

Citigroup Inc.(C)

\$81.12 (As of 01/17/20)

Price Target (6-12 Months): **\$85.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: A

Summary

Shares of Citigroup have outperformed the industry in the last three months. Also, the company has an impressive earnings surprise history, beating the Zacks Consensus Estimate in all the trailing four quarters. The company's fourth-quarter 2019 results reflected higher revenues and loans, partly offset by rise in expenses and cost of credit. Citigroup's streamlining efforts, along with strategic investments in core business, bode well for the long term. Further, net interest revenues will likely be supported by loan growth and mix, despite low rates in the days ahead. Also, the company's steady capital-deployment activities are also commendable. However, pending litigation issues might keep legal expenses elevated. Additionally, decline in equity-market revenues and volatile underwriting business are concerns for the company.

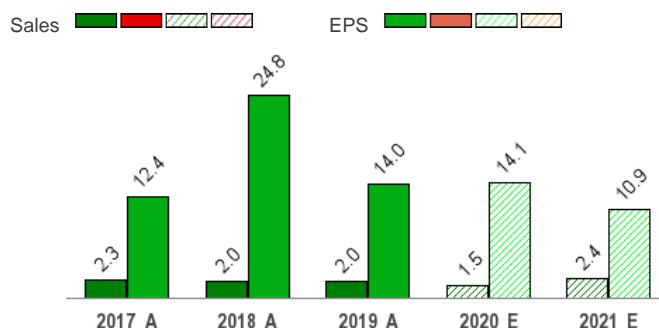
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$83.11 - \$60.05
20 Day Average Volume (sh)	11,743,826
Market Cap	\$177.1 B
YTD Price Change	1.5%
Beta	1.81
Dividend / Div Yld	\$2.04 / 2.5%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 15% (37 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.4%
Last Sales Surprise	3.8%
EPS F1 Est- 4 week change	1.9%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	10.7
P/E F1	9.4
PEG F1	0.8
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					77,238 E
2020	19,106 E	18,616 E	18,989 E	18,367 E	75,413 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	\$2.48 E	\$2.37 E	\$2.46 E	\$2.46 E	\$9.59 E
2020	\$2.15 E	\$2.07 E	\$2.22 E	\$2.18 E	\$8.65 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 01/17/2020. The reports text is as of 01/21/2020.

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.

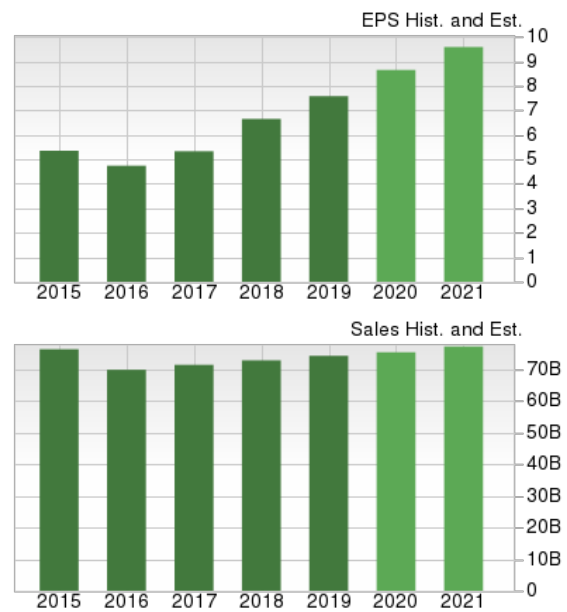
Citigroup currently reports via three business segments effective first-quarter 2017.

- **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:

- ▲ With improvement in the interest-rate scenario following the rate hikes and steady loan growth, strain on net interest revenue continued to ease which had been under pressure due to a low-interest rate environment. In 2018 and 2019, uptrend in NIR was recorded, after witnessing a declining trend for years. Therefore, despite low rates (three rate cuts in 2019), management expects net interest revenue to grow this year, backed by loan growth and mix.
- ▲ 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). 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.
- ▲ Driven by a solid capital position, Citigroup remains committed towards enhancing its shareholders' value with steady capital deployment activities. Notably, following the approval of 2019 capital plan, the company increased its quarterly dividend by 13.3% from the prior payout in July 2019. Further, the plan includes share-repurchase programs of up to \$17.1 billion for the four-quarter period beginning Jul 1, 2019, summing the capital deployment to \$21.5 billion. Notably, 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.
- ▲ Shares of Citigroup have outperformed the industry's growth in the past three months. With this favorable trend, the company's current-year earnings estimates have been revised 1.9% upward over the last 30 days. Also, the stock seems undervalued when compared with the broader industry. Its current price-to-book and price-earnings (F1) ratios are lower than the respective industry averages. Further, it has a Value Score of B. Therefore, given the strong fundamentals and positive estimate revisions, the stock has upside potential.

