



Broadmark Realty Capital (BRMK)

Updated March 4th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$5.07	5 Year CAGR Estimate:	10.5%	Market Cap:	\$667 M
Fair Value Price:	\$5.40	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	02/15/23
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	03/15/23
Dividend Yield:	8.3%	5 Year Price Target	\$6.26	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Broadmark Realty Capital Inc. is a real estate investment trust that provides short-term, first deed of trust loans that are secured by real estate. Customers use these loans to acquire, renovate, rehab and develop properties for both residential and commercial uses in the U.S. Broadmark Realty formed in 2010, but had its initial public offering in November of 2019. The trust has originated nearly \$3 billion of loans since forming.

On November 16th, 2022, Broadmark Realty announced that it was cutting its monthly dividend by 50% to \$0.035.

On February 27th, 2023, it was announced that Broadmark Realty would merge with Ready Capital (RC). Each share of Broadmark Realty would be converted into 0.47233 shares of Ready Capital. The implied share price for Broadmark Realty is \$5.90, which is a 41% premium to the previous day's closing price. The deal will give the combined entity a capital base of \$2.8 billion and will likely be completed by the end of the second quarter of 2023.

Also on February 27th, 2023, Broadmark Realty reported fourth quarter and full year results for the period ending December 31st, 2022. For the quarter, revenue decreased 32.7% to \$21.1 million, which was \$5.55 million below estimates. Adjusted earnings per share of \$0.09 compared to \$0.18 in the prior year and was \$0.04 less than expected. For the year, revenue declined 9.6% to \$108.9 million while adjusted earnings-per-share of \$0.55 compared to \$0.71 in 2021.

Quarterly interest income totaled \$16.5 million and fee income was \$4.1 million. The total loan portfolio consisted of \$1.4 billion of loans across 17 U.S. states and the District of Columbia. Broadmark Realty originated \$49.9 million and \$551.1 million of new loans and amendments for the quarter and full year, respectively. The weighted average loan-to-value of 63.0%, up from 59.7% in the third quarter. As of December 31st, 2022, Broadmark Realty had a total of \$250.4 million of loans in contractual default. Provisions for credit losses totaled \$21.5 million, compared to \$806 million in the prior year. For 2022, provisions for credit losses totaled \$45.2 million compared to \$30 million in 2021.

Though the merger with Ready Capital is projected to close during 2023, we are using expected earnings-per-share of \$0.54 for the year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	---	---	---	\$0.21	\$0.77	\$0.71	\$0.61	\$0.54	\$0.63
DPS	---	---	---	---	---	---	\$0.12	\$0.78	\$0.84	\$0.81	\$0.42	\$0.42
Shares¹	---	---	---	---	---	---	132	133	133	133	133	133

Broadmark Realty has been a publicly traded entity for a short period of time. That said, the trust has some impressive features. First, Broadmark Realty has very little debt outstanding, which is highly unusual for a REIT. The trust has also seen its active loan portfolio grow from \$117 million at the end of 2014 to \$1.5 billion at the end of the fourth quarter of 2022. Without much of a track record, we believe that a growth rate of 3% for core earnings is appropriate.

¹ In millions of shares

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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Broadmark Realty is also unusual in that it pays a monthly dividend. That said, the dividend has now cut its dividend three since the trust went public. Shares yield 8.3% at the current price, but we are not confident that this yield would be sustained if earnings do not grow. Given the volatility in the trust's dividend history, we do not anticipate dividend growth in the medium-term.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	---	13.1	13.3	5.8	9.4	10.0
Avg. Yld.	---	---	---	---	---	---	---	7.7%	8.9%	22.3%	8.3%	6.7%

Shares of Broadmark Realty have fallen 3.1%, since our November 13th, 2022 report. Based on estimates for the year, Broadmark Realty trades with a price-earnings-ratio of 9.4. We have a 2028 target price-to-earnings ratio of 10. We feel that this incorporates the positives for the trust, but also takes into account the short period of time it has been a publicly traded entity. Reverting to our 2028 valuation target would add 1.3% to annual returns over the medium-term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

