



Apollo Commercial Real Estate Finance (ARI)

Updated November 3rd, 2021 by Samuel Smith

Key Metrics

Current Price:	\$15.1	5 Year CAGR Estimate:	3.5%	Market Cap:	\$2.1B
Fair Value Price:	\$11.0	5 Year Growth Estimate:	0.3%	Ex-Dividend Date:	12/29/21 ¹
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.0%	Dividend Payment Date:	01/15/22 ²
Dividend Yield:	9.3%	5 Year Price Target	\$11.0	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	NA

Overview & Current Events

Apollo Commercial Real Estate Finance, Inc. was founded in 2009. It is a real estate investment trust (REIT) that invests in debt securities including senior mortgages, mezzanine loans, and other commercial real estate-related debt. Apollo's investments, placed in the U.S. and Europe, are collateralized by the underlying estate properties. Apollo is externally managed by ACREFI Management, LLC, an indirect subsidiary of Apollo Global Management, LLC. Apollo Commercial Real Estate Finance holds a multi-billion dollar commercial real estate portfolio, with 26% of this portfolio made up of Hotels, 17% Office Properties, 14% Urban Predevelopment, 12% Residential-for-sale inventory and 11% Residential-for-sale construction. The \$2.1 billion market capitalization trust has roughly 34% of its portfolio based in Manhattan, New York, 14% in the United Kingdom, 13% in the Midwest, 12% in the West and 11% in the Southeast.

On October 25th, 2021, Apollo announced Q3 results. GAAP earnings per share came in at \$0.38, down from \$0.39 sequentially. Q3 net interest income came in at \$60.7 million, down from \$68.6 million in the year-ago period. Net income available to common stockholders was \$0.38. Book value per share decreased to \$15.54 from \$15.48 sequentially. Gross add-on fundings stood at \$113 million, down from \$246 million quarter-over-quarter. Meanwhile, Apollo held 66 loans with a carrying value of ~\$7.3 billion and during the quarter committed \$180 million to new first mortgage loans receiving \$339 million of full repayments.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.35	\$1.64	\$1.26	\$1.72	\$1.54	\$1.74	\$1.54	\$1.53	\$1.55	\$0.84	\$1.38	\$1.40
DPS	\$1.60	\$1.60	\$1.60	\$1.60	\$1.78	\$1.84	\$1.84	\$1.84	\$1.84	\$1.45	\$1.40	\$1.30
Shares³	20.6	28.0	37.1	46.9	67.4	91.6	107.5	134.3	154.0	139.8	139.9	160

Apollo's two main growth catalysts are its overall loan portfolio growth and higher returns on its loans. The COVID-19 outbreak put a dent in both as interest rates have plummeted and demand for new loans has declined while also putting some of its existing loans at increased risk of default. That said, the business model is well diversified across business sectors and geographies, which should insulate it pretty well from significant long-term adverse impacts. That said, when factoring in their high payout ratio, we expect earnings-per-share to remain pretty flat over the next half decade.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.1	10.3	12.1	11.3	10.0	13.3	9.6	10.9	10.0	8.3	10.9	8.0
Avg. Yld.	7.8%	9.5%	10.5%	8.2%	11.6%	8.0%	12.4%	11.0%	11.9%	20.8%	9.3%	11.6%

Since 2010, shares of Apollo have traded hands with an average P/E ratio of about 11 times earnings. That being said, given the current low interest rate environment and reduced demand for loans overhanging the business, we are

¹ Estimate

² Estimate

³ 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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reducing the fair value multiple to 8 times earnings. Given that shares currently trade for 10.9 times expected 2021 earnings, we believe that shares are overvalued. The company's dividend yield however is at 9.3%, which is quite attractive though not particularly attractive on a historical basis.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	119%	97.6%	127%	93.0%	116%	106%	120%	120%	119%	173%	101%	92.9%

Apollo has an exceptionally high dividend yield, but it also has a high dividend payout ratio that investors should closely monitor going forward. This is often the case with extremely high-yielders. The trust has frequently distributed over 100% of annual earnings. While payout ratios greater than 100% are possible when cash flows exceed earnings – as is the case with Apollo – this significantly limits the trust's safety in weaker economic conditions.

