



Synchrony Financial (SYF)

Updated July 28th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$51	5 Year CAGR Estimate:	2.0%	Market Cap:	\$20B
Fair Value Price:	\$46	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	08/05/24
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	08/15/24
Dividend Yield:	2.0%	5 Year Price Target	\$51	Years Of Dividend Growth:	2
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Sell

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 second quarter earnings results on July 17. The company managed to generate revenues of \$3.7 billion during the quarter, which was up by 13% versus the previous year's quarter, which was better than expected. The company experienced a purchase volume decline of 1% year over year, which was a slightly weaker rate compared to the previous quarter. Synchrony Financial did not benefit from a provision release during the period, which had been a profit tailwind in some of the previous quarters.

Synchrony Financial generated earnings-per-share of \$1.55 during the second quarter. Profits were up 17% compared to the previous year's quarter primarily thanks to higher revenues. Synchrony Financial experienced a strong recovery in 2021, and even though profits were down in 2022 and 2023, those were very solid years for the company as well. Net interest income growth and tailwinds from share repurchases are expected to result in a solid earnings-per-share improvement during the current fiscal year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.78	\$2.65	\$2.71	\$2.61	\$3.74	\$4.29	\$2.28	\$6.86	\$6.10	\$5.33	\$5.75	\$6.35
DPS	---	---	\$0.26	\$0.56	\$0.72	\$0.86	\$0.88	\$0.88	\$0.92	\$1.00	\$1.00	\$1.22
Shares¹	757	834	834	771	719	662	584	525	440	421	400	350

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 above what we saw in 2023 but below the profits from 2021 & 2022. 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

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	9.5	12.0	10.7	12.4	8.7	8.4	14.9	6.7	5.4	7.1	8.9	8.0
Avg. Yld.	---	---	0.9%	1.7%	2.2%	2.4%	2.6%	1.9%	2.8%	2.6%	2.0%	2.4%

Synchrony Financial has been valued at a price to earnings ratio of roughly 10 throughout the first couple of years since its IPO. More recently, shares have started to trade at a lower valuation. Based on our earnings-per-share estimate of \$5.75 for 2024, the earnings multiple stands at around 9 right now. Some multiple compression headwinds should occur over the coming years, as we believe that shares are trading around 11% ahead of fair value right now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	9.6%	21.5%	19.3%	20.0%	38.6%	12.8%	15.1%	18.8%	17.4%	19.2%

