Citigroup (C)

Updated January 15th, 2023, by Josh Arnold

Key Metrics

Current Price:	$50	**5 Year CAGR Estimate:**	11.6%	**Market Cap:**	$97 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/03/2023
% Fair Value:	84%	**5 Year Valuation Multiple Estimate:**	3.7%	**Dividend Payment Date:**	02/24/2023
Dividend Yield:	4.1%	**5 Year Price Target**	$76	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**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 $76 billion in annual revenue, and has a $97 billion market capitalization.

Citi reported fourth quarter and full-year earnings on January 13th, 2023, and results were somewhat mixed. Adjusted earnings-per-share came to $1.10, which was 10 cents light of estimates. Revenue was up almost 6% year-over-year to $18 billion, which fractionally beat estimates.

The company noted the excluding divestitures, revenue would have risen 5% as the impacts of higher interest rates and strong loan growth in the US were offset by declines in investment banking, and global wealth management.

Cost of credit was $1.8 billion, which was a sharp deterioration from the $0.5 billion credit in the year-ago period. This reflected a net build in the allowance for credit losses for loans and unfunded commitments, as well as deterioration of macroeconomic assumptions.

Book value ended the quarter at $94.06 per share, while tangible book value was $81.65. These were up 2% and 3%, respectively, year-over-year. They were driven by net income, lower shares outstanding, and payment of common stock dividends. While Citi trades at a significant discount to tangible book value, we note this has been the case for years and do not expect the gap to close between the share price and TBV per share.

We see $6.30 in earnings-per-share for 2023 as an initial estimate, as it appears the earnings level achieved in 2022 is unsustainable given the credit situation, as well as Citi's expectation of a worsening economy this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.26	$2.20	$5.44	$4.72	$5.33	$6.65	$8.04	$4.87	$10.07	$7.11	***$6.30***	***$8.04***
DPS	$0.04	$0.04	$0.16	$0.42	$0.96	$1.54	$1.92	$2.04	$2.04	$2.04	***$2.04***	***$2.04***
Shares[1]	3,029	3,024	2,954	2,772	2,570	2,369	2,114	2,082	1,984	1,937	***1,890***	***1,700***

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 $6.30 per share in earnings for 2022, from which we expect 5% annual growth for the foreseeable future. We've boosted our estimate of growth given the earnings base for 2023 is expected to be much lower than the prior two years.

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 and 2022. We note that even in the recent tumultuous interest rate environment, Citi is performing

[1] 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.

reasonably 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 lending growth is weighing on margins. This was masked in 2021 by reserve releases, but it appears the bank is back to taking provisions on new loans without the benefit of massive releases, as evidenced in Q4.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.4	22.8	9.8	9.7	12.3	10.4	8.4	11.0	6.9	6.4	***7.9***	***9.5***
Avg. Yld.	0.1%	0.1%	0.3%	0.9%	1.5%	2.2%	2.8%	3.8%	2.9%	4.5%	***4.1%***	***2.7%***

At just 7.9 times earnings, Citigroup's price-to-earnings ratio is still quite low. Our fair value estimate has been slightly reduced to 9.5 times earnings, but the stock is still undervalued. We expect the dividend yield of 4.1% to decline as the valuation of the stock rises over time. Even so, this is a solid income stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	2%	9%	7%	9%	18%	25%	24%	42%	20%	29%	***32%***	***25%***

