



AGNC Investment Corporation (AGNC)

Updated July 31st, 2023 by Samuel Smith

Key Metrics

Current Price:	\$10.2	5 Year CAGR Estimate:	13.1%	Market Cap:	\$6.2B
Fair Value Price:	\$14.5	5 Year Growth Estimate:	-4.2%	Ex-Dividend Date:	08/27/23 ¹
% Fair Value:	70%	5 Year Valuation Multiple Estimate:	7.3%	Dividend Payment Date:	09/09/23 ²
Dividend Yield:	14.1%	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 \$6.2 billion.

AGNC reported its Q2 2023 results on July 24th, 2023, reporting a non-GAAP EPS of \$0.67, surpassing expectations by \$0.04. As of June 30, 2023, the tangible net book value per common share was \$9.39. Their investment portfolio amounted to \$58.0 billion, consisting of \$46.7 billion in Agency MBS, \$10.2 billion net TBA mortgage position, and \$1.1 billion in credit risk transfer ("CRT") and non-Agency securities. The company's leverage, based on tangible net book value "at risk," was 7.2x as of June 30, 2023, and the average leverage for the quarter was also 7.2x. Cash and unencumbered Agency MBS totaled \$4.3 billion as of June 30, 2023.

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	603.3	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. In addition, interest rates have risen considerably 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	4.2	6.0
Avg. Yld.	19.4%	11.9%	14.4%	12.7%	10.7%	12.3%	12.7%	10.3%	9.1%	15.3%	14.1%	12.3%

¹ Estimated

² Estimated

³ Share count in millions

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AGNC is currently trading at 4.2 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%

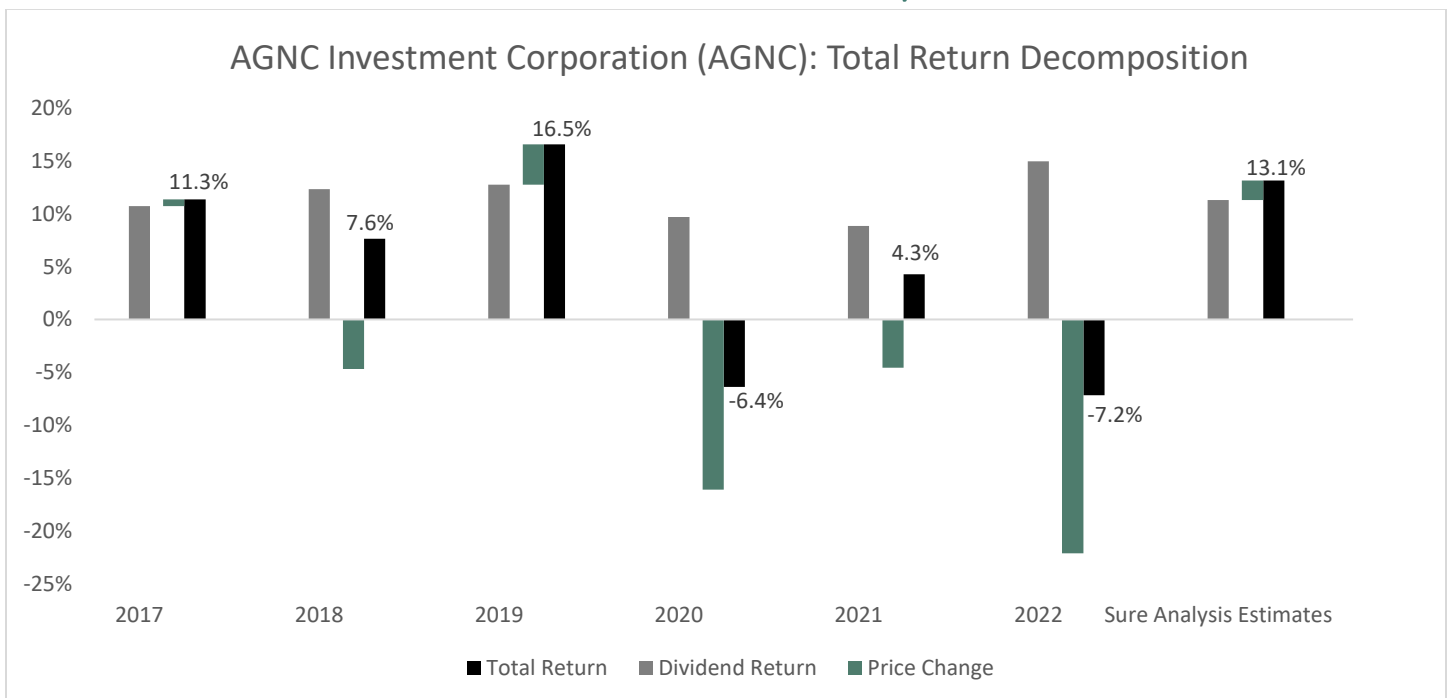
Given that it had its IPO in 2008 – in the midst of the financial crisis – it is hard to get an accurate picture of exactly how it can be expected to perform during this recession. However, the mortgage-backed security industry – given its leverage and interest rate sensitivity – is very prone to underperform 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 14.1% and a discount to fair value in its earnings multiple. As a result, we expect 13.1% 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	(1,116)
SG&A Exp.	32	---	---	19	42	45	47	56	54	41
D&A Exp.	---	---	---	2	3	25	---	---	---	---
Net Profit	1,259	(233)	215	623	771	129	688	(266)	749	(1,190)
Net Margin	96.5%	110.4%	90.3%	92.2%	91.4%	56.3%	89.2%	153.8%	89.5%	106.6%
Free Cash Flow	2,501	1,622	1,428	1,352	1,260	1,113	1,180	1,747	1,540	1,013

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	76,255	67,766	57,021	56,880	70,376	109,241	113,082	81,817	68,149	51,748
Cash & Equiv.	2,143	1,720	1,110	1,208	1,046	921	831	1,017	998	1,018
Goodwill & Int.	---	---	---	554	551	526	526	526	526	526
Total Liabilities	67,558	58,338	49,050	49,524	61,622	99,335	102,041	70,738	57,858	43,878
Accounts Pay	492	100	61	211	299	518	424	219	---	---
Long-Term Debt	910	761	4,348	3,497	357	275	228	177	126	95
Total Equity	8,530	9,092	7,635	7,020	8,270	9,422	10,109	9,590	8,802	6,236
LTD/E Ratio	0.10	0.08	0.55	0.48	0.04	0.03	0.02	0.02	0.01	0.01

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	1.89

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

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