

## Equity Research

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## Financials

### CIT Group, Inc.

#### CIT Announces End of Thain's Tenure as CEO, Puts Assets on Block in Transition to Bank-Centric Model

Three months after it ushered in a sweeping change with the announcement that its acquisition of OneWest Bank had received regulatory approval, CIT Group (CIT, Buy, \$56 PT) yesterday after the market close set the stage for yet more transition by announcing that John Thain would step down as the company's CEO effective March 31, adding that the company would seek to sell its Commercial Air unit as well as its Canadian and Chinese businesses.

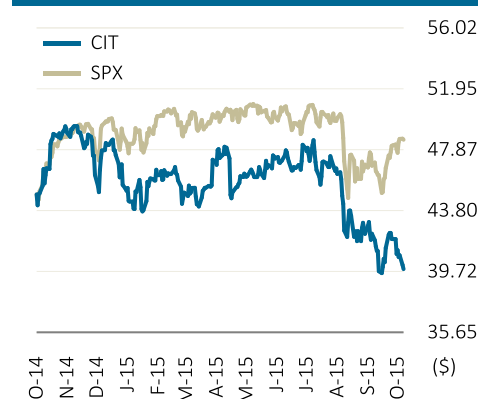
- ▶ Thain, who will remain CIT's chairman, became the company's CEO in February 2010 and guided it through its restructuring and emergence from bankruptcy. We are not altogether surprised to see Thain preparing to step down from the chief executive role insofar as he was recruited for the role due to his demonstrated ability to fix a troubled firm given his experience at the New York Stock Exchange, in particular, and most of what had needed fixing at CIT has been addressed during his tenure. That included the repayment or refinancing of about \$31bn in high-cost debt, the return of the company to profitability, and the removal of CIT's Written Agreement with the Federal Reserve that paved the way for it to institute a common dividend and share buybacks.
- ▶ Thain will be succeeded as CIT's CEO by Ellen Alemany, a member of the company's board who served as Chairman and CEO of RBS Citizens Financial and RBS Americas until her retirement in October 2013. We believe Alemany's commercial banking experience makes her a good fit to lead CIT at a time when it is repositioning itself as a U.S. commercial bank.
- ▶ CIT also announced that Carol Hayles, the company's controller, has been named CFO effective November 1. The company announced on Monday that Scott Parker, who had served as CIT's CFO since July (continued on page 2)
- ▶ **Valuation:** Our \$56 price target is based on a 1.1X multiple of CIT Group's 2017E tangible book value per share discounted back at 10%.

**CIT** **\$39.88**  
12 month target \$56.00

### BUY

52 week range \$39.61 - \$49.45  
Market Cap (m) \$6,974

#### Price Performance



Source: IDC

## 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.)	0.55	1.02	2.76	1.37	5.65	0.59	0.66	0.74	0.81	2.82	3.62
Tangible BVPS	42.59	42.99	45.23	46.35	46.35	46.64	47.28	47.66	48.07	48.07	53.05
Operating Income	126	219	117	222	684	148	153	218	239	758	1,048

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

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

*(continued from page 1)*

2010, would depart the firm to become the CFO of Springleaf Holdings (LEAF, Not Rated). Additionally, CIT announced that Vice Chairman Steven Mnuchin, the former chairman of OneWest's parent company, will step down from that post on March 31, although he will remain on the board.

- ▶ CIT's decision to buy OneWest last year effectively committed the company to a commercial bank model, with earnings upside to be driven by lower funding costs stemming from low-cost deposits and the opportunity to cross-sell banking services to CIT clients. As such, we believe it makes strategic sense for the company to increase its focus on the U.S. commercial bank through the sale of its remaining international assets and its Commercial Air business.
- ▶ CIT is scheduled to report its 3Q15 results on Tuesday, November 3, before the market open with a conference call slated for 8am ET on that day. We are reducing our 3Q15 earnings per share estimate to \$0.74 (from \$0.86) and our FY15 EPS estimate to \$2.82 (from \$3.03) to reflect uncertainty regarding the assumptions underlying the upside associated with the OneWest acquisition. Our 3Q15 EPS estimate remains above the consensus estimate of \$0.70.
- ▶ We view CIT's strategic shakeup as welcome following a decline of almost 18% in the company's share price since July 22, the first day of trading after it announced that the OneWest deal had received regulatory approval. While CIT faces uncertainty in terms of how much upside it will realize from OneWest, as well as from the impact of competition in its U.S. middle market lending business, with the stock trading at just 0.84x the company's tangible book value of \$47.51 as of June 30, we believe the shares are inexpensive and already reflect lowered expectations.

