



Rating
Buy

North America
United States

TMT
Payments, Processors, &
IT Services

Company
**Alliance Data
Systems**

Reuters ADS.N	Bloomberg ADS US	Exchange NYS	Ticker ADS
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Date
16 July 2018

Breaking News

Jun Credit Data Disappoint Expectations

[DQ improves but higher-than-expected](#)

DQ improved from +61bps in Apr to +48bps in May and +42bps in Jun; however, came in above the expectations of ~+20bps. Jun DQ of 5.5% came in above our estimate of 5.3% which the company blamed on the elevated level of TDR for the Hurricane impacted areas. ADS expects the pressure to abate by September.

[Reiterates 6% NCO guidance for FY18 despite increase in NCO](#)

Net Charge-off of 6.6% came in higher than our estimate of 6.4% and increased m/m from 6.4% in May 2018. In addition, difficult comps led to ~180bps Y/Y increase in NCO. ADS guided NCO to high 5% range in the 3Q18 and mid-5% range in the 4Q18 and reiterated FY18 NCO guidance of 6% as the recovery rate improves (exit year at 22%) and Hurricanes headwinds abate.

[Receivables growth moderates further; questions 15% receivables growth guidance](#)

Period-end receivables growth moderated to 10% Y/Y from ~11% Y/Y in April and May 2018 while average receivables growth of 11% Y/Y in Jun also moderated modestly from 12.4% and 11.4% receivables growth in April and May respectively. Headwinds from the bankrupt retailer, Bon-Ton, as well as the medical receivables which has been moved to held for sale continue to weigh on the receivables growth. ADS has guided to 15% receivables growth in 2018 but it seems the company may have to take down the FY18 AR growth guidance.

[SYF's WMT renewal headline raises question about ADS's L Brands renewal](#)

WMT is pushing SYF to expand marketing efforts and increase revenue share on renewal as well as considering COF as an alternative in order to put further pressure on private label renewal, per WSJ and Bloomberg. ADS's L Brand private label portfolio is also up for renewal in early 2019 with renewal expected in 3Q18. We will continue to monitor for any competitive pressure.

[Setup for solid 2Q18 EPS beat](#)

ADS reports 2Q18 earnings on Jul 19th and we expect a solid EPS beat (our estimates of \$4.82 above consensus of \$4.69) but will keep an eye on the revenues for 2Q18 (particularly Epsilon and LoyaltyOne) and FY18 revenue guidance (consensus and our estimates are lower than the guidance). Please refer to our preview, [Expectations for the DQ Wedge to Close in Jun and 2Q18 EPS Beat](#), for details.

[Valuation & Risks](#)

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Appendix 1

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Alliance Data Systems	ADS.N	243.50 (USD) 13 Jul 2018	1, 7, 8

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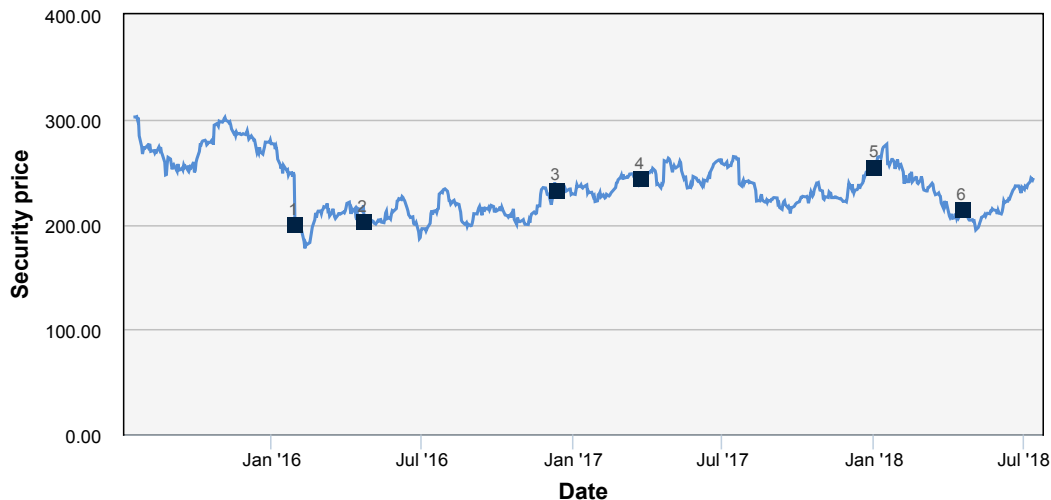
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Historical recommendations and target price. Alliance Data Systems (ADS.N)

(as of 07/13/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

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2.	04/22/2016	Buy, Target Price Change USD 246.00	Ashish Sabadra	5.	01/02/2018	Buy, Target Price Change USD 298.00	Ashish Sabadra
3.	12/12/2016	Buy, Target Price Change USD 263.00	Ashish Sabadra	6.	04/19/2018	Buy, Target Price Change USD 253.00	Ashish Sabadra

Equity Rating Key

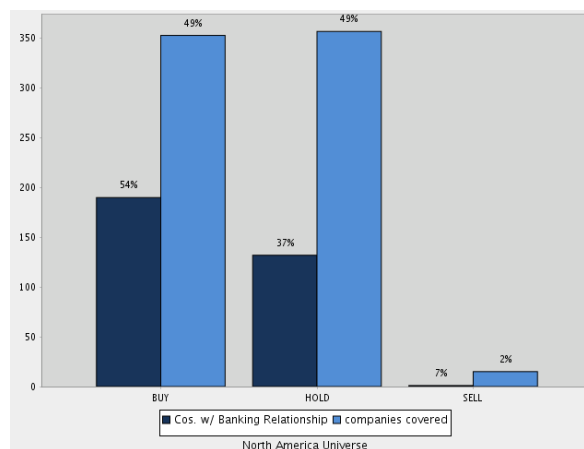
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