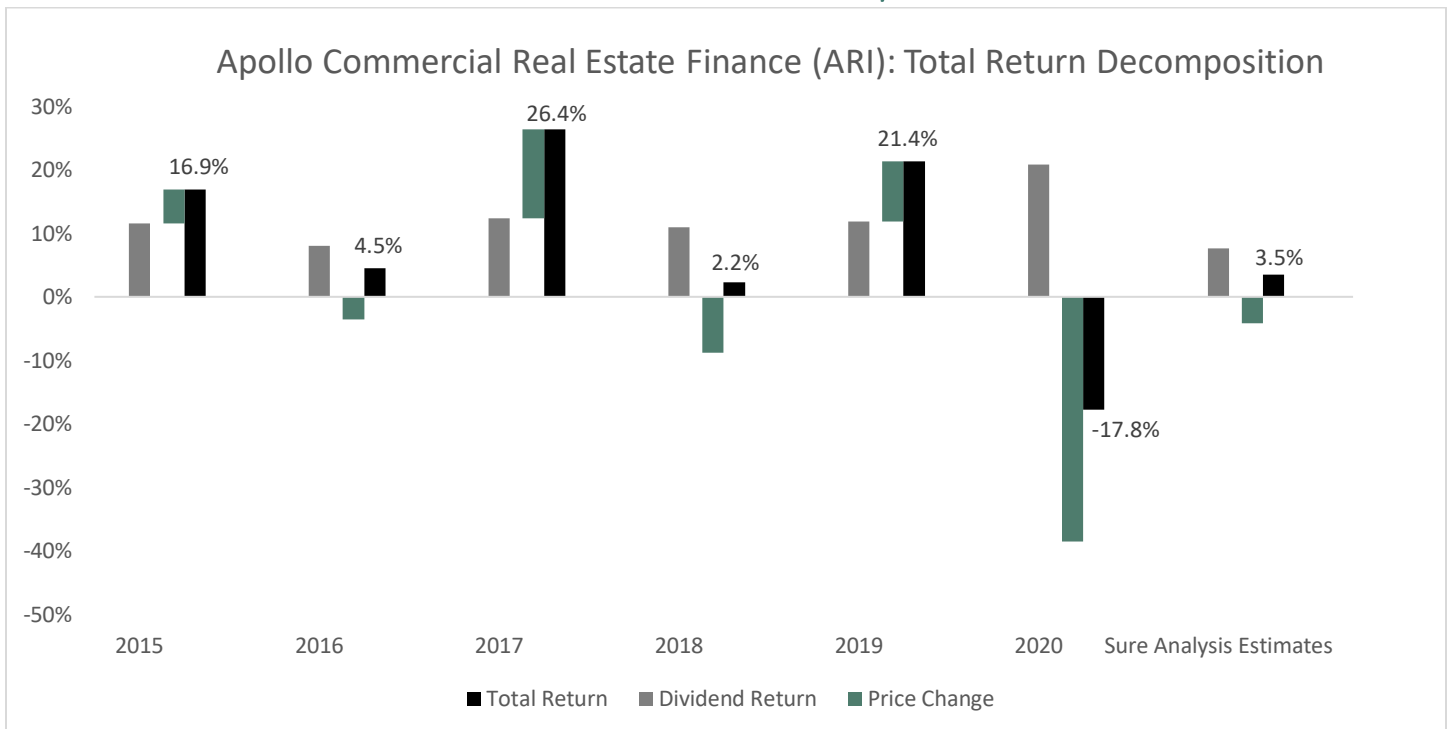
During the last recession, Apollo posted a net loss in 2009, reflecting its sensitivity to recessions and downturns in commercial real estate activity. Due to the elevated payout ratio, the trust funds growth through the issuance of common and preferred equity, both with dividend yields of 8%+. In turn, this creates a high hurdle rate, limiting the trust's growth prospects. So far it has worked out fine, but we are certainly cautious moving forward.

As a mortgage REIT, the trust lacks any significant competitive advantages and remains highly sensitive to interest rate and macroeconomic conditions.

Final Thoughts & Recommendation

The trust's dividend is far from the safest in our investment universe and the stock should only be considered with this risk in mind. That said, the 9.3% dividend yield does provide investors with attractive income. On the whole, we expect -3.5% total annualized returns due to the high dividend yield being offset by multiple contraction and expected declines in earnings. As a result, we rate it a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	36	55	70	101	126	181	255	299	315	211
SG&A Exp.	10	15	18	18	26	48	52	57	65	67
Net Profit	26	40	52	83	103	158	193	220	230	18
Net Margin	71.4%	73.2%	74.9%	81.9%	82.0%	87.1%	75.6%	73.5%	73.1%	8.7%
Free Cash Flow	35	40	46	67	88	124	155	266	273	164

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	891	788	908	1,845	2,713	3,483	4,089	5,096	6,888	6,940
Cash & Equivalents	22	109	20	41	67	201	78	110	452	325
Accounts Receivable	8	4	6	11	17	19	23	33	36	41
Total Liabilities	554	242	225	990	1,337	1,551	2,000	2,586	4,258	4,669
Accounts Payable	2	1	3	8	9	18	14	16	23	19
Long-Term Debt	251	-	-	336	366	1,475	1,916	623	1,272	1,268
Shareholder's Equity	337	547	683	855	1,375	1,932	2,088	2,510	2,630	2,270
D/E Ratio	0.75	-	-	0.39	0.27	0.76	0.92	0.25	0.48	0.56

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.0%	4.8%	6.2%	6.0%	4.5%	5.1%	5.1%	4.8%	3.8%	0.3%
Return on Equity	8.2%	9.1%	8.5%	10.8%	9.3%	9.5%	9.6%	9.6%	9.0%	0.8%
ROIC	4.4%	7.1%	8.5%	8.8%	7.0%	6.1%	5.2%	6.2%	6.5%	0.5%
Shares Out.	19	23	36	44	59	73	101	126	135	130
Revenue/Share	1.90	2.42	1.96	2.31	2.12	2.47	2.52	1.95	1.79	1.42
FCF/Share	1.86	1.77	1.29	1.53	1.49	1.69	1.53	1.73	1.56	1.11

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

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