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Exeter Student Investment Fund

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Learn. Network. Invest.

# Stock [Citigroup C]

Alfie Christopher

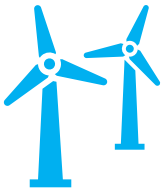




- ❖ Citigroup C
- ❖ Priced at 67.93

## Reasons to Buy

- Strong liquidity coverage ratio:
- The world's most global bank
- Strongly committed to ESG goals
- partnerships with FinTechs



## Potential Risks:

- Interest rate risk (Affects the whole sector)
- Global shocks
- Legacy Infrastructure:



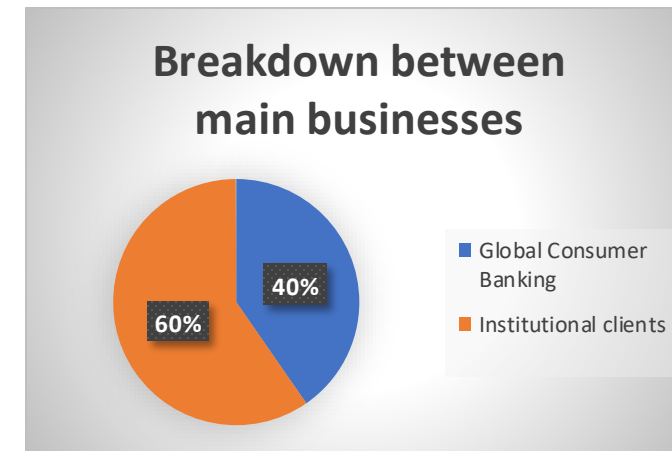
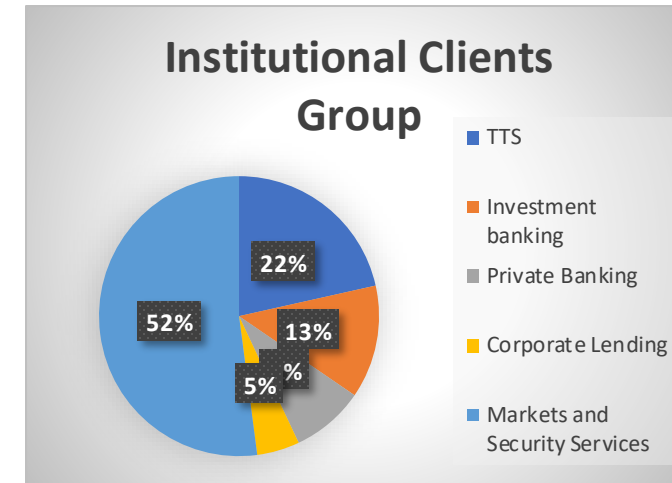
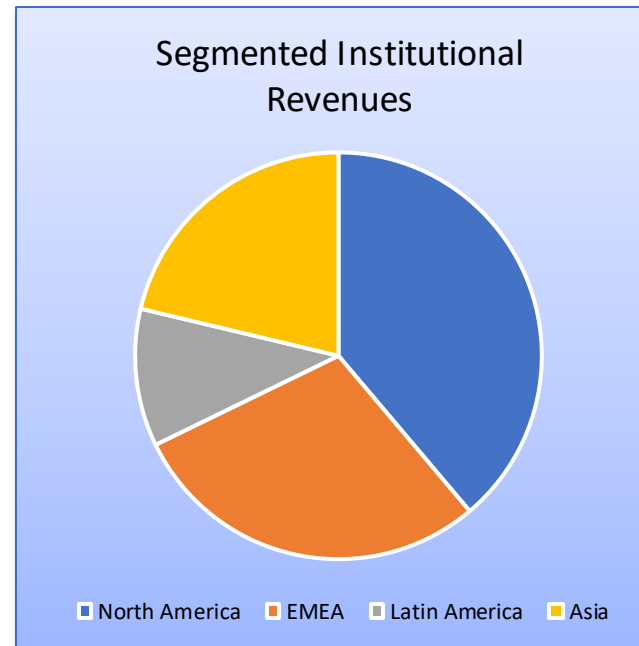
# Company Overview



How did it get so huge?

