Broadmark Realty Capital (BRMK)

Updated November 9th, 2021 by Nathan Parsh

Key Metrics

Current Price:	$10.24	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$1.4 billion
Fair Value Price:	$7.80	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	10/28/2021
% Fair Value:	131%	**5 Year Valuation Multiple Estimate:**	-5.3%	**Dividend Payment Date:**	11/15/2021
Dividend Yield:	8.2%	**5 Year Price Target**	$9.04	**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 reported earnings results for the third quarter on 11/8/2021. Revenue grew 5.6% to $30.6 million, but was $1.5 million lower than expected. Adjusted earnings-per-share of $0.19 was $0.01 better than the prior year.

Broadmark Realty originated $337 million of new loans and amendments for the quarter. Third quarter origination was a 28% increase sequentially and at a weighted average loan to value of 59%. Interest income totaled $22.8 million and fee income was $7.7 million. The total loan portfolio consisted of $1.5 billion across 17 states and the District of Columbia. As of 9/30/2021, Broadmark Realty had a total of $162.6 million of loans in contractual default. The company foreclosed on two loans and received pay offs on seven loans in default during Q3. Provisions for credit losses was $2.6 million compared to a reversal of credit losses of $2.9 million in the prior year. We have lowered our expected EPS for the year to $0.79 from $0.88 to reflect year-to-date results.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	---	---	---	---	---	$0.21	$0.77	***$0.78***	***$0.90***
DPS	---	---	---	---	---	---	---	---	$0.12	$0.78	***$0.84***	***$0.84***
Shares[1]	---	---	---	---	---	---	---	---	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.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	---	---	---	---	---	13.1	***13.1***	***10.0***
Avg. Yld.	---	---	---	---	---	---	---	---	---	7.7%	***8.2%***	***9.3%***

[1] In millions of shares

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Shares of Broadmark Realty have decreased $0.17, or 1.4%, since our 8/10/2021 update. Based on estimates for the year, Broadmark Realty trades with a price-earnings-ratio of 13.1. 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 5.3% over the medium term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

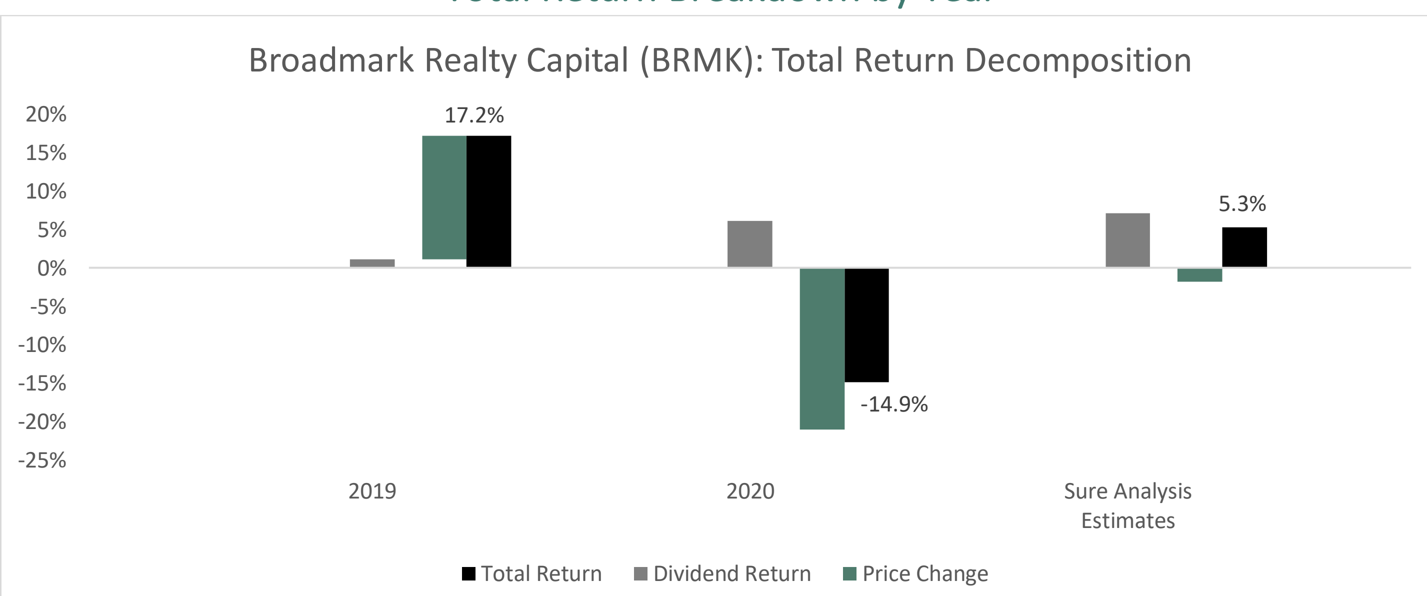
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	---	57%	101%	***108%***	***93%***

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 approaching 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 5.3% annually through 2026, down from our previous estimate of 6.7%. Our projected return stems from a 3% earnings growth rate and an 8.2% dividend yield that are partially offset by a mid-single digit multiple compression. Broadmark Realty's loan origination improved sequentially and the portfolio remains in very good shape. The dividend payout ratio remains quite high and the trust hasn't been hesitant to reduce its distribution in the past, so we feel that a future dividend cut could occur due to the high payout ratio. 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.