Aug 12, 2020

Citigroup Inc.(C)

$53.76 (As of 08/11/20)

Price Target (6-12 Months): **$57.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/05/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: F | Momentum: B	**4-Sell** VGM:F

Summary

Shares of Citigroup have outperformed the industry in the past three months. Also, the company has an impressive earnings surprise history, beating the Zacks Consensus Estimate in all the trailing four quarters. Second-quarter results reflect higher revenues, lower expenses and elevated cost of credit. Citigroup's streamlining efforts, along with strategic investments in core business, bode well for the long term. Also, net interest revenues will likely be supported by loan growth and mix, despite low rates. A shrinking cost base due to the wind-down of legacy assets is aiding bottom-line growth. Notably, following the 2020 stress test results, it has decided to keep the dividend amount at the same level as before. Yet, pending litigation issues might keep legal expenses elevated. Additionally, a subdued consumer banking business is a concern.

Price, Consensus & Surprise

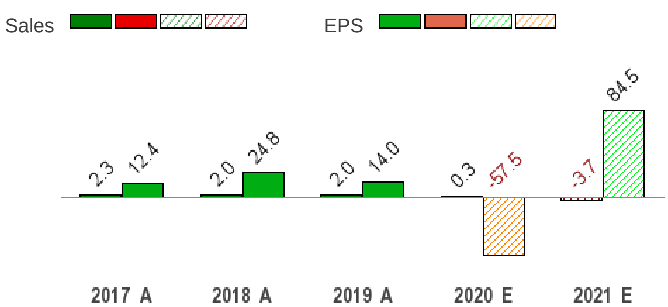
Data Overview

52 Week High-Low	**$83.11 - $32.00**
20 Day Average Volume (sh)	**18,844,844**
Market Cap	**$111.9 B**
YTD Price Change	**-32.7%**
Beta	**1.78**
Dividend / Div Yld	**$2.04 / 3.8%**
Industry	**Banks - Major Regional**
Zacks Industry Rank	**Bottom 12% (223 out of 253)**

Last EPS Surprise	**6.4%**
Last Sales Surprise	**3.1%**
EPS F1 Est- 4 week change	**-1.7%**
Expected Report Date	**10/20/2020**
Earnings ESP	**0.0%**

P/E TTM	**9.9**
P/E F1	**16.7**
PEG F1	**1.4**
P/S TTM	**1.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates **(millions of $)**

	Q1	Q2	Q3	Q4	Annual*
2021	18,621 E	17,871 E	18,139 E	17,745 E	71,731 E
2020	20,731 A	19,766 A	17,242 E	16,767 E	74,504 E
2019	18,576 A	18,758 A	18,574 A	18,378 A	74,286 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.14 E	$1.17 E	$1.63 E	$1.94 E	$5.94 E
2020	$1.06 A	$0.50 A	$0.80 E	$0.62 E	$3.22 E
2019	$1.87 A	$1.83 A	$1.98 A	$1.90 A	$7.58 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

Overview

Citigroup Inc. is a globally diversified financial services holding company providing a range of financial products and services including consumer banking and credit, corporate and investment banking, securities brokerage and wealth management to consumers, corporations, governments and institutions. Citigroup has around 200 million customer accounts in over 160 countries and jurisdictions.

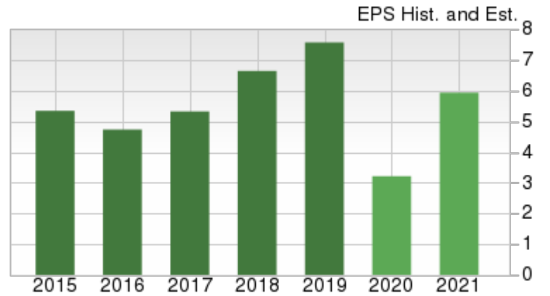
Citigroup currently reports via three business segments effective first-quarter 2017.

