

Equity Research

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CIT

12 month target

\$34.37

\$52.00

BUY

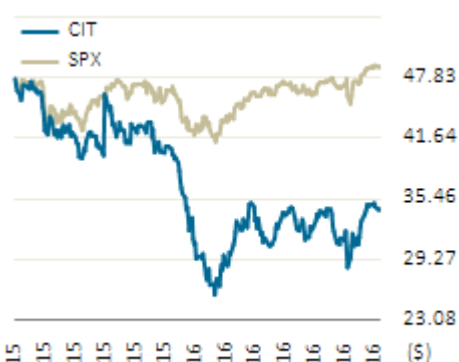
52 week range

\$25.65 - \$47.44

Market Cap (m)

\$6,952

Price Performance



Source: IDC

Financials

CIT Group, Inc.

2Q16 Earnings Beat from Continuing Operations on Lower Provision Marred by OneWest Deal Fallout

With the separation of its Commercial Air unit progressing, and with it the long-awaited approach of a catalyst that could finally help to shrink the discount at which its shares trade, CIT Group (CIT) this morning posted a 2Q16 report that demonstrated positive movement on the operating front even as the company continued to clean-up the fallout from its acquisition of OneWest Bank.

- ▶ CIT reported 2Q16 earnings per share from continuing operations of \$0.90, significantly outpacing the consensus estimate of \$0.78 and our estimate of \$0.77 despite flattish asset growth as its provision for credit losses declined sequentially. At the same time, the company reported an after-tax charge of \$0.80 per share related to an increased interest curtailment reserve for Financial Freedom, the reverse mortgage servicing business it acquired as part of the OneWest deal.
- ▶ While CIT's benign quarter from a credit perspective was welcome – its provision of \$28mm was down from \$99mm in 1Q16 (and far below our estimate of \$99mm) as non-accrual loans fell by 4% sequentially and net charge-offs declined by 12bps quarter-over-quarter to 53bps – its lack of asset growth underlined the importance of the pending Commercial Air separation as a means of boosting the stock.
- ▶ The separation would enable CIT to plan to buy back 40% of its stock and to reduce its long-term debt to 20% of funding (from 30%). Management confirmed that while the company continued to pursue a dual-track process that could involve a spin-off of the Commercial Air unit, it had moved on to a second round of bidding as part of its sale effort; media reports have identified China's HNA Group as the leading contender among the bidders.
- ▶ **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 A	3Q16 E	4Q16 E	FY16 E	FY17 E
Diluted EPS (Adj.)	0.59	0.66	0.80	0.72	5.68	0.75	0.90	0.80	0.84	3.24	3.79
Tangible BVPS	46.64	47.28	49.33	47.65	47.65	48.29	48.38	49.18	50.01	50.01	53.83
Operating Income	148	153	137	141	579	204	275	239	250	970	1,115

