



Citigroup (C)

Updated October 16th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	14.9%	Market Cap:	\$84 B
Fair Value Price:	\$78	5 Year Growth Estimate:	-1.0%	Ex-Dividend Date:	10/29/2022 ¹
% Fair Value:	55%	5 Year Valuation Multiple Estimate:	12.6%	Dividend Payment Date:	11/27/2022
Dividend Yield:	4.7%	5 Year Price Target	\$74	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

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 \$75 billion in annual revenue, and has an \$84 billion market capitalization.

Citigroup posted third quarter earnings on October 14th, 2022, and results were better than expected for both revenue and profits. Earnings-per-share on an adjusted basis were \$1.50, which was five cents ahead of expectations. It was, however, down from \$2.15 in the year-ago period. Revenue was up 6% year-over-year to \$18.5 billion, and was \$230 million better than expected.

Operating expenses were \$12.7 billion, up 8% year-over-year and up 3% against the second quarter of this year.

Net credit losses were \$887 million, up slightly from Q2, but down from \$961 million in last year's Q3. Net allowance credit build was \$370 million, a sharp decline from the \$1.16 billion release in last year's Q3, which significantly (and negatively) impacted earnings for this year's Q3.

We now see \$8.20 in earnings-per-share for this year as earnings have been more resilient this year than originally thought. However, we do think Citi could struggle from here in terms of earnings growth.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$3.86	\$4.26	\$2.20	\$5.44	\$4.72	\$5.33	\$6.65	\$8.04	\$4.87	\$10.07	\$8.20	\$7.80
DPS	\$0.04	\$0.04	\$0.04	\$0.16	\$0.42	\$0.96	\$1.54	\$1.92	\$2.04	\$2.04	\$2.04	\$2.73
Shares²	3,029	3,029	3,024	2,954	2,772	2,570	2,369	2,114	2,082	1,984	1,900	1,600

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 \$8.20 per share in earnings for 2022, from which we expect 1% annual contraction for the foreseeable future. We've reduced 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 something closer to 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 and 2021. 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, once repurchases are resumed. We note that even in the recent tumultuous interest rate environment, Citi is performing well. Citi is not as tied to 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

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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lending growth is weighing on margins. This was masked in 2021 by reserve releases, but results should be more normalized starting in 2022. We note the bank is performing extremely well in challenging conditions.

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	5.2	9.5
Avg. Yld.	0.1%	0.1%	0.1%	0.3%	0.9%	1.5%	2.2%	2.8%	3.8%	2.9%	4.7%	3.7%

At just 5.2 times earnings, Citigroup's price-to-earnings ratio is historically low. Our fair value estimate has been slightly reduced to 9.5 times earnings, but the stock is still heavily undervalued. We expect the dividend yield of 4.7% to decline as the valuation of the stock rises over time. Even so, this is a great income stock.

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%	25%	35%

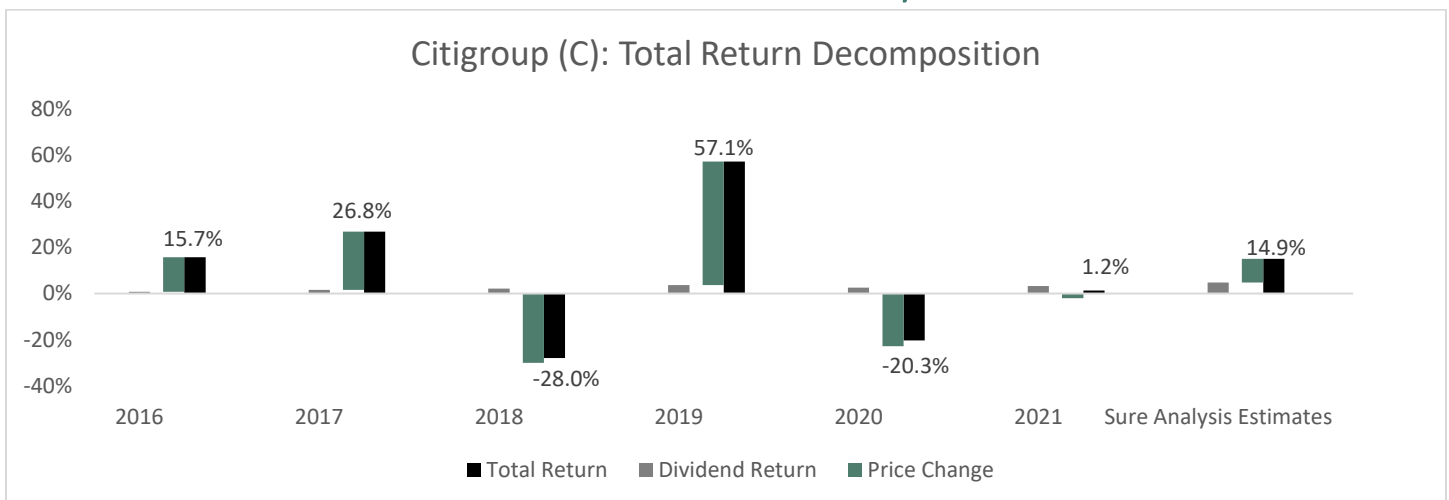
Citi's payout ratio is only 25% of estimated earnings this year. Citi has spent the past several years trying to build its dividend back to a normalized level, and it is nearly in-line with competitors. We still expect dividend raises in the years to come despite Citi taking a pause in doing so.

