



# CitiGroup

**NYSE: C**

## Key Information:

Recommendation: **BUY**

Stock Price: \$60.95 (as of 4/30/2024)

Target Price: **\$90**

Upside Potential: **47.66%**

**Analyst:**

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### Company Statistics

Market Cap (\$ Bn):	\$125.4
52-Week Range:	\$38.17 - \$64.39
Dividend Yield:	3.37%
P/E (Current):	15.54x
P/Book (Current):	0.65x
Return on Equity (2019):	4.60%
Book Value/Share (Current):	\$98.71
Efficiency Ratio:	71x

### Citi Overview:

CitiGroup (C) is a major U.S bank that holds around \$2.41T in total assets. Citi is diversified through 5 different company segments that serve consumer and commercial customers. Citi provides financial services through Services, Markets, Banking, U.S Personal Banking, and Wealth. Serving consumers through their services segment with co-branded credit cards and retail banking service. On the commercial and corporate end, Citi serves as a major investment banking firm with advisory services to mergers, acquisitions, divestures, and other corporate banking needs. Citi also delivers Wealth related products and services to high net-worth clients with banking, lending, mortgages, investment, and more. Citi's largest segment by revenue is U.S Personal Banking, while services rank highest in income. Citi sees most net income from the United States but does have a major presence in global banking including large revenue drivers of Singapore, Hong Kong, Korea, India and more international streams of revenue. Citigroup, in 2023, had 239,000 direct employees and generated \$78.46 Billion dollars in revenue.

**Brand Position:** C holds a reputable name, tracing back to the founding of CitiBank in 1812. Citi ranks #4, but close to #3 in largest U.S Banks by total assets. CitiGroup also holds #3 for largest credit card issuer and issuer with the most outstanding balances.

**Shareholders:** 70.92% of C shares are held by Institutional investors. Just above 3% are held by insiders. Top institutional holders are Vangaurd, BlackRock, and State Street.

### Investment Thesis

#### Restructuring

- Condensing 5 business segments
- Drastic company-wide cost cutting



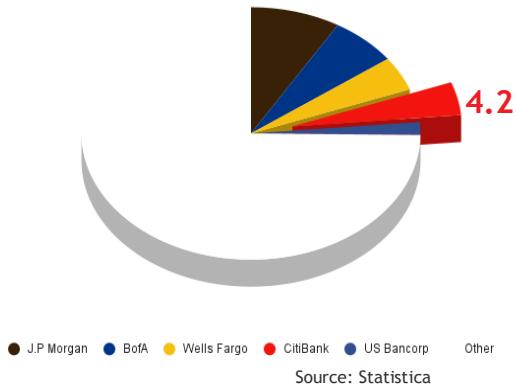
#### Low Risk

- Relatively lower CRE exposure
- Steady deposits growth
- CET1 ratio: Financial stability

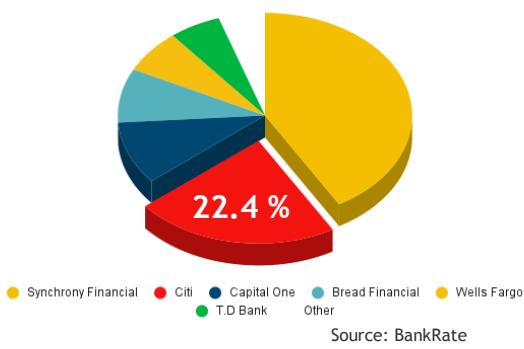
#### Value

- Nearly 40% below tangible book value
- Extra capital coming (repurchasing)
- Healthy dividend yield

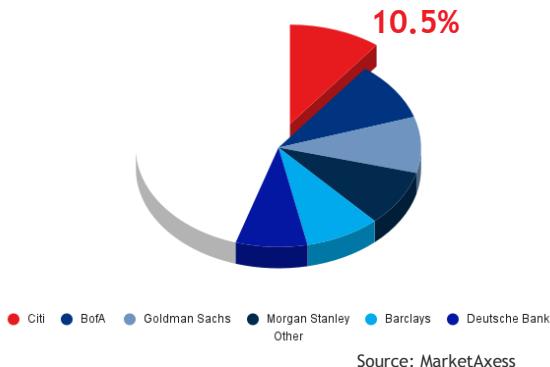
**Figure 1:**  
Market Share by total assets



