



Broadmark Realty Capital (BRMK)

Updated September 11th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$9.83	5 Year CAGR Estimate:	5.7%	Market Cap:	\$1.31 billion
Fair Value Price:	\$8.10	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	9/29/2020
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	10/15/2020
Dividend Yield:	7.3%	5 Year Price Target	\$9.39	Years Of Dividend Growth:	N/A
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

Broadmark Realty Capital Inc. is a real estate investment trust that provides short-term, first deed of trust loans that are secured by real estate. Customers use these loans to acquire, renovate, rehab and develop properties for both residential and commercial uses in the U.S. Broadmark Realty formed in 2010, but had its initial public offering in November of 2019. The trust has originated more than \$2.4 billion of loans since forming.

Broadmark Realty reported earnings results for the second quarter on 8/10/2020. Revenue of \$29.1 million was \$3 million lower than expected. Core earnings-per-share of \$0.18 missed consensus estimates by 3 cents.

Broadmark Realty originated \$50.5 million of loans spread out across 16 separate loans during the quarter. The weighted average loan to value was 59.6%. Interestingly, \$45 million of these loans were originated in the month of June. This is likely due to customers being unable to perform construction related activities due to COVID-19 restrictions that were in place during much of the quarter. Interest income was \$22.2 million with fee income totaling nearly \$7 million. The total loan portfolio was \$1.1 billion across 11 states and the District of Columbia. As of the end of the second quarter, Broadmark Realty had 30 loans in contractual default, which doesn't include 10 loans with forbearance agreements. This accounts for 16% of total loan commitments, up slightly from 14.3% of loan commitments in default at the end of the first quarter. The trust was paid \$14.2 million in loan payoffs and interest payments that had been in default. Estimated loan losses of \$6.8 million represented less than 1% of the total portfolio. Broadmark Realty ended the second quarter with \$218 million of cash and cash equivalents on its balance sheet and \$260.4 million of unfunded loan commitments.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	---	---	---	---	---	---	\$0.21	\$0.81	\$0.94
DPS	---	---	---	---	---	---	---	---	---	\$0.12	\$0.72	\$0.72
Shares¹	---	---	---	---	---	---	---	---	---	132	132	132

Broadmark Realty has been a publicly traded company for a short period of time. That said, the trust has some impressive features. First, Broadmark Realty has zero debt outstanding, which is highly unusual for a REIT. The trust has also seen its active loan portfolio grow from \$117 million at the end of 2014 to more than \$1.2 billion at the end of the second quarter. Without much of a track record, we believe that a growth rate of 3% for core earnings is appropriate.

Broadmark Realty is unusual in that it pays a monthly dividend. That said, the dividend has been cut twice in less than a year and never raised. Including the scheduled payment for 10/15/2020, the dividend has been maintained at \$0.06 per share for the previous six payments. Shares yield 7.3% at the current price, but we are not confident that this yield can be sustained if EPS do not grow.

¹ In millions of shares

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.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	---	---	---	---	---	---	---	12.1	10.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	---	7.3%	7.7%

Shares of Broadmark Realty have lost more than 23% this year as the trust was severely impacted by the COVID-19 pandemic. Based on estimates for the year, Broadmark Realty trades with a price-earnings-ratio of 12.1. We have a 2025 target price-to-earnings ratio of 10. We feel that this incorporates the positives for the trust, but also takes into account the short period of time it has been a publicly traded entity. Reverting to our 2025 price target would reduce annual returns by 3.8% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

