Financial Sector - Company Presentation
Finance 724/824, Spring 2011
Lauren Kirk, Krystal Patel, Bryan McElwain, Matt McHenry, Chris Koenig
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## Financial Sector

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   - JP Morgan Chase - HOLD

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   - Lincoln National - HOLD

4. **Section 4**
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5. **Section 5**
   - MetLife - BUY

6. **Section 6**
   - Recommendation
Wells Fargo & Co. (WFC)

Key Stats:
- SIM Weight: 3.89%
- Current Price: 28.00
- P/E Forward: 8.12
- P/E Trailing: 11
- Beta: 1.50
- 52 Week Range: $23.02 – $34.25
- Div Yield: 0.48(1.70%)
- Market Cap: $148.09B
- Industry: Money Center Banks

Analysts Opinion: Buy (20 of 31)

Analyst Price Target Summary
- Range: $29.00-$49.00
- Mean Target Price: $37.19
- Median Target Price: $38.00
- Price Target: $34
- DCF: $33.27
- Multiples: $34.17
- Upside: 21.4%

Recommendation: Hold
JP Morgan Chase (JPM)

**Key Stats:**
- SIM Weight: 4.26%
- P/E Forward: 7.62
- P/E Trailing: 9.58
- Beta: 1.17
- Current Price: 42.34
- 52 Week Range: 35.16-48.36
- Div Yield: 0.25 (2.32%)
- Market Cap: $171.39B
- Industry: Money Center Banks

**Analysts Opinion:** Varies (generally, positive)

**Analyst Price Target Summary**
- Range: $50 - $62
- Mean Target Price: 55.69
- Median Target Price: 55.00
- Price Target: $50
- DCF: $52
- Multiples: $50

**Recommendation:** Hold
Lincoln Nation Corp (LNC)

Key Stats:
- SIM Weight: 2.18%
- P/E Forward: 6.98
- P/E Trailing: 10.71
- Beta: 2.73
- Current Price: 29.80
- 52 Week Range: 20.65 – 32.68
- Div Yield: 0.20 (0.70%)
- Market Cap: 9.33B
- Industry: Life Insurance

Analysts Opinion: Hold (9 of 19)

Analyst Price Target Summary
- Range: $31 - $41
- Mean Target Price: 35.29
- Median Target Price: 36.00
- Price Target: $34
- DCF: $35
- Multiples: $31

Recommendation: Hold
CIT Group (CIT)

Overview of Company

- Holding company for CIT Bank
- Lines of business
  - Corporate Finance
  - Trade Finance
  - Transportation Finance
  - Vendor Finance
  - CIT Bank
  - Insurance Services
- Operates in 50 countries and across 30 industries
- Company filed for bankruptcy in 2009
  - FDIC restrictions
CIT Group (CIT)

Key Statistics

Current Price: $41.78
52 week Range: $32.78 - $49.57
Market Cap: $8.93B
Industry: Mortgage Investment
Analyst 1 yr target:
  DCF: $41.27 (-1.2% downside)
  Multiples: $43.62 (4.2% upside)
Recommendation: Sell
SIM Holding: 3.29% of portfolio
# CIT Group (CIT)

## DCF Model

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<td>Total Revenue</td>
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<td>2,054.9</td>
<td>2,427.3</td>
<td>2,912.8</td>
<td>3,349.7</td>
<td>3,651.2</td>
<td>3,906.8</td>
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<td>18.1%</td>
<td>20.0%</td>
<td>15.0%</td>
<td>9.0%</td>
<td>7.0%</td>
<td>2.8%</td>
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<td>Operating Income</td>
<td>262.5</td>
<td>431.5</td>
<td>645.7</td>
<td>961.2</td>
<td>1,105.4</td>
<td>1,095.4</td>
<td>1,172.0</td>
<td>1,204.3</td>
<td>1,237.4</td>
<td>1,271.4</td>
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<td>Operating Margin</td>
<td>14.7%</td>
<td>21.0%</td>
<td>26.6%</td>
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<td>33.0%</td>
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<td>Taxes</td>
<td>(112.5)</td>
<td>(184.9)</td>
<td>(276.7)</td>
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<td>(331.6)</td>
<td>(328.6)</td>
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<tr>
<td>Minority Interest</td>
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<tr>
<td>Interest % of Sales</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>Net Income</td>
<td>260.5</td>
<td>430.0</td>
<td>645.7</td>
<td>672.9</td>
<td>773.8</td>
<td>766.8</td>
<td>820.4</td>
<td>843.0</td>
<td>866.2</td>
<td>890.0</td>
<td>914.5</td>
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<td>% Growth</td>
<td>65.1%</td>
<td>50.2%</td>
<td>4.2%</td>
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<td>-0.9%</td>
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<td>2.7%</td>
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Terminal Discount Rate = **11.0%**

