



Citizens Financial Group, Inc. (CFG)

Updated June 6th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	4.4%	Market Cap:	\$21 B
Fair Value Price:	\$54	5 Year Growth Estimate:	-1.0%	Ex-Dividend Date:	07/28/21 ¹
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	08/13/21
Dividend Yield:	3.1%	5 Year Price Target	\$51	Years Of Dividend Growth:	6
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	14.7%

Overview & Current Events

Citizens Financial Group is a bank holding company for Citizens Bank, a regional bank that is based in Providence, Rhode Island. Citizens operates two segments: Consumer Banking and Commercial Banking. The consumer segment offers traditional banking products and services, such as deposit accounts, home and education loans, credit cards, business loans, mortgage and home equity loans, personal loans, auto finance loans, and wealth management. The commercial segment offers a full suite of financial products and services to businesses, including treasury management, cash management, forex and interest rate risk solutions, M&A advisory services, and more. Citizens traces its roots back to 1828 and operates about 1,000 branches in 11 states in the US. The stock trades with a market capitalization of \$21 billion, and Citizens should generate about \$6.7 billion in revenue this year.

Citizens reported first quarter earnings on April 16th, 2021, and results were better than expectations on both the top and bottom lines. Net interest income was \$1.1 billion, a decrease of -4% year-over-year, with 9% growth in interest-earning assets, including Paycheck Protection Program loans. In addition, net interest margin was 2.76%, a decline of 34bps year-over-year, primarily reflecting the impact of a lower rate environment, lower interest-earning asset yields, and elevated cash balances. This was partially offset by improved funding mix and deposit pricing.

Noninterest income was \$542 million, up \$45 million, or 9%, which reflected mortgage banking fees from higher production volume, service charges and fees declined \$19 million, reflecting lower overdraft fees, and record trust and investment fees, which rose \$5 million on strong assets under management.

Total assets were \$187 billion, up 6% or \$10.5 billion year-over-year. Period-end deposits were \$151.3 billion, up 13% or \$17.9 billion from the year-ago period. Citizens said government stimulus was a primary reason deposits rose so quickly.

Our estimate for this year is \$4.70 in earnings-per-share, as a combination of factors that have to do with unwinding of significant weakness from 2020, which was heavily impacted from COVID-19, help drive earnings much higher.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	\$1.55	\$1.55	\$1.97	\$3.25	\$3.52	\$3.81	\$2.22	\$4.70	\$4.47
DPS	---	---	---	\$0.10	\$0.40	\$0.46	\$0.64	\$0.98	\$1.36	\$1.56	\$1.56	\$2.51
Shares²	---	---	---	546	528	512	491	466	433	427	420	400

Citizens has posted strong earnings growth in most years, with 2020 being the obvious exception. Citizens has been seeing strong credit metrics based on prudent underwriting strategies, resulting in lower net charge-offs and allowance for credit losses. Citizens, like just about every other bank of reasonable size, took huge credit loss provisions in 2020, but those are unwinding this year as actual results are much better than originally feared during the worst of the pandemic. We note that Citizens is seeing markedly lower lending margins against the year-ago period in 2021, given the volatile moves in interest rates that continue to take place. Given this, as well as the unsustainable nature of credit loss

¹ Estimated date

² 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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provision unwinding from elevated 2020 levels, we think Citizens will struggle to replicate 2021 earnings levels, and expect -1% annual growth in the years ahead.

We see the dividend continuing to rise quickly in the years to come as Citizens' payout ratio is quite low compared to many regional banks. The dividend has proven to be a priority to management, and we believe the dividend has the potential to hit \$2.51 per share by 2026.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	15.4	16.4	12.3	11.2	11.5	9.3	12.6	10.6	11.5
Avg. Yld.	---	---	---	0.4%	1.6%	1.9%	1.8%	2.4%	3.8%	5.6%	3.1%	4.9%

Citizens has been valued in the low-double-digits for the past handful of years, and we peg fair value at 11.5 times earnings. Shares trade at just 10.6 times this year's earnings; however, we see current earnings as inflated from 2020 credit loss provision unwinding, which isn't sustainable. The yield is strong at 3.1%, but we see it rising to around 5% by 2026 as the dividend could grow much more quickly than earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	6%	26%	23%	20%	28%	36%	70%	33%	56%