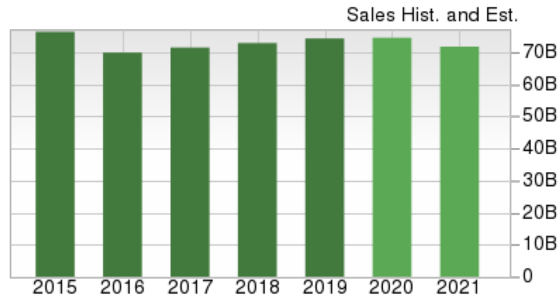
- **Global Consumer Banking** (GCB) (contributes 44% to total revenues in 2019) business includes retail banking, Citi-branded cards and Citi retail services in North America, Asia, Latin America, Europe, the Middle East, and Africa.

- **Institutional Clients Group** (ICG) (53%) consists of Banking and Markets and Securities services.

- **Corporate/Other** (3%) comprise global staff functions and other corporate expenses, unallocated global operations, as well as technology, Corporate Treasury and discontinued operations.

In July 2018, Scotiabank's Colombian subsidiary, Banco Colpatria Multibanca Colpatria S.A., acquired the consumer (retail and credit cards), and small and medium enterprise operations of Citibank in Colombia.





In October 2017, Citigroup completed the sale of consumer business in Brazil to Itau Unibanco. The deal was inked for around $220 million. In August 2017, Citigroup completed the sale of the fixed income analytics (Yield Book) and a fixed income index business. The transaction generated a pre-tax gain on sale of $580 million ($355 million after-tax).

In March 2017, Citigroup completed the sale of CitiFinancial, its subprime lending unit in Canada, to an investor group led by private investment firm – JC Flowers and Värde Partners – initiated in November 2016. Citigroup also completed sell of consumer banking business in Argentina to Banco Santander Rio, entered in October 2016.

Reasons To Buy:

A diverse business model, focus on core operations and streamlining of international businesses will continue to support Citigroup's growth. Further, manageable debt level is a tailwind.

- With improvement in the interest-rate scenario following the rate hikes and steady loan growth, strain on net interest revenues continued to ease in the past couple of years. In 2018 and 2019, uptrend in NIR was recorded, after witnessing a declining trend for years. Though results for the first half of 2020 disappointed as the Federal Reserve's emergency move to lower interest rates to near zero hampered net interest revenue growth, steady loan growth is likely to provide some respite on an expected economic recovery.

- Citigroup's long-term strategy to shrink its non-core assets and increase fee-based business mix would improve valuation over time. The rundown of Citi Holdings – its legacy problem assets portfolio – is largely complete. These runoffs ultimately reduce the company's risk profile and free up capital for investment in core businesses.

- Operating expenses witnessed a negative CAGR of 1.5% over the five-year period (2015-2019), with the decreasing trend continuing in the first half of 2020. Expenses dipped as the impact of higher volume-related expenses, and ongoing investments were more than offset by efficiency savings and the wind-down of legacy assets. Therefore, persistent downtrend in expenses will aid bottom-line expansion.

- Citigroup has been emphasizing on growth in core businesses through expense management and streamlining operations internationally. Further, the company continues to optimize its branch network, with focus on core urban markets, improving digital channels and reducing branches. The company is also making investment in several areas to stoke growth. For instance, in its Mexico consumer franchise, the company intends to improve operating efficiency and returns, and remains on track with the $1-billion investment program which is expected to be complete by 2020. Additionally, the ongoing investments in branded cards support the company's growth strategy. Such efforts should help augment the company's profitability and efficiency, over the long term.

- As of Jun 30, 2020, the company holds a debt level of $684.9 billion and debt-capital ratio of 0.59X, which have remained volatile over the past few quarters. Therefore, with a time-interest-earned ratio of 2.3X over the past few quarters and a record of consistent earnings, Citigroup carries low credit risk, and has a lesser likelihood of default of interest and debt repayments if the economic situation worsens.

