



# PennyMac Mortgage Investment Trust (PMT)

Updated February 7<sup>th</sup>, 2022 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$16	<b>5 Year CAGR Estimate:</b>	7.9%	<b>Market Cap:</b>	\$1.6 B
<b>Fair Value Price:</b>	\$14	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	04/14/2022
<b>% Fair Value:</b>	119%	<b>5 Year Valuation Multiple Estimate:</b>	-3.5%	<b>Dividend Payment Date<sup>2</sup>:</b>	04/29/2022
<b>Dividend Yield:</b>	11.6%	<b>5 Year Price Target:</b>	\$14	<b>Years of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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 \$1.6 billion. PMT has \$2.4 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 \$13.8 billion at year end 2021. 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 fourth quarter and full year 2021 results on February 3<sup>rd</sup>. PMT reported a net loss of (\$27.3) million on net investment income of \$49.5 million. The trust generated a (\$0.28) loss per share in the quarter. For the full year, net income attributable to shareholders fell from \$27.4 million in 2020 to \$26.0 million in 2021. Net investment income fell to \$420 million from \$469 million in the prior year. Still, the company paid \$1.88 in dividends per share for 2021.

The book value per share decreased from \$19.79 on September 30<sup>th</sup>, 2020 to \$19.05 on December 31<sup>st</sup>, 2021. In the fourth quarter, the company added \$239 million in new MSRs. The corporation's conventional correspondent loan production volumes of \$17.2 billion in unpaid principal balance (UPB) were down 40% from the prior quarter, and down 55% over the fourth quarter of 2020.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$3.14	\$2.96	\$2.47	\$1.16	\$1.08	\$1.48	\$1.99	\$2.42	\$0.27	\$0.26	\$1.60	\$1.68
<b>DPS</b>	\$2.22	\$2.28	\$2.38	\$2.30	\$1.88	\$1.88	\$1.88	\$1.88	\$1.52	\$1.88	\$1.88	\$1.88
<b>Shares<sup>3</sup></b>	59.3	69.4	82.2	83.3	77.1	74.6	69.4	87.7	99.4	97.0	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

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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years. Mortgage rates remain near all-time lows and the Federal Reserve is expected to raise rates in the spring or summer, which will be a tailwind to a growing EPS.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	8.8	7.5	7.1	6.7	11.4	13.9	11.2	10.2	7.1	13.0	<b>10.1</b>	<b>8.5</b>
Avg. Yld.	10.0%	9.7%	13.0%	13.4%	13.6%	11.0%	10.1%	8.8%	11.1%	10.9%	<b>11.6%</b>	<b>13.2%</b>

The current P/E of 10.1 based on 2021's estimated EPS is a 9% discount to the 5-year average of 11.1. We place our fair value estimate at 8.5 times EPS, which would result in valuation losses of 3.5% annually due to multiple compression. Our estimate of 8.5 times EPS is closer to the 10-year average of 9.7 but remains slightly discounted. The current 11.6% yield is extraordinary.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

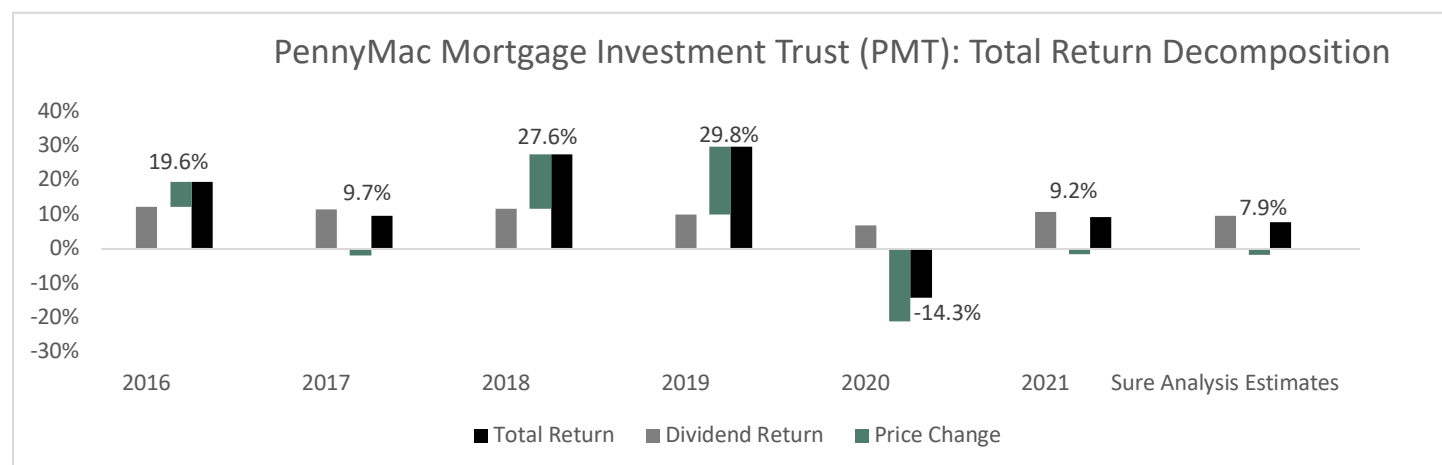
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	71%	77%	96%	198%	174%	127%	94%	78%	563%	723%	<b>118%</b>	<b>112%</b>

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 2022 place the dividend again in very 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 relatively 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 19% 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 11.6% yield. We rate PMT a Hold as total returns of 7.9% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	207	248	211	104	93	156	187	221	107	83
SG&A Expense	7	8	8	7	7	6	7	7	4	4
Net Income	138	200	195	90	76	118	153	226	52	57
Net Margin	66.7%	80.9%	92.2%	86.3%	81.5%	75.4%	81.6%	102.6%	49.1%	68.6%
Free Cash Flow	-820	-244	-366	-866	-624	223	-574	-2,985	672	
Provision For Tax	49	14	-15	-17	-14	7	5	-36	27	-12

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2,560	4,311	4,897	5,827	6,358	5,605	7,813	11,771	11,492	13,773
Cash & Equivalents	34	27	76	205	70	266	60	104	58	1,764
Goodwill & Int.	125	291	358			13	23	25	12	2,893
Total Liabilities	1,358	2,844	3,319	4,331	5,006	4,060	6,247	9,320	9,195	11,405
Accounts Payable	48	72	68	64	108	65	71	91	125	96
Long-Term Debt	0	642	430	912	901	599	1,149	2,383	2,273	4,494
Total Equity	1,201	14,67	1,578	1,496	1,351	1,245	1,266	2,151	1,997	1,826
LTD/E Ratio	0	0.44	0.27	0.61	0.67	0.39	0.73	0.97	0.99	1.90

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.0%	5.8%	4.2%	1.7%	1.2%	2.0%	2.3%	2.3%	0.5%	0.5%
Return on Equity	15.8%	15.0%	12.8%	5.9%	5.3%	9.1%	12.2%	13.2%	2.5%	3.0%
ROIC	14.3%	12.1%	9.4%	4.1%	3.3%	5.4%	6.3%	6.0%	1.1%	1.0%
Shares Out.	59.3	69.4	82.2	83.3	77.1	74.6	69.4	87.7	99.4	97.0
Revenue/Share	4.72	3.56	2.57	1.25	1.21	2.09	2.70	2.52	1.07	0.85
FCF/Share	-18.70	-3.52	-4.45	-10.39	-8.10	2.99	-8.27	-34.03	6.76	

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

## Disclaimer

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