

Initiated 2026-10-15 · Price \$98.96 (close 2026-10-14, stockanalysis.com) · Mkt cap \$3.80bn · Financials / consumer finance (private-label and co-brand cards) · Model: verified

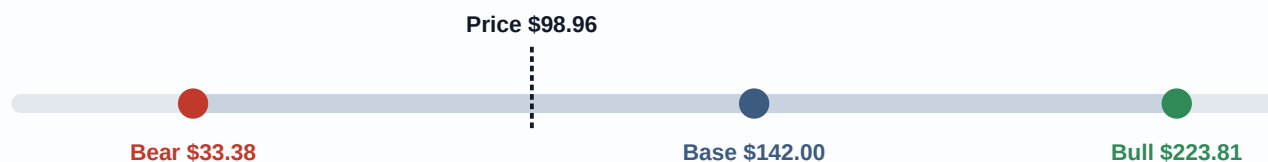
Rating: Buy — Conviction: High

Bread earns a ~22–25% return on tangible equity and retires ~7–12% of its shares a year, yet trades at 1.54x the model's tangible book and under 8x earnings. Credit is improving month by month: the net loss rate was 6.40% in August, against 7.57% a year earlier. On the model, a transitory recession takes value back to about today's price, so the market is already discounting one. Buy. The call fails if losses re-accelerate toward 9% and stay there.

Conviction tests (3a-v-c): T1 pass (Base +30.0% at +1pp, +60.1% at -1pp) · T2 pass (residual income +45.2%, justified P/TBV +41.7%) · T3 pass · T4 pass (Q3 print 10/22 is routine; LoyaltyOne/LVI spinoff litigation status unverified, not sized as >25%)

The rule-derived High may overstate it: the Base case contains no recession, and this is an unsecured near-prime lender whose stock is up 75% in a year.

MODEL VALUE RANGE VS PRICE



Business overview

Bread issues private-label and co-brand credit cards for retail partners, plus some direct-to-consumer cards and installment loans. Loans were \$18.5bn at 6/30/26 (Q2 financial supplement). Co-brand was 52% of Q4 2025 credit sales, up from 48% (Q4 2025 call, via MarketBeat). Funding is \$9.4bn of direct-to-consumer deposits, \$5.4bn of wholesale deposits, \$2.4bn of card-trust ABS and \$0.8bn of unsecured notes. Revenue is net interest income (~18.5% margin); retailer share arrangements exceed interchange, so FY2025 non-interest income was -\$213mm. Three variables drive earnings: the net loss rate (7.7% in FY2025, 7.0–7.1% guided for 2026), loan growth, and funding mix.

Competition

For retail partner programs, Bread competes with Synchrony (SYF), Capital One (which now owns Discover) and American Express on co-brand. Synchrony is the closest comparable and is larger: Q2 2026 loan receivables were \$102.2bn (+2%), with a 15.08% NIM and a 5.43% net charge-off rate (SYF Q2 2026 release, July). Bread's 18.5% margin buys a ~1.5pp higher loss rate: its book is nearer-prime and more concentrated in specialty retail. Competition shows up first at renewal, in retailer share arrangements. All of Bread's top-10 programs are renewed to at least 2028 (Q4 2025 call). On valuation, SYF trades at 1.86x tangible book and 7.4x forward earnings, and COF at 2.17x and 8.9x, against Bread's 1.43x and 7.9x on the same source (stockanalysis, 2026-10-14).

Bull case

1. **Credit normalizes to the 6% target.** Monthly loss rates have fallen from 7.6% to 6.4% year over year, delinquencies are 48bp lower, and management targets ~6% over time. Losses reach ~6% by 2028. Plays out if unemployment stays near current levels and the 2023–24 vintages keep burning off. *Model: nco_rate*
2. **Growth and funding mix.** Average loans grew 5.6% y/y in August, and credit sales 11% in Q2. Direct-to-consumer deposits (50% of funding) replace ABS at 5.4% and unsecured notes at 8.3%. Loans grow ~6% a year and NIM rises to ~19.2%. Plays out if new co-brand programs season and deposit growth continues (+16% y/y). *Model: ea_growth, nim*
3. **Operating leverage.** H1'26 efficiency was 47.5% against an adjusted 49.8% for FY2025. It reaches ~45% as technology modernization holds expense flat. Plays out if revenue keeps growing mid-single digits. *Model: efficiency_ratio*

