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GE Set to Spin Off Synchrony As Consumer Finances Rebound

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By MATT JARZEMSKY

Synchrony Financial SYF 0.00% is set Wednesday afternoon to price the largest initial public offering by a U.S.-based company in two years, the latest sign of the recovery in consumers' finances.

Stamford, Conn.-based Synchrony is being spun off from General Electric Co. GE -0.32%, the latest in a series of moves by the conglomerate to shrink its finance business. The company is the largest issuer of store-branded credit cards, lending to the customers of retailers like Wal-Mart Stores Inc. WMT 0.00% and Amazon.com Inc. AMZN +2.15%

Synchrony plans to sell 125 million shares for $23 to $26 apiece late Wednesday, raising up to $3.25 billion before the potential sale of additional shares to underwriters. That would mark the largest IPO by a U.S. company since Facebook Inc. FB +1.59%'s in May 2012, which raised $16 billion.

In issuing store-branded credit cards, Synchrony competes with the like of Citigroup Inc. C +0.50%, Alliance Data Systems Corp. ADS +0.87% and Wells Fargo & Co. Outstanding balances on U.S. private-label store credit cards stood at $93.7 billion in 2013, up 6% from a year earlier, according to the Nilson Report. Over the same period, outstanding balances for general-purpose cards rose just 3%.

Because Synchrony's closest rivals are units of big companies like Citi and ADS, investors say they're comparing it instead to firms such as Capital One Financial Corp. COF +0.92% and Discover Financial Services DFS +0.57%. Both have substantial card businesses, though Capital One in particular has diversified into retail banking, auto lending and other areas.

These companies have benefited from widespread loan growth and improved credit performance. Capital One's shares are up 6.2% this year, just shy of the S&P 500's 6.5% advance, while Discover has gained 11%.

Other consumer-finance companies hitting the IPO market in recent months have had a rougher ride. In recent months, auto lenders Ally Financial Inc. ALLY +0.31% and Santander Consumer USA Holdings Inc. SC -1.36% raised $2.56 billion and $2.04 billion in their respective debuts, the two largest so far in 2014. But both stocks are now trading below their IPO prices.

Synchrony's profit fell 6.6% to $2 billion last year, as higher costs and an increase in funds set aside to cover bad loans offset an increase in net interest income.

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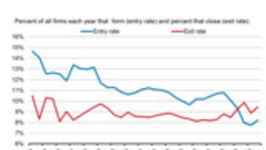

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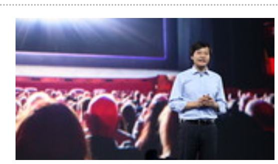

The decline in profits and investor perception that "private-label" cards carry more credit risk represent potential headwinds for the stock, said Evan Staples, who covers financial companies as a senior research analyst at Nuveen Investment Management, which oversees $122 billion.

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"The debate's going to be, how does this stack up to Capital One and Discover?" he said.

But others are likely to be attracted to growth in the company's receivables the past few years. Synchrony's net interest income rose 11% to $10.57 billion in 2013, helped by higher spending on its cards and a decline in so-called net charge-offs, or loans that lenders don't think they'll be able to collect.

"It's definitely an above-average growth profile," said Michael Mattioli, a senior analyst in John Hancock Asset Management's U.S. Core Value group, which manages about $13.5 billion.

"All the trends in consumer credit just keep getting better," he added. "We don't know how long that lasts for—everything's cyclical—but so far, it's excellent."

The deal adds to a flood of new share listings this year, fueled by persistent investor demand for U.S. stocks even as indexes are near all-time highs. Year-to-date, 181 companies have gone public in New York, up from 114 in the like year-earlier period, according to Dealogic.

And Chinese e-commerce company Alibaba Group Holding Ltd. is **plotting a U.S. listing** that could raise more than $20 billion in September, The Wall Street Journal has reported.

Synchrony is due to begin trading on the New York Stock Exchange Thursday under the symbol "SYF." **Goldman Sachs** Group Inc. is leading the offering with **J.P. Morgan Chase** JPM +0.30% & Co., Citigroup and Morgan Stanley.

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