

Equity Research Report



Ally Financial (NYSE: ALLY) Financial Services

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Investment Overview

Stock Name: Ally Financial (ALLY)

Sector: Financials | **Industry:** Financial Services | **Price:** \$45.49

Haven Rating:

Recommendation: MODERATE Buy

Time Horizon: 12-24 Months

Risk Level: Medium Risk

Catalyst Driven: YES

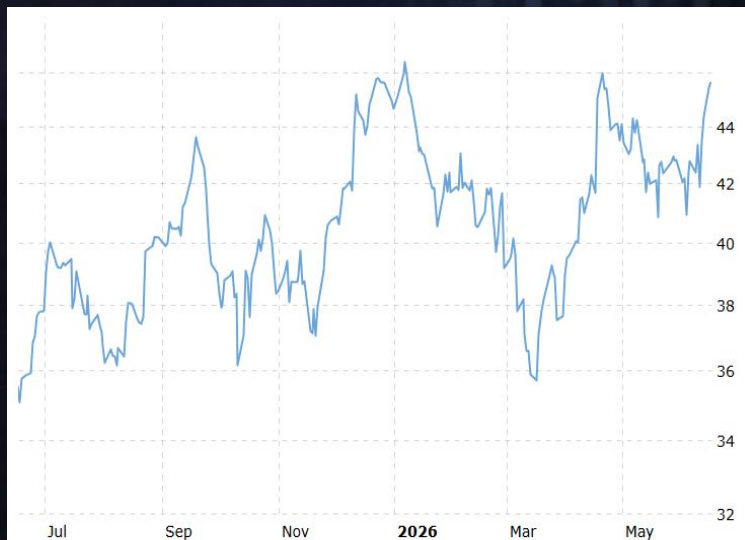
Thesis: Ally Financial is evolving from a legacy auto lender into a fully integrated digital financial services company, with Ally Bank becoming a core platform for low-cost deposit funding and scalable lending across multiple asset classes. Ally's disciplined investments strengthen its long-term competitive advantage through a Corporate Finance division compounding at a 26% ROE, a strong digital banking presence, and credit quality improvements that allow for margin expansion. Trading at roughly 7x forward earnings while adjusted EPS grew approximately 90% year-over-year, Ally Financial may represent an attractive long-term value opportunity within the mid-cap financial services sector.

Key Drivers:

- **Corporate Finance Growth:** 26% portfolio growth YOY obtained from long-standing relationships and consistency
- **Digital Banking Service:** 90% of funding through digital deposits drives Ally's cost advantage.
- **Credit Quality Improvements:** Raising FICO scores and attracting prime borrowers led to 4.7% decrease in charge-offs.

Key Risks:

- **Federal Funds Rate Risk:** Possibility of Federal Reserve hiking rates can cause net interest margin expansion to fade away.
- **Potential Hit On Credit:** Used car price declining more than estimates or rising gasoline prices from geopolitical conflicts can reduce credit funding.



Catalysts (Next 1-6 Months):

- **Net interest margin expansion as high-cost CDs reprice lower:** Maturing CDs in 2026 will allow funding costs to drop by 20 BPS.
- **“Life Today” Program:** Financial planning system specifically designed for Gen Z and millennials can attract more customers across the younger generation.
- **Generative AI Implementation:** AI will allow for greater security and efficiency, making customers more confident in Ally's services.

Quick Stats:

- **Price:** \$45.49
- **P/E Ratio:** 11.04
- **Market Cap:** \$13.94B
- **Enterprise Value:** \$36.73B
- **Revenue (TTM):** \$9.37B
- **Cash:** \$11.81B
- **FCF:** \$(1000)
- **Beta (5Y):** 1.09

Business Overview

Company Snapshot

Business Description: Founded by General Motors in 1919, Ally Financial was originally called the General Motors Acceptance Corporation to offer financing to customers of automotive vehicles. In the 2000s, the subsidiary transformed into Ally Financial. Currently, the company specializes in consumer banking, corporate lending, and investment services through its online-only bank and auto lending system.

Revenue Model:

Ally Financial's drivers of revenue include auto financing, corporate financing, and digital banking.

Auto Financing: Ally receives interest income from issuing loans to customers and huge companies like GM and Stellantis to purchase vehicles.

