



Federal Agricultural Mortgage Corp (AGM)

Updated March 16th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$131	5 Year CAGR Estimate:	8.0%	Market Cap:	\$1.3 B
Fair Value Price:	\$125	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	03/15/2023
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.0%	Dividend Payment Date²:	03/31/2023
Dividend Yield:	3.4%	5 Year Price Target:	\$167	Years of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	D	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.

On February 22nd, 2023, Farmer Mac declared a \$1.10 per share quarterly dividend, representing a 16% increase, and marking the company's 12th annual dividend increase.

Farmer Mac reported fourth quarter 2022 results on February 24th, 2023, for the period ending December 31st, 2022. During the quarter, The corporation generated \$3.16 in core EPS, which is 14% higher than \$2.76 earned in the same prior year period.

AGM reported net income of \$151 million for the full year, up 36% compared to 2021. Net interest income rose 22% year-over-year to \$270.9 million. Core earnings per share rose 9% compared to last year, to \$11.42 per share.

The company maintains a position of strong liquidity, with a quarter-end cash and cash equivalents position of \$861 million. Additionally, 90-day delinquencies were 0.17% of the entire \$25.9 billion portfolio. Farmer Mac's net effective spread also grew 16% from the prior-year period to a record \$255.5 million.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$6.32	\$3.37	\$4.19	\$5.97	\$6.60	\$8.83	\$8.69	\$8.27	\$10.47	\$11.42	\$12.45	\$16.66
DPS	\$0.48	\$0.56	\$0.64	\$1.04	\$1.44	\$2.32	\$2.80	\$3.20	\$3.52	\$3.80	\$4.40	\$5.89
Shares³	10.9	10.9	10.9	10.5	10.6	10.7	10.7	10.7	10.7	10.8	10.8	11.0

The Federal Agricultural Mortgage Corp has grown earnings strongly, compounding at 6.8% and 11.6% 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 boosting the dividend year after year.

We estimate that Farmer Mac 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 roughly 6.0% share of a \$349 billion and growing U.S. agricultural mortgage market, so there remains a large market share to gain from.

¹ Estimate

² Estimate

³ 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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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.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	5.2	9.4	7.0	6.6	9.8	9.1	8.9	8.1	10.9	9.5	10.5	10.0
Avg. Yld.	1.5%	1.8%	2.2%	2.6%	2.2%	2.9%	3.6%	4.8%	3.3%	3.2%	3.4%	3.5%

The current P/E of 10.5 based on 2023's estimated EPS is above the 5-year average of 9.3. We peg fair value at 10.0 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	8%	17%	15%	17%	22%	26%	32%	39%	34%	33%	35%	35%

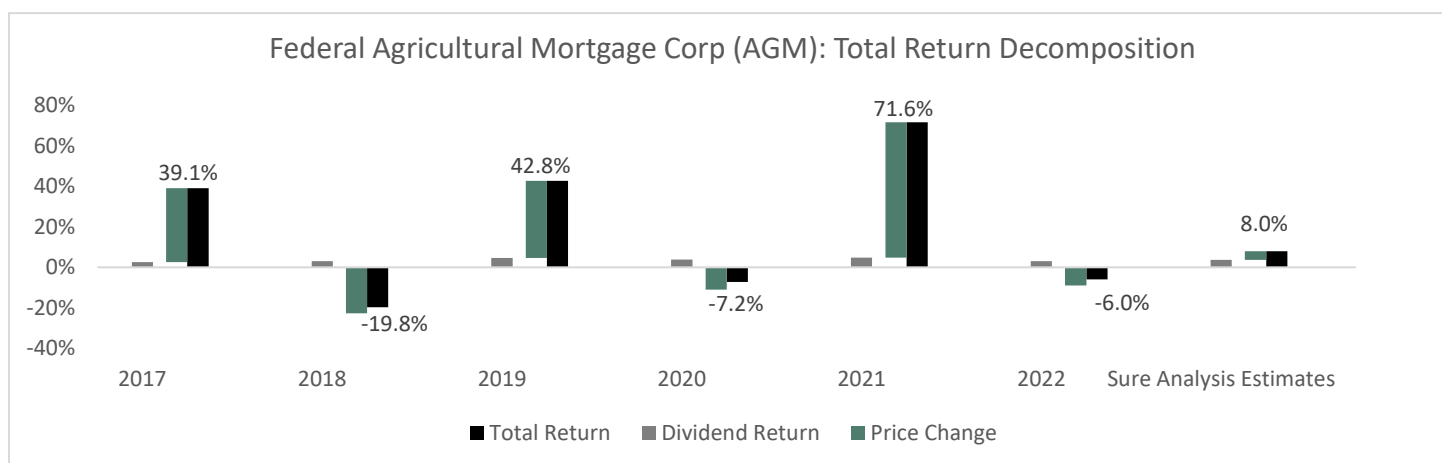
Farmer Mac has a target payout ratio of roughly 35% of earnings, which is in-line with our 2023 earnings and dividends estimate. As the companies grow earnings and the dividend congruently, the payout ratio should remain in this target. It's also possible AGM will grow the target payout ratio as this 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 Q4 this was the 10-year U.S. Treasury +0.74%).

The great financial crisis brutalized Farmer Mac'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 8.0%, driven by 6.0% earnings growth and a 3.4% yield, offset by a potential valuation headwind. AGM trades at 105% of our fair value estimate, and forecasted annualized total returns of 8.0% causes us to rate AGM as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	162	104	146	161	175	186	194	207	239	309
SG&A Expense	32	34	38	40	43	50	52	61	73	79
Net Income	75	48	69	77	84	108	110	109	132	178
Net Margin	46.4%	46.4%	47.1%	48.1%	48.2%	58.1%	56.4%	52.5%	55.4%	57.6%
Free Cash Flow	314	155	185	213	175	200	(20)	(95)	436	809
Provision For Tax	34	3	34	42	46	28	29	29	35	48

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	13,362	14,288	15,540	15,606	17,792	18,694	21,709	24,356	25,145	27,333
Cash & Equivalents	749	1,363	1,210	265	302	425	604	1,034	909	861
Goodwill & Int.	107	107	113	123	155	180	199	186	177	229
Total Liabilities	12,787	13,506	14,987	14,962	17,084	17,942	20,910	23,363	23,941	26,061
Accounts Payable	64	130	77	59	89	109	129	122	163	187
Long-Term Debt	12,602	13,249	14,792	14,806	16,928	17,773	20,715	23,173	23,698	26,182
Total Equity	274	341	349	439	503	548	571	629	720	787
LTD/E Ratio	37.89	24.28	26.72	23.01	23.90	23.62	25.92	23.35	19.68	20.58

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.6%	0.3%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%	0.5%	0.7%
Return on Equity	26.5%	15.6%	19.9%	19.6%	17.9%	20.6%	19.6%	18.1%	19.6%	23.5%
ROIC	0.6%	0.4%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%	0.5%	0.7%
Shares Out.	10.9	10.9	10.9	10.5	10.6	10.7	10.7	10.7	10.7	10.88
Revenue/Share	14.49	9.12	12.91	14.96	16.21	17.33	18.01	19.18	22.02	28.40
FCF/Share	28.01	13.64	16.35	19.79	16.20	18.61	(1.83)	(8.77)	40.24	74.36

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

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