Broadmark Realty Capital (BRMK)

Updated November 11th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$10.20	**5 Year CAGR Estimate:**	5.0%	**Market Cap:**	$1.34 billion
Fair Value Price:	$8.10	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	11/27/2020
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Dividend Payment Date:**	12/15/2020
Dividend Yield:	7.1%	**5 Year Price Target**	$9.39	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	F	**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 announced earnings results for the third quarter on 11/9/2020. Revenue decreased 16.2% to $28.98 million, which was $2.31 million lower than expected. Earnings-per-share of $0.18 was in-line with estimates.

Broadmark Realty originated $153.4 million of loans during the quarter which was comprised of 22 separate loans at a weighted average loan to value of 60.6%. Loans originated was almost three times that of the second quarter. Interest income was $21.8 million while fee income totaled $7.1 million. The total loan portfolio was $1.2 billion across 12 states and the District of Columbia. As of September 30th, Broadmark Realty had 30 loans in contractual default, which doesn't include five loans with forbearance agreements. Estimated loan losses of $6.1 million remains quite low, as this is less than 1% of the total portfolio. Broadmark Realty ended the second quarter with $174 million of cash and equivalents on its balance sheet and $305.4 million of unfunded loan commitments. The company has no outstanding debt.

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***
Shares[1]	---	---	---	---	---	---	---	---	---	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 7.1% at the current price, but we are not confident that this yield can be sustained if earnings do not grow.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	---	---	---	---	---	---	---	***12.6***	***10.0***
Avg. Yld.	---	---	---	---	---	---	---	---	---	---	***7.1%***	***7.7%***

[1] In millions of shares

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Shares of Broadmark Realty have increased 3.8% since our 9/11/2020 update. Based on estimates for the year, Broadmark Realty trades with a price-earnings-ratio of 12.6. 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 4.5% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

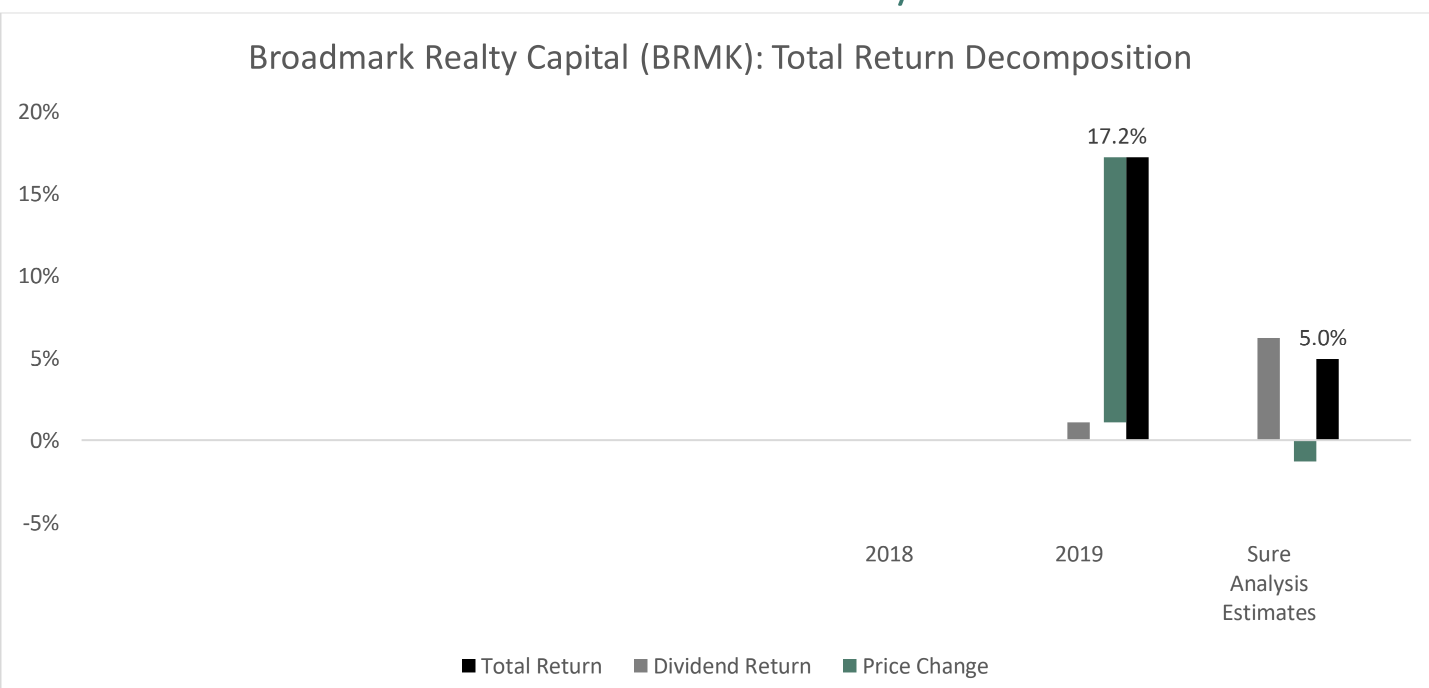
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	---	---	57%	***89%***	***77%***

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 5.0% annually through 2025, down from our previous estimate of 5.7%. Our projected return stems from a 5% earnings growth rate and 7.1% dividend yield that are partially offset by a mid-single-digit multiple compression. Broadmark's loan origination was considerably higher on a sequential basis and estimates for loan losses remains quite low. However, Broadmark continues to receive a hold recommendation from Sure Dividend due to expected returns.

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.