- Over 200 years old | 1812 | City Bank of New York | 8<sup>th</sup> Oldest bank in the US
- Early 20<sup>th</sup> Century, paid out any sum of money in any currency in any city in the world within hours
- Early focus on corporate clients
- Recent European Growth

Consumer Business	Institutional Business
Credit Cards	Banking, Capital Markets, and advisory
Retail Banking	Commercial Banking
	Markets and Securities services
	Private Banking
	Treasury and Trade Solutions



# Management



CEO | Michael Corbat | 1983 (joined) | 2012

- Divested in \$500 billion assets reducing balance sheet risk

President = Jane Fraser

- First joined in 2004
- Became President in 2020
- Is set to succeed Michael as CEO this year:

Largest Shareholder: Vanguard Group

- \$7.32 billion | 169.69 million shares | 8.15% of shares





## Emerging Markets:

- Strong corporate intelligence
- Tied into local and emerging markets
- Presence in 98 countries
- Does business in 160 countries
- Investment banking mandates



## Innovation:

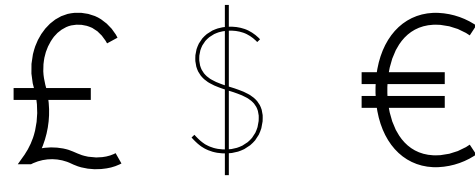
- Investment in application programming interfaces:
- Partnership with FinTech: SWIFT platform which helps automate digital currency conversions and transactions:

# What have we learned about Citi in 2020?



## Revenues:

- Total revenue 2020 = \$74.298 billion exceeding 2019
- Market cap = \$137.169 as of 28/02/2021
- 2020 Interest revenue | down 8% from 2019



## Profitability

- Quarterly Net Income (4Q 2020) | up 47%
- Annual Net Income | down 41%
- For investors, the dividend has maintained at \$0.51 per share:

## Liability

- High leverage: Debt to Equity Ratio: 3.99
- Total Liabilities are over \$2 trillion:



## Legacy Infrastructure

- October 2020: \$400 million fine
- Over long-term IT infrastructure inadequacies
- Outstanding deficiencies in Citigroup's compliance relating to FX programmes



## The Revlon Case

- August 2020: Operational error within payment software
- Lead to Citi paying lenders \$900 million by mistake instead of \$8 million
- Deficiencies in Risk and Control systems have cost Citi
- Are they addressing this Issue?



## Who?

- Wells Fargo, JP Morgan, Bank of America, Goldman Sachs, Barclays:
- 4-6% lower return than Bank of America and JP Morgan
- Fintech's Xero
- Online accounting Software which competes with Citi's TTS business:

## What gives Citi the Edge?

- Very diverse range of clients and business units:



# DCF analysis the Bull Case



Assumptions in the next 5 years...

