

Ally Financial Inc. (ALLY)

\$22.02 (As of 08/07/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/14/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: A

Growth: F

Momentum: F

Summary

Ally Financial's shares have underperformed the industry so far this year. Its earnings surpassed the Zacks Consensus Estimate in two and met in one of the trailing four quarters. Its second-quarter 2020 results benefited from higher revenues, partly offset by a rise in costs. Mounting expenses (mainly due to inorganic growth efforts) are expected to continue hurting the bottom line. Deteriorating credit quality is another concern and makes us apprehensive about its growth prospects. Due to the coronavirus-related uncertainties, the company terminated the CardWorks deal. However, efforts to diversify revenues, decent growth in consumer loans and a strong capital position will likely support profitability. The company remains well-poised to grow inorganically. Through its capital deployments, it will likely continue enhancing shareholder value.

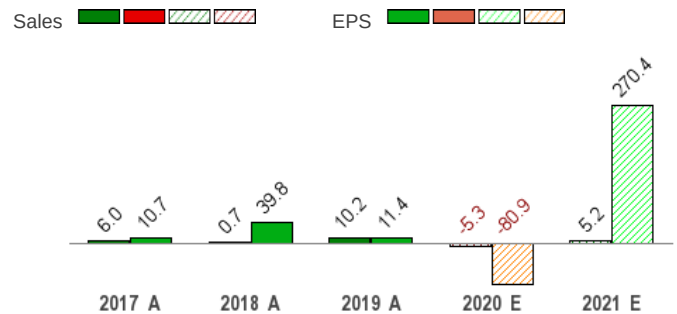
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$35.42 - \$10.22
20 Day Average Volume (sh)	5,010,663
Market Cap	\$8.0 B
YTD Price Change	-29.7%
Beta	1.59
Dividend / Div Yld	\$0.76 / 3.5%
Industry	Financial - Consumer Loans
Zacks Industry Rank	Top 49% (123 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	238.9%
Last Sales Surprise	10.7%
EPS F1 Est- 4 week change	-2.8%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	10.1
P/E F1	31.5
PEG F1	2.3
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,523 E	1,541 E	1,576 E	1,571 E	6,365 E
2020	1,412 A	1,609 A	1,459 E	1,537 E	6,052 E
2019	1,598 A	1,552 A	1,601 A	1,643 A	6,394 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.43 E	\$0.59 E	\$0.82 E	\$0.82 E	\$2.63 E
2020	-\$0.44 A	\$0.61 A	\$0.32 E	\$0.23 E	\$0.71 E
2019	\$0.80 A	\$0.97 A	\$1.01 A	\$0.95 A	\$3.72 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/07/2020. The reports text is as of 08/10/2020.

Overview

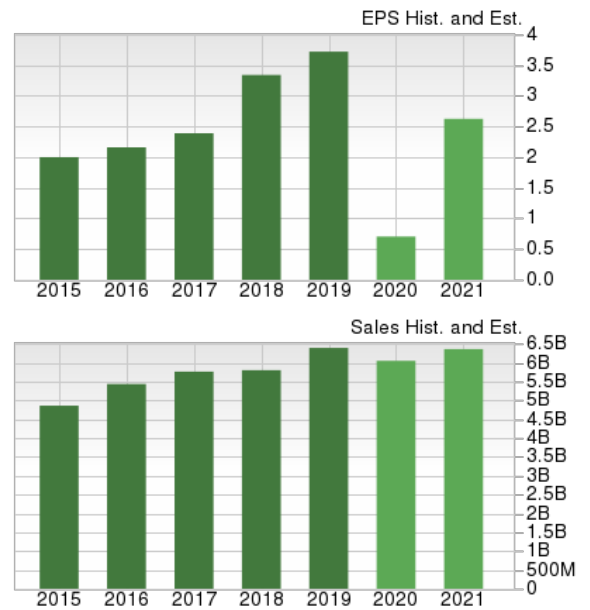
Founded in 1919, Detroit, MI-based Ally Financial Inc. is a diversified financial services company providing a broad array of financial products and services, primarily to automotive dealers and their customers. It operates as a financial holding company (FHC) and a bank holding company (BHC). Ally Bank is an indirect, wholly-owned banking subsidiary of Ally Financial.

The company operates through the following four business segments:

- **Automotive Finance** (comprising 68.7% of total net revenues in 2019) provides retail installment sales financing, loans, and leases; term loans and other lines of credit to dealers; fleet financing, and vehicle remarketing services to consumers and automotive dealers.
- **Insurance** (20.8%) offers both consumer finance protection and insurance products. It also provides consumer financial and insurance products and underwrites selected commercial insurance coverages.
- **Mortgage Finance** (3.0%) includes the management of the company's held-for-investment consumer mortgage loan portfolio.
- **Corporate Finance** (4.4%) provides senior secured leveraged cash flow and asset-based loans largely to U.S.-based middle market companies.

