



# Citigroup (C)

Updated July 16<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$65	<b>5 Year CAGR Estimate:</b>	9.4%	<b>Market Cap:</b>	\$124 B
<b>Fair Value Price:</b>	\$59	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	08/03/2024 <sup>1</sup>
<b>% Fair Value:</b>	110%	<b>5 Year Valuation Multiple Estimate:</b>	-1.9%	<b>Dividend Payment Date:</b>	08/24/2024
<b>Dividend Yield:</b>	3.3%	<b>5 Year Price Target</b>	\$91	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## 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 \$124 billion market capitalization.

Citigroup posted second quarter earnings on July 12<sup>th</sup>, 2024, and results were slightly better than expected. Earnings-per-share came to \$1.52, which was 11 cents per share ahead of estimates. Revenue was up 3.6% year-over-year to \$20.1 billion, in line with estimates.

Cost of credit was \$2.5 billion, which was higher than \$1.8 billion in Q1. The increase was driven by higher card net credit losses, partially offset by lower allowance for credit losses build.

Management noted the bank saw positive operating leverage with revenue increasing 4% while declines in expenses amounted to 2%. Total operating expenses fell to \$13.4 billion from \$14.2 billion in Q1, and from \$13.6 billion in the year-ago period.

Citi reiterated guidance at \$80 billion to \$81 billion in revenue, and for lending net interest income to be “modestly lower” from the prior year. Expenses are expected to be largely unchanged at just under \$54 billion.

Citi plans to buy back \$1 billion of common stock in Q3 and evaluate buybacks on a quarter-by-quarter basis in the coming periods.

We now see \$5.90 in adjusted earnings-per-share for this year after Q2 results and guidance.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.20	\$5.44	\$4.72	\$5.33	\$6.65	\$8.04	\$4.87	\$10.07	\$7.11	\$5.60	<b>\$5.90</b>	<b>\$9.08</b>
<b>DPS</b>	\$0.04	\$0.16	\$0.42	\$0.96	\$1.54	\$1.92	\$2.04	\$2.04	\$2.04	\$2.08	<b>\$2.12</b>	<b>\$2.23</b>
<b>Shares<sup>2</sup></b>	3,024	2,954	2,772	2,570	2,369	2,114	2,082	1,984	1,937	1,914	<b>1,900</b>	<b>1,800</b>

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 \$5.90 per share in earnings for 2024, from which we expect 9% 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

<sup>1</sup> Estimated date

<sup>2</sup> 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.

## 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	<b>11.0</b>	<b>10.0</b>
Avg. Yld.	0.1%	0.3%	0.9%	1.5%	2.2%	2.8%	3.8%	2.9%	4.5%	4.0%	<b>3.3%</b>	<b>2.5%</b>

At 11 times earnings, Citigroup's price-to-earnings ratio is still relatively low. However, it's ahead of our fair value estimate of 10 times earnings, so the stock is overvalued. We expect the dividend yield of 3.3% to decline as the valuation of the stock potentially falls 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%	<b>36%</b>	<b>25%</b>

