



Ally Financial Inc. (ALLY)

Updated May 6th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	12.6%	Market Cap:	\$14 B
Fair Value Price:	\$59	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/29/22
% Fair Value:	72%	5 Year Valuation Multiple Estimate:	6.9%	Dividend Payment Date:	05/16/22
Dividend Yield:	2.9%	5 Year Price Target	\$68	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Ally Financial provides financial services to consumers, businesses, automotive dealers and corporate clients. Its segments include Automotive Finance Operations, Insurance Operations, Mortgage Finance Operations, and Corporate Finance Operations. Its services include term loans, lines of credit, fleet financing, vehicle financing, commercial insurance products, etc. Ally Financial also has a held-for-investment consumer mortgage finance loan portfolio with mortgages that were originated by third parties. The company was founded in 1919 and is headquartered in Detroit, MI.

Ally Financial reported its first quarter earnings results on April 14. The company reported that its revenues totaled \$2.1 billion during the quarter, which was 11% more than Ally Financial's revenues during the same quarter a year ago. Ally Financial originated \$12 billion in new consumer auto loans during the quarter and managed to grow its deposits by \$1.3 billion during the quarter. At the end of the quarter, retail deposits totaled \$136 billion. Due to lower provisions and higher revenues, Ally's bottom line performance improved markedly on a year over year basis, and the company managed to hit net earnings of more than \$700 million during the quarter.

Ally Financial's earnings-per-share during the first quarter were strong, as Ally Financial generated profits of \$2.03 per share. Earnings-per-share showed a strong recovery in 2021, as earnings-per-share hit a new record level of \$8.60. It is expected that Ally Financial's earnings-per-share will decline in 2022 due to lower reserve releases, but profits should nevertheless remain well above pre-pandemic levels this year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	\$1.36	-\$3.47	\$2.16	\$2.41	\$3.34	\$3.72	\$3.03	\$8.60	\$7.80	\$9.04
DPS	---	---	---	---	\$0.16	\$0.44	\$0.56	\$0.68	\$0.76	\$1.00	\$1.20	\$1.93
Shares¹	---	---	480	482	467	437	405	383	376	376	345	300

Ally Financial was bailed out during the last financial crisis. Following the bailout, the company went public again in 2014. This is why there is no long-term data for Ally Financial. Since it went public again in 2014, the company's profits rose considerably, although 2020 was a down year for the company.

During 2018 and 2019, Ally Financial managed to grow its earnings-per-share by double-digits. This was possible due to several contributing factors. Ally Financial was able to grow its revenues during the last couple of years, thanks to strong loan originations, higher insurance written premiums, and growth from Ally Invest and Ally Home. Ally Financial was also able to grow its margins. Last but not least, Ally Financial has lowered its share count considerably over the last couple of years, which allowed the company's earnings-per-share growth rate to come in well ahead of the net profit growth rate. It is not guaranteed that Ally Financial will be able to grow continuously, but its growth outlook is decent in the long run, as its offerings attract new customers, especially among Millennials. In 2020, profits declined meaningfully, mainly due to higher credit reserves and credit losses, but this was not a long-lasting issue. The company recovered in 2021, and we believe that there is a good chance for some earnings-per-share growth in the long run, with buybacks playing a significant role in that.

¹ In Millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	17.3	---	8.3	9.3	8.0	8.1	11.6	5.6	5.4	7.5
Avg. Yld.	---	---	---	---	0.9%	2.0%	2.1%	2.3%	2.2%	2.1%	2.9%	2.8%

Ally Financial is trading at less than 6 times this year's earnings-per-share estimate right now, which is not a high valuation in absolute terms, and which is also not expensive versus how shares were valued in the past. The company's shares have pulled back over the last couple of months, which further lowered the company's valuation. We believe that shares do have considerable upside potential from the current level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	7.4%	18.3%	16.8%	18.3%	25.1%	11.6%	15.4%	21.4%