Corporate Financing: Senior-secured loans are primarily offered to private equity firms and asset managers.

Digital Banking Service: Allowing customers to trade CDs and manage high-yield savings accounts online while having zero monthly fees has gotten many people to pay for Ally's services.

Operating Segments

Segment	Revenue (M)	% of Revenue
Specialty Finance and Services	\$9641.78	71.41%
Insurance	\$2943.44	21.80%
Investment Services	\$918.14	6.80%

Ally Financial's multifaceted sectors allow revenue diversification as growth in loan volumes, deposit balances, and dealer relationships will compound over time.

Key Operating Metrics

- **Auto Finance Consumer Applications:** 4.4 Million (16% Growth YOY)
- **Consumer Automotive Loans:** \$85.86 Billion (9.27% Growth YOY)
- **Mortgage Loans:** \$15.71 Billion (3.21% Growth YOY)
- **Avg. Insurance Dealer Inventory:** 12% Growth YOY
- **Corporate Finance:** \$13.35 Billion (7.43% Growth YOY)
- **Auto Leases:** \$8.8 Billion (5.73% Growth YOY)

Industry & Competition

Industry Overview

At the end of 2025, the financial services industry had a strong growth of 7% and was worth \$36.13 trillion. As people are shifting away from using traditional, brick-and-mortar banks, the industry could be worth \$51.12 trillion by the end of 2030, a CAGR of about 7.2%. Ally Financial is likely to benefit greatly from these long-term industry trends.

Trends

- Agentic Payment Solutions:** Autonomous AI agents are used to initiate and execute financial transactions to help customers make smarter decisions and increase risk management.
- Digital Infrastructure Investments:** Banks are adopting API Gateways to quickly deploy new features, ensure top-line security, and platform a centralized banking service.

Main Competitors

Competitor	Ticker	Market Cap (B)	Additional Notes
Capital One Bank	COF	\$108.43	Acquired Brex for \$5.15B, an AI-native software platform for banking solutions
American Express	AXP	\$213.04	Recently developed new AI-driven management solutions
SoFi	SOFI	\$20.43	Expanded “Loan Platform Business” totaling over \$3.6B



Company Positioning

Ally Financial emerges as one of the top banks in the digital space within the US, leveraging the direct banking business model that eschews any branch infrastructure costs and allows for better customer rate competition. Ally competes against the established banks along with the rising fintech companies in terms of deposits, auto loans, and consumer financial products. In contrast to its competitors who had aggressively consolidated their businesses via acquisitions, Ally has maintained a focus on its strength in providing automobile financing services and online banking facilities. Ally Financial's strengths have allowed it to maintain a unique advantage despite the rapid loan portfolios being developed by its competitors.

Valuation

Current Valuation

	Prev. Year	Current Year	Next Year (Projected)
EV/Revenue	3.94x	3.95x	4.03x
P/S	1.43x	1.53x	1.55x
Market Cap	\$11.99B	\$13.95B	\$15.4B

Peer Comparison

	EV/Revenue	P/S	Market Cap
Capital One	2.83x	1.89x	\$114.96B
American Express	3.81x	3.04x	\$222.06B
SoFi	5.88x	5.47x	\$21.27B

Valuation Scenarios

Scenario	Assumption	Implied Value	Upside/Downside
Bull Case	Fed accelerates fed funds rate and the corporate finance sector expands more than investor expectations	17.0B	25%
Base Case	Net interest margin expansion lands within 3.60-3.70% range.	15.4B	13.24%
Bear Case	Auto financing will decrease if gasoline prices rise due to tariffs and geopolitical conflicts.	12.3B	(9.56%)

Fundamental Analysis

Quantitative Analysis (Financial Health)

- Ally Financial's revenue in FY2025 decreased by 6.12% to \$10.70B. Their net financing revenue & other interest income have increased by only 2.7%, but growing cost optimization strategies through the digital banking application have allowed net income in FY2025 to grow by 28%.
- Cash and cash equivalents have increased by 3.77%. Operating cash flows decreased by 17%, but financing cash flows increased by 135.14% due to Ally generating more long-term debt proceeds and obtaining more stable, lower-cost funding.
- Assets for Ally Financial have increased by 2.17% in FY2025 to \$196 B. Liabilities have increased to \$180.50B and stockholders equity increased to \$15.50B.