Corporate and Other (3.1%) consists of centralized corporate treasury activities, the residual impacts of corporate funds-transfer pricing, asset liability management activities and the amortization of the discount associated with debt issuances and bond exchanges.

In 2016, Ally Financial acquired TradeKing, a digital wealth management firm. In 2019, the company acquired Health Credit Services LLC.



Reasons To Buy:

- ▲ Growth in one of the key sources of revenues – total financing revenues and other interest income – remains a major positive for Ally Financial. It witnessed a CAGR of 4.1% over the last five years (2015-2019). While the same declined in the first half of 2020; strong origination volumes, retail loan growth and rise in deposit balances are expected to keep the momentum intact.
- ▲ Ally Financial has been witnessing a steady improvement in net interest margin (NIM) over the past several years. While NIM declined in the first six months of 2020 due to lower interest rates, the same has grown from 1.40% in 2012 to 2.67% in 2019. In fact, rising consumer loan demand and management's efforts to become a diversified banking company are expected to continue to offer support in the near term despite near-zero interest rates, which might offset NIM growth to some extent.
- ▲ As part of its strategy to diversify into banking products, Ally Financial has forayed into the mortgage business, which is supporting the company's earnings growth. The company has also been making efforts to enhance digital offerings and introduce products to further boost its profitability. Notably, its wealth management and online brokerage initiatives related to the credit card offerings remain impressive. Also, acquisitions of TradeKing and Health Credit Services (a point-of-sale payment provider) will aid in improving its product offerings.
- ▲ As of Jun 30, 2020, Ally Financial had total debt worth \$32.9 billion, down 19% sequentially. However, interest expenses on long-term debt constituted 22% of total net revenues in the first half of 2020, and the company's cash and cash equivalents balance stood at \$19.1 billion on Jun 30, 2020, significantly lower than the total debt. Nevertheless, its total debt to total capital of 67.8% at the end of the second quarter of 2020 declined sequentially. Thus, we believe that while high levels of debt may negatively impact access to liquidity and increase borrowing costs in the unsecured market, the company is less likely to default in debt repayments even if the economic situation worsens, given its earnings strength.
- ▲ Ally Financial has come a long way in improving its balance sheet and fundamentals. This has resulted in the company's robust capital deployment actions. In January 2020, the company announced 11.8% dividend hike. This followed two hikes – 13.3% in January 2019 and 15.4% in July 2018. Also, the company had a share repurchase authorization in place, which it has currently suspended amid the coronavirus outbreak. Nevertheless, driven by its capital strength, earnings growth and favorable dividend payout ratio, the company is expected to be able to sustain capital deployment activities in the future.
- ▲ Ally Financial seems undervalued compared with the broader industry. Its current price/book and price/cash flow ratios are lower than the respective industry averages. The company has a Value Score of A.

Ally Financial's initiatives to diversify revenue base and rise in demand for consumer loans will aid profitability. Given a solid balance sheet, it is well poised to expand through acquisitions.

Reasons To Sell:

- ▼ Ally Financial has been witnessing a persistent rise in expenses. Over the last five years (ended 2019), expenses witnessed a CAGR of 5.6%, with the uptrend continuing in the first half of 2020. With the company launching products, seeking opportunistic buyouts and expanding into newer areas of operations, expenses are expected to remain elevated.
- ▼ Worsening asset quality is another headwind for Ally Financial. Although the company's provision for loan losses and net-charge offs (NCOs) declined in 2018, the same witnessed a CAGR of 9% and 12.5%, respectively, over the last five years (2015-2019). Moreover, owing to the concerns related to the coronavirus outbreak, both provisions and NCOs witnessed a rise in the first half of 2020. Steadily deteriorating credit quality is expected to dampen the company's financials.
- ▼ Ally Financial's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 5.85% compares unfavorably with ROE of 14.19% for the industry, reflecting that it is less efficient in using shareholder funds.
- ▼ Shares of Ally Financial have underperformed the industry so far this year. Also, the company's 2020 earnings estimates have been revised 9% lower over the past 30 days. Therefore, given the above-mentioned concerns and lack of positive estimate revisions, the stock has limited upside potential.

Continuously increasing expenses are expected to hurt Ally Financial's bottom-line growth in the near term. Also, deteriorating credit quality will likely hamper the company's financials.

