

Citizens Financial Grp (CFG)

\$39.91 (As of 01/03/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/19/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: D

Summary

Shares of Citizens Financial have outperformed the industry in the past six months. Also, the company has an impressive earnings surprise history, outpacing the Zacks Consensus Estimate for earnings in each of the trailing four quarters. The company's rising loans and deposits balance will bolster the bottom line in the coming quarters. Also, it continues to focus on revenue and efficiency initiatives, the latest being TOP 6 Program, which is anticipated to deliver pre-tax benefit of \$300-\$325 million by the end of 2021. Further, improved lending scenario might ease margin pressure in the coming quarters. However, cost escalation due to investments in newer technology remains a key concern. Also, lack of diversification in loans is a major headwind. Pending probes and litigations, which are likely to result in legal costs, remain a drag.

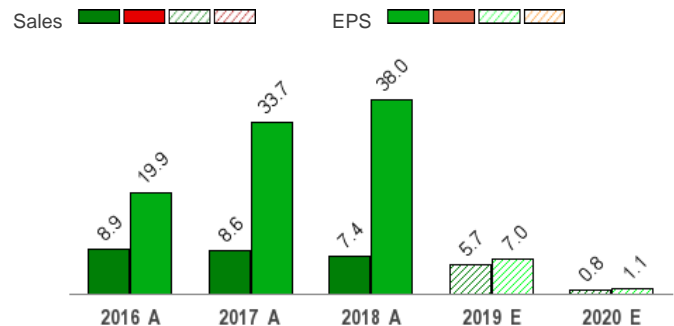
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.92 - \$31.30
20 Day Average Volume (sh)	2,671,843
Market Cap	\$17.3 B
YTD Price Change	-1.7%
Beta	1.50
Dividend / Div Yld	\$1.44 / 3.6%
Industry	Financial - Savings and Loan
Zacks Industry Rank	Top 35% (89 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.1%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	01/17/2020
Earnings ESP	2.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,602 E	1,644 E	1,668 E	1,691 E	6,531 E
2019	1,588 A	1,628 A	1,638 A	1,629 E	6,477 E
2018	1,462 A	1,509 A	1,564 A	1,593 A	6,128 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.89 E	\$0.96 E	\$0.99 E	\$1.03 E	\$3.85 E
2019	\$0.93 A	\$0.96 A	\$0.98 A	\$0.96 E	\$3.81 E
2018	\$0.78 A	\$0.88 A	\$0.93 A	\$0.98 A	\$3.56 A

*Quarterly figures may not add up to annual.

P/E TTM	10.4
P/E F1	10.4
PEG F1	1.3
P/S TTM	2.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

Overview

Headquartered in Providence, RI, Citizens Financial Group, Inc. was founded in 1828 and currently is one of the largest retail bank holding companies in the United States, with total assets of \$162.7 billion, as of Jun 30, 2019. Citizens Financial was acquired by the RBS Group in 1988 and was known as RBS Citizens Financial Group. However, Citizens Financial became a publicly-traded company through its September 2014 initial public offering (IPO).

Citizens Financial offers retail and commercial banking products and services to individuals, institutions and companies. It operates approximately 1,100 branches and around 2,900 ATMs in 11 states across the New England, Mid-Atlantic and Midwest regions and through its online, telephone as well as mobile banking platforms.

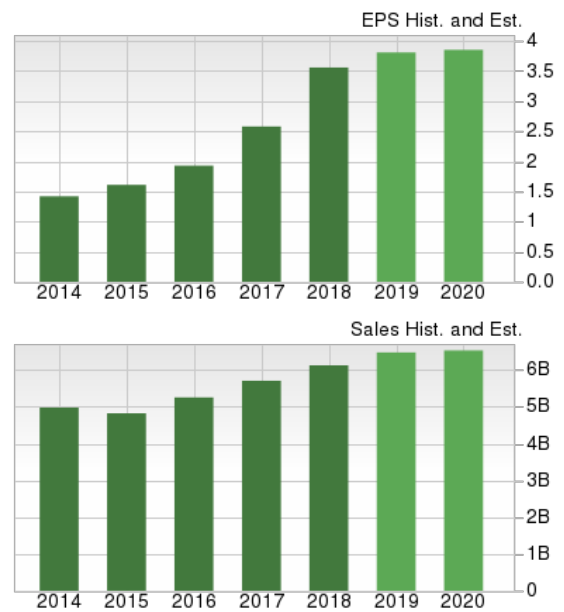
Reportable segments:

