Federal Agricultural Mortgage Corp (AGM)

Updated August 9th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$98	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$1.1 B
Fair Value Price:	$88	**5 Year Growth Estimate:**	6.5%	**Ex-Dividend Date[1]:**	09/15/2021
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date[2]:**	09/30/2021
Dividend Yield:	3.6%	**5 Year Price Target:**	$121	**Years of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	10%

Overview & Current Events

Federal Agricultural Mortgage Corp, also known as Farmer Mac, is a shareholder-owned, federally chartered corporation, combining private capital and public sponsorship for the purpose of increasing access to and reducing the cost of capital for American agriculture and rural communities. The corporation provides financial solutions to a variety of agricultural communities, including agricultural lenders, agribusinesses, and other institutions which benefit from access to flexible, low-cost financing and risk management tools. Often, Farmer Mac can provide the lowest cost of borrowing to agricultural and rural borrowers. In the last 30 years, Farmer Mac has helped fund loans to over 91,000 rural borrowers in all 50 states, resulting in more than $63 billion of investments in rural America. Farmer Mac trades on the NYSE under the ticker symbol AGM and has a market capitalization of $1.1 billion.

Farmer Mac released second quarter results on August 5th. AGM reported net income of $25.4 million, or $2.35 per diluted common share for the second quarter. Year-over-year, earnings per share fell by 20% from $2.94 in 2Q2020. The corporation generated $2.77 in non-GAAP core earnings per share, a 13% increase over the same prior year period. Net interest income grew $6.7 million compared to last year, up to $55.1 million in the second quarter.

The company maintains a position of strong liquidity, with a quarter-end cash position of $828 million. Additionally, 90-day delinquencies were only 0.28% of total outstanding business volumes, which is fairly stable. AGM's net effective spread also grew 22% from the prior-year period to $56.6 million.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.97	$3.98	$6.32	$3.37	$4.19	$5.97	$6.60	$8.83	$8.69	$8.27	**$10.39**	**$14.24**
DPS	$0.20	$0.40	$0.48	$0.56	$0.64	$1.04	$1.44	$2.32	$2.80	$3.20	**$3.52**	**$5.17**
Shares[3]	10.8	10.7	10.9	10.9	10.9	10.5	10.6	10.7	10.7	10.7	**10.7**	**10.5**

The Federal Agricultural Mortgage Corp has grown earnings strongly, compounding at 8.5% and 14.6% on average, over the last nine and five years. This earnings growth is coupled by massive dividend growth in the same time periods. The payout ratio remains quite low for AGM, which will allow for them to continue inflating the dividend year after year.

We estimate that AGM can continue to bolster earnings at roughly 6.5%, and the dividend will grow in-line with earnings. There is a large global demand for agriculture and AGM expects that agricultural productivity must double to meet it. Currently Farmer Mac possesses a 6.2% share of a $267 billion and growing U.S. agricultural mortgage market, so there remains a large market share to gain from.

Farmer Mac is also in the process of broadening their market by evaluating opportunities and pursuing new lines of businesses and products. Additionally, they intend to deepen their market by improving processes and operating practices related to customer interaction, transaction processes, and existing loan features and pricing.

[1] Estimate
[2] Estimate
[3] In millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	4.7	6.3	5.2	9.4	7.0	6.6	9.8	9.1	8.9	8.1	**9.4**	**8.5**
Avg. Yld.	1.1%	1.6%	1.5%	1.8%	2.2%	2.6%	2.2%	2.9%	3.6%	4.8%	**3.6%**	**4.3%**

The current P/E of 9.4 based on 2021's estimated EPS is a 25% premium to the 10-year average of 7.5. We place our fair value estimate at 8.5 times EPS, which would result in valuation losses of 2.1% annually due to multiple contraction. The yield is stronger than it has been historically due to the massive dividend growth AGM has executed on in recent years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	5%	10%	8%	17%	15%	17%	22%	26%	32%	39%	**34%**	**36%**