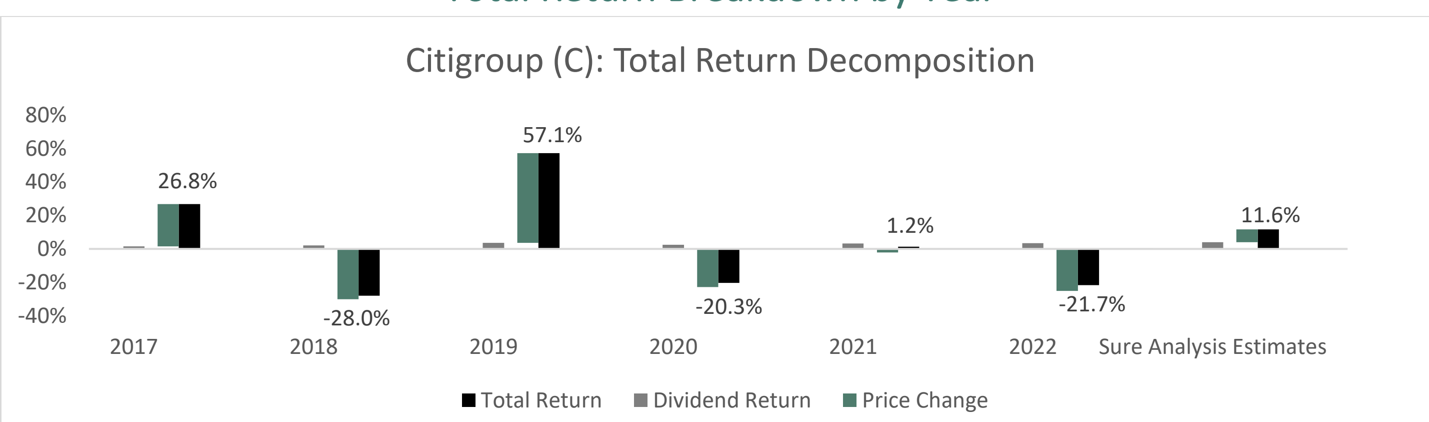
Citi's payout ratio is only 32% of estimated earnings this year. Citi has spent the past several years trying to build its dividend back to a normalized level, and it is nearly in-line with competitors. We now expect no dividend raises for the foreseeable future, as Citi focuses instead on buying back shares.

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 11.6% total annual returns over the next five years, which is down from our last report, mostly due to change to the valuation (now +3.7%) and higher earnings estimates. Earnings should be at normalized levels this year, but we've boosted our growth estimate to 5% given the lower base for 2023. The yield is now 4.1%. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	76,724	77,219	76,354	70,797	72,444	72,854	74,286	75,494	71,887	75,305
SG&A Exp.	31,991	32,239	29,897	29,303	29,698	29,892	30,026	32,130	26,740	28,305
D&A Exp.	3,303	3,589	3,506	3,720	3,659	3,754	3905	3,937	3,964	
Net Profit	13,659	7,310	17,242	14,912	-6,798	18,045	19,401	11,047	21,952	14,845
Net Margin	17.8%	9.5%	22.6%	21.1%	-9.4%	24.8%	26.1%	14.6%	30.5%	19.7%
Free Cash Flow	59,754	42,957	36,539	50,977	-12135	33,178	-18,170	-24,067	57,130	
Income Tax	6,186	7,197	7,440	6,444	29,388	5,357	4,430	2,525	5,451	3,642

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets ($B)	1,880	1,842	1,731	1,792	1,842	1,917	1,951	2,260	2,291	2,417
Cash & Eq. ($B)	198	160	133	160	180	188	193	310	262	342
Goodwill & Int.	32.783	30.003	27.851	28.337	27.402	27.266	26.948	26,909	25,794	24,119
Total Liab ($B)	1,674	1,630	1,508	1,565	1,640	1,720	1,757	2,060	2,089	2,214
Accounts Payable	53.707	52.180	53.722	57.152	61.342	64.571	48.601	11,165	61,430	69,218
LT Debt ($B)	280	281	222	236	281	264	293	301	282	319
Total Equity ($B)	197	199	205	205	181	177	175	180	183	182
LTD/E Ratio	1.37	1.34	1.00	1.05	1.40	1.35	1.52	1.51	1.40	1.58

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.7%	0.4%	1.0%	0.8%	-0.4%	1.0%	1.0%	0.5%	0.96%	0.6%
Return on Equity	7.1%	3.7%	8.5%	7.3%	-3.5%	10.0%	11.0%	6.2%	12.1%	8.1%
ROIC	2.8%	1.5%	3.7%	3.3%	-1.4%	3.8%	4.1%	2.2%	4.5%	3.0%
Shares Out.	3,029	3,024	2,954	2,772	2,570	2,369	2,114	2,082	2,049	1,964
Revenue/Share	25.22	25.43	25.39	24.51	26.85	29.20	32.79	35.97	35.08	38.34
FCF/Share	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.