Terminal FCF Growth = **2.75%**

Current Price

Implied equity value/share

Upside/(Downside) to DCF

Current Price $41.78

Implied equity value/share $41.27

Upside/(Downside) to DCF -1.2%
## CIT Group (CIT)

### Absolute Valuation

<table>
<thead>
<tr>
<th>Absolute Valuation</th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
<th>#Your Target Multiple</th>
<th>*Your Target E, S, B, etc/Share</th>
<th>Your Target Price (F x G)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. P/Forward E</td>
<td>54.8</td>
<td>17.0</td>
<td>21.8</td>
<td>54.8</td>
<td>17.0</td>
<td>43.63/31.7 = 1.38</td>
<td>23.46</td>
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<tr>
<td>B. P/S</td>
<td>9.0</td>
<td>3.3</td>
<td>5.9</td>
<td>3.3</td>
<td>3.3</td>
<td>43.63/3.3 = 13.63</td>
<td>44.98</td>
</tr>
<tr>
<td>C. P/B</td>
<td>5.9</td>
<td>.7</td>
<td>.9</td>
<td>.9</td>
<td>.7</td>
<td>43.63/.9 = 48.48</td>
<td>33.94</td>
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<tr>
<td>D. P/EBITDA</td>
<td>3.20</td>
<td>1.71</td>
<td>2.59</td>
<td>1.71</td>
<td>1.71</td>
<td>43.63/1.7 = 25.51</td>
<td>43.62</td>
</tr>
<tr>
<td>E. P/CF</td>
<td>157.3</td>
<td>6.8</td>
<td>16.6</td>
<td>6.8</td>
<td>6.8</td>
<td>43.63/6.8 = 6.42</td>
<td>43.66</td>
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</tbody>
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```
CIT Group (CIT)

Opportunities
• Restructuring Plan
  • Depends on management team
• International expansion
  • Rail and aircraft

Risks
• Ongoing stress in the financial markets, credit rating downgrades
  • Weak mortgage market
• Regulatory restrictions have limited company’s ability to rebound
  • Dodd-Frank
CIT Group (CIT)

Recommendations
Sell entire position (17,400 shares)
Limited upside on stock, even on analyst high estimates
Will likely take many years for reorganization to take effect
MetLife, Inc. (MET)

- **Key Stats:**
  - P/E Forward: 7.62
  - P/E Trailing: 15.54
  - Beta: 1.93
  - Current Price: 43.54
  - 52 Week Range: 35.38 – 48.72
  - Div Yield: 0.74 (1.60%)
  - Market Cap: 46.74B
  - Industry: Life Insurance

- **Analysts Opinion:**
  - Analyst Price Target Summary
    - Range: $51 - $60
    - Mean Target Price: 55.33
    - Median Target Price: 55.00
  - Price Target: $52.51
  - DCF: $57.09
  - Multiples: $47.93
  - Recommendation: Buy
MetLife, Inc. (MET)

1Q 2011 Results (compared with 1Q 2010):
- Operating Earnings up 64%
- Net Income up 3%
- Revenues up 27%
- Book Value Per Share up 10%

Opportunities:
- Operating Earnings up 64% from 1Q2010 due to Alico acquisition and strong underwriting results

Risks:
- Legislation and Uncertainty
  - Financial and health care
- Adverse market conditions
  - Annuity growth tied to the market conditions
# Relative Valuation

