



Blackstone Mortgage Trust (BXMT)

Updated May 12th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	12.1%	Market Cap:	\$2.9B
Fair Value Price:	\$23	5 Year Growth Estimate:	-4.1%	Ex-Dividend Date:	6/30/23 ¹
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	6.0%	Dividend Payment Date:	7/14/23 ²
Dividend Yield:	14.6%	5 Year Price Target	\$18	Years of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Blackstone Mortgage Trust is a real estate finance company primarily involved in the origination and purchase of senior loans collateralized by commercial properties in North America and Europe. The vast majority of the company's asset portfolio is comprised of floating rate loans secured by first priority mortgages primarily derived from office, hotel, and manufactured housing properties. A significant percentage of the collateralized real estate properties are located in New York, California, and the United Kingdom. Blackstone Mortgage Trust is managed by a subsidiary of The Blackstone Group and benefits from the market data provided by its parent company. The company trades at a market capitalization of \$2.9 billion.

Blackstone Mortgage Trust reported Q1 results on April 26th. Blackstone Mortgage Trust reported Q1 distributable EPS of \$0.79, beating the average analyst estimate of \$0.75, but dropped from \$0.87 in Q4 2022. The company achieved dividend coverage of 127% in Q1 and had a book value per share of \$26.28 at the end of the quarter. Its net income from loans and other investments was \$174.2M, down from \$191.1M in Q4 2022 but up from \$133.7M in the year-ago quarter. The company saw 100% interest collection and no defaults in Q1.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.81	\$1.86	\$2.41	\$2.53	\$2.27	\$2.50	\$2.70	\$2.48	\$2.62	\$2.87	\$2.84	\$2.30
DPS	\$0.72	\$1.98	\$2.28	\$2.48	\$2.48	\$2.48	\$2.48	\$2.48	\$2.48	\$2.48	\$2.48	\$2.25
Shares³	19.0	48.0	82.0	94.0	96.0	114.0	130.1	141.8	168.6	172.3	172.3	175

Given that the vast majority of its loan portfolio is floating rate, Blackstone Mortgage Trust's earnings growth will be directly tied to interest rates. The company's network and name-brand advantage through its massive parent and large size give it access to a large and lucrative deal flow, which should enable it to continue gradually growing over time.

The company has a history of issuing shares at a premium to book value, demonstrating its ability to access cheap capital that will enable it to grow earnings-per-share and book value per share over time. That said, the company has been unable to grow the dividend for several years now and we do not expect this to change anytime soon. Furthermore, the current headwinds for the mortgage and real estate industry will likely cause their earnings per share to decline slightly in the coming years and may very well result in a dividend cut as well.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	34.32	16.19	13.18	11.18	14.37	12.8	13.3	10.1	13.5	9.4	6.0	8.0
Avg. Yld.	2.6%	6.6%	7.2%	8.8%	7.6%	7.8%	6.9%	9.9%	7.6%	9.8%	14.6%	12.2%

¹ Estimate

² Estimate

³ In millions

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Blackstone Mortgage Trust’s valuation was significantly disrupted in the midst and wake of the last recession due to the turmoil in the mortgage and real estate industries. As a result, while recent multiples would indicate a fair value multiple in the mid-teens, we need to account for recession risk as well as the fact that dividend growth has stalled and appears unlikely to resume anytime soon. As a result, we assign a fair value multiple of 8 times earnings. We think that shares are currently trading below fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	89%	106%	95%	98%	109%	99%	92%	100%	95%	86%	87%	98%

