Synchrony Financial (SYF)

Updated October 25th, 2022 by Jonathan Weber

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	11.1%	**Market Cap:**	$16B
Fair Value Price:	$46	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	10/31/22
% Fair Value:	75%	**5 Year Valuation Multiple Estimate:**	5.8%	**Dividend Payment Date:**	11/10/22
Dividend Yield:	2.6%	**5 Year Price Target**	$54	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

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 third quarter earnings results on October 25. The company managed to generate revenues of $2.9 billion during the quarter, which was up by 22% versus the previous year's quarter, driven by an expansion in the company's net interest margin. The company also saw purchase volumes rise by a compelling 16% year over year in its core business. Synchrony Financial did not benefit from a provision release during the period, however, which is why profits were down compared to the previous year's quarter which did have such an impact.

Synchrony Financial generated earnings-per-share of $1.47 during the third quarter, which beat the analyst consensus estimate by $0.09. Profits were down slightly on a sequential basis, but that was expected. Synchrony Financial experienced a strong recovery in 2021, and it is expected that 2022 will be a strong year for the company as well. Since 2022 will likely not see provision releases that are as pronounced as those from 2021, net profits will likely still decline this year, although they should easily remain above pre-pandemic levels.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	$2.78	$2.65	$2.71	$2.61	$3.74	$4.29	$2.28	$6.86	***$5.80***	***$6.72***
DPS	---	---	---	---	$0.26	$0.56	$0.72	$0.86	$0.88	$0.88	***$0.92***	***$1.17***
Shares[1]	---	---	757	834	834	771	719	662	584	565	***495***	***430***

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 hit the company's bottom line to a significant degree in 2020, but Synchrony Financial nevertheless remained profitable during the most recent year. Synchrony made a strong recovery from the pandemic impact during 2021 already. Our estimate for this year's earnings-per-share is well above pre-crisis levels, although below the record profits from 2021. The economic environment is getting tougher, but thanks to buybacks, Synchrony should still generate some earnings-per-share growth in the long run, we believe.

[1] In Millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	9.5	12.0	10.7	12.4	8.7	8.4	14.9	6.7	***6.0***	***8.0***
Avg. Yld.	---	---	---	---	0.9%	1.7%	2.2%	2.4%	2.6%	1.9%	***2.6%***	***2.2%***

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, since 2018, shares have started to trade at a lower valuation, even before the pandemic. Based on our earnings-per-share estimate of $5.80 for 2022, the earnings multiple is 6 right now. Meaningful 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	9.6%	21.5%	19.3%	20.0%	38.6%	12.8%	***15.9%***	***17.5%***

