



PennyMac Mortgage Investment Trust (PMT)

Updated November 12th, 2021 by Quinn Mohammed

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|---|------------|
| Current Price: | \$19 | 5 Year CAGR Estimate: | 7.6% | Market Cap: | \$1.8 B |
| Fair Value Price: | \$17 | 5 Year Growth Estimate: | 1.0% | Ex-Dividend Date¹: | 12/30/2021 |
| % Fair Value: | 111% | 5 Year Valuation Multiple Estimate: | -2.1% | Dividend Payment Date²: | 01/29/2022 |
| Dividend Yield: | 9.9% | 5 Year Price Target: | \$24 | Years of Dividend Growth: | 1 |
| Dividend Risk Score: | F | Retirement Suitability Score: | C | Last Dividend Increase: | 18% |

Overview & Current Events

PennyMac Mortgage Investment Trust invests in residential mortgage loans and mortgage-related assets. The trust focuses on creating mortgage-related assets through their correspondent production activities, which includes mortgage servicing rights. PennyMac operates as a mortgage real estate investment trust (REIT). It trades under the ticker symbol PMT on the NYSE and has a market capitalization of \$1.8 billion. PMT has \$2.5 billion of equity invested in three strategies: credit sensitive strategies, interest rate sensitive strategies and correspondent production.

PennyMac Mortgage began operations in 2009 with assets of \$324 million, which has grown to \$11.5 billion at year end 2020. PMT is externally managed by PNMAC Capital Management, which itself is a wholly-owned subsidiary of PennyMac Financial Services (PFSI). As a result of being externally managed, PMT has only one employee on record. The growth of PMT is dependent upon PFSI's 6,000+ employees. It is headquartered in Westlake Village, California.

PennyMac Mortgage Investment Trust released third quarter results on November 4th. PMT reported a net loss of (\$43.9) million, down from net income of \$31.9 million in the prior year, due to fair value changes in the Interest Rate Sensitive Strategies having a negative impact on results. Net loss per share of (\$0.45) was highly unfavorable compared to its net income of \$0.94 per share in the third quarter of 2020. Net investment income earned in the third quarter totaled \$47.9 million, down 78% year-over-year.

The book value per share decreased from \$20.77 on June 30th, 2020 to \$19.79 on September 30th, 2021. In the third quarter, the company added \$425 million in new MSRs. The corporation's conventional correspondent loan production volumes of \$28.6 billion in unpaid principal balance (UPB) were down 6% from the prior quarter, but up 5% over the third quarter of 2020.

Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$2.41 | \$3.14 | \$2.96 | \$2.47 | \$1.16 | \$1.08 | \$1.48 | \$1.99 | \$2.42 | \$0.27 | \$1.90 | \$2.00 |
| DPS | \$1.84 | \$2.22 | \$2.28 | \$2.38 | \$2.30 | \$1.88 | \$1.88 | \$1.88 | \$1.88 | \$1.52 | \$1.88 | \$1.88 |
| Shares³ | 26.7 | 59.3 | 69.4 | 82.2 | 83.3 | 77.1 | 74.6 | 69.4 | 87.7 | 99.4 | 98.0 | 110.0 |

PMT has not produced much in terms of per-share growth over the past decade, in both diluted earnings per share and net investment income per share. Net investment income generated by the whole company has risen, however as the trust raises capital through equity issuance, existing shareholders are heavily diluted. The number of outstanding shares has grown more than 250% since 2011, and thus the earnings are spread across a larger number of shares.

The dividend has been a struggle to pay in certain years over the last decade; even though it has been returned to pre-pandemic levels, there exists a history of decreasing dividends even before this. We expect that with an improving economic outlook, PennyMac Mortgage's MSR and CRT assets will benefit and lead to growth of 1% over the next few

¹ Estimate

² Estimate

³ In millions

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years. Mortgage rates remain near all-time lows and the Federal Reserve is expected to hold rates near zero for a while longer still, which has led to an increased forecast for total originations in 2021 and 2022.

Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|-----------|-------|-------|------|-------|-------|-------|-------|-------|------|-------|------|-------|
| Avg. P/E | 12.9 | 8.8 | 7.5 | 7.1 | 6.7 | 11.4 | 13.9 | 11.2 | 10.2 | 7.1 | 10.0 | 9.0 |
| Avg. Yld. | 10.8% | 10.0% | 9.7% | 13.0% | 13.4% | 13.6% | 11.0% | 10.1% | 8.8% | 11.1% | 9.9% | 10.5% |

The current P/E of 10.0 based on 2021's estimated EPS is a 7% discount to the 5-year average of 10.8. We place our fair value estimate at 9.0 times EPS, which would result in valuation losses of 2.1% annually due to multiple compression. Our estimate of 9.0 times EPS is closer to the 10-year average of 9.7 but remains slightly discounted. The current 9.9% yield is extraordinary.