**Figure 2:**  
Mkt. Share by outstanding balances (cards)



**Figure 3:**  
Mkt. Share in Portfolio Trading



## Industry Analysis

- **Major U.S Banks** – The U.S major banks have continued to be extremely resilient since March 2023 banking fear. In fact, large inflow of dollars was seen into the US banking giants as some consumers withdrew from regional banks for financial safety concerns. Overall U.S commercial banking deposits are up 75bps in the last year as interest rates stay elevated. With interest rates high, these major banks have increased profitability, and lowering of rates would also stimulate economic activity and presumably ease balance sheets across the industry. Overall Financials sector saw 21.5% YoY growth in E.P.S in 2023. Big U.S Banking is projected to grow at a rate of 3.

- **Credit Cards** – Overall credit card industry is continuing strong performance with surprisingly strong consumer data coming in. Consumer sentiment data (UMich) displays a sharp rebound from 2022 indicating overall confidence in U.S consumers which can lead to an increase in personal spending. The Consumer Sentiment Index is up 28.06% from one year ago. US Banks Credit Card Loans is at a current level of \$1.054T, up 12.65% one year ago. Credit Card borrowing is still showing very strong numbers and will contribute to the industry's income. An important stat to include, US Credit Card Debt is rising rapidly to a level 14.50% above from one year ago. Credit Card Debt in the United States is up to a current level of \$1.129T fortifying the strong consumer use of credit cards. This data may also indicate a lagging outcome of a drawdown in credit card usage and debt, but as of now usage remains high. Currently, Banks are seeing less demand for credit card loans, down 10.60% from last year, and an increase in Credit Card delinquency rates on Card loans at a level of 3.20%. Overall, the industry is seeing an increase in profitability along with higher competition from Buy Now, Pay Later (BNPL); and fintech personal loan offerings. As of now, American consumers pay for purchases with a credit card 37% of the time. The average credit card interest rate is 27.89% (March 2024). The Credit Card industry is projected to see **CAGR of 8.5%** until 2031.

- **Portfolio Trading** – Citi ranks #1 in portfolio trading in North America holding 10.5% market share. Portfolio trading has seen an 11.1% increase from 2022 to 2023. With advancements in technology and algorithmic trading systems, advanced tools have enabled investors to utilize portfolio trading at a greater rate. With an overall higher risk environment due to elevated interest rates, investment managers may prefer grouping portfolios together for trades, growing this market. Lastly, with ETF inflows on the rise, portfolio trading techniques to manage these funds will grow with the increase in ETF investors.

Listed industries above are 3 main drivers of CitiGroup's revenue and profitability. Smaller segments include other aspects of their trading desk, investment banking work, wealth management, and international banking.

## Bank Popularity (U.S)

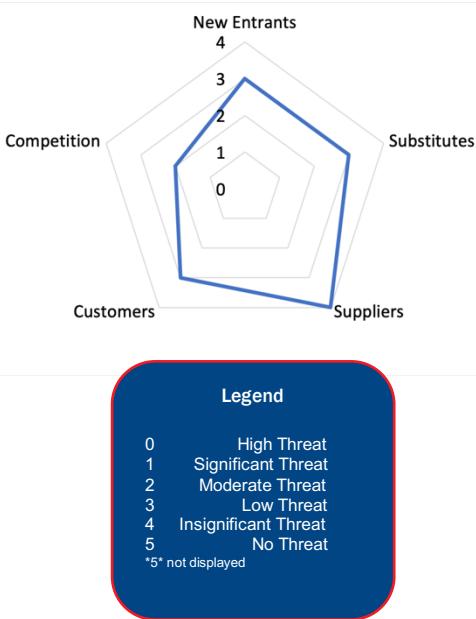
Popularity Rank	Bank
1	Capital One
2	Chase
3	CitiBank
4	BofA
5	Wells Fargo
6	Barclays
7	U.S Bancorp
8	PNC Bank
9	Ally Bank
10	Citizens Bank

