



AGNC Investment Corporation (AGNC)

Updated February 3rd, 2021 by Samuel Smith

Key Metrics

Current Price:	\$15.6	5 Year CAGR Estimate:	6.5%	Market Cap:	\$8.5B
Fair Value Price:	\$19.3	5 Year Growth Estimate:	-6.2%	Ex-Dividend Date:	2/28/21 ¹
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.2%	Dividend Payment Date:	3/09/21 ²
Dividend Yield:	9.2%	5 Year Price Target	\$14.0	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	NA

Overview & Current Events

American Capital Agency Corp was founded in 2008, and is a mortgage real estate investment trust that invests primarily in agency mortgage-backed securities (or MBS) on a leveraged basis. The firm's asset portfolio is comprised of residential mortgage pass-through securities, collateralized mortgage obligations (or CMO), and non-agency MBS. Many of these are guaranteed by government-sponsored enterprises. The majority of American Capital's investments are fixed-rate agency MBS. Most of these are MBS with a 30-year maturity period. The counterparties to most of American Capital's assets are located in North America. Counterparties in Europe also represent a significant percentage of the trust's total portfolio. American Capital derives nearly all its revenue in the form of interest income. It currently generates about \$1.2 billion in annual net interest income and trades at a market capitalization of \$8.5 billion.

AGNC reported its Q4 2020 results on January 25, 2021. Q4 net spread and dollar roll income per share stood at 75 cents compared with consensus estimates of 65 cents and 81 cents in Q3 2020. Partially responsible for this success was AGNC's forward purchase and sales of agency MBS in the TBA market that brought the average net long position to \$33.8 billion. The company's net book value per common share also showed an increase from \$15.88 on September 30, 2020 to \$16.71 as of December 31, 2020. 36 cents in dividends per common share and the 83-cent increase in TNBV per common share generated an 7.5% economic return on tangible common equity for Q4.

The lower coupon, new production pools, and higher coupon specified pools are the reasons AGNC's portfolio outperformed their hedge portfolio this quarter.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$5.02	\$4.17	\$3.28	(\$0.72)	\$0.54	\$1.79	\$2.04	\$0.21	\$2.26	\$2.70	\$2.41	\$1.75
DPS	\$5.60	\$5.00	\$3.75	\$2.61	\$2.48	\$2.30	\$2.16	\$2.16	\$2.16	\$1.44	\$1.44	\$1.50
Shares³	153	303	379	353	349	331	358	441	546	546	546	800

Due to AGNC's heavily leveraged business model and its high sensitivity to interest rates, its results have been very choppy over the years. Furthermore, the current coronavirus disruption to the economy is suppressing earnings per share and book value. That being said, we believe that the current lower interest rate environment stemming from slowing global growth and the Federal Reserve's renewed dovish stance should enable it to weather the challenges well since it will keep spreads attractive and the mortgage market on somewhat solid footing.

Over the long-term we think the high payout ratio and the volatile nature of the business model will harm earnings per share growth after an initial snap-back after this year's disruption. We also believe that dividend growth will be anemic for the foreseeable future.

¹ Estimate

² Estimate

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.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	5.6	7.1	5.9	-30.4	31.8	10.1	9.9	83.6	7.5	5.5	6.5	8.0
Avg. Yld.	19.8%	16.9%	19.4%	11.9%	14.4%	12.7%	10.7%	12.3%	12.7%	10.3%	9.2%	10.7%

AGNC is currently trading at 6.5 times its projected 2021 earnings, and we see this as undervalued based on its longer-term P/E averages. As a result, we see valuation multiple expansion over the next half decade. The dividend yield is uncertain moving forward as the company has a history of cutting its dividend during times of uncertainty. However, our current estimate implies a yield that is below historical averages.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	112%	120%	114%	-363%	459%	129%	106%	1029%	96%	56%	60%	86%