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

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

Income Statement

CIT Operating Model	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Dec-17
\$ millions	2011A	2012A	2013A	2014A	2015A	1Q16A	2Q16A	3Q16E	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E
Interest income	2,231.9	1,572.3	1,385.9	1,247.6	1,512.9	495.4	495.3	500.3	505.3	1,996.2	510.3	515.4	520.6	525.8	2,072.1
Rental Income on operating leases	1,785.6	1,900.8	1,897.4	2,093.0	2,152.5	575.4	569.3	575.0	580.7	2,300.4	586.6	592.4	598.3	604.3	2,381.6
Finance Revenue	4,017.5	3,473.1	3,283.3	3,340.6	3,665.4	1,070.8	1,064.6	1,075.2	1,086.0	4,296.6	1,096.9	1,107.8	1,118.9	1,130.1	4,453.7
Interest Expense	(2,794.4)	(2,897.4)	(1,138.0)	(1,105.2)	(1,103.5)	(286.4)	(282.5)	(283.9)	(285.3)	(1,138.1)	(286.8)	(288.2)	(289.6)	(291.1)	(1,155.7)
Depreciation on operating lease equipment	(538.6)	(513.2)	(540.6)	(615.7)	(640.5)	(175.3)	(176.4)	(177.3)	(178.2)	(707.2)	(179.1)	(180.0)	(180.9)	(181.8)	(721.6)
Maintenance and other operating lease expenses	(157.8)	(139.4)	(163.1)	(196.8)	(231.0)	(56.2)	(64.9)	(65.2)	(65.6)	(251.9)	(65.9)	(66.5)	(67.2)	(67.9)	(267.5)
Net Finance Revenue	526.7	(76.9)	1,441.6	1,422.9	1,690.4	552.9	540.8	548.8	556.9	2,199.5	565.2	573.1	581.2	589.4	2,308.9
Other income	952.8	653.1	382.1	303.8	219.5	100.9	104.3	101.7	102.7	409.6	111.9	115.2	118.7	122.2	468.0
Total Net Revenues	2,432.3	1,229.3	2,205.8	1,726.7	1,909.9	653.8	645.1	650.5	659.7	2,609.1	677.0	688.4	699.9	711.6	2,776.9
Provision for credit losses	(269.7)	(51.6)	(64.9)	(100.1)	(160.5)	(99.3)	(28.1)	(77.0)	(78.5)	(282.9)	(79.3)	(80.1)	(80.9)	(81.7)	(321.9)
Net revenue, after credit provision	2,162.6	1,177.7	2,140.9	1,626.6	1,749.4	554.5	617.0	573.6	581.2	2,326.2	597.7	608.3	619.0	629.9	2,455.0
Operating expenses	(896.6)	(918.2)	(984.7)	(931.7)	(1,168.3)	(348.5)	(337.5)	(334.1)	(330.8)	(1,350.9)	(332.4)	(334.1)	(335.8)	(337.4)	(1,339.8)
Gain/ (Loss) on debt extinguishments	(134.8)	(61.2)	-	(3.5)	(2.6)	(1.6)	(4.1)	-	-	(5.7)	-	-	-	-	-
Income/ (loss) before provision for income taxes	178.4	(454.8)	774.1	683.8	578.5	204.4	275.4	239.4	250.4	969.6	265.3	274.2	283.2	292.5	1,115.2
Benefit (Provision) for income taxes	(158.6)	(133.8)	(92.5)	397.2	488.4	(52.7)	(94.3)	(79.0)	(82.6)	(308.6)	(87.6)	(90.5)	(93.5)	(96.5)	(368.0)
Net income / (loss) before noncontrolling interests	19.8	(588.6)	681.6	1,081.0	1,066.9	151.7	181.1	160.4	167.8	661.0	177.8	183.7	189.8	196.0	747.2
Net Income attributable to noncontrolling interests, after tax	(5.0)	(3.7)	(5.9)	(10.8)	(10.3)	(7.4)	-	-	-	(7.4)	-	-	-	-	-
Net income / (loss)	14.8	(592.3)	675.7	1,070.2	1,056.6	144.3	181.1	160.4	167.8	653.6	177.8	183.7	189.8	196.0	747.2
Diluted EPS	\$0.07	(\$2.95)	\$3.35	\$5.65	\$5.68	\$0.75	\$0.90	\$0.80	\$0.84	\$3.24	\$0.89	\$0.93	\$0.96	\$1.00	\$3.79
Diluted shares outstanding	200.8	200.9	201.7	189.5	186.1	202.1	202.3	201.3	200.3	201.5	198.8	197.8	196.8	195.8	197.3
Book value per diluted share	\$44.25	\$41.46	\$44.16	\$49.36	\$54.52	\$55.04	\$55.00	\$55.83	\$56.69	\$56.69	\$57.75	\$58.69	\$59.66	\$60.67	\$60.67
Tangible book value per diluted share	\$42.52	\$39.72	\$42.44	\$46.35	\$47.65	\$48.29	\$48.38	\$49.18	\$50.01	\$50.01	\$51.01	\$51.92	\$52.86	\$53.83	\$53.83

Source: BTIG 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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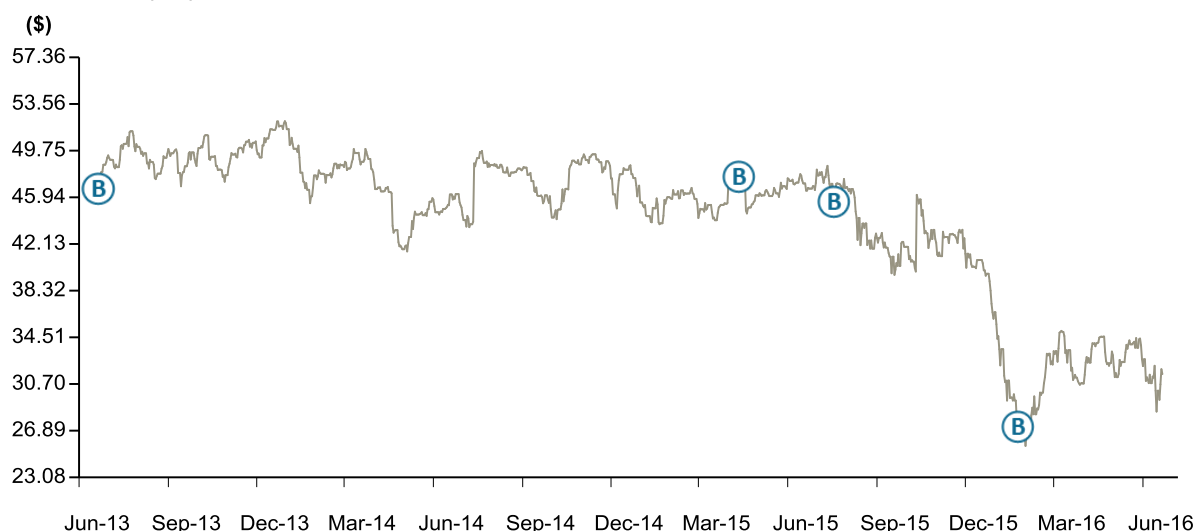
Company Valuation and Risk Disclosures

CIT Group, Inc. (CIT, Buy, \$52 PT)

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

Other Disclosures

Additional Information Available Upon Request

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