## Income Statement

CIT Operating Model \$ millions	Dec-11 2011A	Dec-12 2012A	Dec-13 2013A	Mar-14 1Q14A	Jun-14 2Q14A	Sep-14 3Q14A	Dec-14 4Q14A	Dec-14 2014A	Mar-15 1Q15A	Jun-15 2Q15A	Sep-15 3Q15E	Dec-15 4Q15E	Dec-15 2015E	Dec-16 2016E	Dec-17 2017E
Interest income	2,231.9	1,572.3	1,385.9	323.3	309.8	308.3	306.2	1,247.6	281.0	283.8	485.2	490.1	1,540.1	2,037.3	2,151.6
Rental income on operating leases	1,785.6	1,900.8	1,897.4	491.9	519.6	535.0	546.5	2,093.0	530.6	531.7	534.4	539.7	2,136.4	2,232.6	2,357.8
<b>Finance Revenue</b>	<b>4,017.5</b>	<b>3,473.1</b>	<b>3,283.3</b>	<b>815.2</b>	<b>829.4</b>	<b>843.3</b>	<b>852.7</b>	<b>3,340.6</b>	<b>811.6</b>	<b>815.5</b>	<b>1,019.6</b>	<b>1,029.8</b>	<b>3,676.5</b>	<b>4,269.8</b>	<b>4,509.4</b>
Interest Expense	(2,794.4)	(2,897.4)	(1,138.0)	(290.9)	(262.2)	(275.2)	(276.9)	(1,105.2)	(271.3)	(265.2)	(296.8)	(298.3)	(1,131.5)	(1,217.1)	(1,260.3)
Depreciation on operating lease equipment	(538.6)	(513.2)	(540.6)	(148.8)	(157.3)	(156.4)	(153.2)	(615.7)	(156.8)	(157.8)	(178.6)	(179.5)	(672.7)	(732.4)	(758.4)
Maintenance and other operating lease expenses	(157.8)	(139.4)	(163.1)	(51.6)	(49.0)	(46.5)	(49.7)	(196.8)	(46.1)	(49.4)	(49.6)	(49.9)	(195.0)	(203.6)	(210.8)
<b>Net Finance Revenue</b>	<b>526.7</b>	<b>(76.9)</b>	<b>1,441.6</b>	<b>323.9</b>	<b>360.9</b>	<b>365.2</b>	<b>372.9</b>	<b>1,422.9</b>	<b>337.4</b>	<b>343.1</b>	<b>494.6</b>	<b>502.1</b>	<b>1,677.2</b>	<b>2,116.7</b>	<b>2,279.9</b>
Other income	952.8	653.1	382.1	74.2	93.7	24.2	116.4	303.8	86.4	63.5	80.0	80.0	309.9	324.0	330.5
<b>Total Net Revenues</b>	<b>2,432.3</b>	<b>1,229.3</b>	<b>2,205.8</b>	<b>398.1</b>	<b>454.6</b>	<b>389.4</b>	<b>489.3</b>	<b>1,726.7</b>	<b>423.8</b>	<b>406.6</b>	<b>574.6</b>	<b>582.1</b>	<b>1,987.1</b>	<b>2,440.7</b>	<b>2,610.5</b>
Provision for credit losses	(269.7)	(51.6)	(64.9)	(36.7)	(10.2)	(38.2)	(15.0)	(100.1)	(34.6)	(18.4)	(20.2)	(20.4)	(93.7)	(87.2)	(94.3)
<b>Net revenue, after credit provision</b>	<b>2,162.6</b>	<b>1,177.7</b>	<b>2,140.9</b>	<b>361.4</b>	<b>444.4</b>	<b>351.2</b>	<b>474.3</b>	<b>1,626.6</b>	<b>389.2</b>	<b>388.2</b>	<b>554.3</b>	<b>561.7</b>	<b>1,893.4</b>	<b>2,353.6</b>	<b>2,516.2</b>
Operating expenses	(896.6)	(918.2)	(984.7)	(235.7)	(225.0)	(234.5)	(248.8)	(931.7)	(241.6)	(235.0)	(336.2)	(322.8)	(1,135.6)	(1,306.0)	(1,331.0)
Gain/ (Loss) on debt extinguishments	(134.8)	(61.2)	-	-	(0.4)	-	(3.1)	(3.5)	-	(0.1)	-	-	(0.1)	-	-
<b>Income/ (loss) before provision for income taxes</b>	<b>178.4</b>	<b>(454.8)</b>	<b>774.1</b>	<b>125.7</b>	<b>219.0</b>	<b>116.7</b>	<b>222.4</b>	<b>683.8</b>	<b>147.6</b>	<b>153.1</b>	<b>218.2</b>	<b>238.9</b>	<b>757.8</b>	<b>1,047.5</b>	<b>1,185.2</b>
Benefit (Provision) for income taxes	(158.6)	(133.8)	(92.5)	(14.2)	(18.1)	401.2	28.3	397.2	(44.0)	(37.8)	(65.4)	(71.7)	(218.9)	(314.3)	(355.6)
<b>Net income / (loss) before noncontrolling interests</b>	<b>19.8</b>	<b>(588.6)</b>	<b>681.6</b>	<b>111.5</b>	<b>200.9</b>	<b>517.9</b>	<b>250.7</b>	<b>1,081.0</b>	<b>103.6</b>	<b>115.3</b>	<b>152.7</b>	<b>167.2</b>	<b>538.8</b>	<b>733.3</b>	<b>829.6</b>
Net income attributable to noncontrolling interests, after tax	(5.0)	(3.7)	(5.9)	(2.4)	(5.7)	(3.0)	0.3	(10.8)	0.1	-	-	-	0.1	-	-
<b>Net income / (loss)</b>	<b>14.8</b>	<b>(592.3)</b>	<b>675.7</b>	<b>109.1</b>	<b>195.2</b>	<b>514.9</b>	<b>251.0</b>	<b>1,070.2</b>	<b>103.7</b>	<b>115.3</b>	<b>152.7</b>	<b>167.2</b>	<b>538.9</b>	<b>733.3</b>	<b>829.6</b>
<b>Diluted EPS</b>	<b>\$0.07</b>	<b>(\$2.95)</b>	<b>\$3.35</b>	<b>\$0.55</b>	<b>\$1.02</b>	<b>\$2.76</b>	<b>\$1.37</b>	<b>\$5.65</b>	<b>\$0.59</b>	<b>\$0.66</b>	<b>\$0.74</b>	<b>\$0.81</b>	<b>\$2.82</b>	<b>\$3.62</b>	<b>\$4.21</b>
Diluted shares outstanding	200.8	200.9	201.7	197.0	191.1	186.3	183.6	189.5	176.3	174.9	207.1	205.6	191.0	202.3	196.8
Book value per diluted share	\$44.25	\$41.46	\$44.16	\$44.67	\$45.16	\$48.33	\$49.36	\$49.36	\$49.69	\$50.36	\$53.05	\$53.46	\$53.46	\$58.59	\$64.51
<b>Tangible book value per diluted share</b>	<b>\$42.52</b>	<b>\$39.72</b>	<b>\$42.44</b>	<b>\$42.59</b>	<b>\$42.99</b>	<b>\$45.23</b>	<b>\$46.35</b>	<b>\$46.35</b>	<b>\$46.64</b>	<b>\$47.28</b>	<b>\$47.66</b>	<b>\$48.07</b>	<b>\$48.07</b>	<b>\$53.05</b>	<b>\$58.81</b>

