Citigroup (C)

Updated October 16th, 2024, by Josh Arnold

Key Metrics

Current Price:	$63	**5 Year CAGR Estimate:**	14.3%	**Market Cap:**	$118 B
Fair Value Price:	$63	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	11/03/2024[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date:**	11/24/2024
Dividend Yield:	3.6%	**5 Year Price Target**	$111	**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 $118 billion market capitalization.

Citigroup posted third quarter earnings on October 15th, 2024, and results were better than expected on both the top and bottom lines. Earnings-per-share came to $1.51, which was twenty cents ahead of estimates. Revenue was up fractionally year-over-year to $20.32 billion, but beat estimates by $500 million.

Revenue was up 3% on an organic basis, with the difference being the sale of the Taiwan consumer banking business. The gain in revenue was driven by growth across all of its segments.

Cost of credit was $2.7 billion in Q3, up from $1.8 billion a year ago. This was driven by higher net credit losses in Citi's massive credit card business, as well as higher allowances for credit losses to build for loan portfolio growth and mix changes.

Net interest income was $13.4 billion, down from $13.5 billion in Q2, and down from $13.8 billion in last year's third quarter. Total operating expenses fell to $13.3 billion from $13.4 billion in Q2, and $13.5 billion in last year's comparable period.

Loans ended the period at $689 billion, flat to Q2. Deposits were $1.31 trillion, up fractionally.

We now see $5.75 in earnings-per-share for this year after Q3 results, as updated guidance was almost identical to prior guidance. Higher credit losses are a concern but the bank is also cutting expenses.

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	***$5.75***	***$10.13***
DPS	$0.04	$0.16	$0.42	$0.96	$1.54	$1.92	$2.04	$2.04	$2.04	$2.08	***$2.24***	***$2.35***
Shares[2]	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 $5.75 per share in earnings for 2024, from which we expect 12% 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

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[1] Estimated date

[2] 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.

reasonably well. Citi is not as tied to traditional lending as most other banks, so the yield curve is not as critical, but the 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. We note higher credit provisions are simply a cost of growing any bank's loan portfolio.

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	***11.0***	***11.0***
Avg. Yld.	0.1%	0.3%	0.9%	1.5%	2.2%	2.8%	3.8%	2.9%	4.5%	4.0%	***3.6%***	***2.1%***

At 11 times earnings, Citigroup's price-to-earnings ratio is still relatively low. It's also right at where we assess fair value. We expect the dividend yield of 3.6% to decline as the share price appreciates more than the dividend. 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%	***39%***	***23%***

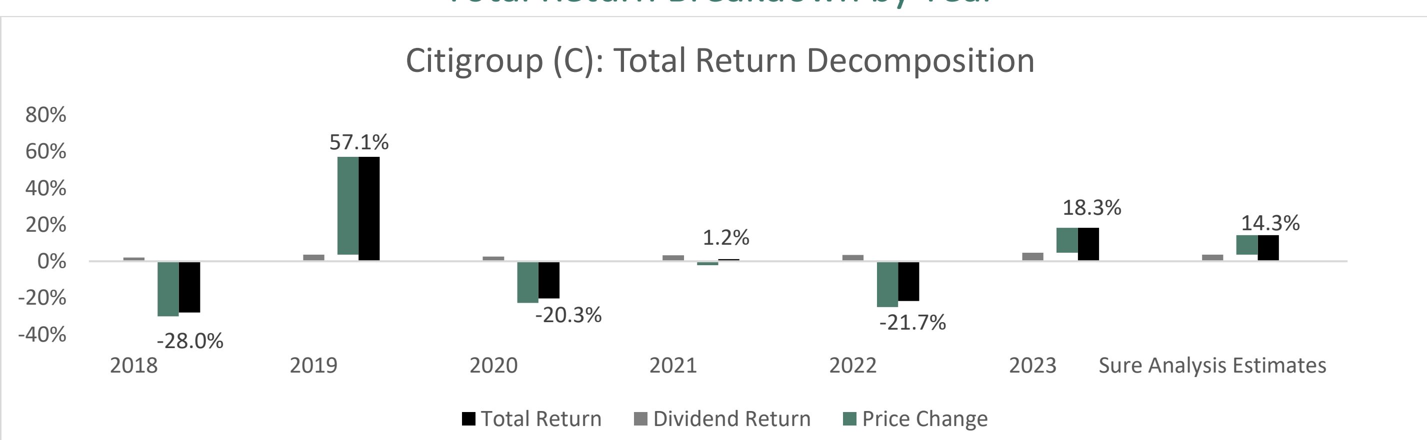
Citi's payout ratio is only 39% of estimated earnings this year. The bank has fully built its dividend back after playing catch up for several years. We now expect modest dividend raises for the foreseeable future, as Citi focuses instead on buying back shares.

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 14.3% total annual returns over the next five years. Earnings should be higher this year after two years of declines, and we expect 12% annual growth given the low base for 2024. The yield is nice at 3.6%. We think Citi has a potentially strong earnings tailwind in cost savings ahead as interest rates move favorably for banks. With growth looking to pick up and the valuation reasonable, we think Citi warrants a buy rating after Q3 results.

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	4,560
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	-79,999
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 ($B)	1,842	1,731	1,792	1,842	1,917	1,951	2,260	2,291	2,417	2,412
Cash & Eq. ($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 ($B)	1,630	1,508	1,565	1,640	1,720	1,757	2,060	2,089	2,214	2,206
Accounts Payable	52.180	53.722	57.152	61.342	64.571	48.601	11,165	61,430	69,218	63,539
LT Debt ($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	-40.90

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