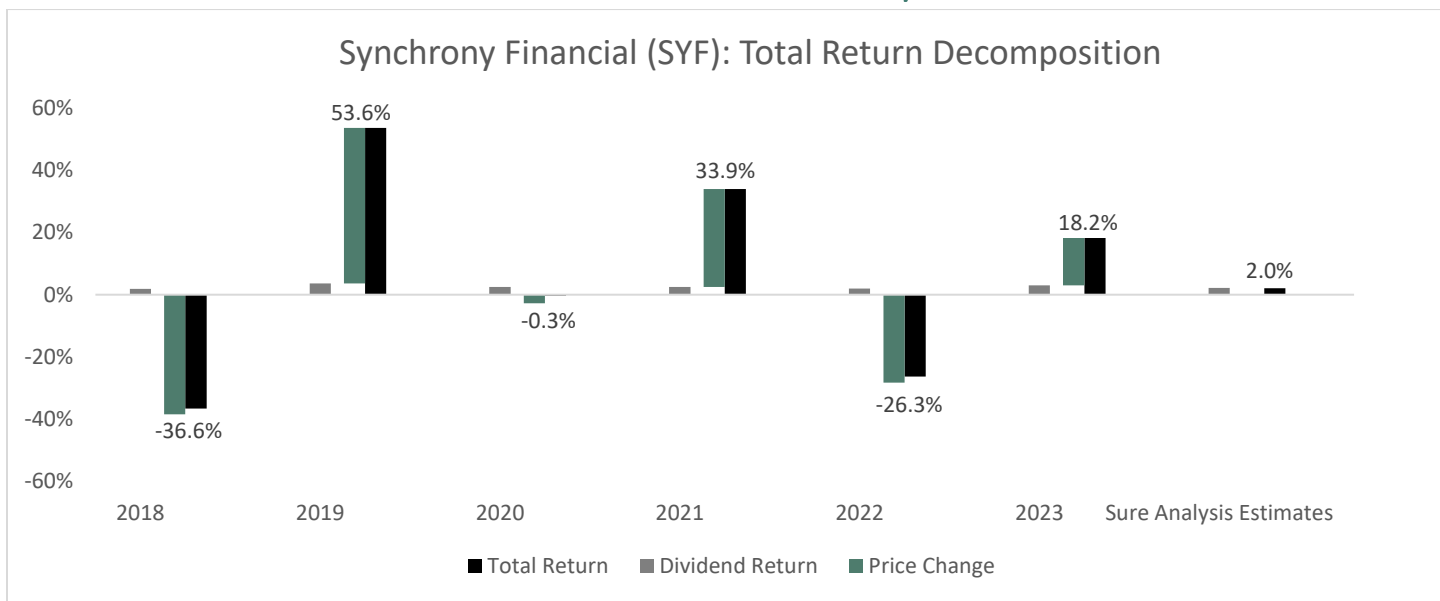
Synchrony Financial started to make dividend payments just a few years ago. Since then, the company has raised its dividend regularly and at a meaningful pace. Yet, Synchrony Financial's dividend payout ratio is still relatively low. We do not know whether Synchrony Financial will maintain its dividend during every recession, as the company's track record does not date back to the last financial crisis. During the pandemic, the company 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 the following years. The long-term growth outlook is not too bad thanks to a solid pace of buybacks but profits this year will be lower compared to the peak pandemic levels. Based on our expectations, we rate shares a sell, as the total return outlook is not compelling right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	11805	12485	13874	15304	16383	17170	14807	14720	16005	13627
SG&A Exp.	1326	1475	1621	1802	1955	2004	1787	1987	2168	2411
D&A Exp.	131	174	219	254	302	367	383	390	419	458
Net Profit	2109	2214	2251	1935	2790	3747	1385	4221	3016	2238
Net Margin	17.9%	17.7%	16.2%	12.6%	17.0%	21.8%	9.4%	28.7%	18.8%	16.4%
Free Cash Flow	5340	6184	6511	8575	9342	8990	7487	7099	6649	8593
Income Tax	1277	1317	1319	1389	854	1140	412	1282	946	666

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	75707	83990	90207	95808	106792	104826	95948	95748	104564	117479
Cash & Equivalents	11828	12325	9321	11602	9396	12147	11524	8337	10294	14259
Goodwill & Int. Ass.	1468	1650	1661	1740	2161	2343	2203	2273	2392	1833
Total Liabilities	65229	71386	76011	81574	92114	89738	83247	82093	91691	103576
Long-Term Debt	27460	24279	20147	20799	23996	19866	15775	14507	14191	15982
Shareholder's Equity	10478	12604	14196	14234	14678	14354	11967	12921	12139	13169
LTD/E Ratio	2.62	1.93	1.42	1.46	1.63	1.32	1.24	1.06	1.10	1.15

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.1%	2.8%	2.6%	2.1%	2.8%	3.5%	1.4%	4.4%	3.0%	2.0%
Return on Equity	25.7%	19.2%	16.8%	13.6%	19.3%	25.8%	10.5%	33.9%	24.1%	17.7%
ROIC	6.2%	5.9%	6.3%	5.6%	7.6%	10.2%	4.4%	14.9%	10.9%	7.9%
Shares Out.	757	834	834	771	719	662	584	565	440	421
Revenue/Share	15.58	14.94	16.69	19.14	21.93	25.49	25.06	25.86	33.11	32.18
FCF/Share	7.05	7.40	7.83	10.72	12.51	13.35	12.67	12.47	13.85	2.0%

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

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