



Citizens Financial Group, Inc. (CFG)

Updated January 21st, 2023, by Josh Arnold

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	9.0%	Market Cap:	\$20 B
Fair Value Price:	\$48	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	01/30/23
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.4%	Dividend Payment Date:	02/14/23
Dividend Yield:	4.1%	5 Year Price Target	\$53	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

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 \$20 billion, and Citizens should generate about \$9 billion in revenue this year.

Citizens reported fourth quarter and full-year earnings on January 17th, 2023, and results were somewhat mixed. The bank met expectations of adjusted earnings-per-share of \$1.32, but missed expectations on revenue. That number came to \$2.2 billion, which was up 28% year-over-year thanks to an acquisition, but missed estimates by \$20 million.

The bank said higher interest rates helped results, but that some caution was needed given the economic environment.

Net interest income was \$1.7 billion, up from \$1.13 billion a year ago. That was attributable to a 64bps increase in net interest margin year-over-year as higher interest rates more than offset higher funding costs. Citizens noted management expects net interest income in Q1 to fall about 2% from Q4 levels, while noninterest income is expected to fall about 2% as well.

Provisions for credit losses came to \$132 million in Q4, up from \$123 million in Q3, and a net benefit of \$25 million in the year-ago period.

We see \$5.10 as an initial estimate for this year, which would represent growth over 2022, but still off from the historical high in earnings set in 2021.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	\$1.55	\$1.55	\$1.97	\$3.25	\$3.52	\$3.81	\$2.22	\$5.34	\$4.84	\$5.10	\$5.63
DPS	---	\$0.10	\$0.40	\$0.46	\$0.64	\$0.98	\$1.36	\$1.56	\$1.56	\$1.62	\$1.68	\$2.04
Shares¹	---	546	528	512	491	466	433	427	422	496	490	475

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

¹ Share count in millions

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upon 2023's earnings base, we estimate 2% growth in earnings-per-share for the next few years, some of which will be driven by the bank's steady share repurchases.

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 \$2.04 per share by 2028. We note that Citizens raised its payout for the first time in 2.5 years in mid-2022.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	15.4	16.4	12.3	11.2	11.5	9.3	12.6	10.8	8.1	8.0	9.5
Avg. Yld.	---	0.4%	1.6%	1.9%	1.8%	2.4%	3.8%	5.6%	3.4%	4.1%	4.1%	3.8%

Citizens has been valued in the low-double-digits for the past handful of years, excluding 2022, and we peg fair value at 9.5 times earnings. Shares trade at just 8 times this year's earnings, implying a sizable potential valuation tailwind. The yield is also very strong at 4.1%, and we see it remaining near 4% for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	6%	26%	23%	20%	28%	36%	70%	29%	33%	33%	36%