Consumer Banking (66% of total revenues in 2018) is focused on retail customers and small businesses with annual revenues of up to \$25 million. It provides traditional banking products and services, including deposit products, mortgage lending, credit cards, auto financing as well as wealth management and investment services.

Commercial Banking (33%) is mainly focused on companies with annual revenues from \$25 million to \$2.5 billion. The segment is engaged in offering financial products and solutions, including loans, leases, trade financing, deposits and capital markets advisory services. It covers middle-market companies, large corporations and institutions and has industry expertise in areas including government banking, healthcare, technology, oil & gas, commercial real estate and sponsor finance.

Other (1%) constitutes non-segment operations that include corporate functions, wholesale funding activities, non-core assets, and other unallocated assets, liabilities, revenues, provision for credit losses and expenses.

In March 2019, Citizens Financial completed the buyout of Atlanta-based Bowstring Advisors in an all-cash deal. In January, the company acquired Clarfeld Financial Advisors, LLC. Further, in August 2018, the company strengthened its mortgage servicing portfolio by acquiring Franklin American Mortgage Company. In 2017, it acquired Western Reserve Partners LLC, a merger and acquisition advisory firm.



Reasons To Buy:

- ▲ Given the higher interest-rate environment, margin pressure for Citizens Financial eased. In the last five years (ended 2018), the company has reported rise in net interest margin (NIM) after witnessing a declining trend for long. Notably, in the first nine months of 2019, margin contracted on the Fed rate cut. Hence, though the company lowered its prime lending rate thrice by 25 basis points post the Fed rate cut in July, September and October, margin is likely to keep benefiting from improved loan yields.
- ▲ Citizens Financial's organic growth is on track. The company's loans and deposits both recorded a CAGR of 5.7%, over the last five years (2014–2018), with the trend continuing in the first nine months of 2019. Further, the company has been benefiting from its increasing non-interest-bearing deposits that provide a low-cost funding base. We believe the company is well positioned to grow further backed by improving U.S. economy.
- ▲ Citizens Financial's focus on executing a series of revenue and efficiency initiatives led to the introduction of "Tapping Our Potential" (TOP) program in late 2014. The first three TOP programs helped to achieve \$200 million cost savings target and delivered \$215 million income benefit. Following this, the company launched a fresh set of initiatives in mid-2017 to ramp up its profitability — Top 4 program — which delivered pre-tax benefit of \$115 million in 2018. Also, it launched TOP 5 program, which aims to deliver pre-tax benefit of \$105-\$115 million by 2019-end. Notably, continuing its journey to drive efficiency improvement and fund additional growth and innovation investments, Citizens Financial introduced TOP 6 Program expected to deliver \$300-\$325 million in pre-tax run-rate benefit by 2021.
- ▲ Citizens Financial remains focused on maintaining a strong capital base. As of Sep 30, 2019, the company's Basel III capital ratios on a transitional basis exceeded regulatory requirements, with a CET1 capital ratio and a total capital ratio of 10.3% and 13%, respectively. Also, the company remains committed to enhance shareholders' value. The company increased its common stock dividend by 12.5%, effective third-quarter 2019 and by 19% beginning first-quarter 2019. Further, it plans to repurchase up to \$1.28 billion of common stock beginning July 2019. Notably, the company targets medium-term dividend payout ratio of 35%-40%. Also, the company's debt/equity ratio compares favorably with the broader industry and its steadily improving performance indicates that these steady capital deployment activities are sustainable.
- ▲ Citizens Financial's credit quality continues to normalize with the improvement in domestic macroeconomic environment. As the overall financial condition of businesses and consumers strengthened, while the housing market showed improvement in many areas, most of the credit metrics improved in the last few years. Asset quality trends are likely to be relatively stable in the coming quarters.
- ▲ Shares of Citizens Financial have outperformed the industry over the past six months. With this favorable trend, the company's current-year earnings estimates have remained stable over the past 30 days. Also, the stock seems undervalued compared with the industry. Its current price-to-book and price-earnings (P/E) 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.

