

## Citigroup Inc.

## Investors need more

Reiterate Rating: BUY | PO: 60.00 USD | Price: 45.75 USD

## Lack of specificity hurts

The stock underperformed peers following 2Q results which we partly attribute to the lack of specificity on stock buybacks. While we appreciate mgmt. not wanting to commit to buybacks ahead of upcoming regulatory changes, mgmt.'s unwillingness to size-up buybacks for even the current quarter likely came as a disappointment to investors. This after Citi emerged from the 2023 regulatory stress test as the only GSIB to see its stress capital buffer rise. Our forecast assumes buybacks of \$2bn for 2H23.

## Bending the cost curve...by how much?

While mgmt. reiterated its goal of "bending the cost curve" in 2H24 (4Q24 < 3Q24), investors likely need more visibility on where expenses are headed between now and 3Q24 and the magnitude of expense improvement thereafter. This as mgmt. looks to hit its medium-term (2025/26) efficiency ratio target of sub-60% vs. 66% reported YTD.

## Stock (badly) needs self-help

Investors need better visibility on expense leverage and capital return potential to get excited about the stock. This as the tailwind to net interest income from rising interest rates seems to have played-out and credit costs are normalizing. While mgmt.'s 10-11% return on tangible common equity (ROTCE) target by 2025/26 suggests significant upside to our/consensus forecast, the path to getting there remains uncertain vs. a reported ROTCE of 6.4% for 2Q23.

## Valuation discounting execution risk

Investors have been wondering how mgmt.'s ROTCE target will hold-up if Basel reforms cause steady-state CET1 levels to rise vs. the 11.5-12% target that is underpinning mgmt.'s medium term ROTCE target. While we recognize the significant uncertainty and the elevated execution risk, we see risk/reward as attractive at 0.5x TBV / 8x 2024 P/E based on our view that current mgmt.'s de-risking actions, investment spend have given the franchise a fighting chance to recover from two decades of mismanagement. Improving visibility on achievement of mgmt.'s targets should drive a re-rating towards TBV. We reiterate our Buy rating.

## Inline quarter, revenue/expense guide unchanged

Citigroup (C) reported 2Q23 EPS of \$1.37 that topped our/consensus expectations driven by stronger net interest income growth. FY23 revenue \$78-79bn and expense ~\$54bn guidance unchanged. Effective tax rate pushed higher to 25% vs. 24% prior. We revise 3Q/4Q23e to \$1.28/1.20 from \$1.36/1.26 but kept 2024e unchanged at \$5.75.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	10.73	6.78	5.71	5.75	7.60
GAAP EPS	10.07	6.97	6.16	5.75	7.60
EPS Change (YoY)	121.2%	-36.8%	-15.8%	0.7%	32.2%
Consensus EPS (Bloomberg)			5.95	6.21	7.30
DPS	2.04	2.04	2.08	2.16	2.25
Valuation (Dec)					
P/E	4.3x	6.7x	8.0x	8.0x	6.0x
GAAP P/E	4.5x	6.6x	7.4x	8.0x	6.0x
Dividend Yield	4.5%	4.5%	4.5%	4.7%	4.9%

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14 July 2023

## Equity

## Key Changes

(US\$)	Previous	Current
2023E Rev (m)	78,779.4	77,990.1
2024E Rev (m)	76,611.8	74,991.8
2025E Rev (m)	78,381.8	75,240.9
2023E EPS	5.63	5.71

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## Stock Data

Price	45.75 USD
Price Objective	60.00 USD
Date Established	5-Jun-2023
Investment Opinion	B-1-7
52-Week Range	40.01 USD -54.56 USD
Mkt Val / Shares Out (mn)	135,113 USD / 2,953.3
Average Daily Value	684.08 USD
BofA Ticker / Exchange	C / NYS
Bloomberg / Reuters	C US / C.N
ROE (2023E)	5.8%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

## Acronyms:

CET1: common equity tier 1

GSIB: global systemically important bank

# iQprofile<sup>SM</sup> Citigroup Inc.

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	41,774	48,833	54,497	51,565	50,363
% change	-4.5%	16.9%	11.6%	-5.4%	-2.3%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	71,845	74,695	77,990	74,992	75,241
Operating Expenses	(47,141)	(51,185)	(53,792)	(51,592)	(48,436)
% change	9.2%	8.6%	5.1%	-4.1%	-6.1%
Provisions Expense	3,778	(5,239)	(7,401)	(7,682)	(7,566)
% change	-121.6%	NA	41.3%	3.8%	-1.5%
Operating Pre-Tax Income	28,482	18,271	16,798	15,718	19,239
Operating Net Income to Comm S/Hold.	21,990	13,318	11,165	10,354	12,914
GAAP Net Income	23,988	14,316	12,297	11,579	14,209

