Citigroup (C)

Updated May 19th, 2018 by Josh Arnold

Key Metrics

Current Price:	$70	**5 Year CAGR Estimate:**	8.8%	**Quality Percentile:**	N/A
Fair Value Price:	$67	**5 Year Growth Estimate:**	8.1%	**Momentum Percentile:**	N/A
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Total Return Percentile:**	N/A
Dividend Yield:	1.8%	**5 Year Price Target**	$98	**Valuation Percentile:**	N/A

Overview & Current Events

Citigroup traces its history all the way back to 1812 when it was known as the City Bank of New York. In the past 206 years, the company has grown into a global juggernaut in credit cards, commercial banking, trading and a variety of other related activities. It has thousands of branches and sports a $178B market cap with $74B in annual revenue.

Citi's recently reported Q1 was outstanding as it saw continued growth in its core businesses, partially offset by the ongoing wind-down of legacy assets it is trying to rid itself of. Total revenue growth was 3% but EPS was up 24%, driven by better margins, a lower tax rate, as well as a 7% reduction in the share count. Citi's transformation that began after the Great Recession and subsequent bailout continues through today and the results have been tremendous. Its capital ratios are well above industry standards and it is once again returning billions of dollars to shareholders. Q1 shows that Citi's momentum carried from 2017 is continuing in earnest for 2018.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	---	---	$3.50	$3.59	$3.86	$4.26	$2.20	$5.44	$4.72	$5.33	***$6.35***	***$9.35***
DPS	$11.20	$0.10	$0.00	$0.03	$0.04	$0.04	$0.04	$0.16	$0.42	$0.96	***$1.28***	***$3.00***

Citi's EPS history is clouded by the immense struggles it endured following the Great Recession as there was reasonable doubt the company could even continue to operate. However, years of hard work have paid off and EPS continues to move higher over time. We see Citi producing $6.35 in 2018 and a robust 8.1% growth in EPS thereafter, fueled by a number of tailwinds. We believe Citi will continue to see higher revenue as its institutional and consumer businesses gather cheap deposits and lend them prudently, leading to reasonable loss rates and favorable margins. In addition, the company's buyback should be good for a mid-single digit reduction in the share count annually. Margins have been a source of earnings growth of late and that should remain so long as the yield curve doesn't continue to flatten or eventually invert. Citi isn't as tied to traditional lending as most other banks so the yield curve isn't quite as critical, but the cost of deposits is extremely important for its massive credit card business. Overall, even with those risks in mind, Citi looks poised to deliver high single digit EPS growth in the coming years with relative ease.

Citi was barred for a years following the Great Recession from raising its dividend but now that it has permission, it isn't wasting any time. The payout ratio is still just a small fraction and we see that moving meaningfully higher in the coming years, culminating with a predicted $3 per share payout in five years. Citi certainly hasn't been an income stock in the past decade but we believe all the pieces are in place for that to be the case once more.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	NMF	NMF	11.4	10.4	8.4	11.4	22.8	9.8	9.7	12.3	***11.0***	***10.5***
Avg. Yld.	5.9%	0.3%	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%	0.9%	1.5%	***1.8%***	***3.1%***

Citi's PE multiple has bounced around some in the past several years but today, at 11, it is right in line with its historical average. We see a modest 1.1% headwind to total returns from the valuation drifting lower over time, but this shouldn't significantly impact the stock. We do expect the yield to move higher due to the payout's growth outpacing that of the stock price, leading to a 3%+ yield in five years; we expect Citi to reclaim its lost income stock status.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
ROA	---	---	0.59%	0.58%	0.41%	0.71%	0.40%	1.00%	0.83%	0.86%	***0.85%***	***0.90%***
Debt/A	95%	93%	92%	91%	90%	90%	89%	89%	87%	87%	***87%***	***85%***
Int. Cov.	0.7	2.2	2.5	2.1	1.9	2.7	2.6	3.7	3.3	2.8	***2.9***	***3.1***
Payout	---	---	---	1%	2%	2%	9%	7%	9%	18%	***20%***	***32%***
Std. Dev.	68.0%	145.9%	36.3%	39.9%	36.9%	19.4%	15.2%	21.2%	33.2%	14.8%	***22.0%***	***33.0%***

Citi's quality metrics have been remarkably steady in recent years given the tremendous amount of change and de-risking that has occurred within the business. Its return on assets has hovered in the area of 85bps for two years now and we expect it will improve slightly. Citi's heavy reliance upon credit cards – a business that has been suffering from higher losses industrywide – should keep a lid on ROA growth. We see continued deleveraging of the balance sheet but only slightly, and a minute improvement in interest coverage as that occurs. The payout ratio should rise to a level that is more in line with Citi's peers in the low-30% area, giving the stock a much-needed boost in yield. Overall, Citi is in much better shape than it was five years ago and we see cause for optimism.

Citi's competitive advantage is in its global reach and its large position in the lucrative credit card business. Citi has differentiated itself from the other money center banks in these ways and it continues to serve Citi well. It is, of course, very susceptible to recession as it nearly went out of business in 2008/2009; the next downturn will not be kind to Citi.

Final Thoughts & Recommendation

In total, we see Citi as a fairly priced growth story with a few levers to pull for growth. We are forecasting 8.8% total annual returns over the next five years, consisting of the 1.8% yield, a 1.1% headwind from the valuation and 8.1% EPS growth. The pieces are in place for Citi to become an income stock once more and we see it as attractive for those seeking dividend growth as well as growth at a reasonable price; value investors and those seeking a high current yield should look elsewhere. However, on the whole, Citi looks poised for solid returns in the coming years.

Total Return Breakdown by Year