Citigroup (C)

Updated January 18th, 2021 by Josh Arnold

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	6.7%	**Market Cap:**	$134 B
Fair Value Price:	$57	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	02/03/2021[1]
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.2%	**Dividend Payment Date:**	02/24/2021[2]
Dividend Yield:	3.2%	**5 Year Price Target**	$76	**Years Of Dividend Growth:**	6
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	13.3%

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 $70 billion in annual revenue, and has a market capitalization of $134 billion after a very strong rally since our last update.

Citigroup reported fourth quarter and full-year earnings on January 15th, 2021 with results coming in much better than expectations on the bottom line, but the bank missed revenue estimates. Total revenue was down -10% year-over-year to $16.5 billion amid widespread weakness across its segments.

Operating expenses were $10.7 billion, up 2% as the bank spent capital on infrastructure and risk controls, partially offset by efficiency cost savings and reduced discretionary spending. Cost of credit was negative in the fourth quarter, down from $2.2 billion in the same period last year, reflecting a release of allowances for previously built credit loss reserves. Net income was therefore much better than expected, down just -7% to $4.6 billion in Q4.

Allowances for credit losses were $25 billion, or 3.7% of total loans at the end of the year, roughly double the end of 2019. End of year loans were $676 billion, down -3% year-over-year, while deposits were $1.3 trillion, up 20% from the end of 2019. Tangible book value per share ended the year at $73.83, up 5% year-over-year despite sizable capital returns.

Our initial estimate for 2021 is for $6.35 in earnings-per-share as we see a continued rebound in credit quality, but an uncertain outlook in interest rates and economic strength.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.59	$3.86	$4.26	$2.20	$5.44	$4.72	$5.33	$6.65	$8.04	$4.87	***$6.35***	***$8.50***
DPS	$0.03	$0.04	$0.04	$0.04	$0.16	$0.42	$0.96	$1.54	$1.92	$2.04	***$2.04***	***$2.73***
Shares[3]	2,924	3,029	3,029	3,024	2,954	2,772	2,570	2,369	2,114	2,082	***1,950***	***1,750***

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 $6.35 per share in earnings for 2021, which we expect to grow by 6% annually. We note that earnings are not rebounding as quickly as originally thought, and we've reduced our earnings outlook accordingly.

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. We believe Citi is pulling back on lending at the moment due to less than favorable spreads on loans, which was evident again in 2020. That is a headwind, as it results in higher deposit costs without commensurate lending revenue, crimping top line and margin growth. In addition, the company's buybacks could be good for a mid-single-digit reduction in the share count annually.

[1] Estimated date
[2] Estimated date
[3] Share count in millions

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We note that even in the recent tumultuous interest rate environment, Citi is performing 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 important for its massive credit card business. Continued deposit growth that is outpacing lending growth is starting to weigh on margins. We expect credit losses to moderate in 2021.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	10.4	8.4	11.4	22.8	9.8	9.7	12.3	10.4	8.4	11.0	***10.1***	***9.0***
Avg. Yld.	0.1%	0.1%	0.1%	0.1%	0.3%	0.9%	1.5%	2.2%	2.8%	3.8%	***3.2%***	***3.6%***

At 10.1 times earnings, Citigroup's price-to-earnings ratio is back in line with historical norms. However, we assess fair value at 9 times earnings on the highly uncertain outlook for banks, including capital returns. We expect the yield to rise over time, mostly due to a lower earnings multiple as the dividend and earnings rise at roughly congruent rates.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	1%	2%	2%	9%	7%	9%	18%	25%	24%	42%	***32%***	***32%***