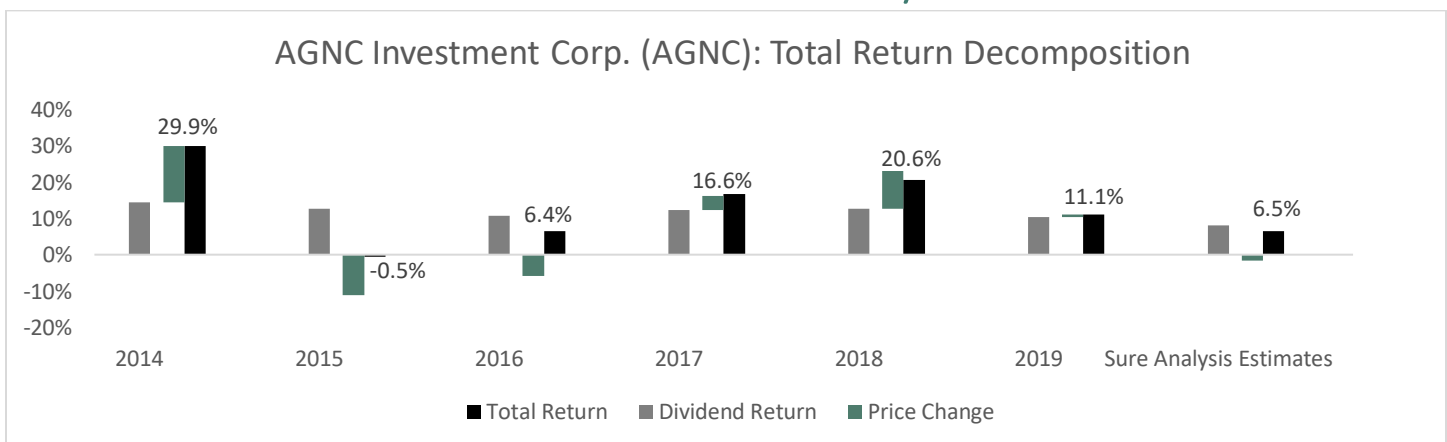
Given that it had its IPO in 2008 – in the midst of the financial crisis – it is hard to get an accurate picture of exactly how it can be expected to perform during this recession. However, the mortgage backed security industry – given its leverage and interest rate sensitivity – is very prone to underperform when the housing market experiences a downturn and mortgage foreclosures rise. As a result, it should not be viewed as a safe, defensive stock. That being said, its record thus far has been fairly strong, with industry-leading total economic return (NAV-based) and total stock return (share price-based).

This outperformance has been driven by its highly efficient operating cost structure of approximately 0.8% of total equity capital, and the competitive advantage that it enjoys through economies of scale as one of only three residential mortgage REITs with a market capitalization of above \$5 billion. The trust also strives to guard against downside and enhance shareholder total returns by utilizing a comprehensive risk management framework that is predicated on careful asset selection, disciplined hedging, and diversified funding.

Final Thoughts & Recommendation

AGNC offers investors an attractive current dividend yield of 9.2% and a discount to fair value in its earnings multiple. That said, the earnings stream is unpredictable and highly leveraged. As a result, we view shares as fairly valued at present with annualized total return potential of 6.5% over the next half decade. We rate shares a hold as a result and advise conservative dividend growth investors to look elsewhere.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	795	1,327	1,304	(211)	238	676	844	229	771	(173)
SG&A Exp.	19	31	32	-	-	19	42	45	47	56
D&A Exp.				-	-	2	3	25	-	
Net Profit	770	1,277	1,259	(233)	215	623	771	129	688	(266)
Net Margin	96.9%	96.2%	96.5%	110.4%	90.3%	92.2%	91.4%	56.3%	89.2%	154%
Free Cash Flow	1,070	2,321	2,501	1,622	1,428	1,352	1,260	1,113	1,180	

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	57972	100453	76255	67766	57021	56880	70376	109241	113082	81817
Cash & Equivalents	1,367	2,430	2,143	1,720	1,110	1,208	1,046	921	831	1,017
Goodwill & Int.					-	554	551	526	526	526
Total Liabilities	51,760	89,557	67,558	58,338	49,050	49,524	61,622	99,335	102041	70,738
Accounts Payable	40	132	492	100	61	211	299	518	424	219
Long-Term Debt	54	937	910	761	4,348	3,497	357	275	228	177
Total Equity	6,212	10,729	8,530	9,092	7,635	7,020	8,270	9,422	10,109	9,590
D/E Ratio	0.01	0.09	0.10	0.08	0.55	0.48	0.04	0.03	0.02	0.02

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.1%	1.6%	1.4%	-0.3%	0.3%	1.1%	1.2%	0.1%	0.6%	-0.3%
Return on Equity	19.8%	15.1%	13.1%	-2.6%	2.6%	8.5%	10.1%	1.5%	7.0%	-2.7%
ROIC	19.5%	14.1%	11.7%	-2.4%	1.9%	5.4%	7.7%	1.3%	6.4%	-2.4%
Shares Out.	153	303	379	353	349	331	358	441	546	546
Revenue/Share	5.19	4.37	3.44	(0.60)	0.68	2.04	2.35	0.52	1.42	(0.31)
FCF/Share	6.98	7.64	6.60	4.59	4.10	4.07	3.51	2.52	2.18	

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

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