

Equity Research

October 7, 2016

Mark Palmer

(212) 588-6582
mpalmer@btig.com

Giuliano Bologna

(212) 588-6583
gbologna@btig.com

Financials

CIT Group, Inc.

Agreement to Sell Air Leasing Unit to Avolon Paves Way for Up to \$3.3bn in Capital Return, Banking Focus

Just short of a year after CIT Group (CIT) management stated that they would seek to sell or spin off its commercial air leasing unit, the company late yesterday afternoon announced that they had agreed to sell the unit to Avolon, the Irish aircraft leasing subsidiary of China's Bohai Capital Holding, for \$10bn in cash.

- ▶ The sale, which is expected to close by the end of 1Q17, would enable CIT to return up to \$3.3bn – more than a third of its tangible common equity – to shareholders through buybacks and special dividends. The company said it had received a “non objection” to its amended capital plan from the Federal Reserve Bank of New York (FRBNY), which had rejected its initial capital plan in June.
- ▶ The sale would also allow CIT to repurchase about \$6bn of its unsecured debt, which would reduce the company's reliance on wholesale funding, which had been the primary reason why it had been forced to file for bankruptcy during the financial crisis. Deposits, a much more stable source of funding, would represent 75% of CIT's funding after the deal's closing.
- ▶ The deal also would move CIT closer to management's stated goal of transforming the company into a simpler, U.S.-focused middle-market lender that could command a significantly fuller valuation than the 0.66x its tangible book as of June 30 at which it had traded prior to the deal's announcement.
- ▶ **We are reiterating our Buy recommendation on CIT and price target of \$52** based on 1.0x the company's 2017 tangible book value discounted back at 10%. We view the sale of the commercial air leasing unit as a game-changer for CIT that should help it to narrow the gap between its valuation and those of U.S. regional banks.
- ▶ **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%.

CIT **\$36.40**

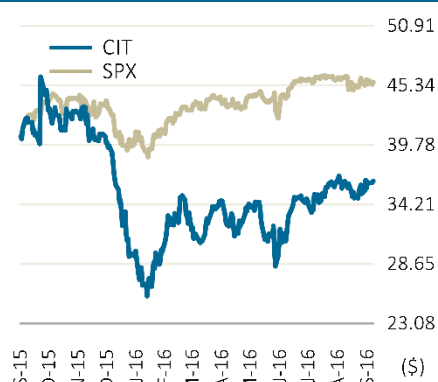
12 month target \$52.00

BUY

52 week range \$25.65 - \$46.14

Market Cap (m) \$7,363

Price Performance



Source: IDC

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)

- ▶ CIT disclosed that it had allocated \$3.3bn in equity to the commercial air leasing unit such that the sale represented a price to book multiple of 1.2x – a healthy multiple given that publicly traded air leasing companies are trading at discounts to book value.
- ▶ The sale is subject to Hart-Scott-Rodino review and would also need to receive approvals from Chinese regulators and stock exchange officials. It is also subject to approval by shareholders of HNA Group, the Chinese conglomerate that is Bohai's majority shareholder.
- ▶ Avolon agreed to deposit \$500mm in a U.S. bank escrow account that would be payable to CIT if the deal does not close for any of the reasons outlined in the sale agreement. That amount would increase by \$100mm to \$600mm if CIT meets certain closing conditions.

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.

BTIG Covered Companies Mentioned In This Report

CIT GROUP, INC. (CIT, Buy, \$52 PT; Current Price: \$36.4; Analyst: Mark.Palmer)

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.

Regulatory Disclosures

Analyst Stock Ratings Definitions

BTIG LLC's ("BTIG") ratings, effective May 10, 2010, are defined as follows:

BUY – A stock that is expected at initiation to produce a positive total return of 15% or greater over the 12 months following the initial recommendation. The BUY rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

SELL – A stock that is expected at initiation to produce a negative total return of 15% or greater over the next 12 months following the initial recommendation. The SELL rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

NEUTRAL – A stock that is not expected to appreciate or depreciate meaningfully over the next 12 months.

NOT RATED – A stock that is not rated but that is covered by BTIG.

