Synchrony Financial (SYF)

Updated April 22nd, 2019 by Jonathan Weber

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	16.0%	**Volatility Percentile:**	86.7%
Fair Value Price:	$45	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	34.5%
% Fair Value:	73%	**5 Year Valuation Multiple Estimate:**	6.5%	**Growth Percentile:**	66.4%
Dividend Yield:	2.5%	**5 Year Price Target**	$63	**Valuation Percentile:**	93.9%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	92.8%

Overview & Current Events

Synchrony Financial is a consumer financial services company. It operates the following businesses: Payment Solutions, Retail Credit, and CareCredit. Synchrony Financial offers private label credit cards, small-size business credit products, promotional financing for higher-priced consumer goods, promotional financing for healthcare procedures such as dental and vision, as well as other services to its customers. The company is headquartered in Stamford, CT, was founded in 2003, and is currently trading with a market capitalization of $23 billion.

Synchrony Financial reported its first quarter earnings results on April 18. The company managed to generate revenues of $4.23 billion during the first quarter, which represents an increase of 10.2% versus the prior year's quarter. Top line growth was driven by higher loan receivables and higher purchase volumes, with purchase volumes rising by double digits versus the first quarter of fiscal 2018. Both of these metrics were positively impacted by Synchrony Financial's takeover of the PayPal Credit portfolio that increased Synchrony Financial's asset base and is helping generate above-average growth rates. Synchrony Financial also was able to grow its interest and fees on loans by 12%.

Synchrony Financial generated earnings-per-share of $1.00 during the first quarter, which was 20% more than the earnings-per-share that Synchrony Financial achieved during the previous year's quarter. This was the result of business-wide growth, a higher profit margin, and the impact of share repurchases, which has lowered the company's share count. Synchrony Financial's asset quality was solid, the company's net charge-off rate declined from 6.14% to 6.06% compared to the prior year's quarter; provisions for loan losses were down as well.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	---	---	---	---	$2.78	$2.65	$2.71	$2.61	$3.74	***$4.50***	***$6.31***
DPS	---	---	---	---	---	---	---	$0.26	$0.56	$0.72	***$0.84***	***$1.60***
Shares	---	---	---	---	---	757	834	834	771	719	***700***	***600***

Synchrony Financial was founded in 2003, but the company's initial public offering was in 2014, which is why there is no long-term data available for the company. Between 2014 and 2018 Synchrony Financial grew its earnings-per-share by 7.7% a year, although almost all of that growth took place in 2018. Before that, profits remained relatively stagnant. This year will likely be a new record for Synchrony Financial, as earnings-per-share are forecasted to hit $4.50, which seems realistic, as this is in line with the earnings growth rate from the first quarter of 2019.

Synchrony Financial has broadened its cooperation with key vendors in the recent past, including Amazon, Walgreens, QVC, and Sam's Club, which belongs to Walmart. The relationships with these retailers should positively impact Synchrony Financial's growth during the coming years, as this will allow for a rise in the company's active accounts. On top of that, purchase volumes and loan balances should grow as well, which is the basis for rising transaction fees and further growth for Synchrony Financial's net interest income. The acquisition of the PayPal credit portfolio, which took place in July 2018, should continue to be a growth tailwind for Synchrony Financial as well. Synchrony Financial is well-capitalized and generates strong cash flows, which is why the company will likely continue to lower its share count meaningfully going forward. This will positively impact Synchrony Financial's earnings-per-share growth.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	---	---	9.5	12.0	10.7	12.4	8.7	***7.3***	***10.0***
Avg. Yld.	---	---	---	---	---	---	---	0.9%	1.7%	2.2%	***2.5%***	***2.5%***

Synchrony Financial has been valued at a price to earnings ratio of roughly 10 throughout the majority of the last couple of years. More recently shares have become significantly cheaper, though, and Synchrony Financial's stock is valued at only slightly above 7 times this year's expected net profits today. This results in ample share price appreciation potential over the coming years, which will be a major tailwind for Synchrony Financial's total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	---	9.6%	21.5%	19.3%	***18.7%***	***25.4%***

