Citigroup (C)

Updated April 16th, 2021 by Josh Arnold

Key Metrics

Current Price:	$73	**5 Year CAGR Estimate:**	8.1%	**Market Cap:**	$152 B
Fair Value Price:	$75	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	04/30/2021
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.5%	**Dividend Payment Date:**	05/28/2021
Dividend Yield:	2.8%	**5 Year Price Target**	$96	**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 about $71 billion in annual revenue, and has a market capitalization of $152 billion after a very strong rally in the past few months.

Citi reported first quarter earnings on April 15th, 2021 with results coming in better than expectations on the top and bottom lines. Net income came to $7.9 billion, or $3.62 per share, which was up sharply from $1.06 per share and $2.5 billion in the year-ago period. Net income was up year-over-year due to lower cost of credit, a decline in shares outstanding, and a multi-billion-dollar reserve release, which is unwinding loan loss reserves that were taken during the early stages of the pandemic.

Revenue was down -7% year-over-year as higher revenue in Investment Banking and Equity Markets were more than offset by lower interest rates, the absence of mark-to-market gains from last year's first quarter, and lower card volumes in Global Consumer Banking. Total revenue came in at $19.3 billion for the quarter.

Citi announced it would exit 13 markets in the Asia and EMEA segment to focus instead on four markets – Singapore, Hong Kong, the UAE, and London.

Citi said its credit card delinquency rate fell to 1.26% in March, which was down from 1.56% last March. Citi's reliance upon its credit card portfolio makes this metric of particular importance. Likewise, the bank's overall charge-off rate is well off from the highs of last year as credit quality continues to improve.

We've boosted our estimates for this year to $7.50 on a much stronger than expected Q1 profit, which was driven by the loss reserve release. We're expecting normalized earnings for the remaining three quarters.

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	***$7.50***	***$9.57***
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[1]	2,924	3,029	3,029	3,024	2,954	2,772	2,570	2,369	2,114	2,082	***2,000***	***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 $7.50 per share in earnings for 2021, which we expect to grow by 5% annually. We've slightly reduced our growth estimate because of the higher-than-expected base for 2021.

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

[1] Share count in millions

growth. In addition, the company's buybacks could be good for a mid-single-digit reduction in the share count annually. 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. This was masked in Q1 by the reserve release, but results should be more normalized in Q2 as Citi laps the pandemic.

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	***9.7***	***10.0***
Avg. Yld.	0.1%	0.1%	0.1%	0.1%	0.3%	0.9%	1.5%	2.2%	2.8%	3.8%	***2.8%***	***2.9%***

At 9.7 times earnings, Citigroup's price-to-earnings ratio is back in line with historical norms. We've boosted our fair value estimate from 9 to 10 times earnings on a much stronger outlook and rising valuations in the sector. We expect the dividend yield to remain roughly where it is today, just under 3%.

