Federal Agricultural Mortgage Corp (AGM)

Updated August 12th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$116	**5 Year CAGR Estimate:**	6.1%	**Market Cap:**	$1.3 B
Fair Value Price:	$99	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date[1]:**	09/14/2022
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.0%	**Dividend Payment Date[2]:**	09/30/2022
Dividend Yield:	3.3%	**5 Year Price Target:**	$133	**Years of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Federal Agricultural Mortgage Corp, also known as Farmer Mac, is a shareholder-owned, federally chartered corporation, combining private capital and public sponsorship for the purpose of increasing access to and reducing the cost of capital for American agriculture and rural communities. The corporation provides financial solutions to a variety of agricultural communities, including agricultural lenders, agribusinesses, and other institutions which benefit from access to flexible, low-cost financing and risk management tools. Often, Farmer Mac can provide the lowest cost of borrowing to agricultural and rural borrowers. In the last 30+ years, Farmer Mac has helped fund loans to over 91,000 rural borrowers in all 50 states, resulting in more than $63 billion of investments in rural America. Farmer Mac trades on the NYSE under the ticker symbol AGM and has a market capitalization of $1.3 billion.

Farmer Mac reported second quarter 2022 results on August 8th, for the period ending June 30th, 2022. AGM reported net income of $39.1 million, up 54% compared to $25.4 million in Q2 2021. The corporation generated $3.60 in EPS, which is 53% higher than $2.35 earned in the same prior year period. Net interest income rose 26% year-over-year to $69.4 million from $55.1 million. Core earnings per share grew 2% compared to last year, to $2.83 per share.

The company maintains a position of strong liquidity, with a quarter-end cash position of $909 million. Additionally, 90-day delinquencies were only 0.08% of total outstanding business volumes, which is fairly stable. AGM's net effective spread also grew 8% from the prior-year period to $60.9 million.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.98	$6.32	$3.37	$4.19	$5.97	$6.60	$8.83	$8.69	$8.27	$9.92	***$11.04***	***$14.77***
DPS	$0.40	$0.48	$0.56	$0.64	$1.04	$1.44	$2.32	$2.80	$3.20	$3.52	***$3.80***	***$5.09***
Shares[3]	10.7	10.9	10.9	10.9	10.5	10.6	10.7	10.7	10.7	10.7	***10.8***	***11.0***

The Federal Agricultural Mortgage Corp has grown earnings strongly, compounding at 10.7% on average, over the last nine and five years. This earnings growth is coupled by massive dividend growth in the same time periods. The payout ratio remains quite low for AGM, which will allow for them to continue inflating the dividend year after year.

We estimate that AGM can continue to bolster earnings at roughly 6.0% annually, and the dividend will grow in-line with earnings. There is a large global demand for agriculture and AGM expects that agricultural productivity must double to meet it. Currently Farmer Mac possesses a 6.0% share of a $302 billion and growing U.S. agricultural mortgage market, so there remains a large market share to gain from.

Farmer Mac is also in the process of broadening their market by evaluating opportunities and pursuing new lines of businesses and products. Additionally, they intend to deepen their market by improving processes and operating practices related to customer interaction, transaction processes, and existing loan features and pricing.

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[1] Estimate

[2] Estimate

[3] In millions

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	6.3	5.2	9.4	7.0	6.6	9.8	9.1	8.9	8.1	10.9	***10.5***	***9.0***
Avg. Yld.	1.6%	1.5%	1.8%	2.2%	2.6%	2.2%	2.9%	3.6%	4.8%	3.3%	***3.3%***	***3.8%***

The current P/E of 10.5 based on 2022's estimated EPS is above the 5-year average of 9.4. We place our fair value estimate at 9.0 times EPS, which implies the potential for a valuation headwind. The yield is slightly higher than the ten-year average yield due to the massive dividend growth AGM has executed on in recent years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	10%	8%	17%	15%	17%	22%	26%	32%	39%	35%	***34%***	***34%***

