

Bread Financial Holdings Inc

Slower loan growth and noisy credit metrics in May; Maintain Buy

Reiterate Rating: BUY | PO: 43.00 USD | Price: 31.14 USD

Peak losses and tempered loan growth

Bread Financial (BFH) reported May operating data highlighted by increased net charge-off rates and weak sequential loan growth. Overall, we view the print as unfavorable – while elevated losses were expected in May, due to unfavorable processing transition impacts, we think the NCO rate at 8.4% may give some investors pause. Additionally, sequential loan growth was marginal and BFH expects loan growth to be at the lower-end of the mid-single digit guidance. Positively, the worst of the card charge-off rates pressure should be behind BFH now and delinquency rates were stable. With shares trading at 80% of tangible book value, we see positive risk/reward. Maintain Buy.

Slower loan growth outlook as consumers pull-back

Loan growth slowed in May and BFH said this was driven by slower credit sales, as consumers slow spending, and BFH's tighter underwriting. BFH now expects 2023 full-year loan growth to be at the low-end of the mid-single digits full-year guidance. May ending loan balances of \$18.1B were up 3.2% y/y and 20bps m/m. Loan growth slowed from April which was up 4.8% and the sequential growth in principal balances was 120bps slower than typical seasonality observed in May (5yr average ex-2020: 1.43% m/m). Average receivables at \$17.7B were up 3.7% y/y, but flat m/m. Given tempered growth in May to \$18.1B, our prior consensus-like \$18.4B 2Q forecast seems too high given BFH's commentary.

Peak loss rate in May; credit trends should improve

BFH reported an NCO rate of 8.42% in May, up from 7.80% in April. While the sequential step up in losses is above historical seasonality, we note that the company had called out an elevated charge-off rate for May several times. Specifically, the company has guided 2Q net loss rates around 8% due to a 100bps portfolio transition impact and peak loss rates above 8% in May. Positively, delinquency rates were stable in May (up 4bps m/m), giving confidence to the view that charge-off rates will decline from here.

Updating estimates and lowering PO to \$43

We adjust our 2023/2024 EPS estimates to \$10.43/\$10.82 from \$10.53/\$10.93 previously as we account for slightly higher losses in 2Q and slower F23 loan growth. We tweak our PO to \$43 from \$44 prior based on an unchanged 4x multiple to our 2024 EPS forecast. Currently trading at 80% of tangible book and 3x our 2024 EPS forecast, we view risk-reward as attractive and maintain a Buy rating.

| Estimates (Dec) (US\$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------|--------|--------|--------|-------|-------|
| EPS | 16.03 | 4.46 | 10.43 | 10.82 | 13.87 |
| GAAP EPS | 16.03 | 4.46 | 10.43 | 10.82 | 13.87 |
| EPS Change (YoY) | 258.6% | -72.2% | 133.9% | 3.7% | 28.2% |
| Consensus EPS (Bloomberg) | | | 10.94 | 9.35 | 10.88 |
| DPS | 0.84 | 0.84 | 0.84 | 0.84 | 0.84 |
| Valuation (Dec) | | | | | |
| P/E | 1.9x | 7.0x | 3.0x | 2.9x | 2.2x |
| GAAP P/E | 1.9x | 7.0x | 3.0x | 2.9x | 2.2x |
| Dividend Yield | 2.7% | 2.7% | 2.7% | 2.7% | 2.7% |

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Timestamp: 13 June 2023 09:53AM EDT

13 June 2023

Equity

Key Changes

| (US\$) | Previous | Current |
|------------|----------|---------|
| Price Obj. | 44.00 | 43.00 |

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Stock Data

| | |
|----------------------------|----------------------|
| Price | 31.14 USD |
| Price Objective | 43.00 USD |
| Date Established | 13-Jun-2023 |
| Investment Opinion | C-1-7 |
| 52-Week Range | 23.19 USD -46.18 USD |
| Mrkt Val / Shares Out (mn) | 1,561 USD / 50.1 |
| Average Daily Value | 29.83 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"](#).

NCO: Net charge-off

iQprofileSM Bread Financial Holdings Inc

Income Statement Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------------------|---------|---------|---------|---------|---------|
| Net Interest Income | 3,486 | 4,182 | 4,270 | 4,325 | 4,416 |
| % change | 1.0% | 20.0% | 2.1% | 1.3% | 2.1% |
| Net Fee Income | (214) | (356) | (29) | (279) | (299) |
| Securities Gains / (Losses) | NA | NA | NA | NA | NA |
| Total Operating Income | 3,272 | 3,826 | 4,241 | 4,046 | 4,117 |
| Operating Expenses | (1,683) | (1,933) | (2,053) | (2,028) | (2,059) |
| % change | -2.8% | 14.8% | 6.2% | -1.2% | 1.5% |
| Provisions Expense | (543) | (1,593) | (1,461) | (1,289) | (1,124) |
| % change | -57.1% | 193.2% | -8.3% | -11.7% | -12.9% |
| Operating Pre-Tax Income | 1,045 | 300 | 727 | 729 | 935 |
| Operating Net Income to Comm S/Hold. | 798 | 223 | 523 | 543 | 696 |
| GAAP Net Income | 800 | 222 | 523 | 543 | 696 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------|--------|--------|--------|--------|--------|
| Total Assets | 21,746 | 25,407 | 23,096 | 23,773 | 24,395 |
| Average Interest Earning Assets | 18,702 | 21,659 | 21,809 | 22,410 | 22,900 |
| Total Gross Customer Loans | 17,399 | 21,365 | 19,850 | 20,372 | 20,835 |
| % change | 3.7% | 22.8% | -7.1% | 2.6% | 2.3% |
| Total Customer Deposits | 11,027 | 13,826 | 13,638 | 13,271 | 13,104 |
| % change | 12.6% | 25.4% | -1.4% | -2.7% | -1.3% |
| Tangible Equity | NA | NA | NA | NA | NA |
| Common Shareholders' Equity | 2,086 | 2,265 | 2,784 | 3,327 | 4,023 |

