



Citizens Financial Group, Inc. (CFG)

Updated April 20th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	12.3%	Market Cap:	\$15 B
Fair Value Price:	\$41	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	05/02/23
% Fair Value:	72%	5 Year Valuation Multiple Estimate:	6.9%	Dividend Payment Date:	05/17/23
Dividend Yield:	5.8%	5 Year Price Target	\$43	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

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 in 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 \$15 billion, and Citizens should generate just under \$9 billion in revenue this year.

Citizens reported first quarter earnings on April 19th, 2023, and results were weaker than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$1.10, which missed estimates by three cents. Revenue was up 29% year-over-year to \$2.13 billion, but that was \$10 million light against estimates.

Net interest margin was 3.30%, which was a sizable 55 basis point increase. This was attributable to higher interest-earning asset yields due to higher market interest rates. This was partially offset by increased funding costs.

Underlying efficiency ratio of 57.8% was a deterioration from 54.4% in the fourth quarter, but a big improvement from 64.3% in the year-ago period.

Net interest income was up 43% year-over-year to \$1.64 billion, but was lower against Q4 given fewer business days and lower interest-earning assets. Provisions for credit losses rose to \$168 million, up from just \$3 million in last year's first quarter.

Deposits were \$172.2 billion, down from \$180.7 billion in Q4, but up from \$158.8 billion in last year's Q1. We now see \$4.50 in earnings-per-share for this year after Q1 results.

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	\$4.50	\$4.73
DPS	---	\$0.10	\$0.40	\$0.46	\$0.64	\$0.98	\$1.36	\$1.56	\$1.56	\$1.62	\$1.68	\$1.95
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 1% growth in earnings-per-share for the next few years, some of which will be driven by the bank's steady share repurchases, as well as higher interest rates, but potential volatility in lending results.

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 \$1.95 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	6.4	9.0
Avg. Yld.	---	0.4%	1.6%	1.9%	1.8%	2.4%	3.8%	5.6%	3.4%	4.1%	5.8%	4.6%

Citizens has been valued in the low-double-digits for the past handful of years, excluding 2022, and we peg fair value at 9 times earnings. Shares trade at just 6.4 times this year's earnings, implying a sizable potential valuation tailwind. The yield is also very strong at 5.8%, and we see it remaining above 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%	37%	41%

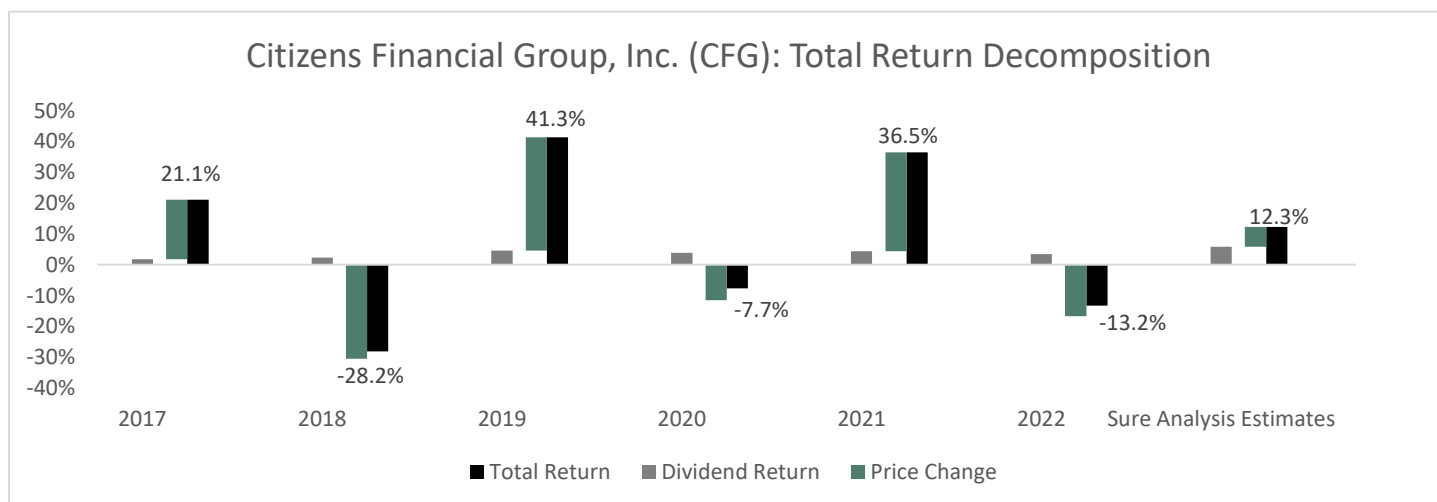
We see the payout ratio remaining where it is today for the years to come, as earnings growth and dividend growth should be roughly congruent. We have no dividend safety concerns at this point.

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 up since our last report, so we are moving the stock from hold to buy. Dividend safety is strong, and the current yield is well over triple 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 1% growth, a 6.9% valuation tailwind, and the strong 5.8% 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	565
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	3,993
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	8.36

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

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