Taking Stock: Life in the big Citi

by Malcolm_Berko

Dear Mr. Berko: In January of 2004 you recommended that I buy 100 shares of Citigroup and I did at $51. Well the darn stock is still $51 even though the Dow Jones has risen from 11,000 to 12,700. Why hasn't this stock taken off like it did between 1998 and 2003? What's wrong with Citigroup? The dividend growth has been phenomenal and revenues as well as earnings have been setting records every year. Citigroup is the most profitable bank in the world and I think it's also the biggest. In fact I think I should take $10,000 from my money market account and buy 200 more shares.

C.L.

Jonesboro, Ark.

Dear C.L.: Yes, I recall that Citigroup recommendation and the stock has been dead as a dud ever since. It seems that my approval was the kiss of death. Mea culpa!

Citigroup Inc. (C-$54.04) during the last 12 months has traded between $46 and $57 a share. This financial services company owns Smith Barney, CitiFinancial, Primerica Financial Services, Bank of Mexico and in 2005 it sold Travelers Property & Casualty. Citigroup, an aggressive powerhouse built by Sandy Weil and a perennial Wall Street favorite, kind of lost its panache in late 2003 when Weil retired as chief executive officer.

I first met Sandy Weil in 1972. I didn't like him then and I don't like him now but I respect his genius, energy, foresight, timing, hands-on management and ability to select the best people for a specific job. Weil, like the acclaimed Jack Welch of GE (whom I like) is the reason C's stock price grew nearly fourfold between 1998 and 2003. The current CEO, Charles O. Prince, is a swell fellow but lacks the Weil charisma just as Jeff Immelt, CEO of GE, lacks the Welch charisma.

Citigroup's earnings have doubled since Weil left, assets have increased 75 percent, loans grew by 80 percent, the dividend doubled to $2.16 but the stock price moves like its walking underwater. I believe C's revenues, earnings, dividends and deposits will continue to do well over the coming years but the stock lacks the charm, the excitement, passion and gusto that was an important part of Weil's reign.

Perhaps the most telling success under Sandy Weil was C's return on assets, which zoomed from 0.9 percent in 1998 to 1.41 percent when he returned his key to the executive toilet. Under the distant management style of Prince, C's return on assets began to collapse like a row of dominoes to 0.95 percent this year and, according to Value Line, perhaps to 0.8 percent by 2009-10. Some believe this may be the major source of C's lousy stock performance.

Citigroup, in order to strengthen it ROA, may go on a hiring freeze and won't replace most of the 30,000 to 50,000 employees who leave the company each year. I called Citigroup for a comment and in conversation was told that CEO Charles Prince was "lollygagging somewhere in India at the moment." Shooting elephants, I suppose.

Even though the $2.16 dividend yields 4 percent and even though I think it will be raised again this year and perhaps even touch the $2.80 level by 2010, I doubt C has much upside potential. And even though revenues, earnings, book value and assets may have compelling growth over the coming few years, I continue to doubt that the capital gains potential for Citigroup shares is attractive. And even though Citigroup plans to buy an online bank in the United Kingdom, a leading financial services firm in Central America, 86 percent interest in a substantial Chinese bank and a large wealth advisory firm in the U.K., the Street seems to lack enthusiasm for Citigroup's share price over the next few years.

Citigroup is a fine company with lots of meat but no sizzle, little zest, spirit or vitality. The same could be said of other hugely successful companies like General Electric, Dell, Wal-Mart, Microsoft or Intel. Sometimes a company becomes so bloody big (only Exxon-Mobil made more money in 2006 than Citigroup) that its size attaches like an anchor on the stock.

I think it's unpatriotic to discourage you from owning 200 more shares of Citigroup, but I really believe that there are more attractive long-term investments. Keep the 100 shares you bought at $51 in January of 2004 and keep that $10,000 in your money market account. Besides, it takes my breath away when a company blithely announces it's going to lay off 20,000 to 50,000 people (a medium-size U.S. city), so I'm nervously waiting for the next big shoe to drop. Something better will come along when you least expect it.

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