Source: Today.Yougov



Figure 4:

## Porter's Five Forces



# Competitive Positioning

## Moat Analysis: Diverse, Wide Moat

### Source of Competitive Protections:

- **Brand Recognition** – Citigroup ranks extremely high on brand popularity, supporting a loyal consumer base. This is important as potential new clients look to perform business and serves as a strong statistic for customer retention for multiple banking services.
- **Diversified Business Model** – Through the lens of competition, Citi has high defense for its overall business due to the very large diverse areas of business Citigroup conducts work with. The diversification helps mitigate risks associated with fluctuations in any single market or business segment. The global presence of Citi also provides an extensive network with access to diverse revenue streams which gives a competitive advantage to smaller and regionally focused banks.
- **Financial Superiority** – Citigroup's size and large-scale banking afford it access to essential and abundant financial resources, including capital, liquidity, and funding. This allows Citi to navigate downturns through solvent financial conditions. With this source of funding and capital, Citi can also invest in growth initiatives and withstand competitive pressures. Citi's size comes with developed expertise in complex regulatory environments and shows how they have advantage over others as regulatory environments provide large barriers to entry for smaller competitors.
- **Risk Management** – Citi employs sophisticated risk management procedures to mitigate risk in every segment. Because of its strong risk management, Citigroup can be resilient and protect itself from financial shocks and volatility.

### Porter's Five Focus

**Threat of New Entrants** – **Low (3 out of 5)** For many Citigroup's segments, there is a very high barrier of entry. Capital requirements, and the scale of big banks is not a large risk to Citi's business. But, with fintech solutions and advancements in technology, there is certainly a threat of new entrants disrupting traditional banking models.

**Threat of Substitutes** – **Low (3 out of 5)** Similar to new entrants, substitutes are prevalent in this industry, but Citi remains at the top end of scaling size and offers a diverse set of financial services lowering their threat to substitutes.

**Bargaining Power of Suppliers** – **Insignificant (4 out of 5)** Citi and the entire banking industry holds most bargaining power over suppliers. Suppliers include technology providers, regulatory bodies, and other service providers. Due to large size of banks and access to a wide range of suppliers, this reduces the overall bargaining power of suppliers.

**Bargaining Power of Customers** – **Low (3 out of 5)** CitiGroup's clients, which include retail customers, institutional investors, corporations, and governments, may have some bargaining power due to the availability of alternative financial service providers and the easier access to many banking products. Alternatively, Citigroup's global presence, diverse product offerings, and brand name can mitigate this risk.

**Competitive Rivalry** – **Moderate (2 out of 5)** Banking and financial services industry is highly competitive, with numerous global, regional, and local competitors taking market share. Citigroup faces competition from multiple different sizes of banks. Citi has high competition in its retail banking, investment banking, wealth management, and capital markets, but they're diverse global landscape makes them harder to conquer.

## Revenue Drivers

Figure 5:

Year	Annual Revenues	
	Revenue (\$bn)	Annual %
2016	\$70.80	-7.27%
2017	\$72.44	2.32%
2018	\$72.85	0.57%
2019	\$75.07	3.05%
2020	\$75.49	0.56%
2021	\$71.89	-4.77%
2022	\$75.30	4.74%
2023	\$78.49	4.24%
2024E	\$80.11	2.06%
2025E	\$81.69	1.97%
2026E	\$83.65	2.40%

Source: Citigroup 10K

Core drivers behind CitiGroup's revenue:

**Interest Income:** A significant portion of Citigroup's revenue comes from interest income generated by lending activities. This includes consumer loans, mortgages, commercial loans, and corporate lending.

**Trading and Markets Revenue:** Citigroup's trading and markets division engages in buying and selling financial instruments such as equities, fixed income, forex, commodities, and derivatives. This area of the bank generates near 25% of the company's revenue.