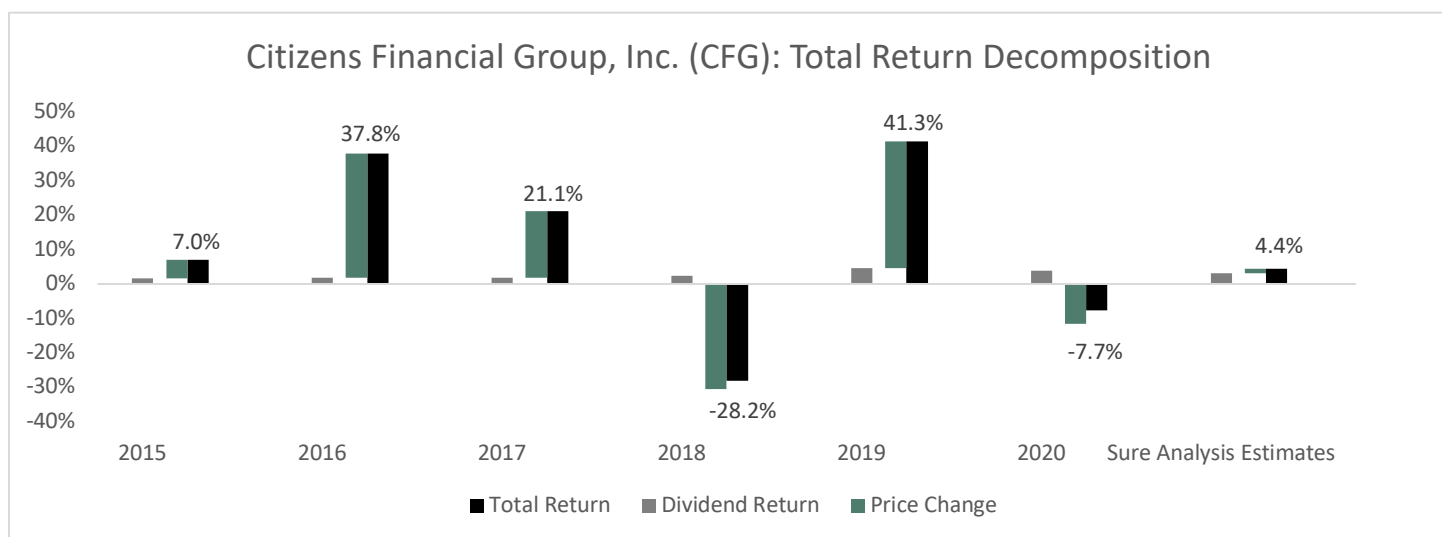
We see the payout ratio rising from 33% this year to 56% by 2026 on strong payout growth. We have no dividend safety concerns at this point.

Citizens, like any other bank, is beholden to economic conditions. Citizens didn't exist in its current form during the Great Recession, but regional banks in general are quite susceptible to recessions, and indeed 2020 showed what kind of impact a recession can have on earnings. Citizens, also like other regional banks, doesn't really enjoy any competitive advantages, as services are commoditized in banking to a large extent.

Final Thoughts & Recommendation

Citizens looks undervalued today, but that is on earnings we see as inflated by unsustainable factors. Given this, and modest 4.4% expected total returns, mostly stemming from the 3.1% dividend yield, we rate Citizens as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	5,031	4,894	4,690	4,691	4,824	5,255	5,707	6,128	6,491	6,905
SG&A Exp.	1,842	1,927	1,813	1,859	1,852	1,932	2,008	2,113	2,200	2,289
D&A Exp.	434	467	404	386	471	515	487	489	633	578
Net Profit	506	643	-3,426	865	840	1,045	1,652	1,721	1,791	1,057
Net Margin	10.1%	13.1%	-73.0%	18.4%	17.4%	19.9%	28.9%	28.1%	27.6%	15.3%
Free Cash Flow	2,111	1,343	2,281	1,079	930	1,187	1,443	1,535	1,602	(7)
Income Tax	272	381	(42)	403	423	489	260	462	460	241

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	---	127.1	122.2	132.9	138.2	149.5	152.3	160.5	165.7	183.3
Cash & Equivalents	---	3,189	2,990	3,646	3,441	4,143	3,224	4,222	3,683	13,039
Goodwill & Int. Ass.	---	11,311	6,876	6,876	6,876	6,876	6,887	6,923	7,044	7,050
Total Liabilities (\$B)	---	102.9	103.0	113.6	118.6	129.8	132.1	139.7	143.5	160.7
Long-Term Debt	---	1,195	3,656	10,895	12,516	16,001	13,621	16,086	14,056	8,358
Shareholder's Equity	---	24,129	19,196	19,268	19,399	19,500	20,023	19,977	20,631	20,708
D/E Ratio	---	0.05	0.19	0.57	0.64	0.81	0.67	0.77	0.63	0.37

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	-2.7%	0.7%	0.6%	0.7%	1.1%	1.1%	1.1%	0.6%
Return on Equity	---	---	-15.8%	4.5%	4.3%	5.4%	8.4%	8.6%	8.8%	5.1%
ROIC	---	---	-14.2%	3.3%	2.7%	3.1%	4.7%	4.9%	4.9%	3.1%
Shares Out.	---	---	---	546	528	512	491	466	433	427
Revenue/Share	8.98	8.74	8.38	8.41	8.96	10.03	11.33	12.76	14.39	16.13
FCF/Share	3.77	2.40	4.07	1.93	1.73	2.27	2.86	3.20	3.55	(0.02)

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

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