

Equity Research

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Financials

CIT Group, Inc.

Catalyst Arrives as OCC, Federal Reserve Approve CIT's Merger with OneWest

One day short of a year after CIT Group (CIT) announced that it would acquire OneWest Bank for \$3.4bn in cash and stock, the deal finally received conditional approval from the Office of the Comptroller of the Currency (OCC) and the Federal Reserve yesterday. The approval gives CIT a much-needed boost as its shares have stagnated this year amidst uncertainty about the outcome and timing of the regulatory review and the company's weak 1Q15 earnings report.

- ▶ That soft earnings report and lingering investor concerns about competition and pricing in the middle-market lending space as well as pressure on CIT's net finance margin have resulted in a flat share price performance this year, underlining the importance of the OneWest deal to the company and its stock. The transaction is expected to be 20% accretive to CIT's earnings per share in 2016 while generating an internal rate of return of 15%.
- ▶ **We reiterate our Buy recommendation on CIT and \$55 price target** based on 1.1x the company's 2016E tangible book value per share discounted back at 8%.
- ▶ The regulators' approval of the deal was conditional insofar as CIT must produce a comprehensive business plan within 120 days and demonstrate that it has the infrastructure and other elements required to execute it. The combined business, which will have approximately \$70bn in assets, will be called CIT Bank. Insofar as it will have more than \$50bn in assets, CIT will be a Systemically Important Financial Institution (SIFI) as defined by the Dodd-Frank Act and therefore subject to increased regulatory scrutiny.
- ▶ **Valuation:** Our \$55 price target is based on a 1.1X multiple of CIT Group's 2016E tangible book value per share discounted back at 8%.

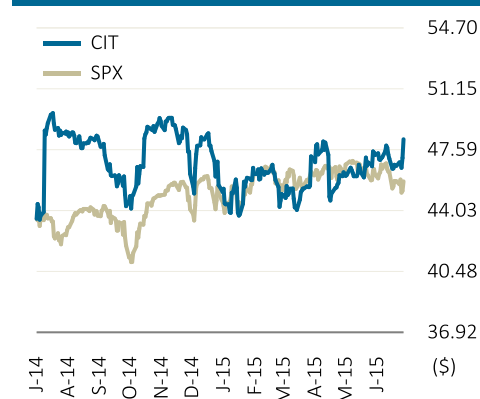
CIT **\$48.18**

12 month target \$55.00
Upside 14.2%

BUY

52 week range \$43.74 - \$49.73
Market Cap (m) \$8,975

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.)	0.55	1.02	2.76	1.37	5.65	0.59	0.61	0.94	0.97	3.10	4.09
Tangible BVPS	42.59	42.99	45.23	46.35	46.35	46.64	46.95	47.42	47.90	47.90	53.64
Operating Income	126	219	117	222	684	148	152	232	238	770	985

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

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

- ▶ CIT is scheduled to report its 2Q15 results on Tuesday, July 28 before the market open with a conference call scheduled for 8am ET. We estimate that the company will report 2Q15 EPS of \$0.61 versus the consensus estimate of \$0.65.
- ▶ In addition more details about the impact of the OneWest deal, we believe CIT management during the conference call should provide its assessment of the potential impact of General Electric's (GE, Not Rated) exit from several of the businesses in which it has competed with the company. CIT CEO John Thain during the company's 1Q15 call said management was "still evaluating" the impact of GE's moves. We think investors are particularly interested in hearing about any impact on pricing in the middle-market loan industry as well as other verticals.