Citizens Financial benefits from growing loans and deposits. Also, its focus on revenue and efficiency initiatives is a tailwind. Further, a strong capital position enables growth through acquisitions.

Reasons To Sell:

- ▼ Though fee income climbed in the first three quarters of 2019, backed by the company's inorganic growth strategies, Citizens Financial's non-interest income fails to impress as it witnessed a negative CAGR of 1.2% over the last five years (ended 2018), with some annual volatility. Therefore, lower service charges and fees might limit the benefits from acquisitions in the quarters ahead.
- ▼ Cost escalation is the key downside for Citizens Financial. The company's non-interest expenses have witnessed a CAGR of 3.9% over the last three years (2016-2018), with the rising trend continuing in the first nine months of 2019. Costs are likely to remain elevated due to the company's investments in newer technologies and building fee income capabilities organically. These investments might leverage the company in the long term, but increasing current expense level is limiting bottom-line expansion.
- ▼ The loan portfolio of Citizens Financial comprises majorly of residential mortgages, home equity and commercial real estate loans (nearly 39% as of Sep 30, 2019). Such high exposure can be risky for the company if the housing sector weakens.
- ▼ Citizens Financial is burdened with numerous investigations and legal proceedings, including class actions. Significant matters include LIBOR litigation, foreclosure-related expenses and mortgage repurchase demands. The company addressed certain litigations in the last few years, but many are yet to be resolved. As Citizens Financial continues to work through its legal issues, we believe the company remains exposed to potential high legal expenses, which might dampen its bottom line.

Rise in expenses due to pending litigations and probes, along with declining fee income, are key concerns. Also, lack of diversification in loan portfolio is a major headwind for Citizens Financial.

Last Earnings Report

Citizens Financial's Q3 Earnings Top on High Revenues

Riding on strong growth in mortgage banking fees, Citizens Financial delivered a positive earnings surprise of 2.1% in third-quarter 2019. Adjusted earnings per share came in at 98 cents, beating the Zacks Consensus Estimate of 96 cents. Also, the bottom line jumped 5% year over year.

Rise in fee income, on the back of solid rise in mortgage banking and card fees, supported revenue growth. Also, its capital position remained strong. Further, loans and deposits balances showed improvement. However, elevated expenses and provisions were headwinds. Also, contraction of margin posed a concern.

After considering notable items, net income came in at \$449 million, up 1% year over year. Earnings were 97 cents per share, up 7%.

Fee Income Growth Drives Revenues, Loans & Deposits Rise

Total revenues for the third quarter came in at \$1.64 billion, surpassing the consensus estimate of \$1.63 billion. Additionally, the top line was up 5% year over year.

Citizens Financial's net interest income (NII) declined marginally year over year to \$1.15 billion. Also, net interest margin contracted 10 basis points (bps) to 3.12%. This was, however, partly mitigated by higher interest-earning asset yields given continued mix shift toward better-returning assets and modestly higher short-term rates.

Non-interest income climbed 19% year over year to \$493 million. This upside stemmed from strength in almost all components of income, partially offset by reduced capital markets fees.

Non-interest expenses jumped 7% year over year to \$973 million. The upswing highlights rise in all categories of expenses, partly muted by lower other operating expenses. On an adjusted basis, expenses rose 6%.

Efficiency ratio increased to 59% in the third quarter from 58% in the prior-year quarter. Generally, a higher ratio is indicative of the bank's declined efficiency.