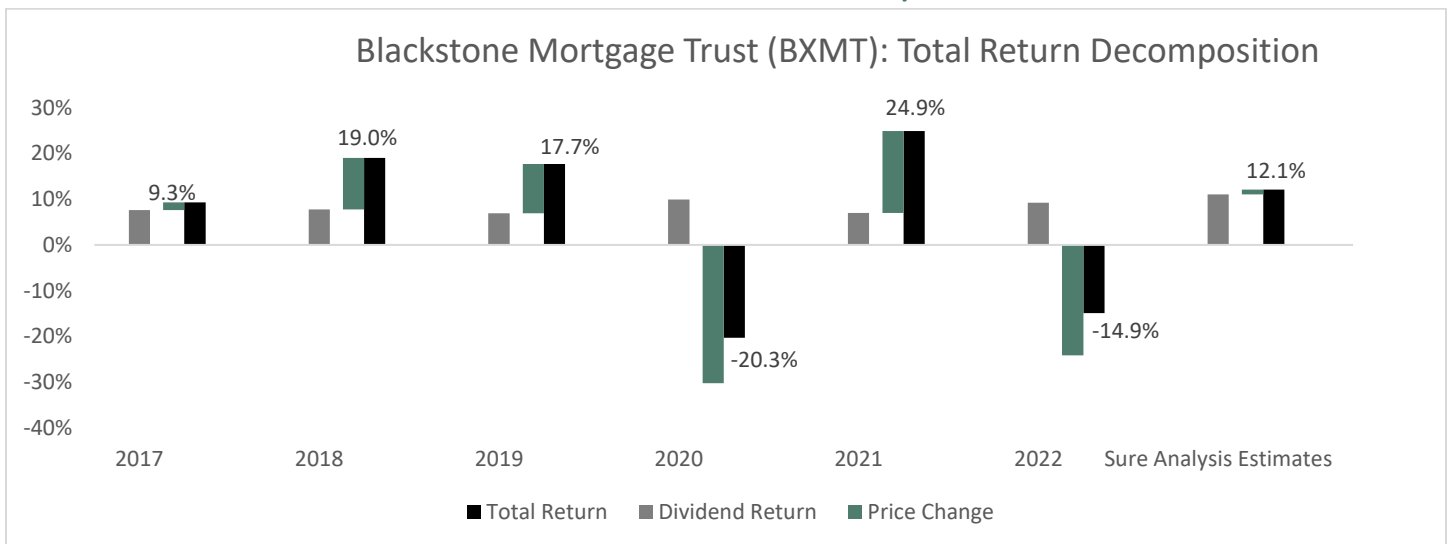
Blackstone Mortgage Trust’s competitive advantages clearly stem from its scale as one of the largest commercial mortgage REITs, as well as its age (founded in 1966), which have enabled it to build up a long track record. Additionally, the network it shares with its parent Blackstone – a global asset management giant – and the name brand and relationships that come with it, give it access to deal flows that many of its peers do not have, not to mention the cross-industry expertise, global macro insight, and scale of capital that can lead to attractive risk-adjusted returns over time.

As the last recession illustrated, Blackstone Mortgage Trust’s business is not recession resistant. The company saw its share price crater from a peak of over \$500 per share until it reached a bottom in the low teens. Earnings per share turned into steep losses per share. Therefore – though the company and the mortgage industry have taken steps to improve their underwriting practices to make such an occurrence unlikely to occur again – this is not the best stock to hold when a downturn hits the commercial real estate markets in which it operates. At the same time, however, we do believe that Blackstone’s conservatively financed portfolio will prevent it from experiencing deep losses in the event of a slowdown, and the long-term trend will remain upward.

Final Thoughts & Recommendation

Blackstone Mortgage Trust’s 14.6% dividend yield will drive its 12.1% expected annualized total returns over the next half decade. While its more conservative structure and attachment to the Blackstone empire add some sense of safety to the investment, the leveraged business model will likely suffer again during the next downturn. As a result, we view the stock as a speculative Buy, noting this is not a stock for risk-averse investors, particularly given the current uncertainty overhanging the world economy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	43	129	280	327	303	396	424	432	514	628
SG&A Exp.	16	45	76	80	81	106	112	116	124	41
Net Profit	15	90	197	238	218	285	306	138	419	249
Net Margin	35.3%	69.9%	70.2%	72.8%	71.8%	71.9%	72.0%	31.9%	81.5%	39.6%
Free Cash Flow	29	81	171	237	227	290	304	337	382	397
Income Tax	1	1	1	0	0	0	(1)	0	0	3

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2213	4573	9377	8813	10259	14467	16552	16959	22703	25354
Cash & Equivalents	52	52	96	76	70	106	150	290	551	291
Accounts Receivable	81	17	37	33	39	57	67	67	86	191
Total Liabilities	1456	3072	6871	6319	7341	11093	12767	13055	18085	20810
Accounts Payable	97	61		11	16	30	30	23	39	90
Long-Term Debt	250	3011	6777	6237	7239	10965	12268	12461	17507	20443
Shareholder's Equity	718	1465	2493	2494	2911	3364	3763	3886	4588	4,519
LTD/E Ratio	0.35	2.05	2.72	2.50	2.49	3.26	3.26	3.21	3.82	4.52

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.2%	2.7%	2.8%	2.6%	2.3%	2.3%	2.0%	0.8%	2.1%	1.0%
Return on Equity	3.8%	8.2%	9.9%	9.6%	8.1%	9.1%	8.6%	3.6%	9.9%	5.5%
ROIC	2.3%	3.3%	2.9%	2.6%	2.3%	2.3%	2.0%	0.8%	2.2%	1.0%
Shares Out.	19.0	48.0	82.0	94.0	96.0	114.0	130.1	141.8	168.6	170.9
Revenue/Share	2.30	2.66	3.43	3.47	3.16	3.48	3.26	3.05	3.40	3.68
FCF/Share	1.55	1.67	2.10	2.51	2.37	2.55	2.34	2.37	2.52	2.33

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

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