Citigroup Inc.(C)

$42.24 (As of 04/22/20)

Price Target (6-12 Months): **$35.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/06/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: B | Growth: F	Momentum: F

Summary

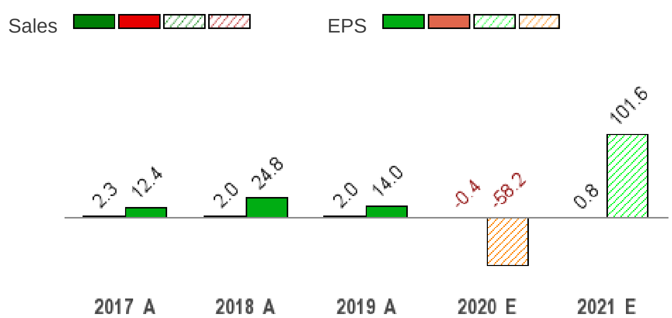
Shares of Citigroup have underperformed the industry in the last six months. However, the company has an impressive earnings surprise history, beating the Zacks Consensus Estimate in all the trailing four quarters. The company's first-quarter 2020 results reflected elevated revenues, stable costs and rise in credit costs. 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. Nevertheless, pending litigation issues might keep legal expenses elevated. Additionally, volatile equity-market revenues and underwriting business are concerns. Notably, the company has temporarily suspended share buybacks through the second quarter of 2020, following the challenges from the coronavirus pandemic.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$83.11 - $32.00**
20 Day Average Volume (sh)	**30,354,182**
Market Cap	**$88.6 B**
YTD Price Change	**-47.1%**
Beta	**1.92**
Dividend / Div Yld	**$2.04 / 4.8%**
Industry	**Banks - Major Regional**
Zacks Industry Rank	**Bottom 1% (250 out of 253)**
Last EPS Surprise	**19.1%**
Last Sales Surprise	**8.6%**
EPS F1 Est- 4 week change	**-62.6%**
Expected Report Date	**07/20/2020**
Earnings ESP	**0.0%**
P/E TTM	**6.2**
P/E F1	**13.3**
PEG F1	**1.1**
P/S TTM	**0.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	19,713 E	18,654 E	19,133 E	18,615 E	74,569 E
2020	20,731 A	17,780 E	17,899 E	17,585 E	73,996 E
2019	18,576 A	18,758 A	18,574 A	18,378 A	74,286 A

EPS Estimates

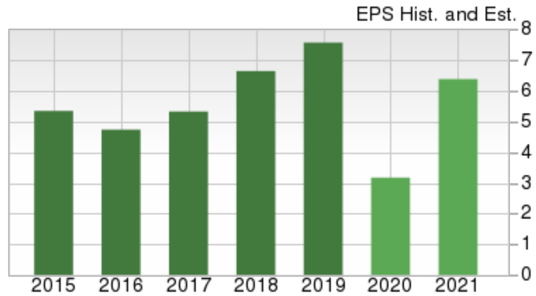
	Q1	Q2	Q3	Q4	Annual*
2021	$1.42 E	$1.46 E	$1.86 E	$2.06 E	$6.39 E
2020	$1.06 A	$0.62 E	$0.61 E	$0.60 E	$3.17 E
2019	$1.87 A	$1.83 A	$1.98 A	$1.90 A	$7.58 A

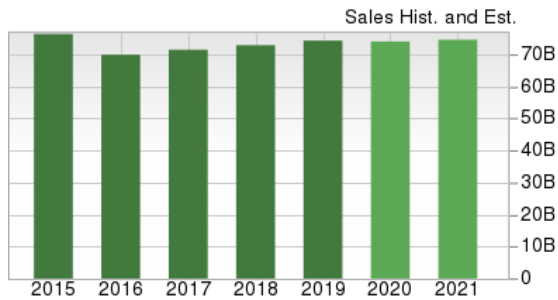
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/22/2020. The reports text is as of 04/23/2020.

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 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 first-quarter 2020, management expects non-interest revenues to decline in the second quarter due to the significant impact of COVID-19.

