



Federal Agricultural Mortgage Corp (AGM)

Updated March 7th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$183	5 Year CAGR Estimate:	9.5%	Market Cap:	\$1.9 B
Fair Value Price:	\$179	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	03/14/2024
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.5%	Dividend Payment Date²:	03/28/2024
Dividend Yield:	3.1%	5 Year Price Target:	\$251	Years of Dividend Growth:	13
Dividend Risk Score:	C	Retirement Suitability Score:	C	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 \$1.9 billion.

On February 23rd, 2024, Farmer Mac declared a \$1.40 per share quarterly dividend, representing an incredible 27% increase, and marking the company's 13th annual dividend increase.

Farmer Mac reported fourth quarter 2023 results on February 23rd, 2024, for the period ending December 31st, 2023. During the quarter, the corporation generated \$4.10 of core EPS, which rose 30% compared to \$3.16 earned in the same prior year period. AGM reported net income of \$47.6 million for the quarter, up 10% compared to Q4 2022. Net interest income improved 12% year-over-year to \$82.2 million.

The company maintains a position of strong liquidity, with a year-end cash and cash equivalents position of \$889 million. Additionally, 90-day delinquencies were 0.12% of the entire \$28.5 billion portfolio. Farmer Mac's net effective spread also grew 19% from the prior-year period to \$84.6 million.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.37	\$4.19	\$5.97	\$6.60	\$8.83	\$8.69	\$8.27	\$10.47	\$11.42	\$15.65	\$17.04	\$23.90
DPS	\$0.56	\$0.64	\$1.04	\$1.44	\$2.32	\$2.80	\$3.20	\$3.52	\$3.80	\$4.40	\$5.60	\$9.02
Shares³	10.9	10.9	10.5	10.6	10.7	10.7	10.7	10.7	10.8	10.8	10.9	11.0

The Federal Agricultural Mortgage Corp has grown earnings at an impressive rate, increasing at an 18.6% and 12.1% CAGR over the last nine and five years. This earnings growth is coupled with massive dividend growth over the same time periods. Since 2014, Farmer Mac has increased its dividend at an annual rate of 26%. Furthermore, the payout ratio remains well covered, which will allow the company to continue boosting its dividend year after year.

We estimate that Farmer Mac can continue to bolster earnings per share by 7.0% annually and grow the dividend at a 10% annual rate. There is a large global demand for agriculture and AGM expects that agricultural productivity must double to meet it. Farmer Mac possesses a less than 10% share of the \$355 billion and growing U.S. agricultural mortgage market, so there remains significant market share to capture.

¹ Estimate

² Estimate

³ In millions

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Farmer Mac constantly evaluates new opportunities to broaden its target market and pursue new lines of business and products. In the prior year it expanded its marketing and branding approach to attract new customers. The company also intends to solidify its position in the rural and agricultural markets through improvements in processes and operating practices related to customer interaction, transaction processes, and existing loan features and pricing.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	9.4	7.0	6.6	9.8	9.1	8.9	8.1	10.9	9.4	10.5	10.8	10.5
Avg. Yld.	1.8%	2.2%	2.6%	2.2%	2.9%	3.6%	4.8%	3.3%	3.2%	2.3%	3.1%	3.6%

The current P/E of 10.8 based on 2024’s estimated EPS is above the 5-year average of 9.6. We peg fair value at 10.5 times EPS, which implies the potential for a valuation headwind. Farmer Mac’s current 3.1% yield is in-line with the ten-year average yield as the company’s share price has kept up with its impressive dividend growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	17%	15%	17%	22%	26%	32%	39%	34%	33%	28%	33%	38%