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

Reasons To Sell:

- ▼ Citigroup's non-interest income recorded a five-year negative CAGR (2014-2018) of 2.8%, with some annual volatility. Dismal performance of equity-market revenues and volatile underwriting business strained fee income. Though management expects consumer and institutional businesses to aid the income this year, persistent geo-political concerns is a headwind.
- ▼ 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 10.32% has gradually improved over the years, it compares unfavorably with 17.16% for the S&P 500 average, indicating the fact that it is less efficient in using shareholders' funds.

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.

Last Earnings Report

Citigroup Q4 Earnings Beat Estimates, Revenues Escalate

Citigroup delivered a positive earnings surprise of 4.4% in fourth-quarter 2019, backed by revenue strength. Adjusted earnings per share of \$1.90 for the quarter handily outpaced the Zacks Consensus Estimate of \$1.82.

Including one-time gain, net income was \$5 billion or \$2.15 per share compared with the \$4.3 billion or \$1.64 per share recorded in the prior-year quarter.

Citigroup recorded higher revenues riding on consumer banking, investment banking and market revenues during the reported quarter. Though equity market revenues disappointed on a more challenging environment in derivatives, fixed income revenues were on an upswing. Moreover, investment banking revenues increased on strong underwriting business, partly muted by lower advisory business. Further, loans escalated.

However, rise in expenses was on the downside. Moreover, cost of credit soared.

For full-year 2019, net income came in at \$19.4 billion compared with the \$18 billion recorded in 2018.

Expenses Flare Up, Revenues Improve

For full-year 2019, the company reported revenues of \$74.3 billion, up 2% year over year. Moreover, it outpaced the Zacks Consensus Estimate of \$73.7 billion.

Revenues were up 7% year over year to \$18.4 billion in the fourth quarter. The reported figure also beat the Zacks Consensus Estimate of \$17.7 billion. Higher revenues, both from Global Consumer Banking (GCB) and Institutional Clients Group (ICG), mainly led to this upside.

GCB revenues increased 5% year over year to \$8.5 billion. Higher revenues in North, Latin America and Asia GCB resulted in this upsurge. Notably, both retail banking and card revenues escalated.

In the Institutional Clients Group (ICG) segment, revenues came in at \$9.4 billion in the quarter, up 10% year over year. Higher investment banking and fixed income market revenues were partly offset by lower equity market revenues.

Corporate/Other revenues came in at \$542 million, up 8% from the prior-year quarter. This upside stemmed from gains on investments, partly underscored by the wind-down of legacy assets.

Operating expenses at Citigroup escalated 6% year over year to \$10.5 billion. Rise in compensation and volume-related expenses, along with continued investments in the franchise, were on the downside. These were partly negated by efficiency savings and the winding-down of legacy assets.

Stable Balance Sheet

At the end of the October-December quarter, Citigroup's end of period assets was \$1.95 trillion, down 3% sequentially. The company's loans inched up 1% sequentially to \$689 billion. Deposits were down 2% sequentially to \$1.07 trillion.

Credit Quality: A Mixed Bag

Citigroup's costs of credit for the December-end quarter were up 15% year over year to \$2.2 billion. This upswing largely underlines the elevated net credit losses of \$1.9 billion and a credit reserve build of \$253 million, and provision for benefits and claims of \$25 million.

Total non-accrual assets increased 12% year over year to \$4.1 billion. The company reported a drop of 10% in consumer non-accrual loans to \$1.8 billion. Yet, corporate non-accrual loans of \$2.2 billion surged 45% from the year-earlier period.

Citigroup's total allowance for loan losses was \$12.8 billion at the end of the reported quarter, or 1.84% of total loans, compared with the \$12.3 billion, or 1.81%, recorded in the year-ago period.

