

## Equity Research

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**ALLY** **\$21.55**

12 month target \$32.00

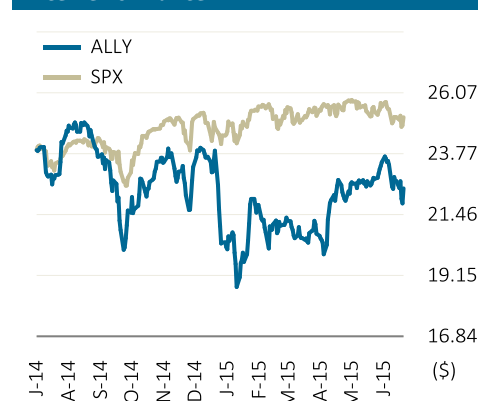
Upside 48.5%

### BUY

52 week range \$18.71 - \$24.95

Market Cap (m) \$10,398

#### Price Performance



Source: IDC

## Financials

### Ally Financial, Inc.

#### Diversification of Originations Away from GM Continues Apace as ALLY Reports 2Q15 Earnings Beat

While core return on tangible common equity (ROTCE) remains an important metric for investors in Ally Financial (ALLY) to track, we believe the figure that is likely to drive the stock's performance in the near term is the percentage of the company's consumer originations generated by General Motors (GM, Not Rated). The lower that figure is, the better for ALLY's stock price given concerns that the company is vulnerable to a sudden shift of more GM business to GM's captive finance arm following the OEM's January 9 disclosure that it would offer subvented leases exclusively through GM Financial.

- ▶ ALLY continued to make significant progress in transitioning away from GM in 2Q15, as its percentage of GM-driven loan originations declined to 45% from 52% in 1Q15 and originations from non-GM, non-Chrysler (FCAU, Not Rated) channels increased by 55% versus the prior-year quarter.
- ▶ That increase from ALLY's "growth" channels helped the company to report 2Q15 adjusted earnings per share of \$0.46, beating the consensus (and our) estimate of \$0.45. Also supportive of the beat was an 11bps increase in net interest margin (NIM) to 2.58% driven by an 8bps sequential decline in the company's cost of funds that was the result of deposit growth and the reduction of high-cost legacy debt.
- ▶ **We are reiterating our Buy recommendation on ALLY and price target of \$32** based on 1.1x FY16E tangible book value per share of \$29.47, with the product being discounted back a year using a 10% discount rate.
- ▶ While ALLY's core ROTCE declined sequentially to 8.2% in 2Q15 from (continued on page 2)
- ▶ **Valuation:** Our \$32 price target is based on 1.1X FY16E tangible book value of \$29.47 discounted back at 10%.

## Estimates

	1Q14 A	2Q14 A	3Q14 A	4Q14 A	FY14 A	1Q15 A	2Q15 A	3Q15 E	4Q15 E	FY15 E	FY16 E
Diluted EPS (Adj.)	0.33	0.46	0.47	0.38	1.64	0.50	0.44	0.56	0.62	2.11	2.23
Tangible BVPS	22.64	23.39	24.02	24.43	24.43	25.55	25.47	25.80	26.70	26.70	29.47
Oper. Inc. Per Share	0.61	0.72	0.87	0.40	2.59	0.58	0.54	0.95	1.03	3.04	3.64

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

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

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

*(continued from page 1)*

9.1% in 1Q15, management said it continues to target core ROTCE of 9-11% at YE15, noting that the full impact of its capital actions has yet to be realized. The company during the quarter continued to make progress on expense reduction, one of the drivers of core ROTCE, as its adjusted efficiency ratio declined to 46% from 48% in 1Q15. Management continues to target an adjusted efficiency ratio of mid-40% as its expense base continues to normalize.