## MetLife, Inc. (MET)

<table>
<thead>
<tr>
<th>Relative to S&amp;P 500</th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
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<tbody>
<tr>
<td>P/Trailing E</td>
<td>1.0</td>
<td>0.44</td>
<td>0.67</td>
<td>0.66</td>
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<tr>
<td>P/Forward E</td>
<td>0.84</td>
<td>0.45</td>
<td>0.65</td>
<td>0.61</td>
</tr>
<tr>
<td>P/B</td>
<td>0.7</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
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<tr>
<td>P/S</td>
<td>0.7</td>
<td>0.4</td>
<td>0.5</td>
<td>0.7</td>
</tr>
<tr>
<td>P/CF</td>
<td>2.9</td>
<td>0.6</td>
<td>1.0</td>
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## Relative to Industry

<table>
<thead>
<tr>
<th>Relative to Industry</th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
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</thead>
<tbody>
<tr>
<td>P/Trailing E</td>
<td>1.5</td>
<td>0.79</td>
<td>0.89</td>
<td>1.0</td>
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<tr>
<td>P/Forward E</td>
<td>1.5</td>
<td>0.67</td>
<td>0.9</td>
<td>0.97</td>
</tr>
<tr>
<td>P/B</td>
<td>1.4</td>
<td>0.6</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>P/S</td>
<td>1.0</td>
<td>0.6</td>
<td>0.7</td>
<td>1.0</td>
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<tr>
<td>P/CF</td>
<td>2.8</td>
<td>0.7</td>
<td>1.0</td>
<td>1.1</td>
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</table>
## MetLife, Inc. (MET)

### Absolute Valuation

<table>
<thead>
<tr>
<th>Absolute Valuation</th>
<th>High</th>
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<th>Your Target Price (F x G)</th>
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<tbody>
<tr>
<td>A. B. C. D. E. F. G. H.</td>
<td>P/Forward E</td>
<td>13.7</td>
<td>5.0</td>
<td>10.8</td>
<td>8.6</td>
<td>10.8</td>
<td>3.16</td>
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<td></td>
<td>P/S</td>
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<td>0.9</td>
<td>53.95</td>
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<td></td>
<td>P/B</td>
<td>1.7</td>
<td>0.6</td>
<td>1.3</td>
<td>0.9</td>
<td>1.3</td>
<td>49.23</td>
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<tr>
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<td>P/EBITDA</td>
<td>17.08</td>
<td>1.24</td>
<td>4.13</td>
<td>3.87</td>
<td>4.13</td>
<td>11.45</td>
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<td>P/CF</td>
<td>30.3</td>
<td>4.2</td>
<td>10.4</td>
<td>10.1</td>
<td>10.4</td>
<td>4.39</td>
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## MetLife, Inc. (MET) DCF Model

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<tr>
<td><strong>Revenue</strong></td>
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<tr>
<td>% Growth</td>
<td>8.5%</td>
<td>9.0%</td>
<td>12.7%</td>
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<td><strong>Operating Income</strong></td>
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<tr>
<td>Operating Margin</td>
<td>31.0%</td>
<td>31.0%</td>
<td>32.0%</td>
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<td><strong>Minority Interest</strong></td>
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<tr>
<td>Interest % of Sales</td>
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<tr>
<td><strong>Net Income</strong></td>
<td>3,345</td>
<td>3,648</td>
<td>4,111</td>
<td>5,115</td>
<td>5,627</td>
<td>6,077</td>
<td>6,442</td>
<td>6,764</td>
<td>7,034</td>
<td>7,280</td>
<td>7,527</td>
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<tr>
<td>% Growth</td>
<td>20.1%</td>
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<td>12.7%</td>
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<td><strong>Free Cash Flow</strong></td>
<td>3,345</td>
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<td>6,764</td>
<td>7,034</td>
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**Terminal Discount Rate**: 12.0%

**Current Price**: $43.54
**Implied equity value/share**: $57.09
**Upside/(Downside) to DCF**: 31.1%
MetLife, Inc. (MET)

Current Price: $43.54

Price Target: $52.51 (50% DCF Target, 50% Multiples Target)

Upside: 20.6%

Recommendation: Buy 329 bps or $715,488 (16,433 shares)
QUESTIONS?