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%	***27%***	***29%***

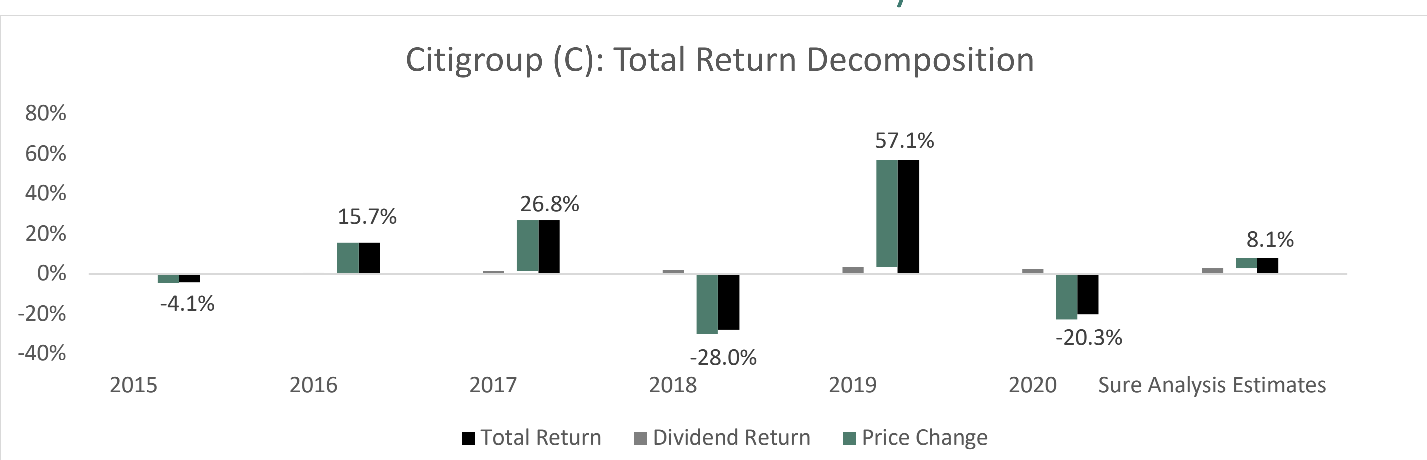
Citi's payout ratio is only 27% of estimated earnings this year, and we see it remaining there in the coming years. Citi has spent the past several years trying to build its dividend back to a normalized level, and it is nearly in-line with competitors. Given rebounding earnings, we see the dividend 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. The 2020 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. Q1 results proved Citi is moving past the pandemic and getting back to normal business.

Final Thoughts & Recommendation

We are forecasting 8.1% total annual returns over the next five years, which is up slightly from our last report. Earnings could be stronger this year, and we raised the valuation, but reduced the growth outlook. We think Citi is past the worst of the pandemic's impacts, but the recent rally has taken it to our estimate of fair value; we reiterate our hold rating.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	77,331	69,190	76,724	77,219	76,354	70,797	72,444	72,854	74,286	75,494
SG&A Exp.	32,937	33,112	31,991	32,239	29,897	29,303	29,698	29,892	30,026	32,130
D&A Exp.	2,872	2,507	3,303	3,589	3,506	3,720	3,659	3,754	3905	3,937
Net Profit	11,067	7,541	13,659	7,310	17,242	14,912	-6,798	18,045	19,401	11,047
Net Margin	14.3%	10.9%	17.8%	9.5%	22.6%	21.1%	-9.4%	24.8%	26.1%	14.6%
Free Cash Flow	61,347	-13,966	59,754	42,957	36,539	50,977	-12135	33,178	-18,170	-24,067
Income Tax	3,575	7	6,186	7,197	7,440	6,444	29,388	5,357	4,430	2,525

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	1,873	1,864	1,880	1,842	1,731	1,792	1,842	1,917	1,951	2,260
Cash & Eq. ($B)	184	138	198	160	133	160	180	188	193	310
Goodwill & Int.	34.582	33.312	32.783	30.003	27.851	28.337	27.402	27.266	26.948	26,909
Total Liab ($B)	1,694	1,673	1,674	1,630	1,508	1,565	1,640	1,720	1,757	2,060
Accounts Payable	56.696	57.013	53.707	52.180	53.722	57.152	61.342	64.571	48.601	11,165
LT Debt ($B)	377	291	280	281	222	236	281	264	293	301
Total Equity ($B)	177	186	197	199	205	205	181	177	175	180
D/E Ratio	2.13	1.54	1.37	1.34	1.00	1.05	1.40	1.35	1.52	1.51

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.6%	0.4%	0.7%	0.4%	1.0%	0.8%	-0.4%	1.0%	1.0%	0.5%
Return on Equity	6.5%	4.1%	7.1%	3.7%	8.5%	7.3%	-3.5%	10.0%	11.0%	6.2%
ROIC	1.9%	1.5%	2.8%	1.5%	3.7%	3.3%	-1.4%	3.8%	4.1%	2.2%
Shares Out.	2,924	3,029	3,029	3,024	2,954	2,772	2,570	2,369	2,114	2,082
Revenue/Share	25.79	22.94	25.22	25.43	25.39	24.51	26.85	29.20	32.79	35.97
FCF/Share	20.46	(4.63)	19.65	14.14	12.15	17.65	-4.50	13.30	-8.02	-11.47

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