

Consumer Finance

April operating metrics provides some glimpses of positivity

Estimate Change

Modestly positive results in April

Earlier, pure-play card issuers (AXP, SYF, BFH) reported April operating metrics, and overall, we view the data as modestly positive. On a consolidated basis for the pure-play issuers, loan growth remains strong (19.7% y/y) and NCOs are normalizing (+19bps). Notably, delinquency rates (DQ rates) decreased m/m, lending credence to the normalizing side of the normalizing vs. deterioration debate (See Exhibits 1-4 inside). Card issuers COF and DFS reported metrics on Friday (see: [DFS: Loan growth strong but credit continues to normalize](#); and [COF: NCOs tick up 10bps, loan growth is solid](#)).

AXP: Credit losses decline m/m

Net write-offs strengthened to 1.48% in April from 1.63% in March. The sequential improvement in write-offs was better than the typical -3bps in April (10yr average). Charge-offs are typically flat in May and if trends continue, credit could outperform consensus forecasts at 1.81%. We are comfortable with our 1.60% estimate. US card balances were \$97.3B, up 22.9% y/y, a slight slowdown from 23.1% in March. Sequential growth in loans of 242bps was well above typical seasonality at +4bps.

SYF: Strong loan growth, credit losses tick up

April ending loan balances of \$92.1B were up 15.6% y/y, accelerating slightly from March, which was up 15.5% y/y. The 1.1% m/m increase was above typical seasonality (5yr ex-COVID: +20bps). If growth continues to outpace seasonality, BofAe/cons 1Q ests at \$93.4B/\$93.2B could be too low. The April net charge-off rate increased 20bps m/m to 4.70% and is trending generally in line with our consensus-like 4.90% forecast. 30+ day DQs decreased 10bps m/m to 3.70%.

BFH: Credit headwinds likely to persist for another month

April NCOs were 7.8%, up 110bps m/m, and we expect higher losses next month. BFH has guided for losses to peak in May above 8% and a 2Q net charge-off rate of ~8%. Positively, the delinquency rate declined 22bps m/m, which suggests BFH's guidance for 2H23 net charge-offs to decline is achievable. Loan balances at \$18.0B grew 4.8% y/y vs. 7.3% in March. Loan balances are trending in line with our/cons. \$18.4B estimate.

Loan growth up 19.7% y/y, NCOs up 19bps to 3.73%

On a weighted-average basis, April loan growth was 19.7% y/y compared to 19.9% in March and remains resilient for most card issuers. Charge-offs across the pure-play issuers increased 19bps to 3.73% and AXP was the only issuer to report a sequential decline in loss rates. While losses crept higher, we note that early-stage delinquency data is more encouraging. Most issuers reported improvement in 30+ day delinquency rates (flat for AXP), likely helped by seasonality. This could be a sign that credit loss growth will moderate in the next few months. Using SYF as an example, charge-offs tend to follow DQs with a 90- to 150-day lag (see inside Exhibit 3). On a weighted-average basis, April DQ rates were down 6bps m/m and have declined 12bps in the last two months. It is too early to settle the normalizing vs. deteriorating debate, and macroeconomic environment remains unknown, but the initial DQ data is step in the right direction, in our view.

See inside for estimate changes for AXP and SYF.

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Stocks symbols & abbreviations:

AXP: American Express

COF: Capital One

DFS: Discover Financial

SYF: Synchrony Financial

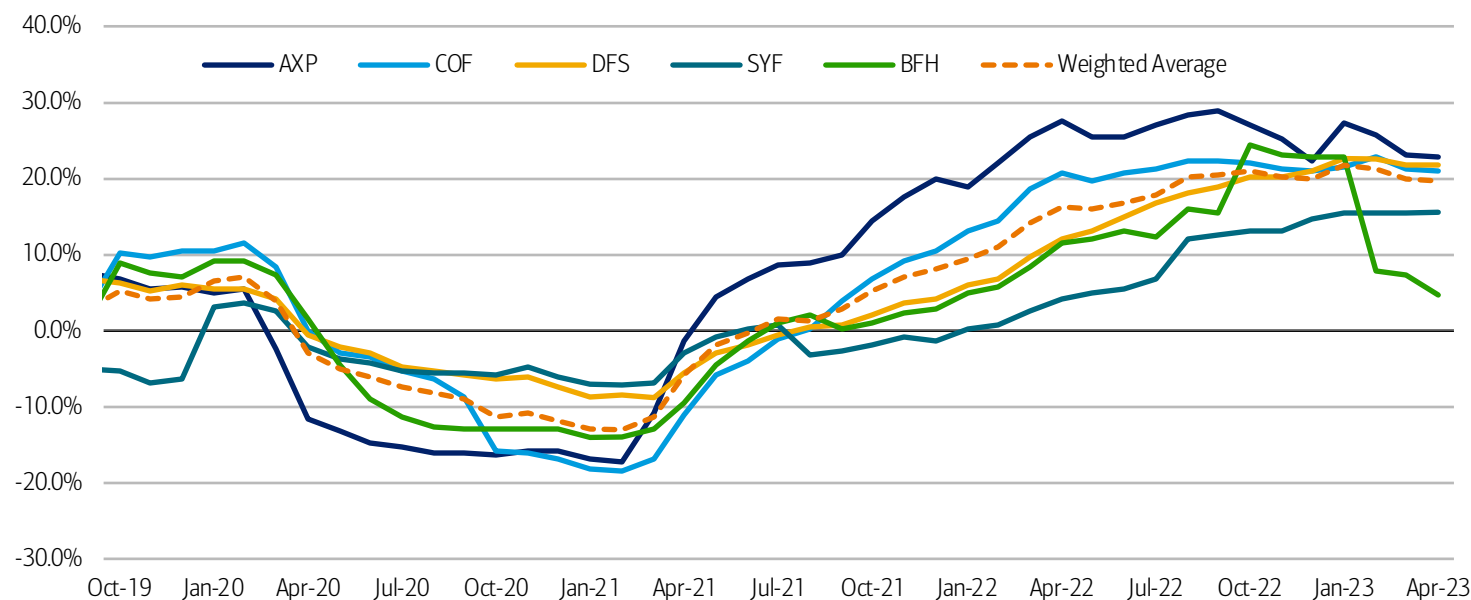
BFH: Bread Financial

NCO: Net charge-off

DQ: Delinquency

Exhibit 1: Loan growth was 19.7% y/y in April vs 19.9% in March

Loan growth (y/y)

