

Citizens Financial Grp (CFG)

\$23.33 (As of 04/29/20)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/08/20)

Prior Recommendation: Neutral

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 Citizens Financial have underperformed the industry in the past six months. First-quarter results were impacted by a significant rise in provisions and contraction of margins. Rising costs due to investments in new technology, and pending probes and litigations remain a key concern. Further, the lack of diversification in loans is a major headwind. However, the company has an impressive earnings surprise history, outpacing the Zacks Consensus Estimate in three of the trailing four quarters. Also, its revenue and efficiency initiatives, the latest being TOP 6 Program, is anticipated to deliver pre-tax benefit of \$300-\$325 million by 2021 end. Nevertheless, the company's net interest margin remains under pressure due to low interest rates. Notably, the company suspended share buyback program following the coronavirus-related slowdown.

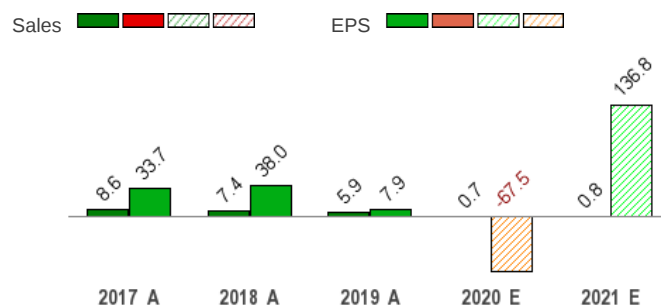
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$41.29 - \$14.12
20 Day Average Volume (sh)	6,618,777
Market Cap	\$10.0 B
YTD Price Change	-42.6%
Beta	1.86
Dividend / Div Yld	\$1.56 / 6.7%
Industry	Financial - Savings and Loan
Zacks Industry Rank	Bottom 33% (170 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-55.0%
Last Sales Surprise	3.1%
EPS F1 Est- 4 week change	-65.6%
Expected Report Date	07/17/2020
Earnings ESP	0.0%
P/E TTM	7.7
P/E F1	18.7
PEG F1	2.3
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,655 E	1,676 E	1,704 E	1,725 E	6,588 E
2020	1,657 A	1,652 E	1,658 E	1,657 E	6,534 E
2019	1,588 A	1,628 A	1,638 A	1,637 A	6,491 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.62 E	\$0.80 E	\$0.85 E	\$2.96 E
2020	\$0.09 A	\$0.20 E	\$0.33 E	\$0.37 E	\$1.25 E
2019	\$0.93 A	\$0.96 A	\$0.98 A	\$0.99 A	\$3.84 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 04/29/2020. The reports text is as of 04/30/2020.

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 \$176.7 billion, as of Mar 31, 2020. 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.

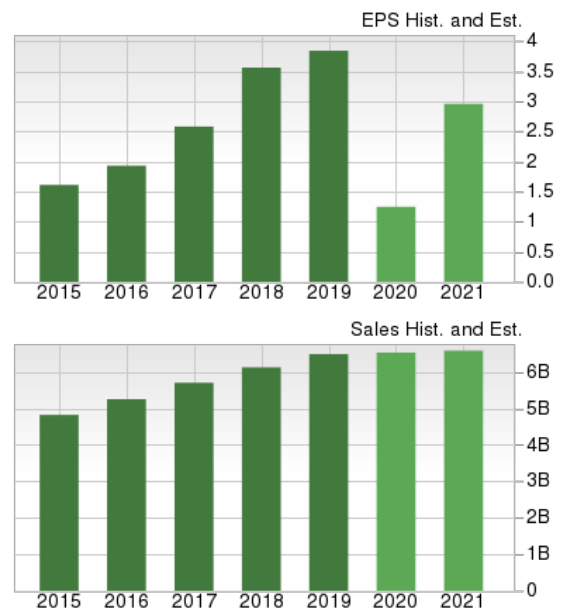
Reportable segments:

Consumer Banking (67% of total revenues in 2019) 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 (32%) 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 Sell:

- ▼ Cost escalation is the key downside for Citizens Financial. The company's non-interest expenses witnessed a CAGR of 4.2% over the last five years (2015-2019), with the increasing trend continuing in first-quarter 2020. 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.
- ▼ While Citizens Financial had been witnessing an increase in net interest margin (NIM) for several years, the trend has reversed of late. The company's NIM declined in 2019 and first-quarter 2020 mainly due to lower interest rates. Despite decent loan demand, NIM is expected to be hurt to some extent in the near term due to the Federal Reserve's accommodative policy stance.
- ▼ As of Mar 31, 2020, the company held debt worth \$16.4 billion. The debt level has witnessed a rise over the past few quarters and also its debt-to-capital ratio, currently 0.42, compares unfavorably with the industry's average of 0.35. Further, the company's time-interest-earned ratio has decreased in the past few quarters and is currently at 5.5. Since the ratio indicates the company's ability to meet its debt obligations based on current income, we believe that Citizens Financial carries credit risk and higher likelihood of default of interest and debt repayments if the economic situation worsens.
- ▼ The loan portfolio of Citizens Financial comprises majorly of residential mortgages, home equity and commercial real estate loans (nearly 52% as of Mar 31, 2020). 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.
- ▼ Shares of Citizens Financial have underperformed the industry over the past six months. With this unfavorable trend, the company's current-year earnings estimates have been revised 65% downward over the past 30 days. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

Rise in costs due to investment in technology, pressure on margins and exposure to credit risk are key concerns. Also, lack of diversification in loan portfolio is a major headwind for the company.

Risks

- Citizens Financial's organic growth is on track. The company's loans and deposits recorded a CAGR of 4.7% and 5.1%, respectively, over the last five years (2015–2019). Further, the company has been benefiting from its increasing non-interest-bearing deposits that provide a low-cost funding base. Both the metrics continued to improve in the first three months of 2020. 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, the TOP 5 program was successful and delivered a pre-tax benefit of \$125 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, which is 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 Mar 31, 2020, 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 9.4% and 12.5%, respectively. Also, the company remains committed to enhance shareholders' value. Earlier in January, the company increased its common stock dividend by 8%. Further, it had a repurchase program up to \$1.28 billion of common stock through July 2020. 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. Notably, the company suspended share buyback program following the coronavirus-related slowdown.
 - In first-quarter 2020, Citizens Financial's credit quality deteriorated due to the impact of coronavirus mayhem. However, as the overall financial condition of businesses and consumers will strengthen, credit quality is expected to normalize with the improvement in domestic economic environment in the quarters ahead.
 - Citizens Financial 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.
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Last Earnings Report

Citizens Financial Q1 Earnings Miss on High Costs & Provisions

Citizens Financial has reported first-quarter 2020 adjusted earnings per share of 9 cents, lagging the Zacks Consensus Estimate of 20 cents. Also, the bottom line compares unfavorably with 93 cents in the year-ago quarter.

Results were affected by a substantial rise in provisions, which included a \$463-million reserve build related to the adoption of the accounting method of Current Expected Credit Losses and coronavirus-related crisis. Elevated expenses and contraction of margin were other headwinds.

However, an increase in fee income on the back of a solid rise in mortgage banking and trust fees supported revenue growth. Further, loans and deposit balances showed improvement.

After considering notable items, net income was \$34 million or 3 cents per share compared with \$439 million or 92 cents per share reported in the prior-year quarter.

Revenues Rise on Higher Fee Income, Costs Rise

Total revenues for the first quarter were \$1.66 billion which surpassed the consensus estimate of \$1.61 billion. Additionally, the top line was up 4% year over year.

Citizens' net interest income remained stable year over year at \$1.16 billion. Net interest margin contracted 14 basis points (bps) to 3.09%. This was, however, mitigated by higher interest-earning asset yields, given continued mix shift toward better-returning assets.

Non-interest income climbed 16% year over year to \$497 million. The upside stemmed largely from a substantial rise in mortgage banking fees.

Non-interest expenses jumped 8% year over year to \$1.01 billion. The upswing highlights the rise in all categories of expenses. On an adjusted basis, expenses rose 5%.

Efficiency ratio increased to 61% in the first quarter from 59% in the prior-year quarter. Generally, a higher ratio is indicative of the bank's declined efficiency.

As of Mar 31, 2020, period-end total loan and lease balances climbed 7% sequentially to \$127.5 billion. Also, total deposits increased 7% to \$133.5 billion.

Credit Quality Deteriorated

Provision for credit losses was \$600 million compared with \$85 million in the year-ago quarter. Also, net charge-offs for the quarter jumped 54% to \$137 million.

Non-accrual loans and leases were up 5% to \$780 million. As of Mar 31, 2020, allowance for loan and lease losses increased 66% to \$2.21 billion.

