Citizens Financial Group, Inc. (CFG)

Updated July 20th, 2024, by Josh Arnold

Key Metrics

Current Price:	$41	**5 Year CAGR Estimate:**	9.2%	**Market Cap:**	$19 B
Fair Value Price:	$31	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	07/31/24
% Fair Value:	133%	**5 Year Valuation Multiple Estimate:**	-5.5%	**Dividend Payment Date:**	08/14/24
Dividend Yield:	4.1%	**5 Year Price Target**	$54	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**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 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 $19 billion, and Citizens should generate roughly $8 billion in revenue this year.

Citizens posted second quarter earnings on July 17th, 2024, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to 82 cents, which was three cents better than expected. Revenue was down 6.2% year-over-year to $1.96 billion, beating estimates by $10 million.

Provisions for credit losses were $182 million, up slightly from $176 million a year ago. Noninterest income came to $553 million.

Looking ahead, net interest income for the third quarter is expected to be slightly lower than Q2. For noninterest income, it’s expected to be slightly higher, so total revenue is likely to be flat.

Net interest margin in Q2 came to 2.86%, which was down from 2.91% in Q1, and much lower than the 3.17% achieved in the year-ago period. We note that Citizens continues to see one of the lowest NIM values in our coverage universe, and also that it continues to decline.

Period-end loans and leases declined to $142 billion, which was off from $143 billion in the first quarter. For deposits, $176 billion was unchanged.

We now see $3.25 in adjusted earnings-per-share for this year after Q2 results that weren’t particularly strong.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.55	$1.55	$1.97	$3.25	$3.52	$3.81	$2.22	$5.34	$4.84	$3.88	***$3.25***	***$5.73***
DPS	$0.10	$0.40	$0.46	$0.64	$0.98	$1.36	$1.56	$1.56	$1.62	$1.64	***$1.68***	***$1.95***
Shares[1]	546	528	512	491	466	433	427	422	496	466	***450***	***400***

Citizens has posted strong earnings growth in most years, with 2020 being the obvious exception. Citizens had been seeing strong credit metrics based on prudent underwriting strategies, resulting in lower net charge-offs and allowances for credit losses until recently. 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

[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.

provision unwinding from elevated 2020 levels, we think Citizens will struggle to replicate 2021 earnings levels. Based on low estimates for 2024, we have upgraded our growth forecast to 12% annually. We see rising lending costs, higher credit costs, and a lack of loan growth as headwinds for this year, but earnings should normalize into 2025 and beyond.

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 2029. We note that Citizens raised its payout for the first time in 2.5 years in mid-2022.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.4	16.4	12.3	11.2	11.5	9.3	12.6	10.8	8.1	8.5	***12.6***	***9.5***
Avg. Yld.	0.4%	1.6%	1.9%	1.8%	2.4%	3.8%	5.6%	3.4%	4.1%	4.9%	***4.1%***	***3.6%***

Citizens has been valued in the low-double-digits for the past handful of years, excluding 2022, and we peg fair value at 9.5 times earnings. Shares trade at 12.6 times this year's earnings, implying a sizable negative valuation impact. 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	6%	26%	23%	20%	28%	36%	70%	29%	33%	42%	***52%***	***34%***

