

Company: Citigroup Inc.	Ticker:	C Current Price: \$ 48.60	Sector: Financials	Industry: Banks-Global
Target Price: \$ 61.58	Trailing P/E: 8.92	Beta: 1.83	Market Cap: 141.29 billions	
Stop Loss: \$ 41.36	Forward P/E: 9.49	Credit Rating: Baa1	Avg Vol: 7.20 millions	
52 Week High / Low: \$56.46 / \$34.52	EPS: \$ 5.25	Rating Outlook: Baa1	Dividend Yield: 1.3% - 1.5%	

Company Background:

Citigroup (C) is comprised of Citicorp, Citi Holdings and Corporate/Other. Citicorp consists of core banking operations for consumers and businesses, and includes Global Consumer Banking, Securities and Banking and Transaction Services. Citi Holdings contains businesses and assets that the company no longer considers part of its core business, including its Brokerage and Asset Management, Local Consumer Lending and Special Asset Pool units. Citi Holdings contains a number of businesses and assets that the company intends to exit as quickly as practicable through divestitures, portfolio run-off and asset sales.

Industry Outlook:

Positive outlook. The US banking system is dominated by four large banks: JPMorgan Chase, Bank of America, Wells Fargo, and Citigroup—each with assets of well over \$1 trillion. US FDIC-insured banks posted net income of \$164 billion in 2015, up a healthy 7.4% from 2014. Net income has increased by an average annual rate of 14.0% since the end of 2010, driven by lower loan loss provisions, which made up for weak revenue growth trends over this time period. In March 2015, some of the largest national and regional US banks—such as JPMorgan Chase, Wells Fargo & Co., US Bancorp, PNC Financial Services Group, and KeyCorp—received permission from the Fed to further raise their dividends and/or accelerate their share buyback programs.

Investment Thesis:

Citigroup's total net revenue growth is low, but as the Citi Holdings "run off" portfolio shrinks, total revenue results will improve. We expect Citigroup's total net revenues to fall 6.9% this year, entirely due to Citi Holdings. Excluding Citi Holdings, we expect flat revenues this year, with 1.0% growth of net interest income. After this "runoff" portfolio shrinks, we expect the revenue, cash flow and EPS to grow steadily. Low interest rates for a longer than expected period is exerting a headwind to revenues. We see strength in trading and investment banking (the Institutional Clients Group), some of which was due to a flurry of activity around the "Brexit" vote. We view credit quality as strong and improving, and see Citigroup's allowance for loan losses being further reduced this year. Metals, mining, oil and gas prices are up, and Q2 provisions to replenish the allowance fell sharply from Q1. For the year, we project provisions for loan losses of \$6.1 billion, down from 2015's \$7.1 billion, reflecting net chargeoffs of \$7.3 billion in 2015 and our projection of \$6.95 billion in 2016. We project EPS of \$4.63 in 2016 and \$5.13 in 2017. The target price we calculated from DCF model is 61.58, which means the current price is underpriced at 21% discount, while current p/e is also way lower than industry average 13.

Investment Risks:

- 1) Citigroup remains on track toward a longer-term goal of strengthening its global presence in consumer and corporate lending, while cutting expenses and returning meaningful levels of capital to shareholders.
- 2) higher regulatory and legal costs, and a setback in the U.S. housing market recovery.
- 3) p/e ratio is below-peer multiples, reflecting C's \$23 billion deferred-tax asset and Citi Holdings (3.6% of C's assets), both of which depress C's valuation multiples with respect to peers

Discounted Cash Flow Analysis

(Millions)	2017(adjusted)	2018	2019	2020
Free Cash Flow	30,600.00	32,436.00	34,382.16	36,445.09
Terminal value				1,554,749.38
Total flows	30,600.00	32,436.00	34,382.16	1,591,194.47
PV of flows	29,008.93	32,436.00	34,382.16	1,591,194.47
Enterprise value	1,687,021.56			
Current outstanding debt	1,508,118.00		WACC	5.48%
Equity value	178,903.56		Growth rate	3.00%
Current shares outstanding	2,905.37			
Equity value per share	61.58			

