



Broadmark Realty Capital (BRMK)

Updated February 28th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$10.26	5 Year CAGR Estimate:	7.0%	Market Cap:	\$1.36 billion
Fair Value Price:	\$8.80	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	2/25/2021
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.0%	Dividend Payment Date:	3/15/2021
Dividend Yield:	8.2%	5 Year Price Target	\$10.20	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	16.7%

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 nearly \$3 billion of loans since forming.

Broadmark Realty announced earnings results for the fourth quarter and full year on 02/25/2021. For the quarter, revenue grew 8% to \$32.5 million, beating expectations by \$1.9 million. Adjusted earnings-per-share of \$0.20 was 4.8% lower than the prior year, but \$0.01 ahead of estimates. For the year, revenue totaled \$112.4 million while adjusted earnings-per-share totaled \$0.77.

Broadmark Realty originated \$194.8 million and \$626.6 million of loans and amendments for the quarter and year, respectively. Fourth quarter origination was a 27% sequential improvement and at a weighted average loan to value of 61.1%. Interest income totaled \$25.3 million and fee income \$7.2 million. The total loan portfolio consisted of \$1.2 billion across 12 states and the District of Columbia. As of December 31st, Broadmark Realty had 25 loans in contractual default, which does not include four loans with forbearance agreements. Provisions for credit losses was less than \$1 million, or 0.8% of the total loan portfolio. Broadmark Realty is expected to earn \$0.88 per share in 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	---	---	---	---	---	\$0.21	\$0.77	\$0.88	\$1.02
DPS	---	---	---	---	---	---	---	---	\$0.12	\$0.78	\$0.84	\$0.84
Shares¹	---	---	---	---	---	---	---	---	132	133	133	133

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 2020. Without much of a track record, we believe that a growth rate of 3% for core earnings is appropriate.

Broadmark Realty is also unusual in that it pays a monthly dividend. That said, the dividend was cut twice since the trust went public. The trust did increase its dividend 16.7% to \$0.07 for the 2/12/2021 payment, the first such increase in Broadmark Realty's public history. Shares yield 8.2% at the current price, but we are not confident that this yield can be sustained if earnings do not grow. Given the volatility in the trust's dividend history, we do not anticipate dividend growth in the medium term.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	---	---	---	---	---	13.1	11.7	10.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	7.7%	8.2%	8.2%

Shares of Broadmark Realty are more or less flat since our 11/11/2020 update. Based on estimates for the year, Broadmark Realty trades with a price-earnings-ratio of 11.7. We have a 2026 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 2026 valuation target would reduce annual returns by 3% over the medium term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

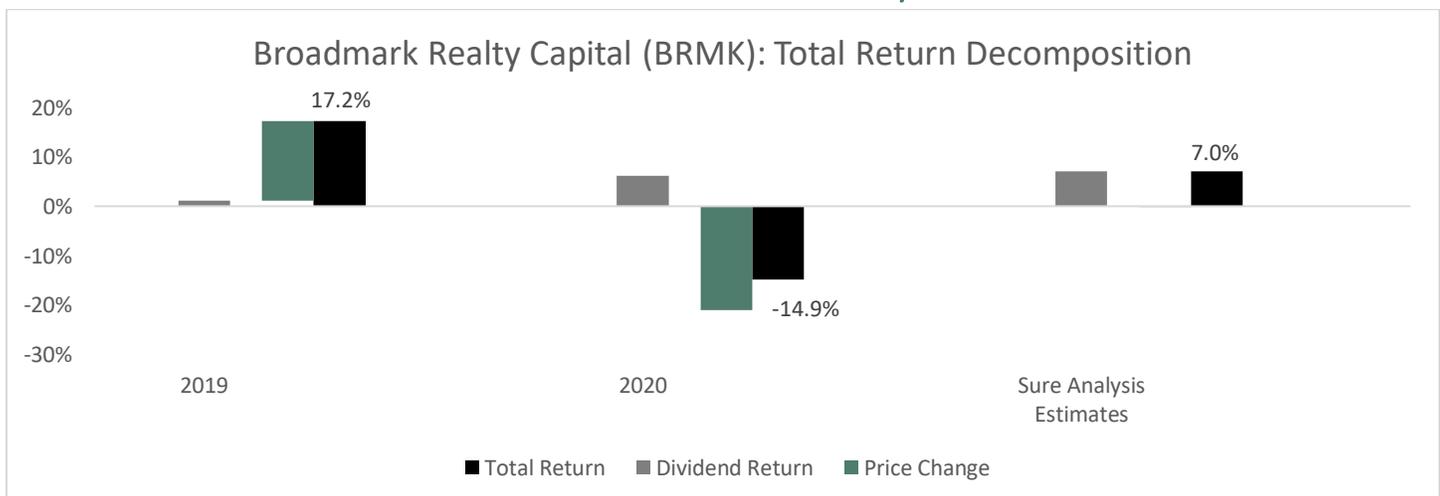
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	---	57%	101%	95%	82%

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 7.0% annually through 2026, up from our previous estimate of 5.0%. Our projected return stems from a 3% earnings growth rate and an 8.2% dividend yield that are partially offset by a low-single digit multiple compression. Broadmark Realty's loan origination was once again strong and the dividend increase is a bullish sign our view. The dividend payout ratio is quite high and the trust hasn't been hesitant to reduce its distribution in the past, so there is some risk there. We continue to rate shares as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	---	---	---	---	---	52	96	---	122
Operating Profit	---	---	---	---	---	---	45	82	---	91
Op. Margin	---	---	---	---	---	---	86.9%	85.4%	---	74.7%
Net Profit	---	---	---	---	---	---	45	82	---	90
Net Margin	---	---	---	---	---	---	86.9%	85.3%	---	73.7%
Free Cash Flow	---	---	---	---	---	---	48	82	---	---
Income Tax	---	---	---	---	---	---	-	0	---	---

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	---	---	---	---	---	---	718	1,209	1,187
Cash & Equivalents	---	---	---	---	---	---	---	112	238	223
Acc. Receivable	---	---	---	---	---	---	---	---	---	---
Inventories	---	---	---	---	---	---	---	---	---	---
Goodwill & Int.	---	---	---	---	---	---	---	---	137	138
Total Liabilities	---	---	---	---	---	---	---	33	24	13
Accounts Payable	---	---	---	---	---	---	---	2	8	5
Long-Term Debt	---	---	---	---	---	---	---	---	---	---
Total Equity	---	---	---	---	---	---	---	0	1,184	1,174
D/E Ratio	---	---	---	---	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	---	---	---	---	---	---	---	9.5%
Return on Equity	---	---	---	---	---	---	---	---	---	7.7%
ROIC	---	---	---	---	---	---	---	---	---	9.7%
Shares Out.	---	---	---	---	---	---	---	---	---	---
Revenue/Share	---	---	---	---	---	---	0.40	0.73	---	0.93
FCF/Share	---	---	---	---	---	---	0.36	0.62	---	---

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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