As of Sep 30, 2019, period-end total loan and lease balances climbed 1% sequentially to \$117.9 billion. Also, total deposits increased about 1% to \$124.7 billion.

Credit Quality: A Mixed Bag

Provision for credit losses jumped 29% year over year to \$101 million. Also, net charge-offs for the quarter jumped 31% to \$113 million. As of Sep 30, 2019, allowance for loan and lease losses increased 2% to \$1.26 billion.

However, total non-performing loans and leases were down 5% to \$793 million. Also, nonperforming loans and leases as a percentage of total loans and leases contracted 6 bps to 0.67%.

Solid Capital Position

Citizens Financial remained well capitalized in the third quarter. As of Sep 30, 2019, Common equity Tier 1 capital ratio was 10.3% compared with 10.8% at the end of the prior-year quarter. Further, Tier 1 leverage ratio was 9.9%, flat year over year. Total Capital ratio was 13%, down from 13.4%.

Capital Deployment Update

The company repurchased 14.1 million shares at average price of \$35.43 during the September quarter. Notably, including common stock dividends, the company returned \$662 million to shareholders.

Outlook

Fourth-Quarter 2019 (excluding expected notable items and including impact of acquisitions)

Net interest income is expected to be broadly stable as loan growth might offset rate or yield-curve effects on NIM.

Non-interest income is expected to be down modestly from record levels, given higher capital markets fees to mostly offset a drop in mortgage revenues.

Management expects non-interest expenses to be flat to down slightly on cost management.

Also, the company expects to deliver positive operating leverage and further improve its efficiency ratio.

Provision expenses are expected to increase by \$10 million.

Further, Basel III common equity tier 1 ratio is estimated to be about 10.1%.

Full-year 2019

Quarter Ending 09/2019

Report Date	Oct 18, 2019
Sales Surprise	0.53%
EPS Surprise	2.08%
Quarterly EPS	0.98
Annual EPS (TTM)	3.85

Average loans are expected to grow in the range of 3-5%.

Management expects NII to grow 5-6.5%. Also, average earning assets are expected to grow 3-5% in 2019. NIM might expand by low-to-mid single digits bps, reflecting benefit of balance sheet optimization.

Non-interest income is expected to grow 11-13%, as the company continues to leverage investments and expand the capabilities. Excluding the impact of Franklin American Mortgage acquisition, fee income is likely to grow 4-6%.

Expenses are anticipated to increase 5.5-6.25%. Excluding the impact of Franklin American Mortgage acquisition, costs are likely to grow 3-3.5%. Also, the company targets to deliver positive operating leverage of 3%.

Notably, efficiency ratio is expected to improve 100 bps.

Provision expenses are expected to be in the range of \$400-\$450 million.

The tax rate is expected to be 22.75%.

The company is targeting a dividend payout ratio of nearly 30-35% for 2019.

Year-end Basel III common equity tier 1 ratio is estimated to be about 10.2%.

Medium-Term Targets

Having achieved the medium-term targets set in 2018, the company raised them to following:

- Return on common tangible equity of 14-16%
- Efficiency ratio of 54%
- Common equity tier 1 ratio of more than 10%

Efficiency Initiatives

In late 2014, Citizens Financial had announced its first efficiency program — TOP 1 — which resulted in \$200 million costs savings. During the second quarter of 2015, the company announced Top 2 revenue and expense initiatives, which resulted in a pre-tax benefit of roughly \$105 million in 2016. Following its success, Citizens Financial launched Top 3 program, which delivered a pre-tax benefit in excess of \$115 million. Further, the company launched the Top 4 program, which delivered pre-tax benefit of \$115 million by the end of 2018.

Finally, continuing with the trend, Citizens Financial announced TOP 5 program with its second-quarter results. These fresh objectives target strong positive operating leverage with goal to self-finance growth initiatives and is expected to achieve pre-tax benefit of \$105-\$115 million by 2019-end.

