



# ARMOUR Residential REIT, Inc. (ARR)

Updated February 19<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$5.8	<b>5 Year CAGR Estimate:</b>	17.7%	<b>Market Cap:</b>	\$1.1B
<b>Fair Value Price:</b>	\$7.8	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	03/14/23
<b>% Fair Value:</b>	74%	<b>5 Year Valuation Multiple Estimate:</b>	6.2%	<b>Dividend Payment Date:</b>	03/28/23
<b>Dividend Yield:</b>	16.6%	<b>5 Year Price Target</b>	\$8.0	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

ARMOUR Residential (ARR) is a mortgage REIT that was formed in 2008. The trust invests primarily in residential mortgage-backed securities that are guaranteed or issued by a United States government entity including Fannie Mae, Freddie Mac and Ginnie Mae. ARMOUR has a \$1.1 billion market capitalization.

ARMOUR reported Q4 results on February 15<sup>th</sup>, 2023. It generated comprehensive income available to common stockholders of \$39.5 million or \$0.27 per common share. Net interest income of \$11.6 million and net interest margin of 2.59% were up 38 basis points from the prior quarter. Distributable Earnings available to common stockholders was \$38.8 million, which represents \$0.27 per common share. It raised \$174.2 million of capital by issuing 30,721,405 shares of common stock at \$5.67 net proceeds per share, after fees and expenses, through an at the market offering program. The company repurchased 449,700 shares of common stock, at an average cost of \$5.01 per share, pursuant to existing authorization.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$8.14	\$7.06	\$5.57	-\$5.54	\$2.78	\$2.59	\$2.54	\$1.29	\$0.96	\$1.16	<b>\$1.12</b>	<b>\$1.12</b>
<b>DPS</b>	\$6.48	\$4.80	\$3.89	\$3.02	\$2.28	\$2.28	\$2.04	\$0.93	\$1.20	\$1.20	<b>\$0.96</b>	<b>\$1.12</b>
<b>Shares<sup>1</sup></b>	45	45	43	37	40	44	59	65	94	94	<b>94</b>	<b>102</b>

ARMOUR's cash flow has been volatile since its inception in 2008, but this is to be expected with all mREITs. Of late, declining spreads have hurt earnings while the economic disruption caused by the coronavirus outbreak disrupted the business model, leading to a sharp decline in cash flow per share, as well as a steep dividend cut. Fortunately, ARMOUR is now seeing a measure of recovery, and should continue to see that recovery manifest itself in the coming quarters and years.

Moving forward, we expect the company to see flattish growth, and therefore it will likely take a long time for them to rebuild to previous levels of book value and earnings power.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	3.9	4.2	3.9	---	9.3	8.6	6.7	7.7	10.9	5.0	<b>5.2</b>	<b>7.0</b>
<b>Avg. Yld.</b>	20.4%	16.2%	17.9%	13.9%	8.8%	10.2%	12.0%	9.4%	11.5%	21.1%	<b>16.6%</b>	<b>14.3%</b>

As one would expect, ARMOUR's valuation has moved around a lot in recent years. Given the current uncertainty facing the sector, we have set fair value at 7 times cash flow. The company's current price to cash flow is considered significantly undervalued due to the weakness in the share price. Given that shares trade at a steep discount based on expectation for this year's cash flow per share, we expect multiple expansion over the coming years, providing a tailwind to total returns.

<sup>1</sup> 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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## Safety, Quality, Competitive Advantage, & Recession Resiliency