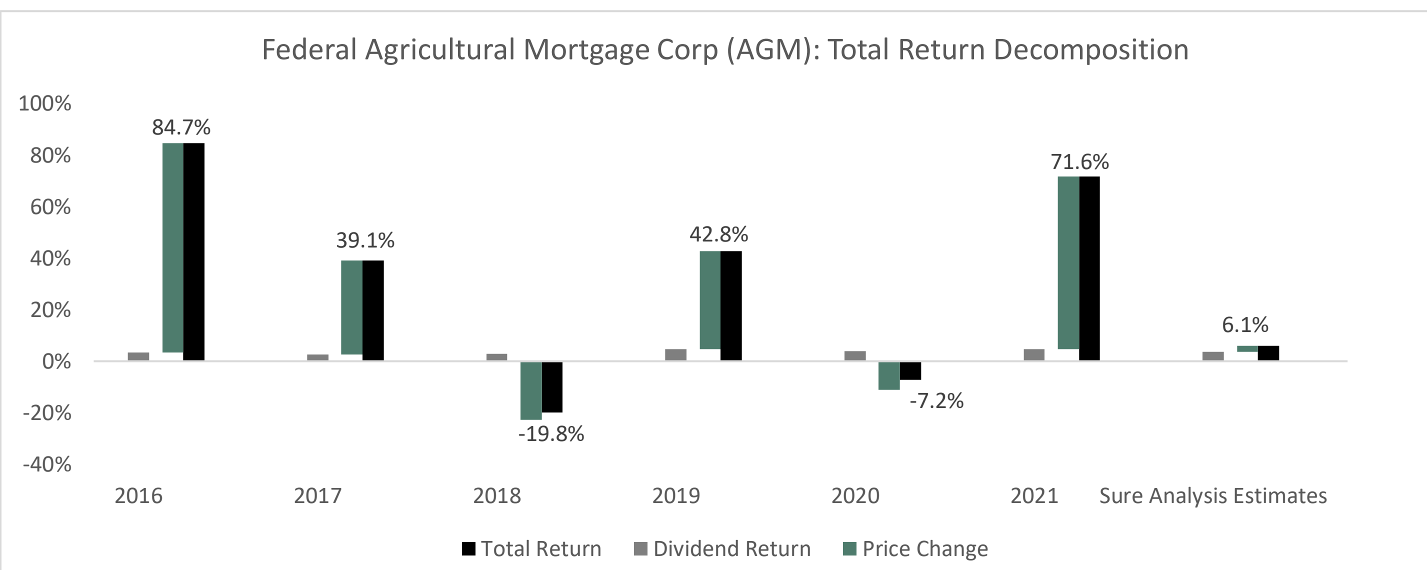
Farmer Mac has a target payout ratio of roughly 35% of earnings, which is in-line with our 2022 earnings and dividends estimate. As the companies grow earnings and the dividend congruently, the payout ratio should remain in this target. It's also possible AGM will grow the target payout ratio as this target was 30% in 2016 and rose to 35% in 2019. There is a significant underlying safety to AGM's earnings and that is because more than 90% of total revenues is recurring net effective spread and fees. Federal Agricultural Mortgage Corp has a great advantage in funding, as it can issue at narrow, government-sponsored enterprise (GSE) spreads to U.S. Treasuries (in Q2 this was the 10-year U.S. Treasury +0.56%).

The great financial crisis brutalized AGM's earnings per share in 2008, when the corporation reported a massive loss and cut the dividend in half from $0.40 to $0.20 annually. Farmer Mac's dividend recovered in 2012 and has since heavily eclipsed its previous record. Earnings also grew strongly off the back of the financial crisis and the company has done well since; however, the company is not recession resistant.

Final Thoughts & Recommendation

Federal Agricultural Mortgage Corp has a strong dividend and a healthy payout ratio, coupled with double digit earnings growth in the last five years. We anticipate AGM will generate annualized total returns of roughly 6.1%, driven by 6.0% earnings growth and a 3.3% yield, offset by a potential valuation headwind. AGM trades at 117% of our fair value estimate, and forecasted annualized total returns of 6.1% causes us to rate AGM as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	126	162	104	146	161	175	186	194	207	239
SG&A Expense	33	32	34	38	40	43	50	52	61	73
Net Income	47	75	48	69	77	84	108	110	109	132
Net Margin	37.2%	46.4%	46.4%	47.1%	48.1%	48.2%	58.1%	56.4%	52.5%	55.4%
Free Cash Flow	33	314	155	185	213	175	200	(20)	(95)	436
Provision For Tax	22	34	3	34	42	46	28	29	29	35

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	12,622	13,362	14,288	15,540	15,606	17,792	18,694	21,709	24,356	25,145
Cash & Equivalents	786	749	1,363	1,210	265	302	425	604	1,034	909
Goodwill & Int.	103	107	107	113	123	155	180	199	186	177
Total Liabilities	12,029	12,787	13,506	14,987	14,962	17,084	17,942	20,910	23,363	23,941
Accounts Payable	65	64	130	77	59	89	109	129	122	163
Long-Term Debt	11,770	12,602	13,249	14,792	14,806	16,928	17,773	20,715	23,173	23,698
Total Equity	294	274	341	349	439	503	548	571	629	720
LTD/E Ratio	33.52	37.89	24.28	26.72	23.01	23.90	23.62	25.92	23.35	19.68

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.4%	0.6%	0.3%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%	0.5%
Return on Equity	17.1%	26.5%	15.6%	19.9%	19.6%	17.9%	20.6%	19.6%	18.1%	19.6%
ROIC	0.4%	0.6%	0.4%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%	0.5%
Shares Out.	10.7	10.9	10.9	10.9	10.5	10.6	10.7	10.7	10.7	10.7
Revenue/Share	11.41	14.49	9.12	12.91	14.96	16.21	17.33	18.01	19.18	22.02
FCF/Share	3.02	28.01	13.64	16.35	19.79	16.20	18.61	(1.83)	(8.77)	40.24

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