

Equity Research

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SYF

12 month target

\$28.26

\$42.00

BUY

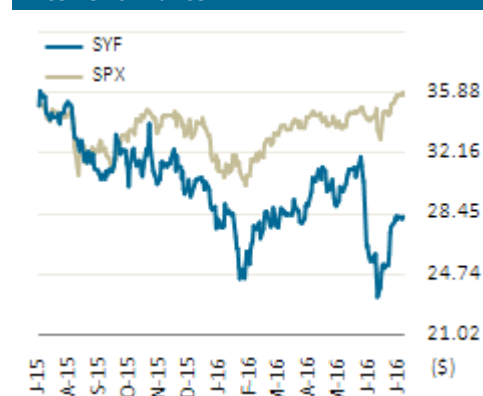
52 week range

\$23.36 - \$35.68

Market Cap (m)

\$23,631

Price Performance



Source: IDC

Financials

Synchrony Financial

2Q16 Earnings Beat May Offer Relief as Loan Growth Remains Strong, Credit In Line with Expectations

While concerns about credit have weighed on shares of Synchrony Financial (SYF) since management on June 8 noted its expectations of a 20-30bps increase in net charge-offs (NCOs) during the next 12 months, the 2Q16 report the company released this morning offers confirmation that the anticipated credit deterioration is already baked into the stock, while returning the focus to SYF's core story of increasing growth, profitability and capital return.

- Concerns about credit quality arose again following the market close yesterday when Capital One Financial (COF, Not Rated) reported higher-than-expected NCOs and a larger provision for loan losses than had been anticipated, sending shares of SYF lower in sympathy during extended trading.
- However, SYF's 2Q16 report revealed a provision for loan losses of \$1.021bn, in line with management's guidance and just a touch above our estimate of \$1.017bn, and NCOs down 21bps sequentially. While 30+ days past due delinquencies increased by 26bps year-over-year to 3.79%, that figure was down 6bps sequentially and 27bps from 4Q15.
- Moreover, SYF delivered a 2Q16 earnings beat as loan receivables, purchase volume and net interest income increased by 11%, 9% and 10%, respectively, versus the prior year period. The company reported 2Q16 earnings per share of \$0.58, outpacing the consensus estimate (and our estimate) of \$0.54.
- We are reiterating our Buy recommendation on SYF and price target of \$42** based on 12.5x our 2018E EPS of \$3.34. We believe SYF's announcement on July 7 of the initiation of a \$0.13 per share quarterly dividend and \$952mm in buybacks has transformed the stock into an interesting total-return play featuring both growth and income.
- Valuation:** Our price target of \$42 is based on 12.5X our 18E EPS estimate of \$3.34 per diluted share.

Estimates

	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	1Q16 A	2Q16 A	3Q16 E	4Q16 E	FY16 E	FY17 E
Diluted EPS (Adj.)	0.66	0.65	0.69	0.65	2.65	0.70	0.58	0.63	0.67	2.57	3.00
Operating Income	883	861	919	868	3,531	928	771	830	880	3,409	3,880

Source: BTIG Estimates and Company Documents (\$ in millions, except per share amount)

Please Read: Important disclosures and analyst's certification appear in Appendix