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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### Company Valuation and Risk Disclosures

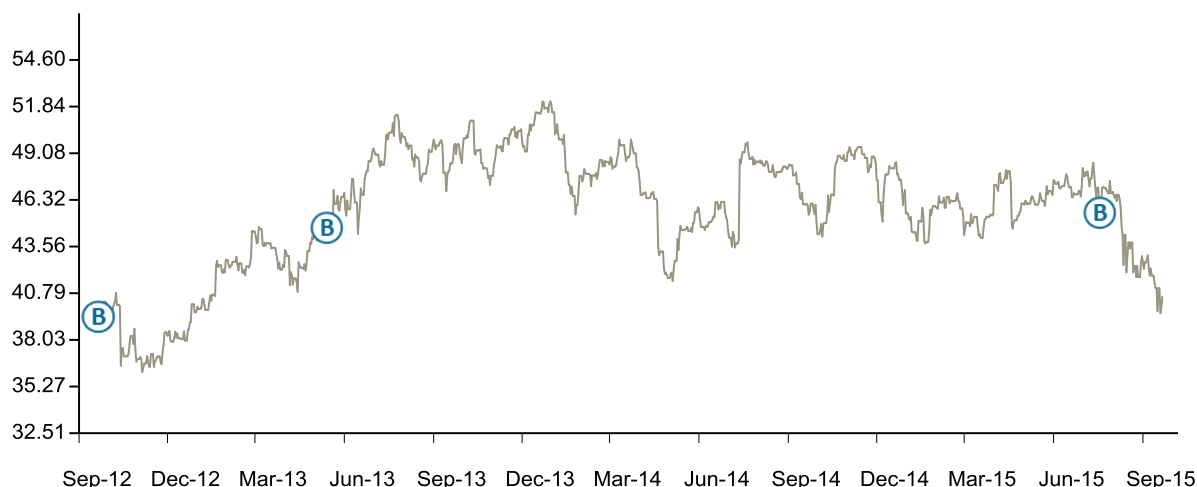
#### CIT Group, Inc. (CIT, BUY)

**Valuation:** Our \$56 price target is based on a 1.1X multiple of CIT Group's 2017E tangible book value per share discounted back at 10%.

**Risks:** The primary risk to achieving our price target includes the impact of a "double dip" recession on the economic health of CIT's middle-market clients, the inability of the company to change its unfavorable funding mix, a significant change in the regulatory environment for banks, and the inability of CIT to deploy its excess capital.

## CIT Group, Inc. (CIT)

(\$)



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

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
12-Dec-11	33.69	44	Mark Palmer	BUY
01-Feb-12	39.05	47	Mark Palmer	BUY
10-May-12	36.68	45	Mark Palmer	BUY
23-May-13	44.65	55	Mark Palmer	BUY
28-Jul-15	45.53	56	Mark Palmer	BUY

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Additional Information Available Upon Request

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