Citizens Financial Group, Inc. (CFG)

Updated January 22nd, 2022, by Josh Arnold

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$22 B
Fair Value Price:	$48	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	01/28/22
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Dividend Payment Date:**	02/11/22
Dividend Yield:	3.1%	**5 Year Price Target**	$59	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

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 $22 billion, and Citizens should generate about $7.5 billion in revenue this year.

Citizens reported fourth quarter and full-year revenue on January 19th, 2022, and results were better than expected on both revenue and profits. The bank reported earnings-per-share of $1.26 on an adjusted basis, which beat estimates by 13 cents. Revenue was $1.72 billion, which was only fractionally higher year-over-year, but beat consensus estimates by $60 million.

Citizens saw strong noninterest income and lower loan loss provisions, which helped drive the earnings-per-share beat. These were partially offset by lower net interest income and higher operating expenses. Indeed, expenses were up 2.3%, outpacing the fractional revenue increase. Provisions for credit losses were a benefit of $25 million against a benefit of $33 million in Q3, and a cost of $124 million in the year-ago period.

Our initial estimate for this year is $4.20 in earnings-per-share as we see last year's earnings as unsustainable. Like other banks, Citizens' 2021 earnings were artificially inflated due to loan loss provision releases, which won't be repeated going forward.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	$1.55	$1.55	$1.97	$3.25	$3.52	$3.81	$2.22	$5.34	***$4.20***	***$5.11***
DPS	---	---	$0.10	$0.40	$0.46	$0.64	$0.98	$1.36	$1.56	$1.56	***$1.56***	***$1.90***
Shares[1]	---	---	546	528	512	491	466	433	427	422	***417***	***380***

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 were largely unwound in 2021 as actual results were much better than originally feared during the worst of the pandemic. We note that Citizens is seeing lower lending margins and rising expenses, 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. However, based upon this year's lower base, we estimate 4% growth in earnings-per-share for the next few years, some of which will be driven by the bank's steady share repurchases.

[1] Share count in millions

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We see the dividend rising in the years to come as Citizens' payout ratio is 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 $1.90 per share by 2027. We note that Citizens hasn't raised its payout since January of 2020.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	15.4	16.4	12.3	11.2	11.5	9.3	12.6	10.8	***12.1***	***11.5***
Avg. Yld.	---	---	0.4%	1.6%	1.9%	1.8%	2.4%	3.8%	5.6%	3.4%	***3.1%***	***3.2%***

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 12.1 times this year's earnings, implying a small valuation headwind. The yield is strong at 3.1%, and we see it remaining roughly where it is today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	6%	26%	23%	20%	28%	36%	70%	29%	***37%***	***37%***