**Investment Banking Fees:** Citi earns a large amount of revenue from investment banking activities through underwriting securities offerings in IPOs, and bonds. They also provide advisory services for M&A (mergers and acquisitions) generating large fees for revenue.

**Credit Cards & Personal Banking:** This segment is one of Citi's largest growing pieces of the company. Citi's Credit Cards alone have increasing revenue of around 12% per year. In personal banking and loans Citigroup sees around 20% growth annually for the last couple years. This segment sees the largest growth projections and will be a core driver for Citi's future revenue growth.

## Financials

Key Financials	2018	2019	2020	2021	2022	2023
<b>Income Statement (\$mm, expect per share data)</b>						
Total Revenue	72,854	75,067	75,494	71,887	75,305	78,486
Non Interest Expenses	41,942	42,856	44,487	48,309	51,386	55,672
Net Interest Income	46,562	48,128	44,751	42,494	48,668	54,900
Non-Interest Income	26,292	26,939	30,743	29,393	26,637	23,586
Net Income	18,045	19,401	11,047	21,952	14,845	9,228
<b>Balance Sheet (\$mm)</b>						
Total Deposits	1,013,170	1,070,590	1,280,671	1,317,230	1,365,954	1,308,681
Loans and Advances	682,664	698,098	675,145	667,312	656,867	688,994
Allowance for Loan Losses	12,315	12,783	24,956	16,455	16,974	18,145
<b>Cash Flow (\$mm)</b>						
Operating Cash Flow	36,952	-12,837	-23,488	47,090	25,069	-73,416
Investing Cash Flow	-73,118	-23,374	-92,445	-110,746	-79,455	-8,459
Financing Cash Flow	44,528	42,933	233,595	17,272	137,763	687
Free Cash Flow	33,178	-18,173	-26,934	42,971	19,437	-79,999
<b>Per Share Data (\$)</b>						
E.P.S	\$6.69	\$8.63	\$5.45	\$10.80	\$7.04	\$4.07
Book Value/Share		\$82.90	\$86.43	\$92.21	\$94.06	\$98.71
Dividend/Share	\$1.54	\$1.92	\$2.04	\$2.04	\$2.04	\$2.08
<b>Profitability</b>						
Operating Margin	32.18%	32.17%	18.87%	38.21%	24.97%	23.30%
Net Interest Margin (bank only)		3.34%	2.94%	2.60%	2.86%	3.17%
R.O.E	9.02%	9.87%	5.67%	10.86%	7.41%	4.45%
					2024E	2025E

Financial statement extracts and forecasts for CitiGroup \*some data points unavailable\*

**Profitability:** Citi has delivered positive, but fluctuating profits over the last decade. Margins are expected to tick back up and this could be a major bull case for the stock. EPS reflects resilience but repeated drawdowns which are expected to turnaround in 2024. Cash flows weaker due to restructuring, penalties, and brief regional banking crisis.

**Growth:** Citi is projected to grow earnings at a CAGR of 10% for the next 5 years compared to its -3.75% growth rate the past 5 years. Rapid rebound is projected in E.P.S in the coming two years as Citi is working diligently to cut costs. Growth projections in net margins will improve Citigroup's overall profitability and projected to turn their free cash flow positive again by 2025. Overall, the growth rate for Citi at 10% is relatively bullish compared to overall banking sector projected to display an annual growth rate of 1.57%.