- Driven by a solid capital position, Citigroup remains committed towards enhancing its shareholders' value with steady capital deployment activities. The company had increased its quarterly dividend by 13.3% in July 2019. Also, it had a share repurchase program in place, that was suspended mid-March following the coronavirus crisis. Notably, following the announcement of 2020 stress test results, the company will be maintaining the dividend level as before and keep share repurchases suspended in the third quarter of 2020 as well. Though the dividend payout ratio is below the industry average, the figure indicates constant improvement in earnings over the past few quarters. We believe that the company's financial strength will continue to inspire investors' confidence in the stock.

Reasons To Sell:

- Citigroup's non-interest income witnessed a five-year negative CAGR (2015-2019) of 2.9%, with some annual volatility. The dismal performance of equity-market revenues and volatile underwriting business strained fee income. Though income increased in the first half of 2020 on a strong investment banking business, the second half might disappoint on subdued global consumer banking business due to the adverse impact of the COVID-19 crisis.

Citigroup is burdened with numerous investigations and lawsuits escalating legal costs and limiting the company's business growth. Moreover, muted fee income is a concern for the company.

- Citigroup continues to encounter many investigations and lawsuits from investors and regulators. Though the company resolved certain litigations related to the sale of risky mortgage-backed securities and other issues, many of the cases are yet to be resolved. As Citigroup continues to work through its legacy legal issues, we believe the company might continue to witness elevated legal expenses and litigation provisions, which will likely hurt its financials.

- Citigroup's trailing 12-month return on equity (ROE) undercuts its growth potential. Though the company's ROE of 7.4% has gradually improved over the years, it compares unfavorably with the 8.52% industry average, highlighting that it is less efficient in using shareholders' funds.

- Shares of Citigroup have outperformed the industry's growth in the past three months. Despite this favorable trend, the company's current-year earnings estimate has been revised 1.5% downward over the last 30 days. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

Last Earnings Report

Citigroup Q2 Earnings Beat Estimates, Revenues Escalate

Quarter Ending	06/2020
Report Date	Jul 14, 2020
Sales Surprise	3.06%
EPS Surprise	6.38%
Quarterly EPS	0.50
Annual EPS (TTM)	5.44

Citigroup delivered an earnings surprise of 6.4% in second-quarter 2020 on robust revenue strength. Earnings per share of 50 cents for the quarter handily outpaced the Zacks Consensus Estimate of 47 cents. Results were, however, down significantly from the prior-year quarter.

Citigroup recorded higher revenues on investment banking and market revenues during the reported quarter. Though equity market revenues disappointed on a more challenging environment in derivatives, and prime finance and securities services revenues declined, fixed income revenues were on an upswing reflecting strength in rates and currencies, spread products and commodities. Moreover, investment banking revenues increased on solid underwriting business, partly muted by lower advisory business.

Additionally, fall in expenses was on the upside. However, elevated cost of credit due to the pandemic is a major drag.

Net income was $1.3 billion compared with the $4.8 billion recorded in the prior-year quarter.

Revenues Improve, Expenses Down

Revenues were up 5% year over year to $19.8 billion in the second quarter. The reported figure also beat the Zacks Consensus Estimate of $19.2 billion. Higher revenues from Institutional Clients Group mainly led to this upside, partly offset by lower revenues from Global Consumer Banking and Corporate/Other.

In ICG segment, revenues came in at $12.1 billion in the quarter, up 21% year over year. Higher investment banking and fixed income market revenues were partly muted by lower equity market revenues and corporate lending.

GCB revenues decreased 10% year over year to $7.3 billion. Lower revenues in North, Latin America and Asia GCB due to the pandemic resulted in this decline. Notably, both retail banking and card revenues witnessed declines.

Corporate/Other revenues came in at $290 million, plunging 49% from the prior-year quarter. This downside stemmed from the wind-down of legacy assets and impact of low rates, partly mitigated by AFS gains.

Operating expenses at Citigroup edged down 1% year over year to $10.4 billion. Efficiency savings and reduction in marketing and other discretionary expenses resulted in this decline. These were mostly negated by rise in compensation expenses, along with continued investments in the franchise and coronavirus related costs.