Past performance



Competitors C

Name	Price	% Chg	TTM Sales \$ mil
Citigroup Inc	\$48.60	-0.02 ↓	72,251
Industrial And Commercial Bank Of China Ltd ADR	\$12.04	-1.42 ↓	103,945
Industrial And Commercial Bank Of China Ltd H	—	—	103,945
JPMorgan Chase & Co	\$67.17	-0.52 ↓	93,284
China Construction Bank Corp ADR	\$14.51	-0.96 ↓	93,230
Wells Fargo & Co	\$44.50	-0.47 ↓	87,818

Financial Performance

(\$millions)	2012	2013	2014	2015	Est 2016	Est 2017
Revenue	\$ 89,740.00	\$ 92,596.00	\$ 90,909.00	\$ 88,275.00	\$ 69,911.60	\$ 71,972.70
EBIT	\$ 28,437.00	\$ 35,674.00	\$ 28,391.00	\$ 36,747.00	\$ 21,761.00	\$ 22,610.00
EBITDA	\$ 30,944.00	\$ 38,977.00	\$ 31,980.00	\$ 40,253.00	\$ 22,581.00	\$ 23,115.00
Net Income	\$ 7,541.00	\$ 13,673.00	\$ 7,310.00	\$ 17,242.00	\$ 13,463.90	\$ 14,080.10
Revenue Growth %	13.70%	3.18%	-1.82%	-2.90%	-20.80%	2.95%
EBITDA%	34.48%	42.09%	35.18%	45.60%	32.30%	32.12%
Operating Profit %	8.72%	21.06%	16.17%	28.12%	31.13%	31.41%
Net Income Margin	8.40%	14.77%	8.04%	19.53%	19.26%	19.56%
Total Debt/Equity	326.5	290.5	273.0	216.3	NM	NM
EPS	\$2.51	\$4.35	\$2.21	\$5.41	\$4.65	\$5.13
PE Ratio	8.59	11.79	11.41	8.92	10.30	9.49
Current Ratio	1.90	1.02	1.37	1.19	NM	NM
ROE	4.04	6.88	3.37	8.03	6.35	6.64
ROA	0.40	0.73	0.39	0.97	0.79	0.80
Dividend Per share	0.04	0.04	0.04	0.16	0.40	0.75
FCF	10661	59754	42957	36539	26445	7244

Discounted Cash Flow

	2011-2015	2016-2020
Avg Revenue growth	3.04%	3.00%
Avg EBITDA Margin	37.93%	38%
Avg Net Income growth	20.67%	20%
Cost of Debt (C 10 year YTM)		3.93%
Tax Rate		34%
Cost of Equity (CAPM)		13.48%
Average D/E ratio		276.56%
WACC		5.48%
Perpetuity growth rate		3.00%

Analyst Opinion:

Buy: 20	Hold: 8	Sell: 1
Moody's	Rating	Target
S&P Net Advantage	Baa1	
Value Line	Strong Buy	54 in one year
	Timeliness: 3	\$75-110

Relative Valuation

	C	GS	MS	BAC	JPM
P/E	9.53	11.95	14.60	11.60	12.50
P/B	0.65	0.91	0.88	0.66	1.05
Dvd Yld	0.64	1.54	1.89	1.40	2.74
PEG ratio	1.51	1.68	1.64	1.24	2.50
TTM EPS	4.60	10.71	2.21	1.31	5.86
Revn Grth	-2.90	-2.19	-0.15	-2.23	-1.94
EBITDA Grth	25.87	-21.27	50.30	0.00	0.00
Operating Margin	32.51	25.96	24.16	26.85	32.82
Debt/Equity	216%	466%	421%	198%	240%
Market Cap	141201b	71870b	60776b	163787b	242616b
Revn TTM	83454b	34370b	34974b	91358b	104212b
EBITDA TTM	37169b	14114b	11560b	N/A	N/A
Price/CF	3.38	4.70	2.10	2.19	13.56

Total Return

	C	Industry	S&P 500
YTD	-5.53%	-11.14%	5.89%
1 Year	-7.76%	-12.78%	7.38%
Last 3 Yea	-1.35%	-1.22%	8.83%
Last 5 Yea	11.97%	11.49%	13.87%

	C	Industry
Governance Disclosure Score	69.64	65.75
ESG Disclosure:	52.19	45.14
Social Disclosure Score	45	41.06
Environmental Disclosure Score	47.32	37.01

Prepared by Tao Feng (Oct 10, 2016) using Bloomberg, Value Line, S&P Net Advantage, Capital IQ, Morning Star, Yahoo Finance

*Industry Avg. includes companies listed and Deutsche bank, Barclays and other 4 companies