

“Do You Know Your Banker?”

Aiken

Recommendation: Hold

Overton

Parks

Robertson

- Unique banking model with a strong focus on community presence and community growth.
- Diverse loan portfolio with over 2/3 as variable interest rate loans.
- 50% of revenue from TSYS subsidiary.
- Customer retention issue is a primary driver of risk/return.
- High regional growth potential as SNV continue acquisitions.
- TSYS growth potential with consumer spending increases, gift card usage growing, while at the same time being insulated as a processor only.
- Even with assumption of lost customers stock is not overvalued

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Key Statistics	Synovus (SNV)	Am South (ASO)	Regions (RF)
Price	\$ 23.63	\$ 22.12	\$ 34.65
Beta	.80	.30	.50
P/E (ttm)	18.6	12.50	12.10
EPS Growth	9.3%	6.8%	3.1%
PEG Ratio	1.55	1.53	1.34
Market Cap	7.18 B	7.81 B	7.68 B
Int. Income (Rev.)	1.055 Bill	2.254 Bill	2.537 Bill
Net Int. Margin	5.40%	5.70%	4.90%



Business Summary

Synovus Financial Corp. is a financial services company that conducts a range of financial services through its banking and non-banking subsidiaries from more than 300 locations. The Company is engaged in two business segments: financial services, which primarily involves commercial banking activities and also involves the provision of retail banking, financial management, mortgage banking, leasing and insurance services, and transaction processing services, which includes consumer credit, debit, commercial, retail and stored value card processing and related services, as well as debt collection and bankruptcy management services and the provision of software solutions for commercial card management programs.

Investment Thesis

Synovus primarily focuses on its consumer operations because of its exposure to consumer spending and consumer banking. They are a primary processor of credit card transactions nation wide. Synovus gets approximately 50% of its revenue from this operation which highlights its exposure to consumer credit growth. With consumer credit activities expected to continue to rise and the continuation of credit card issuances by various parties not wishing to perform in-house processing, Synovus's interest in Total System Services (TSYS) should bring in growing revenue streams. As a growing regional bank Synovus is focused on meeting its regional customer demands with a perspective towards future acquisitions. Synovus operates its banks under individual community banks without all adopting one brand name. By keeping the majority of its retail banking presences in the community banking style, Synovus is uniquely combining the old with the new. Its internet banking presence through TSYS processing of credit cards gives Synovus valuable experience in E-Commerce. By keeping most of their acquisitions under their acquired name Synovus is capitalizing on the synergies of a large bank while maintaining the community connections of a small-town bank. With its focus on maintaining community banking presence Synovus has distributed its expected growth between customer retention/growth as well as acquisition growth.

Positives

The community banking model that Synovus operates under is proving to be a significant growth factor. As more customers begin to move away from large national banks and move towards personal community banking Synovus is positioning itself to capture part of this movement. In addition to growth from its business model Synovus's location in the Southeast US should lead to growth as this region is undergoing strong economic growth and seeing large demographic movements into the area.

Synovus's loan portfolio has around 2/3 exposure to variable interest rates. With expectations for increases in interest rates this factor will insulate Synovus relative to other banks with much lower portions of their portfolio's variable.

Synovus is more diversified relative to other competitors as it receives approximately 50% of its revenue from a source separate from its core banking business. This allows it to weather more effectively changes in the banking sub sector. In addition, as the economy expands and consumers begin to feel more confident in their spending Synovus should benefit from increased revenue from TSYS.

Negatives

As Synovus owns 81% of TSYS it is important to understand a key risk factor in TSYS's future. In the past quarter TSYS has faced concerns of losing major customers due to the growing competition among credit card processors. In the last year Bank One was gained as a new customer but with the recent merger, market discussions have been concerned with the prospect of losing them as a client. This is one caution point that supports the hold recommendation as we believe that TSYS will retain its current customers and continue to grow despite this risk.

A second negative point that supports the hold recommendation is the current consensus that Synovus is fair or over valued. After analysis through due diligence and various elements of market research, it is believed that Synovus has been overly punished for any valuation fears and that its performance this year will beat the markets expectations and result in an appreciation in its stock price.

Summary

In conclusions, Synovus is a stellar bank with a diversified revenue stream. The reason it is recommended as a hold is due entirely to the risk factors concerning economic performance and subsidiary returns. After due diligence the conclusion was reached that Synovus will not be negatively impacted by these concerns hence the decision to hold. The best course of action concerning Synovus is to monitor its continued performance and possibly sell if a more attractive equity becomes obvious.

FCFE Notes

The assumptions made in our drivers for projected financial statements are conservative in nature and therefore reflect a possible loss of growth due to any fruitions of the negatives mentioned earlier.