Bear case

1. **Consumer credit turns.** A labor-market break lifts the loss rate to ~9–9.5%; it was 8.2% in 2024 at full employment. Reserves are re-marked ~2pp higher under CECL, and 2027 swings to a loss. Plays out in S2/S6, or if gasoline above \$4 and sticky inflation erode lower-income borrowers (S8/S11). *Model: nco_rate, reserve_build*
2. **Margin squeeze.** Co-brand mix (lower APR), higher interest reversals and richer partner-share terms at renewal push NIM to ~17.8% and non-interest income more negative. Plays out if competition for large programs intensifies. *Model: nim, fee_pct_ea*
3. **Growth stalls.** Payment rates stay high and partner retail sales weaken, so balances go flat and efficiency deteriorates to ~52%. Plays out if specialty-retail partners lose share. *Model: ea_growth, efficiency_ratio*

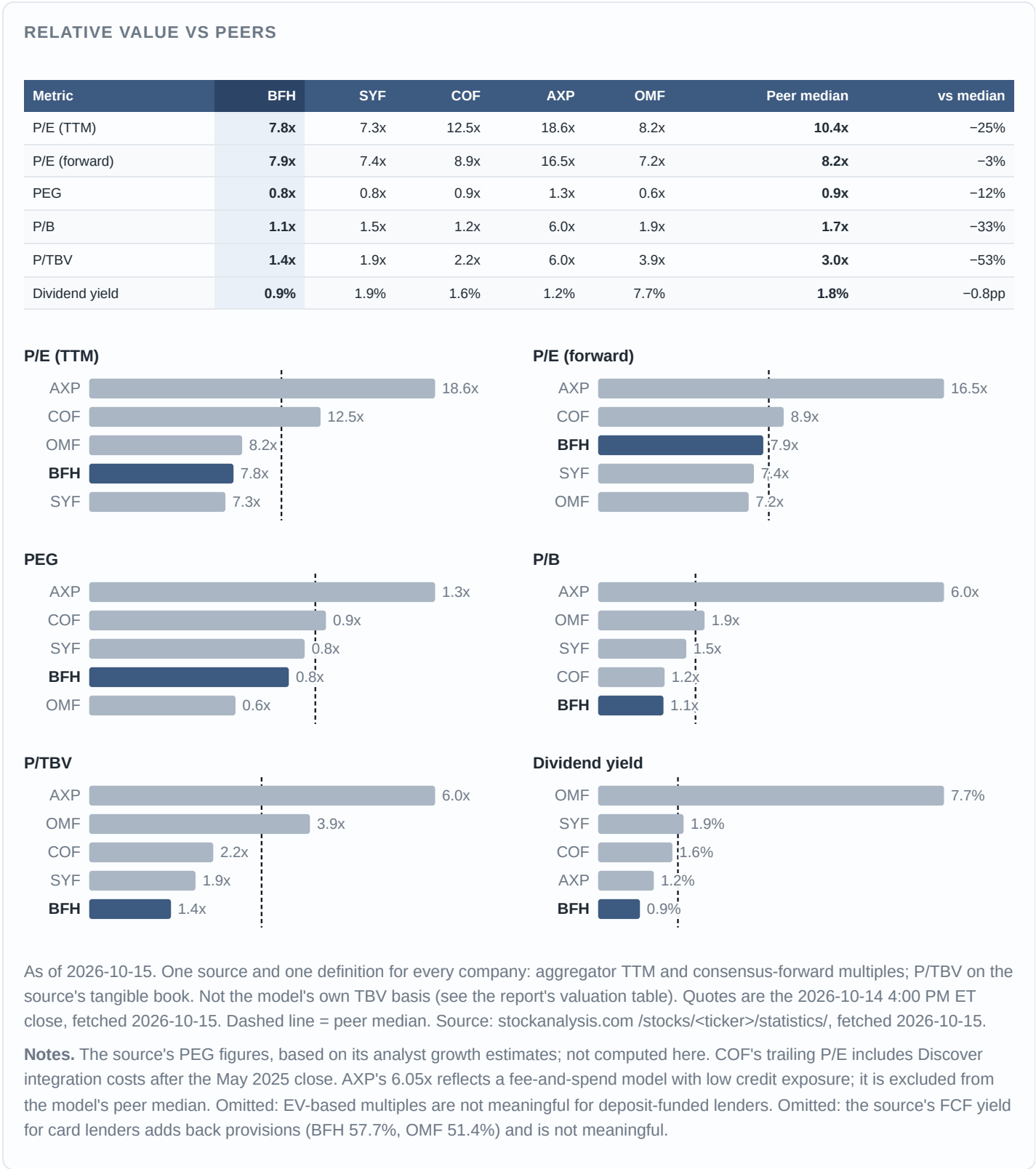
Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
P/TBV (price ÷ TCE/share)	1.43x (stockanalysis); 1.55x on 6/30/26 TBV \$63.66	TBV/share \$43.70 FY23 · \$46.97 FY24 · \$57.57 FY25; P/TBV history n/a (unverified)	SYF 1.86x · COF 2.17x · OMF 3.86x · AXP 6.05x	er2q26; stockanalysis 2026-10-14
Forward P/E (stockanalysis consensus)	7.89x	n/a (unverified)	OMF 7.19x · SYF 7.44x · COF 8.86x · AXP 16.52x	stockanalysis 2026-10-14
ROTCE (company, annualized)	22.6% (Q2'26); 25.0% H1'26	38.0% FY23 (incl. portfolio-sale gain) · 11.4% FY24 · 20.4% FY25	n/a (unverified)	er2q26; fs4q25; er4q24
Net loss rate (on average loans)	6.40% (Aug); 6.98% (Q2)	7.5% FY23 · 8.2% FY24 · 7.7% FY25	SYF 5.43% (Q2'26)	cs_aug26; fs4q25; SYF Q2'26