Stable Balance Sheet

At the end of the April-June quarter, Citigroup's end of period assets was $2.23 trillion, up 1% sequentially. Deposits were up 4% sequentially to $1.23 trillion. The company's loans decreased 5% sequentially to $685 billion.

Credit Quality: A Mixed Bag

Citigroup's costs of credit for the June-end quarter were up significantly year over year to $7.9 billion. Notably, higher allowance for credit loss reserves (ACL), the corporate loan downgrades and the qualitative management adjustment mainly led to this upsurge. Cost of credit includes elevated net credit losses of $2.2 billion and a credit reserve build of $5.6 billion, and other provisions of $94 million.

Total non-accrual assets jumped 58% year over year to $5.9 billion. The company reported a drop of 7% in consumer non-accrual loans to $1.8 billion. Nonetheless, corporate non-accrual loans of $4 billion more than doubled from the year-earlier period.

Citigroup's total allowance for loan losses was $26.4 billion at the end of the reported quarter, or 3.89% of total loans, compared with the $12.5 billion, or 1.82%, recorded in the year-ago period.

Solid Capital Position

At the end of the April-June period, Citigroup's Common Equity Tier 1 Capital ratio was 11.5%, down from the prior-year quarter's 11.9%. The company's supplementary leverage ratio for the quarter came in at 6.7%, up from the year-earlier quarter's 6.4%.

As of Jun 30, 2020, book value per share was $83.41, up 5% year over year, and tangible book value per share was $71.15, up 5% from the comparable period last year.

Outlook

Looking forward to the third quarter and the remaining of 2020, management expects the environment to be challenging and uncertain. On the top line, it expects to see continued pressure in consumer, reflecting the impact of rates and lower levels of activity related to the pandemic. Also, the low-rate environment is likely to keep hurting accrual businesses in ICG.

Markets and Investment Banking businesses are expected to reflect broader industry trends. Therefore, management projects normalization relative to the first half of 2020. Further, it anticipates these headwinds in the second half of the year to result in full-year revenues that are flat to down slightly, with the decline in net interest revenues more or less offset by non-interest revenues on a full-year basis.

On the expense side, management remains focused on protecting employees and supporting customers. And we continue to feel good about the investments we are making, particularly in our digital capabilities, and infrastructure and control. Therefore, it continues to explore all opportunities to operate more efficiently to fund investments made in digital capabilities and infrastructure and control and offset headwinds induced by the pandemic. Overall, expenses are likely to be flat to down slightly for 2020.

Management expects a higher level of losses in the days to come given the current outlook, offset by the release of existing reserves. The overall level of reserves in the second half of the year is dependent on the environment relative to the current outlook.

Recent News

Dividend Update

On Jul 23, Citigroup's board of directors announced a quarterly dividend of 51 cents per share on its common shares. The dividend will be paid on Aug 28, to its shareholders of record as of Aug 3, 2020.

Valuation

Citigroup's shares are down 32.7% in the year-to-date period and 17.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 32.4% and 15.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 16.7% and 6.1%, respectively.

The S&P 500 Index is up 4.2% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 11X forward 12 months earnings, which compares to 13.6X for the Zacks sub-industry, 16.76X for the Zacks sector and 22.8X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 14.28X and as low as 4.07X, with a 5-year median of 9.48X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $57 price target reflects 11.66X forward earnings.

The table below shows summary valuation data for C

Valuation Multiples - C

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11	13.6	16.76	22.8
	5-Year High	14.28	14.2	16.76	22.8
	5-Year Low	4.07	8.01	11.59	15.25
	5-Year Median	9.48	11.31	14.26	17.58
P/TB TTM	Current	0.75	1.55	3.39	15.36
	5-Year High	1.35	2.68	4	15.36
	5-Year Low	0.51	1.21	2.01	5.96
	5-Year Median	0.98	2.11	3.48	9.56
P/S F12M	Current	1.54	2.85	6.22	3.67
	5-Year High	2.88	4.59	6.66	3.67
	5-Year Low	0.98	2.39	4.96	2.53
	5-Year Median	2.19	3.59	6.06	3.05