Key Ratios

- Profitability for Ally Financial is moderately growing. Net profit margin for FY2025 is 7.96%, which is an increase from last year's profit margin of 5.87%. P/S is currently 1.53, more than the ratio of 1.43 YOY. EV/Revenue is currently 3.99, more than the ratio of 3.94 YOY.
- EPS went from \$1.80 to \$2.35 in FY2025, a 30.56% growth, with adjusted EPS having a 90% YOY growth. Due to strong operational efficiency, Ally Financial's stock price increased by 28.67%.

Quantitative Analysis (Business Fundamentals)

In 2026, Hope D. Mehlman was promoted to Corporate Secretary for Ally Financial, a role she previously held at Discover Bank. Strong, experienced management, developed digital banking presence, and connections with companies in the automotive sector provide Ally Financial with a competitive advantage over other financial service banks. Their business model revolves around interest income from debt issuance through auto lending and corporate finance offerings. Ally Financial can position themselves to increase market share as more people are shifting away from brick-and-mortar financial services banks.

Technical Analysis

Price Action and Charts

Ally Financial's stock is currently trading at about \$45.49 after bouncing back from the recent low at around \$32-\$33 for the year 2025. The company's shares are above their 200-day moving average at approximately \$41, and this shows a shift in the technical trends from bearish to bullish, with solid accumulation volume behind them. The area of \$50-\$56 will serve as resistance, as past price action in this region is expected to induce sellers into the market. From MA5 to MA200, there is a positive bias in the technical indicator, as the number of buy signals is 10 against 2 sell signals.

Common Technical Indicators

Ally Financial's ADX is 20.08, an indicator that suggests that the current prevailing trend does not have any strong direction. The CCI is at 199.60, which indicates that the stock has gone overbought and is expected to take a slight pullback in the short run. The Williams %R has moved to (5.86), an overbought territory. The ATR(14) is 0.79, indicating that the market is witnessing low volatility and tightness in price movements from current levels. The Price ROC is 20.03, which is an indication that the current price movement is strongly moving upwards. On a long-term basis, although the momentum indicators are pointing out to the bull market, a small pullback before the continuation would be more favorable.

Core Assumption

The underlying assumption for Ally lies in the assertion that its credit quality rebound is now structural in nature and not cyclical anymore. The earnings per share in Q1 2026 rose by 90% year-over-year to \$1.11, while consumer originations grew by 13% and net charge-offs decreased by 29 basis points, indicating how Ally is growing towards margin expansion in the future. With 43% of new auto originations in the topmost credit category and retail deposits accounting for close to 90% of its balance sheet, Ally appears structurally better off than it was before 2023. Ally has always rewarded shareholders in times when it was normalizing its credit conditions, and with net interest margin rising towards management's target of 3.60%–3.70%, the trend would most likely continue depending on how the company will be subject to any negative changes in the macro environment for used cars/credit condition of consumers.

Conclusion/Recommendation

Investment Recommendation

Moderate BUY

Core Thesis Summary

Ally Financial is evolving from a legacy auto lender into a fully integrated digital financial services company. A 26% Corporate Finance portfolio growth and a 4.7% decline in charge-offs through tighter underwriting are strong moves the company is making to ensure greater financial performance. In the future, maturing high-cost CDs and the "Life Today" program positions the business for sustained margin expansion and earnings growth. Ally Financial may represent a compelling long-term value opportunity.

Key Catalysts

- Corporate Finance Growth
- Digital Banking Service
- Credit Quality Improvements
- Net Interest Margin Expansion

Company Snapshot

Ticker: ALLY

Current Price: \$45.49

Target Price & Potential Returns

Target Price: \$60-63

Potential Upside: 33-35%

Stock Type

Asset Class: Value

Size: Mid Cap

Dividend: Yes

Key Financial Metrics

Revenue: \$9.37B

Net Income: \$1.29B

Cash Balance: \$11.81B

Market Cap: \$13.9B

P/E Ratio: 11.04

EPS: 4.12

Key Risks:

- **Federal Funds Rate Risk:** Rising rates can cause margin expansion to disappear
- **Potential Hit On Credit:** Rising depreciation or geopolitical conflicts can decrease credit funding

Sources:

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