



Citigroup (C)

Updated January 16th, 2024, by Josh Arnold

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|-------------------------|
| Current Price: | \$53 | 5 Year CAGR Estimate: | 12.6% | Market Cap: | \$100 B |
| Fair Value Price: | \$58 | 5 Year Growth Estimate: | 8.0% | Ex-Dividend Date: | 02/22/2024 ¹ |
| % Fair Value: | 91% | 5 Year Valuation Multiple Estimate: | 1.8% | Dividend Payment Date: | 02/23/2024 |
| Dividend Yield: | 4.0% | 5 Year Price Target | \$85 | Years Of Dividend Growth: | 2 |
| 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 \$80 billion in annual revenue, and has a \$100 billion market capitalization.

Citigroup posted fourth quarter and full-year earnings on January 12th, 2024, and results were somewhat mixed. The bank posted adjusted earnings-per-share of 84 cents, which was 11 cents ahead of expectations. However, revenue was off 3.3% year-over-year to \$17.4 billion, missing estimates by a big margin of \$1.36 billion. However, excluding the company's revaluation based upon Argentina's volatile currency moves, revenue would have actually risen 2% year-over-year.

Net credit losses were \$1.99 billion, up from \$1.64 billion in Q3 and \$1.18 billion a year ago. Net allowance credit build was \$397 million, up from \$125 million in Q3, but much better than \$640 million a year ago. Total cost of credit was \$3.55 billion, compared to \$1.84 billion in Q3 and \$1.85 billion a year ago.

Total operating costs were \$16 billion, up from \$13.5 billion in Q3 and \$13 billion a year ago. The company has embarked upon a staff reduction plan where it intends to reduce staff by 20k workers in the next two years, in route to an ultimate target of 60k cuts by the end of 2026. That would represent about one-quarter of the current workforce.

Loans were \$689 billion at the end of the year, up from \$666 billion in September. Deposits were \$1.31 trillion, up slightly from the \$1.27 trillion from Q3.

We start 2024 with an estimate of \$6.10 in earnings-per-share after a very weak 2023.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|---------|--------|--------|---------------|---------------|
| EPS | \$2.20 | \$5.44 | \$4.72 | \$5.33 | \$6.65 | \$8.04 | \$4.87 | \$10.07 | \$7.11 | \$5.60 | \$6.10 | \$8.96 |
| DPS | \$0.04 | \$0.16 | \$0.42 | \$0.96 | \$1.54 | \$1.92 | \$2.04 | \$2.04 | \$2.04 | \$2.08 | \$2.12 | \$2.23 |
| Shares² | 3,024 | 2,954 | 2,772 | 2,570 | 2,369 | 2,114 | 2,082 | 1,984 | 1,937 | 1,914 | 1,900 | 1,800 |

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 \$6.10 per share in earnings for 2024, from which we expect 8% annual growth for the foreseeable future.

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. Citi is pulling back on lending at the moment due to less than favorable spreads on loans, which is resulting in extremely low loan-to-deposit ratios. 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 reasonably well. Citi is not as tied to traditional lending as most other banks, so the yield curve is not as critical, but the

¹ Estimated date

² Share count in millions

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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 recent results showing higher credit costs, which is a headwind for earnings. Citi's cost reduction plan has the potential for big earnings growth given the bank believes the cuts will not impact revenue generation.

Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 22.8 | 9.8 | 9.7 | 12.3 | 10.4 | 8.4 | 11.0 | 6.9 | 6.4 | 9.2 | 8.7 | 9.5 |
| Avg. Yld. | 0.1% | 0.3% | 0.9% | 1.5% | 2.2% | 2.8% | 3.8% | 2.9% | 4.5% | 4.0% | 4.0% | 2.6% |

At 8.7 times earnings, Citigroup's price-to-earnings ratio is still relatively low. Our fair value estimate is 9.5 times earnings, so the stock is still undervalued. We expect the dividend yield of 4% 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 9% | 7% | 9% | 18% | 25% | 24% | 42% | 20% | 29% | 37% | 35% | 25% |

