DFS, and SYF reported monthly operating metrics today and we believe Capital One had the cleanest print. Synchrony was solid, though Discover fell short of our expectations. In our conversations, much of the focus remains on the potential COF-DFS merger. That said, credit remains a key near-term fundamental question and we are encouraged by COF's delinquency trends performing broadly in-line with historical seasonality. Synchrony's loss trends are also trending in-line with our estimates (though a little worse than consensus). Discover had a material increase in losses and is trending above both BofAe and cons 1Q estimates.

COF: DQs improve, loans are firmly in-line

The February domestic card NCO rate was 5.95%, which is up 25bps m/m from January. Notably, the 30+ day DQ rate at 4.72% was down 6bps m/m, which is better than the 10yr average of -2bps m/m and signals that near term losses should be in check. That said, losses tend to drift slightly higher in March and the Jan-Feb average loss rate was 5.83%. As such, consensus appears too low at 5.67% and we tweak our loss estimate to 5.9% from 5.8% prior. Domestic credit card balances of \$142.8B increased 9.9% y/y. Loan balances are generally flat m/m in March, so we are comfortable with our current \$142.8B estimate (consensus at \$144.0B). Auto results were generally ok with charge-offs and delinquencies declining m/m.

DFS: Losses increase sharply to 5.86%

The February net charge-off rate was 5.86%, up 63bps from 5.23% in January. Over the last five years (ex-COVID), February losses increased an average of 45bps m/m, so last month's performance suggests Discover faces continued credit deterioration. BofAe/cons estimates appear too low at 5.4% even though losses tend to improve in March. Positively, DQ rates fell 1bp m/m to 4.01% compared to the typical 2bps increase observed in February. End of period loan balances of \$99.9B increased 11.5% y/y and loans are typically flat in March, so we could be a touch light at \$99.6B, but we note that Discover has been tightening underwriting.

SYF: Losses trending in-line with our est.

The February NCO rate was 6.5%, up 50bps from January at 6.0%. The sequential increase in losses was slightly better than the average of the last seven years of +54bps m/m. We remain comfortable with our 6.25% estimate for 1Q and note consensus appears too low at 6.05% given a Jan-Feb average of 6.25%. As such, we expect downward revisions to consensus EPS expectations as loss forecasts should rise. Ending loan balances of \$100.0B were up 10.3% y/y, a slight deceleration from January at 10.7% y/y. Balances are typically down slightly in March, but given outperformance and the acquisition of the Ally Lending portfolio, we are comfortable with our \$101.1B estimate (cons at \$100.8B).

See inside for estimate changes for COF and DFS

15 March 2024

Equity
United States
Consumer Finance

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COF: Capital One

DFS: Discover Financial

DQ: Delinquency

NCO: Net charge-off

SYF: Synchrony Financial

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Timestamp: 15 March 2024 09:07AM EDT

COF: DQs follow historic trends

Card NCOs at 5.95%, up 25bps m/m

The February domestic card NCO rate was 5.95%, which is up 25bps m/m from January. The sequential move was worse than typical seasonality which usually depicts a 1bp decrease m/m (10yr average). Losses tend to drift slightly higher in March and the Jan-Feb average loss rate was 5.83%. As such, we tweak our domestic card loss rate forecast to 5.9% from 5.8% previously. Consensus appears too low at 5.67%. Notably, the 30+ day DQ rate at 4.72% was down 6bps m/m, which is better than the 10yr average of -2bps m/m and signals that near term losses should be in check.

Auto loss rates decreased 41bps m/m to 1.95% in February. The delinquency rate was also improved to 5.51%, down 79bps m/m. The sequential trend in NCOs slightly lagged the historical average of -47bps, but delinquencies outperformed the 10yr average of down 55bps m/m. Overall, we view Auto credit results as neutral.

