

Corporate Credit > U.S. Investment Grade



Synchrony (SYF)

Updated: Jun 30, 2015

Trade Idea: Buy SYF 3.0 2019 bonds. Spreads are attractive compared to the IG universe

Investment Rationale:

- ▶ Synchrony (SYF) is the consumer finance company of GE Capital. Following its IPO GECC still owns 84.9% for its stock. GE expects to completely divest its stock holdings by late 2015.
- ▶ The retail credit card business accounts for 68% of the company's revenues in 2013. Payment solutions, which provides financing for major consumer purchases, accounted for 16%. Care credit, which provides financing for elective health care procedures, incl. vet expenses, also accounted for 16%.
- ▶ Bonds are relatively attractive as rating agencies are big fans of credit card companies due to their perceived lack of product and funding diversification.
- ▶ We like the product, which is underwritten taking the risks related to unsecured loans into account. As a result, the business is highly profitable which a high margin for error.
- ▶ We like the fairly high amount of term debt as it provided stable funding. Unlike the rating agencies, we dislike a high proportion of deposit funding which leads to structural subordination.
- ▶ Asset quality is currently very strong and loans have just started to expand. We therefore expects results to stay strong for the foreseeable future. That said, the customers are a bit lower in the credit spectrum than peers', so, if the household credit quality turns, SYF might be impacted more. But this is still 102 years away.

Recommendation(s):

View	Trade Horizon	Ticker	CPN	Maturity	Ratings		CCY	Issue Size	Yield	Spread			Cash Price	ISIN
					S&P	Moody's				Entry	Target	Loss		
Outperform	6-12 months	SYF	3.0	08/15/2019	BBB-	n.a.	USD	\$1.1bn	2.8	147	120	170	100.7	US87165BAB99