



Sachem Capital Corp. (SACH)

Updated August 7th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$5.01	5 Year CAGR Estimate:	12.4%	Market Cap:	\$183.5 M
Fair Value Price:	\$5.60	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	10/22/2022 ¹
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.3%	Dividend Payment Date:	10/29/2022
Dividend Yield:	11.2%	5 Year Price Target	\$6.18	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Sachem Capital Corp is a Connecticut-based real estate finance company that specializes in originating, underwriting, funding, servicing, and managing a portfolio of short-term (i.e., three years or less) loans secured by first mortgage liens on real property located primarily in Connecticut. Each of Sachem's loans is personally guaranteed by the principal(s) of the borrower, which is typically collaterally secured by a pledge of the guarantor's interest in the borrower. The company generates around \$30 million in total revenues. It's worth noting that while the company operates and seems like a Business Development Company ("BDC"), its legal status is that of REIT.

On July 11th, 2022, Sachem Capital raised its dividend by 16.7% to a quarterly rate of \$0.14.

On August 4th, 2022, Sachem Capital Corp. announced its Q2-2022 results for the period ending June 30th, 2022. Total revenues during the quarter came in at \$12.5 million, up 86.9% compared to Q2-2021. The increase in revenue was primarily driven by an increase in lending operations, including higher interest income and origination fees due to the company expanding its investment portfolio over the past four quarters. Net income was approximately \$4.3 million, 72% higher compared to last year. However, EPS grew by two cents during the same period to \$0.12 due to a higher share count in order for Sachem to fund its new originations. We now forecast FY2022 NII/share² of \$0.56.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
NII/shr	---	---	---	---	\$0.27	\$0.38	\$0.50	\$0.32	\$0.41	\$0.44	\$0.56	\$0.62
DPS	---	---	---	---	---	\$0.37	\$0.51	\$0.48	\$0.48	\$0.48	\$0.56	\$0.56
Shares³	---	---	---	---	11.1	12.0	15.4	19.4	22.1	26.3	36.3	70.0

Over the past year, Sachem's access to the capital markets has provided the company with liquidity to fuel its growth, even during the pandemic. The company has lately diversified its holdings, including originating larger loans with established developers. Sachem also continues to expand its lending operations across the U.S. and now has a presence in 14 states, with a strong core focus along the Eastern seaboard.

Moving forward, there should be several key drivers to Sachem's growth. First, despite the rise in interest rates, Sachem believes there is a significant market opportunity for a well-capitalized "hard money" lender to originate attractively priced loans to small and mid-scale real estate developers with good collateral. Second, the competitive landscape for Sachem remains favorable, as many banks and other traditional lenders still have restrictive lending criteria and many non-traditional lenders are under-capitalized. Third, Connecticut's residential real estate market, its primary market, has stabilized and is quite strong. Finally, Sachem continues its expansion beyond Connecticut and has a growing presence in other states, especially in Florida and Texas. That being said, for growth on a per-share basis to be realized, the company will have to take advantage of its growing scale to possibly reduce its financial expenses. We thus expect a humble 2% NII/share growth. We don't expect any dividend growth, despite the recent significant dividend hike, amid uncertainties.

¹ Estimated dates based on past dividend dates.

² Net investment income share is a better performance measure for Sachem, as utilized by the company itself.

³ Share count is in millions.

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	---	---	---	---	---	13.2	8.0	14.4	9.8	9.0	8.9	10.0
Avg. Yld.	---	---	---	---	---	7.4%	12.8%	10.4%	12.0%	9.0%	11.2%	9.1%

Sachem's valuation multiple has hovered close to that of its industry peers, usually in the high single to low double digits. The company currently trades at around 8.9 times our forecasted NII/share. We expect the valuation to expand going forward, driven by increased investor interest to a double-digit yield following the latest aggressive dividend hike. The stock is also trading at a below-average multiple. Rising rates could limit investment activity, and the market could be pricing that. Still, the latest dividend hike is likely to rally investors in the current capital market environment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