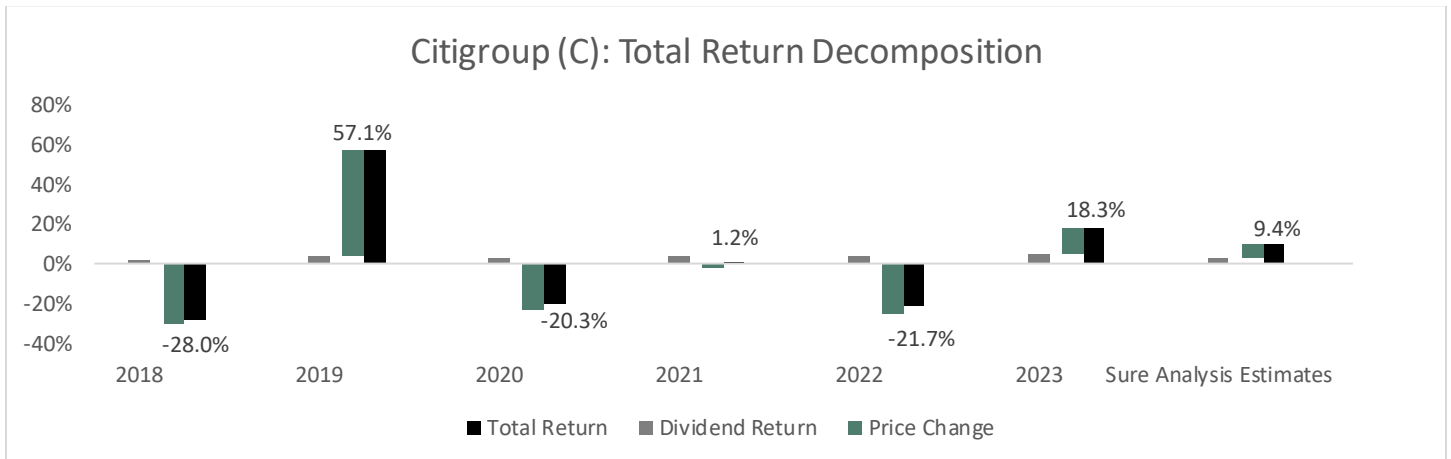
Citi's payout ratio is only 36% of estimated earnings this year. Citi has spent the past several years trying to build its dividend back to a normalized level, and it is nearly in-line with competitors. We now expect modest dividend raises for the foreseeable future, as Citi focuses instead on buying 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 9.4% total annual returns over the next five years. Earnings should be higher this year after two years of declines, and we expect 9% annual growth given the low base for 2024. The yield is nice at 3.3%. We think Citi has a potentially strong earnings tailwind in cost savings ahead as interest rates move favorably for banks. The total return outlook is the same as our last report, and we're reiterating the stock at a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	77,219	76,354	70,797	72,444	72,854	74,286	75,494	71,887	75,305	78,486
<b>SG&amp;A Exp.</b>	32,239	29,897	29,303	29,698	29,892	30,026	32,130	26,740	28,305	30,712
<b>D&amp;A Exp.</b>	3,589	3,506	3,720	3,659	3,754	3,905	3,937	3,964	4,262	4,560
<b>Net Profit</b>	7,310	17,242	14,912	-6,798	18,045	19,401	11,047	21,952	14,845	9,228
<b>Net Margin</b>	9.5%	22.6%	21.1%	-9.4%	24.8%	26.1%	14.6%	30.5%	19.7%	11.8%
<b>Free Cash Flow</b>	42,957	36,539	50,977	-12,135	33,178	-18,170	-24,067	42,971	19,437	-79,999
<b>Income Tax</b>	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
<b>Total Assets (\$B)</b>	1,842	1,731	1,792	1,842	1,917	1,951	2,260	2,291	2,417	2,412
<b>Cash &amp; Eq. (\$B)</b>	160	133	160	180	188	193	310	262	342	261
<b>Goodwill &amp; Int.</b>	30.003	27.851	28.337	27.402	27.266	26.948	26,909	25,794	24,119	24,519
<b>Total Liab (\$B)</b>	1,630	1,508	1,565	1,640	1,720	1,757	2,060	2,089	2,214	2,206
<b>Accounts Payable</b>	52.180	53.722	57.152	61.342	64.571	48.601	11,165	61,430	69,218	63,539
<b>LT Debt (\$B)</b>	281	222	236	281	264	293	301	282	319	324
<b>Total Equity (\$B)</b>	199	205	205	181	177	175	180	183	182	188
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	0.4%	1.0%	0.8%	-0.4%	1.0%	1.0%	0.5%	0.96%	0.6%	0.4%
<b>Return on Equity</b>	3.7%	8.5%	7.3%	-3.5%	10.0%	11.0%	6.2%	12.1%	8.1%	5.0%
<b>ROIC</b>	1.5%	3.7%	3.3%	-1.4%	3.8%	4.1%	2.2%	4.5%	3.0%	1.8%
<b>Shares Out.</b>	3,024	2,954	2,772	2,570	2,369	2,114	2,082	2,049	1,964	1,956
<b>Revenue/Share</b>	25.43	25.39	24.51	26.85	29.20	32.79	35.97	35.08	38.34	40.13
<b>FCF/Share</b>	14.14	12.15	17.65	-4.50	13.30	-8.02	-11.47	20.97	9.90	-40.90

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

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