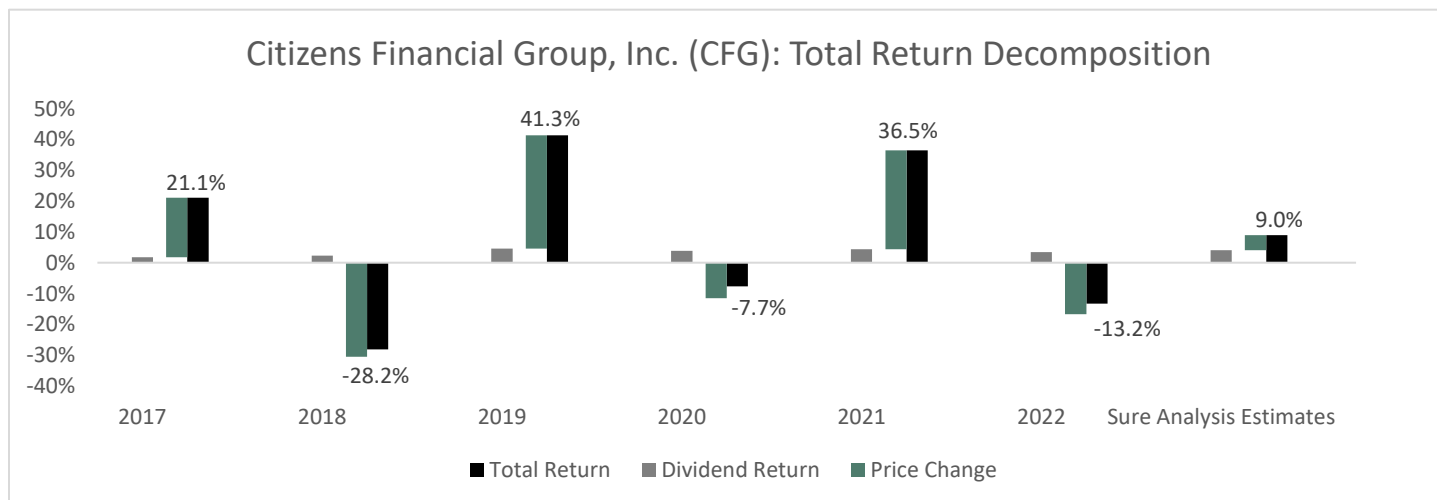
We see the payout ratio remaining where it is today for the years to come, as earnings growth and dividend growth should be roughly congruent. We have no dividend safety concerns at this point.

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

Expected total returns have come down since our last report, so we are moving the stock from buy to hold. Dividend safety is strong, and the current yield is well over double that of the S&P 500, so we see Citizens as a strong income stock, and the valuation remains attractive. Total returns could accrue from 2% growth, a 3.4% valuation tailwind, and the strong 4.1% yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,690	4,691	4,824	5,255	5,707	6,128	6,491	6,905	6,647	8,021
SG&A Exp.	1,813	1,859	1,852	1,932	2,008	2,113	2,200	2,289	2,132	2,549
D&A Exp.	404	386	471	515	487	489	633	578	625	
Net Profit	-3,426	865	840	1,045	1,652	1,721	1,791	1,057	2,319	2,073
Net Margin	-73.0%	18.4%	17.4%	19.9%	28.9%	28.1%	27.6%	15.3%	34.9%	25.8%
Free Cash Flow	2,281	1,079	930	1,187	1,443	1,535	1,602	(7)	2,151	
Income Tax	(42)	403	423	489	260	462	460	241	658	582

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	122.2	132.9	138.2	149.5	152.3	160.5	165.7	183.3	188.4	226.7
Cash & Equivalents	2,990	3,646	3,441	4,143	3,224	4,222	3,683	13,039	9,474	10,850
Goodwill & Int. Ass.	6,876	6,876	6,876	6,876	6,887	6,923	7,044	7,050	7,116	8,370
Total Liabilities (\$B)	103.0	113.6	118.6	129.8	132.1	139.7	143.5	160.7	165.0	203.0
Long-Term Debt	3,656	10,895	12,516	16,001	13,621	16,086	14,056	8,358	7,006	15,890
Shareholder's Equity	19,196	19,268	19,399	19,500	20,023	19,977	20,631	20,708	21,406	21,676
LTD/E Ratio	0.19	0.57	0.64	0.81	0.67	0.77	0.63	0.37	0.30	0.67

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	-2.7%	0.7%	0.6%	0.7%	1.1%	1.1%	1.1%	0.6%	1.2%	1.0%
Return on Equity	-15.8%	4.5%	4.3%	5.4%	8.4%	8.6%	8.8%	5.1%	11.0%	9.6%
ROIC	-14.2%	3.3%	2.7%	3.1%	4.7%	4.9%	4.9%	3.1%	7.5%	5.9%
Shares Out.	---	546	528	512	491	466	433	427	422	478
Revenue/Share	8.38	8.41	8.96	10.03	11.33	12.76	14.37	16.13	15.55	16.79
FCF/Share	1.15	2.16	1.82	3.13	3.83	2.31	1.84	2.89	5.03	

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

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