Synchrony Financial (SYF)

Updated January 31st, 2021 by Jonathan Weber

Key Metrics

Current Price:	$34	**5 Year CAGR Estimate:**	9.1%	**Market Cap:**	$20B
Fair Value Price:	$37	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/04/21
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.7%	**Dividend Payment Date:**	02/16/21
Dividend Yield:	2.6%	**5 Year Price Target**	$47	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.8%

Overview & Current Events

Synchrony Financial is a consumer financial services company. It operates through the following business units: 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 a range of other services to its customers. The company is headquartered in Stamford, CT, and was founded in 2003.

Synchrony Financial reported its fourth quarter earnings results on January 29. The company managed to generate revenues of $2.7 billion during the quarter, which represents a decline of 13% versus the prior year's quarter. Its top line decline was partially caused by lower spending volumes by card holders due to the current pandemic, while slightly lower net interest income, due to a lower net interest margin, played a role as well. Synchrony Financial's purchase volume was $40 billion during the quarter, a major sequential improvement versus Q3's $36 billion.

Synchrony Financial generated earnings-per-share of $1.24 during the fourth quarter, which was ahead of the analyst consensus forecast. Profits were up substantially from the previous year's quarter, mainly due to lower provisions for credit losses, as the company realized that provisions during Q1-Q3 were more than enough to cover the pandemic fallout. Net charge-offs remained at a quite solid level of 3.1% during November and December, thus credit losses have not risen a lot so far.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	$2.78	$2.65	$2.71	$2.61	$3.74	$4.29	$2.28	***$3.70***	***$4.72***
DPS	---	---	---	---	---	$0.26	$0.56	$0.72	$0.86	$0.88	***$0.88***	***$1.18***
Shares[1]	---	---	---	757	834	834	771	719	662	584	***550***	***450***

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. In 2019, Synchrony Financial managed to grow its earnings-per-share at a strong pace.

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 in the long term, which is the basis for rising transaction fees and further growth for Synchrony Financial's net interest income. The coronavirus crisis has hit the company's bottom line to a significant degree in 2020, but Synchrony Financial nevertheless remained profitable during the most recent year. We don't believe that the pandemic will hurt the company in future years to the same extent, which is why, in the above table, we see our estimate for this year's actual earnings-per-share that is almost back at pre-crisis levels. Synchrony Financial has recently announced a new $1.6 billion buyback program that should result in earnings-per-share tailwinds going forward.

[1] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	9.5	12.0	10.7	12.4	8.7	8.4	14.9	***9.2***	***10.0***
Avg. Yld.	---	---	---	---	---	0.9%	1.7%	2.2%	2.4%	2.6%	***2.6%***	***2.5%***

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, even before the current pandemic. Based on our earnings-per-share estimate of $3.70 for 2021, the multiple is roughly 9 right now. Some multiple expansion tailwinds should occur over the coming years, which will positively impact Synchrony Financial's total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	9.6%	21.5%	19.3%	20.0%	38.6%	***23.8%***	***24.9%***

