



AGNC Investment Corporation (AGNC)

Updated November 10th, 2022 by Samuel Smith

Key Metrics

Current Price:	\$9.4	5 Year CAGR Estimate:	19.4%	Market Cap:	\$5.4B
Fair Value Price:	\$24.3	5 Year Growth Estimate:	-8.5%	Ex-Dividend Date:	11/29/22
% Fair Value:	39%	5 Year Valuation Multiple Estimate:	20.9%	Dividend Payment Date:	12/09/22
Dividend Yield:	15.3%	5 Year Price Target	\$16	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

American Capital Agency Corp was founded in 2008, and is a mortgage real estate investment trust that invests primarily in agency mortgage-backed securities (or MBS) on a leveraged basis. The firm's asset portfolio is comprised of residential mortgage pass-through securities, collateralized mortgage obligations (or CMO), and non-agency MBS. Many of these are guaranteed by government-sponsored enterprises. The majority of American Capital's investments are fixed-rate agency MBS. Most of these are MBS with a 30-year maturity period. The counterparties to most of American Capital's assets are located in North America. Counterparties in Europe also represent a significant percentage of the trust's total portfolio. American Capital derives nearly all its revenue in the form of interest income. It currently generates \$4.5 billion in annual net revenue and trades at a market capitalization of \$5.4 billion.

AGNC reported its Q3 2022 results on October 24, 2022. It generated a \$2.01 comprehensive loss per common share. AGNC had a \$9.08 tangible net book value per common share as of September 30, 2022, which decreased \$2.35 per common share, or -20.6%, from \$11.43 per common share as of June 30, 2022. AGNC paid out \$0.36 in dividends per common share for the third quarter. There was a -17.4% economic return on tangible common equity for the quarter comprised of \$0.36 dividends per common share and a \$2.35 decrease in tangible net book value per common share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.17	\$3.28	(\$0.72)	\$0.54	\$1.79	\$2.04	\$0.21	\$2.26	\$2.70	\$3.02	\$3.04	\$1.95
DPS	\$5.00	\$3.75	\$2.61	\$2.48	\$2.30	\$2.16	\$2.16	\$2.16	\$1.44	\$1.44	\$1.44	\$1.44
Shares¹	303	379	353	349	331	358	441	546	538	522	571.6	550

Due to AGNC's heavily leveraged business model and its high sensitivity to interest rates, its results have been very choppy over the years. We believe that the current lower interest rate environment stemming from weak global growth and the Federal Reserve's dovish stance in the wake of COVID-19 should enable it to weather the challenges well since it will keep spreads attractive and the mortgage market on somewhat solid footing. That said, interest rates are beginning to rise as the Federal Reserve has turned increasingly hawkish.

Over the long-term we think the hefty dividend payout and the volatile nature of the business model will harm earnings per share growth. We also believe that dividend growth will be non-existent for the foreseeable future.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	7.1	5.9	-30.4	31.8	10.1	9.9	83.6	7.5	5.5	5.4	3.1	8.0
Avg. Yld.	16.9%	19.4%	11.9%	14.4%	12.7%	10.7%	12.3%	12.7%	10.3%	9.10%	15.3%	9.2%

AGNC is currently trading at 3.1 times its projected 2022 earnings, and we see this as undervalued based on its longer-term P/E averages. As a result, we expect valuation multiple expansion over the next half decade. The dividend yield is

¹ Share count in millions

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uncertain moving forward as the company has a history of cutting its dividend during times of uncertainty. However, our current estimate implies a yield that is above historical averages.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	120%	114%	-363%	459%	128%	106%	1029%	96%	53%	48%	47%	74%

