



AGNC Investment Corporation (AGNC)

Updated May 12th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$9.34	5 Year CAGR Estimate:	15.1%	Market Cap:	\$5.5B
Fair Value Price:	\$14.5	5 Year Growth Estimate:	-4.2%	Ex-Dividend Date:	07/27/23 ¹
% Fair Value:	64%	5 Year Valuation Multiple Estimate:	9.2%	Dividend Payment Date:	08/09/23 ²
Dividend Yield:	15.4%	5 Year Price Target	\$12	Years Of Dividend Growth:	0
Dividend Risk Score:	F	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 trades at a market capitalization of \$5.5 billion.

AGNC reported its Q1 2023 results on April 24th, 2023, reporting a comprehensive loss of \$(0.07) per common share, including a net loss of \$(0.31) per common share and \$0.70 net spread and dollar roll income per common share. The company also declared \$0.36 dividends per common share for the quarter. The investment portfolio as of March 31, 2023, was \$56.8 billion, and the tangible net book value per common share was \$9.41. AGNC issued 17.1 million common shares through At-the-Market offerings, raising \$171 million.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.28	(\$0.72)	\$0.54	\$1.79	\$2.04	\$0.21	\$2.26	\$2.70	\$3.02	\$3.11	\$2.42	\$1.95
DPS	\$3.75	\$2.61	\$2.48	\$2.30	\$2.16	\$2.16	\$2.16	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44
Shares³	379	353	349	331	358	441	546	538	522	575	593	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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	5.9	-30.4	31.8	10.1	9.9	83.6	7.5	5.5	5.4	3.1	3.9	6.0
Avg. Yld.	19.4%	11.9%	14.4%	12.7%	10.7%	12.3%	12.7%	10.3%	9.1%	15.3%	15.4%	12.3%

¹ Estimated

² Estimated

³ Share count in millions

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AGNC is currently trading at 3.9 times its projected 2023 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 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	114%	-363%	426%	131%	106%	1029%	96%	53%	48%	46%	60%	74%

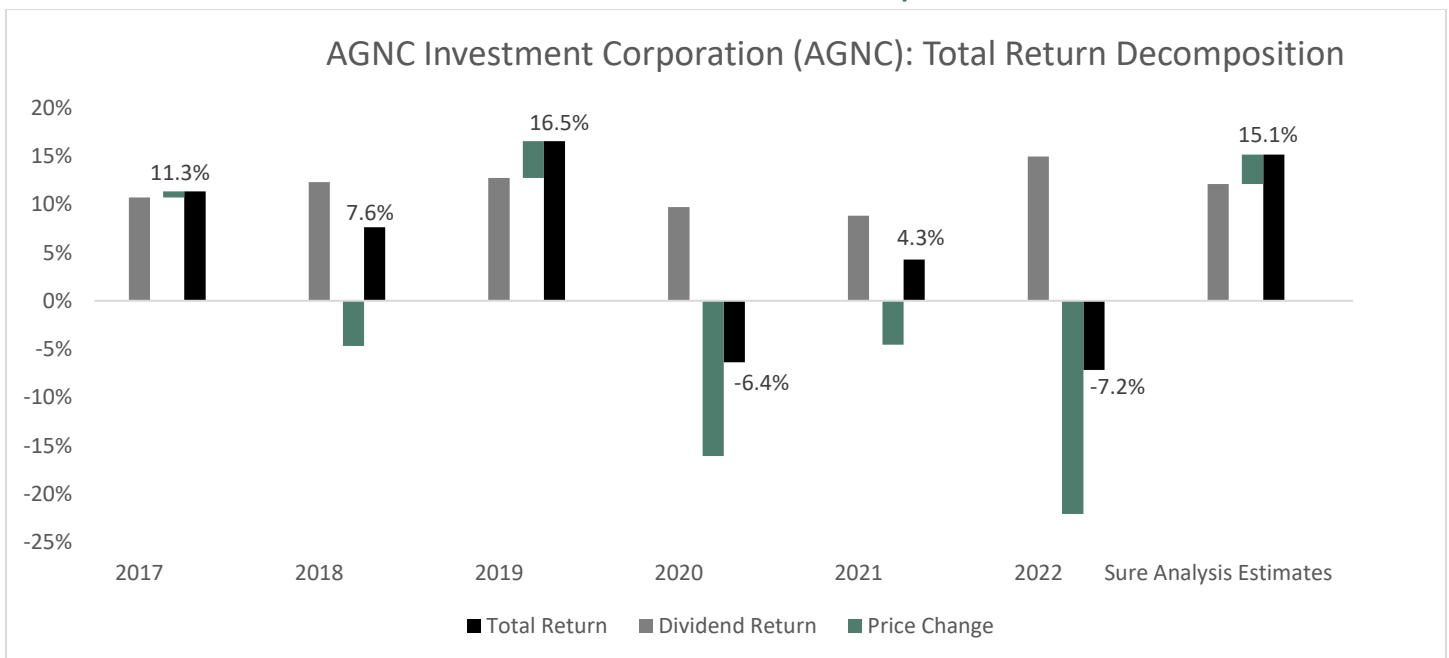
Given that it had its IPO in 2008 – in the midst of the financial crisis – it is hard to get an accurate picture of exactly how it can be expected to perform during this recession. However, the mortgage-backed security industry – given its leverage and interest rate sensitivity – is very prone to underperform 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 the largest residential mortgage REITs. 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 15.4% and a discount to fair value in its earnings multiple. As a result, we expect 15.1% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1,304	(211)	238	676	844	229	771	(173)	837	1304
SG&A Exp.	32	-	-	19	42	45	47	56	54	32
D&A Exp.		-	-	2	3	25	-	-		
Net Profit	1,259	(233)	215	623	771	129	688	(266)	749	1259
Net Margin	96.5%	110%	90.3%	92.2%	91.4%	56.3%	89.2%	154%	89.5%	
Free Cash Flow	2,501	1,622	1,428	1,352	1,260	1,113	1,180	1,747	1,622	2,501

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	76255	67766	57021	56880	70376	109241	113082	81817	68149	76255
Cash & Equivalents	2143	1720	1110	1208	1046	921	831	1017	998	2143
Goodwill & Int.			-	554	551	526	526	526	526	
Total Liabilities	67558	58338	49050	49524	61622	99335	102041	70738	57858	67558
Accounts Payable	492	100	61	211	299	518	424	219	400	492
Long-Term Debt	910	761	4,348	3,497	357	275	228	177	126	910
Total Equity	8,530	9,092	7,635	7,020	8,270	9,422	10,109	9,590	8,802	8530
LTD/E Ratio	0.10	0.08	0.55	0.48	0.04	0.03	0.02	0.02	0.01	0.1046

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.4%	-0.3%	0.3%	1.1%	1.2%	0.1%	0.6%	-0.3%	1.0%	-2.0%
Return on Equity	13.1%	-2.6%	2.6%	8.5%	10.1%	1.5%	7.0%	-2.7%	8.1%	-15.8%
ROIC	11.7%	-2.4%	1.9%	5.4%	7.7%	1.3%	6.4%	-2.4%	6.9%	-12.9%
Shares Out.	379	353	349	331	358	441	546	538	522	574
Revenue/Share	3.44	(0.60)	0.68	2.04	2.35	0.52	1.42	(0.31)	1.58	(2.08)
FCF/Share	6.60	4.59	4.10	4.07	3.51	2.52	2.18	3.17	2.91	

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

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