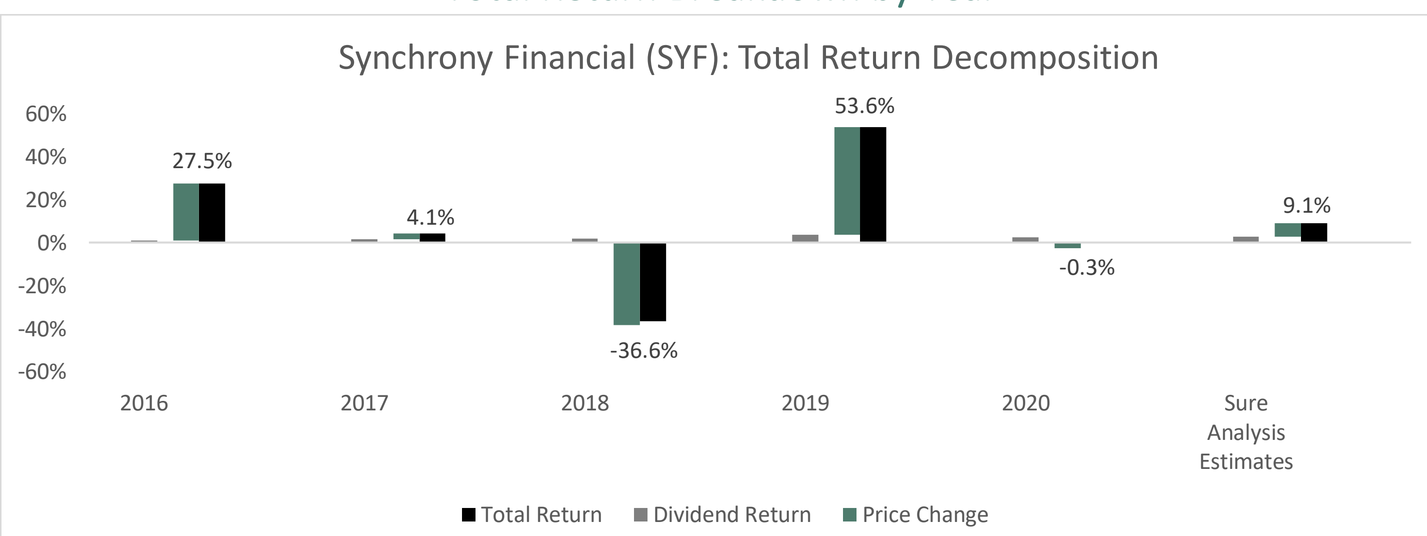
Synchrony Financial started to make dividend payments just a few years ago. Since then, the company has raised its dividend regularly and at a meaningful pace. Yet, Synchrony Financial's dividend payout ratio is still relatively low. We do not know whether Synchrony Financial will maintain its dividend during every recession, as the company's track record does not date back to the last financial crisis. During the current pandemic, the company has maintained its dividend.

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 a many companies to operate profitably, though, which is why Synchrony Financial's relatively small size is not necessarily a large disadvantage. During and following the current recession, Synchrony Financial should see a larger-than-normal amount of credit losses, but the company remained profitable in 2020. As this crisis is passing, profitability should recover as things revert back to normal.

Final Thoughts & Recommendation

Synchrony Financial is one of the smaller credit card players. During the pandemic, shares initially sold off a lot, but shares recovered most of their losses over the last couple of months. The long-term growth outlook is not too bad, and we believe that Synchrony Financial should get back to pre-crisis profitability levels eventually. Based on this expectation, we rate shares a buy, but we want to note that Synchrony Financial is not a low-risk investment.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue		8706	10048	11071	11805	12485	13874	15304	16383	17170
SG&A Exp.		974	993	1160	1538	1772	1959	2175	2381	2489
D&A Exp.		96	83	104	131	174	219	254	302	367
Net Profit		1890	2119	1979	2109	2214	2251	1935	2790	3747
Net Margin		21.7%	21.1%	17.9%	17.9%	17.7%	16.2%	12.6%	17.0%	21.8%
Free Cash Flow		5516	5637	5679	5340	6184	6511	8575	9342	8990
Income Tax		1120	1257	1163	1277	1317	1319	1389	854	1140

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets			53462	59085	75707	83990	90207	95808	106792	104826
Cash & Equivalents			1334	2319	11828	12325	9321	11602	9396	12147
Goodwill & Int. Ass.			1191	1249	1468	1650	1661	1740	2161	2343
Total Liabilities			48880	53125	65229	71386	76011	81574	92114	89738
Long-Term Debt			27815	24321	27460	24279	20147	20799	23996	19866
Shareholder's Equity			4582	5960	10478	12604	14196	14234	14678	14354
D/E Ratio			6.07	4.08	2.62	1.93	1.42	1.46	1.63	1.32

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets				3.5%	3.1%	2.8%	2.6%	2.1%	2.8%	3.5%
Return on Equity				37.5%	25.7%	19.2%	16.8%	13.6%	19.3%	25.8%
ROIC				6.3%	6.2%	5.9%	6.3%	5.6%	7.6%	10.2%
Shares Out.					757	834	834	771	719	662
Revenue/Share		10.48	12.09	13.32	15.58	14.94	16.69	19.14	21.93	25.49
FCF/Share		6.64	6.78	6.83	7.05	7.40	7.83	10.72	12.51	13.35

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

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