Further, it announced TOP 6 Program also, which is expected to deliver \$300-\$325 million in pre-tax run-rate benefit by 2021. Along with the traditional TOP objectives, the new program will also take into account ways to transform company's operating manner and customers' satisfaction in a better way. The cost of Top program implementation is expected to be between \$50 million and \$75 million in 2020-2021.

TOP 5 Program

Efficiency initiatives

With help from following factors, the company expects to achieve about 67% of targeted benefits:

- *Branch transformation:* Accelerated optimization of its branch footprint
- *Mortgage simplification:* Focus on organizational design and improving fulfillment efficiencies
- *Process improvement:* Next wave of opportunities to re-design end-to-end processes and leverage automation to reduce costs and improve outcomes
- *Customer journeys:* Continue with three current customer journey initiatives to drive simple and excellent customer experiences while delivering cost efficiencies. It also plans to initiate two new journeys
- *Vendor/Indirect spend:* Recognize further contract efficiencies and demand-management opportunities

Revenue Initiatives:

- *Next-phase data analytics:* Develop real-time analytics to drive enhanced personalization, further expand marketing-driven production
- *Build-out fee income capabilities:* Customer journey on commercial payments; and build out of bond-underwriting capabilities
- *Expand into growth areas:* Establish offices in new and attractive MSAs, including Dallas and Houston

TOP 6 Program

The Program will consist of two elements:

- *The transformational program*, which is designed to improve how it delivers for customers and how the bank is operated. The company also seeks to redefine cross-organizational operating model to deliver a more customer-centric, efficient and agile environment by modernizing IT practices. Through this, the company targets pre-tax run-rate benefits of \$100-\$125 million and \$200-\$225 million by 2020 and 2021, respectively.
- *The traditional program* will be similar in nature and scope to TOP 2-5 programs and is anticipated to deliver \$75-\$100 million and more than \$100 million in benefits by 2020 and 2021, respectively.

The company mulls that the program will help offset interest-rate headwinds, maintain commitment to delivering positive operating leverage, improve efficiency ratio and ROTCE. Also, it plans to fund new strategic revenue initiatives such as significant expansion of digital strategies to increase customer reach and developing new digital offerings for commercial customers.

Recent News

Citizens Financial Decreases Its Prime Lending Rate by Another 25 Bps - Oct 30, 2019

Pursuant to the Federal Reserve's interest rate cut by 25 bps, Citizens Financial reduced its prime lending rate from 5% to 4.75%, effective Oct 31, 2019. Prior to this, the company has lowered the rate to 5% in September 2019.

Dividend Update

On Oct 18, Citizens Financial announced a quarterly cash dividend of 36 cents per share. The dividend was paid on Nov 13 to shareholders on record as of Oct 30.

Valuation

Citizens Financial's shares are up 36.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 22.3% and 15.8% over the past year, respectively.

The S&P 500 Index is up 24.3% in the year-to-date period and 20.1% in the past year.

The stock is currently trading at 10.35X forward 12 months earnings, which compares to 11.51X for the Zacks sub-industry, 14.79X 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 18.94X and as low as 7.26X, with a 5-year median of 12.31X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$42 price target reflects 10.87X forward earnings.

The table below shows summary valuation data for CFG

Valuation Multiples - CFG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.35	11.51	14.79	18.71
	5-Year High	18.94	18.24	16.21	19.34
	5-Year Low	7.26	10.38	12.01	15.17
	5-Year Median	12.31	15.04	13.98	17.44
P/B TTM	Current	0.84	1.01	2.83	4.41
	5-Year High	1.18	2.52	2.89	4.45
	5-Year Low	0.49	0.77	1.83	2.85
	5-Year Median	0.79	0.97	2.5	3.6
P/S F1	Current	2.65	2.86	6.56	3.51
	5-Year High	3.92	3.53	6.64	3.51
	5-Year Low	1.86	2.43	5.23	2.65
	5-Year Median	2.79	3.05	6.11	3.04

As of 01/03/2019

Industry Analysis Zacks Industry Rank: Top 35% (89 out of 252)



