Citizens Financial Group, Inc. (CFG)

Updated October 23rd, 2021, by Josh Arnold

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	5.1%	**Market Cap:**	$21 B
Fair Value Price:	$59	**5 Year Growth Estimate:**	-2.0%	**Ex-Dividend Date:**	10/28/21
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.4%	**Dividend Payment Date:**	11/12/21
Dividend Yield:	3.1%	**5 Year Price Target**	$54	**Years Of Dividend Growth:**	6
Dividend Risk Score:	C	**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 U.S. The stock trades with a market capitalization of $21 billion, and Citizens should generate about $6.6 billion in revenue this year.

Citizens reported third quarter earnings on October 20th, 2021, and results were better than expected on both the top and bottom lines. Total revenue was $1.65 billion, which was nearly -8% off from the prior year period but was very slightly ahead of consensus. The company did say it expects fee-based noninterest income to decline in Q4 against Q3 due to seasonally weak mortgage results.

Net interest income was $1.15 billion, up slightly from Q2 due to interest-earning asset growth and an extra operating day. Net interest margin was flat at 2.72% to Q2, but down from 2.83% a year ago. Noninterest income was $514 million, up 6% quarter-over-quarter but down -21% year-over-year. Mortgage banking fees of $108 million were up 27% quarter-over-quarter but plummeted -62% year-over-year.

Period-end loans and leases were $123 billion, essentially flat. Period-end deposits were $152 billion, up very slightly from Q2. Provisions for credit loss was a benefit of -$33 million, down from a benefit of -$213 million in Q2, but well ahead of a cost of $428 million in last year's Q3.

Earnings-per-share was $1.22, down from $1.46 in Q2 but up from 73 cents in last year's Q3.

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	***$5.15***	***$4.66***
DPS	---	---	---	$0.10	$0.40	$0.46	$0.64	$0.98	$1.36	$1.56	***$1.56***	***$2.51***
Shares[1]	---	---	---	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 allowances 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 provision unwinding from elevated 2020 levels, we think Citizens will struggle to replicate 2021 earnings levels, and expect -2% annual growth in the years ahead.

[1] Share count in millions

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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 it 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	***9.7***	***11.5***
Avg. Yld.	---	---	---	0.4%	1.6%	1.9%	1.8%	2.4%	3.8%	5.6%	***3.1%***	***4.7%***

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 9.7 times this year's earnings; however, we see current earnings as inflated from 2020 credit loss provision unwinding, which is not sustainable. The yield is strong at 3.1%, but we see it rising to nearly 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%	***30%***	***54%***

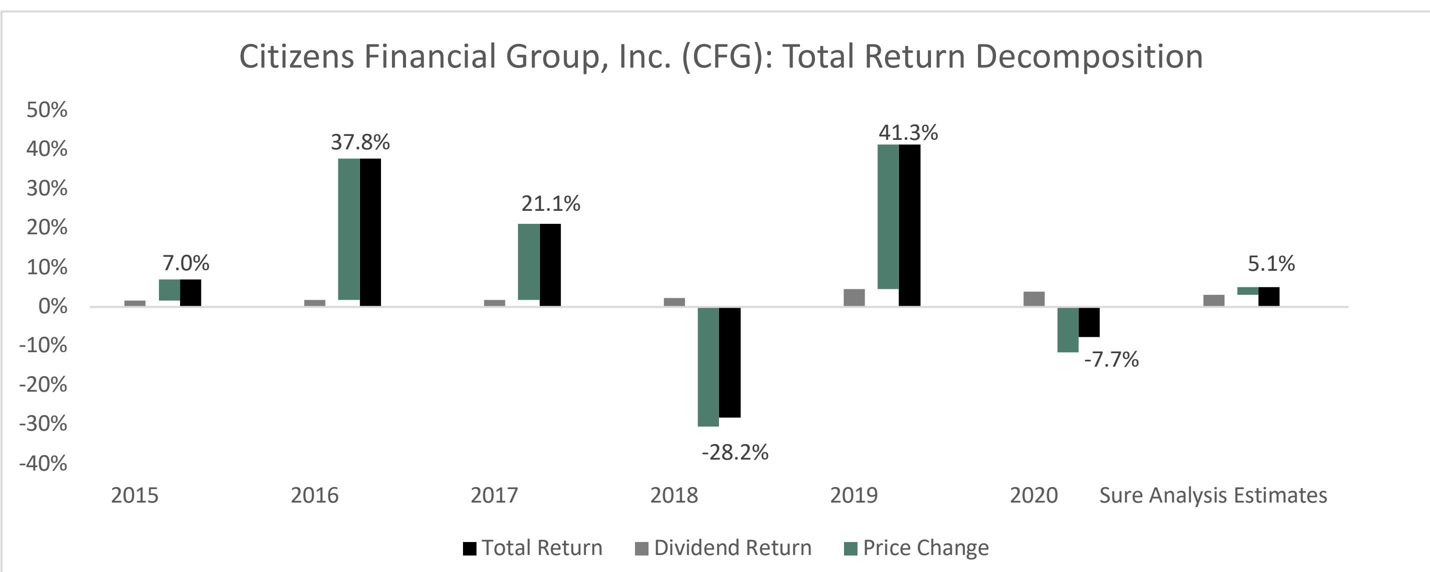
We see the payout ratio rising from 30% this year to 54% by 2026 on strong payout growth and negative earnings growth. We have no dividend safety concerns at this point.

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 5.1% expected total returns, mostly stemming from the 3.1% dividend yield, we rate Citizens as a hold. We see the downside potential to earnings as growing given the unsustainable earnings being achieved thus far in 2021.

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	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.