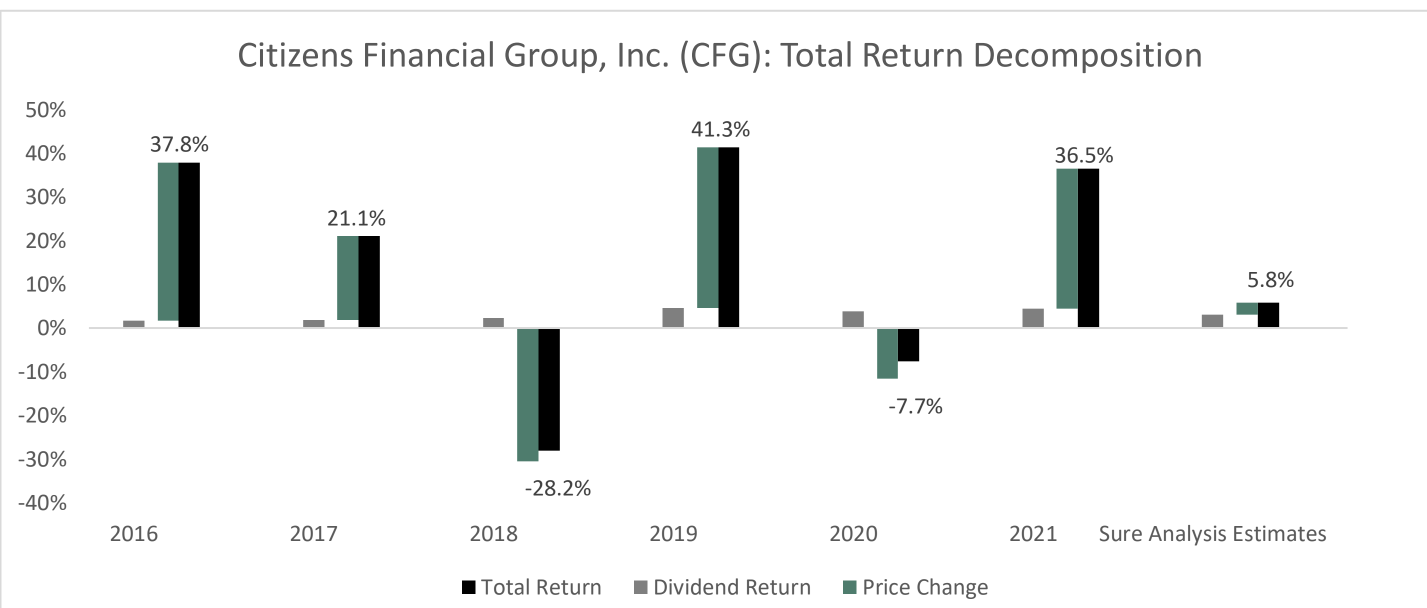
We see the payout ratio remaining where it is today for the years to come, as earnings growth and dividend growth should be roughly congruent. We have no dividend safety concerns at this point.

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 slightly overvalued today. Given this, and modest 5.8% expected total returns, mostly stemming from the 3.1% dividend yield, we rate Citizens as a hold. Dividend safety is strong, and the current yield is well above the S&P 500, so we see Citizens as a strong income stock, even though it's slightly overvalued at present.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,894	4,690	4,691	4,824	5,255	5,707	6,128	6,491	6,905	6,647
SG&A Exp.	1,927	1,813	1,859	1,852	1,932	2,008	2,113	2,200	2,289	2,132
D&A Exp.	467	404	386	471	515	487	489	633	578	---
Net Profit	643	-3,426	865	840	1,045	1,652	1,721	1,791	1,057	2,319
Net Margin	13.1%	-73.0%	18.4%	17.4%	19.9%	28.9%	28.1%	27.6%	15.3%	34.9%
Free Cash Flow	1,343	2,281	1,079	930	1,187	1,443	1,535	1,602	(7)	---
Income Tax	381	(42)	403	423	489	260	462	460	241	658

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	127.1	122.2	132.9	138.2	149.5	152.3	160.5	165.7	183.3	188.4
Cash & Equivalents	3,189	2,990	3,646	3,441	4,143	3,224	4,222	3,683	13,039	9,474
Goodwill & Int. Ass.	11,311	6,876	6,876	6,876	6,876	6,887	6,923	7,044	7,050	7,116
Total Liabilities ($B)	102.9	103.0	113.6	118.6	129.8	132.1	139.7	143.5	160.7	165.0
Long-Term Debt	1,195	3,656	10,895	12,516	16,001	13,621	16,086	14,056	8,358	7,006
Shareholder's Equity	24,129	19,196	19,268	19,399	19,500	20,023	19,977	20,631	20,708	21,406
D/E Ratio	0.05	0.19	0.57	0.64	0.81	0.67	0.77	0.63	0.37	0.30

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	-2.7%	0.7%	0.6%	0.7%	1.1%	1.1%	1.1%	0.6%	1.2%
Return on Equity	---	-15.8%	4.5%	4.3%	5.4%	8.4%	8.6%	8.8%	5.1%	11.0%
ROIC	---	-14.2%	3.3%	2.7%	3.1%	4.7%	4.9%	4.9%	3.1%	7.5%
Shares Out.	---	---	546	528	512	491	466	433	427	422
Revenue/Share	8.74	8.38	8.41	8.96	10.03	11.33	12.76	14.37	16.13	15.55
FCF/Share	1.52	1.15	2.16	1.82	3.13	3.83	2.31	1.84	2.89	2.06

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