# Valuation

Ticker	Company	Forward P/E	P/B
C	Citigroup	10.42	0.64
COF	Capital One	10.35	0.95
JPM	JP Morgan Chase	12.38	1.91
BAC	Bank of America	11.51	1.12
TD	TD Bank	10.21	1.4
WFC	Wells Fargo	12.02	1.22

Source: Yahoo Finance

I am placing my 2024/2025 price target on (C) at **\$90**, which represents a **47.66%** upside from the current share price. I found a target share value at \$90 through the following assumptions and valuation techniques:

- I used a Discounted Cash Flow analysis to reflect Citigroup's potential undervaluation in its current share price. I set assumptions up with a growth rate of its projected 10% for the short term with a generously **low** terminal growth rate of 3% while analysts project higher. My two different discounted cash flow models provided me price targets of \$92.20 and \$108.64. I place my price target at \$90 for the principle regarding margin of safety. \$90 provides a M.O.S of around 17% from my best-case target, and 3% from my low case target. I also considered the potentially higher-risk environment the broader economy may face regarding recessionary odds and higher rates for longer sentiment. (See DCFs in appendix)
- I also base my price target off the stock's book value and price to earnings ratio. It's hard to ignore the industry low forward p/e and the **lowest** P/B ratio amongst the US Big Banks. There is certainly value in Citi as the book value suggests, especially as the company looks to sharpen up. P/E is slightly elevated due to short term, weak Q4 2023 earnings.
- Lastly, I utilized Relative Valuation Analysis which output a price target of \$107.33. I set a -5% discount to average p/e of comparable companies due to Citi's already higher valuation, according to P/E.

**Valuation Analysis:** Overall Citigroup's stock valuation is trading at a slight premium relative to competition, but this is paired with the **highest** 2024 projected YoY growth rate of E.P.S in the United States Big Banks sector. The relative premium is fair as their forward p/e remains among the lowest with the same sector. Reflected in my DCF models, it is evident that with future projections in mind, a higher valuation should be considered in the following quarters. Citi trades at a 0.62 book value which is around 30% lower than what it traded at from 2017 to the COVID pandemic and remains lower than its 10 year P/B average.

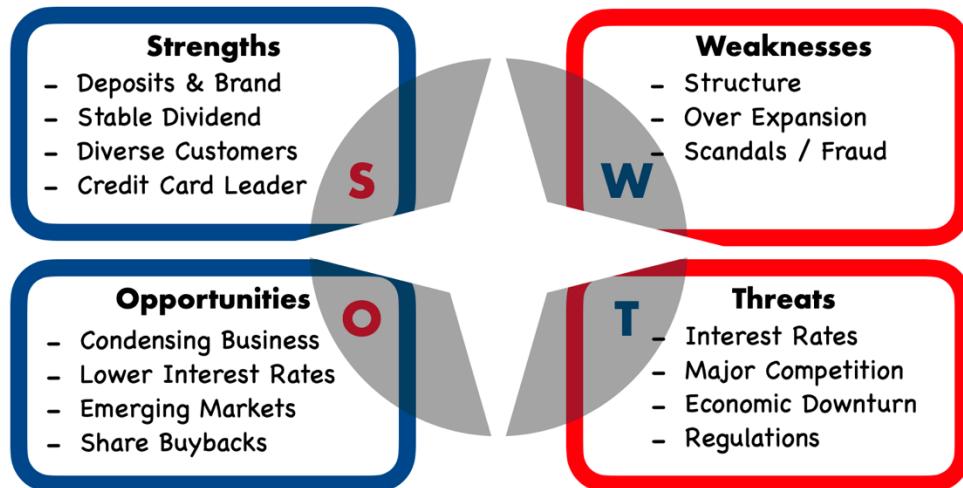
Figure 6:

Relative Valuation Analysis						
Comparable Companies	P/E Ratio					
CitiGroup	<b>15.08</b>					
Bank of America	12.16					
JP Morgan	12.22					
Capital One Financial	12					
Wells Fargo	11.83					
TD Bank	12.74					
<b>Comparable Average</b>	<b>12.67</b>					
Deserved Premium / Discount to Avg Target P/E Multiple	-5% <b>12.03808333</b>					
Projected Annual Forecast						
Period	Actual (millions)	Future Yr 1	Future Yr 2	Future Yr 3	Future Yr 4	Future Yr 5
Revenue	\$78,486	\$81,625.4	\$84,890.5	\$88,286.1	\$91,817.5	\$95,490.2
Net Income	\$7,850.0	\$12,316.3	\$14,779.5	\$17,439.8	\$19,183.8	\$21,102.2
Earnings per Share (EPS)	\$4.04	\$6.30	\$7.56	\$8.92	\$9.81	\$10.79
<b>Intrinsic Value per Share</b>	<b>\$107.33</b>					
Current Share Price	60.95					
Upside Potential	76.1%					