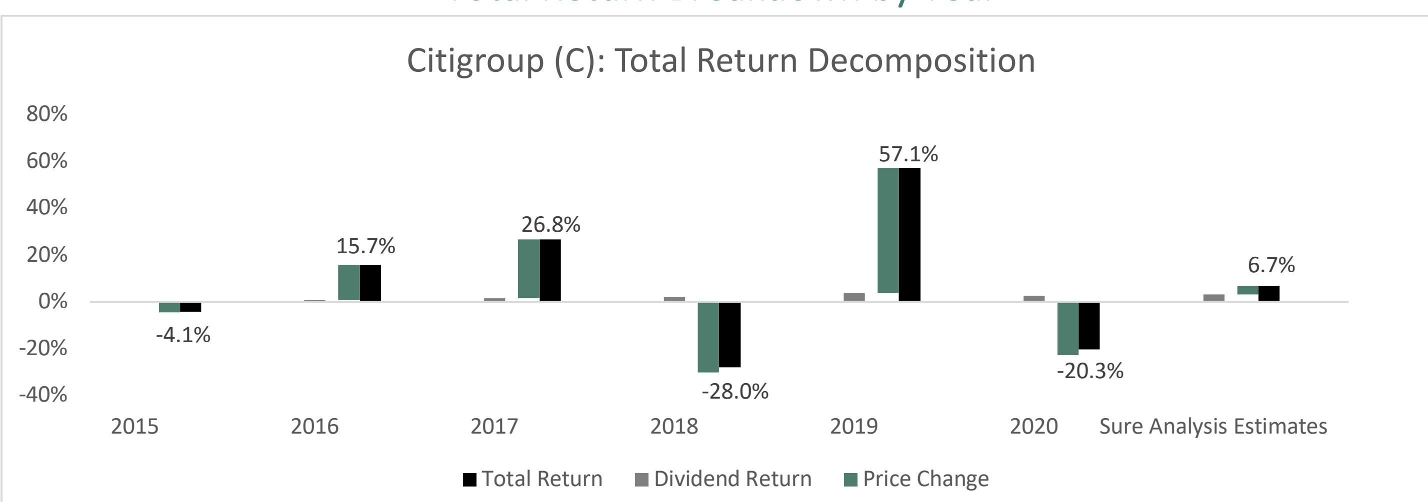
Citi's payout ratio is still just one-third of normalized earnings power, and we see it remaining there in the coming years. Citi has spent the past several years trying to build its dividend back to a normalized level, and it is nearly in-line with competitors. Given rebounding earnings, we see the dividend 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 recessions as it nearly went out of business in 2008/2009. This downturn has not been 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. Still, earnings suffered materially in 2020, and but we see the credit loss allowance reserve release in Q4 as a signal the worst is behind Citi.

Final Thoughts & Recommendation

We are forecasting 6.7% total annual returns over the next five years after the stock has rallied by about half since our last update. Given the lower total return outlook from the much higher valuation, we're moving Citi from buy to hold.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	86,601	77,331	69,190	76,724	77,219	76,354	70,797	72,444	72,854	74,286
SG&A Exp.	30,999	32,937	33,112	31,991	32,239	29,897	29,303	29,698	29,892	30,026
D&A Exp.	2,664	2,872	2,507	3,303	3,589	3,506	3,720	3,659	3,754	3905
Net Profit	10,602	11,067	7,541	13,659	7,310	17,242	14,912	-6,798	18,045	19,401
Net Margin	12.2%	14.3%	10.9%	17.8%	9.5%	22.6%	21.1%	-9.4%	24.8%	26.1%
Free Cash Flow	33,323	61,347	-13,966	59,754	42,957	36,539	50,977	-12,135	33,178	-18,170
Income Tax	2,233	3,575	7	6,186	7,197	7,440	6,444	29,388	5,357	4,430

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets ($B)	1,913	1,873	1,864	1,880	1,842	1,731	1,792	1,842	1,917	1,951
Cash & Eq. ($B)	190	184	138	198	160	133	160	180	188	193
Acc. Receivable	31	---	---	---	---	---	---	---	---	---
Goodwill & Int.	38.210	34.582	33.312	32.783	30.003	27.851	28.337	27.402	27.266	26.948
Total Liab ($B)	1,748	1,694	1,673	1,674	1,630	1,508	1,565	1,640	1,720	1,757
Accounts Payable	51.749	56.696	57.013	53.707	52.180	53.722	57.152	61.342	64.571	48.601
LT Debt ($B)	459	377	291	280	281	222	236	281	264	293
Total Equity ($B)	163	177	186	197	199	205	205	181	177	175
D/E Ratio	2.81	2.13	1.54	1.37	1.34	1.00	1.05	1.40	1.35	1.52

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	0.6%	0.6%	0.4%	0.7%	0.4%	1.0%	0.8%	-0.4%	1.0%	1.0%
Return on Equity	6.7%	6.5%	4.1%	7.1%	3.7%	8.5%	7.3%	-3.5%	10.0%	11.0%
ROIC	1.7%	1.9%	1.5%	2.8%	1.5%	3.7%	3.3%	-1.4%	3.8%	4.1%
Shares Out.	2,906	2,924	3,029	3,029	3,024	2,954	2,772	2,570	2,369	2,114
Revenue/Share	29.18	25.79	22.94	25.22	25.43	25.39	24.51	26.85	29.20	32.79
FCF/Share	11.23	20.46	(4.63)	19.65	14.14	12.15	17.65	(4.50)	13.30	-8.02

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