

## Bread Financial Holdings Inc

## November operating data and new debt offering

Maintain Rating: NEUTRAL | PO: 34.00 USD | Price: 30.69 USD

## In-line November operating data and debt deal announced

Bread Financial (BFH) reported November operating metrics highlighted by a m/m decrease in net charge-off (NCO) rates and a slight deceleration in loan balances. Overall, we view the data as neutral – while the sequential improvement in loss rates is encouraging, it was mostly in line with company and street expectations. The data release was earlier than typical (15th of month) as BFH also announced a private offering of \$500M in Senior Notes. At ~70% of tangible book value, BFH's valuation is relatively attractive. However, we see the CFPB's upcoming late fee rule (now expected in 1Q24) as being a strong earnings headwind and presenting meaningful near-term headline risk. We maintain our Neutral rating.

## Loan growth decelerates sequentially

End-of-period receivables were \$18.7B, down 8.7% y/y, a deceleration from October, when balances were down 7.5% y/y. Principal receivables increased 2.26% m/m, though we note that this is slower than typical November seasonality would suggest at +3.83% m/m (five-year average ex-Covid). Bread noted earlier that consumer spending and account acquisition have moderated given a tougher macro backdrop and tighter underwriting. As such, we remain comfortable with our 4Q receivables estimate of \$19.3B, a touch below the consensus forecast of \$19.4B.

## Loss rates down 5bps m/m to 7.91%, tracking in line

The November NCO rate of 7.91% was down 5bps from October at 7.96%. The sequential improvement was a touch weaker than normal seasonality would suggest (down 11bps m/m). That said, the loss rate of 7.9% in November was in line with guidance that Bread previously detailed at approximately 8%. The company expects a loss rate of approximately 8.5% in December, driving its approximate 8.2% guide for 4Q. We are comfortable with our loss rate forecast of 8.3% for the quarter, above consensus at 8.1%. We also note that 30+ day delinquencies at 6.50% were up only 2bps m/m.

## \$500M senior note offering improves debt structure

Bread also announced the offering of \$500M of senior notes to fund the redemption of outstanding debt due 2024 (\$285m outstanding as of 9/30) and pay down some of its term loans (\$298M as of September 30). We believe that the transaction will increase flexibility for BFH going forward, and we view it as an incremental positive for its future capital return prospects. We also note that BFH obtained issuer credit ratings last month (November 27), which likely lowers the cost of the senior note issuance.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	16.03	4.46	12.02	8.39	12.13
EPS Change (YoY)	258.6%	-72.2%	169.5%	-30.2%	44.6%
Consensus EPS (Bloomberg)			12.98	8.38	10.25
DPS	0.84	0.84	0.84	0.84	0.84
Valuation (Dec)					
P/E	1.9x	6.9x	2.6x	3.7x	2.5x
Dividend Yield	2.7%	2.7%	2.7%	2.7%	2.7%

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## Stock Data

Price	30.69 USD
Price Objective	34.00 USD
Date Established	26-Oct-2023
Investment Opinion	C-2-7
52-Week Range	23.19 USD -44.52 USD
Mrkt Val / Shares Out (mn)	1,514 USD / 49.3
Free Float	98.3%
Average Daily Value	19.22 USD
BofA Ticker / Exchange	BFH / NYS
Bloomberg / Reuters	BFH US / BFH.N
ROE (2023E)	0%
ESGMeter™	High

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CFPB: Consumer Financial Protection Bureau

NCO: net chargeoff

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

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	3,486	4,182	4,213	4,398	4,409
% change	1.0%	20.0%	0.7%	4.4%	0.2%
Net Fee Income	(214)	(356)	12	(249)	(268)
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	3,272	3,826	4,226	4,149	4,141
Operating Expenses	(1,683)	(1,933)	(2,096)	(2,077)	(2,071)
% change	-2.8%	14.8%	8.4%	-0.9%	-0.3%
Provisions Expense	(543)	(1,593)	(1,276)	(1,516)	(1,266)
% change	-57.1%	193.2%	-19.9%	18.8%	-16.5%
Operating Pre-Tax Income	1,045	300	854	556	804
Operating Net Income to Comm S/Hold.	798	223	621	415	599
GAAP Net Income	800	222	603	415	599