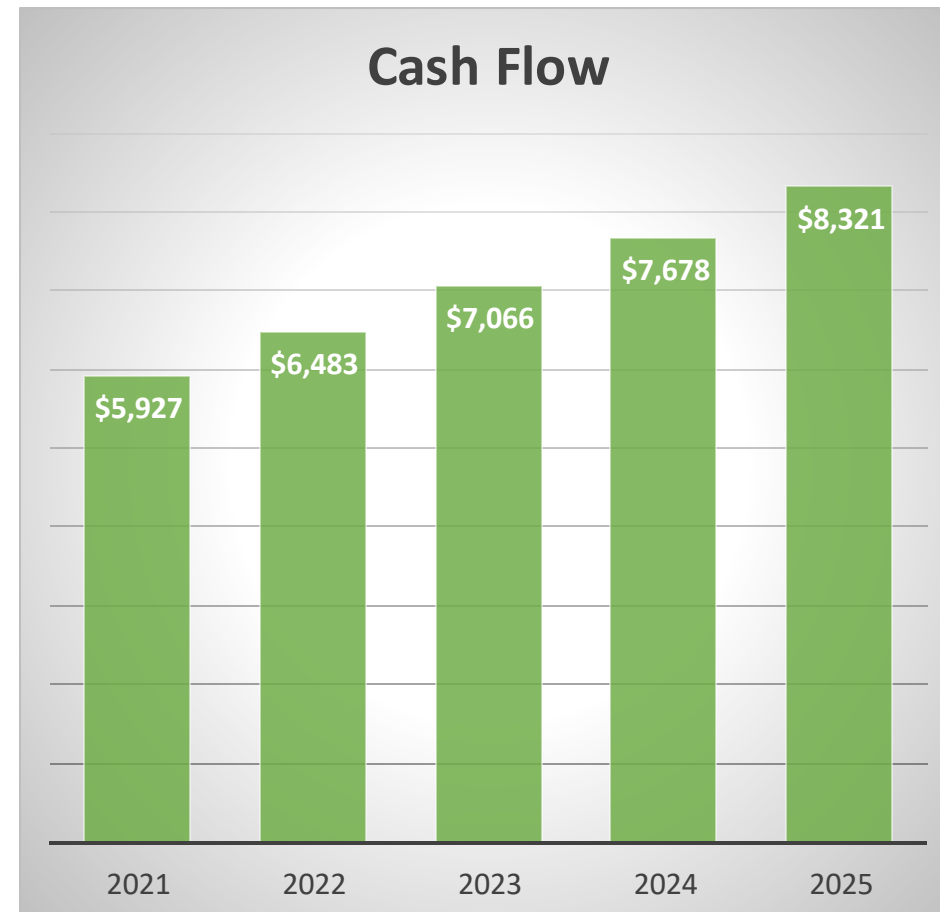
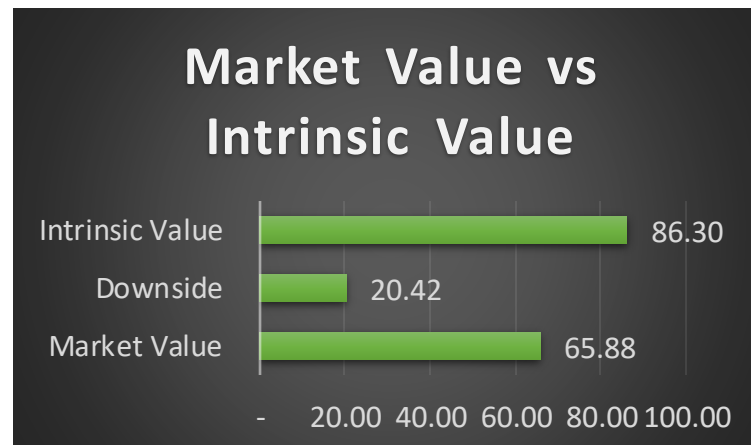
- Perpetual Growth Rate 5%
- Cash is \$684.7 bn Source | (Balance Sheet 2020)
- Capex is \$5.03 bn Source | (Cashflow Statement 2019)

⇒ Equity currently under valued by margin of \$20.62 PS

⇒ Intrinsic Value: \$86.30

Likelihood...

- Resilience | New CEO
- Global development
- **Capex ^**



# DCF analysis the Bear Case



Assumptions in the next 5 years...