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 14.9% total annual returns over the next five years, which is up from our last report, mostly due to the valuation (+12.6%) and higher earnings estimates. Earnings should be at normalized levels this year, but we've reduced our growth estimate to -1% given the higher base for 2022. The yield is now 4.7%. We think Citi is past the worst of the pandemic's impacts, but that earnings will be impossible to replicate from 2021 levels anytime soon. The total return outlook warrants reiteration of a buy rating on the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	69,190	76,724	77,219	76,354	70,797	72,444	72,854	74,286	75,494	71,887
SG&A Exp.	33,112	31,991	32,239	29,897	29,303	29,698	29,892	30,026	32,130	26,740
D&A Exp.	2,507	3,303	3,589	3,506	3,720	3,659	3,754	3,905	3,937	3,964
Net Profit	7,541	13,659	7,310	17,242	14,912	-6,798	18,045	19,401	11,047	21,952
Net Margin	10.9%	17.8%	9.5%	22.6%	21.1%	-9.4%	24.8%	26.1%	14.6%	30.5%
Free Cash Flow	-13,966	59,754	42,957	36,539	50,977	-12,135	33,178	-18,170	-24,067	57,130
Income Tax	7	6,186	7,197	7,440	6,444	29,388	5,357	4,430	2,525	5,451

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets (\$B)	1,864	1,880	1,842	1,731	1,792	1,842	1,917	1,951	2,260	2,291
Cash & Eq. (\$B)	138	198	160	133	160	180	188	193	310	262
Goodwill & Int.	33.312	32.783	30.003	27.851	28.337	27.402	27.266	26.948	26,909	25,794
Total Liab (\$B)	1,673	1,674	1,630	1,508	1,565	1,640	1,720	1,757	2,060	2,089
Accounts Payable	57.013	53.707	52.180	53.722	57.152	61.342	64.571	48.601	11,165	61,430
LT Debt (\$B)	291	280	281	222	236	281	264	293	301	282
Total Equity (\$B)	186	197	199	205	205	181	177	175	180	183
LTD/E Ratio	1.54	1.37	1.34	1.00	1.05	1.40	1.35	1.52	1.51	1.40

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.4%	0.7%	0.4%	1.0%	0.8%	-0.4%	1.0%	1.0%	0.5%	0.96%
Return on Equity	4.1%	7.1%	3.7%	8.5%	7.3%	-3.5%	10.0%	11.0%	6.2%	12.1%
ROIC	1.5%	2.8%	1.5%	3.7%	3.3%	-1.4%	3.8%	4.1%	2.2%	4.5%
Shares Out.	3,029	3,029	3,024	2,954	2,772	2,570	2,369	2,114	2,082	2,049
Revenue/Share	22.94	25.22	25.43	25.39	24.51	26.85	29.20	32.79	35.97	35.08
FCF/Share	(4.63)	19.65	14.14	12.15	17.65	-4.50	13.30	-8.02	-11.47	27.88

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

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