



# Citigroup (C)

Updated January 17<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$67	<b>5 Year CAGR Estimate:</b>	6.7%	<b>Market Cap:</b>	\$133 B
<b>Fair Value Price:</b>	\$77	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	02/04/2022
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.7%	<b>Dividend Payment Date:</b>	02/25/2022
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$80	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	N/A

## 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 \$133 billion market capitalization.

Citi posted fourth quarter and full-year earnings on January 14<sup>th</sup>, 2022, and results were better than expected for the quarter, and capped a record year for the bank. However, investors were unenthusiastic about the outlook, and shares traded lower. Citi also said it was selling four of its business units in Southeast Asia to United Overseas Bank, which will allow it to realign its structure around Personal Banking, Wealth Management, and Legacy Franchises segments.

Adjusted earnings-per-share rose 4% year-over-year to \$1.99, which was due entirely to a reduction in outstanding shares, rather than dollar-based earnings growth. Total revenue for the quarter came to \$17 billion, which was fractionally higher than the year-ago period. Expenses rose 15% quarter-over-quarter in Q4 and 18% year-over-year to \$13.5 billion. Excluding expenses related to the aforementioned divestitures, expenses were up 8% year-over-year, which reflected efficiency savings that were more than offset by investments in growth initiatives and cost of revenue.

Net credit losses were \$866 million in Q4, down from \$961 in Q3, and well off the \$1.47 billion from the year-ago period. Net allowance for credit losses came to a release of \$1.37 billion, better than the release of \$1.16 billion in Q3, but down from the release of \$1.5 billion in the year-ago period.

We expect earnings to have peaked in 2021 due to the unsustainable pace of credit loss reserve releases, and our initial estimate is \$7.65 for 2022.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.86	\$4.26	\$2.20	\$5.44	\$4.72	\$5.33	\$6.65	\$8.04	\$4.87	\$10.07	<b>\$7.65</b>	<b>\$8.04</b>
<b>DPS</b>	\$0.04	\$0.04	\$0.04	\$0.16	\$0.42	\$0.96	\$1.54	\$1.92	\$2.04	\$2.04	<b>\$2.04</b>	<b>\$2.73</b>
<b>Shares<sup>1</sup></b>	3,029	3,029	3,024	2,954	2,772	2,570	2,369	2,114	2,082	1,984	<b>1,800</b>	<b>1,500</b>

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 \$7.65 per share in earnings for 2022, from which we expect 1% annual growth for the foreseeable future. We've boosted our estimate from 2021 levels given the billions of dollars the company reported in profits from credit loss reserve releases, which will not be repeated. This year should see normalized earnings again.

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. However, the company's buybacks could be good for a mid-single-digit reduction in the share count annually, as we saw in 2021. We note that even in the recent tumultuous interest rate environment, Citi is performing well. Citi is not as tied to

<sup>1</sup> Share count in millions

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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 weighing on margins. This was masked in 2021 by reserve releases, but results should be more normalized starting in 2022.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	8.4	11.4	22.8	9.8	9.7	12.3	10.4	8.4	11.0	6.9	8.8	10.0
Avg. Yld.	0.1%	0.1%	0.1%	0.3%	0.9%	1.5%	2.2%	2.8%	3.8%	2.9%	3.0%	3.4%

At 8.8 times earnings, Citigroup's price-to-earnings ratio is decently low. Our fair value estimate remains at 10 times earnings, meaning the stock is somewhat undervalued. We expect the dividend yield to remain roughly where it is today, near 3%. We note Citi hasn't raised the dividend since 2019.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	2%	2%	9%	7%	9%	18%	25%	24%	42%	20%	27%	34%

