



Broadmark Realty Capital (BRMK)

Updated March 2nd, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$8.38	5 Year CAGR Estimate:	9.0%	Market Cap:	\$1.1 B
Fair Value Price:	\$7.50	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	2/25/22
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Dividend Payment Date:	3/15/22
Dividend Yield:	10.0%	5 Year Price Target	\$8.69	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 announced earnings results for the fourth quarter and full year 2021 on 2/28/2022. For the quarter, revenue was lower by 3.7% to \$31.3 million and missed estimates by \$2.3 million. Adjusted earnings per share of \$0.18 compared unfavorably to adjusted earnings per share of \$0.20 in the prior period and was \$0.03 below expectations. For the year, revenue grew 7.2% to \$120.5 million while adjusted earnings-per-share of \$0.71 compared to \$0.77 in 2020.

Broadmark Realty originated \$248.6 million of new loans and amendments for the quarter. Fourth quarter origination was a 26% decrease sequentially and at a weighted average loan to value of 61.1%. New loans and amendments for the year improved 51.2% to \$947.1 million. Quarterly interest income totaled \$23.5 million and fee income was \$7.8 million. The total loan portfolio consisted of \$1.5 billion across 19 states and the District of Columbia. As of 12/31/2021, Broadmark Realty had a total of \$191.4 million in loans in contractual default. The trust resolved \$93.9 million in loans in contractual default during the year. Provisions for credit losses totaled \$806,000 compared to \$998,000 in the fourth quarter of 2020.

We anticipate that Broadmark Realty will earn \$0.75 per share in 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	---	---	---	---	\$0.21	\$0.77	\$0.71	\$0.75	\$0.87
DPS	---	---	---	---	---	---	---	\$0.12	\$0.78	\$0.84	\$0.84	\$0.84
Shares¹	---	---	---	---	---	---	---	132	133	133	133	133

Broadmark Realty has been a publicly traded entity 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 \$1.5 billion at the end of 2021. 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 10% 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.

¹ In millions of shares

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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	---	---	---	---	---	13.1	13.3	11.2	10.0
Avg. Yld.	---	---	---	---	---	---	---	---	7.7%	8.9%	10.0%	9.7%

Shares of Broadmark Realty have decreased \$1.86, or 18.2%, since our 11/9/2021 update. Based on estimates for the year, Broadmark Realty trades with a price-earnings-ratio of 11.2. We have a 2027 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 2027 valuation target would reduce annual returns by 2.2% over the medium-term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

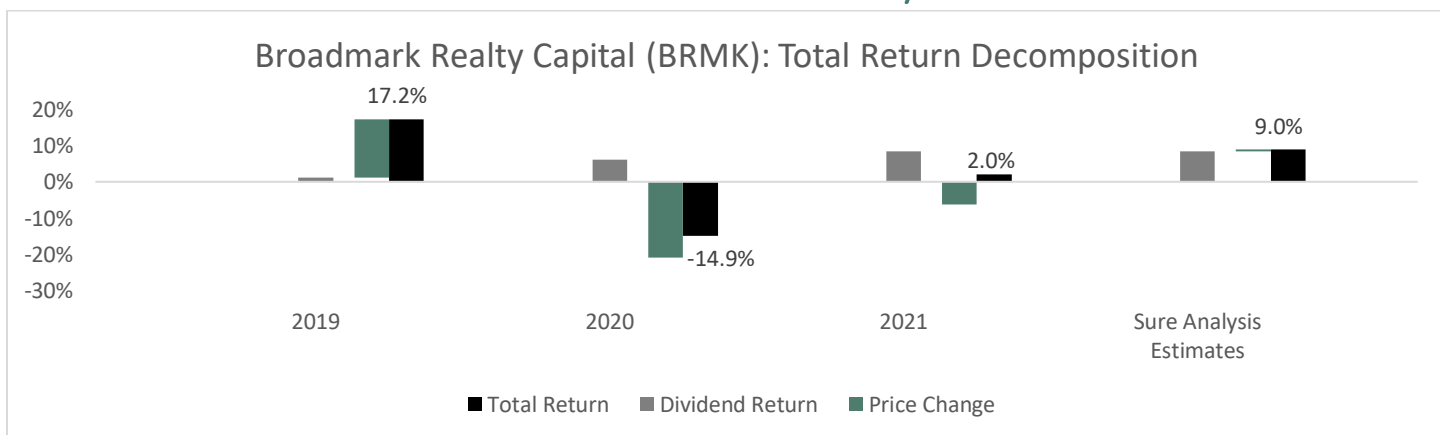
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	57%	101%	118%	112%	97%

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 now above 61% 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 9.0% annually through 2027, up from our previous estimate of 5.3%. Our projected return stems from a 3% earnings growth rate and an 10% dividend yield that are partially offset by a low single digit multiple compression. Broadmark Realty's loan origination declined sequentially, but the trust posted strong numbers for the year. That said, the dividend, which drives the majority of our total return forecast, has a very high payout ratio, which could foreshadow an impending cut. We continue to rate the stock as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	---	---	---	---	---	52	96		122	121
Operating Profit	---	---	---	---	---	45	82		85	88
Op. Margin	---	---	---	---	---	86.9%	85.4%		69.3%	72.7%
Net Profit	---	---	---	---	---	45	82		90	82
Net Margin	---	---	---	---	---	86.9%	85.3%		73.7%	68.4%
Free Cash Flow	---	---	---	---	---	48	82		64	64
Income Tax	---	---	---	---	---	-	0		-	-

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	---	---	---	---		718	1,209	1,187	1,271
Cash & Equivalents	---	---	---	---	---		112	238	223	133
Goodwill & Int.	---	---	---	---	---		-	137	137	137
Total Liabilities	---	---	---	---	---		33	24	13	123
Accounts Payable	---	---	---	---	---		2	8	5	8
Long-Term Debt	---	---	---	---	---	-	-		-	97
Total Equity	---	---	---	---	---		0	1,184	1,174	1,148
LTD/E Ratio	---	---	---	---	---		-		-	0.08

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	---	---	---				9.5%	6.7%
Return on Equity	---	---	---	---	---				7.7%	7.1%
ROIC	---	---	---	---	---				9.7%	6.8%
Shares Out.	---	---	---	---	---			132	133	133
Revenue/Share	---	---	---	---	---	0.40	0.73		0.93	0.91
FCF/Share	---	---	---	---	---	0.36	0.62		0.48	0.48

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.

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