Solid Capital Position

At the end of the October-December period, Citigroup's Common Equity Tier 1 Capital ratio was 11.7%, down from the prior-year quarter's 11.9%. The company's supplementary leverage ratio for the quarter came in at 6.2%, down from the year-earlier quarter's 6.4%.

As of Dec 31, 2019, book value per share was \$82.90, up 10% year over year, and tangible book value per share was \$70.39, up 10% from the comparable period last year.

Capital Deployment

During 2019, Citigroup repurchased about 264 million of common stock. The company returned around \$22.3 billion to common shareholders as common stock repurchases and dividends.

Notably, during the fourth quarter, the company bought back about 69 million of common stock and returned around \$6.2 billion to common shareholders as common stock repurchases and dividends.

Outlook

Quarter Ending **12/2019**

Report Date	Jan 14, 2020
Sales Surprise	3.80%
EPS Surprise	4.40%
Quarterly EPS	1.90
Annual EPS (TTM)	7.58

In 2020, management expects to record modest year-over-year revenue growth, attributed to continued growth in net interest revenue despite low rates (three rate cuts in 2019), backed by loan growth and mix and continued fee growth across both consumer and institutional businesses. Notably, management assumed 1 additional rate cut of about 25 basis points in the second half of 2020.

In consumer, continued year-over-year revenue growth is projected across all regions, driven by execution of the company's consumer strategy, as well as deeper penetration of the card customers and development of new value propositions.

In ICG, good underlying metrics with the institutional clients, particularly in TTS, is anticipated. Therefore, continued momentum, deposit volumes and engagement with both new and existing clients on the institutional side and in TTS is expected. Overall, top-line growth of a couple of percentage points and a constructive capital markets environment with flat expenses is likely to be recorded.

Further, flat expenses are predicted and cost of credit is likely to remain manageable. Management expects a tax rate of around 22% in 2020, excluding any discrete tax items.

ROTCE is expected in the range of 12% to 13% for 2020.

For 2020, management projects a pre-tax loss of around \$250 million in Corporate Other segment, with continued investment in infrastructure and controls, impact from lower rates and reduced level of gains.

For U.S. Branded Cards, NCL rate is anticipated to be at the higher end of the range of 300 basis points to 325 basis points, and 500 to 525 basis points for retail services for the year.

In addition, on the expense side, management noted that efficiency saving significantly outpaced incremental investments in the first half of 2019, realizing a net benefit to expenses of roughly \$300 million. This amount increased to around \$500-\$600 million of net incremental savings in 2019 and an additional \$500-\$600 million of net incremental benefits is expected in 2020. These net savings will offset volume-driven expenses on ongoing investments in the business.

Management targets efficiency ratio in the mid 50% range.

During the second quarter, on approval of Capital Plan 2019 from the Federal Reserve, Citigroup is likely to meet the goal set at Investor Day to return at least \$60 billion in capital over three CCAR cycles.

Recent News

Citigroup Decreases Its Prime Lending Rate by 25 Bps – Oct 30, 2019

Pursuant to the U.S. Federal Reserve interest rate cut by 25 bps, Citigroup decreased its prime lending rate from 5% to 4.75%, effective Oct 31. Prior to this, the company decreased the rate from 5.25% to 5%, in September 2019.

Dividend Update

On Jan 15, Citigroup's board of directors announced quarterly dividend of 51 cents per share on its common shares. The dividend will be paid on Feb 28, to its shareholders of record as of Feb 3, 2020.

Valuation

Citigroup's shares are up 31.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 18.4% and 13% over the past year, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 9.32X forward 12 months earnings, which compares to 11.68X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.28X and as low as 6.52X, with a 5-year median of 9.54X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$85 price target reflects 9.77X 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	9.32	11.68	14.73	19.19
	5-Year High	14.28	13.85	16.21	19.34
	5-Year Low	6.52	9.04	12.01	15.17
	5-Year Median	9.54	11.43	13.98	17.44
P/TB TTM	Current	1.18	2.34	3.32	12.75
	5-Year High	1.35	2.68	3.98	12.75
	5-Year Low	0.58	1.44	2.44	6.03
	5-Year Median	0.98	2.11	3.46	9.08
P/S F12M	Current	2.35	4.01	6.53	3.57
	5-Year High	2.88	4.59	6.61	3.57
	5-Year Low	1.39	2.61	5.2	2.54
	5-Year Median	2.2	3.59	6.04	3