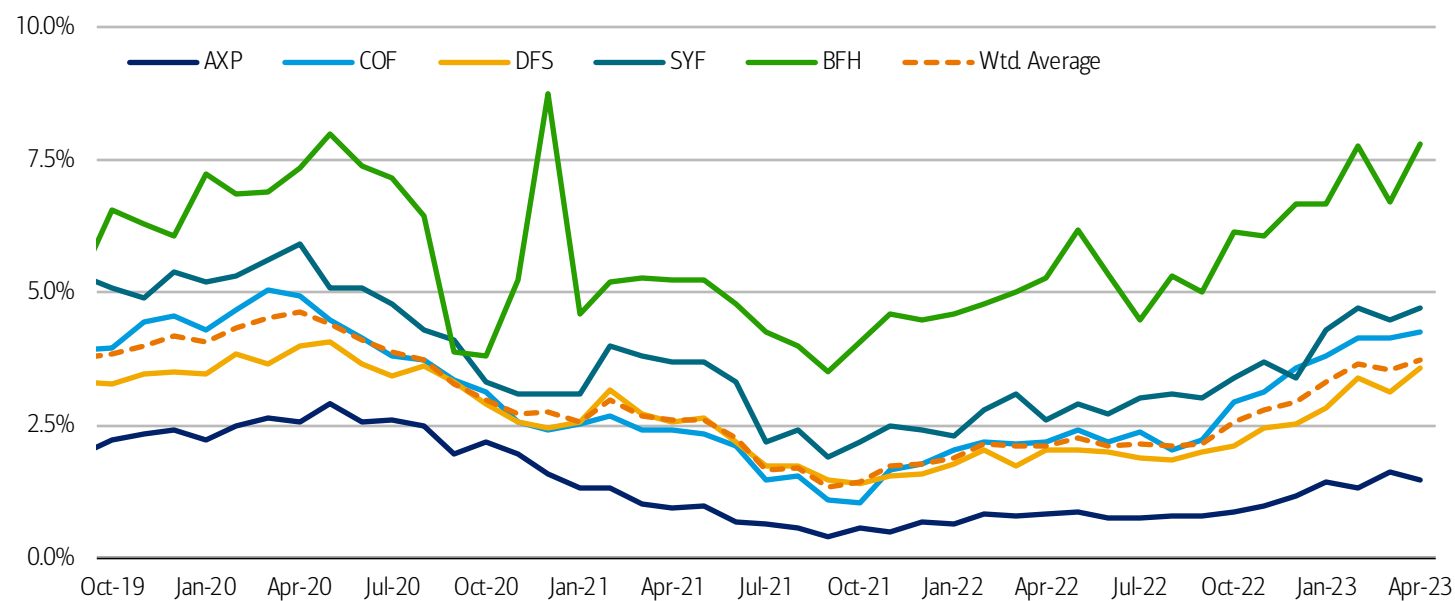


Source: BofA Global Research estimates, company reports; Note: BFH loan growth deceleration in 2023 is due to BJ's portfolio sale.

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Exhibit 2: Loss rates still increasing for most, AXP's improved sequentially

Net charge-offs

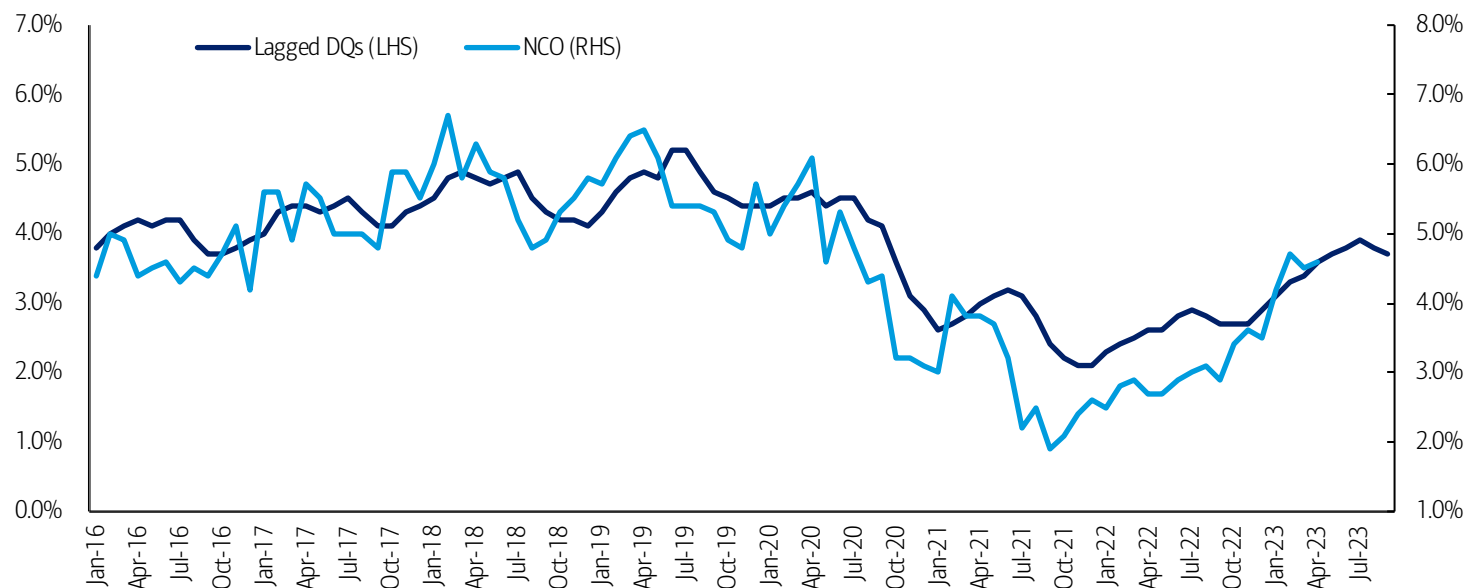


Source: BofA Global Research estimates, company reports

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Exhibit 3: Credit losses (NCOs) follow DQs on a lagged basis