Top Peers

BOK Financial Corporation (BOKF)	Neutral
Comerica Incorporated (CMA)	Neutral
East West Bancorp, Inc. (EWBC)	Neutral
Fifth Third Bancorp (FITB)	Neutral
Huntington Bancshares Incorporated (HBAN)	Neutral
M&T Bank Corporation (MTB)	Neutral
Peoples United Financial, Inc. (PBCT)	Neutral
Webster Financial Corporation (WBS)	Neutral

Industry Comparison Industry: Financial - Savings And Loan				Industry Peers		
	CFG Neutral	X Industry	S&P 500	CMA Neutral	FITB Neutral	MTB Neutral
VGM Score	D	-	-	C	C	C
Market Cap	17.35 B	153.67 M	23.66 B	10.19 B	21.60 B	22.34 B
# of Analysts	8	2	13	6	9	7
Dividend Yield	3.61%	2.16%	1.79%	3.79%	3.15%	2.60%
Value Score	B	-	-	A	B	B
Cash/Price	0.23	0.23	0.04	0.42	0.31	0.67
EV/EBITDA	8.77	11.63	13.88	7.34	8.55	5.33
PEG Ratio	1.28	1.71	1.99	0.62	1.44	1.39
Price/Book (P/B)	0.84	1.24	3.36	1.41	1.13	1.56
Price/Cash Flow (P/CF)	8.50	12.58	13.62	8.36	9.09	11.24
P/E (F1)	10.27	13.57	18.74	10.14	10.29	12.55
Price/Sales (P/S)	2.16	2.99	2.67	2.65	2.36	3.22
Earnings Yield	9.65%	7.37%	5.32%	9.86%	9.72%	7.97%
Debt/Equity	0.62	0.59	0.72	1.02	0.74	0.48
Cash Flow (\$/share)	4.70	1.64	6.94	8.45	3.35	15.07
Growth Score	F	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	26.52%	13.54%	10.56%	28.80%	12.31%	16.90%
Proj. EPS Growth (F1/F0)	1.15%	2.67%	7.41%	-10.14%	5.36%	-1.32%
Curr. Cash Flow Growth	23.08%	20.24%	14.83%	40.97%	-9.51%	24.17%
Hist. Cash Flow Growth (3-5 yrs)	22.38%	12.84%	9.00%	14.77%	-1.28%	8.94%
Current Ratio	0.97	1.01	1.23	1.03	0.88	1.06
Debt/Capital	36.95%	36.95%	42.92%	50.38%	40.34%	30.74%
Net Margin	22.29%	20.43%	11.08%	32.11%	24.36%	28.58%
Return on Equity	8.85%	8.87%	17.10%	16.82%	11.40%	13.82%
Sales/Assets	0.05	0.05	0.55	0.05	0.06	0.06
Proj. Sales Growth (F1/F0)	0.83%	0.00%	4.20%	-4.91%	-2.59%	-1.99%
Momentum Score	D	-	-	F	A	A
Daily Price Chg	-2.06%	0.00%	-0.61%	-1.52%	-1.87%	-1.02%
1 Week Price Chg	-0.15%	-0.11%	0.13%	-0.79%	-0.80%	0.02%
4 Week Price Chg	3.50%	1.61%	2.60%	0.14%	1.91%	2.58%
12 Week Price Chg	18.18%	6.11%	8.87%	10.65%	16.27%	9.27%
52 Week Price Chg	31.41%	11.15%	29.34%	1.99%	25.89%	17.70%
20 Day Average Volume	2,671,843	5,394	1,603,615	1,414,535	3,671,329	449,833
(F1) EPS Est 1 week change	-0.36%	0.00%	0.00%	-0.03%	0.00%	0.37%
(F1) EPS Est 4 week change	-0.13%	0.00%	0.00%	-0.36%	0.15%	0.72%
(F1) EPS Est 12 week change	-2.13%	-0.44%	-0.57%	-5.87%	-2.81%	-3.46%
(Q1) EPS Est Mthly Chg	0.68%	0.00%	0.00%	-1.33%	0.28%	-0.21%

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	D
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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