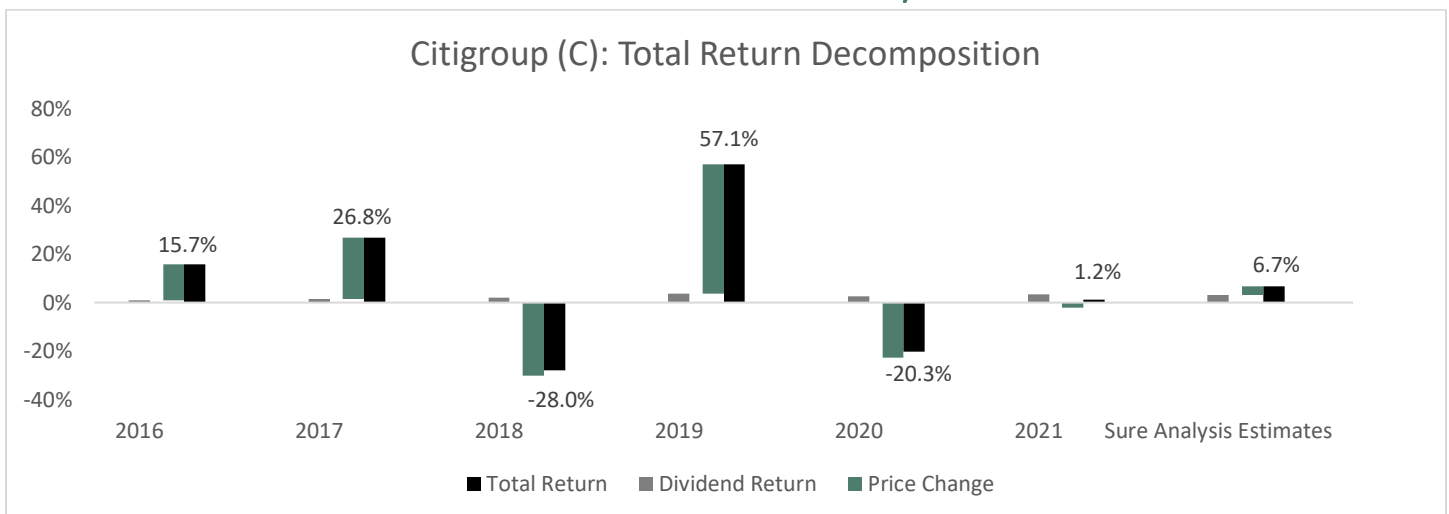
Citi's payout ratio is only 27% of estimated earnings this year. Citi has spent the past several years trying to build its dividend back to a normalized level, and it is nearly in-line with competitors. We still expect dividend raises in the years to come despite Citi taking a pause in doing so.

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.

## Final Thoughts & Recommendation

We are forecasting 6.7% total annual returns over the next five years, which is down from our last report. Earnings should be at normalized levels this year, and we've boosted our growth outlook given the much lower base. We think Citi is past the worst of the pandemic's impacts, but that earnings will be impossible to replicate from 2021 levels. The total return outlook once again warrants a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	77,331	69,190	76,724	77,219	76,354	70,797	72,444	72,854	74,286	75,494
<b>SG&amp;A Exp.</b>	32,937	33,112	31,991	32,239	29,897	29,303	29,698	29,892	30,026	32,130
<b>D&amp;A Exp.</b>	2,872	2,507	3,303	3,589	3,506	3,720	3,659	3,754	3,905	3,937
<b>Net Profit</b>	11,067	7,541	13,659	7,310	17,242	14,912	-6,798	18,045	19,401	11,047
<b>Net Margin</b>	14.3%	10.9%	17.8%	9.5%	22.6%	21.1%	-9.4%	24.8%	26.1%	14.6%
<b>Free Cash Flow</b>	61,347	-13,966	59,754	42,957	36,539	50,977	-12,135	33,178	-18,170	-24,067
<b>Income Tax</b>	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
<b>Total Assets (\$B)</b>	1,873	1,864	1,880	1,842	1,731	1,792	1,842	1,917	1,951	2,260
<b>Cash &amp; Eq. (\$B)</b>	184	138	198	160	133	160	180	188	193	310
<b>Goodwill &amp; Int.</b>	34.582	33.312	32.783	30.003	27.851	28.337	27.402	27.266	26.948	26,909
<b>Total Liab (\$B)</b>	1,694	1,673	1,674	1,630	1,508	1,565	1,640	1,720	1,757	2,060
<b>Accounts Payable</b>	56.696	57.013	53.707	52.180	53.722	57.152	61.342	64.571	48.601	11,165
<b>LT Debt (\$B)</b>	377	291	280	281	222	236	281	264	293	301
<b>Total Equity (\$B)</b>	177	186	197	199	205	205	181	177	175	180
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	0.6%	0.4%	0.7%	0.4%	1.0%	0.8%	-0.4%	1.0%	1.0%	0.5%
<b>Return on Equity</b>	6.5%	4.1%	7.1%	3.7%	8.5%	7.3%	-3.5%	10.0%	11.0%	6.2%
<b>ROIC</b>	1.9%	1.5%	2.8%	1.5%	3.7%	3.3%	-1.4%	3.8%	4.1%	2.2%
<b>Shares Out.</b>	2,924	3,029	3,029	3,024	2,954	2,772	2,570	2,369	2,114	2,082
<b>Revenue/Share</b>	25.79	22.94	25.22	25.43	25.39	24.51	26.85	29.20	32.79	35.97
<b>FCF/Share</b>	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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