Safety, Quality, Competitive Advantage, & Recession Resiliency

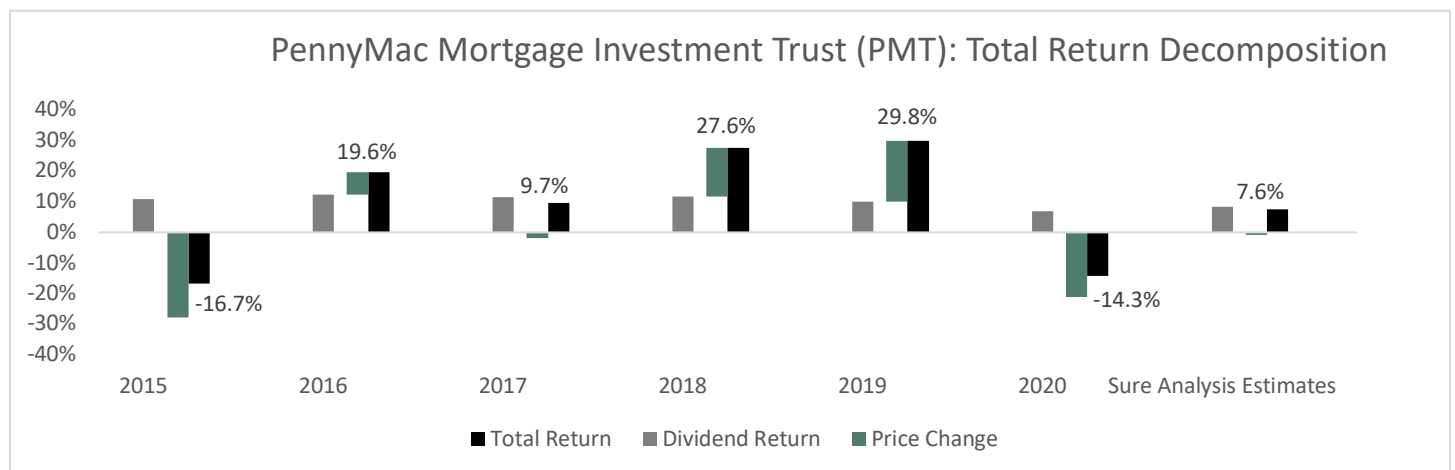
| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 76% | 71% | 77% | 96% | 198% | 174% | 127% | 94% | 78% | 563% | 99% | 94% |

The payout ratio has historically been volatile for PMT, and this increases the risk of the dividend being in danger once again in the future. Expectations for 2021 place the dividend again in dangerous territory. The corporation was formed at the end of the financial crisis so it is hard to know with certainty how it can perform during similar circumstances. The mortgage backed security industry is highly dependent on interest rates and leverage, and thus with lower rates, earnings can be somewhat muted for the near term. PennyMac's competitive advantage is in its position as the largest correspondent aggregator, which will help the trust in increasing sales of mortgage servicing rights (MSR) as mortgage banks continue reducing their cash-intensive retention of MSRs. Overall, it does not have a strong competitive advantage in comparison to other mortgage REITs.

Final Thoughts & Recommendation

PennyMac Mortgage Investment Trust is highly dependent on interest rates which are expected to remain low in the near term, and the trust constantly issues equity, which dilutes existing shareholders. PMT does not have a stellar track record of earnings, and this volatility reduces the safety of the dividend. The company trades 11% above fair value according to our estimates, and we are not predicting much in the way of growth, so almost the entire return will come from the 9.9% yield. We rate PMT a Hold as total returns of 7.6% are fair, though the company has a history of slashing dividends which investors should be aware of.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 90 | 207 | 248 | 211 | 104 | 93 | 156 | 187 | 221 | 107 |
| SG&A Expense | 5 | 13 | 20 | 21 | 21 | 20 | 17 | 16 | 20 | 19 |
| Net Income | 64 | 138 | 200 | 195 | 90 | 76 | 118 | 153 | 226 | 52 |
| Net Margin | 71.6% | 66.7% | 80.9% | 92.2% | 86.3% | 81.5% | 75.4% | 81.6% | 103% | 49.1% |
| Free Cash Flow | (284) | (820) | (244) | (366) | (866) | (624) | 223 | (574) | -2985 | 672 |
| Provision For Tax | 8 | 49 | 14 | (15) | (17) | (14) | 7 | 5 | (36) | 27 |

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Total Assets | 1,386 | 2,560 | 4,311 | 4,897 | 5,827 | 6,358 | 5,605 | 7,813 | 11,771 | 11,492 |
| Cash & Equivalents | 15 | 34 | 27 | 76 | 205 | 70 | 266 | 60 | 104 | 58 |
| Goodwill & Int. | 6 | 125 | 291 | 358 | | | 13 | 23 | 25 | 12 |
| Total Liabilities | 840 | 1,358 | 2,844 | 3,319 | 4,331 | 5,006 | 4,060 | 6,247 | 9,320 | 9,195 |
| Accounts Payable | 9 | 48 | 72 | 68 | 64 | 108 | 65 | 71 | 91 | 125 |
| Long-Term Debt | 181 | - | 642 | 430 | 912 | 901 | 599 | 1,149 | 2,383 | 2,273 |
| Total Equity | 546 | 1,201 | 1,467 | 1,578 | 1,496 | 1,351 | 1,245 | 1,266 | 2,151 | 1,997 |
| D/E Ratio | 0.33 | - | 0.44 | 0.27 | 0.61 | 0.67 | 0.39 | 0.73 | 0.97 | 0.99 |

Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|--------|--------|--------|--------|--------|--------|------|--------|--------|------|
| Return on Assets | 6.5% | 7.0% | 5.8% | 4.2% | 1.7% | 1.2% | 2.0% | 2.3% | 2.3% | 0.5% |
| Return on Equity | 14.9% | 15.8% | 15.0% | 12.8% | 5.9% | 5.3% | 9.1% | 12.2% | 13.2% | 2.5% |
| ROIC | 12.3% | 14.3% | 12.1% | 9.4% | 4.1% | 3.3% | 5.4% | 6.3% | 6.0% | 1.1% |
| Shares Out. | 26.7 | 59.3 | 69.4 | 82.2 | 83.3 | 77.1 | 74.6 | 69.4 | 87.7 | 99.4 |
| Revenue/Share | 3.37 | 4.72 | 3.56 | 2.57 | 1.25 | 1.21 | 2.09 | 2.70 | 2.52 | 1.07 |
| FCF/Share | (10.6) | (18.7) | (3.52) | (4.45) | (10.4) | (8.10) | 2.99 | (8.27) | (34.0) | 6.76 |

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

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