Loan balances up 9.9% y/y

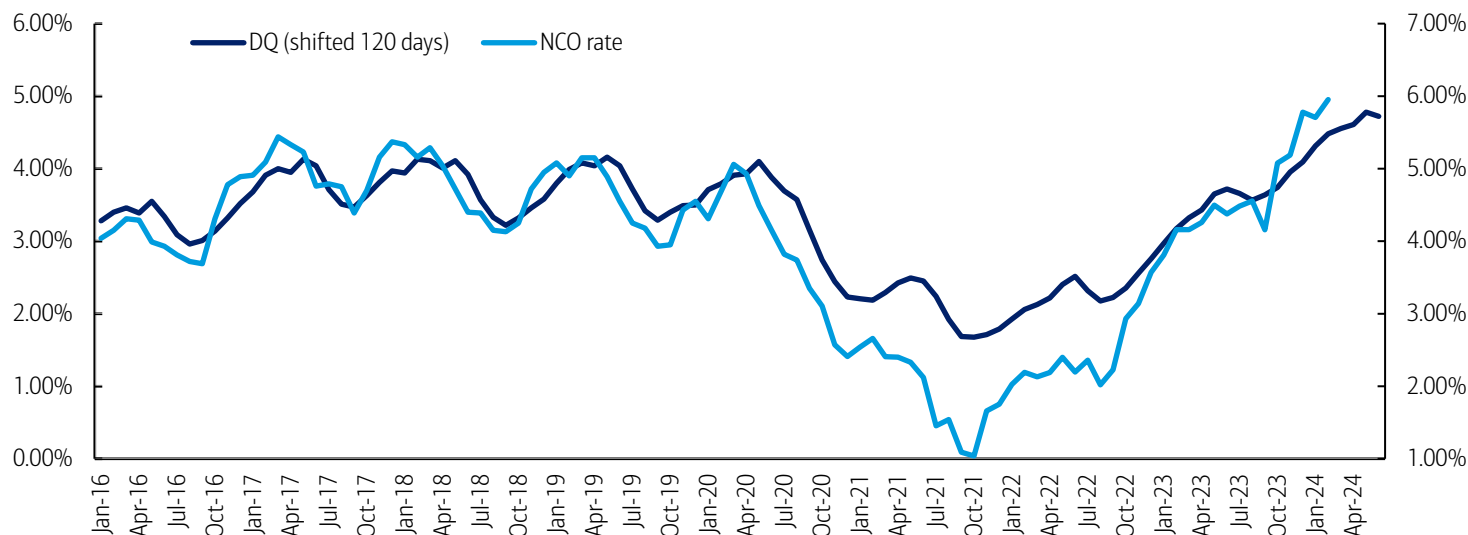
Domestic credit card balances of \$142.8B increased 9.9% y/y, a deceleration from January at 11.9% y/y. The sequential 144bps decline in balances was better than typical February seasonality (-170bps m/m). Loan balances are generally flat m/m in March and as such we are comfortable with our current \$142.8B estimate, notably consensus appears too high at \$144.0B. Auto balances fell 33bps m/m to \$73.6B, in-line with our 1Q estimate and slightly below the street at \$74.0B.

Tweaking estimates

We tweak our 1Q/2024 EPS estimates to \$3.58/\$13.75 from \$3.78/\$13.87 prior as we account February results. We maintain a \$152 PO based on an unchanged 9.5x multiple to 2025 EPS. Maintain Buy.

Exhibit 1: DQ trends imply near-term NCO stability

COF lagged DQs vs NCO rates



Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

DFS: Losses increase 63bps m/m to 5.86%

NCO performance worse than typical seasonality

The February net charge-off rate was 5.86%, up 63bps from 5.23% in January. Over the last five years (ex-COVID), February losses increased an average of 45bps m/m, so last month's performance suggests Discover faces continued credit deterioration. While losses tend to improve by 27bps on average in March, BofAe/cons estimates appear too low at 5.4%. Further, the Jan-Feb average loss rate was 5.55% and losses are not yet in-line with seasonal trends. Positively, DQ rates fell 1bp m/m to 4.01% compared to the typical 2bps increase observed in February.