Income Statement

Synchrony Financial - Operating Model (\$ millions)	Dec-12 2012A	Dec-13 2013A	Dec-14 2014A	Dec-15 2015A	Mar-16 1Q16A	Jun-16 2Q16A	Sep-16 3Q16E	Dec-16 4Q16E	Dec-16 2016E	Mar-17 1Q17E	Jun-17 2Q17E	Sep-17 3Q17E	Dec-17 4Q17E	Dec-17 2017E	Dec-18 2018E
Interest and fees on loans	10,300	11,295	12,216	13,179	3,498	3,494	3,537	3,711	14,239	3,781	3,800	3,771	3,944	15,297	16,293
Interest on investment securities	9	18	26	49	22	21	21	21	86	22	22	22	22	88	91
Total interest income	10,309	11,313	12,242	13,228	3,520	3,515	3,558	3,732	14,325	3,803	3,822	3,793	3,967	15,385	16,384
Total interest expense	745	742	922	1,135	311	303	304	305	1,224	311	318	324	331	1,284	1,390
Net interest income	9,564	10,571	11,320	12,093	3,209	3,212	3,254	3,427	13,101	3,491	3,505	3,469	3,636	14,101	14,994
Retailer share arrangements	(1,984)	(2,373)	(2,575)	(2,738)	(670)	(664)	(720)	(757)	(2,811)	(769)	(769)	(767)	(803)	(3,108)	(3,296)
Net interest income (after retail share)	7,580	8,198	8,745	9,355	2,539	2,548	2,534	2,669	10,290	2,722	2,735	2,703	2,833	10,993	11,698
Provision for loan losses	2,565	3,072	2,917	2,952	903	1,021	948	1,028	3,899	999	1,038	1,027	1,104	4,169	4,479
Net interest income (post provision)	5,015	5,126	5,828	6,403	1,636	1,527	1,586	1,641	6,391	1,723	1,697	1,675	1,729	6,824	7,219
Total other income	484	500	485	392	92	83	91	95	361	92	80	99	103	375	382
Employee cost	620	698	866	1,042	280	301	304	307	1,192	292	296	301	305	1,193	1,217
Professional fees	451	486	607	645	146	154	156	157	613	149	151	153	155	608	619
Marketing and business development	208	269	460	433	94	107	108	109	418	104	105	106	108	423	430
Informaiton processing	165	193	212	297	82	81	82	83	327	78	79	80	82	320	326
Other	679	838	709	847	198	196	198	200	792	190	192	195	198	774	788
Total other expenses	2,123	2,484	2,927	3,264	800	839	847	856	3,342	813	823	835	848	3,318	3,380
Earnings before provison for income taxes	3,376	3,142	3,386	3,531	928	771	830	880	3,409	1,002	955	939	984	3,880	4,221
Income taxes	(1,257)	(1,163)	(1,277)	(1,317)	(346)	(282)	(311)	(330)	(1,269)	(376)	(358)	(352)	(369)	(1,455)	(1,583)
Net earnings	2,119	1,979	2,109	2,214	582	489	519	550	2,140	626	597	587	615	2,425	2,638
Diluted EPS	\$ 3.00	\$ 2.81	\$ 2.74	\$ 2.65	\$ 0.70	\$ 0.58	\$ 0.63	\$ 0.67	\$ 2.57	\$ 0.77	\$ 0.74	\$ 0.73	\$ 0.77	\$ 3.00	\$ 3.34
Diluted shares outstanding	705	705.3	769.7	835.2	835.5	836.2	829.7	823.2	831.2	817.2	811.2	806.2	801.2	809.0	788.7
Tax rate	37.2%	37.0%	37.7%	37.3%	37.3%	36.6%	37.5%	37.5%	37.2%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%
Book value per share	\$6.50	\$8.45	\$12.56	\$15.08	\$15.80	\$16.40	\$16.74	\$17.12	\$17.12	\$17.59	\$18.03	\$18.45	\$18.90	\$18.90	\$21.02
Tangible book value per share	\$4.81	\$6.68	\$10.80	\$13.11	\$13.83	\$14.42	\$14.75	\$15.11	\$15.11	\$15.57	\$15.99	\$16.40	\$16.84	\$16.84	\$18.90

Source: BTIG Estimates and Company Reports

Appendix: Analyst Certification and Other Important Disclosures

Analyst Certification

I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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Company Valuation and Risk Disclosures

Synchrony Financial (SYF, Buy, \$42 PT)

Valuation: Our price target of \$42 is based on 12.5X our 18E EPS estimate of \$3.34 per diluted share.

Risks: The primary risks to our valuation include concentration of revenue on a small number of Retail Card partners, dependence of operating results on performance of the company's partners, dependence of operating results on the company's ability to retain existing partners and to attract new partners, dependence of operating results on the active and efficient promotion of the company's products by its partners, competition in the U.S. credit card market and dependence on loan securitization.

Synchrony Financial (SYF)



Note: Closing Price and Target Price have been adjusted for corporate actions.

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
31-Jul-14	23	30	Mark Palmer	Buy
22-Dec-14	29.85		Mark Palmer	Neutral
20-Apr-15	30.90	36	Mark Palmer	Buy
21-Jul-15	35.68	42	Mark Palmer	Buy

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