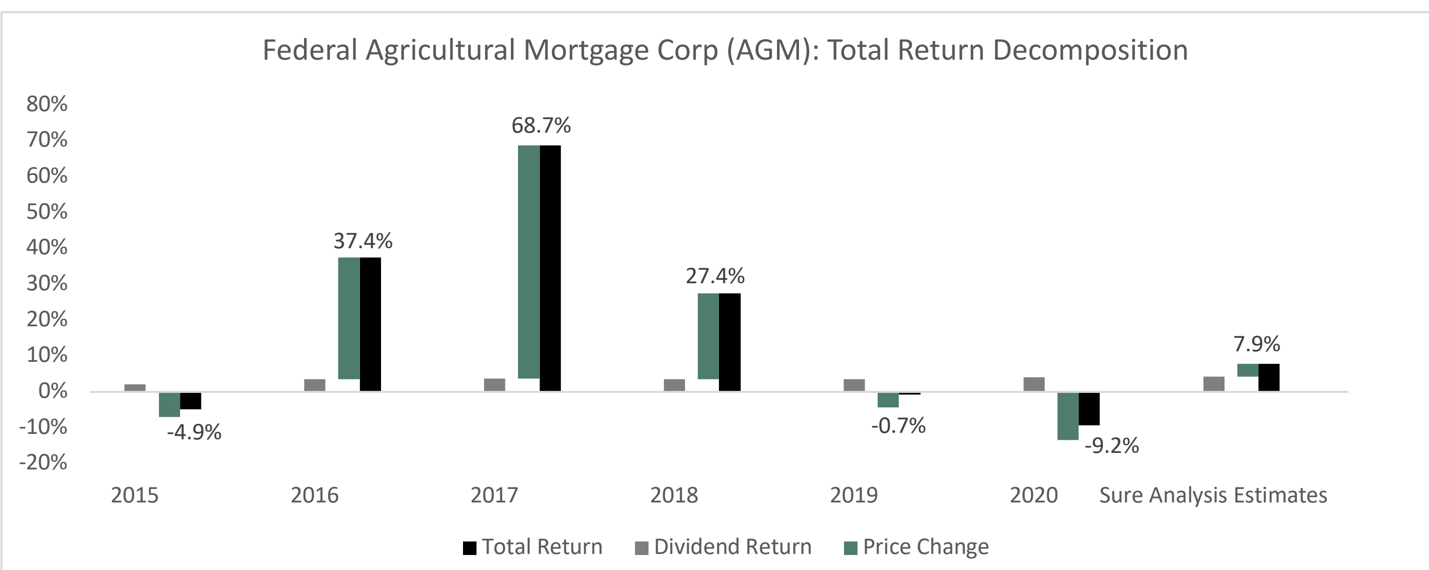
Farmer Mac has a target payout ratio of roughly 35% of earnings, which is in-line with our 2021 earnings and dividends estimate. As the companies grow earnings and the dividend congruently, the payout ratio should remain in this target. It's also possible AGM will grow the target payout ratio as this target was 30% in 2016 and rose to 35% in 2019. There is a significant underlying safety to AGM's earnings and that is because 99% of total revenues is recurring net effective spread and fees. Federal Agricultural Mortgage Corp has a great advantage in funding, as it can issue at narrow, government-sponsored enterprise (GSE) spreads to U.S. Treasuries (in Q1 this was the 10-year U.S. Treasury +0.16%).

The great financial crisis brutalized AGM's earnings per share in 2008, when the corporation reported a massive loss and cut the dividend in half from $0.40 to $0.20 annually. Farmer Mac's dividend recovered in 2012 and has since heavily eclipsed its previous record. Earnings also grew strongly off the back of the financial crisis and the company has done well since; however, the company is not recession resistant.

Final Thoughts & Recommendation

Federal Agricultural Mortgage Corp has a strong dividend and a healthy payout ratio, coupled with double digit earnings growth in the last five years. We anticipate AGM will generate total returns of roughly 7.9%, driven by 6.5% earnings growth and a 3.6% yield, offset by a 2.1% loss due to valuation contraction. Despite trading at 111% of our fair value estimate, expected annualized total returns of 7.9% causes us to rate AGM a Hold.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	74	126	162	104	146	161	175	186	194	207
SG&A Expense	30	33	32	34	38	40	43	50	52	61
Net Income	17	47	75	48	69	77	84	108	110	109
Net Margin	22.5%	37.2%	46.4%	46.4%	47.1%	48.1%	48.2%	58.1%	56.4%	52.5%
Free Cash Flow	27	33	314	155	185	213	175	200	(20)	(95)
Provision For Tax	6	22	34	3	34	42	46	28	29	29

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	11884	12622	13362	14288	15540	15606	17792	18694	21709	24356
Cash & Equivalents	817	786	749	1363	1210	265	302	425	604	1034
Goodwill & Int.	110	103	107	107	113	123	155	180	199	186
Total Liabilities	11329	12029	12787	13506	14987	14962	17084	17942	20910	23363
Accounts Payable	240	65	64	130	77	59	89	109	129	122
Long-Term Debt	10894	11770	12602	13249	14792	14806	16928	17773	20715	23173
Total Equity	255	294	274	341	349	439	503	548	571	629
D/E Ratio	34.84	33.52	37.89	24.28	26.72	23.01	23.90	23.62	25.92	23.35

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.2%	0.4%	0.6%	0.3%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%
Return on Equity	7.7%	17.1%	26.5%	15.6%	19.9%	19.6%	17.9%	20.6%	19.6%	18.1%
ROIC	0.2%	0.4%	0.6%	0.4%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%
Shares Out.	10.8	10.7	10.9	10.9	10.9	10.5	10.6	10.7	10.7	10.7
Revenue/Share	6.84	11.41	14.49	9.12	12.91	14.96	16.21	17.33	18.01	19.18
FCF/Share	2.48	3.02	28.01	13.64	16.35	19.79	16.20	18.61	(1.83)	(8.77)

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