

Citigroup Inc.

BofA Securities 2024 Financial Services Conference: Takeaways

Maintain Rating: BUY | PO: 65.00 USD | Price: 55.42 USD

Stock outperformance should continue

CFO Mark Mason came across as confident that mgmt. is on track to delivering on F24 guidance and achieving medium term targets. Our sense is that mgmt. has flex on expenses as it looks to achieve a 10%+ ROTCE target. Potential for a pick-up in 2H24 buybacks realistic post 2024 stress test results, clarity on Basel End Game. According to management, Banamex IPO plans proceeding as planned and should be received well if the recent optimism around the Mexican economy persists into 2025. We continue to see Citigroup shares as offering an attractive risk/reward at 0.6x P/TBV on the back of increasing potential for self-help (expense/capital levers), improving visibility around its underlying businesses and revenue resiliency from later/fewer rate-cuts. Maintain Buy.

Higher-for-longer rates “generally better”

FY24 NII (ex. Markets) should hold up better vs. current outlook (“modestly lower”) amid reduction in rate cut expectations. (Note: futures currently imply 4 cuts vs. 6 at 12/31). Mgmt. cited reinvestment of maturing securities and continued loan growth (outlook assumes mid-single digit growth) as tailwinds that would be partially offset by continued increases in international deposit betas (catching-up) and drag from consumer exits.

Fee momentum continuing

Expressed confidence in +4-5% medium-term revenue growth target, citing continued momentum within Services, client acquisition, and rebound in Investment Banking (IB) wallet. Within Services (Securities Services, TTS) opportunities to increase client penetration. Expect to grow share, particularly in DCM and M&A (announcements stronger YTD but closings slow). Acknowledged the tough YoY comps for the Markets business (potential for further Argentina peso devaluation).

Expense flex exists

Mgmt. reiterated FY24 expense outlook (\$53.5-53.8bn, includes \$700mn-\$1bn in severance). Expect expenses stable QoQ (ex. FDIC assessment) in 1Q24, implying \$14.3bn (vs. cons. \$13.9bn). Acknowledged importance of being transparent on drivers if expenses run higher vs. expectations. For example, volume-related expenses represent 10-12% of revenue. Discussed levers available if revenue environment weaker, including a portion of investments that can be tempered and optimization of transformation costs. Meanwhile, recently completed org. simplification should accelerate elimination of stranded costs with majority of stranded costs expected to be out of run-rate over the medium-term.

Card losses in-check

Reiterated expectations for Branded Cards NCLs between 3.50-4.00% and Retail Services NCL between 5.75-6.25% in 2024. That said, mgmt. expects losses to normalize in 2025. Loss rates are now back to pre-pandemic levels, driven by customers in the lower FICO bands. Noted loss rates exaggerated by lower acquisition balances despite gross charge-offs being consistent with historical trends.

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Equity

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Stock Data

Price	55.42 USD
Price Objective	65.00 USD
Date Established	14-Jan-2024
Investment Opinion	B-1-7
52-Week Range	38.17 USD -57.95 USD
Mkt Val / Shares Out (mn)	163,672 USD / 2,953.3
Free Float	96.8%
Average Daily Value	1025.66 USD
BofA Ticker / Exchange	C / NYS
Bloomberg / Reuters	C US / C.N
ROE (2024E)	5.7%
ESGMeter™	High

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Acronyms:

DCM: debt capital markets

TTS: treasury & trade solutions

NII: net interest income

NCLs: net credit losses

Price objective basis & risk

Citigroup Inc. (C)

Our \$65 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 9.5x/0.8x multiples respectively, vs. large-cap peers (13.2x/1.6x) due to the bank's lower return metrics.

Downside risks to our PO are execution risk tied to mgmt's franchise transformation efforts, an economic downturn or a macro-economic shock, increased costs tied to the regulatory consent orders, regulatory changes. Faster pace of share buybacks, better than expected operating leverage.

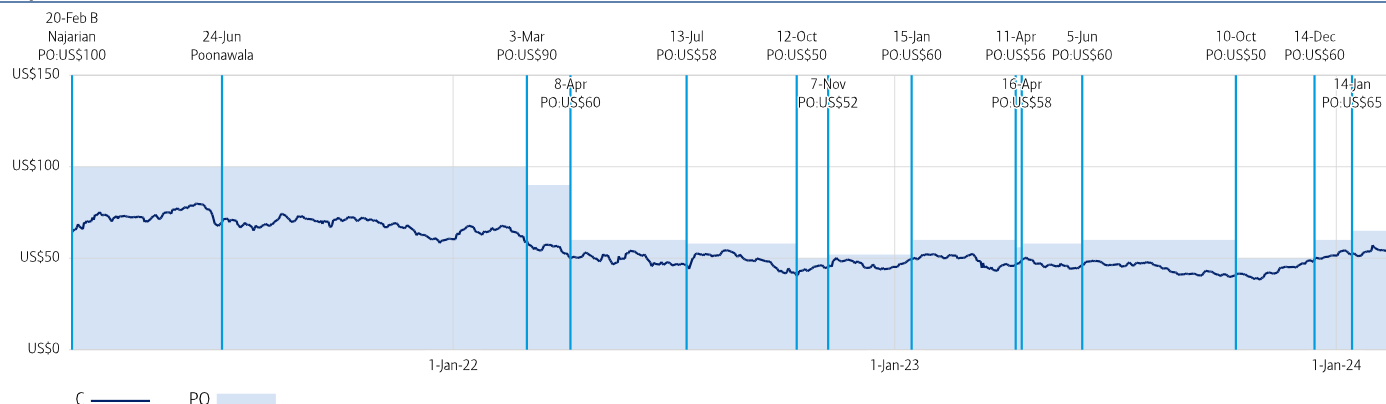
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Citigroup (C) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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