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	21,746	25,407	22,835	23,544	23,532
Average Interest Earning Assets	18,702	21,659	21,578	22,578	22,435
Total Gross Customer Loans	17,399	21,365	19,290	19,761	19,728
% change	3.7%	22.8%	-9.7%	2.4%	-0.2%
Total Customer Deposits	11,027	13,826	13,946	13,761	13,156
% change	12.6%	25.4%	0.9%	-1.3%	-4.4%
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	2,086	2,265	2,789	3,203	3,802

## Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	18.64%	19.31%	19.53%	19.48%	19.65%
Effective Tax Rate	23.7%	25.7%	27.3%	25.5%	25.5%
Loan / Deposit Ratio	157.8%	154.5%	138.3%	143.6%	149.9%
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	NA	NA	NA	NA	NA
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	5.2%	18.8%	6.7%	10.0%	6.9%
Efficiency Ratio (Cost / Income Ratio)	51.5%	50.5%	49.6%	50.1%	50.0%
Billings Growth	NA	NA	NA	NA	NA
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(42)	(42)	(42)	(41)	(41)
Change in Debt	NA	NA	NA	NA	NA

## Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	-6.5%	-9.3%	0.3%	-6.0%	-6.5%
Loan Loss Reserves / Total Loans	11.77%	13.04%	13.93%	13.42%	13.28%

## 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

626,344

## Quarterly Earnings Estimates

	2022	2023
Q1	4.20A	9.08A
Q2	0.25A	0.95A
Q3	2.69A	3.42A
Q4	-2.68A	-1.44E

## Price objective basis & risk

### Bread Financial Holdings Inc (BFH)

Our \$34 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.

## Analyst Certification

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	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>				
	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



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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	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
<b>RSTR</b>				
	EngageSmart	ESMT	ESMT 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

Basic EBIT + Depreciation + Amortization

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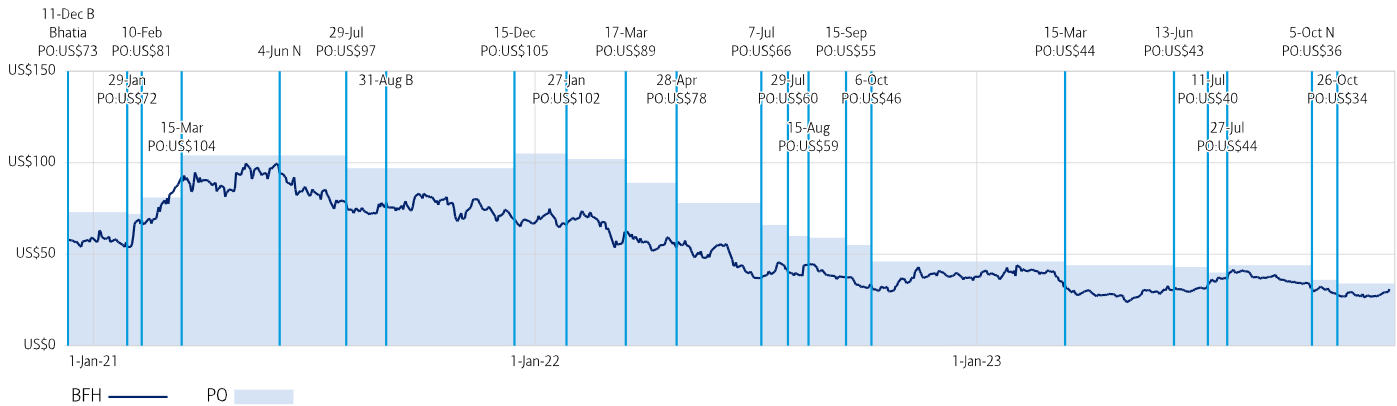
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### Bread Financial (BFH) Price Chart



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

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.24%	Buy	94	60.26%
Hold	79	26.96%	Hold	52	65.82%
Sell	58	19.80%	Sell	32	55.17%

### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

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Underperform	N/A	≥ 20%

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