



Chimera Investment Corporation (CIM)

Updated May 10th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$10	5 Year CAGR Estimate:	15.0%	Market Cap:	\$2.4 B
Fair Value Price:	\$12	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	6/29/2022
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.5%	Dividend Payment Date:	7/28/2022
Dividend Yield:	13.2%	5 Year Price Target	\$13	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Buy:	Hold

Overview & Current Events

Chimera Investment Corporation is a real estate investment trust (REIT) that is a specialty finance company. The company's primary business is in investing through subsidiaries in a diversified portfolio of mortgage assets, including residential mortgage loans, Non-Agency RMBS, Agency CMBS, and other real estate related securities. Chimera's income is predominantly obtained by the difference between the income the company earns on its assets and financing and hedging costs. The company funds the purchase of assets through several funding sources: asset securitization, repurchase agreements (repo), warehouse lines, and equity capital. This \$2.4 billion market capitalization company is listed on the New York Stock Exchange under the ticker 'CIM'.

In early May, Chimera released (5/5/22) financial results for the first quarter of fiscal 2022. Its core earnings-per-share improved from \$0.36 in the prior year's quarter to \$0.39 thanks to income of \$0.07 per share from securities that were called, and exceeded analysts' consensus by \$0.02. The company also benefited from stable and low interest rates. However, book value per share decreased -11%. In addition, the company is now facing a strong headwind from the surge in inflation and the resultant shift in the policy of Fed, which has begun raising interest rates aggressively in an effort to control inflation. An unexpected increase in interest rates is a strong headwind for Chimera, as it exerts great pressure on its margins, i.e., the difference between lending and borrowing rates, without allowing the company to hedge its rates. This is the reason behind the -40% decline of the stock in the last six months.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.60	\$1.75	\$2.85	\$1.25	\$2.93	\$2.62	\$1.97	\$2.25	\$1.46	\$1.78	\$1.50	\$1.66
DPS	\$1.90	\$2.80	\$1.80	\$1.92	\$2.44	\$2.00	\$2.00	\$2.00	\$1.40	\$1.29	\$1.32	\$1.46
Shares¹	205.5	205.5	205.5	187.7	187.7	187.8	187.1	188.4	287.0	240.4	230.0	300.0

Chimera has exhibited a markedly volatile performance record over the last decade. Since 2012, it has grown its earnings-per-share at a 1.2% average annual rate but it has seen its earnings decline in the last five years. Moreover, the REIT has been caught off-guard, with a high debt load, in the downturn caused by the latest surge in inflation. Furthermore, given the unreliable performance and the relatively opaque business model of the company, we find it prudent to assume just 2.0% average annual earnings-per-share growth over the next five years.

Chimera has always offered exceptionally generous dividends to its shareholders, ranging from 9.2% in 2021 to 17.5% in 2009 and 2011. We expect the high dividend yield to remain in place for the foreseeable future.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	8.2	8.9	5.2	14.5	7.3	7.0	8.3	8.6	7.8	7.9	6.7	7.9
Avg. Yld.	13.8%	11.6%	11.3%	14.1%	11.8%	10.8%	11.2%	10.3%	10.5%	9.2%	13.2%	11.1%

¹ In millions.

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Chimera's valuation has fluctuated significantly throughout the last decade. The stock is currently trading at a price-to-earnings ratio of 6.7, which is lower than its 5-year average earnings multiple of 7.9. If Chimera reverts to its average valuation level over the next five years, it will enjoy a 3.5% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	119%	160%	63%	154%	83%	76%	102%	89%	96%	72%	88%	88%