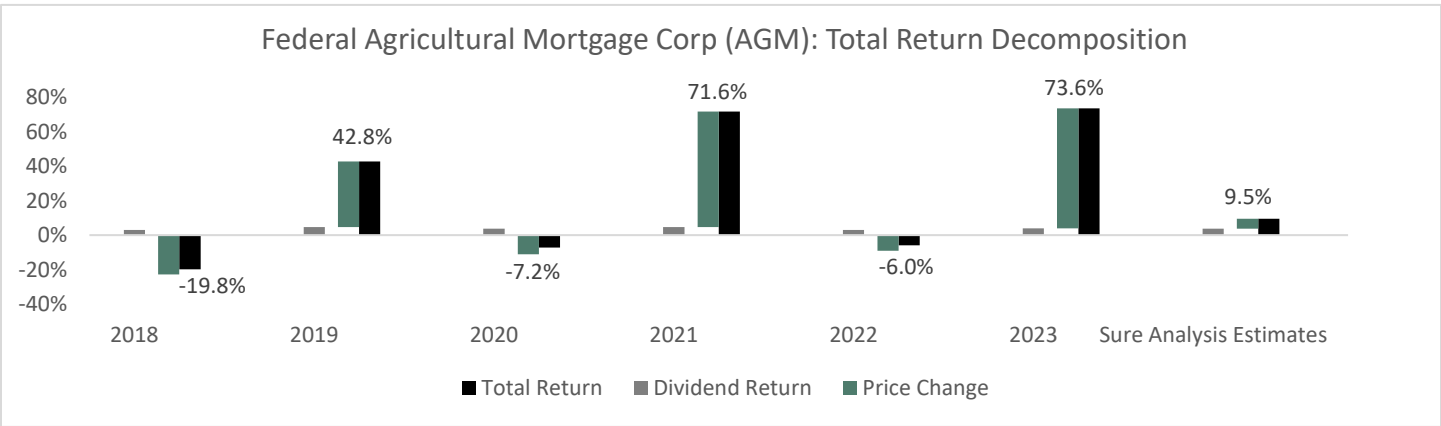
Farmer Mac has a target payout ratio of roughly 35% of earnings, which is in-line with our 2024 earnings and dividends estimate. As AGM grow EPS and the dividend near congruently, the payout ratio should remain around this target. It’s also possible AGM will grow the target payout ratio as this target 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 +0.50%).

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 an impressive dividend growth history; its dividend has risen tenfold since 2014. We anticipate AGM will generate annualized total returns of 9.5%, driven by 7.0% earnings-per-share growth, and a 3.1% yield, partly offset by a -0.5% valuation headwind. AGM trades at 103% of our fair value estimate, and forecasted annualized total returns of 9.5% cause us to rate AGM as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	104	146	161	175	186	194	207	239	309	351
SG&A Expense	34	38	40	43	50	52	61	73	79	94
Net Income	48	69	77	84	108	110	109	132	178	200
Net Margin	46.4%	47.1%	48.1%	48.2%	58.1%	56.4%	52.5%	55.4%	57.6%	56.8%
Free Cash Flow	155	185	213	175	200	(20)	(95)	436	809	376
Provision For Tax	3	34	42	46	28	29	29	35	48	53

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	14,288	15,540	15,606	17,792	18,694	21,709	24,356	25,145	27333	29520
Cash & Equivalents	1,363	1,210	265	302	425	604	1,034	909	861	889
Goodwill & Int.	107	113	123	155	180	199	186	177	229	
Total Liabilities	13,506	14,987	14,962	17,084	17,942	20,910	23,363	23,941	26061	28110
Accounts Payable	130	77	59	89	109	129	122	163	187	259
Long-Term Debt	13,249	14,792	14,806	16,928	17,773	20,715	23,173	23,698	26182	27940
Total Equity	341	349	439	503	548	571	629	720	787	927
LTD/E Ratio	24.28	26.72	23.01	23.90	23.62	25.92	23.35	19.68	20.58	19.79

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.3%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%	0.5%	0.7%	0.7%
Return on Equity	15.6%	19.9%	19.6%	17.9%	20.6%	19.6%	18.1%	19.6%	23.5%	14.9%
ROIC	0.4%	0.5%	0.5%	0.5%	0.6%	0.5%	0.5%	0.5%	0.7%	0.7%
Shares Out.	10.9	10.9	10.5	10.6	10.7	10.7	10.7	10.7	10.88	10.94
Revenue/Share	9.12	12.91	14.96	16.21	17.33	18.01	19.18	22.02	28.40	32.12
FCF/Share	13.64	16.35	19.79	16.20	18.61	(1.83)	(8.77)	40.24	74.36	34.36

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

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