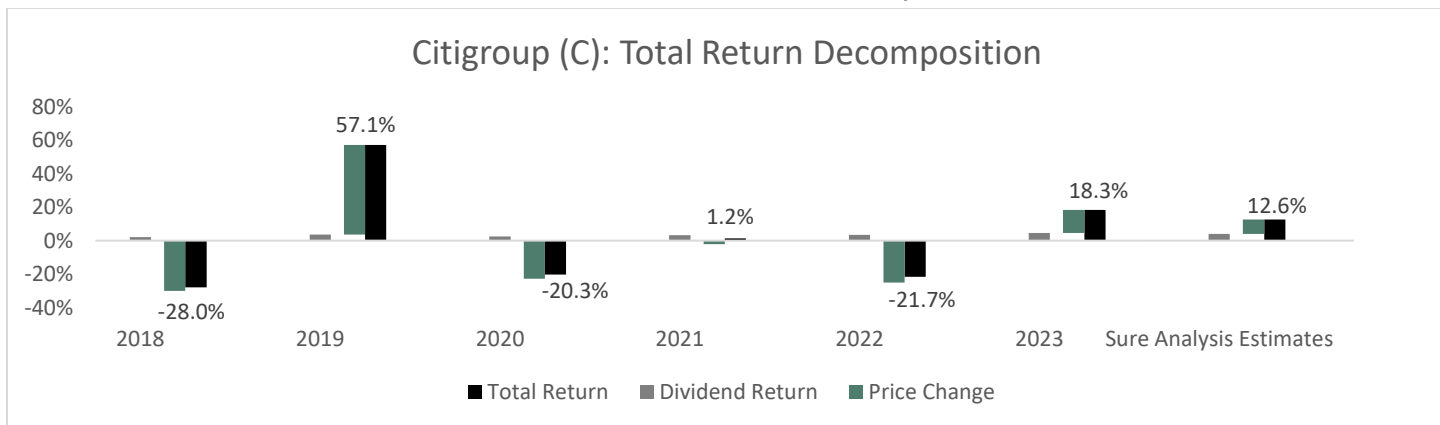
Citi's payout ratio is only 35% of estimated earnings this year. Citi has spent the past several years trying to build its dividend back to a normalized level, and it is nearly in-line with competitors. We now expect modest dividend raises for the foreseeable future, as Citi focuses instead on buying 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 for future recessions.

Final Thoughts & Recommendation

We are forecasting 12.6% total annual returns over the next five years. Earnings should be higher this year after two years of declines, and we expect 8% annual growth given the low base for 2024. The yield is nice at 4%. We think Citi has a potentially strong earnings tailwind in cost savings ahead as interest rates move favorably for banks. 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------|--------|--------|--------|--------|--------|---------|---------|--------|--------|--------|
| Revenue | 77,219 | 76,354 | 70,797 | 72,444 | 72,854 | 74,286 | 75,494 | 71,887 | 75,305 | 78,486 |
| SG&A Exp. | 32,239 | 29,897 | 29,303 | 29,698 | 29,892 | 30,026 | 32,130 | 26,740 | 28,305 | 30,712 |
| D&A Exp. | 3,589 | 3,506 | 3,720 | 3,659 | 3,754 | 3905 | 3,937 | 3,964 | 4,262 | --- |
| Net Profit | 7,310 | 17,242 | 14,912 | -6,798 | 18,045 | 19,401 | 11,047 | 21,952 | 14,845 | 9,228 |
| Net Margin | 9.5% | 22.6% | 21.1% | -9.4% | 24.8% | 26.1% | 14.6% | 30.5% | 19.7% | 11.8% |
| Free Cash Flow | 42,957 | 36,539 | 50,977 | -12135 | 33,178 | -18,170 | -24,067 | 42,971 | 19,437 | --- |
| Income Tax | 7,197 | 7,440 | 6,444 | 29,388 | 5,357 | 4,430 | 2,525 | 5,451 | 3,642 | 3,528 |

Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets (\$B) | 1,842 | 1,731 | 1,792 | 1,842 | 1,917 | 1,951 | 2,260 | 2,291 | 2,417 | 2,405 |
| Cash & Eq. (\$B) | 160 | 133 | 160 | 180 | 188 | 193 | 310 | 262 | 342 | 261 |
| Goodwill & Int. | 30.003 | 27.851 | 28.337 | 27.402 | 27.266 | 26.948 | 26,909 | 25,794 | 24,119 | 24,519 |
| Total Liab (\$B) | 1,630 | 1,508 | 1,565 | 1,640 | 1,720 | 1,757 | 2,060 | 2,089 | 2,214 | 2,199 |
| Accounts Payable | 52.180 | 53.722 | 57.152 | 61.342 | 64.571 | 48.601 | 11,165 | 61,430 | 69,218 | 65,961 |
| LT Debt (\$B) | 281 | 222 | 236 | 281 | 264 | 293 | 301 | 282 | 319 | 324 |
| Total Equity (\$B) | 199 | 205 | 205 | 181 | 177 | 175 | 180 | 183 | 182 | 188 |
| LTD/E Ratio | 1.34 | 1.00 | 1.05 | 1.40 | 1.35 | 1.52 | 1.51 | 1.40 | 1.58 | 1.58 |

Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------|-------|-------|-------|-------|-------|-------|--------|-------|-------|-------|
| Return on Assets | 0.4% | 1.0% | 0.8% | -0.4% | 1.0% | 1.0% | 0.5% | 0.96% | 0.6% | 0.4% |
| Return on Equity | 3.7% | 8.5% | 7.3% | -3.5% | 10.0% | 11.0% | 6.2% | 12.1% | 8.1% | 5.0% |
| ROIC | 1.5% | 3.7% | 3.3% | -1.4% | 3.8% | 4.1% | 2.2% | 4.5% | 3.0% | 1.8% |
| Shares Out. | 3,024 | 2,954 | 2,772 | 2,570 | 2,369 | 2,114 | 2,082 | 2,049 | 1,964 | 1,956 |
| Revenue/Share | 25.43 | 25.39 | 24.51 | 26.85 | 29.20 | 32.79 | 35.97 | 35.08 | 38.34 | 40.13 |
| FCF/Share | 14.14 | 12.15 | 17.65 | -4.50 | 13.30 | -8.02 | -11.47 | 20.97 | 9.90 | --- |

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

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