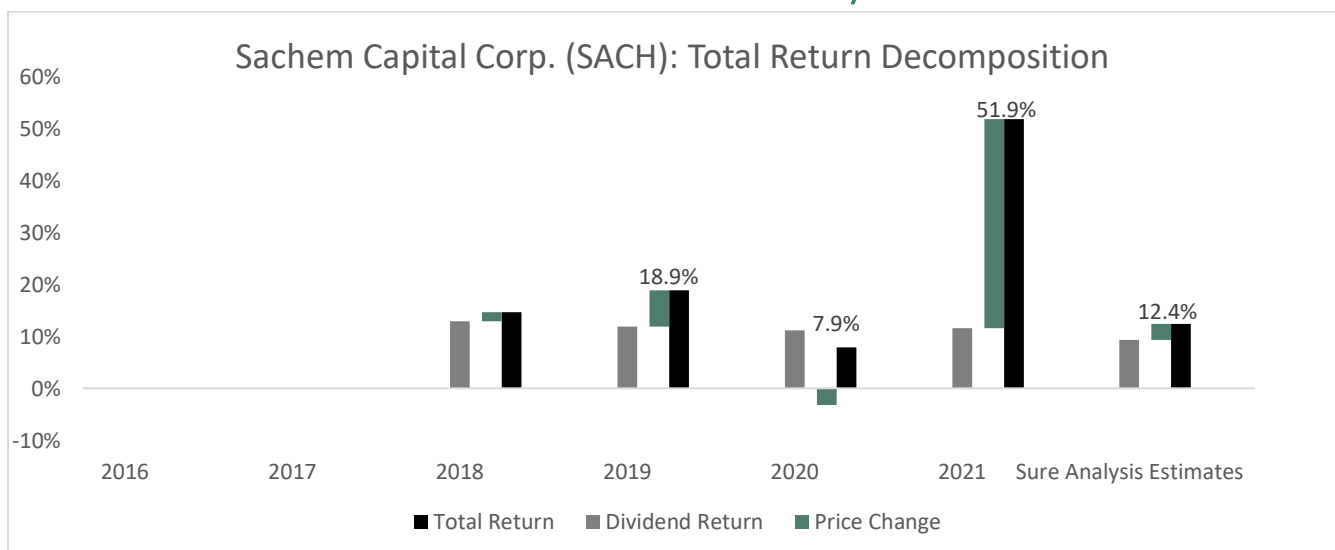
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	97%	102%	150%	117%	109%	100%	91%

Investors should not entirely rely on Sachem's dividend. That said, the latest hike should increase investors' confidence towards its coverage. Still, the company does not have any significant competitive advantages other than those mentioned earlier. Further, the company's cost of debt, which currently stands at 6.3%, is not cheap, while its hefty yield will result in a very expensive cost of equity amid additional share issuances going forward. The company will have to reduce its financial cost per share to breathe easier later on. We believe that a prolonged recession will significantly impact Sachem's field of operations, hurting its financials and eventually leading to dividend cuts. Finally, the company's short trading history and small-capitalization against its peers could increase its non-systemic risk profile.

Final Thoughts & Recommendation

Sachem Capital is a rapidly growing real-estate finance company, providing a hefty dividend yield to its shareholders. The latest dividend hike should increase investors' confidence to the stock, but investors ought to be cautious of its future coverage. Sourced by a 2% growth in NII/share through 2027, Sachem's dividend yield, and possibility of valuation headwinds, we forecast annualized returns of around 12.4% in the medium-term. Sachem Capital earns a buy rating. We highlight again that income-oriented investors should not blindly trust the dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue			2	3	4	6	10	10	13	20
SG&A Exp.			0	0	0	1	2	2	2	4
D&A Exp.					-	0	0	0	0	0
Net Profit			1	2	3	5	8	6	9	13
Net Margin			95.1%	90.1%	86.2%	76.8%	77.4%	63.8%	68.9%	65.0%
Free Cash Flow			1	2	3	5	6	8	9	27

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets			21	31	38	67	86	141	227	418
Cash & Equivalents			6	2	2	1	0	19	19	42
Accounts Receivable			0	0	1	1	2	2	4	7
Total Liabilities			5	7	10	13	33	59	146	238
Accounts Payable			0	0	0	0	0	0	0	1
Long-Term Debt			5	6	8	10	28	56	139	194
Shareholder's Equity			16	24	28	55	53	83	81	180
LTD/E Ratio			0.31	0.25	0.30	0.19	0.52	0.68	1.72	1.08

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets				8.8%	8.8%	9.2%	10.1%	5.5%	4.9%	4.1%
Return on Equity				11.4%	11.6%	11.7%	14.5%	9.2%	11.0%	10.2%
ROIC				9.0%	9.1%	9.6%	10.7%	5.7%	5.0%	4.5%
Shares Out.					11.1	12	15.4	19.4	22.1	26.3
Revenue/Share			0.18	0.30	0.31	0.53	0.65	0.50	0.59	0.75
FCF/Share			0.17	0.28	0.29	0.39	0.36	0.41	0.43	1.04

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

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