- Perpetual Growth Rate 0.5%

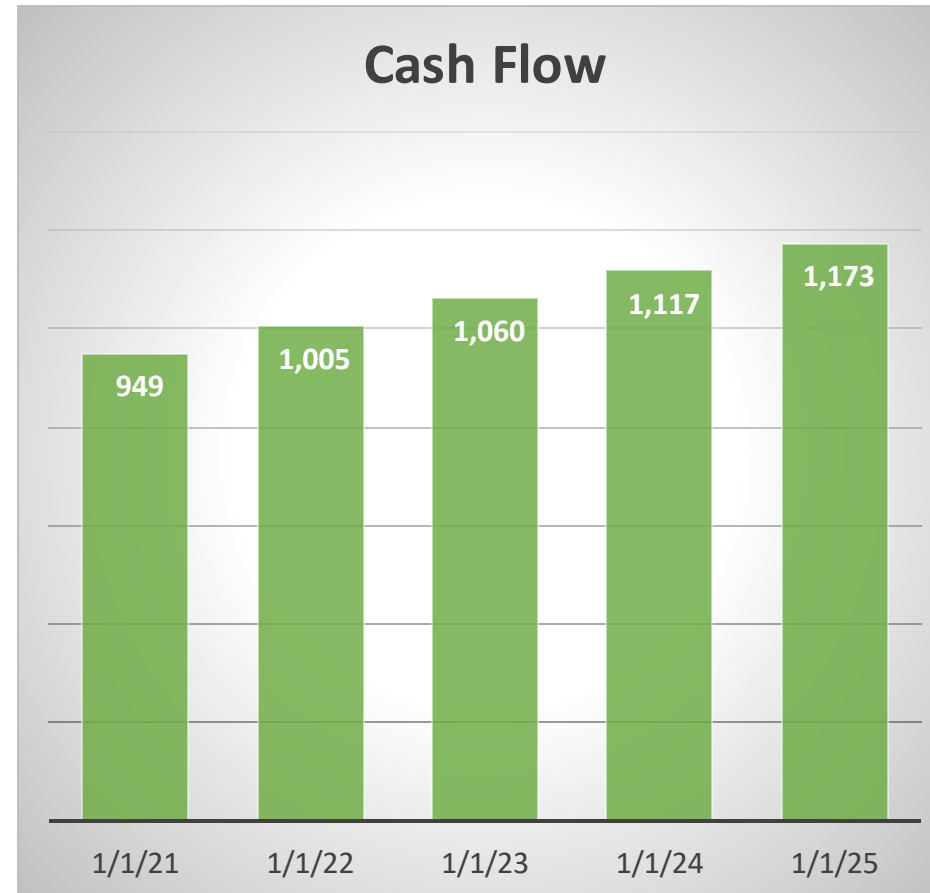
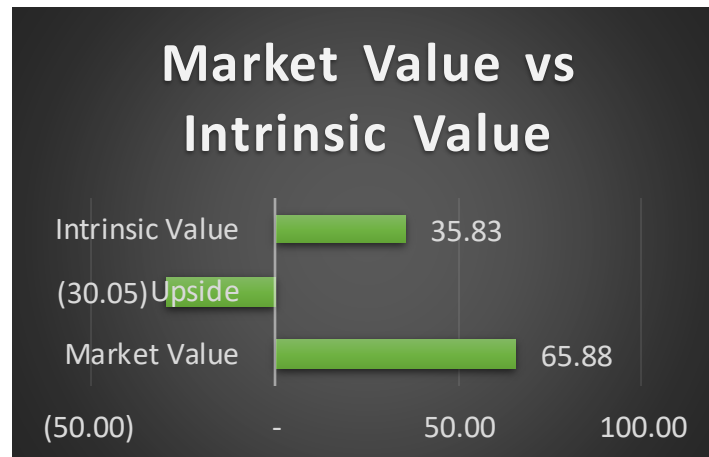
Why this is the minimum:

- Liquidity position + Resilience
- Banking is very cyclical

⇒ Equity currently  
overvalued by margin of \$30.05  
Intrinsic value 35.83

Likelihood...

- liquidity coverage ratio 118%
- Best Global Bank for Liquidity Management:
- => strong financial resilience makes this unlikely





- Environment
  - \$250 billion to finance climate related projects in the next 5 years
  - \$164 billion invested in environmental financing activities exceeding previous 5 year target.
  - Citi 7<sup>th</sup> out of 300 in Newsweek's inaugural index of America's Most Responsible Companies
  - Opportunity: Investment in Green Bonds/Citi already were one of the largest underwriters of green, social and sustainability bonds
- Social: Green Force Project:
- Risk: Cyber security:
- Governance:
- Risk: Most global bank => exposure to potential corruption