Key Metrics (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|--------|--------|--------|--------|--------|
| Net Interest Margin | 18.64% | 19.31% | 19.58% | 19.30% | 19.28% |
| Effective Tax Rate | 23.7% | 25.7% | 28.1% | 25.5% | 25.5% |
| Loan / Deposit Ratio | 157.8% | 154.5% | 145.5% | 153.5% | 159.0% |
| 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% | 8.0% | 7.7% | 6.0% |
| Efficiency Ratio (Cost / Income Ratio) | 51.5% | 50.5% | 48.4% | 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% | -0.7% | -6.9% | -7.3% |
| Loan Loss Reserves / Total Loans | 11.77% | 13.04% | 14.80% | 14.22% | 13.58% |

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 Buy. Since taking over new management has done a commendable job through the turnaround and is investing to reinvigorate growth. The macro backdrop is somewhat challenging, but we think BFH's valuation already reflects this. We see risk/reward as attractive.

Stock Data

Average Daily Volume 958,068

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|--------|--------|
| Q1 | 4.20A | 9.08A |
| Q2 | 0.25A | -0.49E |
| Q3 | 2.69A | 2.22E |
| Q4 | -2.68A | -0.38E |



Price objective basis & risk

Bread Financial Holdings Inc (BFH)

Our \$43 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 |
| | Baring's 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 |
| | 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 | GPV | GPV 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 |
| | Safeguard, Inc | SAFE | SAFE US | Derek Hewett |
| | Shift4 Payments, Inc | FOUR | FOUR US | Jason Kupferberg |
| | Sixth Street Specialty Lending, Inc | TSLX | TSLX 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 | YTX | TIXT CN | Cassie Chan |
| | Toast | TOST | TOST US | Jason Kupferberg |
| | Visa Inc. | V | V US | Jason Kupferberg |
| | WEX Inc. | WEX | WEX US | Mihir Bhatia |

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

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|---------------------------------------|-------------|------------------|------------------|
| 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 |
| | Jack Henry & Associates | JKHY | JKHY US | Jason Kupferberg |
| | Ladder Capital Corp | LADR | LADR US | Derek Hewett |
| | Marqeta | MQ | MQ US | Jason Kupferberg |
| | 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 |
| | 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 |
| | 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 |



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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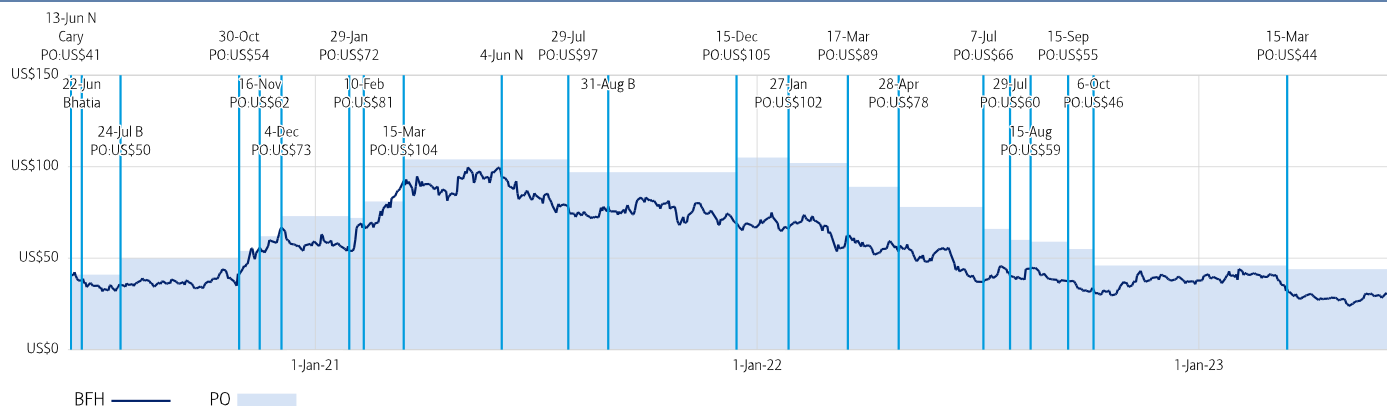
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Disclosures

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 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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