Loan balances increase 11.5% y/y

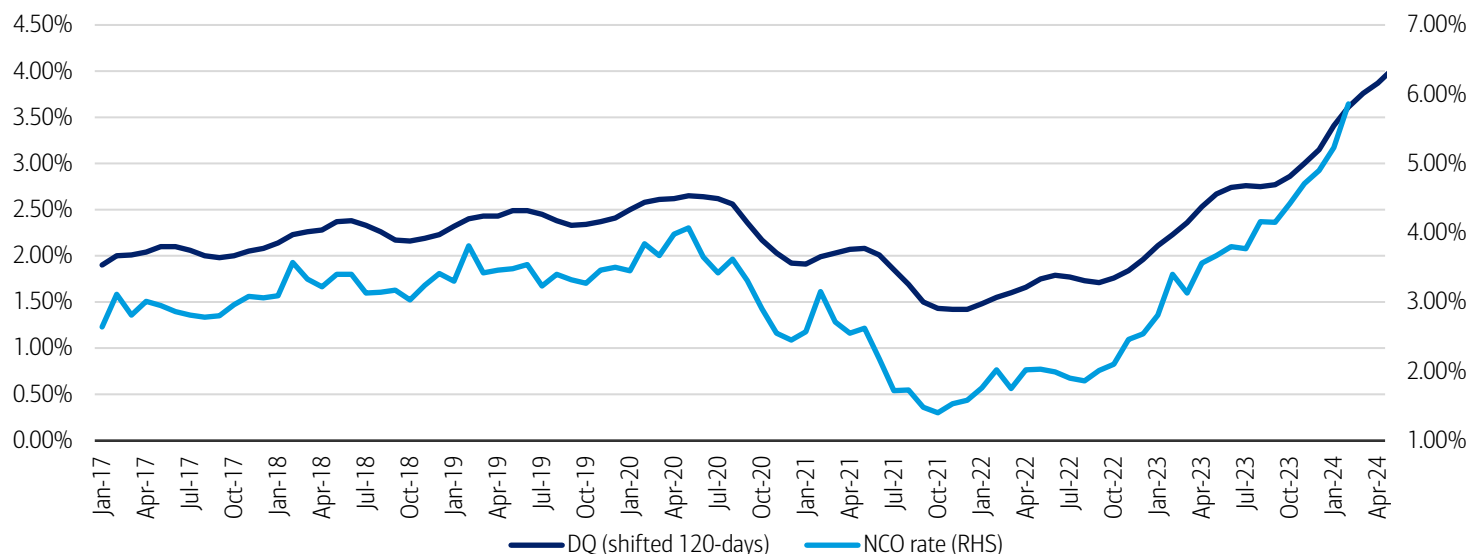
End of period loan balances of \$99.9B increased 11.5% y/y, which is a slight deceleration from January growth at 12.2%. On a month-over-month basis, loans declined 109bps which is only a touch worse than typical seasonality at -101bps. Balances are typically flat in March, so we could be a touch light at \$99.6B but we note that Discover has been tightening underwriting. That said, consensus appears low at \$98.0B.

Adjusting estimates

We adjust our 1Q/2024 EPS estimates to \$2.94/10.61 from \$3.07/\$10.81 previously as we account for QTD results, particularly weaker credit. Maintain No Rating.

Exhibit 2: DQ trends imply further near-term NCO deterioration

DFS lagged DQs vs NCOs



Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

SYF: Losses up 50bps m/m

Card losses increase to 6.5% in February

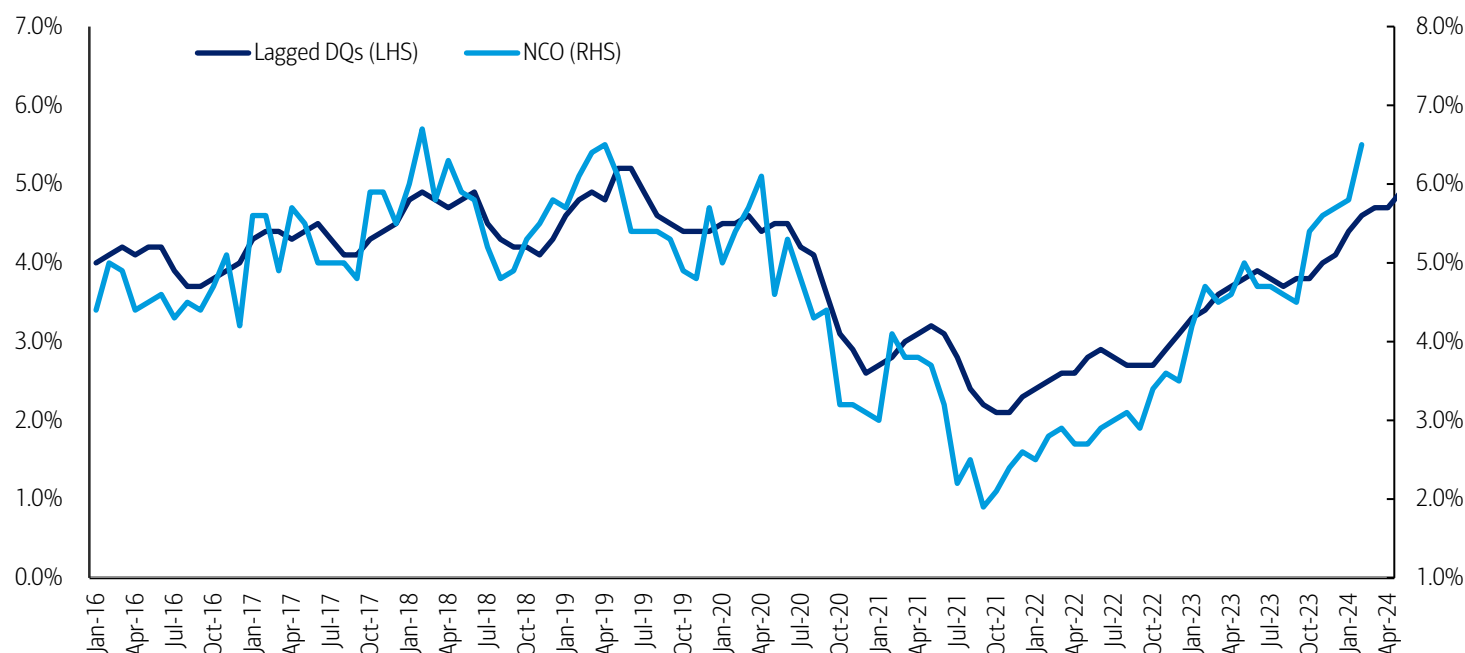
The February NCO rate was 6.5%, up 50bps from January at 6.0%. The sequential increase in losses was slightly better than the average of the last seven years of +54bps m/m. Losses typically fall 27bps in March, so we remain comfortable with our 6.25% estimate for 1Q. Despite the solid performance, we note that consensus forecast for 1Q losses is at 6.05%, well below the Jan-Feb average of 6.25%. As such, we expect downward revisions to consensus EPS expectations as loss forecasts should rise. The 30+ day DQ rate increased 10bps to 5.0%, above typical seasonality at +4bps.

