

## Equity Research

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## Financials

### CIT Group, Inc.

#### Despite 1Q16 Earnings Miss, CIT Posts Encouraging Loan Growth During Tough Period for Middle-Market

Ellen Alemany's first quarterly report as the CEO of CIT Group (CIT, Buy, \$52 PT) was somewhat favorable in terms of loan growth, efficiency ratio and net finance margin, but a sequential increase in provision for loan losses was the apparent driver of a 1Q16 earnings from continuing operations miss.

### CIT

12 month target

**\$34.49**

\$52.00

### BUY

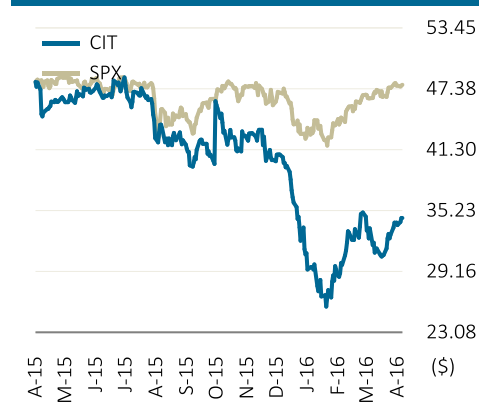
52 week range

\$25.65 - \$48.51

Market Cap (m)

\$6,967

#### Price Performance



Source: IDC

- ▶ CIT this morning reported 1Q16 earnings from continuing operations of \$0.75 versus the consensus estimate of \$0.76 and our estimate of \$0.78. While the market reaction to the miss was initially negative, we don't view the increase in provision as all that surprising insofar as the company's exposure to oil and gas – \$945mm, or 3% of CIT's loan portfolio as of March 31 – and dry bulk shipping has been known for some time.
- ▶ On a more positive note, CIT posted commercial loan growth of 2% during 1Q16, occurred during a period when middle-market lending was down 43% sequentially and 25% year-over-year.
- ▶ With that said, we believe many potential investors in CIT shares will stay on the sidelines until the company is closer to a sale or spin of its Commercial Air unit, a catalyst that we believe will be key to unlocking the value of the company. However, with CIT trading at just 0.72x the company's book value of \$48.39 as of March 31, we believe the stock represents a compelling opportunity right now.
- ▶ **We are reiterating our Buy recommendation on CIT and price target of \$52** based on 1.0x the company's 2017E tangible book value (TBV) per share discounted at 10%.
- ▶ **Valuation:** Our \$52 price target is based on a 1.0X multiple of CIT Group's 2017E TBV per share discounted back at 10%.

## Estimates

	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	1Q16 A	2Q16 E	3Q16 E	4Q16 E	FY16 E	FY17 E
Diluted EPS (Adj.)	0.59	0.66	0.80	0.72	5.68	0.75	0.77	0.85	0.93	3.26	3.91
Tangible BVPS	46.64	47.28	49.33	47.65	47.65	48.29	49.14	50.07	51.06	51.06	55.26
Operating Income	148	153	137	141	579	204	231	253	275	964	1,149

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

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

- ▶ For some investors, the only part of CIT's conference call that really mattered was management's update on their "number one portfolio," the Commercial Air separation. Alemany said management was on track to completing the unit's financial statements, which is a prerequisite for a sale or spin-off.