Last Earnings Report

Ally Financial Q2 Earnings Beat, Revenues Rise Y/Y

Ally Financial's second-quarter 2020 adjusted earnings of 61 cents per share handily surpassed the Zacks Consensus Estimate of 18 cents. However, the figure declined 37.1% from the year-ago reported number.

Results reflected growth in deposit balances and higher revenues. However, substantial reserve build to counter coronavirus crisis, higher operating expenses and fall in loan balances were headwinds.

After considering non-recurring items, net income available to common shareholders (on a GAAP basis) was \$241 million or 64 cents per share, compared with the net income of \$582 million or \$1.46 per share recorded in the prior-year quarter.

Quarter Ending 06/2020

Report Date	Jul 17, 2020
Sales Surprise	10.71%
EPS Surprise	238.89%
Quarterly EPS	0.61
Annual EPS (TTM)	2.13

Revenues Up, Expenses Rise

Total net revenues came in at \$1.61 billion, up 4% year over year. The figure also surpassed the Zacks Consensus Estimate of \$1.45 billion.

Net financing revenues were down 8.9% from the prior-year figure to \$1.05 billion. This decline resulted from lower commercial auto balance and portfolio yield, losses on off-lease vehicles and higher mortgage premium amortization and consolidated liquidity levels, partly offset by higher retail portfolio yield.

Adjusted net interest margin was 2.42%, down 25 basis points (bps).

Total other revenues of \$555 million climbed 40.5%, year over year.

Total non-interest expenses flared up 11.8% year over year to \$985 million. This upswing mainly stemmed from rise in all cost components.

Adjusted efficiency ratio at the end of the second quarter was 52.5%, up from 46.1% recorded in the comparable year-ago period. A rise in efficiency ratio indicates deterioration in profitability.

Credit Quality Deteriorates

Non-performing loans of \$1.53 billion as of Jun 30, 2020 were up 69.7% from the corresponding period of 2019. Further, net charge-off rate was 0.58%, up 2 bps.

Also, provision for loan losses surged 62.1% from the prior-year quarter to \$287 million. This rise was mainly due to the reserves built to combat the pandemic-induced economic slowdown.

Loan Balance Lower, Capital Ratios Strong

Total net finance receivables and loans amounted to \$122.4 billion as of Jun 30, 2020, decreasing 5.8% from the first quarter. Deposits totaled \$131 billion, up 7.1% sequentially.

As of Jun 30, 2020, total capital ratio was 13.8%, improving from the prior-year quarter's 12.7%. Tier I capital ratio was 11.9% as of Jun 30, 2020, marginally up from the year-earlier quarter's 11.2%.

Outlook

Given the elevated off-rental and off-lease supplies, the company expects used car values to decline by more than 5% in 2020.

In the second half of 2020, NIM is expected to increase.

Retail auto NCO rate in 2020 is expected to be in the 1.8-2.1% range.

Recent News

Ally Financial-CardWorks Merger Deal Mutually Terminated - Jun 24, 2020

Ally Financial announced that the acquisition of CardWorks, a credit card issuer with focus on the "non-prime" segment, has been called off due to the uncertainties related to the coronavirus pandemic.

The acquisition deal, announced this February, was likely to close in the third quarter of 2020. Ally Financial was expected to fund the transaction with \$1.35 billion in cash and \$1.30 billion in its common stock, amounting to a total consideration of \$2.65 billion. As the deal has been mutually terminated, neither of the parties needs to pay any termination or break-up fee.

Don Berman, CardWorks chief executive officer said, "After careful consideration, Jeff Brown and I, along with our boards of directors, concluded that it would be in the best interest of our customers and our stakeholders, to terminate the agreement." The boards of both companies have approved the termination.

Dividend Update

On Jul 15, Ally Financial declared a quarterly dividend of 19 cents per share. The dividend will be paid out on Aug 14 to shareholders of record as of Jul 31.

Valuation

Ally Financial's shares are down 29.7% in the year-to-date period and 31% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 28.3% and 16% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 24.7% and 6.7%, respectively.

The S&P 500 index is up 4.1% in the year-to-date period and 16.6% over the past year.

The stock is currently trading at 11.46X forward 12 months earnings, which compares to 10.89X for the Zacks sub-industry, 16.67X for the Zacks sector and 22.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.07X and as low as 2.68X, with a 5-year median of 8.03X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$23 price target reflects 12.30X forward earnings.