Model-implied value range (from `model-summary.json`; bank, residual income and justified P/TBV, midpoints): Bear \$33.38 · Base \$142.00 · Bull \$223.81 per share, i.e. implied returns of –66.3% / +43.5% / +126.2% vs \$98.96. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits about midway between Bear and Base in dollars, almost exactly where the S2 recession overlay lands (\$96.57). The market prices a transitory credit cycle, not the permanent ~9% loss rate in Bear. Re-rating: on the model's own basis, today's multiple is 1.54x FY0 TBV/share (\$64.30). Base justified P/TBV (\$140.27) embeds ~2.18x, a ~42% re-rating. Residual income (\$143.74) embeds ~2.24x (~45%). The methods agree within 2.5%; the re-rating comes from ~24% Base ROTCE against a 12.59% cost of equity. In Bear, residual income (\$46.02) and justified P/TBV (\$20.74) diverge because the 2027 loss year drags the three-year average ROTCE.

Balance sheet: net leverage not meaningful (deposit-funded lender). CET1 is 12.9% and total risk-based capital 17.1%. TCE/tangible assets is 11.3%, and TCE plus credit reserves equals 24.6% of loans (6/30/26). The allowance is \$2.08bn (11.23% of loans). Debt: \$2.45bn of card-trust ABS (5.40% average cost) and \$0.84bn of unsecured notes (8.27%). The maturity ladder was not retrieved, so model buckets are placeholders. There is a \$700mm unsecured revolver. Model TCE/earning assets is ~10.4–10.6% across the forecast, and PPNR/provision coverage is 1.62x in Y2. Ratings: n/a (unverified).

Model note: Verified (LibreOffice recalculated all 3,394 formula cells and they match). Unverified inputs: none. Assumptions without basis: none. Scenario consistency checks: all OK. FY0 TCE (\$2,540mm at 12/31/25) is paired with the post-buyback 6/30/26 diluted count (39.5mm). Model FY0 TBV/share is therefore ~3% above actual 6/30/26 (\$62.35 diluted), because H1 buybacks ran at ~1.5x TBV. `nco_rate` applies to model year-end loans, ~0.35pp below the reported loss rate on average loans. Preferred dividends sit in a 28% all-in `tax_rate` . Cost of equity: CAPM 11.09% (10Y 5.19%, beta 1.18, 5% ERP) plus a stated +1.5pp premium. The premium reflects a beta measured through a benign credit cycle; without it, Base is +66%. There is no EPS guidance. Base Y1 EPS of \$14.70 matches the H1 run-rate (\$7.72) but sits ~17% above the ~\$12.5 implied by stockanalysis's forward P/E (forward-year definition not stated).