## 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	2Q15A	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	1,118	1,171	1,181	4,545	4,846
Interest on loans held-for-sale	180	98	20	-	1	-	-	1	24	14	-	-	38	-
Interest on trading assets	8	10	-	-	-	-	-	-	-	-	-	-	-	-
Interest and dividends on available for sale investment securities	350	292	325	95	93	94	85	367	88	93	93	94	368	380
Interest bearing cash	15	24	10	3	1	2	2	8	2	2	-	-	4	-
Operating leases	1,929	2,379	3,209	870	884	899	905	3,558	896	860	843	826	3,425	3,222
<b>Total financing revenue &amp; other interest</b>	<b>6,671</b>	<b>7,342</b>	<b>8,093</b>	<b>2,075</b>	<b>2,103</b>	<b>2,109</b>	<b>2,104</b>	<b>8,391</b>	<b>2,084</b>	<b>2,087</b>	<b>2,108</b>	<b>2,101</b>	<b>8,380</b>	<b>8,448</b>
Interest on deposits	615	645	654	163	166	166	169	664	172	177	182	186	716	815
Interest on short-term borrowings	61	71	63	15	13	12	12	52	11	12	12	12	47	48
Interest on long-term debt	3,930	3,336	2,602	534	549	493	491	2,067	429	419	426	424	1,698	1,695
<b>Total interest expense</b>	<b>4,606</b>	<b>4,052</b>	<b>3,319</b>	<b>712</b>	<b>728</b>	<b>671</b>	<b>672</b>	<b>2,783</b>	<b>612</b>	<b>608</b>	<b>620</b>	<b>621</b>	<b>2,461</b>	<b>2,558</b>
Depreciation expense on operating assets	941	1,399	1,995	542	509	549	633	2,233	622	563	552	541	2,277	2,057
<b>Pre-provision net finance revenue</b>	<b>1,124</b>	<b>1,891</b>	<b>2,779</b>	<b>821</b>	<b>866</b>	<b>889</b>	<b>799</b>	<b>3,375</b>	<b>850</b>	<b>916</b>	<b>936</b>	<b>939</b>	<b>3,641</b>	<b>3,833</b>
Provision for loan losses	161	329	501	137	63	102	155	457	116	140	144	145	545	696
<b>Post-provision net finance revenue</b>	<b>963</b>	<b>1,562</b>	<b>2,278</b>	<b>684</b>	<b>803</b>	<b>787</b>	<b>644</b>	<b>2,918</b>	<b>734</b>	<b>776</b>	<b>792</b>	<b>794</b>	<b>3,096</b>	<b>3,137</b>
Servicing fees	525	409	126	9	7	6	9	31	10	10	-	-	20	-
Servicing asset valuation and hedge activities	(434)	(4)	(213)	-	-	-	-	-	-	-	-	-	-	-
<b>Total servicing income (loss)</b>	<b>91</b>	<b>405</b>	<b>(87)</b>	<b>9</b>	<b>7</b>	<b>6</b>	<b>9</b>	<b>31</b>	<b>10</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>-</b>
Insurance premiums and service revenue earned	1,153	1,055	1,012	241	249	246	243	979	233	237	252	249	971	981
Gain on mortgage and automotive loan	229	379	55	-	6	-	1	7	46	1	1	1	49	4
Loss on extinguishment of debt	(64)	(148)	(59)	(39)	(7)	-	(156)	(202)	(198)	(156)	-	-	(354)	-
Other gain on investments	258	146	180	43	41	45	52	181	55	45	44	44	188	180
Other income (losses)	621	737	383	67	69	78	66	280	97	74	71	71	283	286
<b>Total other revenue</b>	<b>2,288</b>	<b>2,574</b>	<b>1,484</b>	<b>321</b>	<b>365</b>	<b>375</b>	<b>215</b>	<b>1,276</b>	<b>243</b>	<b>211</b>	<b>368</b>	<b>365</b>	<b>1,157</b>	<b>1,451</b>
Compensation and benefits expense	993	1,106	1,019	254	215	241	237	947	255	236	235	234	959	946
Insurance losses and loss adjustment expense	452	454	405	68	188	97	57	410	56	122	95	56	329	322
Other operating expenses	1,983	2,062	1,981	391	418	404	378	1,591	384	366	370	368	1,487	1,502
<b>Total noninterest expense</b>	<b>3,428</b>	<b>3,622</b>	<b>3,405</b>	<b>713</b>	<b>821</b>	<b>742</b>	<b>672</b>	<b>2,948</b>	<b>695</b>	<b>724</b>	<b>700</b>	<b>657</b>	<b>2,776</b>	<b>2,771</b>
<b>Income (loss) from continuing operations before taxes</b>	<b>(177)</b>	<b>514</b>	<b>357</b>	<b>292</b>	<b>347</b>	<b>420</b>	<b>187</b>	<b>1,246</b>	<b>282</b>	<b>263</b>	<b>460</b>	<b>502</b>	<b>1,477</b>	<b>1,817</b>
Income tax expense (benefit)	42	(856)	(59)	94	64	127	36	321	103	94	156	171	524	618
<b>Net income (loss) from continuing operations</b>	<b>(219)</b>	<b>1,370</b>	<b>416</b>	<b>198</b>	<b>283</b>	<b>293</b>	<b>151</b>	<b>925</b>	<b>179</b>	<b>169</b>	<b>304</b>	<b>331</b>	<b>953</b>	<b>1,199</b>
Income (loss) from discontinued operations	62	(174)	(55)	29	40	130	26	225	397	13	-	-	410	-
<b>Net income (loss)</b>	<b>(157)</b>	<b>1,196</b>	<b>361</b>	<b>227</b>	<b>323</b>	<b>423</b>	<b>177</b>	<b>1,150</b>	<b>576</b>	<b>182</b>	<b>304</b>	<b>331</b>	<b>1,363</b>	<b>1,199</b>
<b>Adjusted EPS (diluted)</b>			<b>\$ 504.48</b>	<b>\$ 0.33</b>	<b>\$ 0.46</b>	<b>\$ 0.47</b>	<b>\$ 0.38</b>	<b>\$ 1.64</b>	<b>\$ 0.50</b>	<b>\$ 0.44</b>	<b>\$ 0.56</b>	<b>\$ 0.62</b>	<b>\$ 2.11</b>	<b>\$ 2.23</b>
<b>Pre-tax operating earnings per share (diluted)</b>			<b>\$ 268.23</b>	<b>\$ 0.61</b>	<b>\$ 0.72</b>	<b>\$ 0.87</b>	<b>\$ 0.40</b>	<b>\$ 2.59</b>	<b>\$ 0.58</b>	<b>\$ 0.54</b>	<b>\$ 0.95</b>	<b>\$ 1.03</b>	<b>\$ 3.04</b>	<b>\$ 3.64</b>
Diluted shares outstanding (millions)	1.33	1.33	1.33	479.77	482.34	482.51	483.09	481.93	482.78	483.69	486.11	488.54	485.28	498.99
Book value per share	\$ 14,521	\$ 15,053	\$ 10,675	\$ 30.14	\$ 30.85	\$ 31.48	\$ 31.88	\$ 31.88	\$ 33.00	\$ 29.55	\$ 29.96	\$ 30.43	\$ 30.43	\$ 31.55
Tangible book value per share	\$ 13,578	\$ 12,349	\$ 7,971	\$ 22.64	\$ 23.39	\$ 24.02	\$ 24.43	\$ 24.43	\$ 25.55	\$ 25.47	\$ 25.80	\$ 26.70	\$ 26.70	\$ 29.47

