



Citigroup (C)

Updated January 15th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	16.7%	Volatility Percentile:	56.0%
Fair Value Price:	\$79	5 Year Growth Estimate:	8.0%	Momentum Percentile:	27.7%
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	5.7%	Growth Percentile:	72.9%
Dividend Yield:	3.0%	5 Year Price Target	\$116	Valuation Percentile:	81.6%
Dividend Risk Score:	D	Retirement Suitability Score:	D	Total Return Percentile:	86.1%

Overview & Current Events

Citigroup was founded in 1812 when it was known as the City Bank of New York. In the past 200+ years, the company has grown into a global juggernaut in credit cards, commercial banking, trading and a variety of other financial activities. It has thousands of branches, produces \$75 billion in annual revenue and has a market capitalization of \$144 billion.

Citi reported Q4 earnings on 1/14/19 and results were strong, sending the stock higher. Revenue came in short of expectations at \$17.1 billion due to an extremely weak quarter from the company's fixed income segment. Revenue there plummeted 39% quarter-over-quarter in Q4 and while fixed income revenue is generally quite volatile, Q4 was exceptionally so. Management stated market volatility in Q4 was the cause as investors stayed on the sidelines, but that conditions had improved early in Q1. The bank saw some strength in its consumer business, namely US Branded Card, as well as in Mexico. Citi continues to grow its loan and deposit bases while improving return on assets via prudent expense management and higher market interest rates. Q4 saw earnings-per-share rise 26% year-over-year thanks to these factors, as well as a lower tax rate.

Citi still, unbelievably, trades below its tangible book value. At quarter's end, that number was \$63.79 per share, up 6% year-over-year. Citi has had its problems in the past but the bank has made itself leaner, more focused and more profitable in recent years. We see the stock as offering significant value based upon its price-to-earnings multiple, but also the fact that it trades under tangible book value.

Citi's balance sheet remains in excellent shape as well as it ended the year with a Common Equity Tier 1 capital ratio of 11.9% and a Statutory Liquidity Ratio (SLR) of 6.4%. Citi has been able to maintain and improve its capital ratios over time while simultaneously buying back billions of dollars of stock and paying a meaningful dividend. We see these factors as support for owning the stock in the years to come.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$7.60	\$3.50	\$3.59	\$3.86	\$4.26	\$2.20	\$5.44	\$4.72	\$5.33	\$6.65	\$7.50	\$11.02
DPS	\$0.10	\$0.00	\$0.03	\$0.04	\$0.04	\$0.04	\$0.16	\$0.42	\$0.96	\$1.54	\$1.80	\$3.30
Shares	2,847	2,906	2,924	3,029	3,029	3,024	2,954	2,772	2,570	2,369	2,250	1,900

Citi's earnings-per-share history is clouded by the immense struggles it endured following the Great Recession. However, years of hard work have paid off and earnings have continued to move higher over time. We see Citi producing \$7.50 per share in 2019 and robust growth of 8.0% annually 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 the case so long as the yield curve does not continue to flatten or invert. Citi is not as tied to traditional lending as most other banks, so the yield curve is not as critical, but the cost of deposits is extremely important for its massive credit card business. Profitability metrics for 2018 remained strong, however.

Citi was barred for years following the Great Recession from raising its dividend but now that it has permission, it is not wasting any time. The recent dividend increase has the payout ratio more in line with its competitors and looking forward, we see dividend growth as roughly keeping pace with earnings expansion.

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	--	11.4	10.4	8.4	11.4	22.8	9.8	9.7	12.3	10.4	7.9	10.5
Avg. Yld.	0.3%	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%	0.9%	1.5%	2.2%	3.0%	2.9%

At 7.9, Citigroup's price-to-earnings ratio is well below its historical norms. We see a robust 5.7% tailwind to total returns from the valuation normalizing over the next five years. Indeed, Citi continues to boost earnings while the share price languishes, leading to a very favorable valuation. We expect the yield to remain about where it is today around 3% - which is still significantly higher than the average yield in the S&P 500 Index.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	1%	--	1%	2%	2%	9%	7%	9%	18%	25%	24%	30%