## Investment Risks

- Figure 7:**
- Historical Fed Funds Rate Projection**
- 
- Source: CMEGROUP
- **Credit Risk:** As with any financial institution, Citigroup is exposed to credit risk arising from its lending and investment activities. This risk includes the possibility for borrowers to default on loans, leading to losses for the bank. Economic volatility can provoke changes in interest rates and shifts in the credit quality of borrowers could bring credit risk.
  - **Market Risk:** Citi's trading desk and investment portfolios are exposed to market risk stemming from fluctuations in interest rates, forex markets, equity prices, and commodity prices. Also, the current market may pose certain risks as recessionary fears may resume and macroeconomic fear could spark a broad selloff.
  - **Liquidity Risk:** With any bank, Citi faces the threat of liquidity issues in its ability to meet short-term funding obligations and hold sufficient liquidity to fund itself. This relies heavily on the overall economic financial stability and confidence in the U.S Banking System.
  - **Overexpansion:** Being a very diversified and international bank, Citigroup is exposed to various risks that may undermine its long-term financial stability. Citi is involved in many areas of the markets which can stunt growth and bring a wider variety of risk.

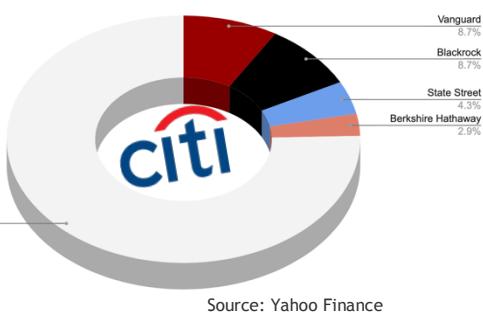
## S.W.O.T Analysis



# Management & Governance

Figure 8:

## Shareholders



Jane Fraser, CEO of CitiGroup since March 2021. She previously worked with Citi for 19 years in leadership roles across Citi's consumer and institutional businesses. Before becoming CEO, she was president of Citi and CEO of the Global Consumer Bank. Before Citi, Jane was a partner at McKinsey & Company.

Jane Fraser is the only female CEO of the top 50 banks in the country.

- **Shareholders** – Institutional shareholders hold most shares at 70.92% throughout 2,204 institutions. 4.11% shares are held by insiders. The top institutional holders are Vanguard, Blackrock, and State Street. Insiders in the past 12 months have overwhelmingly been purchasing shares relative to selling their positions.
- **Independence** – The board of directors consists of 13 members. 10 of the 13 members are independent (non-company executives). As for board of directors, no suspicious or red flag transactions and incidents have shown up in recent years.



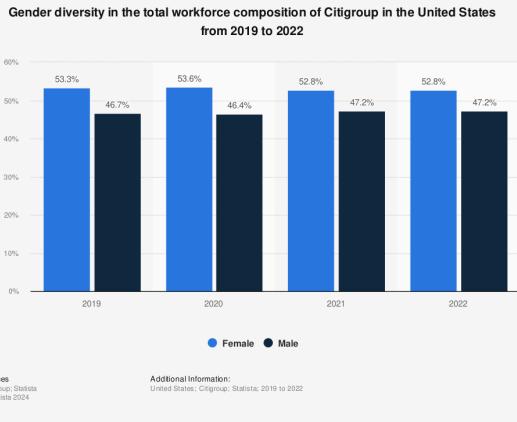
## ESG Considerations

Citigroup ranks very highly in ESG scores across numerous sources. Citi is highly respected by consensus ratings due to their gender diversity in executive position, and their valuing of forestry across the world. According to CSRHub's consensus ranking, Citi ranks high relative to peers on ESG ratings. Due to a diverse board and sustainability missions, Citi achieves a much higher ranking than the industry average of Credit Card Processing and slightly above the banks industry average.

