

Bread Financial Holdings Inc

Underwhelming October operating metrics

Maintain Rating: NEUTRAL | PO: 34.00 USD | Price: 26.81 USD

Losses already at implied 4Q guidance in October

Bread Financial (BFH) reported October operating data highlighted by delinquency and net charge-off increases above typical seasonality and balance growth below seasonality (Exhibit 1). In our view, the loss rate performance is discouraging given full year NCO guidance of mid-7%, which implies roughly 8% for 4Q (October at 7.96%). While loss rates are generally flat in November and December, credit is performing worse than seasonality would predict which could lead to losses coming in at the high-end of the range in 4Q. Though valuation is quite low at 63% of tangible book value, we see earnings pressure from higher credit losses and the CFPB late fee rule as material overhangs for fundamentals and sentiment. Maintain Neutral.

Loss rates up 125bps m/m to 7.96%

The October NCO rate of 7.96% was up 181bps y/y and 125bps m/m. Loss performance was weaker than typical October trends of losses in October being up 55bps m/m on average over the last five years. DQs also increased to 6.48%, up 22bps m/m compared to typical October seasonality at +2bps m/m. BFH has noted that delinquencies are rolling to charge-offs at higher rates than normal. BFH also believes economic pressures are weighing on its core low-to-moderate income customer base, which is impacting credit performance and loan growth.

Loan growth up 260bps m/m

End of period receivables of \$18.4B were up 2.59% m/m and includes the ~\$400M Dell portfolio. Excluding the Dell portfolio acquisition, receivable balance would have increased only 0.36% m/m. We note that loan balances typically increase handsomely in November and December with Holiday shopping (330bps m/m in November and 430bps m/m in December), and we are maintaining our loan growth estimate at \$19.3B, just shy of consensus at \$19.4B.

Adjusting estimates

We adjust our 4Q23/2023 EPS estimate to (\$1.44)/\$12.02 from (\$1.15)/\$12.31 prior as we account for a higher loss rate and a slightly higher reserve ratio. We maintain a \$34 PO based on an unchanged 4x PE multiple to our 2024 EPS.

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)			12.79	8.46	10.36
DPS	0.84	0.84	0.84	0.84	0.84
Valuation (Dec)					
P/E	1.7x	6.0x	2.2x	3.2x	2.2x
GAAP P/E	1.7x	6.0x	2.2x	3.2x	2.2x
Dividend Yield	3.1%	3.1%	3.1%	3.1%	3.1%

14 November 2023

Equity

Mihir Bhatia
Research Analyst
BofAS
+1 415 436 3553
mihir.bhatia@bofa.com

Jason Kupferberg
Research Analyst
BofAS
jason.kupferberg@bofa.com

Nathaniel Richam-Odoi
Research Analyst
BofAS
+1 646 855 1607
nate.richam-odoi@bofa.com

Cassie Chan
Research Analyst
BofAS
cassie.chan@bofa.com

Stock Data

Price	26.81 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)	1,323 USD / 49.3
Average Daily Value	16.42 USD
BofA Ticker / Exchange	BFH / NYS
Bloomberg / Reuters	BFH US / BFH.N
ROE (2023E)	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"](#).

DQ: Delinquency

NCO: Net charge-off

CFPB: Consumer Financial Protection Bureau

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Timestamp: 14 November 2023 09:23AM EST

iQprofileSM 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

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.

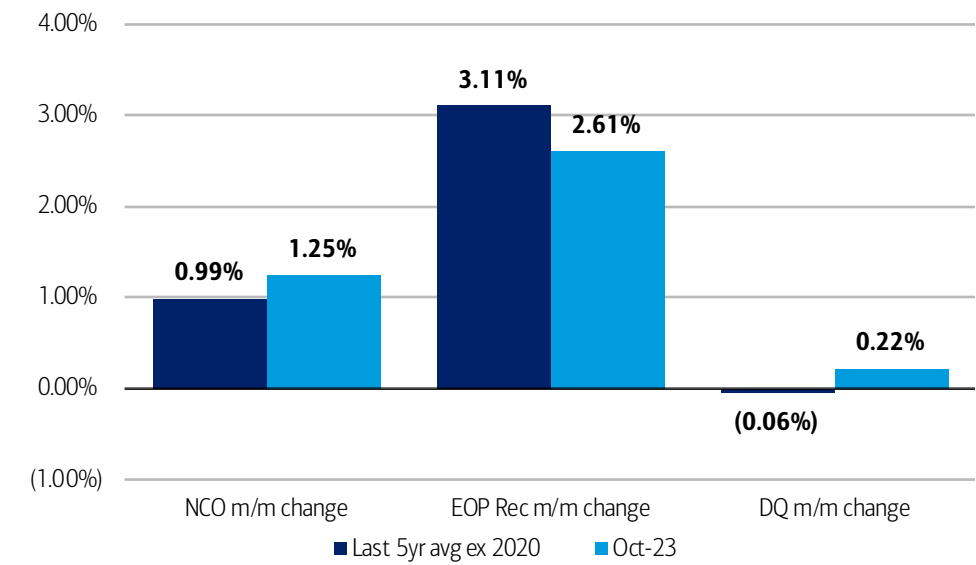
Stock Data

Average Daily Volume 612,382

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

Exhibit 1: Losses, DQs, and loan growth all performed worse than typical seasonality
October performance vs last 5 years ex-2020



Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH



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

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
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Block Inc	SQ	SQ US	Jason Kupferberg
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	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
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	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
	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
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Toast	TOST	TOST US	Jason Kupferberg
	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

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	Marqeta	MQ	MQ US	Jason Kupferberg
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
UNDERPERFORM				
	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
	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
	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



iQmethodSM 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 & 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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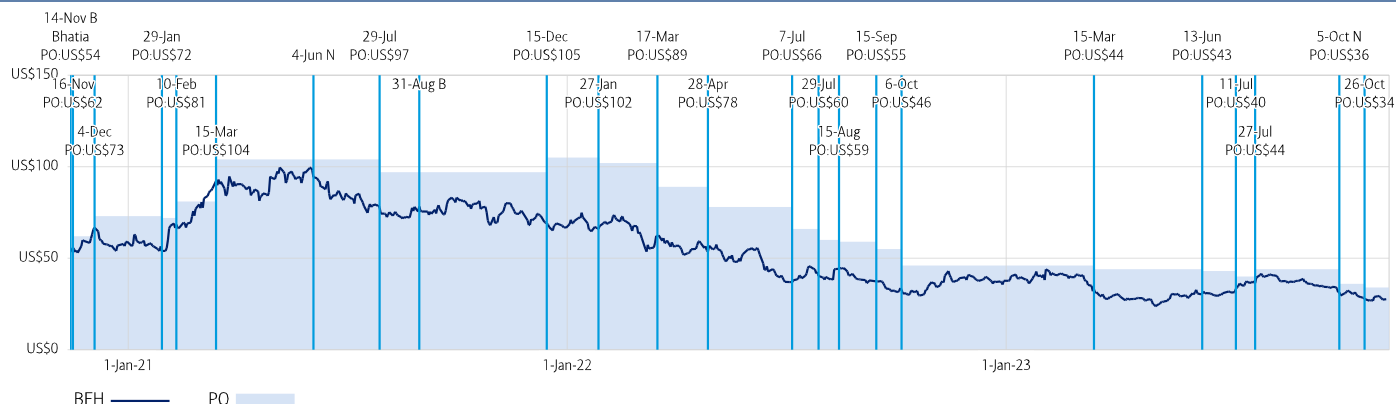
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Disclosures

Important Disclosures

Bread Financial (BFH) 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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{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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