Chimera Investment Corporation (CIM)

Updated February 17th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$7.00	**5 Year CAGR Estimate:**	11.7%	**Market Cap:**	$1.6 B
Fair Value Price:	$6.80	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	3/30/2023[1]
% Fair Value:	102%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date:**	4/27/2023
Dividend Yield:	13.1%	**5 Year Price Target**	$7.60	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Buy:**	Hold

Overview & Current Events

Chimera Investment Corporation is a real estate investment trust (REIT) that is a specialty finance company. The company's primary business is in investing through subsidiaries in a diversified portfolio of mortgage assets, including residential mortgage loans, Non-Agency RMBS, Agency CMBS, and other real estate related securities. Chimera's income is predominantly obtained by the difference between the income the company earns on its assets and financing and hedging costs. The company funds the purchase of assets through several funding sources: asset securitization, repurchase agreements (repo), warehouse lines, and equity capital. This $1.6 billion market capitalization company is listed on the New York Stock Exchange under the ticker 'CIM'.

In mid-February, Chimera released (2/15/23) financial results for the fourth quarter of fiscal 2022. Its core earnings-per-share declined sequentially from $0.27 to $0.11 due to rising interest rates and wider credit spreads. The company is facing a strong headwind from the surge in inflation and the resultant shift in the policy of Fed, which has been raising interest rates aggressively in an effort to control inflation. An unexpected increase in interest rates is a strong headwind for Chimera, as it exerts great pressure on its margins, i.e., the difference between lending and borrowing rates, without allowing the company to hedge its rates. This is the reason behind the -29% slump in the book value and the -48% plunge of the stock in the last 12 months. We expect 10-year low earnings-per-share of $0.90 this year. Chimera cut its quarterly dividend by 30% in October due to the adverse business environment.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.75	$2.85	$1.25	$2.93	$2.62	$1.97	$2.25	$1.46	$1.78	$1.08	***$0.90***	***$0.99***
DPS	$2.80	$1.80	$1.92	$2.44	$2.00	$2.00	$2.00	$1.40	$1.29	$1.12	***$0.92***	***$0.92***
Shares[2]	205.5	205.5	187.7	187.7	187.8	187.1	188.4	287.0	240.4	233.9	***232.0***	***300.0***

Chimera has exhibited a markedly volatile performance record over the last decade. It has failed to grow its earnings-per-share over the last decade and is poised to post 10-year low earnings-per-share this year. Moreover, the REIT has been caught off-guard, with a high debt load, in the downturn caused by the latest surge in inflation. Furthermore, given the unreliable performance and the relatively opaque business model of the company, we find it prudent to assume just 2.0% average annual earnings-per-share growth over the next five years.

Chimera has always offered exceptionally generous dividends to its shareholders, ranging from 9.2% in 2021 to 17.5% in 2009 and 2011. We expect a high yield to remain in place, but the dividend is at risk of being cut further.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	8.9	5.2	14.5	7.3	7.0	8.3	8.6	7.8	7.9	8.8	***7.8***	***7.6***
Avg. Yld.	11.6%	11.3%	14.1%	11.8%	10.8%	11.2%	10.3%	10.5%	9.2%	11.8%	***13.1%***	***12.2%***

[1] Estimated date.

[2] In millions.

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Chimera's valuation has fluctuated significantly throughout the last decade. The stock is currently trading at a price-to-earnings ratio of 7.8, which is marginally higher than its 5-year average earnings multiple of 7.6. If Chimera trades at its average valuation level in five years, it will incur a marginal -0.5% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	160%	63%	154%	83%	76%	102%	89%	96%	72%	104%	***102%***	***93%***

