

Citigroup Inc.

Let bygones be bygones

Reiterate Rating: BUY | PO: 65.00 USD | Price: 52.62 USD

Hitting a turning point

Citigroup-C shares reacted positively to FY24 revenue/expense guidance. During the earnings conference call, CEO Jane Fraser and CFO Mark Mason reiterated confidence in delivering 4-5% in annual revenue growth, while highlighting flex to mitigate any potential revenue shortfalls. This should provide comfort to the Street that Citigroup remains on track to achieving its medium term (most likely 2026 event) return on tangible common equity (ROTCE) target of 11-12%. Relevant research: [Stock should react positively to FY24 guidance](#) / [2024 Year Ahead: Rubber meets the road](#)

Investors need to give the stock another shot

By focusing too much on past misstep (under different leadership), investors might run the risk of missing out on the potential for significant stock outperformance on the back of diminishing execution risk, improving EPS visibility and accelerating capital return. Risk/reward looks compelling at 0.6x P/TBV and 7.2x 2025E P/E. Over the coming quarters, the Street should receive ample proof points on whether mgmt.'s turnaround efforts are translating into better returns and a potentially less accident-prone Citigroup. Relevant research: [Investor feedback: Been there, done that](#) / [Jane Fraser's Citigroup](#)

Franchise visibility to improve

The new segmentation (services, USPB, wealth, banking, markets) should provide investors with a better view of the competitive positioning and growth/return potential of the franchise. During our recent meeting, mgmt. called out three of these businesses as potentially generating 20% +/- returns. The wealth business (led by Andy Sieg) is in the midst of a turnaround. Focus on reducing reliance on balance sheet lending and towards fee generating growth. A well-regarded hire to fill the banking role should also increase investor confidence in Citigroup's ability to compete in investment banking. Relevant research: [Execution risk should diminish: CEO meeting takeaways](#)

Stock outperformance should continue, reiterate Buy

We revise FY24e EPS to \$5.83 from \$6.20 on higher expense outlook. Raise FY25/26e EPS to \$7.32/\$9 from \$7.10/\$8.50 on improving operating leverage, accelerating buybacks. Forecast FY26 return on tangible common equity of 9.5%. Raise PO to \$65 on higher P/E (9.5x vs. 7.3x) given improving EPS visibility. We expect the stock to build on its recent momentum given self-help potential (expenses, buybacks), potential regulatory relief and renewed investor interest in adding exposure to bank stocks. Reiterate Buy.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.78	5.56	5.83	7.32	9.00
GAAP EPS	6.97	4.40	5.85	7.32	9.00
EPS Change (YoY)	-36.8%	-18.0%	4.9%	25.6%	23.0%
Consensus EPS (Bloomberg)			5.95	7.23	10.19
DPS	2.04	2.08	2.16	2.21	2.25
Valuation (Dec)					
P/E	7.8x	9.5x	9.0x	7.2x	5.8x
GAAP P/E	7.5x	12.0x	9.0x	7.2x	5.8x
Dividend Yield	3.9%	4.0%	4.1%	4.2%	4.3%

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Timestamp: 14 January 2024 08:32PM EST

14 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	60.00	65.00
2024E Rev (m)	79,375.3	80,447.8
2025E Rev (m)	79,980.0	81,264.6
2026E Rev (m)	82,525.8	83,583.4
2024E EPS	6.20	5.83
2025E EPS	7.10	7.32
2026E EPS	8.50	9.00

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Stock Data

Price	52.62 USD
Price Objective	65.00 USD
Date Established	14-Jan-2024
Investment Opinion	B-1-7
52-Week Range	38.17 USD -54.75 USD
Mrkt Val / Shares Out (mn)	155,403 USD / 2,953.3
Free Float	96.8%
Average Daily Value	1088.78 USD
BofA Ticker / Exchange	C / NYS
Bloomberg / Reuters	C US / C.N
ROE (2024E)	5.7%
ESGMeter™	High

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USPB: US Personal Banking

iQprofileSM Citigroup Inc.

