

Synchrony Financial (NYSE: SYF)

Sector: Financials

Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$49.01	\$39.70	\$51.79	\$12.15	17.72	\$22.64B	3.36%	1.79

Industry: Internet and Direct Marketing Retail

Business Description:

Synchrony Financial is a consumer financial services company that delivers credit, promotional financing, and loyalty programs across a number of industries. Synchrony was derived from its parent company, GE Capital Retail Bank, in June of 2014. The business can be broken down into three main subcategories: Retail Card, Payment Solutions, and CareCredit. Synchrony's Retail Card is the leading provider of private label credit cards while also supporting Dual Cards and small and medium-sized business credit products. Payment Solutions is the leading provider of promotional financing for major consumer purchases through private label credit cards and installment loans. CareCredit is the leading provider of promotional financing to consumers for out-of-pocket healthcare expenses. These costs include a range of coverage such as dental, veterinary, cosmetic, vision, audiology, and others.

Industry Trends:

Harmed by the onset of the COVID-19 pandemic, consumer spending reached record lows as customers stayed home and many decided to save money through the uncertainty. Yet despite the flat income and earnings growth, spending expectations rose to its highest level in four years in November at 3.7%. With this, credit card purchase volumes have steadily recovered, likely spurred by a combination of government stimulus and record low interest rates. This recovery in the unsecured lending market has been stronger than many expected with the average perceived probability of missing a debt payment over the next three months coming in below the 2019 average at 10.19%. Furthermore, with the short end of the yield curve firmly held at the zero lower bound to meet the Fed's average inflation target of 2%, the 10 to 30 year yield curve continues to steepen. This economic environment of recovering consumer spending and a steepening yield curve position Synchrony Financial well to drive growth into the future. Another growing industry trend that favors Synchrony is the growth of Point of Sale financing, which is the primary driver for their Payment Solutions segment. Point of Sale installment loans balances are expected to reach a total of \$162 billion by the end of 2021.

Valuation Assumptions:

WACC: 9%

Perpetuity Growth Rate: 2.5%

Margin of Safety: 33.05%

Report Prepared By:

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CV Assumptions	
Net Income t+1	3,536
Growth	2.5%
Discount Rate	9.0%
ROE in Perpetuity	15.00%
Continuing Value	45,331
Discounted Continuing Value	27,029
PV Cash Flow to Equity	3,167
Equity Value	30,196
Shares Outstanding	583
Implied Share Value	\$ 51.79
Current Share Price	\$ 39.63
Margin of Safety	23%

Investment Thesis:

Synchrony Financial will benefit from a broad range of improving macroeconomic conditions including a steepening yield, better unemployment numbers, and greater fiscal stimulus. The company has made tremendous strides in acquiring a diversified portfolio and will greatly move towards cashless payments. We have strong conviction that the Venmo card will be a success and drive purchase volumes for their Dual Issued cards. Also, their product, SetPay will help to insulate them against point of sale competitors and provide another way for customers to finance their purchases. Lastly, bigger data and utilization of AI will drive purchase volumes as marketing schemes become more effective, and greater partner acceptance will occur as data becomes easier to use and implement. Overall, the company is poised to capitalize on the accelerating consumer financing payment trends

Risks:

Risks facing Synchrony Financial which may adversely affect our valuation include:

- Reliance on new partner acquisition
- Inability to drive purchase volumes
- Existing and emerging competition
- Interest rate risk

Corporate Social Responsibility:

Synchrony Financial has an ESG risk rating of 19.4, which qualifies the company as low risk. The company has the most diverse board of directors of any financial services company or commercial bank in the Fortune 200. Also, their employee continuing education initiatives are the best in the industry, maintaining the tuition reimbursement benefits of its peers.

- As of 2019, up to \$20,000 per year for full-time employees and up to \$5,000 for part-time
- Academic fees are also covered up to \$4,000 per year