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	2,291,413	2,416,676	2,404,280	2,448,119	2,479,259
Average Interest Earning Assets	2,144,948	2,173,634	2,252,198	2,302,968	2,333,992
Total Gross Customer Loans	667,767	657,200	674,294	687,443	701,366
% change	-1.2%	-1.6%	2.6%	2.0%	2.0%
Total Customer Deposits	1,317,230	1,365,954	1,314,312	1,344,344	1,375,484
% change	2.9%	3.7%	-3.8%	2.3%	2.3%
Tangible Equity	157,183	158,071	165,179	166,457	169,957
Common Shareholders' Equity	182,977	182,194	189,302	190,580	194,080

## Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	1.95%	2.25%	2.42%	2.24%	2.16%
Effective Tax Rate	20.6%	18.1%	24.9%	24.5%	24.6%
Loan / Deposit Ratio	50.7%	48.1%	51.3%	51.1%	51.0%
Tangible Common Equity / Assets	6.9%	6.5%	6.9%	6.8%	6.9%
ROA	1.2%	0.6%	0.4%	0.4%	0.5%
ROE	12.0%	7.4%	5.8%	5.5%	6.7%
RoTE	14.2%	8.4%	6.7%	6.2%	7.7%
Dividend Payout Ratio	19.0%	30.1%	35.4%	37.6%	29.6%
Efficiency Ratio (Cost / Income Ratio)	65.6%	68.5%	69.0%	68.8%	64.4%

## Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	41.9%	34.6%	30.1%	31.2%	33.1%
NPLs plus Foreclosed Real Estate / Loans	0.5%	0.4%	0.6%	0.9%	1.2%
Loan Loss Reserves / NPLs	542.35%	784.13%	479.56%	300.30%	179.09%
Loan Loss Reserves / Total Loans	2.74%	2.91%	2.81%	2.56%	2.13%

## Company Sector

Banks-Multinational/Universal

## Company Description

Citigroup (C) is a leading global diversified financial service company that provides consumers, corporations, governments a broad range of financial products and services. C offers services such as consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management. Citi operates and does business in more than 160 countries/ jurisdictions in North America, Latin America, Asia, and Europe/Middle East and Africa (EMEA).

## Investment Rationale

We see the risk/reward skewed to the upside given the combination of relatively low investor expectations, sub-TBV valuation (vs. potential for the bank to earn a low double digits ROTCE) and a CEO who appreciates the need to reverse nearly 20 years of sub-par shareholder returns.

## Stock Data

Average Daily Volume 14,952,654

## Quarterly Earnings Estimates

	2022	2023
Q1	2.01A	1.86A
Q2	2.18A	1.37A
Q3	1.50A	1.28E
Q4	1.09A	1.20E

**Exhibit 1: We maintained our 2024e EPS at \$5.75**

Citigroup Variance Table; new vs. old estimates and assumptions (\$ in millions)