- 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 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's trailing 12-month return on equity (ROE) undercuts its growth potential. Though the company's ROE of 9.15% has gradually improved over the years, it compares unfavorably with 16.74% for the S&P 500 average, indicating the fact that it is less efficient in using shareholders' funds.

- Shares of Citigroup have underperformed the industry's growth in the past three months. With this unfavorable trend, the company's current-year earnings estimate has been revised 63.1% downward over the last 30 days. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential..

Risks

- With improvement in the interest-rate scenario following the rate hikes and steady loan growth, strain on net interest revenue 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. The uptrend continued in first-quarter 2020 as well. Though the Federal Reserve's emergency move to lower interest rates to near zero might hamper net interest revenue growth in the near term, steady loan growth is likely to provide some respite.

- 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 continued in the first-quarter 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.

- 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 included 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. The company has temporarily suspended share buybacks through the second quarter of 2020, following the “unprecedented challenge” from the coronavirus pandemic. 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.

- The stock seems undervalued when compared with the broader industry. Its current price-to-book and price-to-sales ratios are lower than the respective industry averages. Further, it has a Value Score of B.

Last Earnings Report

Citigroup Q1 Earnings Beat Estimates, Revenues Escalate

Quarter Ending	03/2020
Report Date	Apr 15, 2020
Sales Surprise	8.63%
EPS Surprise	19.10%
Quarterly EPS	1.06
Annual EPS (TTM)	6.77

Citigroup has delivered a positive earnings surprise of 19.1% in first-quarter 2020, backed by revenue strength. Its adjusted earnings per share of $1.06 for the quarter handily outpaced the Zacks Consensus Estimate of 89 cents. However, it was below the year-ago quarter's figure of $1.87 per share.

Net income was $2.5 billion compared with $4.7 billion recorded in the prior-year quarter.

Citigroup recorded higher revenues, riding on strong performance in the Institutional Clients Group segment. Increase in client activity due to rise in volatility led to higher revenues from equity markets (up 39%). Also, strength in rates and commodities rose fixed-income revenues (up 39%) during the reported quarter.

Though corporate lending revenues disappointed on a more challenging environment, investment banking revenues remained largely stable as growth in advisory and equity underwriting were offset by a decline in debt underwriting.

Moreover, due to the adoption of the new current expected credit loss standard (CECL), the company's cost of credit increased significantly. Nevertheless, Citigroup was successful in controlling expenses, which supported the bottom line. Also, loans and deposits balance improved.

Revenues Increase, Costs Remain Stable

Revenues were up 12% year over year to $20.7 billion in the first quarter. The reported figure also beat the Zacks Consensus Estimate of $19.1 billion. Higher revenues, both from GCB and ICG, mainly led to the upside.

GCB revenues increased 1% year over year to $8.17 billion. Higher revenues mainly in North America resulted in the upsurge. Notably, both retail services and card revenues escalated.

In the **ICG** segment, revenues were $12.5 billion in the quarter, up 25% year over year. Higher equity and fixed income market revenues were partly offset by lower corporate lending revenues.

Corporate/Other revenues were $73 million, down 84% from the prior-year quarter. The downside reflects the wind-down of legacy assets, impact of lower rates and marks on legacy securities.

Operating expenses at Citigroup remained stable year over year at $10.6 billion. The company continues to make investments in franchise, and compensation and volume-related expenses rose, which were offset by productivity savings and the wind-down of legacy assets.

Balance Sheet Improvement

At the end of the first quarter, Citigroup's end of period assets was $2.22 trillion, up 13.8% sequentially. The company's loans moved up 3.1% sequentially to $721 billion. Deposits were up 11% sequentially to $1.19 trillion.

Credit Quality: A Mixed Bag

Citigroup's costs of credit for the March-end quarter were up substantially year over year to $7.03 billion. The upswing largely underlines the elevated net credit losses of $2.1 billion and a credit reserve build of $4.9 billion (compared with $20 million in the year-ago quarter), and provision for benefits and claims of $26 million.

Total non-accrual assets increased 12% year over year to $4.2 billion. The company reported a drop of 13% in consumer non-accrual loans to $1.7 billion. Yet, corporate non-accrual loans of $2.5 billion rose 43% from the year-earlier period.