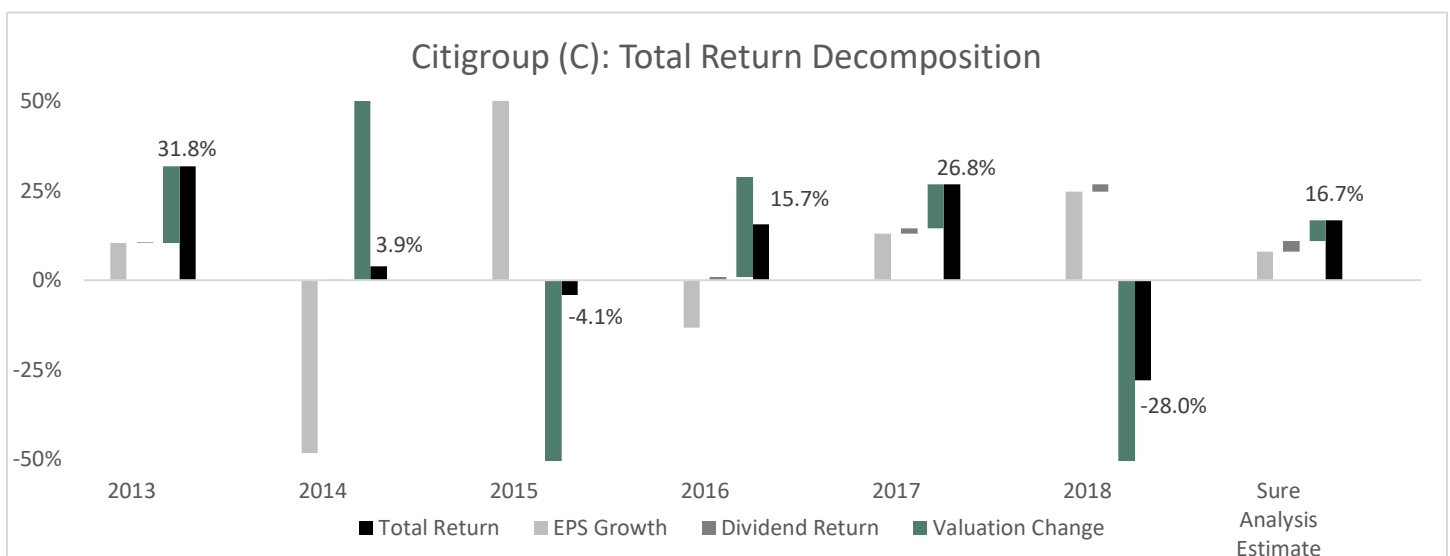
Citigroup's quality metrics have been remarkably steady in recent years given the tremendous amount of change and de-risking that has occurred within the business. Citigroup's heavy reliance upon credit cards – a business that has been suffering from higher losses industrywide – should keep a lid on margin expansion. 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 continue to rise to a level that is more in line with Citi's peers in the low-30% area. 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 the bank well. It is 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 an underpriced growth story with a few levers to pull for growth. We are forecasting robust 16.7% total annual returns over the next five years, consisting of the 3.0% current yield, a 5.7% tailwind from the valuation and 8% earnings growth. Citi has become an income stock once more and we see it as attractive for those seeking dividend growth, earnings growth potential and value. We rate Citigroup a buy given its growth prospects and current yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	80285	86601	77331	69190	76724	77219	76354	69875	71449	72854
SG&A Exp.	31617	30999	32937	33112	31991	32239	29897	29287	29680	29892
D&A Exp.	2853	2664	2872	2507	3303	3589	3506	3720	3659	N/A
Net Profit	-1606	10602	11067	7541	13659	7310	17242	14912	-6798	18045
Net Margin	-2.0%	12.2%	14.3%	10.9%	17.8%	9.5%	22.6%	21.3%	-9.5%	24.8%
Free Cash Flow	-56874	33323	61347	-14.0B	59754	42957	36539	51176	-11.9B	N/A
Income Tax	-6733	2233	3575	7	6186	7197	7440	6444	29388	5357

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets (\$B)	1856.6	2233	3575	7	6186	7197	7440	6444	29388	5357
Cash & Eq. (\$B)	192.89	190.41	184.49	138.59	198.89	160.20	133.10	160.49	180.52	188.01
Acc. Receivable	33634	31213	27777	22490	25674	28419	27683	28887	38384	35450
Goodwill & Int.	40636	38210	34582	33312	32783	30003	27851	28337	27402	27266
Total Liab (\$B)	1701.7	1748.1	1694.3	1673.7	1674.2	1630.5	1508.1	1565.9	1640.8	1720.2
Accounts Payable	60846	51749	56696	57013	53707	52180	53722	57152	61342	64571
LT Debt (\$B)	432.90	459.97	377.95	291.49	280.06	281.42	222.35	236.88	281.16	264.25
Total Equity (\$B)	152.39	163.16	177.49	186.49	197.60	199.72	205.14	205.87	181.49	177.76
D/E Ratio	2.84	2.81	2.13	1.54	1.37	1.34	1.00	1.05	1.40	1.35

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-0.1%	0.6%	0.6%	0.4%	0.7%	0.4%	1.0%	0.8%	-0.4%	1.0%
Return on Equity	-1.4%	6.7%	6.5%	4.1%	7.1%	3.7%	8.5%	7.3%	-3.5%	10.0%
ROIC	-0.3%	1.7%	1.9%	1.5%	2.8%	1.5%	3.7%	3.3%	-1.4%	3.8%
Shares Out.	2,847	2,906	2,924	3,029	3,029	3,024	2,954	2,772	2,570	2,369
Revenue/Share	66.36	29.18	25.79	22.94	25.22	25.43	25.39	24.19	26.48	29.20
FCF/Share	-47.0	11.23	20.46	-4.63	19.65	14.14	12.15	17.72	-4.43	N/A

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

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