### E.S.G

- **Environment:** Citigroup has set targets to reduce its carbon footprint and improve energy efficiency across its operations. They also work with their suppliers to promote sustainable practices throughout its supply chain. Citi has worked on constructing green buildings, an initiative to reduce energy consumption and greenhouse gas emissions in its buildings and facilities worldwide. Lastly, Citi also integrates environmental considerations into its risk management processes to identify and assess potential environmental risks associated with its actions.
- **Society:** Citi is involved in philanthropic activities and donates through its 'Corporate Social Responsibility' initiatives. Citi Foundation is dedicated to promoting economic progress and improving lives of low-income communities. Citigroup also organizes Global Community Day, encouraging employee engagement. They also partner with many nonprofit organizations to address social and environmental challenges collaboratively.
- **Corporate Governance:** Citi employs strong board oversight, has an established code of conduct and ethics with a set of guidelines. Citigroup also has comprehensive risk management procedures to monitor and mitigate any coming problems. The board and overall workforce have incorporated diversity and inclusion through their hiring and promotion practices.

# Artificial Intelligence



Source: Statistica

A.I will most definitely have an impact on Citigroup from general services to the financial end.

**Customer Service:** Citi is using AI-powered chatbots and virtual assistants to provide personalized customer support and streamline interactions with clients. AI will continue to improve and therefore aid their customer service experience.

**Financial End:** Artificial Intelligence is currently being used by Citigroup in their risk management department. AI algorithms are enhancing risk management capabilities and can improve prevention of fraudulent activities. AI is also being used through Citi in data analytics to gain deeper insight into customer behavior, market trends, and business performance. AI-driven models identify new opportunities for Citi.

**Cybersecurity:** Lastly, Citi is implementing AI into their cybersecurity and prevention against technological threats to their databases and financial info.

## DCF Models

Figure 9:

Discounted Cash Flow Full						
Yahoo Finance Input	Assumptions pt1			Assumptions pt2		
	Growth rate	10%	3.50%	Beta	1.5	
	EV/EBITDA Multiple	6.15		Market Return	9%	
	Cost of Debt	5.00%		Equity Value	\$120,180	
	Tax Rate	19.30%		Debt Value	\$324,070	
in millions	10y Treasury	4.20%				
Period						
	0	1	2	3	4	5
Free Cash Flows						
EBIT	12,756	\$14,031.60	\$15,424.76	\$16,978.24	\$18,670.06	\$20,543.87
-Tax	-3,528	-\$2,708.10	-\$2,978.91	-\$3,276.80	-\$3,604.48	-\$3,984.93
D&A	4,560	\$4,925	\$5,319	\$5,744	\$6,204	\$6,700
-CapEx	-6,527	-\$6,658	-\$6,791	-\$6,927	-\$7,065	-\$7,206
Non-cash Work. Capital (inc) / dec	-\$9,824.00	-\$9,824.00	-\$9,824.00	-\$9,824.00	-\$9,824.00	-\$9,824.00
FCF		-\$33.24	\$1,359.94	\$2,695.22	\$4,598.38	\$6,448.54
WACC						
Cost of Equity	10.65%					
D/E+E	0.729					
E/D+E	0.271					
WACC	5.82%					
Terminal Value						
EBITDA						\$27,243.80
Exit Multiple (EV/EBITDA)						\$167,549.38
Perpetuity Growth						\$708,485.87
Average						\$708,485.87
Discounting						
Discount Factor	0.94	0.89	0.84	0.80	0.75	
PV of FCF	-\$31.41	\$1,214.36	\$2,442.99	\$3,657.00	\$4,855.81	
PV of TV						\$533,826.12
Enterprise Value						
Enterprise Value To Equity Value						
Cash	\$280,932					
Marketable Securities	\$7,902					
Short term Debt	\$315,350					
Long term Debt	\$288,619					
Equity Value	\$212,832.88					
Shares Outstanding	1,956					
Implied Share Price	\$108.81					