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	48,833	55,001	54,012	52,112	53,110
% change	16.9%	12.6%	-1.8%	-3.5%	1.9%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	74,695	78,794	80,448	81,265	83,583
Operating Expenses	(51,185)	(53,571)	(53,659)	(52,589)	(52,206)
% change	8.6%	4.7%	0.2%	-2.0%	-0.7%
Provisions Expense	(5,239)	(7,903)	(9,126)	(9,154)	(9,260)
% change	NA	50.8%	15.5%	0.3%	1.2%
Operating Pre-Tax Income	18,271	17,320	17,662	19,521	22,118
Operating Net Income to Comm S/Hold.	13,318	11,494	10,965	12,978	15,044
GAAP Net Income	14,316	12,789	12,419	14,580	16,708

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	2,416,676	2,405,306	2,442,707	2,469,186	2,475,348
Average Interest Earning Assets	2,173,634	2,235,287	2,271,597	2,290,001	2,293,689
Total Gross Customer Loans	657,200	689,400	701,174	738,875	781,615
% change	-1.6%	4.9%	1.7%	5.4%	5.8%
Total Customer Deposits	1,365,954	1,308,681	1,322,618	1,325,737	1,331,900
% change	3.7%	-4.2%	1.1%	0.2%	0.5%
Tangible Equity	158,071	163,730	168,632	172,598	178,361
Common Shareholders' Equity	182,194	187,853	192,755	196,721	202,484

Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	2.25%	2.46%	2.38%	2.28%	2.32%
Effective Tax Rate	18.1%	24.1%	28.0%	23.8%	23.1%
Loan / Deposit Ratio	48.1%	52.7%	53.0%	55.7%	58.7%
Tangible Common Equity / Assets	6.5%	6.8%	6.9%	7.0%	7.2%
ROA	0.6%	0.4%	0.4%	0.5%	0.6%
ROE	7.4%	5.7%	5.7%	6.7%	7.5%
RoTE	8.4%	6.6%	6.6%	7.6%	8.6%
Dividend Payout Ratio	30.1%	34.7%	37.0%	30.1%	25.0%
Efficiency Ratio (Cost / Income Ratio)	68.5%	68.0%	66.7%	64.7%	62.5%

Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	34.6%	30.2%	32.9%	35.9%	36.5%
NPLs plus Foreclosed Real Estate / Loans	0.4%	0.5%	0.5%	0.7%	0.9%
Loan Loss Reserves / NPLs	784.13%	621.61%	592.65%	420.43%	306.13%
Loan Loss Reserves / Total Loans	2.91%	2.88%	3.02%	2.89%	2.82%

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 and strategic actions focused on reversing nearly 20 years of sub-par shareholder returns.

Stock Data

Average Daily Volume 20,691,324

Quarterly Earnings Estimates

	2023	2024
Q1	1.86A	1.54E
Q2	1.35A	1.44E
Q3	1.51A	1.61E
Q4	0.84A	1.25E



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.

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
BUY				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	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
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	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 Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TS LX	TS LX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
UNDERPERFORM				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Brandon Berman

IQmethodSM 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



Valuation Toolkit

Numerator

Denominator

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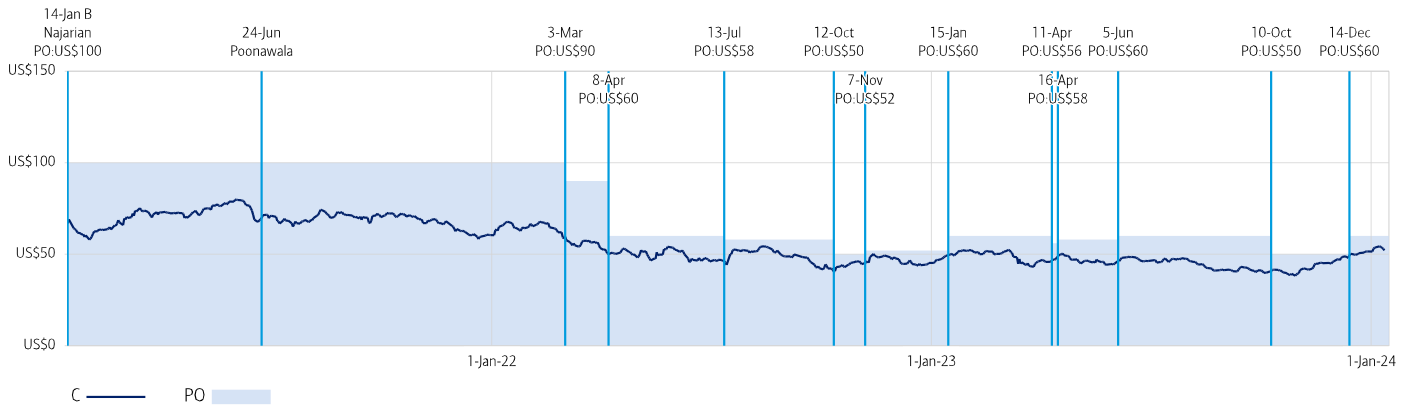
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Disclosures

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 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%

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

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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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