Synchrony Financial (SYF)

Updated January 29th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	12.1%	**Market Cap:**	$20.0B
Fair Value Price:	$37	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	02/01/20
% Fair Value:	88%	**5 Year Valuation Multiple Estimate:**	2.5%	**Dividend Payment Date:**	02/14/20
Dividend Yield:	2.7%	**5 Year Price Target**	$52	**Years Of Dividend Growth:**	3
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	4.8%

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 $20 billion.

Synchrony Financial reported its fourth quarter earnings results on January 24. The company managed to generate revenues of $3.1 billion during the quarter, which represents a decline of 12.4% versus the prior year's quarter. Its top line decline was caused by the sale of its Walmart credit portfolio, adjusted for that, purchase volumes and average loans would have been up versus the previous year's quarter. Synchrony Financial also was able to grow its core loan receivables by 5% year over year, while also growing its interest and fees by 5% on a core basis.

Synchrony Financial generated earnings-per-share of $1.10 during the fourth quarter, which was 1% more than the earnings-per-share that Synchrony Financial achieved during the previous year's quarter. This was the result of the sale of the Walmart portfolio, which hurt its profits, but which was partially offset by higher margins and Synchrony Financial's share repurchases. Synchrony Financial's asset quality remained solid, as the company's provisions for loan losses declined from $1.45 billion in Q4 2018 to $1.1 billion during the most recent quarter.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	---	$2.78	$2.65	$2.71	$2.61	$3.74	$4.29	***$4.15***	***$5.82***
DPS	---	---	---	---	---	---	$0.26	$0.56	$0.72	$0.86	***$0.88***	***$1.42***
Shares[1]	---	---	---	---	757	834	834	771	719	662	***630***	***550***

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 2019 Synchrony Financial grew its earnings-per-share by 9% a year, although almost all of that growth took place in 2018 and 2019. Before that, profits remained relatively stagnant. 2020 looks like it could be a down year, as profits are forecast to decline slightly versus 2019, due to the impact of the sale of the Walmart portfolio. Once this is lapped, profits should start to rise once again.

Synchrony Financial has broadened its cooperation with key vendors in the recent past, which includes companies such as Amazon, Walgreens, and QVC. 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, 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 have a positive impact on Synchrony Financial's earnings-per-share growth.

---

[1] In Millions

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.

Synchrony Financial (SYF)

Updated January 29th, 2020 by Jonathan Weber

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	---	9.5	12.0	10.7	12.4	8.7	8.4	***8.0***	***9.0***
Avg. Yld.	---	---	---	---	---	---	0.9%	1.7%	2.2%	2.4%	***2.7%***	***2.7%***

Synchrony Financial has been valued at a price to earnings ratio of roughly 10 throughout the majority of the years since its IPO. More recently, shares have become cheaper, and Synchrony Financial's stock is valued at just 8 times this year's expected net profits at current prices. This results in share price appreciation potential over the coming years, which will be a low-single-digit tailwind for Synchrony Financial's total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	9.6%	21.5%	19.3%	20.0%	***21.1%***	***24.3%***

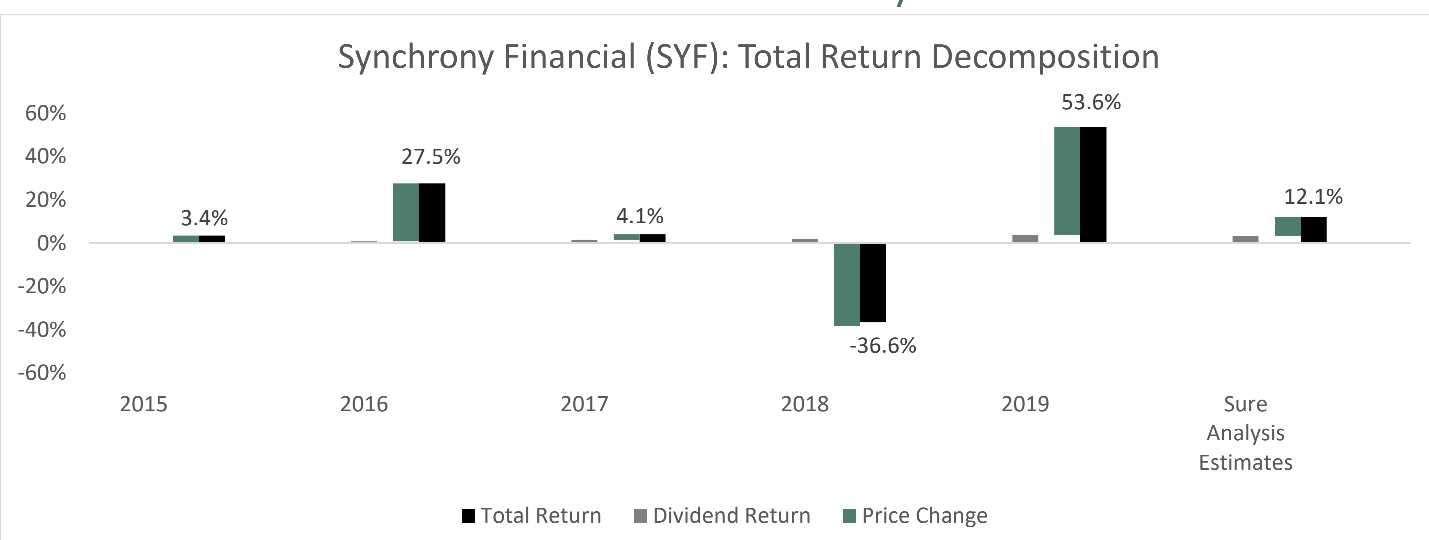
Synchrony Financial started to make dividend payments just a few years ago. Since then, the company has raised its dividend regularly and at a meaningful pace. Yet, Synchrony Financial's dividend payout ratio is still relatively low. We do not know whether Synchrony Financial would maintain its dividend 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.

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 disadvantage. During a recession, Synchrony Financial would likely be impacted by higher default rates and lower spending by consumers and businesses, which is why Synchrony Financial's earnings would likely take a major hit during a recession or economic downturn.

Final Thoughts & Recommendation

Synchrony Financial is one of the smaller credit card players. In recent months its share price has declined, and its valuation is quite inexpensive. The growth outlook is not bad, especially once the sale of the Walmart portfolio has been lapped, and the forecast total returns remain strong. We continue to rate the stock a buy for those that seek exposure to the credit card space, as Synchrony Financial continues to offer attractive total return potential.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Synchrony Financial (SYF)

Updated January 29th, 2020 by Jonathan Weber

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.