As of 08/11/2020

Industry Analysis **Zacks Industry Rank:** Bottom 12% (223 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Bank of America Corporation **(BAC)**	Neutral	3
JPMorgan ChaseCo. **(JPM)**	Neutral	3
KeyCorp **(KEY)**	Neutral	4
MT Bank Corporation **(MTB)**	Neutral	3
The PNC Financial Services Group, Inc **(PNC)**	Neutral	4
U.S. Bancorp **(USB)**	Neutral	3
Wells FargoCompany **(WFC)**	Neutral	4
Fifth Third Bancorp **(FITB)**	Underperform	4

Industry Comparison Industry: Banks - Major Regional

	C	X Industry	S&P 500	BAC	JPM	WFC
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	F	-	-	F	D	F
Market Cap	111.92 B	33.79 B	23.61 B	233.24 B	316.40 B	104.32 B
# of Analysts	10	9	14	10	10	11
Dividend Yield	3.79%	3.92%	1.69%	2.67%	3.47%	1.58%
Value Score	D	-	-	C	C	F
Cash/Price	8.80	2.42	0.07	4.30	4.22	4.03
EV/EBITDA	-12.30	-0.54	13.32	-8.80	-8.67	-1.45
PEG Ratio	1.37	2.42	2.95	2.43	3.48	68.33
Price/Book (P/B)	0.64	0.89	3.22	0.96	1.35	0.66
Price/Cash Flow (P/CF)	5.27	6.60	12.79	7.34	7.40	3.82
P/E (F1)	16.70	14.57	22.02	17.04	17.41	663.14
Price/Sales (P/S)	1.11	1.92	2.57	2.19	2.28	1.13
Earnings Yield	5.99%	6.86%	4.29%	5.87%	5.74%	0.16%
Debt/Equity	1.60	0.88	0.77	1.08	1.35	1.45
Cash Flow ($/share)	10.20	6.63	6.94	3.67	14.04	6.63
Growth Score	F	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	10.06%	10.96%	10.41%	21.29%	13.82%	-6.26%
Proj. EPS Growth (F1/F0)	-57.55%	-43.93%	-6.51%	-42.55%	-44.38%	-99.13%
Curr. Cash Flow Growth	2.56%	2.66%	5.22%	3.02%	9.35%	-1.58%
Hist. Cash Flow Growth (3-5 yrs)	7.31%	9.49%	8.55%	27.50%	10.67%	1.85%
Current Ratio	0.98	0.90	1.34	0.93	0.88	0.88
Debt/Capital	59.26%	44.79%	44.59%	49.62%	56.09%	56.18%
Net Margin	13.64%	18.16%	10.13%	19.09%	18.16%	6.26%
Return on Equity	7.40%	8.52%	14.59%	9.11%	10.75%	4.33%
Sales/Assets	0.05	0.05	0.51	0.04	0.05	0.05
Proj. Sales Growth (F1/F0)	0.29%	-1.23%	-1.45%	-5.24%	0.15%	-15.86%
Momentum Score	B	-	-	C	B	D
Daily Price Chg	1.70%	2.13%	-0.17%	1.36%	3.16%	2.51%
1 Week Price Chg	4.22%	4.22%	2.30%	4.94%	2.84%	3.34%
4 Week Price Chg	7.20%	11.07%	6.41%	11.52%	5.71%	4.41%
12 Week Price Chg	21.00%	21.21%	15.42%	21.21%	17.09%	5.72%
52 Week Price Chg	-17.08%	-17.08%	2.88%	-2.89%	-5.05%	-44.91%
20 Day Average Volume	18,844,844	5,634,957	2,007,486	60,472,536	15,347,021	42,862,412
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.68%	4.56%	1.84%	9.38%	4.63%	-93.22%
(F1) EPS Est 12 week change	5.55%	10.49%	2.40%	10.49%	16.12%	-95.15%
(Q1) EPS Est Mthly Chg	-4.78%	8.23%	0.72%	8.23%	13.45%	-13.25%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	F
Momentum Score	B
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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