SYF DQs are lagged by 120 days vs. NCOs

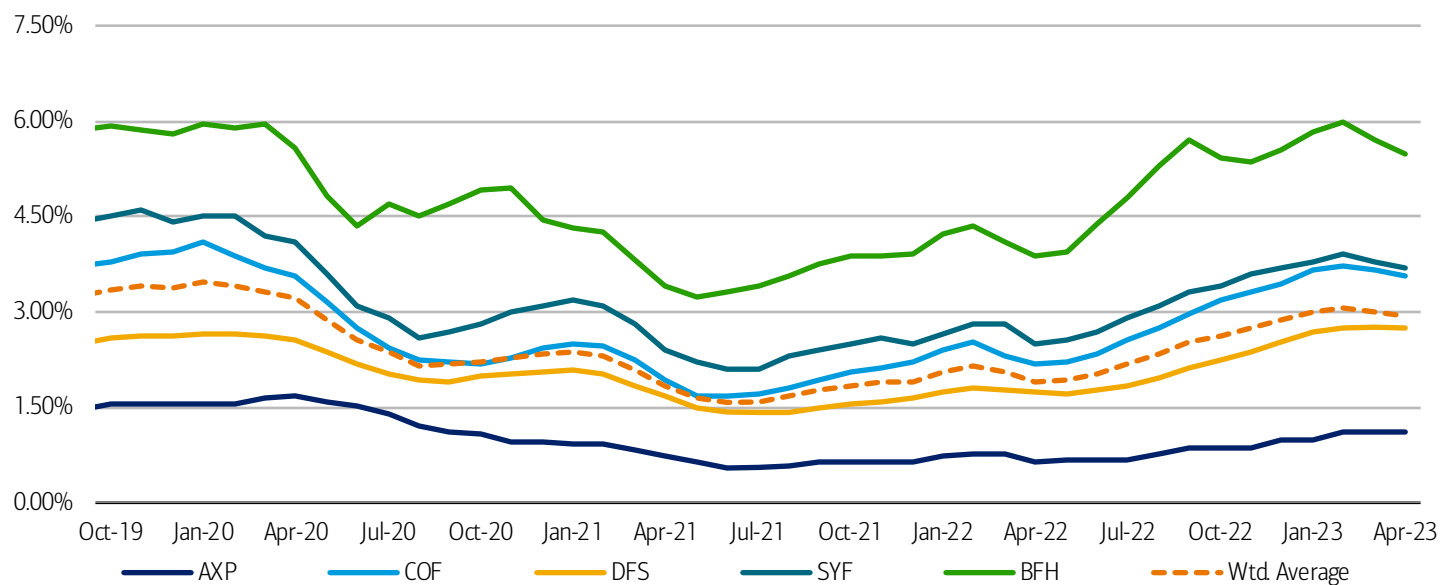


Source: BofA Global Research estimates, company reports

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Exhibit 4: Delinquency rates declined for all companies

Delinquency rates



Source: BofA Global Research estimates, company reports

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Estimate changes

AXP: We tweak our 2023/2024 EPS estimate to \$11.15/\$12.93 from \$11.07/\$12.89 prior as we account for stronger loan growth. We maintain a \$205 PO based on an unchanged 16x multiple to our 2024 EPS forecast.

SYF: We tweak our 2023/2024 EPS forecasts to \$4.80/\$5.34 from \$4.90/\$5.33 previously as we factor in stronger loan growth and higher near-term reserving. We maintain a \$37 PO based on an unchanged 7x multiple to 2024 EPS.

