New York Mortgage Trust, Inc. (NYMT)

Updated August 7th, 2020 by Josh Arnold

Key Metrics

Current Price:	$2.69	**5 Year CAGR Estimate:**	16.4%	**Market Cap:**	$1.0 B
Fair Value Price:	$4.00	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	9/30/2020[1]
% Fair Value:	67%	**5 Year Valuation Multiple Estimate:**	8.3%	**Dividend Payment Date:**	10/27/2020[2]
Dividend Yield:	7.4%	**5 Year Price Target**	$4.20	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	N/A

Overview & Current Events

New York Mortgage Trust is a real estate investment trust, or REIT, that acquires, invests in, finances, and manages mortgage-related assets and other financial assets. The trust doesn't own physical real estate, but rather seeks to manage a portfolio of investments that are real estate-related. New York Mortgage Trust derives revenue from net interest income and net realized capital gains from its investment portfolio. The trust primarily seeks to generate interest income from mortgage-related assets, but owns some distressed financial assets where it seeks to capture capital gains. The trust invests in residential mortgage loans, multi-family CMBS, preferred equity, and joint venture equity. It has been publicly-traded since 2004, and has a current market capitalization of $1 billion.

New York Mortgage Trust reported second quarter earnings on August 5th, with results coming in weaker than expected. Total interest income was $48 million in Q2, which was slightly better than expected, but only a fraction of the $167 million earned in the prior-year period. On a net basis, interest income was below expectations, falling to $28.5 million, down from $47 million in the first quarter of this year.

GAAP earnings came to 28 cents per share in Q2 against 8 cents in the same period last year as the value of securities held rose sharply during the quarter. Book value ended the quarter at $4.35 per share, up from $3.89 at the end of Q1, reflecting rising values of held securities.

New York Mortgage Trust also took the critical step of reinstating the common dividend, which is currently at 20 cents per share on an annualized basis.

Our estimate for this year is a loss of -$1.40 per share on a net basis, but in order to account for COVID-19-related weakness, we use earnings power of $0.50 per share for fair value and valuation calculations.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$0.60	$0.45	$1.08	$1.11	$1.52	$0.62	$0.50	$0.61	$0.58	$0.65	***-$1.40***	***$0.53***
DPS	$0.79	$0.90	$1.06	$1.08	$1.08	$1.02	$0.96	$0.80	$0.80	$0.80	***$0.20***	***$0.40***
Shares[3]	9	10	26	59	88	108	110	130	147	243	***351***	***500***

New York Mortgage Trust has struggled to grow consistently in the past, a trait owed to the very volatile nature of the markets it invests in. Prices and yields of mortgage-backed securities tend to move around a lot, and with rates around the world having plummeted to historical lows, the past few years in particular have not been kind to mortgage REITs.

We see annualized growth of just 1% for New York Mortgage Trust on our earnings power estimate of 50 cents per share. We use this estimate to normalize earnings given the extreme dislocation that is occurring for 2020, and fair value and valuation metrics are computed using this value, not actual earnings estimates for this year. Growth should be

[1] Estimated date
[2] Estimated date
[3] Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

somewhat easier to come by in the coming years as rates are already near zero in many cases, meaning downside risk for mortgage REITs should be largely priced into its securities at this point.

As noted, the dividend is back after missing one payment. We currently expect the payout to double in the next five years, rebuilding a small fraction of the dividend income that has been lost by the current crisis.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	11.4	15.7	6.3	6.1	5.0	11.4	11.4	10.4	10.5	9.5	***5.4***	***8.0***
Avg. Yld.	11.6%	12.8%	15.6%	16.0%	14.1%	14.5%	16.8%	12.7%	13.2%	13.0%	***7.6%***	***9.6%***

The price investors have been willing to pay for this stock has moved around enormously in the past decade, ranging from 5 times earnings to nearly 16. Given the current environment, we assess fair value at 8 times earnings, which is still well in excess of the current multiple of 5.4. That could provide shareholders with a strong tailwind to total returns if the stock reverts to our fair value estimate over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	132%	200%	98%	97%	71%	165%	192%	131%	138%	123%	***40%***	***77%***

