



Citigroup (C)

Updated July 17th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	10.7%	Market Cap:	\$138 B
Fair Value Price:	\$99	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	07/30/2021 ¹
% Fair Value:	68%	5 Year Valuation Multiple Estimate:	8.1%	Dividend Payment Date:	08/28/2021
Dividend Yield:	3.0%	5 Year Price Target	\$99	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Retirement Suitability Score:	C	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 \$138 billion after a selloff since our last report.

Citigroup reported second quarter earnings on July 14th, 2021, and results were better than expectations on the top and bottom lines. Revenue was down -12% year-over-year, which was the result of lower fixed income market activity, as well as lower average card balances for consumers, and lower interest rates for loans. Even so, revenue beat consensus by \$290 million, coming in at \$17.5 billion.

Global Consumer Banking net income was \$1.83 billion, down from \$2.17 billion in Q1, but up from a loss of -\$703 million in Q2 of 2020. Institutional Clients Group net income was \$3.82 billion, down from \$5.9 in Q1 but more than double the \$1.82 billion from last year's Q2.

The bank's cost of credit was -\$1.07 billion versus -\$2.06 billion in Q1, and down sharply from \$8.2 billion in last year's Q2, which was the result of unprecedented provisions for losses due to COVID-19. Those provisions have now largely been unwound as reality was nowhere near as bad as feared in the early stages of the crisis.

Earnings-per-share came to \$2.85 in Q1, which beat estimates by nearly a dollar. That was down from \$3.62 in Q1, but up from just 38 cents in the year-ago period. We've moved our estimate of earnings-per-share to \$9.90 following Q2 results, a base from which we think Citi will have a difficult time growing in the coming years.

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	\$9.90	\$9.90
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
Shares²	2,924	3,029	3,029	3,024	2,954	2,772	2,570	2,369	2,114	2,082	2,025	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 \$9.90 per share in earnings for 2021, from which we expect no growth for the foreseeable future. We've 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 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. We note that even in the recent tumultuous interest rate environment, Citi is performing well. Citi is not as tied to traditional

¹ Estimated date

² Share count in millions

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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 and Q2 by the reserve release, but results should be more normalized in the second half of this year 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	6.8	10.0
Avg. Yld.	0.1%	0.1%	0.1%	0.1%	0.3%	0.9%	1.5%	2.2%	2.8%	3.8%	3.0%	2.8%

At 6.8 times earnings, Citigroup's price-to-earnings ratio is quite low. However, that is because earnings are soaring this year on negative credit loss provisions, which is nowhere near sustainable. Our fair value estimate remains at 10 times earnings. We expect the dividend yield to remain roughly where it is today, near 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%	21%	28%

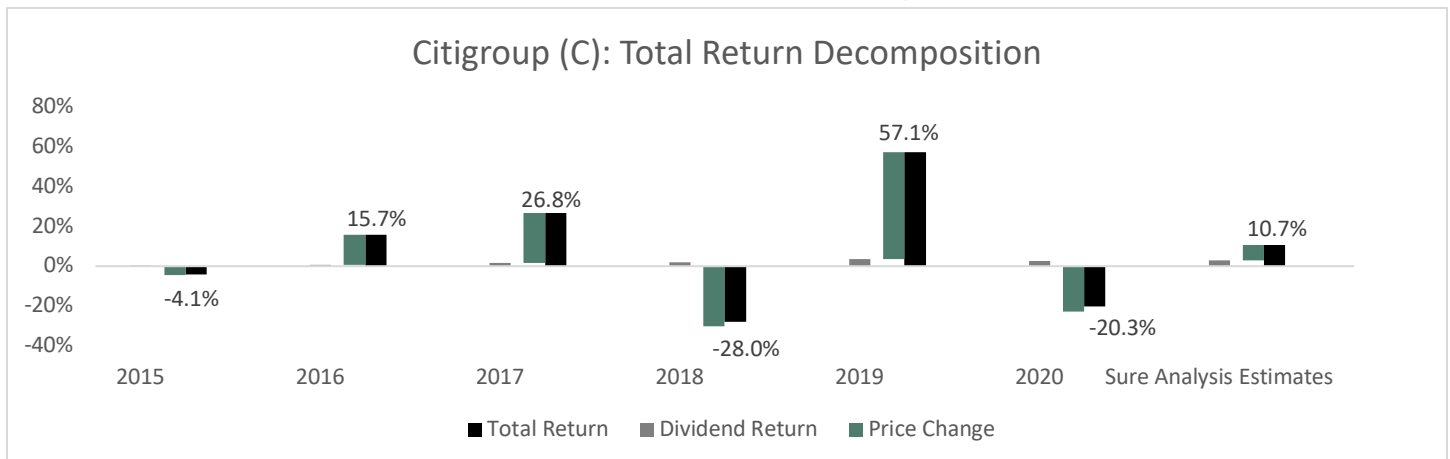
Citi's payout ratio is only 21% of estimated earnings this year, and we see it remaining there in the coming years. Citi has spent the past several years trying to build its dividend back to a normalized level, and it is nearly in-line with competitors. Given rebounding earnings, we see the dividend 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 wasn't 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. Q2 results proved Citi is moving past the pandemic and getting back to normal business.

Final Thoughts & Recommendation

We are forecasting 10.7% total annual returns over the next five years, which is up from our last report. Earnings could be stronger this year, but we reduced the growth outlook. We think Citi is past the worst of the pandemic's impacts, but that earnings will be difficult to grow from 2021 levels. However, given the robust total return outlook, we rate Citi a buy, up from 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	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	3,905	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	-12,135	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.

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