Exhibit 5: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AXP	AXP US	American Express	US\$ 147.93	B-1-7
BFH	BFH US	Bread Financial	US\$ 26.7	C-1-7
COF	COF US	Capital One	US\$ 86.34	B-2-7
DFS	DFS US	Discover Finl	US\$ 95.23	B-2-7
SYF	SYF US	Synchrony Financial	US\$ 27.08	B-2-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**American Express Company (AXP)**

Our \$205 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 \$44 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 \$109 PO is based on a 8x PE multiple to our 2024 EPS forecast. A 8x PE multiple is on the low end of the historical range (7-12x) which we think is appropriate given the relatively uncertain macro backdrop, increased recession risk and 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.

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.

Discover Financial (DFS)

We calculate a \$107 PO based on an 8x PE multiple to our 2024 EPS forecast. A 8x multiple is on the low end of DFS's recent historical range (7-12x) and reflects concerns on rising unemployment and credit losses.

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.

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.

Synchrony Financial (SYF)

Our \$37 PO is based on a 7x P/E multiple on 2024E EPS. Our multiple is on the low end of the typical trading range for SYF (7-12x), 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
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackrock TCP Capital Corp	TCPC	TCPC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Block Inc	SQ	SQ US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	CI&T	CINT	CINT US	Jason Kupferberg
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	DLocal	DLO	DLO US	Jason Kupferberg
	EngageSmart	ESMT	ESMT US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FISV	FISV 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
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	Owl Rock Capital Corporation	ORCC	ORCC US	Derek Hewett
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Sixth Street Specialty Lending, Inc	TS LX	TS LX US	Derek Hewett
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	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
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Ellington Financial	EFC	EFC US	Derek Hewett
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	Paymentus	PAY	PAY US	Jason Kupferberg
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	TPG Real Estate Finance Trust	TRTX	TRTX US	Derek Hewett
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
UNDERPERFORM				
	ADP	ADP	ADP US	Jason Kupferberg
	Angel Oak Mortgage Inc.	AOMR	AOMR US	Derek Hewett
	CGI Inc.	GIB	GIB US	Jason Kupferberg



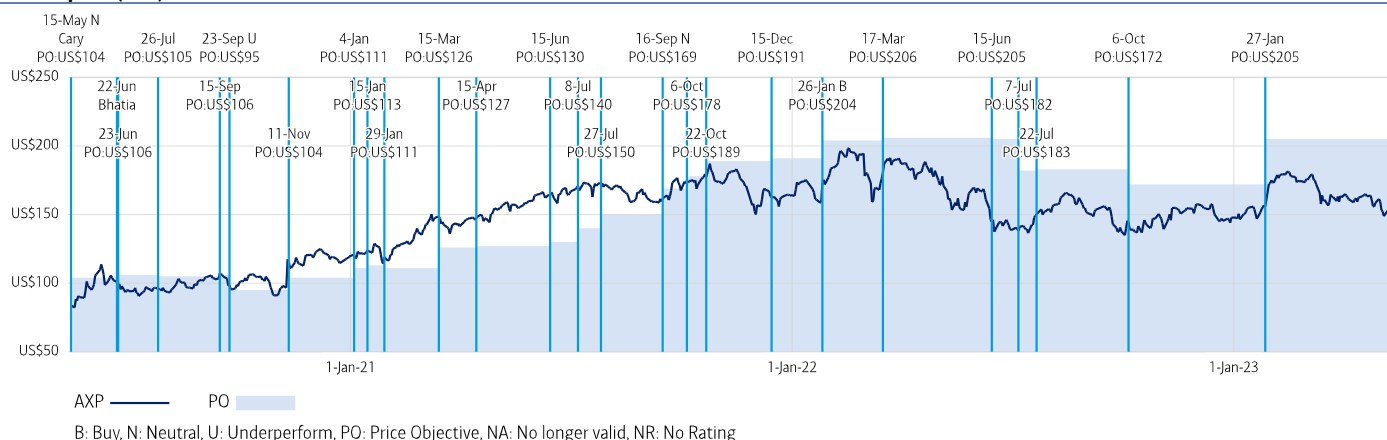
US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BoFA Ticker	Bloomberg symbol	Analyst
	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
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	New York Mortgage Trust	NYMT	NYMT US	Derek Hewett
	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

