

Equity Research

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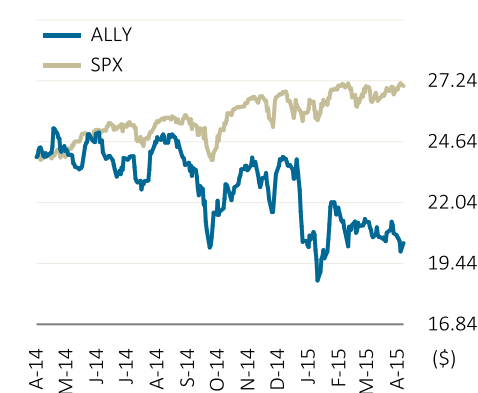
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ALLY **\$20.31**
12 month target \$32.00
Upside 57.6%

BUY

52 week range \$18.71 - \$25.21
Market Cap (m) \$9,800

Price Performance



Source: IDC

Estimates

	1Q14 A	2Q14 A	3Q14 A	4Q14 A	FY14 A	1Q15 A	2Q15 E	3Q15 E	4Q15 E	FY15 E	FY16 E
Diluted EPS (Adj.)	0.33	0.42	0.74	0.31	1.81	1.05	0.51	0.53	0.56	2.66	2.34
Tangible BVPS	22.64	23.39	24.02	24.43	24.43	25.55	23.48	23.96	24.47	24.47	26.60
Oper. Inc. Per Share	0.61	0.72	0.87	0.40	2.59	0.58	0.91	0.93	0.96	3.34	3.89

Source: BTIG Research Estimates and Company Documents (\$ in millions, except per share amount)

Our Adjusted EPS estimates do not add back the OID expense.

Financials

Ally Financial

Solid 1Q14 Report Highlighted by Earnings Beat, Diversification of Originations Away from GM

Shares of Ally Financial (ALLY) have struggled this year since General Motors (GM – Not Rated), in a letter sent to Buick-GMC dealers on January 9, disclosed that GM would offer subvented leases exclusively through GM Financial, sparking investor concerns that ALLY would lose more if not all of GM's business. So while ALLY this morning reported a solid 1Q15 earnings beat and achieved its core ROTCE target three quarters earlier than planned, the most important takeaway from the quarter was the company's progress in diversifying its loan and lease originations.

- ▶ ALLY reported 1Q15 adjusted earnings per share of \$0.52, beating the consensus estimate of \$0.42 and our estimate of \$0.41.
- ▶ The company reported core ROTCE of 9.1% in 1Q15, up from 7.1% in 4Q14, and achieved its YE15 target of core ROTCE in the range of 9-11%. We believe this metric is particularly important insofar as it typically correlates with equity appreciation.
- ▶ ALLY made significant progress during 1Q15 in growing its non-GM, non-Chrysler business. Auto originations increased to \$9.8bn during the quarter versus the prior year period, with non-GM, non-Chrysler originations increasing by 54% year-over-year to \$2.7bn. The company also added approximately 900 non-GM, non-Chrysler dealers during the quarter, bringing its total to about 10,400.
- ▶ **We are reiterating our BUY recommendation on ALLY and price target of \$32** based on 1.3x the company's FY15E tangible book value per share of \$24.47, with the product being discounted back a year using a 10% discount rate.
- ▶ **Valuation:** Our price target of \$32 for ALLY is based on 1.3x FY15E tangible book value (TBV) of \$24.47.

Please Read: Important disclosures and analyst's certification appear in Appendix