KEY FORECAST VARIABLES:	1Q23	Actual 2Q23	Estimate 2Q23E	Variance	New 2023E	Old 2023E	Variance	New 2024E	Old 2024E	Variance
EOP Loans (bn)	652	661	660	0.14%	674	662	1.84%	687	678	1.40%
Average Loans (bn)	654	654	656	-0.34%	661	657	0.62%	681	670	1.62%
Average Earning Assets (bn)	2,253	2,252	2,242	0.43%	2,252	2,247	0.23%	2,303	2,288	0.66%
Net Interest Margin (%)	2.41	2.48	2.35	12bp	2.42	2.31	11bp	2.24	2.13	11bp
Net Interest Income (FTE)	13,392.0	13,913.0	13,162.9	5.70%	54,496.6	52,009.5	4.78%	51,565.1	48,675.0	5.94%
Loan Loss Provision	1,975.0	1,824.0	1,917.0	-4.85%	7,400.5	7,782.0	-4.90%	7,682.4	8,119.6	-5.39%
Noninterest Revenues	7,146.0	5,542.0	6,052.2	-8.43%	23,493.4	26,769.9	-12.24%	23,426.6	27,936.8	-16.14%
Tot. Revenue	20,538	19,455	19,215	1.25%	77,990	78,779	-1.00%	74,992	76,612	-2.11%
Total Expenses	13,289.0	13,491.0	13,744.2	-1.84%	53,791.9	54,531.4	-1.36%	51,591.9	52,521.0	-1.77%
Pre-Tax Income (FTE)	5,274.0	4,140.0	3,553.9	16.49%	16,797.7	16,466.0	2.01%	15,717.5	15,971.2	-1.59%
FTE Tax Rate (%)	23.4	26.9	25.3	2pp	25.1	23.7	1pp	24.6	24.0	1pp
Net Income	4,004.0	3,018.0	2,623.1	15.05%	12,527.0	12,433.1	0.76%	11,788.7	12,004.7	-1.80%
Available For Common	3,647.0	2,693.0	2,236.5	20.41%	11,159.8	10,889.0	2.49%	10,345.6	10,353.9	-0.08%
<b>Op. EARNINGS PER SHARE (F.D.)</b>	<b>\$1.86</b>	<b>\$1.37</b>	<b>\$1.15</b>	<b>19%</b>	<b>\$5.71</b>	<b>5.63</b>	<b>2%</b>	<b>\$5.75</b>	<b>5.75</b>	<b>0%</b>
<b>GAAP EPS (F.D.)</b>	<b>\$2.19</b>	<b>\$1.33</b>	<b>\$1.15</b>	<b>16%</b>	<b>\$6.16</b>	<b>6.07</b>	<b>2%</b>	<b>\$5.75</b>	<b>5.75</b>	<b>0%</b>
Book Value Per Share	\$96.59	\$97.87	\$97.80	\$0.08	\$100.93	\$100.95	(\$0.02)	\$107.33	\$107.36	(\$0.02)
Tangible Book Value Per Share	\$84.20	\$85.35	\$85.27	\$0.08	\$88.07	\$88.09	(\$0.02)	\$93.75	\$93.77	(\$0.02)
Dividends Per Share	\$0.51	\$0.51	\$0.51	\$0.00	\$2.08	\$2.08	\$0.00	\$2.16	\$2.16	\$0.00
Average Fully-Diluted Shares	1,964.1	1,968.6	1,942.5	26mn	1,902.0	1,902.0	0mn	1,800.6	1,800.6	0mn
<b>CAPITAL RATIOS:</b>										
EOP Common Equity/Assets (%)	7.66	7.78	7.69	9bp	7.87	7.76	11bp	7.78	7.68	11bp
Tang. Common Equity/Assets (%)	6.74	6.85	6.77	8bp	6.94	6.84	10bp	6.87	6.77	10bp
Tangible Common Equity/RWA (%)	11.86	12.04	11.90	14bp	12.20	12.03	17bp	12.07	11.91	17bp
Tier 1 Common/RWA (%)	13.07	12.72	13.57	-85bp	13.10	13.94	-84bp	13.15	13.99	-84bp
Tier 1/RWA (%)	10.64	10.81	10.63	19bp	10.96	10.75	21bp	10.80	10.59	21bp
<b>PROFITABILITY RATIOS:</b>										
Return On Assets (%)	0.66	0.49	0.43	6bp	0.51	0.51	1bp	0.49	0.49	0bp
Return On Common Equity (%)	8.03	5.74	4.77	97bp	5.95	5.81	14bp	5.45	5.45	0bp
Return On Tangible Common Equity (%)	9.91	7.37	6.41	96bp	7.58	7.53	6bp	7.08	7.21	-13bp
Operating Expenses/Revenues (%)	64.84	69.39	71.69	-230bp	69.05	69.38	-33bp	68.87	68.71	16bp
<b>BALANCE SHEET ITEMS:</b>										
EOP Total Deposits (bn)	1,330	1,320	1,322	-0.15%	1,314	1,325	-0.80%	1,344	1,358	-1.02%
AVG Total Deposits (bn)	1,348	1,325	1,326	-0.07%	1,340	1,345	-0.39%	1,329	1,342	-0.91%
EOP Total Assets (bn)	2,455	2,424	2,449	-1.05%	2,404	2,438	-1.40%	2,448	2,483	-1.39%
EOP Equity	208,295	208,719	208,541	0.09%	209,547	209,582	-0.02%	210,825	210,868	-0.02%
EOP Preferred Equity	20,245	20,245	20,245	0.00%	20,245	20,245	0.00%	20,245	20,245	0.00%
EOP Common Equity	188,050	188,474	188,296	0.09%	189,302	189,337	-0.02%	190,580	190,623	-0.02%
EOP Tangible Common Equity	163,927	164,351	164,173	0.11%	165,179	165,214	-0.02%	166,457	166,500	-0.03%
<b>CREDIT QUALITY INDICATORS:</b>										
Net Charge-Offs	1,302	1,504	1,285	17.03%	6,849	5,618	21.90%	8,997	7,375	21.98%
% Average Loans	0.81	0.92	0.79	14bp	1.04	0.85	19bp	1.33	1.10	23bp
Nonperforming Assets	2,629	2,613	2,892	-9.65%	3,968	3,968	0.00%	5,889	5,889	0.00%
% EOP Loans + OREO	0.40	0.40	0.44	-4bp	0.59	0.60	-1bp	0.86	0.87	-1bp
Nonperforming Loans	2,608	2,582	2,869	-10.00%	3,945	3,945	0.00%	5,862	5,862	0.00%
% EOP Loans (excl. OREO)	0.40	0.39	0.43	0bp	0.59	0.59	0bp	0.85	0.86	0bp
Loan Loss Reserve	27,575	27,895	28,207	-1.11%	27,454	29,066	-5.55%	26,140	29,810	-12.31%
% EOP Loans	4.23	4.22	4.28	-5bp	4.07	4.39	-32bp	3.80	4.40	-59bp
% Nonperforming Loans	1057.32	1080.36	983.23	9714bp	695.99	736.85	-4087bp	445.94	508.56	-6262bp