Capital Position

Citizens remained well-capitalized in the first quarter. As of Mar 31, 2020, common equity tier-1 capital ratio was 9.4% compared with 10.5% at the end of the prior-year quarter. Further, Tier-1 leverage ratio was 9.6%, down 40 bps year over year. Total Capital ratio was 12.5%, down from 13.4%.

Capital Deployment Update

The company repurchased 7.5 million shares at an average price of \$35.77 in the March-end quarter. Notably, including common stock dividends, the company returned \$438 million to shareholders.

Outlook

Second-Quarter 2020 (excluding notable items and including the impacts of acquisitions)

Net interest income is expected to rise in mid-single digits sequentially due to expectations of loan growth, partially offset by a decline in margins. The company expects loans to grow significantly, reflecting commercial loan growth, the impact of government programs and an increased demand in education loans.

Non-interest income is expected to be down in mid-single digits compared with previous quarter, reflecting the impacts of the COVID-19 outbreak on service charges, card and other fees.

Management expects non-interest expenses to rise slightly, given the impacts of the COVID-19 outbreak.

Provision expenses are expected to depend on depth of recession and pace of recovery.

2020 Outlook

Management expects modest growth in NII, with support from the paycheck protection program.

The company expects to see strong loan growth, driven by higher commercial loans demand, the impact of government programs like PPP, and

Quarter Ending **03/2020**

Report Date	Apr 17, 2020
Sales Surprise	3.12%
EPS Surprise	-55.00%
Quarterly EPS	0.09
Annual EPS (TTM)	3.02

with increased demand in education and merchant financing. Also, it anticipates strong increase in commercial and retail deposits, reflecting heightened liquidity, given the Fed's actions and the low rate environment.

The non-interest income is now expected to be broadly stable as strength of mortgage is offset by COVID-19-driven weaknesses in other categories. The outlook for fees is dependent upon the pace and magnitude of recovery in the second half of 2020.

Non-interest expenses are expected to be up modestly, given higher compensation tied to stronger mortgage production and impacts of the COVID-19 outbreak, which includes government lending programs and customer relief efforts.

Provision expenses have the greatest potential for variability in 2020 and will depend on the depth of the recession and the pace of recovery.

Regulatory capital ratios are expected to strengthen from current levels, as net income coupled with the suspension of buybacks through year-end more than offset the impacts of higher risk-weighted assets. Even in more severe economic scenarios, the company expects capital ratios to remain strong and above required minimums.

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 9.75-10%
- Dividend payout ratio of 35-40%

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 fresh objectives targeting strong positive operating leverage with goal to self-finance growth initiatives and delivered pre-tax benefit of \$125 million in 2019.

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 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 \$175-\$225 million in benefits by 2020 and the rest in 2021.

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 Boosts Advisory Unit With Trinity Capital Buyout - Mar 4, 2020

Citizens Financial has closed the acquisition of Trinity Capital, thereby making it a part Citizens Capital Markets, a wholly owned subsidiary of Citizens Financial. Terms of the all-cash deal, announced in February 2020, remained undisclosed.

Based in Los Angeles, Trinity Capital is a provider of financial advice to middle-market businesses on M&As, leveraged and management buyouts, private placements of debt and equity, debt restructuring and strategic advisory assignments.

With this deal, Citizens Financial has been able to add key talent and solutions, further strengthening its growing advisory capabilities. Also, Trinity Capital's expertise in the restaurant, retail, food and beverage, and agricultural sectors will expand Citizens Financial's product offerings.

Dividend Update

On Apr 17, Citizens Financial announced a quarterly cash dividend of 39 cents per share. The dividend will be paid on May 13 to shareholders of record as of Apr 29.

Valuation

Citizens Financial's shares are down 42.6% in the year-to-date period and 35% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 29.6% and 22.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 24.3% and 17.5%, respectively.

The S&P 500 Index is down 8.8% in the year-to-date period but up 0.2% in the past year.