February loan balances up 10.3% y/y

Ending loan balances of \$100.0B were up 10.3% y/y, a slight deceleration from January at 10.7% y/y. Balances declined 128bps m/m which is better than the typical seasonality, over the last seven years balances declined 156bps m/m. Balances are typically down slightly in March, but given outperformance and the acquisition of the Ally Lending portfolio, we are comfortable with our \$101.1B estimate (cons at \$100.8B).

Exhibit 3: DQ performance suggest near-term NCO steadiness

DQs lagged by 120 days vs NCOs



Source: BofA Global Research estimates, company reports

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Exhibit 4: Stocks mentioned

Tickers, price objectives, and ratings

Ticker	Company name	Stock price	Price Obj.	Rating
COF	Capital One Financial	\$139.43	\$152.00	B-1-7
DFS	Discover Financial	\$123.84	-6-	-
SYF	Synchrony Financial	\$43.25	\$43.00	B-2-7

Source: BofA Global Research, Bloomberg

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Price objective basis & risk

Capital One Financial (COF)



Our \$152 PO is based on a 9.5x PE multiple to our 2025 EPS forecast. A 9.5x 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 have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Synchrony Financial (SYF)

Our \$43 PO is based on a 7x 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, execution risk on late fee mitigants, 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

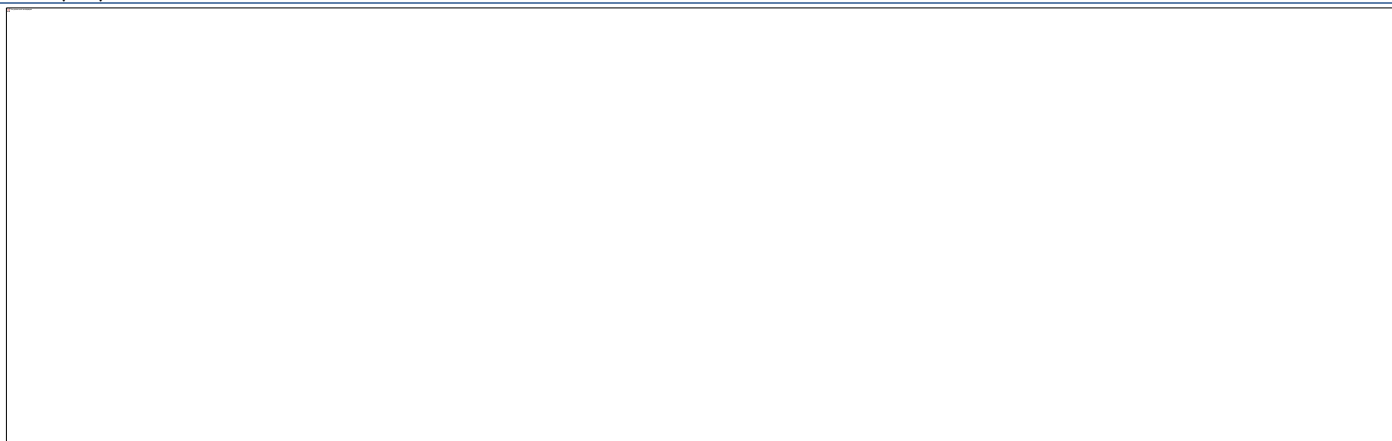
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US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

