

# Paper 2

Finance



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Paper 2 Citibank versus Bank of America Five Years from Now Citibank is ranked currently in first four banks in US. Prior to mortgage crisis, Citibank was ranked number one bank in the world in market capitalization spanning its operations in 140 countries. The bank was rescued by the US government during mortgage crisis providing a massive stimulus package. The intervention was necessary to avoid panicky and financial turmoil because it became necessary to save such a massive bank, which had involvement with most of the fortune 500 companies and dealings with several governments worldwide. The emergency aid, to the tune of \$25 billion, provided by US government to save the bank was later converted into common stock. The government also guaranteed losses to the tune of \$300 billion due to troubled assets of the Citibank.

Subsequently, the restructuring exercise done by the management under the leadership of the newly joined CEO Vikram Pandit did turn the table. The bank showed profit in the last four figures is a testimony to the successful strategic actions taken by the management. Pandit in an address to the company employees listed the following objectives to spearhead the bank to old glories.

1. The focus is now on emerging markets. Citibank is well placed to tap the opportunities due to wide network of its offices throughout the world. Bank aims at remaining number one in emerging markets.
2. The objective is to become the premier digital bank in the world through technological up gradation. The bank is planning to roll out smart banking technology in all major markets.
3. Bank will focus to provide most up-to-date information to all their clients with all details of why and how.

4. Bank would take great strides in the coming years by meeting financial needs of their clients from infrastructure to alternative energy to many development projects in the fastest growing economies in the world.

Bank of America

While comparing Citibank with Bank of America, it will be worthwhile to look at the following key parameters for the 12 months period of the last completed financial year.

Key Parameters

Citibank

Bank of America

Market capitalization

97. 6B

82. 79B

Quarterly Rev growth

-1. 3%

-45. 4%

Operating Margin

19. 8%

0. 27%

EPS

3. 06

-1. 64

P/E

0. 94

N. A

PEG (5 year expected)

<https://assignbuster.com/paper-2/>

0. 60

-3. 43

Source: <http://finance.yahoo.com/q/co?s=C+Competitors>

The recent performance of Bank of America does not show much of a promise as BOA made losses to the tune of \$8.8 billion in the second quarter this year. The biggest issue with BOA is \$408 billion of mortgages that bank is holding in home equity. Banks future is linked with the recovery of housing market and that is not likely to show any sign of recovery because of the high unemployment rate prevailing in the US market. Depressed economy in US and high unemployment rate will keep housing market in a subdued state for quite a long time. For this reason, BOA remains a highly risky stock with not much of a hope of any dramatic improvement in coming years.

Moreover, BOA is not active enough in the emerging markets and developing economies with a possibility of getting benefited like Citibank.

The Bank for Investment

From the above analysis it seems that though both the banks had worst period during the subprime crisis, Citibank is displaying required dynamism to come out of the crisis through better restructuring strategies and clear objectives in the mind. The market will continue to pass through volatile phases for some more time to come but due to larger global reach Citibank will be in a better position to offset negativities prevailing at developed market through larger share in emerging and developing economies.

Considering horizon of 5 years and for the reasons mentioned above, I would certainly bet on Citibank and would prefer to invest in it for a longer period regardless of immediate hiccups that capital markets may display.

Reference

<https://assignbuster.com/paper-2/>

1. Grocer, Stephen (2011), John Havens: Citi's New President, 7 August 2011, <http://blogs.wsj.com/deals/2011/01/19/john-havens-citis-new-president/>
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