Income Statement

CIT 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 income	2,231.9	1,572.3	1,385.9	323.3	309.8	308.3	306.2	1,247.6	281.0	285.2	505.1	510.2	1,581.5	2,102.7
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	541.2	543.9	549.4	2,165.1	2,252.9
Finance Revenue	4,017.5	3,473.1	3,283.3	815.2	829.4	843.3	852.7	3,340.6	811.6	826.4	1,049.1	1,059.5	3,746.6	4,355.6
Interest Expense	(2,794.4)	(2,897.4)	(1,138.0)	(290.9)	(262.2)	(275.2)	(276.9)	(1,105.2)	(271.3)	(272.7)	(304.3)	(305.8)	(1,154.0)	(1,247.8)
Depreciation on operating lease equipment	(538.6)	(513.2)	(540.6)	(148.8)	(157.3)	(156.4)	(153.2)	(615.7)	(156.8)	(157.6)	(178.4)	(179.3)	(672.0)	(731.5)
Maintenance and other operating lease expenses	(157.8)	(139.4)	(163.1)	(51.6)	(49.0)	(46.5)	(49.7)	(196.8)	(46.1)	(46.3)	(46.6)	(46.8)	(185.8)	(191.0)
Net Finance Revenue	526.7	(76.9)	1,441.6	323.9	360.9	365.2	372.9	1,422.9	337.4	349.9	519.9	527.7	1,734.8	2,185.3
Other income	952.8	653.1	382.1	74.2	93.7	24.2	116.4	303.8	86.4	80.0	80.0	80.0	326.4	329.7
Total Net Revenues	2,432.3	1,229.3	2,205.8	398.1	454.6	389.4	489.3	1,726.7	423.8	429.9	599.9	607.7	2,061.2	2,514.9
Provision for credit losses	(269.7)	(51.6)	(64.9)	(36.7)	(10.2)	(38.2)	(15.0)	(100.1)	(34.6)	(34.9)	(38.4)	(38.8)	(146.8)	(165.5)
Net revenue, after credit provision	2,162.6	1,177.7	2,140.9	361.4	444.4	351.2	474.3	1,626.6	389.2	394.9	561.4	568.9	1,914.4	2,349.4
Operating expenses	(896.6)	(918.2)	(984.7)	(235.7)	(225.0)	(234.5)	(248.8)	(931.7)	(241.6)	(242.8)	(329.0)	(330.7)	(1,144.1)	(1,000.0)
Gain/ (Loss) on debt extinguishments	(134.8)	(61.2)	-	-	(0.4)	-	(3.1)	(3.5)	-	-	-	-	-	-
Income/ (loss) before provision for income taxes	178.4	(454.8)	774.1	125.7	219.0	116.7	222.4	683.8	147.6	152.1	232.4	238.2	770.3	985.4
Benefit (Provision) for income taxes	(158.6)	(133.8)	(92.5)	(14.2)	(18.1)	401.2	28.3	397.2	(44.0)	(45.6)	(69.7)	(71.5)	(230.8)	(295.6)
Net income / (loss) before noncontrolling interests	19.8	(588.6)	681.6	111.5	200.9	517.9	250.7	1,081.0	103.6	106.5	162.7	166.7	539.5	689.8
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	-
Net income / (loss)	14.8	(592.3)	675.7	109.1	195.2	514.9	251.0	1,070.2	103.7	106.5	162.7	166.7	539.6	689.8
Diluted EPS	\$0.07	(\$2.95)	\$3.35	\$0.55	\$1.02	\$2.76	\$1.37	\$5.65	\$0.59	\$0.61	\$0.94	\$0.97	\$3.10	\$4.09
Diluted shares outstanding	200.8	200.9	201.7	197.0	191.1	186.3	183.6	189.5	176.3	174.8	173.3	171.8	174.0	168.5
Book value per diluted share	\$44.25	\$41.46	\$44.16	\$44.67	\$45.16	\$48.33	\$49.36	\$49.36	\$49.69	\$50.00	\$50.47	\$50.95	\$50.95	\$56.79
Tangible book value per diluted share	\$42.52	\$39.72	\$42.44	\$42.59	\$42.99	\$45.23	\$46.35	\$46.35	\$46.64	\$46.95	\$47.42	\$47.90	\$47.90	\$53.64

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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CIT Group, Inc. (CIT)

Valuation

Our \$55 price target is based on a 1.2X multiple of CIT Group's 2016E tangible book value per share discounted back at 8%.

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

Other Disclosures

Additional Information Available Upon Request

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