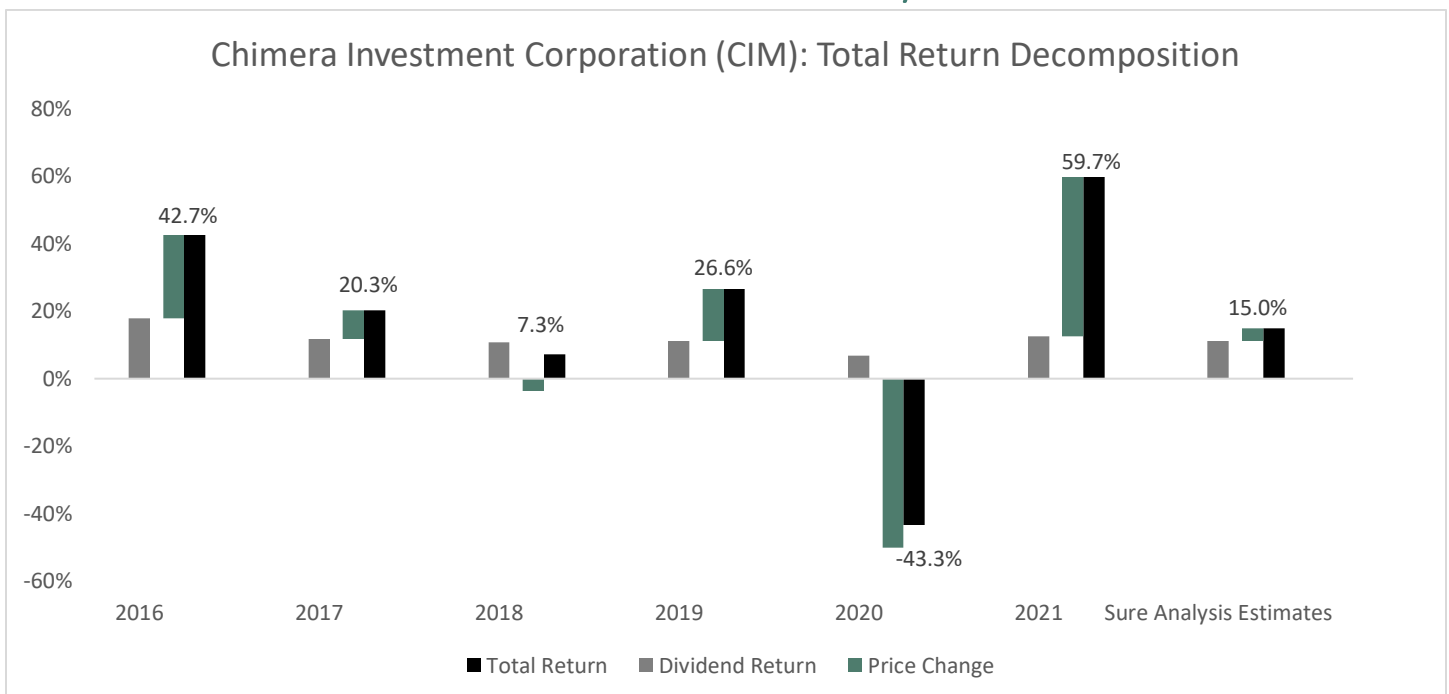
A large part of Chimera's operations are related to mortgage assets. The company has financing risks from certain transactions which include short-term debt to finance mortgage loans. Chimera has a high net debt load, which currently stands at \$9.7 billion, and hence the company has benefited from the depressed interest rates in recent years. Moreover, lower rates are favorable for Chimera, as they generally enhance the margin between funding costs and returns of investments. However, Chimera is vulnerable to the pandemic. Its losses in the first quarter of 2020 reflect the risky business model of the REIT. Chimera is also vulnerable to the ongoing cycle of interest rate hikes, which will exert pressure on the margins of the company.

Chimera went public just before the onset of the Great Recession. In its first year, the company incurred losses of -\$9.50 per share. During the Great Recession, the stock plunged nearly -80%. It is thus evident that the stock is highly vulnerable to recessions.

Final Thoughts & Recommendation

Chimera is vulnerable to the unexpected surge in inflation to a multi-decade high this year. As a result, the stock has fallen -40% in just six months. If inflation subsides next year, the stock could offer a 15.0% average annual return over the next five years, primarily thanks to its 13.2% dividend. Due to its unreliable performance record, its opaque business model and its huge downside risk in the event of a prolonged downturn from the pandemic or inflation, we rate the stock as a hold only for those who realize its high risk.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	387	394	587	316	597	608	444	491	229	1,057
SG&A Exp.	59	33	44	60	44	48	59	75	70	69
Net Profit	328	363	589	250	552	525	412	414	89	670
Net Margin	84.7%	92.0%	100%	79.1%	92.5%	86.3%	92.6%	84.3%	38.8%	63.4%
Free Cash Flow	335	305	183	396	553	487	298	65	258	519
Income Tax	0	0	0	0	0	0	0	0	0	4

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	7742	6936	19155	15345	16685	21222	27709	27119	17523	15407
Cash & Equivalents	621	78	165	114	178	64	47	110	269	386
Accounts Receivable	39	33	71	66	80	101	123	116	81	70
Total Liabilities	4200	3605	15547	12398	13561	17587	24005	23165	13744	11671
Accounts Payable	12	9	34	49	65	79	127	70	47	32
Long-Term Debt	2506	1604	5095	4250	7275	9594	8615	8313	8877	7814
Shareholder's Equity	3542	3332	3608	2946	3123	3635	3704	3953	3779	3736
D/E Ratio	0.71	0.48	1.41	1.44	2.33	2.64	2.33	2.10	2.35	2.09

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.2%	4.9%	4.5%	1.5%	3.4%	2.8%	1.7%	1.5%	0.4%	4.1%
Return on Equity	9.9%	10.6%	17.0%	7.6%	18.2%	15.5%	11.2%	10.8%	2.3%	17.8%
ROIC	6.0%	6.6%	8.6%	3.1%	6.3%	4.4%	3.2%	3.4%	0.7%	5.5%
Shares Out.	205.5	205.5	205.5	187.7	187.7	187.8	187.1	188.4	287.0	240.4
Revenue/Share	1.88	1.92	2.86	1.58	3.17	3.23	2.37	2.60	1.01	4.31
FCF/Share	1.63	1.48	0.89	1.99	2.94	2.59	1.59	1.58	1.14	2.11

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

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