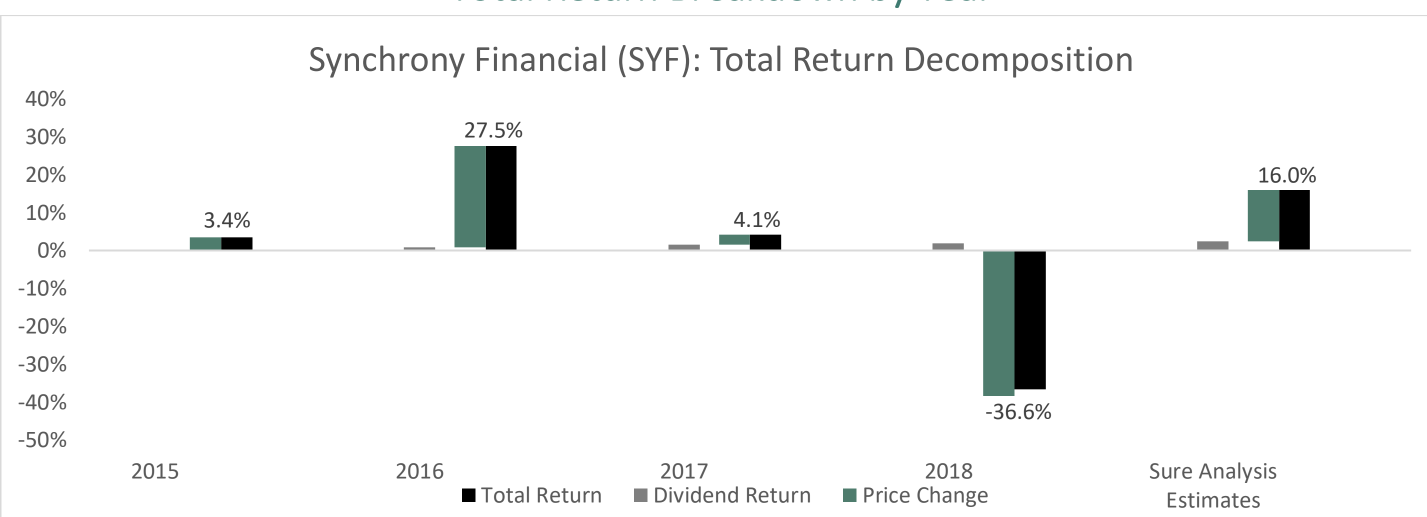
Synchrony Financial started to make dividend payments just a couple of years ago. Since then, the company has raised its dividend regularly and at a meaningful pace, but Synchrony Financial's dividend payout ratio is still relatively low. We do not know whether Synchrony Financial would maintain its dividend during a recession, as the company's track record does not date back to the last financial crisis. Due to the low payout ratio, the dividend looks relatively safe, though.

Synchrony Financial is not the largest credit card company in the world; it has significantly larger peers, such as American Express. The market is large enough for several companies to be highly profitable, though, which is why Synchrony Financial's relatively small size is not necessarily a headwind. During a recession Synchrony Financial would likely be impacted by higher default rates as well as by lower spending by consumers and businesses, which is why Synchrony Financial's earnings would likely take a major hit during a recession, such as the last financial crisis.

Final Thoughts & Recommendation

Synchrony Financial is one of the smaller credit card players. It has seen its share price under a lot of pressure following a dispute with Walmart, but that has been cleared up now, and Synchrony Financial could produce compelling returns going forward. We rate the stock a buy for those that seek exposure to the credit card space thanks to very high expected total returns, accruing from a decent yield, and a low valuation.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	10048	11071	11805	12485	13874	15304	16383
SG&A Exp.	N/A	N/A	N/A	993	1160	1538	1772	1959	2175	2381
D&A Exp.	N/A	N/A	N/A	83	104	131	174	219	254	302
Net Profit	N/A	N/A	N/A	2119	1979	2109	2214	2251	1935	2790
Net Margin	N/A	N/A	N/A	21.1%	17.9%	17.9%	17.7%	16.2%	12.6%	17.0%
Free Cash Flow	N/A	N/A	N/A	5637	5679	5340	6184	6511	8575	9342
Income Tax	N/A	N/A	N/A	1257	1163	1277	1317	1319	1389	854

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	53462	59085	75707	83990	90207	95808	106792
Cash & Equivalents	N/A	N/A	N/A	1334	2319	11828	12325	9321	11602	9396
Goodwill & Int. Ass.	N/A	N/A	N/A	1191	1249	1468	1650	1661	1740	2161
Total Liabilities	N/A	N/A	N/A	48880	53125	65229	71386	76011	81574	92114
Long-Term Debt	N/A	N/A	N/A	27815	24321	27460	24279	20147	20799	23996
Shareholder's Equity	N/A	N/A	N/A	4582	5960	10478	12604	14196	14234	14678
D/E Ratio	N/A	N/A	N/A	6.07	4.08	2.62	1.93	1.42	1.46	1.63

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	N/A	3.5%	3.1%	2.8%	2.6%	2.1%	2.8%
Return on Equity	N/A	N/A	N/A	N/A	37.5%	25.7%	19.2%	16.8%	13.6%	19.3%
ROIC	N/A	N/A	N/A	N/A	6.3%	6.2%	5.9%	6.3%	5.6%	7.6%
Shares Out.	N/A	N/A	N/A	N/A	N/A	757	834	834	771	719
Revenue/Share	N/A	N/A	N/A	12.09	13.32	15.58	14.94	16.69	19.14	21.93
FCF/Share	N/A	N/A	N/A	6.78	6.83	7.05	7.40	7.83	10.72	12.51

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.