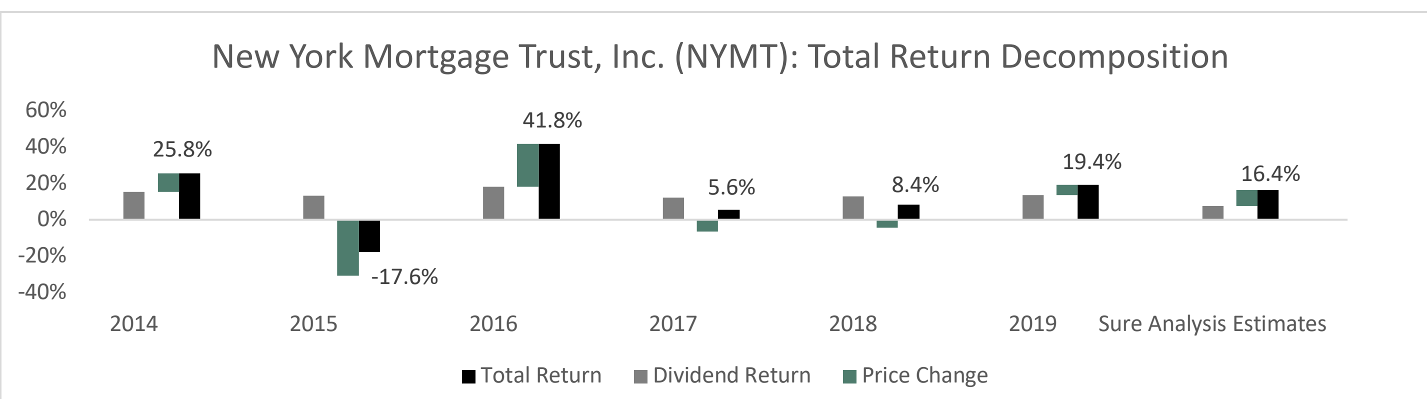
New York Mortgage Trust doesn't really have any competitive advantages as all mortgage REITs operate in largely the same way, and with the same sort of securities. It used to have some scale advantages, but with the sales that occurred early in 2020, that is no longer the case. We therefore see this trust as having no competitive advantages at all.

The balance sheet is in much better shape after the capital raises and asset sales that occurred in early 2020, but recession performance is generally poor for mortgage REITs as consumers and businesses default on their mortgages in higher numbers during economic downturns.

Final Thoughts & Recommendation

New York Mortgage Trust, and indeed the mortgage REIT industry as a whole, are at an extremely tough point in the cycle. Earnings will be negative across the sector this year barring some sort of unforeseen, massive recovery in prices, and we expect New York Mortgage Trust will not be immune from this weakness. The trust produced a strong GAAP profit in Q2, indicating conditions are improving quickly. The stock is pricing in a great deal of portfolio weakness, and as such, we see it as undervalued. However, this is an extremely high-risk, high-reward situation, so it is not for the income investor, or the risk-averse investor. Given the risks, we rate it a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	15	17	41	91	188	123	105	131	137	201
SG&A Exp.	8	11	11	16	34	29	25	23	24	32
D&A Exp.	3	6	10	13	3	1	8	0	29	56
Net Profit	7	5	28	69	136	78	68	92	103	174
Net Margin	44.3%	27.4%	68.5%	75.9%	72.3%	63.2%	64.3%	70.1%	75.3%	86.4%
Free Cash Flow	(0)	13	29	53	38	36	54	29	24	35
Income Tax	-	0	1	1	6	5	3	3	(1)	(0)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	374	683	7160	9899	10540	9056	8952	12056	14738	23483
Cash & Equivalents	19	17	32	32	76	62	84	95	104	119
Total Liabilities	306	596	6838	9418	9722	8176	8100	11080	13557	21278
Long-Term Debt	301	245	5663	8379	8471	7097	6922	9572	11325	17996
Shareholder's Equity	68	85	322	408	746	721	689	682	890	1701
D/E Ratio	4.39	2.87	17.59	17.43	10.36	8.06	8.16	9.85	9.60	8.16

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.6%	0.9%	0.7%	0.8%	1.3%	0.8%	0.8%	0.9%	0.8%	0.9%
Return on Equity	10.4%	6.2%	13.9%	18.9%	23.6%	10.6%	9.6%	13.4%	13.1%	13.4%
ROIC	1.6%	1.4%	0.9%	0.9%	1.5%	0.9%	0.9%	1.0%	0.9%	1.1%
Shares Out.	9	10	26	59	88	108	110	130	147	243
Revenue/Share	1.63	1.66	1.58	1.54	2.14	1.14	0.96	1.01	0.93	0.83
FCF/Share	-0.03	1.28	1.12	0.90	0.43	0.34	0.49	0.22	0.16	0.14

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