The stock is currently trading at 12.9X forward 12 months earnings, which compares to 13.17X for the Zacks sub-industry, 14.93X for the Zacks sector and 20.16X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 18.94X and as low as 4X, with a 5-year median of 11.89X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$19 price target reflects 10.97X 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	12.9	13.17	14.93	20.16
	5-Year High	18.94	18.25	16.17	20.16
	5-Year Low	4	8.71	11.19	15.19
	5-Year Median	11.89	14.71	13.93	17.45
P/B TTM	Current	0.49	0.72	2.19	3.78
	5-Year High	1.18	2.54	2.9	4.55
	5-Year Low	0.32	0.56	1.71	2.84
	5-Year Median	0.8	0.98	2.52	3.64
P/S F12M	Current	1.52	2.49	4.96	3.3
	5-Year High	3.91	3.48	6.69	3.44
	5-Year Low	1	2.18	4.96	2.54
	5-Year Median	2.65	2.93	6.05	3.01

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
BOK Financial Corporation (BOKF)	Neutral	5
Peoples United Financial, Inc. (PBCT)	Neutral	3
Comerica Incorporated (CMA)	Underperform	5
East West Bancorp, Inc. (EWBC)	Underperform	4
Fifth Third Bancorp (FITB)	Underperform	5
Huntington Bancshares Incorporated (HBAN)	Underperform	3
M&T Bank Corporation (MTB)	Underperform	5
Webster Financial Corporation (WBS)	Underperform	5

Industry Comparison Industry: Financial - Savings And Loan				Industry Peers		
	CFG	X Industry	S&P 500	CMA	FITB	MTB
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	5	5	5
VGM Score	D	-	-	F	D	F
Market Cap	9.97 B	100.24 M	20.82 B	5.26 B	14.00 B	15.41 B
# of Analysts	9	2.5	14	12	7	8
Dividend Yield	6.69%	3.00%	2.07%	7.26%	5.49%	3.71%
Value Score	B	-	-	C	B	D
Cash/Price	0.49	0.34	0.06	1.11	0.82	0.84
EV/EBITDA	7.16	8.56	12.12	4.15	5.19	3.71
PEG Ratio	2.24	2.33	2.51	1.58	1.87	5.36
Price/Book (P/B)	0.49	0.86	2.74	0.71	0.70	1.06
Price/Cash Flow (P/CF)	4.15	8.34	11.23	4.15	5.41	7.01
P/E (F1)	18.02	11.80	19.26	24.30	15.43	15.07
Price/Sales (P/S)	1.24	2.17	2.16	1.42	1.48	2.24
Earnings Yield	5.36%	8.47%	5.03%	4.11%	6.50%	6.63%
Debt/Equity	0.81	0.55	0.72	1.00	0.81	0.43
Cash Flow (\$/share)	5.62	1.77	7.01	9.04	3.64	16.90
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	24.55%	13.29%	10.88%	29.42%	13.28%	17.81%
Proj. EPS Growth (F1/F0)	-67.53%	-20.94%	-6.94%	-80.40%	-53.95%	-42.80%
Curr. Cash Flow Growth	11.11%	7.12%	5.92%	-4.61%	17.50%	5.45%
Hist. Cash Flow Growth (3-5 yrs)	14.84%	13.87%	8.55%	12.59%	6.10%	11.65%
Current Ratio	0.99	1.00	1.23	1.02	0.89	1.02
Debt/Capital	42.82%	35.33%	43.90%	50.11%	42.67%	28.56%
Net Margin	17.23%	18.11%	11.15%	21.37%	18.85%	24.99%
Return on Equity	6.89%	7.93%	16.47%	10.77%	9.05%	11.84%
Sales/Assets	0.05	0.05	0.54	0.05	0.05	0.06
Proj. Sales Growth (F1/F0)	0.66%	0.00%	-1.52%	-13.92%	-9.12%	-3.92%
Momentum Score	F	-	-	F	D	A
Daily Price Chg	4.67%	1.41%	2.91%	6.48%	5.97%	6.06%
1 Week Price Chg	3.67%	0.00%	-1.74%	7.10%	2.95%	-0.40%
4 Week Price Chg	34.85%	9.11%	21.33%	37.95%	46.34%	23.68%
12 Week Price Chg	-40.95%	-23.93%	-16.28%	-41.84%	-34.76%	-31.48%
52 Week Price Chg	-35.00%	-22.26%	-7.57%	-51.32%	-30.91%	-29.37%
20 Day Average Volume	6,618,777	5,759	2,658,107	3,256,768	8,407,022	816,773
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-15.90%	-13.13%	0.00%
(F1) EPS Est 4 week change	-65.60%	-8.89%	-6.32%	-71.23%	-53.55%	-39.96%
(F1) EPS Est 12 week change	-67.85%	-21.27%	-12.93%	-77.18%	-56.17%	-43.84%
(Q1) EPS Est Mthly Chg	-76.43%	-20.22%	-11.84%	-61.89%	-54.17%	-43.20%

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.

Disclosures

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