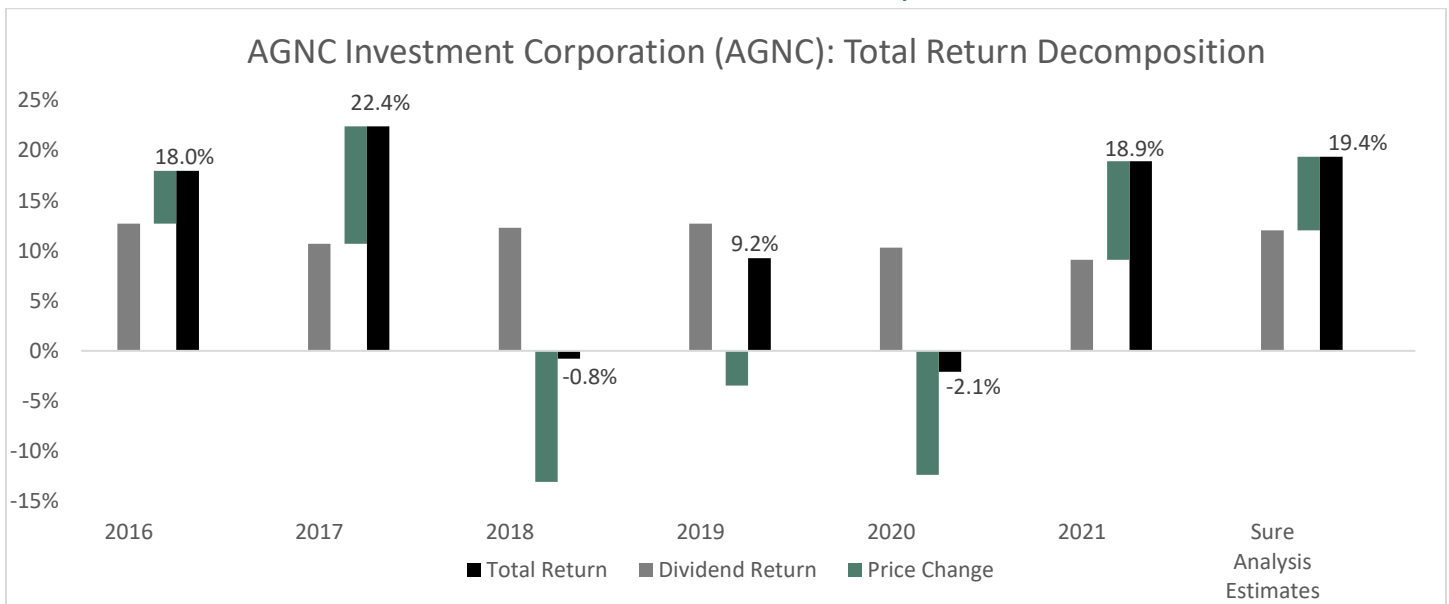
Given that it had its IPO in 2008 – in the midst of the financial crisis – it is hard to get an accurate picture of exactly how it can be expected to perform during this recession. However, the mortgage-backed security industry – given its leverage and interest rate sensitivity – is very prone to underperform when the housing market experiences a downturn and mortgage foreclosures rise. As a result, it should not be viewed as a safe, defensive stock. That being said, its record thus far has been fairly strong, with industry-leading total economic return (NAV-based) and total stock return (share price-based).

This outperformance has been driven by its highly efficient operating cost structure and the competitive advantage that it enjoys through economies of scale as one of only a few residential mortgage REITs with a market capitalization of above \$5 billion. The trust also strives to guard against downside and enhance shareholder total returns by utilizing a comprehensive risk management framework that is predicated on careful asset selection, disciplined hedging, and diversified funding.

Final Thoughts & Recommendation

AGNC offers investors an attractive current dividend yield of 15.3% and a discount to fair value in its earnings multiple. As a result, we expect 19.4% annualized total returns over the next half decade. That said, the earnings stream is unpredictable and highly leveraged. Still, the annualized total return potential is so high that we rate shares a speculative Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,327	1,304	(211)	238	676	844	229	771	(173)	837
SG&A Exp.	31	32	-	-	19	42	45	47	56	54
D&A Exp.			-	-	2	3	25	-	-	
Net Profit	1,277	1,259	(233)	215	623	771	129	688	(266)	749
Net Margin	96.2%	96.5%	110%	90.3%	92.2%	91.4%	56.3%	89.2%	154%	89.5%
Free Cash Flow	2,321	2,501	1,622	1,428	1,352	1,260	1,113	1,180	1,747	

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	100453	76255	67766	57021	56880	70376	109241	113082	81817	68149
Cash & Equivalents	2430	2143	1720	1110	1208	1046	921	831	1017	998
Goodwill & Int.				-	554	551	526	526	526	526
Total Liabilities	89557	67558	58338	49050	49524	61622	99335	102041	70738	57858
Accounts Payable	132	492	100	61	211	299	518	424	219	400
Long-Term Debt	937	910	761	4,348	3,497	357	275	228	177	126
Total Equity	10,729	8,530	9,092	7,635	7,020	8,270	9,422	10,109	9,590	8,802
LTD/E Ratio	0.09	0.10	0.08	0.55	0.48	0.04	0.03	0.02	0.02	0.01

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.6%	1.4%	-0.3%	0.3%	1.1%	1.2%	0.1%	0.6%	-0.3%	1.0%
Return on Equity	15.1%	13.1%	-2.6%	2.6%	8.5%	10.1%	1.5%	7.0%	-2.7%	8.1%
ROIC	14.1%	11.7%	-2.4%	1.9%	5.4%	7.7%	1.3%	6.4%	-2.4%	6.9%
Shares Out.	303	379	353	349	331	358	441	546	538	522
Revenue/Share	4.37	3.44	(0.60)	0.68	2.04	2.35	0.52	1.42	(0.31)	1.58
FCF/Share	7.64	6.60	4.59	4.10	4.07	3.51	2.52	2.18	3.17	

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

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