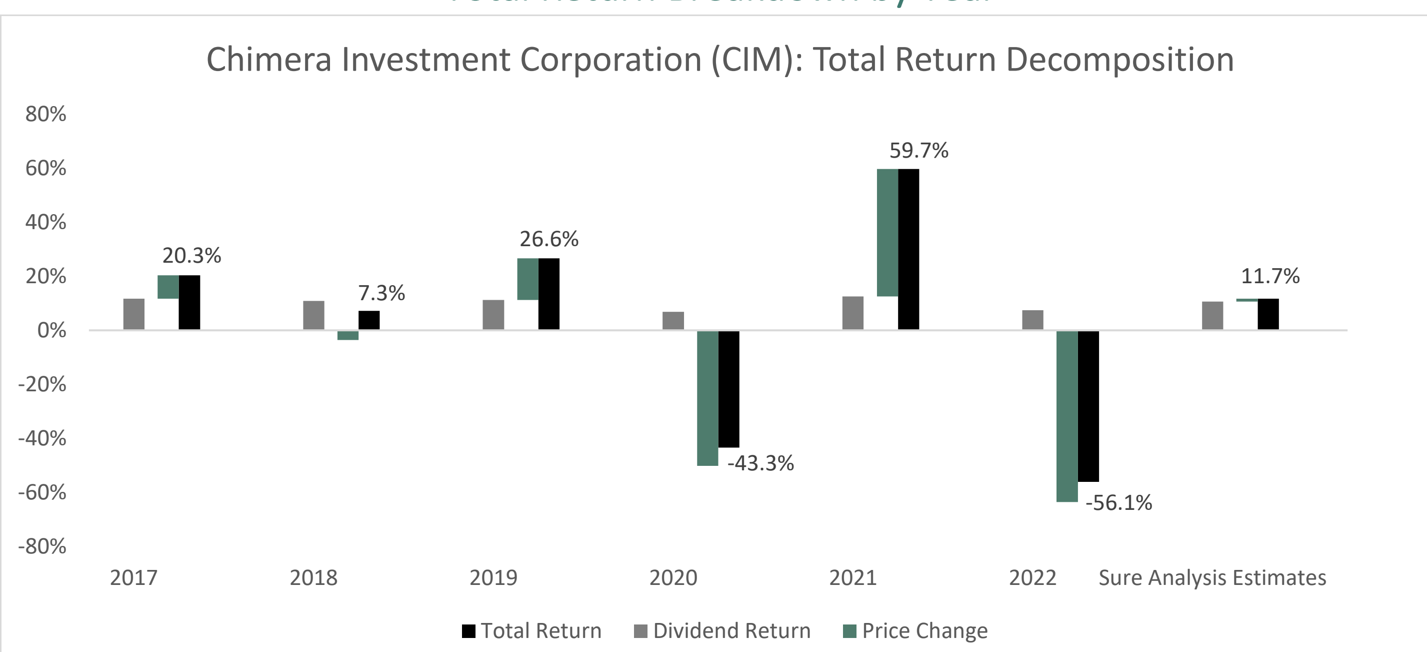
A large part of Chimera's operations are related to mortgage assets. The company has financing risks from certain transactions which include short-term debt to finance mortgage loans. Chimera has a high net debt load, which currently stands at $8.3 billion, and hence the company has benefited from the depressed interest rates in recent years. Moreover, lower rates are favorable for Chimera, as they generally enhance the margin between funding costs and returns of investments. However, Chimera is vulnerable to the pandemic. Its losses in the first quarter of 2020 reflect the risky business model of the REIT. Chimera is also highly vulnerable to the ongoing cycle of interest rate hikes, which exert great pressure on the margins and the book value of the company.

Chimera went public just before the onset of the Great Recession. In its first year, the company incurred losses of -$9.50 per share. During the Great Recession, the stock plunged nearly -80%. It is thus evident that the stock is highly vulnerable to recessions.

Final Thoughts & Recommendation

Chimera is vulnerable to the unexpected surge in inflation to a multi-decade high. As a result, the stock has shed -48% in the last 12 months. If inflation subsides, the stock could offer an 11.7% average annual return over the next five years thanks to its 13.1% dividend and 2.0% earnings growth, partly offset by a -0.5% valuation headwind. Chimera is likely to remain under pressure in the short run but it will probably rebound strongly when the Fed stops raising interest rates. However, due to its unreliable performance record, its opaque business model and its huge downside risk in the event of a prolonged downturn from inflation, we rate the stock as a hold only for those who realize its high risk.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	394	587	316	597	608	444	491	229	1,057	-415
SG&A Exp.	33	44	60	44	48	59	75	70	69	72
Net Profit	363	589	250	552	525	412	414	89	670	-513
Net Margin	92.0%	100%	79.1%	92.5%	86.3%	92.6%	84.3%	38.8%	63.4%	-1.2%
Free Cash Flow	305	183	396	553	487	298	65	258	519	326
Income Tax	0	0	0	0	0	0	0	0	4	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6936	19155	15345	16685	21222	27709	27119	17523	15407	13402
Cash & Equivalents	78	165	114	178	64	47	110	269	386	265
Accounts Receivable	33	71	66	80	101	123	116	81	70	62
Total Liabilities	3605	15547	12398	13561	17587	24005	23165	13744	11671	10735
Accounts Payable	9	34	49	65	79	127	70	47	32	47
Long-Term Debt	1604	5095	4250	7275	9594	8615	8313	8877	7814	10614
Shareholder's Equity	3332	3608	2946	3123	3635	3704	3953	3779	3736	2666
D/E Ratio	0.48	1.41	1.44	2.33	2.64	2.33	2.10	2.35	2.09	3.98

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.9%	4.5%	1.5%	3.4%	2.8%	1.7%	1.5%	0.4%	4.1%	-3.6%
Return on Equity	10.6%	17.0%	7.6%	18.2%	15.5%	11.2%	10.8%	2.3%	17.8%	-16.0%
ROIC	6.6%	8.6%	3.1%	6.3%	4.4%	3.2%	3.4%	0.7%	5.5%	-3.7%
Shares Out.	205.5	205.5	187.7	187.7	187.8	187.1	188.4	287.0	240.4	233.9
Revenue/Share	1.92	2.86	1.58	3.17	3.23	2.37	2.60	1.01	4.31	-1.77
FCF/Share	1.48	0.89	1.99	2.94	2.59	1.59	1.58	1.14	2.11	1.39

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.