Citigroup's total allowance for loan losses was $20.8 billion at the end of the reported quarter or 2.91% of total loans compared with $12.3 billion or 1.82% recorded in the year-ago period.

Solid Capital Position

At the end of the January-March period, Citigroup's Common Equity Tier 1 Capital ratio was 11.2%, down from the prior-year quarter's 11.9%. The company's supplementary leverage ratio for the quarter was 6%, down from the year-earlier quarter's 6.4%.

As of Mar 31, 2020, book value per share was $83.75, up 9% year over year, and tangible book value per share was $71.52, up 9% from the comparable period last year.

Capital Deployment

Notably, during the first quarter, the company bought back about 41 million of common stock and returned around $4 billion to common shareholders as common stock repurchases and dividends.

Outlook

Based on current economic environment, on the top line, management expects the revenue trends in the later part of March and beginning of April characterized by coronavirus-related lower levels of activity, particularly in banking and Consumer franchise, will continue through much of the second quarter. Further, in Markets business, revenues are likely to reflect the broader industry. The first quarter was the strongest quarter and clearly, this year was particularly strong and therefore, management expects some normalization in activity levels. Further, significant impact of the lower rate environment is anticipated on the top line.

A significant decline in purchase activity in Branded cards is expected in the second quarter, which is likely to impact loan growth. Furthermore, in Retail Services, purchase sales were down, including significant pressure in late March due to reduced client activity and store closures at some of the company's partners. Therefore, management expects this to have an impact on new account acquisitions and loan balances through the year. Though the full impact from COVID-19 was not visible in Mexico, a slowdown in purchase sales in March is expected to continue on decreasing customers' demand.

Notably, in the second quarter, both net interest revenues and non-interest revenues are expected to decline, reflecting the full-quarter impact of lower rates, as well as a much significant impact from COVID-19.

On the expense side, managing the expenses, management would consider the uncertainty of the impact of COVID-19 and continue protecting the employees along with helping customers manage through this. Further, a natural reduction in some volume-related expenses, including T&E, meeting and event costs is predicted.

Turning to credit, for the second quarter and the remainder of 2020, management expects a higher level of losses given the current outlook. Furthermore, additional increases in credit reserves are expected on more adverse impact of viral crisis. However, given the credit quality of the company's portfolio, management remains confident to maintain overall strength and stability as well as continue to support customers and win new business.

Given the rapidly-changing economic environment due to COVID-19, increased pressure on NCL rates is expected in the second half of 2020, consistent with the reserve actions taken this quarter.

Recent News

Citigroup Decreases Its Prime Lending Rate by 100 Bps – Mar 16, 2020

Pursuant to the U.S. Federal Reserve emergency interest rate cut, Citigroup decreased its prime lending rate from 4.25% to 3.25%, effective Mar 16. Prior to this, the company decreased the rate from 4.75% to 4.25%, on Mar 3, 2020.

Dividend Update

On Apr 21, Citigroup's board of directors announced a quarterly dividend of 51 cents per share on its common shares. The dividend will be paid on May 22, to its shareholders of record as of May 4, 2020.

Valuation

Citigroup's shares are down 47.1% in the year-to-date period and 38.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 40.9% and 28.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 31.1% and 23.9%, respectively.

The S&P 500 Index is down 15.1% in the year-to-date period and 7.2% in the past year.

The stock is currently trading at 10.87X forward 12 months earnings, which compares to 12.75X for the Zacks sub-industry, 13.41X for the Zacks sector and 18.71X 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 9.47X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $35 price target reflects 9X 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	10.87	12.75	13.41	18.71
	5-Year High	14.28	13.85	16.16	19.34
	5-Year Low	4.07	7.66	11.2	15.19
	5-Year Median	9.47	11.31	13.91	17.45
P/TB TTM	Current	0.6	1.4	2.36	10.32
	5-Year High	1.35	2.68	4	12.78
	5-Year Low	0.51	1.21	2	6.02
	5-Year Median	0.98	2.12	3.47	9.15
P/S F12M	Current	1.19	2.51	4.93	3.05
	5-Year High	2.88	4.59	6.64	3.44
	5-Year Low	0.98	2.39	4.93	2.54
	5-Year Median	2.2	3.59	6.01	3.01