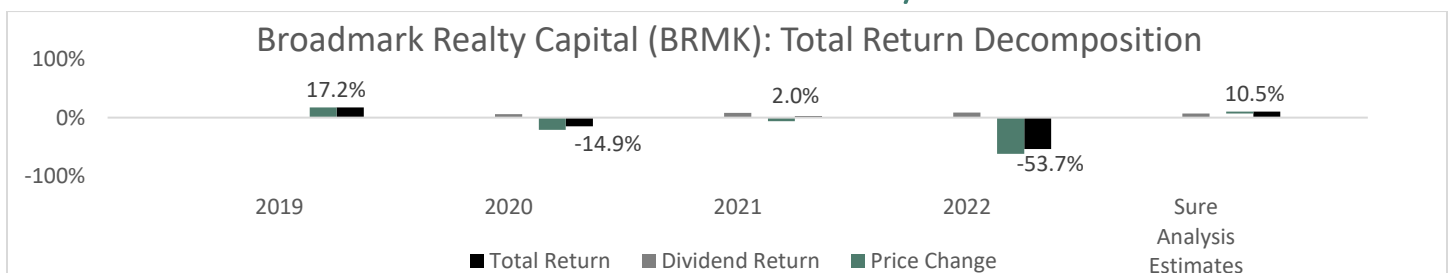
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	57%	101%	118%	133%	78%	67%

Broadmark Realty's lack of meaningful debt is a significant advantage. The trust uses cash on its balance sheet to make acquisitions as opposed to many REITs which use debt to fund purchases. This keeps Broadmark Realty from having to pay interest expense. The trust's weighted average loan-to-value is now 63% which allows Broadmark Realty to take possession of properties in default with a sizeable amount of equity built in. This should enable the trust to recover a large portion of potential losses. Broadmark Realty is far from recession tested, but the lack of loans originated during COVID-19 restrictions could be a sign of what may happen during a deep recession. The trust's portfolio is split almost evenly as residential loans comprise 55% of the portfolio with commercial making up the remainder. However, Broadmark Realty's properties are highly concentrated in the Pacific Northwest and Mountain West, where 97% of residential loans are located.

Final Thoughts & Recommendation

Shares of Broadmark Realty are expected to return 10.5% annually through 2028, down from our previous estimate of 16.6%. Our projected return stems from a 3% earnings growth rate, the starting yield of 8.3%, and a low single-digit tailwind from multiple expansion. The pending merger with Ready Capital will make the combined entity one of the largest commercial mortgage REITs in the market. Shares of Broadmark Realty trade at 16.4% discount to the implied merger price, which provides some margin of safety for investors interested in owning the name. That said, Broadmark Realty is a volatile name that provides a high yield, but high risk. We continue to rate shares of Broadmark Realty as a buy, but note that the stock is likely best for those with a higher tolerance for risk, especially when it comes to income.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	---	---	---	52	96		122	121	109
Operating Profit	---	---	---	---	45	82		85	88	34
Op. Margin	---	---	---	---	86.9%	85.4%		69.3%	72.7%	31.2%
Net Profit	---	---	---	---	45	82		90	82	(116)
Net Margin	---	---	---	---	86.9%	85.3%		73.7%	68.4%	-106.9%
Free Cash Flow	---	---	---	---	48	82		64	64	57
Income Tax	---	---	---	---	-	0		-	-	-

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	---	---	---		718	1,209	1,187	1,271	1,052
Cash & Equivalents	---	---	---	---		112	238	223	133	55
Goodwill & Int.	---	---	---	---		-	137	137	137	-
Total Liabilities	---	---	---	---		33	24	13	123	123
Accounts Payable	---	---	---	---		2	8	5	8	13
Long-Term Debt	---	---	---	---	-	-		-	97	98
Total Equity	---	---	---	---		0	1,184	1,174	1,148	928
LTD/E Ratio	---	---	---	---		-		-	0.08	0.11

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	---				9.5%	6.7%	-10.0%
Return on Equity	---	---	---	---				7.7%	7.1%	-11.2%
ROIC	---	---	---	---				9.7%	6.8%	-10.2%
Shares Out.	---	---	---	---			132	133	133	133
Revenue/Share	---	---	---	---	0.40	0.73		0.93	0.91	0.82
FCF/Share	---	---	---	---	0.36	0.62		0.48	0.48	0.43

Notes: All figures in millions of U.S. Dollars unless per share or indicated otherwise. Third page numbers are not included for Broadmark Realty Capital due to the company's short history since its IPO.

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