



Citigroup (C)

Updated October 17th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$70	5 Year CAGR Estimate:	13.8%	Volatility Percentile:	66.5%
Fair Value Price:	\$81	5 Year Growth Estimate:	8.0%	Momentum Percentile:	39.1%
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Growth Percentile:	80.1%
Dividend Yield:	2.9%	5 Year Price Target	\$119	Valuation Percentile:	83.5%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	91.0%

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 bank 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 \$74 billion in annual revenue and has a market capitalization of \$157 billion.

Citi reported Q3 earnings on October 15th and results were strong once again. Total revenue was up 1% year-over-year, driven by a 3% gain in Institutional Clients revenue and flat Global Consumer Banking revenue. Expenses were up 1% as Citi's efficiency ratio came to 56.3% in Q3, which is roughly in-line with other recent periods, as well as Citi's money center bank competitors. Total cost of credit was up 6% in Q3 as net credit losses rose 9%, but that was partially offset by a credit reserve release. Operating income was down 1% year-over-year thanks to these factors.

Citi's provision for income taxes fell 27% thanks to a lower effective rate, which saw income after taxes rise 7%. Net income rose nearly 20% to \$2.07 per share in Q3.

Citi bought back 76 million shares in Q3 as part of its years-long capital return program, in addition to a recent dividend increase to a \$2.04 annualized payout. Total assets rose 5% year-over-year in Q3, while loans were up 2% and deposits rose 8%. Citi's loan-to-deposit ratio was just 64% in Q3, leaving ample room for continued earning-asset growth.

The bank's capital ratios remain in excellent shape despite tens of billions of dollars of capital returns in recent years. Citi's common equity tier 1 ratio is 11.6%, essentially flat with last year. Its supplementary leverage ratio is 6.3%, down fractionally from last year's 6.5%. Book value rose 11% year-over-year and tangible book value per share gained 12% to \$69.03 from the year-ago period.

After the strong Q3 result, we've boosted our earnings-per-share estimate for this year from \$7.50 to \$7.70.

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	\$7.70	\$11.31
DPS	\$0.10	---	\$0.03	\$0.04	\$0.04	\$0.04	\$0.16	\$0.42	\$0.96	\$1.54	\$2.04	\$3.29
Shares¹	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 \$7.70 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. This was the case in Q3's results once again. 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. We note that even in the recent tumultuous interest rate environment, Citi is performing very well. 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 2019 remain strong, however.

¹ Share count 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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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.

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	9.0	10.5
Avg. Yld.	0.3%	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%	0.9%	1.5%	2.2%	2.9%	2.8%

At just 9.0 times expected earnings, Citigroup's price-to-earnings ratio is below its historical norms. We see a modest 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 that remains right at tangible book value. We expect the yield to remain near where it is over time, just under 3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	1%	2%	2%	9%	7%	9%	18%	25%	27%	29%

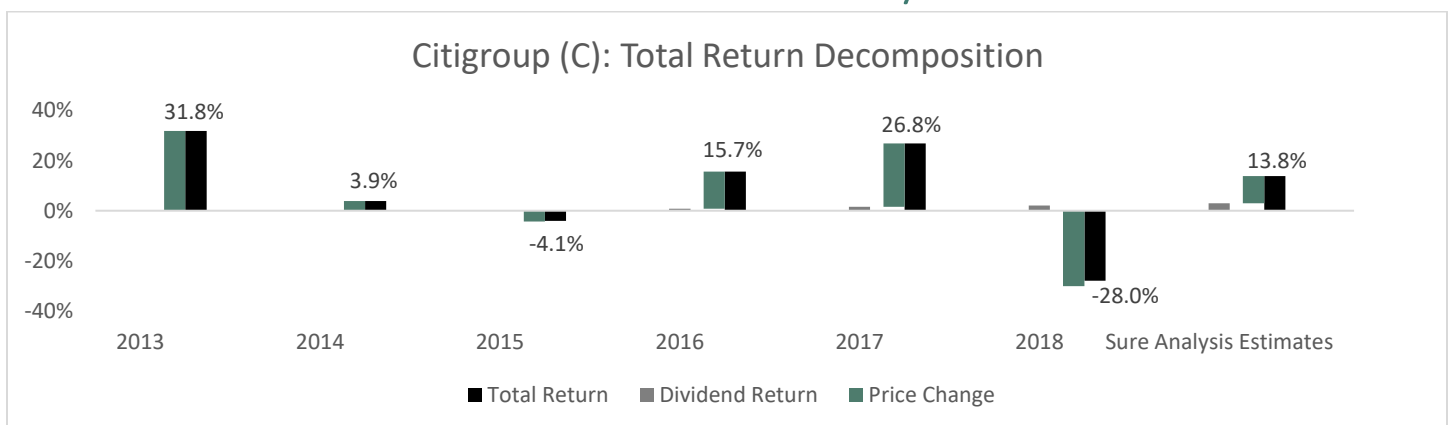
Citi's payout ratio is still just one-quarter of earnings, and we see it rising to near 30% of earnings in the coming years. Citi has spent the past several years trying to build its dividend back to a normalized level, and it is nearly in-line with competitors. Given strong earnings, we see the dividend as continuing to rise nicely in the coming years.

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 likely not be kind to Citi, although we note that the bank is in much better shape than it was heading into the financial crisis from a balance sheet and business mix perspective.

Final Thoughts & Recommendation

In total, we see Citi as an underpriced security with a few levers to pull for growth. We are forecasting robust 13.8% total annual returns over the next five years, consisting of the nearly-3% yield, a small tailwind from the valuation and 8% earnings-per-share 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. Despite the fact that the stock has moved somewhat higher since our last update, we continue 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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