Income Statement

Ally Financial - Operating Model	Dec-11	Dec-12	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Dec-15	Dec-16
\$ millions	2011A	2012A	2013A	1Q14A	2Q14A	3Q14A	4Q14A	2014A	1Q15A	2Q15E	3Q15E	4Q15E	2015E	2016E
Interest and fees on finance receivables and loans	4,189	4,539	4,529	1,107	1,124	1,114	1,112	4,457	1,074	1,172	1,192	1,203	4,641	5,006
Interest on loans held-for-sale	180	98	20	-	1	-	-	1	24	-	-	-	24	-
Interest on trading assets	8	10	-	-	-	-	-	-	-	-	-	-	-	-
Interest and dividends on available for sale investment securities	350	292	325	95	93	94	85	367	88	88	89	89	355	362
Interest bearing cash	15	24	10	3	1	2	2	8	2	-	-	-	2	-
Operating leases	1,929	2,379	3,209	870	884	899	905	3,558	896	878	861	843	3,478	3,290
Total financing revenue & other interest	6,671	7,342	8,093	2,075	2,103	2,109	2,104	8,391	2,084	2,138	2,141	2,136	8,499	8,657
Interest on deposits	615	645	654	163	166	166	169	664	172	179	183	186	720	819
Interest on short-term borrowings	61	71	63	15	13	12	12	52	11	11	11	11	44	44
Interest on long-term debt	3,930	3,336	2,602	534	549	493	491	2,067	429	467	457	447	1,801	1,851
Total interest expense	4,606	4,052	3,319	712	728	671	672	2,783	612	657	651	645	2,564	2,714
Depreciation expense on operating assets	941	1,399	1,995	542	509	549	633	2,233	622	610	597	585	2,414	2,227
Pre-provision net finance revenue	1,124	1,891	2,779	821	866	889	799	3,375	850	872	893	906	3,521	3,716
Provision for loan losses	161	329	501	137	63	102	155	457	116	155	167	168	607	685
Post-provision net finance revenue	963	1,562	2,278	684	803	787	644	2,918	734	717	726	737	2,914	3,032
Servicing fees	525	409	126	9	7	6	9	31	10	-	-	-	10	-
Servicing asset valuation and hedge activities	(434)	(4)	(213)	-	-	-	-	-	-	-	-	-	-	-
Total servicing income (loss)	91	405	(87)	9	7	6	9	31	10	-	-	-	10	-
Insurance premiums and service revenue earned	1,153	1,055	1,012	241	249	246	243	979	233	255	252	249	989	999
Gain on mortgage and automotive loan	229	379	55	-	6	-	1	7	46	46	46	47	185	190
Loss on extinguishment of debt	(64)	(148)	(59)	(39)	(7)	-	(156)	(202)	(198)	-	-	-	(198)	-
Other gain on investments	258	146	180	43	41	45	52	181	55	44	44	44	186	180
Other income (losses)	621	737	383	67	69	78	66	280	97	71	71	71	283	286
Total other revenue	2,288	2,574	1,484	321	365	375	215	1,276	243	416	413	410	1,456	1,655
Compensation and benefits expense	993	1,106	1,019	254	215	241	237	947	255	254	252	251	1,012	1,017
Insurance losses and loss adjustment expense	452	454	405	68	188	97	57	410	56	55	54	53	217	228
Other operating expenses	1,983	2,062	1,981	391	418	404	378	1,591	384	382	380	378	1,525	1,540
Total noninterest expense	3,428	3,622	3,405	713	821	742	672	2,948	695	691	686	682	2,754	2,785
Income (loss) from continuing operations before taxes	(177)	514	357	292	347	420	187	1,246	282	442	453	466	1,616	1,901
Income tax expense (benefit)	42	(856)	(59)	94	64	127	36	321	103	155	158	163	579	665
Net income (loss) from continuing operations	(219)	1,370	416	198	283	293	151	925	179	287	294	303	1,037	1,236
Income (loss) from discontinued operations	62	(174)	(55)	29	40	130	26	225	397	(1,200)	-	-	(803)	-
Net income (loss)	(157)	1,196	361	227	323	423	177	1,150	576	(913)	294	303	234	1,236
Adjusted EPS (diluted)			\$ 504.48	\$ 0.33	\$ 0.42	\$ 0.74	\$ 0.31	\$ 1.81	\$ 1.05	\$ 0.51	\$ 0.53	\$ 0.56	\$ 2.66	\$ 2.34
Pre-tax operating earnings per share (diluted)			\$ 268.23	\$ 0.61	\$ 0.72	\$ 0.87	\$ 0.40	\$ 2.59	\$ 0.58	\$ 0.91	\$ 0.93	\$ 0.96	\$ 3.34	\$ 3.89
Diluted shares outstanding (millions)	1.33	1.33	1.33	479.77	482.34	482.51	483.09	481.93	482.78	483.78	484.78	485.78	484.28	488.28
Book value per share	\$ 14,521	\$ 15,053	\$ 10,675	\$ 30.14	\$ 30.85	\$ 31.48	\$ 31.88	\$ 31.88	\$ 33.00	\$ 31.04	\$ 31.57	\$ 32.13	\$ 32.13	\$ 34.46
Tangible book value per share	\$ 13,578	\$ 12,349	\$ 7,971	\$ 22.64	\$ 23.39	\$ 24.02	\$ 24.43	\$ 24.43	\$ 25.55	\$ 23.48	\$ 23.96	\$ 24.47	\$ 24.47	\$ 26.60