Source: BTIG Research Estimates and Company Documents

## **Appendix: Analyst Certification and Other Important Disclosures**

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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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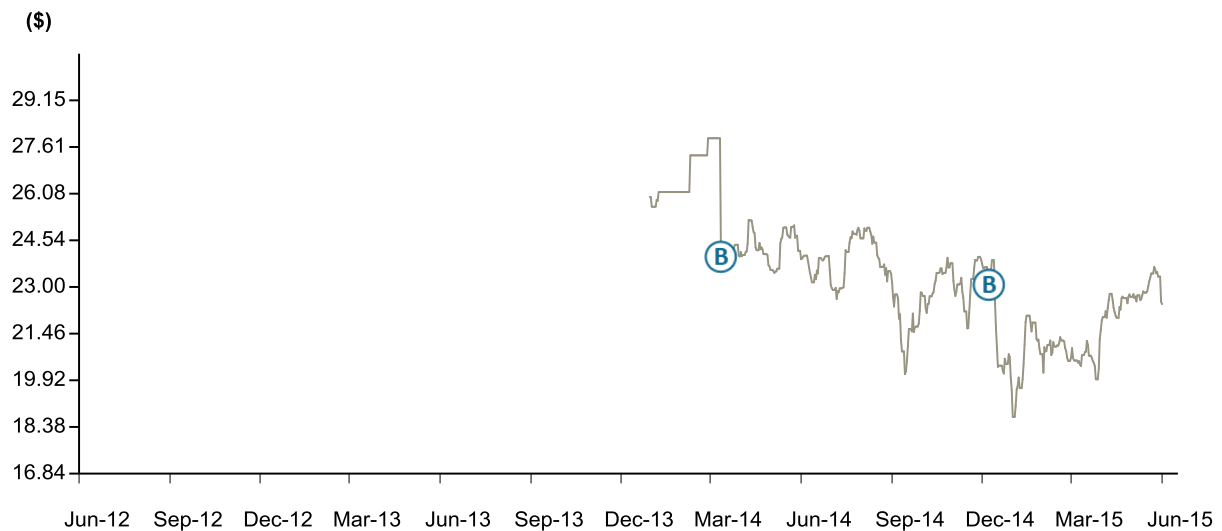
#### Valuation

Our \$32 price target is based on 1.1X FY16E tangible book value of \$29.47 discounted back at 10%.

#### 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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