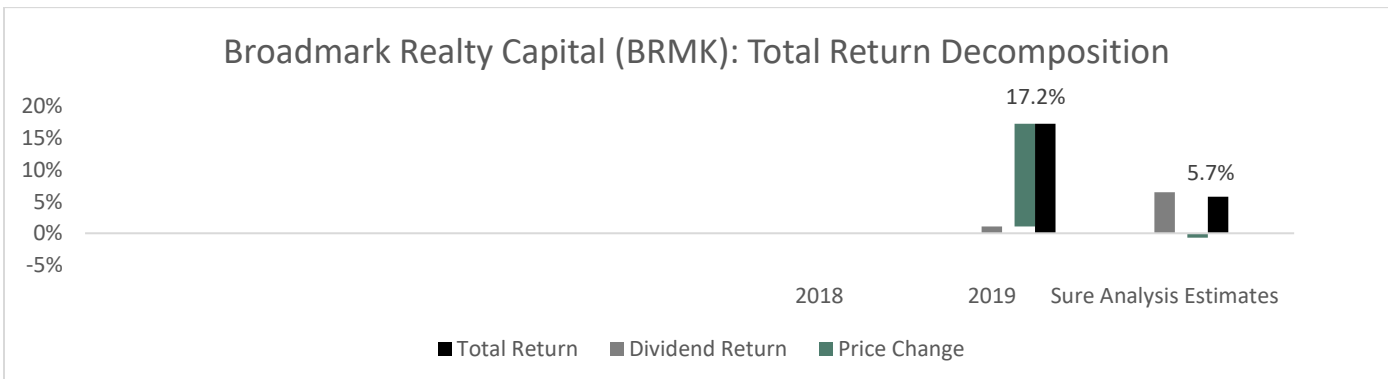
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	---	---	57%	89%	79%

Broadmark Realty's lack of debt is a significant advantage. The trust uses cash on its balance sheet to make acquisitions as opposed to many REITs which use debt to fund purchases. This keeps Broadmark Realty from having to pay interest expense. The trust's weighted average loan-to-value is 60% which allows Broadmark Realty to take possession of properties in default with a sizeable amount of equity built in. This should enable the trust to recover a large portion of potential losses. Broadmark Realty is far from recession tested, but the lack of loans originated during COVID-19 restrictions could be a sign of what may happen during a deep recession. The trust's portfolio is split almost evenly as residential loans comprise 55% of the portfolio with commercial making up the remainder. However, Broadmark Realty's properties are highly concentrated in the Pacific Northwest and Mountain West, where 97% of residential loans are located.

Final Thoughts & Recommendation

Shares of Broadmark Realty are expected to return 5.7% annually through 2025. This expected return consists primarily of a high yield of 7.3%, a slight increase in annual core earnings and valuation multiple compression. While Broadmark Realty's lack of debt is appealing, the trust is not without risk. Broadmark Realty is susceptible to a lack of activity in construction and the trust's properties are concentrated in just a few areas of the country. The dividend yield, which composes the majority of our total return expectations, could also be cut again. We initiate Broadmark Realty with a hold rating and recommend only the most risk tolerant investors consider investing in the trust.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	---	---	---	---	---	---	---	---	---	---
Operating Profit	---	---	---	---	---	---	---	---	---	---
Op. Margin	---	---	---	---	---	---	---	---	---	---
Net Profit	---	---	---	---	---	---	---	---	---	---
Net Margin	---	---	---	---	---	---	---	---	---	---
Free Cash Flow	---	---	---	---	---	---	---	---	---	---
Income Tax	---	---	---	---	---	---	---	---	---	---

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	---	---	---	---	---	---	---	---	---
Cash & Equivalents	---	---	---	---	---	---	---	---	---	---
Acc. Receivable	---	---	---	---	---	---	---	---	---	---
Inventories	---	---	---	---	---	---	---	---	---	---
Goodwill & Int.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	---	---	---	---	---	---	---	---	---	---
Accounts Payable	---	---	---	---	---	---	---	---	---	---
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Total Equity	---	---	---	---	---	---	---	---	---	---
D/E Ratio	---	---	---	---	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	---	---	---	---	---	---	---	---
Return on Equity	---	---	---	---	---	---	---	---	---	---
ROIC	---	---	---	---	---	---	---	---	---	---
Shares Out.	---	---	---	---	---	---	---	---	---	---
Revenue/Share	---	---	---	---	---	---	---	---	---	---
FCF/Share	---	---	---	---	---	---	---	---	---	---

Notes: All figures in millions of U.S. Dollars unless per share or indicated otherwise. Third page numbers are not included for Broadmark Realty Capital due to the company's short history since its IPO.

Disclaimer

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