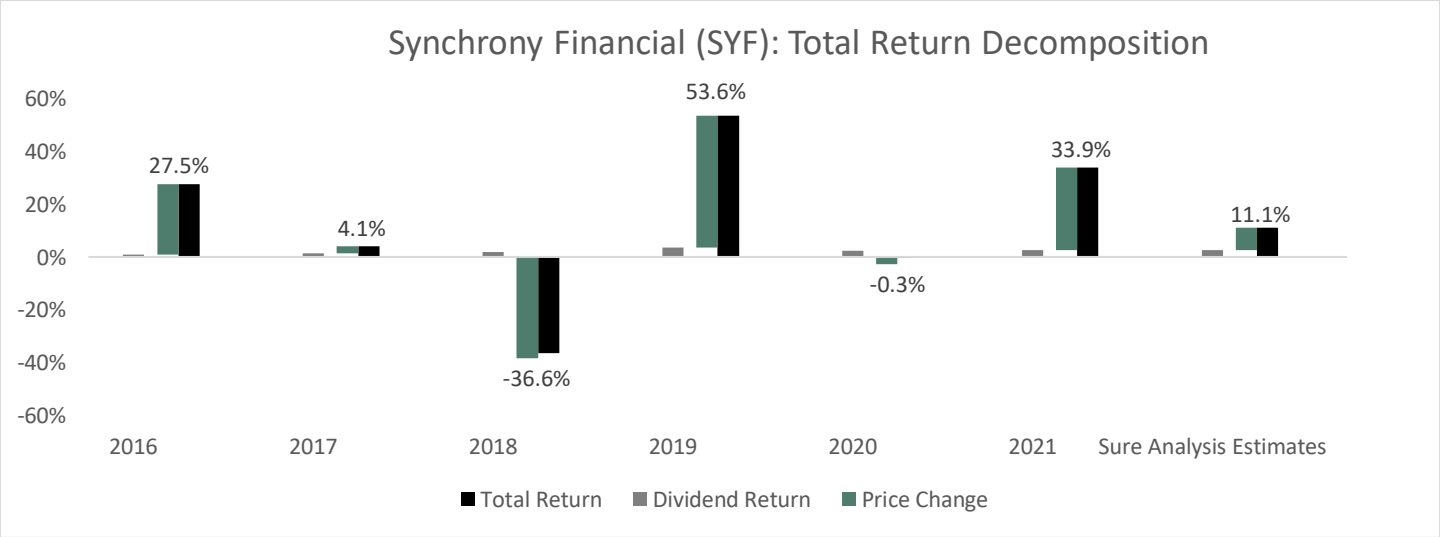
Synchrony Financial started to make dividend payments just a few years ago. Since then, the company has raised its dividend regularly and at a meaningful pace. Yet, Synchrony Financial's dividend payout ratio is still relatively low. We do not know whether Synchrony Financial will maintain its dividend 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. Synchrony saw its earnings decline in 2020, the first year of the pandemic, but its business recovered strongly in 2021. The long-term growth outlook is not too bad thanks to a strong pace of buybacks, and we believe that Synchrony Financial should be highly profitable in 2022 as well. Based on this expectation, we rate shares a buy, as the total return outlook is attractive.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	10048	11071	11805	12485	13874	15304	16383	17170	14807	14720
SG&A Exp.	828	967	1326	1475	1621	1802	1955	2004	1787	1987
D&A Exp.	83	104	131	174	219	254	302	367	383	
Net Profit	2119	1979	2109	2214	2251	1935	2790	3747	1385	4221
Net Margin	21.1%	17.9%	17.9%	17.7%	16.2%	12.6%	17.0%	21.8%	9.4%	28.7%
Free Cash Flow	5637	5679	5340	6184	6511	8575	9342	8990	7487	
Income Tax	1257	1163	1277	1317	1319	1389	854	1140	412	1282

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	53462	59085	75707	83990	90207	95808	106792	104826	95948	95748
Cash & Equivalents	1334	2319	11828	12325	9321	11602	9396	12147	11524	8337
Goodwill & Int. Ass.	1191	1249	1468	1650	1661	1740	2161	2343	2203	2273
Total Liabilities	48880	53125	65229	71386	76011	81574	92114	89738	83247	82093
Long-Term Debt	27815	24321	27460	24279	20147	20799	23996	19866	15775	14507
Shareholder's Equity	4582	5960	10478	12604	14196	14234	14678	14354	11967	12921
LTD/E Ratio	6.07	4.08	2.62	1.93	1.42	1.46	1.63	1.32	1.24	1.06

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets		3.5%	3.1%	2.8%	2.6%	2.1%	2.8%	3.5%	1.4%	4.4%
Return on Equity		37.5%	25.7%	19.2%	16.8%	13.6%	19.3%	25.8%	10.5%	33.9%
ROIC		6.3%	6.2%	5.9%	6.3%	5.6%	7.6%	10.2%	4.4%	14.9%
Shares Out.	---	---	757	834	834	771	719	662	584	565
Revenue/Share	12.09	13.32	15.58	14.94	16.69	19.14	21.93	25.49	25.06	25.86
FCF/Share	6.78	6.83	7.05	7.40	7.83	10.72	12.51	13.35	12.67	

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

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