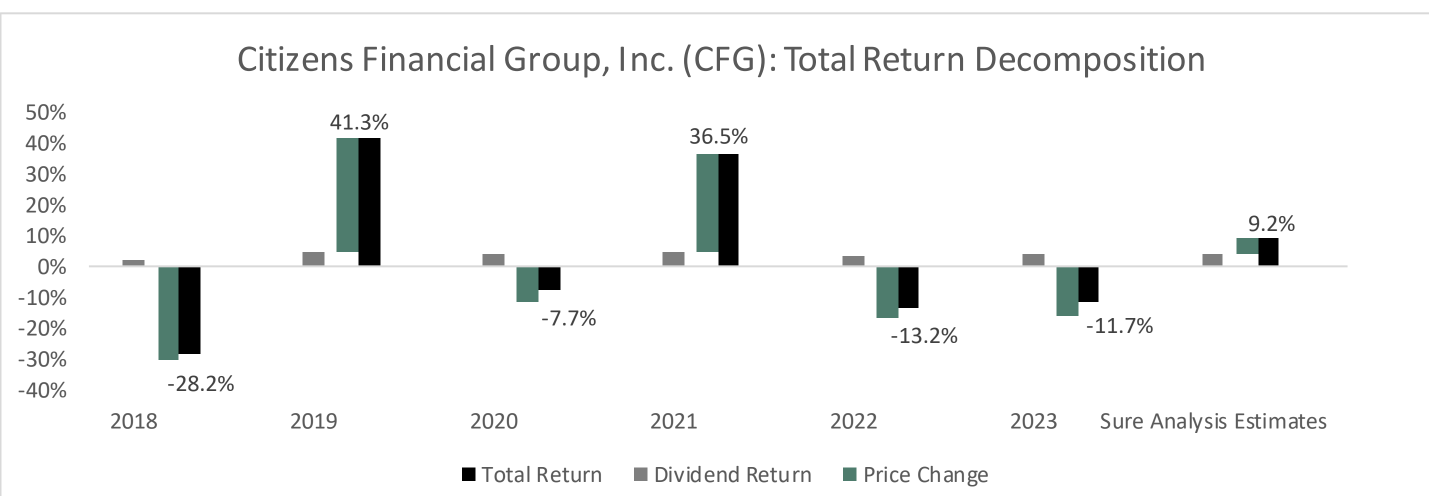
We see the payout ratio declining from here in the years to come, as earnings growth should outpace dividend growth. We have no dividend safety concerns at this point.

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 deteriorated slightly since our last report, and we're moving the stock from buy to hold. Dividend safety is strong, and the current yield is about three times that of the S&P 500, so we see Citizens as a strong income stock, although it's overvalued now. Total returns could accrue from 12% growth, a modest valuation headwind, and the strong 4.1% yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,691	4,824	5,255	5,707	6,128	6,491	6,905	6,647	8,052	8,224
SG&A Exp.	1,859	1,852	1,932	2,008	2,113	2,200	2,289	2,132	2,811	3,176
D&A Exp.	386	471	515	487	489	633	578	625	565	478
Net Profit	865	840	1,045	1,652	1,721	1,791	1,057	2,319	2,073	1,608
Net Margin	18.4%	17.4%	19.9%	28.9%	28.1%	27.6%	15.3%	34.9%	25.8%	19.6%
Free Cash Flow	1,079	930	1,187	1,443	1,535	1,602	(7)	2,151	3,993	2,789
Income Tax	403	423	489	260	462	460	241	658	582	422

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	132.9	138.2	149.5	152.3	160.5	165.7	183.3	188.4	226.7	222.0
Cash & Equivalents	3,646	3,441	4,143	3,224	4,222	3,683	13,039	9,474	10,850	12,033
Goodwill & Int. Ass.	6,876	6,876	6,876	6,887	6,923	7,044	7,050	7,116	8,370	8,345
Total Liabilities ($B)	113.6	118.6	129.8	132.1	139.7	143.5	160.7	165.0	203.0	197.6
Long-Term Debt	10,895	12,516	16,001	13,621	16,086	14,056	8,358	7,006	15,890	13,972
Shareholder's Equity	19,268	19,399	19,500	20,023	19,977	20,631	20,708	21,406	21,676	22,328
LTD/E Ratio	0.57	0.64	0.81	0.67	0.77	0.63	0.37	0.30	0.67	0.57

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.7%	0.6%	0.7%	1.1%	1.1%	1.1%	0.6%	1.2%	1.0%	0.7%
Return on Equity	4.5%	4.3%	5.4%	8.4%	8.6%	8.8%	5.1%	11.0%	9.6%	7.3%
ROIC	3.3%	2.7%	3.1%	4.7%	4.9%	4.9%	3.1%	7.5%	5.9%	4.1%
Shares Out.	546	528	512	491	466	433	427	422	478	477
Revenue/Share	8.41	8.96	10.03	11.33	12.76	14.37	16.13	15.55	16.79	17.25
FCF/Share	2.16	1.82	3.13	3.83	2.31	1.84	2.89	5.03	8.36	5.85

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