As of 04/22/2020

Industry Analysis **Zacks Industry Rank:** Bottom 1% (250 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Bank of America Corporation **(BAC)**	Underperform	5
Fifth Third Bancorp **(FITB)**	Underperform	5
JPMorgan Chase & Co. **(JPM)**	Underperform	5
KeyCorp **(KEY)**	Underperform	3
M&T Bank Corporation **(MTB)**	Underperform	5
The PNC Financial Services Group, Inc **(PNC)**	Underperform	5
U.S. Bancorp **(USB)**	Underperform	5
Wells Fargo & Company **(WFC)**	Underperform	5

Industry Comparison Industry: Banks - Major Regional

	C	X Industry	S&P 500	BAC	JPM	WFC
				Industry Peers		
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	5	5	5
VGM Score	D	-	-	F	F	F
Market Cap	88.63 B	31.44 B	18.94 B	190.20 B	272.18 B	109.60 B
# of Analysts	9	8	14	9	9	9
Dividend Yield	4.83%	4.83%	2.23%	3.30%	4.03%	7.61%
Value Score	B	-	-	F	F	B
Cash/Price	9.58	1.42	0.05	3.73	4.02	2.74
EV/EBITDA	-12.20	3.09	11.56	-5.56	-7.96	1.22
PEG Ratio	1.13	1.58	2.20	2.07	3.49	2.80
Price/Book (P/B)	0.51	0.79	2.58	0.79	1.18	0.68
Price/Cash Flow (P/CF)	4.14	5.94	10.22	5.94	6.36	4.05
P/E (F1)	13.74	14.35	17.79	14.50	17.45	30.00
Price/Sales (P/S)	0.85	1.55	1.99	1.71	1.95	1.11
Earnings Yield	7.50%	6.98%	5.49%	6.88%	5.73%	3.32%
Debt/Equity	1.52	1.06	0.72	1.06	1.29	1.47
Cash Flow ($/share)	10.20	6.63	7.01	3.67	14.04	6.63
Growth Score	F	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	12.27%	13.58%	10.92%	24.42%	15.63%	0.79%
Proj. EPS Growth (F1/F0)	-58.14%	-46.59%	-4.22%	-45.33%	-52.24%	-79.60%
Curr. Cash Flow Growth	2.56%	2.66%	5.93%	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	0.99	0.92	1.24	0.92	0.89	0.87
Debt/Capital	57.96%	49.85%	43.79%	49.21%	54.97%	56.42%
Net Margin	16.56%	21.60%	11.55%	21.64%	21.61%	14.52%
Return on Equity	9.15%	10.64%	16.74%	10.64%	12.52%	9.28%
Sales/Assets	0.05	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-0.39%	-4.35%	-0.39%	-5.79%	-4.67%	-13.24%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	1.61%	0.74%	1.83%	0.74%	0.33%	-0.15%
1 Week Price Chg	-4.13%	-7.38%	0.42%	-6.36%	-7.38%	-14.52%
4 Week Price Chg	0.91%	3.81%	10.68%	3.32%	-2.61%	-7.49%
12 Week Price Chg	-44.77%	-37.97%	-20.87%	-33.96%	-33.44%	-43.30%
52 Week Price Chg	-38.63%	-35.66%	-15.29%	-27.38%	-21.32%	-43.56%
20 Day Average Volume	30,354,182	8,192,166	2,886,084	83,049,744	26,089,060	40,729,564
(F1) EPS Est 1 week change	-10.10%	-3.94%	-0.10%	-11.57%	-9.81%	-3.94%
(F1) EPS Est 4 week change	-62.56%	-44.76%	-6.36%	-48.54%	-51.55%	-76.30%
(F1) EPS Est 12 week change	-63.32%	-47.03%	-11.38%	-50.68%	-52.21%	-78.30%
(Q1) EPS Est Mthly Chg	-69.46%	-49.58%	-9.71%	-52.85%	-47.23%	-67.79%

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	F
VGM Score	D

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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