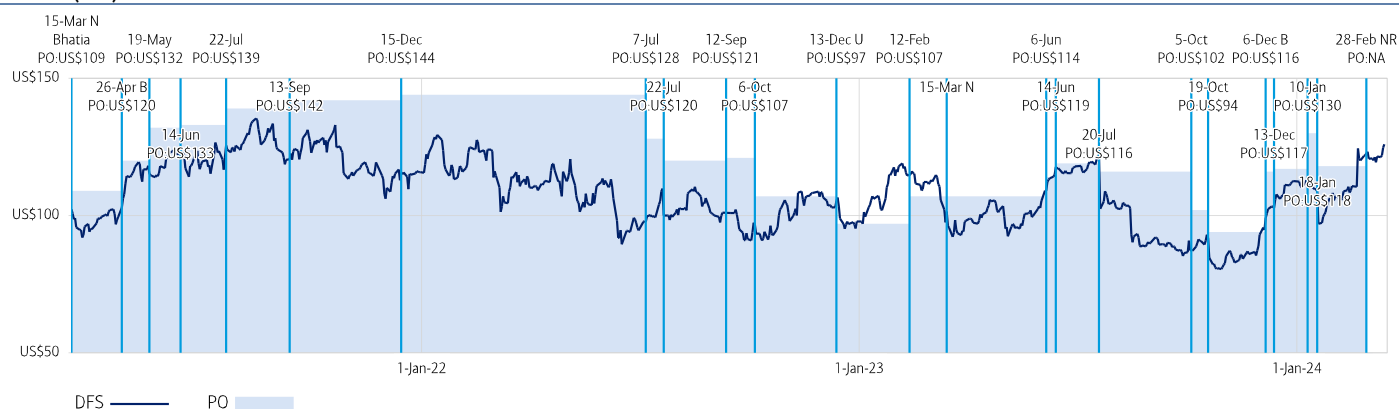
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BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT 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
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
	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				
	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

Disclosures

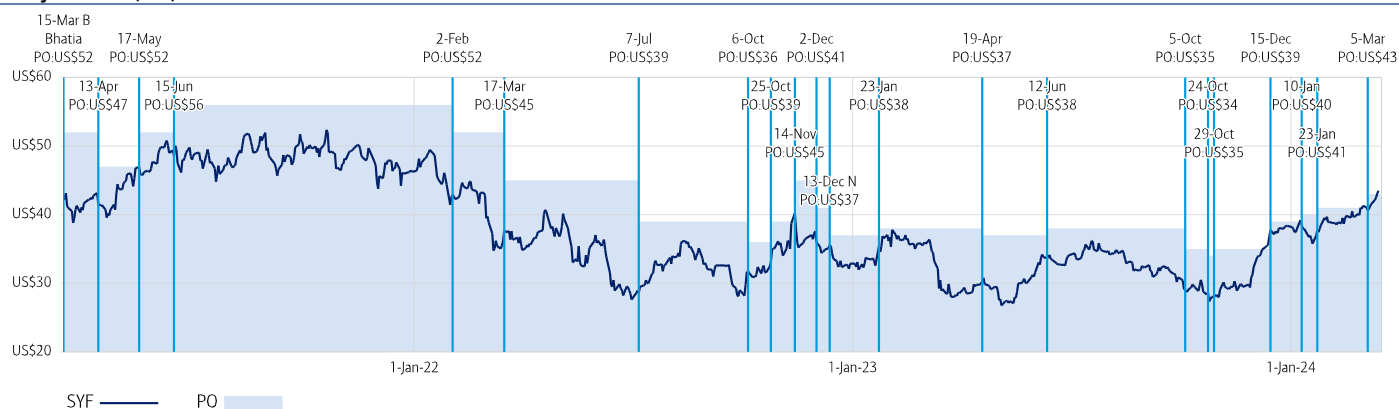
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Capital One (COF) Price Chart

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Discover Finl (DFS) Price Chart

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Synchrony Financial (SYF) Price Chart

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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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