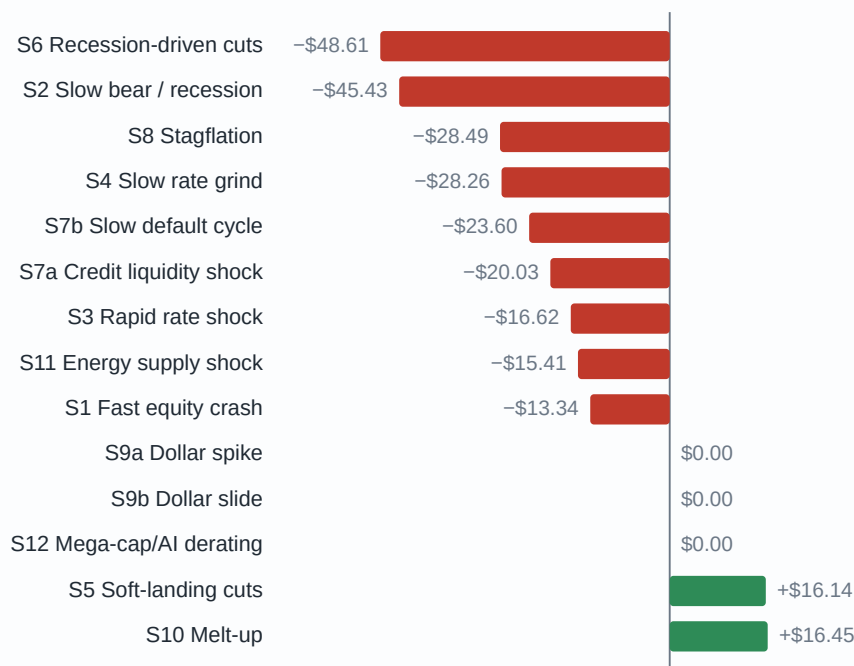
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	Beta-1.18 consumer lender de-rates; no credit channel without recession	Low	–\$13.34
S2 Slow bear / recession	–	Unemployment lifts card losses ~2pp plus reversals; balances fall; operating deleverage. About 42% of Base–Bear because it's transitory (two years), while Bear is a permanent higher-loss regime with a 2pp reserve re-mark	High	–\$45.43
S3 Rapid rate shock	–	Higher CoE; deposit/ABS costs reprice faster than prime-linked APRs net of reversals; payment strain	Med	–\$16.62
S4 Slow rate grind	–	Sustained high rates erode near-prime capacity over five years; funding costs grind up	Med	–\$28.26
S5 Soft-landing cuts	+	Lower CoE and borrower relief outweigh slightly faster APR repricing	Med	+\$16.14
S6 Recession-driven cuts	–	Labor-market break: largest loss spike (~2.5pp); cuts help funding only slowly	High	–\$48.61
S7a Credit liquidity shock	–	ABS and wholesale-deposit spreads gap wider; 50% retail-deposit funding limits damage	Med	–\$20.03
S7b Slow default cycle	–	Consumer defaults flow into charge-offs over three years	Med	–\$23.60
S8 Stagflation	–	Real-income squeeze on lower-income cardholders; higher CoE; cost inflation	Med	–\$28.49
S9a Dollar spike	0	no material effect, not modeled	Low	\$0.00
S9b Dollar slide	0	no material effect, not modeled	Low	\$0.00
S10 Melt-up	+	Consumer-finance risk premium compresses	Med	+\$16.45
S11 Energy supply shock	–	\$4+ gasoline squeezes lower-income cardholders and partner retail spend	Med	–\$15.41
S12 Mega-cap/AI derating	0	no material effect, not modeled	Low	\$0.00

Currently active/on watch per the playbook: S3 active; S8, S10 and S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: No upgrade above Buy. Conviction firms if the monthly loss rate holds $\leq 6.5\%$ through Q4 seasonality and delinquencies stay below the prior year, while buybacks continue at $\geq \$200\text{mm}$ a quarter. **Downgrades if:** Monthly delinquency rates turn higher year over year for two consecutive months, the 2027 loss outlook is guided above 7%, a top-10 partner is lost or renewed on materially richer share terms, or the price reaches the $\sim \$142$ Base midpoint without better evidence.

Watch items

- **W1:** Q3 2026 net loss rate $\leq 6.7\%$ (CFO: $\sim 30\text{bp}$ better than Q2's 6.98%) and 2026 loss guide held at 7.0–7.1% or better — Q3 release — 2026-10-22 — *Model: nco_rate*
- **W2:** Monthly delinquency rate stays below year-ago (5.36% vs 5.84% in August) — monthly 8-K performance updates — mid-Nov / mid-Dec 2026 — *Model: nco_rate, reserve_build*
- **W3:** Average loan growth $\geq 4\%$ y/y and NIM $\geq 18.4\%$ for FY2026 — Q4 release / FY2026 10-K — late Jan–Feb 2027 — *Model: ea_growth, nim*
- **W4:** Status of LoyaltyOne/Loyalty Ventures spinoff litigation (disclosed as pending) — 10-Q legal proceedings note — late Oct 2026 — *Model: none*

Sources

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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.