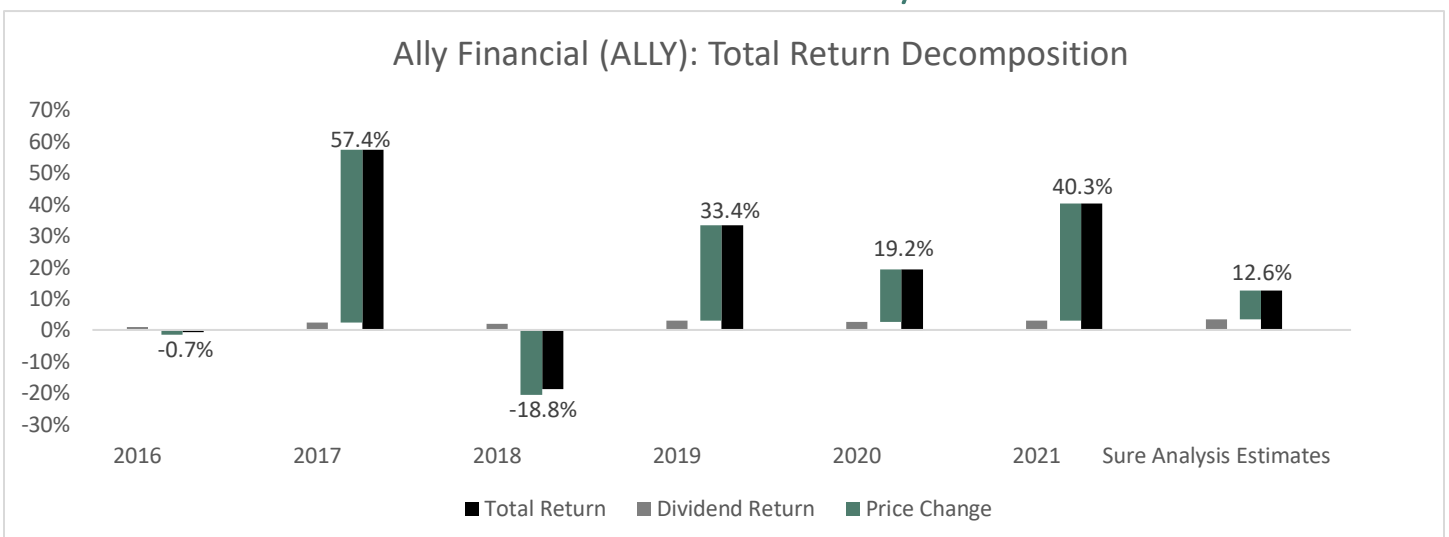
Ally Financial will pay out around 15% of its earnings in the form of dividends this year. Generally, Ally Financial is more focused on share repurchases, although those were temporarily stopped during the pandemic. Buybacks have resumed in 2021, however, and the company has started to raise its dividend again.

During the Great Recession, Ally did not perform well at all, as the company needed a bailout. Luckily, another crisis with the dimensions and the focus on financials like the one from 2009 is not overly likely in the foreseeable future, which means that investors do not have to worry about a bankruptcy at this point. Still, the coronavirus crisis shows that Ally Financial's business is vulnerable versus downturns, as credit losses during 2020 were above the norm.

Final Thoughts & Recommendation

Ally Financial does not have a positive long-term track record, as its performance during the last financial crisis was disastrous. The company's balance sheet looks sufficiently strong, however, and Ally Financial is weathering the coronavirus crisis better than the Great Recession, although it should be noted that 2020's earnings still took a hit and shareholders had to live with a suspension of share repurchases. Shares have risen considerably over the last year, but so have profits, which is why Ally is still pretty cheap. Since total returns are forecasted to be strong over the coming years, we rate Ally Financial a buy at current prices, but we want to note the stock's vulnerability to recessions.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5630	5932	6694	7037	6799	6580	6344	6840	6961	8912
SG&A Exp.	1705	1560	1468	1363	1446	1560	1622	1723	1910	1904
D&A Exp.	2381		2936	2801	2382	1859	1649	1555	1550	
Net Profit	1196	361	1150	1289	1067	929	1263	1715	1085	3060
Net Margin	21.2%	6.1%	17.2%	18.3%	15.7%	14.1%	19.9%	25.1%	15.6%	34.3%
Free Cash Flow	(2395)	(6695)	(6481)	426	1293	27	441	27	(581)	
Income Tax	(856)	(59)	321	496	470	581	359	246	328	790

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	182347	151167	151631	158581	163728	167148	178869	180644	182165	182350
Cash & Equivalents	7955	5933	5879	6632	6118	4252	4537	3555	15621	5062
Accounts Receivable				402	476	550	599	589	704	
Goodwill & Int. Ass.	952			27	240	240	299	462	393	
Total Liab.	162449	136959	136232	145142	150411	153654	165601	166228	167462	165300
Accounts Payable	1497	1302	775	741	1000	1121	1039	1176	1014	210
Long-Term Debt	82022	76510	72668	73687	65625	54747	53495	39558	24142	17029
Shareholder's Equity	12958	12953	14144	12743	13317	13494	13268	14416	14703	14726
LTD/E Ratio	4.12	5.39	4.72	5.48	4.93	4.06	4.03	2.74	1.64	1.00

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.7%	0.2%	0.8%	0.8%	0.7%	0.6%	0.7%	1.0%	0.6%	1.7%
Return on Equity	9.5%	2.8%	8.5%	9.6%	8.2%	6.9%	9.4%	12.4%	7.5%	20.8%
ROIC	1.1%	0.4%	1.3%	1.5%	1.3%	1.3%	1.9%	2.8%	2.3%	8.4%
Shares Out.	---	---	480	482	467	437	405	383	376	376
Revenue/Share	13.65	14.12	13.89	14.57	14.10	14.45	14.83	17.30	18.46	24.40
FCF/Share	(5.80)	(15.93)	(13.45)	0.88	2.68	0.06	1.03	0.07	(1.54)	

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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