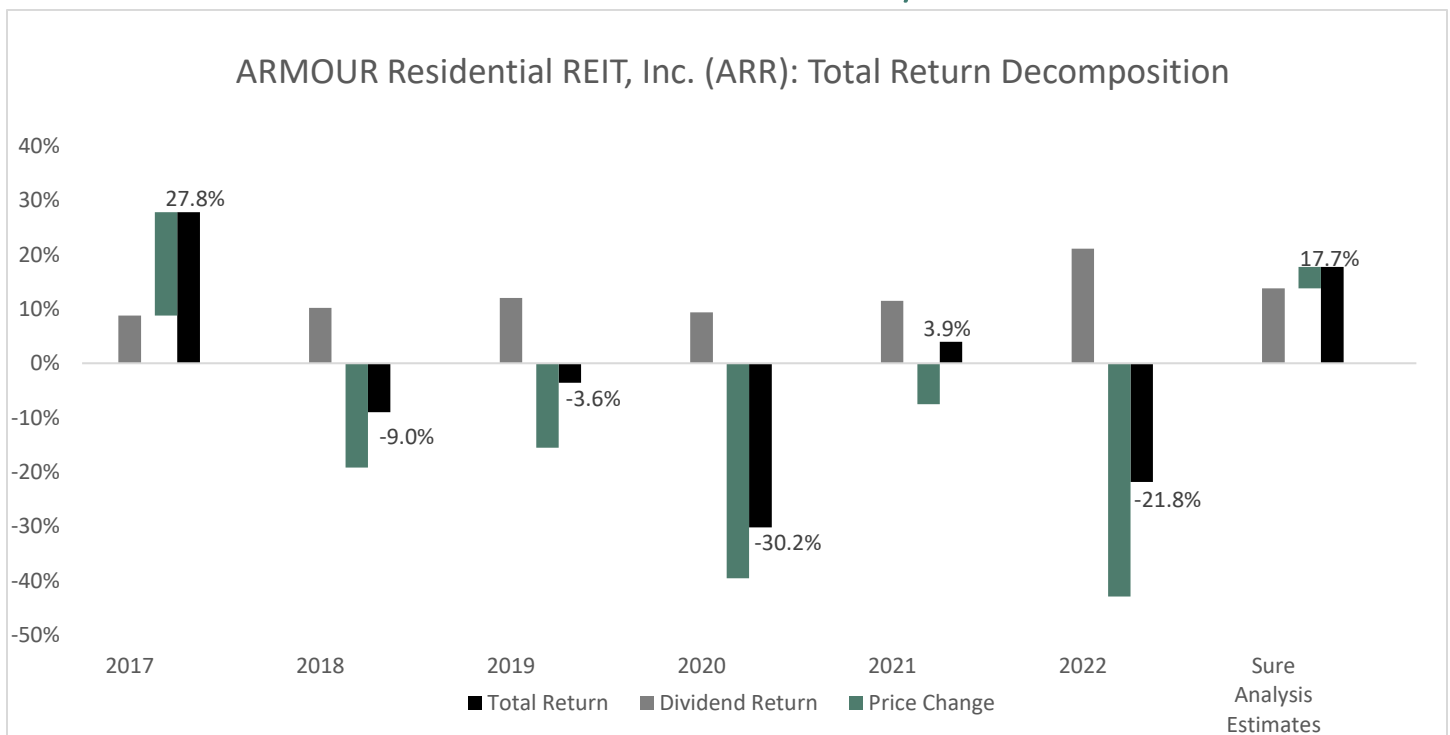
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	80%	68%	70%	-55%	82%	88%	80%	72%	125%	103%	86%	100%

ARMOUR’s quality metrics have been volatile given the performance of the trust as rates have moved around over the years. Gross margins have moved down since short-term rates began to rise meaningfully a couple of years ago, although it appears most of that damage has been done. Balance sheet leverage had been moving down slightly, but it saw an uptick again this past quarter. However, we do not forecast significant movement in either direction from this point. Interest coverage has declined with spreads but also appears to have stabilized, so we are somewhat optimistic moving forward, while keeping in mind the significant potential for volatility. ARMOUR faced headwinds from the coronavirus outbreak and an overall economic downturn. As a result, a steep dividend cut was necessary to preserve the balance sheet and allow the REIT to reposition itself for survival and future growth.

### Final Thoughts & Recommendation

We see 17.7% annualized total returns for shareholders in the coming years thanks to the attractive dividend yield of 16.6% along with some valuation multiple expansion as well as very slight growth. ARMOUR has endured some tough times in the past but with prudent leverage and a management team that does not chase unprofitable growth, it appears the company should be able to weather its uncertain future. Overall, we rate the stock a speculative Buy at the current price.

### Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	505	451	365	264	254	283	(211)	(182)	19	(226)
<b>SG&amp;A Exp.</b>	35	35	33	38	36	37	34	36	7	5
<b>Net Profit</b>	-187	-179	-31	-46	181	-106	(250)	(215)	15	(230)
<b>Net Margin</b>	-37.0%	-39.7%	-8.5%	-17.2%	71.2%	-37.4%	118%	118%	80.1%	102%
<b>Free Cash Flow</b>	369	315	238	-203	110	75	(41)	(258)	12	124

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	15733	16286	13055	7978	8929	8465	13272	5,524	5,277	9,437
<b>Cash &amp; Equivalents</b>	496	495	290	272	265	222	181	168	338	87
<b>Acc. Receivable</b>	0	261	0	N/A	N/A	N/A	35	13	11	29
<b>Total Liabilities</b>	13831	14537	11830	6886	7603	7339	11836	4,586	4,134	8,325
<b>Accounts Payable</b>	183	462	19	7	3	4	36	4	4	29
<b>Long-Term Debt</b>	0	0	0	0	0	0	-	-	-	-
<b>Total Equity</b>	1901	1749	1225	1092	1326	1125	1,437	938	1,144	1,112

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	-1.0%	-1.1%	-0.2%	-0.4%	2.1%	-1.2%	-2.3%	-2.3%	0.3%	-3.1%
<b>Return on Equity</b>	-8.9%	-9.8%	-2.1%	-3.9%	15.0%	-8.6%	-19.5%	-18.1%	1.5%	-20.4%
<b>ROIC</b>	-8.9%	-9.8%	-2.1%	-3.9%	15.0%	-8.6%	-19.5%	-18.1%	1.5%	-20.4%
<b>Shares Out.</b>	45	45	43	37	40	44	59	65	90	94
<b>Revenue/Share</b>	11.14	10.10	8.54	7.19	6.42	6.72	(3.66)	(2.89)	0.24	(1.91)
<b>FCF/Share</b>	8.14	7.06	5.57	-5.54	2.78	1.79	(0.70)	(4.09)	0.15	1.05

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

## Disclaimer

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