Figure 10:

Period	Actual	Projected Annual Forecast							=>	Terminal Value
		Future Yr 1	Future Yr 2	Future Yr 3	Future Yr 4	Future Yr 5	Future Yr 6	Future Yr 7		
Revenue	\$78,486.00	\$81,625.4	\$84,890.5	\$88,286.1	\$91,817.5	\$95,490.2	\$98,354.9	\$101,305.6		\$104,344.7
Revenue Growth Rate (%)		4.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%		3.0%
Net Income	\$7,850.00	\$12,316.3	\$14,779.5	\$17,439.8	\$19,183.8	\$21,102.2	\$23,212.4	\$25,533.6		\$18,619.7
Net Margin (%)	11.08%	12.2%	13.4%	14.7%	16.2%	17.8%	17.8%	17.8%		17.8%
Cash Flow	(73,420.00)	\$28,568.9	\$29,711.7	\$30,900.1	\$32,136.1	\$33,421.6	\$34,424.2	\$35,457.0		\$36,520.7
42% real Cash Flow Margin (%)	35%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%		35.0%
Unlevered Cash Flows		\$28,568.9	\$29,711.7	\$30,900.1	\$32,136.1	\$33,421.6	\$34,424.2	\$35,457.0		\$1,304,309
Discount Rate		5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%		5.8%
Discounted Cash Flows		\$28,408.3	\$26,543.3	\$26,091.8	\$25,647.8	\$25,211.5	\$24,544.3	\$23,894.7		\$878,983.9
Sum of present value of cash flows	\$180,341.7	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Shares Outstanding	1,956		\$28,568.9	\$29,711.7	\$30,900.1	\$32,136.1	\$33,421.6	\$34,424.2	\$35,457.0	\$36,520.7
Intrinsic Value per Share	\$ 92.20									\$37,616.3
Current Share Price	60.95									\$38,744.
Upside Potential	51.3%									

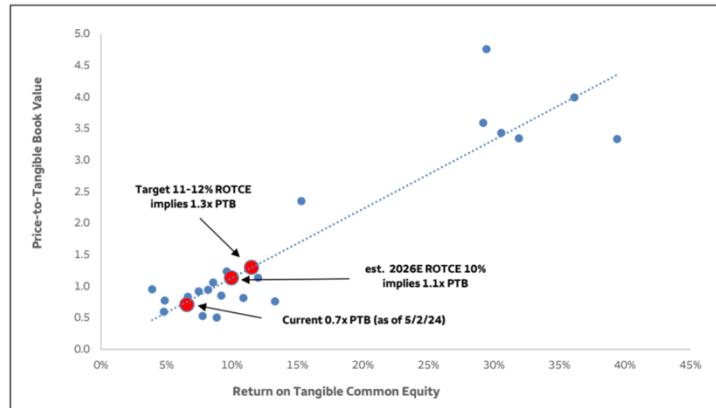


## Appendix



**Figure 11:**

Exhibit 1 - Citi trades at a discount to its historical PTB valuation



Source: Company reports, FactSet, Wells Fargo Securities LLC estimates

**Figure 12:**

Dividend Discount Model (DDM)			
CitiGroup (C)			
Year	Quarterly Dividend	Annual Dividend	Growth
2023	\$ 2.08	\$ 8.32	2.0%
2022	\$ 2.04	\$ 8.16	0.0%
2021	\$ 2.04	\$ 8.16	0.0%
2020	\$ 2.04	\$ 8.16	6.3%
2019	\$ 1.92	\$ 7.68	24.7%
2018	\$ 1.54	\$ 6.16	60.4%
2017	\$ 0.96	\$ 3.84	128.6%
2016	\$ 0.42	\$ 1.68	162.5%
2015	\$ 0.16	\$ 0.64	

Growth (g)	4.000%
Required Return (r)	6.350%
Actual Price	\$60.95
DDM Price	\$ 89.36
	Price = D1 / ( r - g )
	Undervalued

