



Ally Financial Inc. (ALLY)

Updated April 24th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$39	5 Year CAGR Estimate:	-0.3%	Market Cap:	\$12B
Fair Value Price:	\$27	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	04/30/24
% Fair Value:	143%	5 Year Valuation Multiple Estimate:	-7.0%	Dividend Payment Date:	05/15/24
Dividend Yield:	3.1%	5 Year Price Target	\$32	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Sell

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 18. The company reported that its revenues totaled \$1.99 billion during the quarter, which was down 3% compared to Ally Financial's revenues one year earlier. Ally Financial originated \$10 billion in new consumer auto loans during the quarter and managed to grow its retail deposits to \$145 billion by the end of the quarter. Retail deposits were up \$3 billion sequentially. The lower revenue generation impacted profits negatively, which was to be expected. Higher provisioning for credit losses further pressured Ally Financial's profit margins during the most recent quarter.

Ally Financial's earnings-per-share during the first quarter were higher than expected, as Ally Financial generated profits of \$0.45 per share. Earnings-per-share were down from \$0.82 during the previous year's period. For the current year, fiscal 2024, earnings-per-share are forecasted to remain relatively flat versus fiscal 2023, but profits will remain below the peak levels seen in 2021 and 2022, when credit costs were lower.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.36	-\$3.47	\$2.16	\$2.41	\$3.34	\$3.72	\$3.03	\$8.60	\$5.99	\$3.05	\$3.02	\$3.50
DPS	---	---	\$0.16	\$0.44	\$0.56	\$0.68	\$0.76	\$1.00	\$1.20	\$1.20	\$1.20	\$1.53
Shares¹	480	482	467	437	405	383	376	338	300	304	295	260

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, but they soared in 2021 and were very high in 2022 as well, due to below-average credit costs. 2023 was a more normal year, with higher charge-offs and higher provisions for credit losses. From this more normal level, Ally Financial has a good chance of delivering solid earnings-per-share growth, primarily via share repurchases.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.3	---	8.3	9.3	8.0	8.1	11.6	5.6	4.0	11.5	12.9	9.0
Avg. Yld.	---	---	0.9%	2.0%	2.1%	2.3%	2.2%	2.1%	5.0%	3.4%	3.1%	4.9%

Ally Financial is trading at around 13x this year's earnings-per-share estimate right now. Profits will be at a more normal, sustainable level this year, relative to the elevated profitability seen in 2021 and 2022. Our fair value multiple of 9 suggests that shares are overvalued today. The overvaluation will have a substantial negative impact on total returns, we believe. The dividend yield is reasonable at a little more than 3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	7.4%	18.3%	16.8%	18.3%	25.1%	11.6%	20.0%	39.3%	39.7%	43.7%

