

US Satellite*

Recommended since 06.02.2020

24.05.2022



Country US	Market capitalization (bn) USD	102.5	Perf. since reco. (%)
Sector Banks	Free float	99.8%	Citigroup Inc. -33.2
Factset C-US	Closing price USD	52.77	Sector -5.9
ISIN US1729674242	ESG Risk score*	29.2 Medium risk	

Profile

Citi is a global bank that operates in 160 countries, manages around 200 million accounts and employs 225,000 people. The group offers a fully diversified range of financial services from retail banking through to investment banking, not forgetting both Citi-branded and private-label credit cards. It generates 47% of its revenue in North America, 22% in Asia, 17% in EMEA and 14% in Latin America. The company was founded in 1812 and is headquartered in New York.

Strengths/opportunities

- Operational leverage (from 2023).
- A globally diversified footprint, with a bias towards higher-growth emerging markets.
- Strong balance sheet and high solvency.

Weaknesses/threats

- Credit card business is exposed to a slightly higher than average risk of increases in the cost of risk.
- Risk of execution of restructuring plan.
- Benefit of USD rate hikes diluted vs pure US banks.

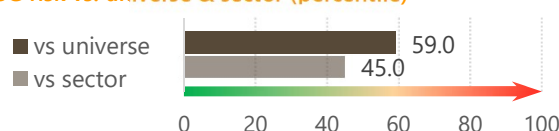
Investment case

- In a transatlantic banking sector that is already relatively efficient in terms of expense management, we favour institutions with a reasonable valuation and some potential for specific operational improvement (self help).
- Citi has historically been an industry benchmark in expense management, with a cost-income ratio of <60%. However, in 2022, we should expect a 5-6% increase in expenses to finance investments in future growth. But for the next 3-5 years, management is aiming for a cost/income ratio of < 60%.
- Solvency is comfortable, and the potential for share buybacks remains intact, even if its deployment will be more jerky, depending on divestments of non-strategic operations.
- The group's exposure to emerging markets, especially Asia, is a welcome source of growth and revenue diversification.
- 2022 will be a bit of a transition year, but the strategy presented by the new CEO at the beginning of 2022 has been well received.

Valuation

Citi is trading at a 30% discount to the sector based on 2023^e P/E ratios. The discount based on 2023^e P/B ratios is 50% despite a dividend yield 30% above the sector average. Even allowing for the conglomerate discount (c. 10%), this is overly harsh.

ESG risk vs. universe & sector (percentile)*



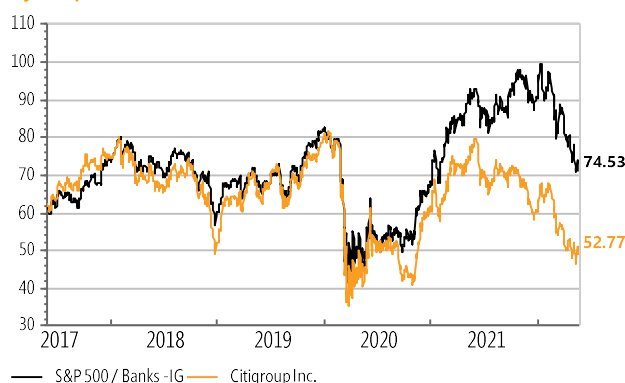
USD	12/2021	2022e	2023e
Sales revenue (mio)	80'171	72'937	75'041
Sales growth	-9.9%	-9.0%	2.9%
EBIT adjusted (mio)	24'000	22'760	25'339
% of sales	29.9%	31.2%	33.8%
Net income (mio)	21'791	13'036	13'773
Net income growth	98.2%	-40.2%	5.7%
CET1	12.2%	11.6%	11.6%
ROE	11.0%	7.0%	7.2%
Dividend yield	3.9%	3.9%	4.2%
PE	6.0x	7.8x	7.1x
P/BV	0.7x	0.6x	0.5x

Factset estimates

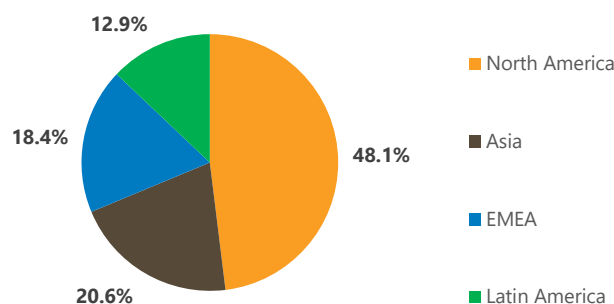
ESG - risks and key points

- Citi's risk in relation to business ethics is higher than the sector average. Some of its practices in relation to tax evasion have been the subject of past controversies.
- Citi lends to controversial sectors (nuclear energy, weapons, coal, etc.). But Citi is also a leader in green bonds.
- Up to 2014, Citi failed stress tests. However, it has scored nothing but positive results since 2015.

5-year performance vs sector



Sales breakdown - 12/2021



Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

Offices & Branches

Bordier & Cie Genève

Rue de Hollande 16
CH-1204 Genève
Case postale
CH-1211 Genève 3
T + 41 58 258 00 00
F + 41 58 258 00 40

Bordier & Cie Berne

Spitalgasse 40
Case postale
CH-3001 Berne
T + 41 58 258 07 00
F + 41 58 258 07 10

Bordier & Cie Nyon

Rue de la Porcelaine 13
CH-1260 Nyon
Case postale 1045
CH-1260 Nyon 1
T + 41 58 258 07 50
F + 41 58 258 07 70

Bordier & Cie Zurich

Talstrasse 83
CH-8001 Zürich
T + 41 58 258 05 00
F + 41 58 258 05 50

Bordier & Cie (France) S.A.

1, rue François 1er
75008 Paris – France
T + 33 1 55 04 78 78
F + 33 1 49 26 92 48

Bordier & Cie (Uruguay) S.A.

Edificio Beta 3, oficina 102
Zonamerica
91600 Montevideo
Uruguay
T + 598 2 518 2700
F + 598 2 518 2703

Bordier & Cie (Singapore) Ltd

CapitaGreen #14-00
138 Market Street
Singapore 048946
T + 65 6239 9999
F + 65 6239 9998

Bordier Bank (TCI) Ltd

Leeward Highway
Caribbean Place
Providenciales
Turks and Caicos
T + 1 649 946 45 35
F + 1 649 946 45 40

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