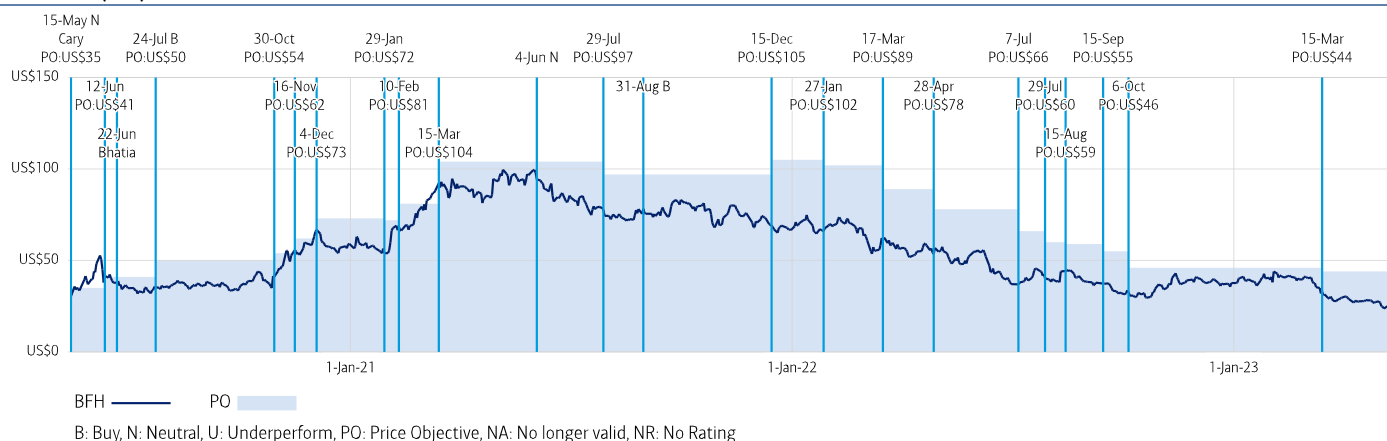
Important Disclosures

American Express (AXP) Price Chart

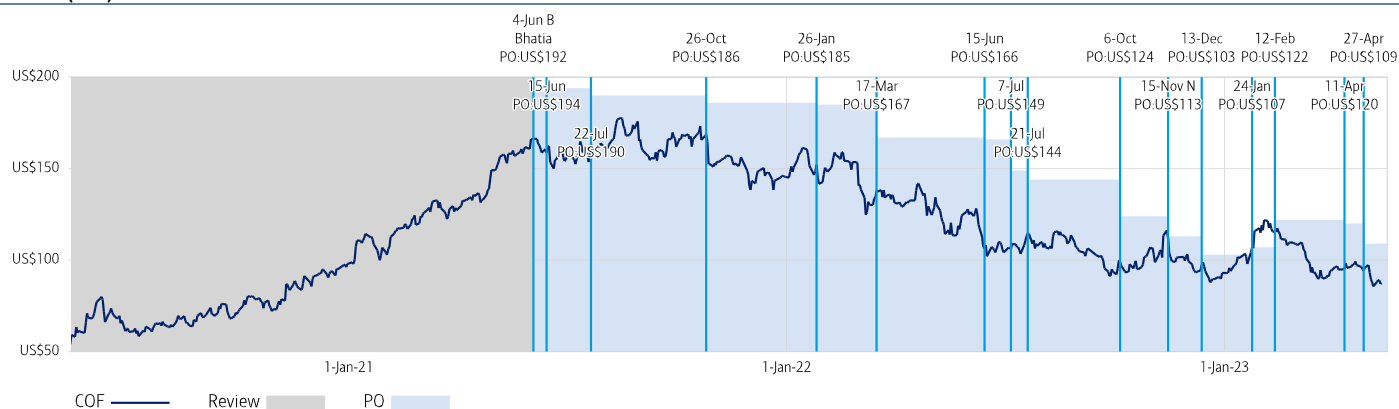


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Bread Financial (BFH) Price Chart