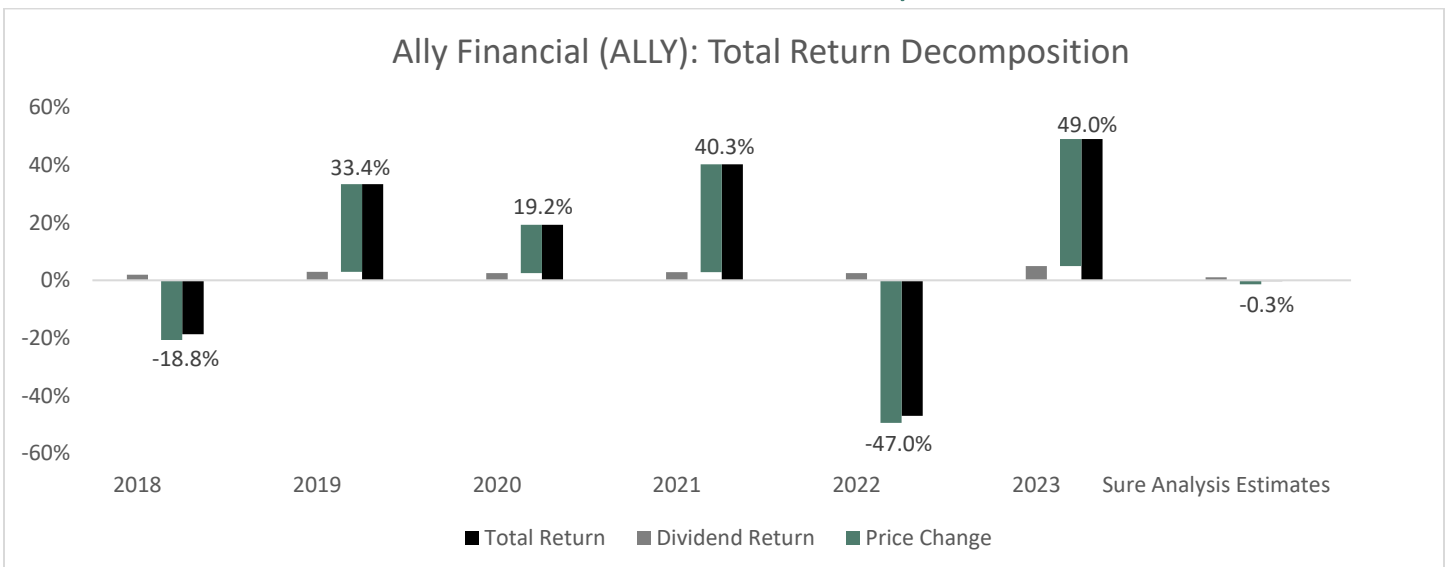
Ally Financial will pay out around 35% of its earnings in the form of dividends this year. Generally, Ally Financial is more focused on share repurchases, although those were temporarily stopped during the pandemic. Buybacks resumed in 2021, however, and the company has started to raise its dividend again as well.

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 now, however, and Ally Financial has weathered the coronavirus crisis far better than the Great Recession. Shares have risen since our last update. Ally is expected to earn significantly less money in 2024 versus 2021-2022. Since total returns are forecasted to be unattractive, we rate Ally Financial a sell at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	7068	7415	7188	6995	6784	7315	7478	8780	9240	9074
SG&A Exp.	2047	1945	2066	2244	2337	2475	2703	3003	3448	2323
D&A Exp.	2936	2801	2382	1859	1649	1555	1550	1261	1327	
Net Profit	1150	1289	1067	929	1263	1715	1085	3060	1714	1020
Net Margin	16.3%	17.4%	14.8%	13.3%	18.6%	23.4%	14.5%	34.9%	18.5%	11.2%
Free Cash Flow	(6481)	426	1293	27	441	27	(581)	(1078)	2715	
Income Tax	321	496	470	581	359	246	328	790	627	61

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	151631	158581	163728	167148	178869	180644	182165	182114	191826	196429
Cash & Equivalents	5879	6632	6118	4252	4537	3555	15621	5062	5571	6945
Accounts Receivable		402	476	550	599	589	704	600	786	
Goodwill & Int. Ass.		27	240	240	299	462	393	951	920	
Total Liab.	136232	145142	150411	153654	165601	166228	167462	165064	178967	182663
Accounts Payable	775	741	1000	1121	1039	1176	1014	794	843	858
Long-Term Debt	72668	73687	65625	54747	53495	39558	24142	17029	19662	20867
Shareholder's Equity	14144	12743	13317	13494	13268	14416	14703	14726	10535	11442
LTD/E Ratio	4.72	5.48	4.93	4.06	4.03	2.74	1.64	1.00	1.53	1.52

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.8%	0.8%	0.7%	0.6%	0.7%	1.0%	0.6%	1.7%	0.9%	0.5%
Return on Equity	8.5%	9.6%	8.2%	6.9%	9.4%	12.4%	7.5%	20.8%	13.6%	9.3%
ROIC	1.3%	1.5%	1.3%	1.3%	1.9%	2.8%	2.3%	8.4%	5.1%	3.0%
Shares Out.	480	482	467	437	405	383	376	338	300	304
Revenue/Share	14.67	15.36	14.91	15.36	15.86	18.50	19.83	24.04	29.00	29.74
FCF/Share	(13.45)	0.88	2.68	0.06	1.03	0.07	(1.54)	(2.95)	8.52	

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

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