As of 01/20/2020

Industry Analysis Zacks Industry Rank: Top 15% (37 out of 254)



Top Peers

JPMorgan Chase & Co. (JPM)	Outperform
Bank of America Corporation (BAC)	Neutral
Fifth Third Bancorp (FITB)	Neutral
KeyCorp (KEY)	Neutral
M&T Bank Corporation (MTB)	Neutral
The PNC Financial Services Group, Inc (PNC)	Neutral
U.S. Bancorp (USB)	Neutral
Wells Fargo & Company (WFC)	Neutral

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	C Neutral	X Industry	S&P 500	BAC Neutral	JPM Outperform	WFC Neutral
VGM Score	C	-	-	D	D	D
Market Cap	177.10 B	42.59 B	24.65 B	312.22 B	433.46 B	208.00 B
# of Analysts	10	7	13	10	10	11
Dividend Yield	2.51%	2.70%	1.73%	2.07%	2.60%	4.15%
Value Score	B	-	-	B	C	B
Cash/Price	4.56	0.68	0.04	2.24	2.37	1.49
EV/EBITDA	-8.20	5.04	14.11	-2.31	-3.95	2.94
PEG Ratio	0.77	1.39	2.08	1.27	1.84	1.11
Price/Book (P/B)	1.01	1.38	3.39	1.29	1.85	1.25
Price/Cash Flow (P/CF)	9.40	10.63	13.81	10.63	11.41	9.88
P/E (F1)	9.38	11.90	19.19	11.39	12.90	11.90
Price/Sales (P/S)	1.71	2.58	2.69	2.75	3.03	2.00
Earnings Yield	10.66%	8.40%	5.21%	8.79%	7.75%	8.40%
Debt/Equity	1.41	0.95	0.72	1.00	1.24	1.37
Cash Flow (\$/share)	8.63	4.98	6.94	3.26	12.11	4.98
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	13.07%	13.07%	10.56%	30.95%	15.31%	2.76%
Proj. EPS Growth (F1/F0)	14.13%	4.71%	7.57%	10.84%	-0.06%	-5.63%
Curr. Cash Flow Growth	19.03%	17.06%	14.73%	25.85%	23.43%	-26.05%
Hist. Cash Flow Growth (3-5 yrs)	5.10%	7.49%	9.00%	14.04%	7.08%	2.49%
Current Ratio	1.00	0.91	1.24	0.91	0.92	0.87
Debt/Capital	56.19%	45.81%	42.99%	47.63%	54.21%	54.83%
Net Margin	18.75%	23.17%	11.14%	24.15%	25.49%	18.81%
Return on Equity	10.32%	12.11%	17.16%	11.95%	15.19%	12.11%
Sales/Assets	0.05	0.05	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	1.52%	1.07%	4.16%	0.50%	1.68%	-6.43%
Momentum Score	A	-	-	A	A	D
Daily Price Chg	0.15%	0.34%	0.27%	-0.03%	0.69%	-0.14%
1 Week Price Chg	-0.56%	-1.64%	0.39%	-0.46%	-1.64%	-1.72%
4 Week Price Chg	3.73%	-3.19%	2.95%	-0.69%	0.62%	-8.30%
12 Week Price Chg	12.20%	6.11%	7.76%	10.68%	10.53%	-3.76%
52 Week Price Chg	29.85%	16.20%	22.29%	19.73%	34.28%	-0.10%
20 Day Average Volume	11,743,826	3,636,411	1,536,375	39,607,640	10,383,283	20,530,556
(F1) EPS Est 1 week change	2.19%	0.00%	0.00%	0.62%	2.25%	-2.88%
(F1) EPS Est 4 week change	1.86%	1.08%	0.00%	1.14%	2.84%	-2.45%
(F1) EPS Est 12 week change	1.24%	0.31%	-0.40%	2.08%	2.92%	-4.25%
(Q1) EPS Est Mthly Chg	1.08%	0.67%	0.00%	2.54%	3.55%	-10.15%

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	B
Growth Score	F
Momentum Score	A
VGM Score	C

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.

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