The table below shows summary valuation data for ALLY

Valuation Multiples - ALLY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.46	10.89	16.67	22.81
	5-Year High	18.07	13.16	16.67	22.81
	5-Year Low	2.68	4.39	11.59	15.25
	5-Year Median	8.03	8.77	14.21	17.55
P/TB TTM	Current	0.58	0.71	3.43	15.12
	5-Year High	1.02	1.49	4	15.12
	5-Year Low	0.31	0.48	2.01	5.96
	5-Year Median	0.78	1.19	3.48	9.56
P/S F12M	Current	1.29	1.04	6.05	3.67
	5-Year High	2.27	1.82	6.66	3.67
	5-Year Low	0.65	0.72	4.97	2.53
	5-Year Median	1.74	1.49	6.06	3.04

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Top 49% (123 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
MR. COOPER GROUP INC (COOP)	Outperform	1
Credit Acceptance Corporation (CACC)	Neutral	2
First Cash, Inc. (FCFS)	Neutral	4
Huntington Bancshares Incorporated (HBAN)	Neutral	3
Navient Corporation (NAVI)	Neutral	3
Santander Consumer USA Holdings Inc. (SC)	Neutral	3
LexinFintech Holdings Ltd. Sponsored ADR (LX)	Underperform	5
SLM Corporation (SLM)	Underperform	4

Industry Comparison Industry: Financial - Consumer Loans				Industry Peers		
	ALLY	X Industry	S&P 500	CACC	NAVI	SC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	D	-	-	C	B	B
Market Cap	8.03 B	576.28 M	23.30 B	9.06 B	1.69 B	5.99 B
# of Analysts	6	2.5	14	3	4	6
Dividend Yield	3.54%	0.00%	1.76%	0.00%	7.32%	4.64%
Value Score	A	-	-	C	A	A
Cash/Price	0.82	0.75	0.07	0.06	2.59	0.42
EV/EBITDA	5.94	5.94	13.32	12.29	98.32	9.59
PEG Ratio	2.33	0.12	2.94	NA	NA	NA
Price/Book (P/B)	0.58	1.09	3.19	4.39	0.80	1.22
Price/Cash Flow (P/CF)	2.70	3.75	12.51	14.18	3.03	2.21
P/E (F1)	31.46	13.05	22.02	52.09	3.26	151.84
Price/Sales (P/S)	1.28	0.93	2.53	5.81	0.37	0.75
Earnings Yield	3.26%	7.36%	4.37%	1.92%	30.66%	0.68%
Debt/Equity	2.11	1.90	0.77	2.25	37.75	8.30
Cash Flow (\$/share)	7.96	4.49	6.94	36.22	2.88	8.57
Growth Score	F	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	12.24%	8.79%	10.46%	24.17%	8.66%	-3.50%
Proj. EPS Growth (F1/F0)	-81.05%	-34.42%	-6.80%	830.19%	-52.56%	-95.63%
Curr. Cash Flow Growth	-1.59%	14.13%	5.39%	18.61%	12.54%	20.07%
Hist. Cash Flow Growth (3-5 yrs)	-4.75%	9.07%	8.55%	19.03%	-5.09%	25.86%
Current Ratio	0.99	3.10	1.33	21.20	11.82	58.77
Debt/Capital	67.85%	65.56%	44.50%	69.19%	97.42%	89.25%
Net Margin	10.87%	7.74%	10.13%	21.79%	7.38%	3.47%
Return on Equity	5.85%	14.19%	14.39%	30.64%	21.05%	4.50%
Sales/Assets	0.03	0.24	0.51	0.21	0.05	0.17
Proj. Sales Growth (F1/F0)	-5.35%	-0.38%	-1.51%	10.21%	-0.76%	-10.58%
Momentum Score	F	-	-	D	B	A
Daily Price Chg	1.80%	1.76%	0.90%	-0.10%	3.31%	-0.47%
1 Week Price Chg	-5.10%	-0.74%	0.14%	2.77%	-0.75%	1.27%
4 Week Price Chg	12.70%	7.93%	8.95%	23.09%	35.08%	9.65%
12 Week Price Chg	42.09%	30.36%	18.90%	62.49%	28.34%	28.77%
52 Week Price Chg	-33.01%	-31.80%	1.18%	8.63%	-35.97%	-29.55%
20 Day Average Volume	5,010,663	336,661	2,057,775	118,166	3,163,617	990,073
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	2.71%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.76%	2.71%	1.36%	2.71%	22.79%	247.06%
(F1) EPS Est 12 week change	-6.31%	7.46%	1.57%	74.13%	7.98%	59.57%
(Q1) EPS Est Mthly Chg	-19.90%	32.33%	0.54%	4.30%	35.90%	32.33%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	F
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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