Source: BTIG Research Estimates and Company Documents

Appendix: Analyst Certification and Other Important Disclosures

Analyst Certification

I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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Company-Specific Regulatory Disclosures

Ally Financial, Inc. (ALLY)

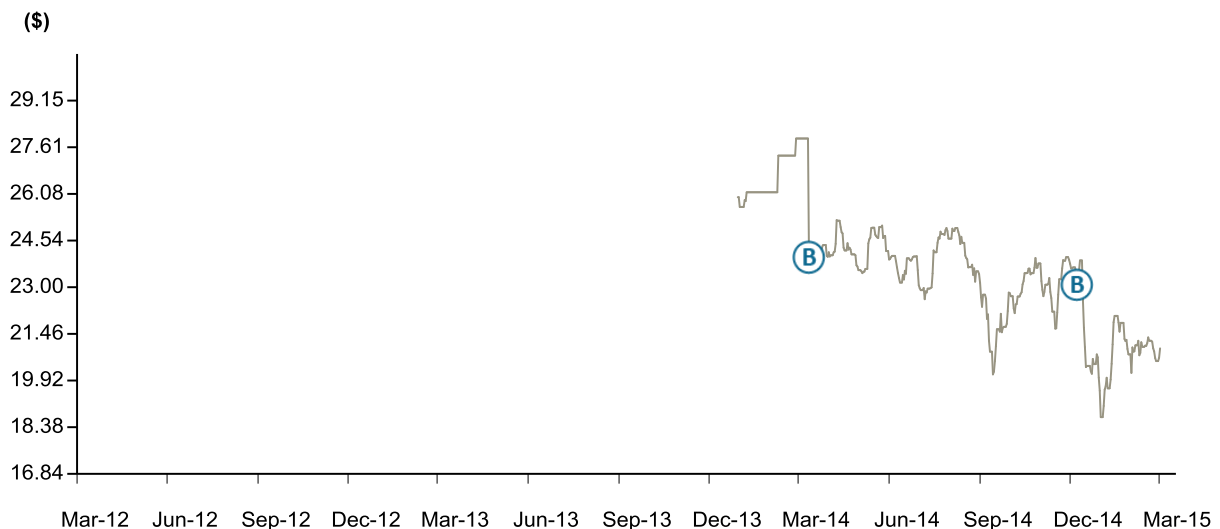
Valuation

Our \$32 price target is based on 1.3X FY15E tangible book value of \$24.47.

Risks

Primary risks to our recommendation include the potential negative impact of ALLY's loss of exclusivity privileges with General Motors and Chrysler, dependence on the performance and prospects of the U.S. automotive finance market, dependence on capital and liquidity such that disruption of funding sources and access to the capital markets could negatively impact its business, dependence on ability to maintain relationships with dealers, regulatory restrictions that could impede Ally Bank's ability to grow deposits and thereby reduce the company's funding costs, and Federal Reserve stress tests that could impede the company's future ability to return capital if failed.

Ally Financial, Inc. (ALLY)



Note: Closing Price and Target Price have been adjusted for corporate actions.

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
10-Apr-14	23.98	31	Mark Palmer	BUY
06-Jan-15	23.06	32	Mark Palmer	BUY

Other Disclosures

Additional Information Available Upon Request

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