Distribution of Ratings and Investment Banking Clients

BTIG must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "buy", "neutral" or "sell" rating. The said ratings are updated on a quarterly basis. BTIG must also disclose the percentage of subject companies within each of these three categories for whom the member has provided investment banking services within the previous twelve months. **Stocks under coverage as of the end of the most recent calendar quarter (June 30, 2016): 185**

Distribution of BTIG's Research Recommendations (as of June 30, 2016):

BUY: 61.6%; NEUTRAL: 35.7%; SELL: 2.7%

Distribution of BTIG's Investment Banking Services (as of June 30, 2016):

BUY: 84.6%; NEUTRAL: 15.4%; SELL: 0%

For purposes of FINRA ratings distribution rules, BTIG's stock ratings of Buy, Neutral and Sell fall into Buy, Hold and Sell categories, respectively.

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

vol

Other Disclosures

Additional Information Available Upon Request

General Disclosures

Research reports produced by BTIG LLC ("BTIG") are published for and intended to be distributed solely to BTIG institutional and corporate clients. Recipients of BTIG reports will not be considered clients of BTIG solely because they may have received such BTIG report.

The equity research analyst(s) responsible for the preparation of this report receives compensation based upon a variety of factors, including the quality and accuracy of research, internal/client feedback, and overall Firm revenues.

BTIG reports are based on public information and BTIG considers the same to be reliable, comprehensive information, but makes no representation or warranty that the reports are accurate or complete. BTIG opinions and information provided in this report are as of the date of the report and may change without notice.

This research report is not an offer to buy or sell or solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal. This research report was not drafted specifically for any particular individual or entity and is not a personal recommendation to participate in any particular trading strategy or transaction. Any recipient of this research report should obtain independent advice specific to their personal circumstances before undertaking any investment activity and must make their own independent evaluation of any securities or financial instruments.

Facts, views or opinions presented in this report have not been reviewed by, and may not reflect information known to, employees or other professionals in the "BTIG Group" (BTIG Group includes, but is not limited to, BTIG and its parents, subsidiaries and/or affiliates). BTIG Group employees, including Sales Representatives and Traders, may provide oral or written commentary or advice that may be inconsistent with the opinions and/or views expressed in this research report. BTIG Group employees and/or its affiliates not involved in the preparation of this research report may have investments in securities or derivatives of securities of companies mentioned in this report that are inconsistent with the views discussed in this report.

Investors in securities products bear certain risks in conjunction with those investments. The value of, and income from, any investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors within or beyond the companies control. Recipient of the research reports should be aware that investments in equity securities may pose significant risks due to the inherent uncertainty associated with relying on forecasts of various factors that can affect the earnings, cash flow and overall valuation of a company. Any investment in equity securities should be undertaken only upon consideration of issues relating to the recipient's overall investment portfolio and objectives (such as diversification by asset class, industry or company) as well as time horizon and liquidity needs. Further, past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. There may be time limitations on the exercise of options or other rights in any securities transactions.

Investing in foreign markets and securities, including ADRs, is subject to additional risks such as currency fluctuation, limited information, political instability, economic risk, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks. Non-U.S. reporting issuers of foreign securities, however, may not make regular or complete public disclosure relating to their financial condition or the securities that they issue.

The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability of any damages of any kind relating to such data. The report or any portion hereof may not be reprinted, sold or redistributed without the written consent of BTIG. This report is intended only for use by the recipient. The recipient acknowledges that all research and analysis in this report are the property of BTIG and agrees to limit the use of all publications received from BTIG within his, or her or its, own company or organization. No rights are given for passing on, transmitting, re transmitting or reselling the information provided.

Jurisdiction and Dissemination

BTIG is a U.S. broker-dealer and member of FINRA and SIPC.

BTIG Australia Limited ACN 128 554 601, member of ASIC and ASX; BTIG Hong Kong Limited, an Exchange Participant of SEHK and licensed and regulated by the SFC; BTIG Ltd, member of the LSE, authorized and regulated by the FSA; and BTIG Singapore Pte Ltd, registered and licensed with MAS; are all separate but affiliated entities of BTIG. Unless governing law permits otherwise, you must contact a BTIG entity in your home jurisdiction for further information, or if you want to use our services in effecting a transaction.

Issues and approved for distribution in the UK and EEA by BTIG Ltd. to eligible counterparties and professional clients only. Issued and distributed in Australia to "wholesale clients" only by BTIG Australia Limited. In Singapore and Hong Kong, further information may be obtained from BTIG Singapore Pte Ltd and BTIG Hong Kong Limited, respectively.