## Income Statement

CIT Operating Model	Dec-11	Dec-12	Dec-13	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Dec-16	Dec-17
\$ millions	2011A	2012A	2013A	2014A	1Q15A	2Q15A	3Q15A	4Q15A	2015A	1Q16A	2Q16E	3Q16E	4Q16E	2016E	2017E
Interest income	2,231.9	1,572.3	1,385.9	1,247.6	281.0	283.8	437.7	510.4	1,512.9	495.4	505.3	515.4	525.7	2,041.8	2,129.3
Rental income on operating leases	1,785.6	1,900.8	1,897.4	2,093.0	530.6	531.7	539.3	550.9	2,152.5	575.4	581.2	587.0	592.8	2,336.4	2,401.1
<b>Finance Revenue</b>	<b>4,017.5</b>	<b>3,473.1</b>	<b>3,283.3</b>	<b>3,340.6</b>	<b>811.6</b>	<b>815.5</b>	<b>977.0</b>	<b>1,061.3</b>	<b>3,665.4</b>	<b>1,070.8</b>	<b>1,086.5</b>	<b>1,102.4</b>	<b>1,118.6</b>	<b>4,378.2</b>	<b>4,530.4</b>
Interest Expense	(2,794.4)	(2,897.4)	(1,138.0)	(1,105.2)	(271.3)	(265.2)	(280.3)	(286.7)	(1,103.5)	(286.4)	(287.8)	(289.3)	(290.7)	(1,154.2)	(1,177.5)
Depreciation on operating lease equipment	(538.6)	(513.2)	(540.6)	(615.7)	(156.8)	(157.8)	(159.1)	(166.8)	(640.5)	(175.3)	(176.2)	(177.1)	(177.9)	(706.5)	(720.7)
Maintenance and other operating lease expenses	(157.8)	(139.4)	(163.1)	(196.8)	(46.1)	(49.4)	(55.9)	(79.6)	(231.0)	(56.2)	(56.8)	(57.3)	(57.9)	(228.2)	(236.3)
<b>Net Finance Revenue</b>	<b>526.7</b>	<b>(76.9)</b>	<b>1,441.6</b>	<b>1,422.9</b>	<b>337.4</b>	<b>343.1</b>	<b>481.7</b>	<b>528.2</b>	<b>1,690.4</b>	<b>552.9</b>	<b>565.7</b>	<b>578.7</b>	<b>592.0</b>	<b>2,289.3</b>	<b>2,396.0</b>
Other income	952.8	653.1	382.1	303.8	86.4	63.5	39.2	30.4	219.5	100.9	103.9	107.0	110.3	422.1	492.6
<b>Total Net Revenues</b>	<b>2,432.3</b>	<b>1,229.3</b>	<b>2,205.8</b>	<b>1,726.7</b>	<b>423.8</b>	<b>406.6</b>	<b>520.9</b>	<b>558.6</b>	<b>1,909.9</b>	<b>653.8</b>	<b>669.6</b>	<b>685.8</b>	<b>702.3</b>	<b>2,711.4</b>	<b>2,888.6</b>
Provision for credit losses	(269.7)	(51.6)	(64.9)	(100.1)	(34.6)	(18.4)	(49.9)	(57.6)	(160.5)	(99.3)	(96.8)	(94.4)	(92.0)	(382.6)	(377.4)
<b>Net revenue, after credit provision</b>	<b>2,162.6</b>	<b>1,177.7</b>	<b>2,140.9</b>	<b>1,626.6</b>	<b>389.2</b>	<b>388.2</b>	<b>471.0</b>	<b>501.0</b>	<b>1,749.4</b>	<b>554.5</b>	<b>572.8</b>	<b>591.4</b>	<b>610.2</b>	<b>2,328.9</b>	<b>2,511.1</b>
Operating expenses	(896.6)	(918.2)	(984.7)	(931.7)	(241.6)	(235.0)	(333.9)	(357.8)	(1,168.3)	(348.5)	(341.5)	(338.1)	(334.7)	(1,362.9)	(1,362.5)
Gain/ (Loss) on debt extinguishments	(134.8)	(61.2)	-	(3.5)	-	(0.1)	(0.3)	(2.2)	(2.6)	(1.6)	-	-	-	(1.6)	-
<b>Income/ (loss) before provision for income taxes</b>	<b>178.4</b>	<b>(454.8)</b>	<b>774.1</b>	<b>683.8</b>	<b>147.6</b>	<b>153.1</b>	<b>136.8</b>	<b>141.0</b>	<b>578.5</b>	<b>204.4</b>	<b>231.3</b>	<b>253.3</b>	<b>275.5</b>	<b>964.4</b>	<b>1,148.6</b>
Benefit (Provision) for income taxes	(158.6)	(133.8)	(92.5)	397.2	(44.0)	(37.8)	560.0	10.2	488.4	(52.7)	(76.3)	(83.6)	(90.9)	(303.5)	(379.1)
<b>Net income / (loss) before noncontrolling interests</b>	<b>19.8</b>	<b>(588.6)</b>	<b>681.6</b>	<b>1,081.0</b>	<b>103.6</b>	<b>115.3</b>	<b>696.8</b>	<b>151.2</b>	<b>1,066.9</b>	<b>151.7</b>	<b>155.0</b>	<b>169.7</b>	<b>184.6</b>	<b>660.9</b>	<b>769.6</b>
Net Income attributable to noncontrolling interests, after tax	(5.0)	(3.7)	(5.9)	(10.8)	0.1	-	(3.7)	(6.7)	(10.3)	(7.4)	-	-	-	(7.4)	-
<b>Net income / (loss)</b>	<b>14.8</b>	<b>(592.3)</b>	<b>675.7</b>	<b>1,070.2</b>	<b>103.7</b>	<b>115.3</b>	<b>693.1</b>	<b>144.5</b>	<b>1,056.6</b>	<b>144.3</b>	<b>155.0</b>	<b>169.7</b>	<b>184.6</b>	<b>653.5</b>	<b>769.6</b>
<b>Diluted EPS</b>	<b>\$0.07</b>	<b>(\$2.95)</b>	<b>\$3.35</b>	<b>\$5.65</b>	<b>\$0.59</b>	<b>\$0.66</b>	<b>\$0.80</b>	<b>\$0.72</b>	<b>\$5.68</b>	<b>\$0.75</b>	<b>\$0.77</b>	<b>\$0.85</b>	<b>\$0.93</b>	<b>\$3.26</b>	<b>\$3.91</b>
Diluted shares outstanding	200.8	200.9	201.7	189.5	176.3	174.9	191.8	201.4	186.1	202.1	201.1	200.1	199.1	200.6	196.6
Book value per diluted share	\$44.25	\$41.46	\$44.16	\$49.36	\$49.69	\$50.36	\$56.30	\$54.52	\$54.52	\$55.04	\$55.86	\$56.73	\$57.66	\$57.66	\$61.61
<b>Tangible book value per diluted share</b>	<b>\$42.52</b>	<b>\$39.72</b>	<b>\$42.44</b>	<b>\$46.35</b>	<b>\$46.64</b>	<b>\$47.28</b>	<b>\$49.33</b>	<b>\$47.65</b>	<b>\$47.65</b>	<b>\$48.29</b>	<b>\$49.14</b>	<b>\$50.07</b>	<b>\$51.06</b>	<b>\$51.06</b>	<b>\$55.26</b>

Source: BTIG Research Estimates and Company Documents. Book value figures are shown of a fully diluted basis in our operating model.

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

**Valuation:** Our \$52 price target is based on a 1.0X 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
02-Feb-16	27.18	52	Mark Palmer	Buy

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