Source: BofA Global Research estimates, company filings

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## Price objective basis & risk

### Citigroup Inc. (C)

Our \$60 PO incorporates recession risk. We apply a 50% weighting to our 2023 P/E multiple, with the remaining 50% evenly split between 2024 P/E and 2023 P/TBV multiples. We assign 9.2x/8.7x/0.9x multiples respectively, vs. large-cap peers (9.3x/8.5x/1.5x) 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. Upside risks are a sooner than expected resumption in share buybacks, better than expected operating leverage.

## Analyst Certification

I, Ebrahim H. Poonawala, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
<b>NEUTRAL</b>				
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Ebrahim H. Poonawala
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
<b>UNDERPERFORM</b>				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman

## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Prosperity Bancshares Inc.	PB	PB US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Zions Bancorp	ZION	ZION US	Ebrahim H. Poonawala

**IQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

*IQmethod<sup>SM</sup>* is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *IQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

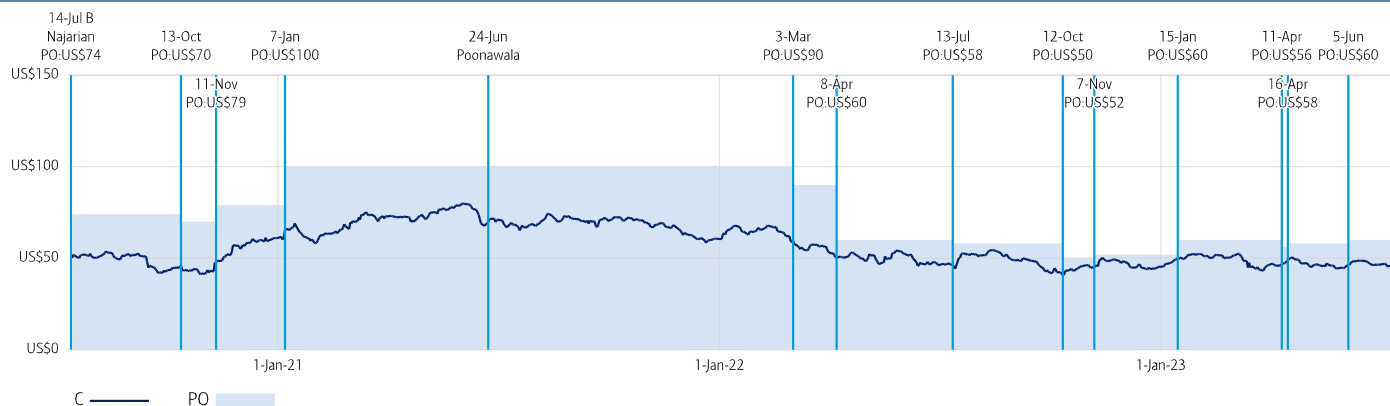
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# Disclosures

## Important Disclosures

### Citigroup (C) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Banks Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	98	50.52%	Buy	81	82.65%
Hold	45	23.20%	Hold	33	73.33%
Sell	51	26.29%	Sell	37	72.55%

### Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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