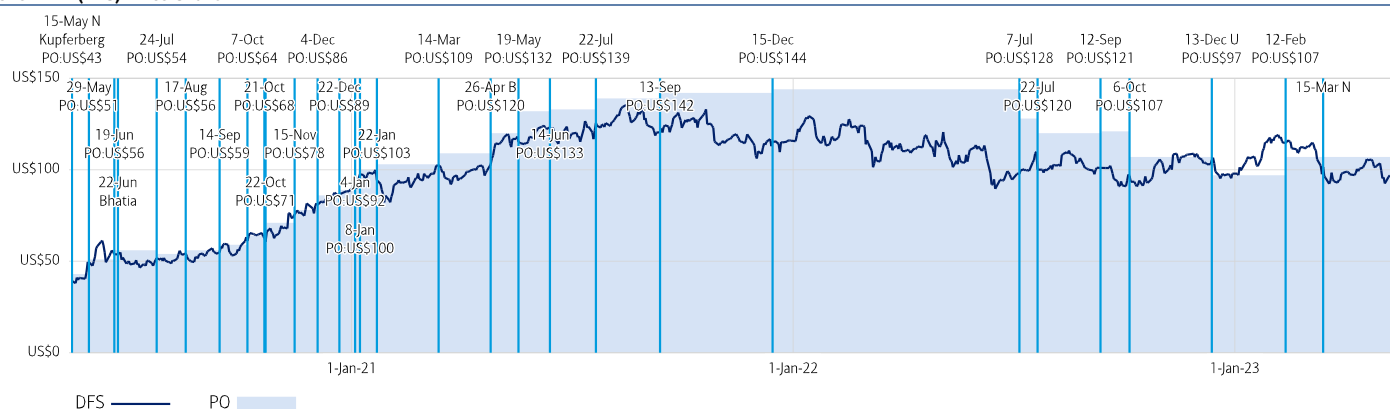


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Capital One (COF) Price Chart

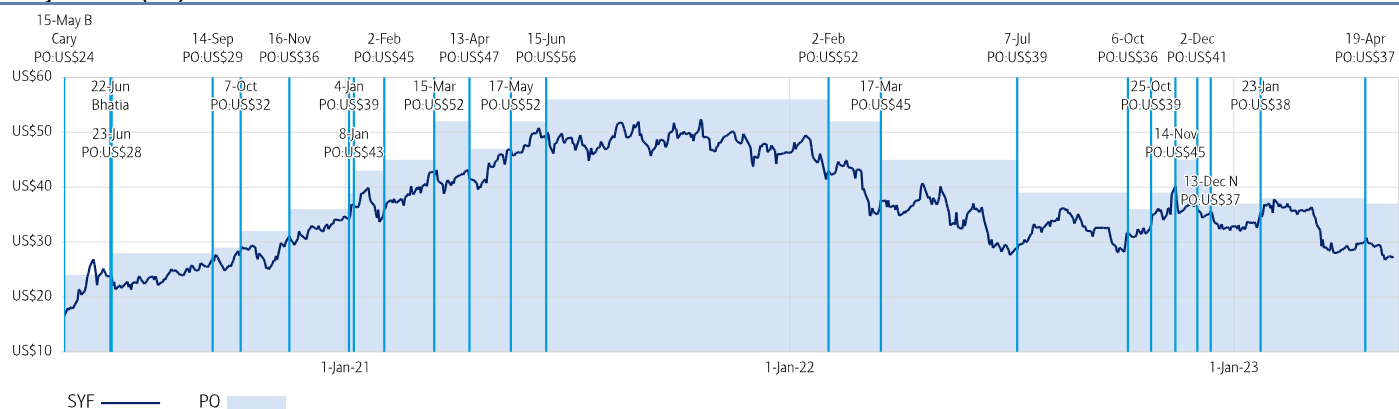
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Discover Finl (DFS) Price Chart

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

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Synchrony Financial (SYF) Price Chart

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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	152	52.41%	Buy	92	60.53%
Hold	73	25.17%	Hold	44	60.27%
Sell	65	22.41%	Sell	41	63.08%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{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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