



# Blackstone Mortgage Trust (BXMT)

Updated March 11<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$20	<b>5 Year CAGR Estimate:</b>	8.5%	<b>Market Cap:</b>	\$3.6B
<b>Fair Value Price:</b>	\$16	<b>5 Year Growth Estimate:</b>	2.6%	<b>Ex-Dividend Date:</b>	3/28/24 <sup>1</sup>
<b>% Fair Value:</b>	124%	<b>5 Year Valuation Multiple Estimate:</b>	-4.2%	<b>Dividend Payment Date:</b>	4/14/24 <sup>2</sup>
<b>Dividend Yield:</b>	12.4%	<b>5 Year Price Target</b>	\$18	<b>Years of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## 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 \$3.6 billion.

On February 14, 2024, Blackstone Mortgage Trust reported its fourth quarter 2023 results. Blackstone Mortgage Trust (BXMT) reported distributable earnings per share (EPS) of \$0.69, surpassing the consensus estimate of \$0.62, although lower than the \$0.78 recorded in Q3 and the previous year's period. The company's book value per share stood at \$25.16 by December 31, 2023, down from \$25.90 at the end of September. Despite this decline, distributable earnings contributed \$0.57 per share to the book value throughout 2023, partially mitigating the impact of reserves. BXMT's current expected credit loss reserves increased to \$592 million from \$477 million at the end of September. Net income from loans and other investments amounted to \$153.8 million, a decrease from \$165.4 million in Q3 and \$191.1 million in Q4 2022, while the weighted-average risk rating rose to 3.0 from 2.9 in the previous quarter. Throughout the year, BXMT focused on reducing leverage and bolstering liquidity, with liquidity reaching a near-record level of \$1.7 billion by the end of 2023, up from \$1.6 billion at the end of 2022. Additionally, the debt-to-equity ratio declined to 3.7x from 3.8x compared to a year earlier, reflecting the company's efforts to strengthen its financial position.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$1.86	\$2.41	\$2.53	\$2.27	\$2.50	\$2.70	\$2.48	\$2.62	\$2.87	\$3.05	<b>\$2.02</b>	<b>\$2.30</b>
<b>DPS</b>	\$1.98	\$2.28	\$2.48	\$2.48	\$2.48	\$2.48	\$2.48	\$2.48	\$2.48	\$2.48	<b>\$2.48</b>	<b>\$2.25</b>
<b>Shares<sup>3</sup></b>	48.0	82.0	94.0	96.0	114.0	130.1	141.8	168.6	172.3	175.9	<b>175.9</b>	<b>180</b>

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 gives 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 only recover slowly in the coming years and may very well result in a dividend cut as well.

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.19	13.18	11.18	14.37	12.8	13.3	10.1	13.5	9.4	6.5	9.9	8.0
Avg. Yld.	6.6%	7.2%	8.8%	7.6%	7.8%	6.9%	9.9%	7.0%	9.2%	12.5%	12.4%	12.2%

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. We therefore assign a fair value multiple of 8 times earnings. We think that shares are currently trading at a premium to fair value.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

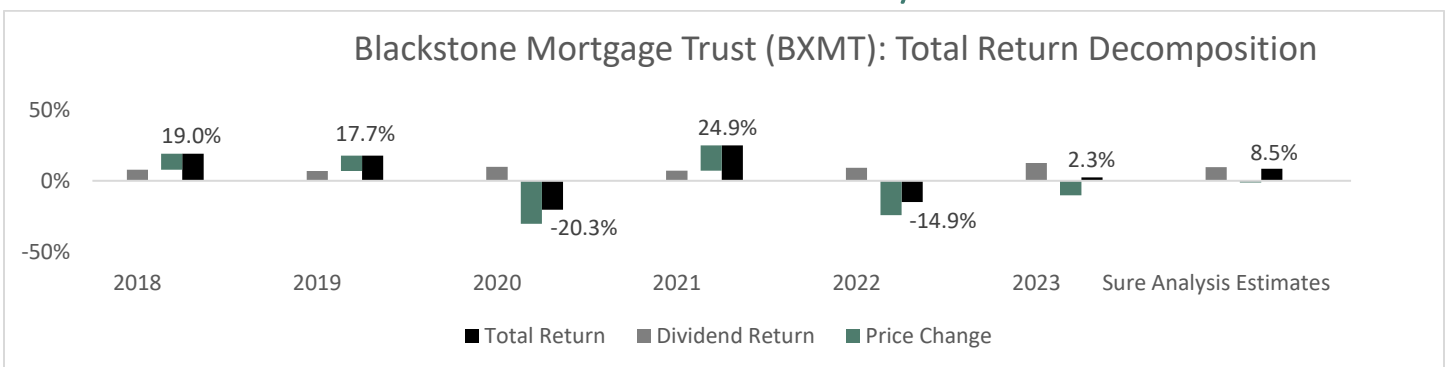
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	106%	95%	98%	109%	99%	92%	100%	95%	86%	81%	123%	98%

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 12.4% dividend yield will drive its 8.5% 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 expect earnings per share to decline in the coming years and view the stock as a Hold, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	129	280	327	303	396	424	432	514	628	671
SG&A Exp.	45	76	80	81	106	112	39	35	41	38
Net Profit	90	197	238	218	285	306	138	419	249	247
Net Margin	69.9%	70.2%	72.8%	71.8%	71.9%	72.0%	31.9%	81.5%	39.6%	36.8%
Free Cash Flow	81	171	237	227	290	304	337	382	397	459
Income Tax	1	1	0	0	0	(1)	0	0	3	5

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,573	9,377	8,813	10,259	14,467	16,552	16,959	22,703	25,354	24,036
Cash & Equivalents	52	96	76	70	106	150	290	551	291	350
Accounts Receivable	17	37	33	39	57	67	67	87	191	217
Total Liabilities	3,072	6,871	6,319	7,341	11,093	12,767	13,055	18,085	20,810	19,649
Accounts Payable	61		9	14	26	25	21	30	80	98
Long-Term Debt	3,011	6,777	6,237	7,239	10,965	12,591	12,852	17,901	20,443	19,300
Shareholder's Equity	1,465	2,493	2,494	2,911	3,364	3,763	3,886	4,588	4,519	4,368
LTD/E Ratio	2.05	2.72	2.50	2.49	3.26	3.35	3.31	3.90	4.52	4.42

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	2.7%	2.8%	2.6%	2.3%	2.3%	2.0%	0.8%	2.1%	1.0%	1.0%
Return on Equity	8.0%	9.8%	9.5%	8.0%	9.1%	8.5%	3.6%	9.8%	5.4%	5.5%
ROIC	3.1%	2.9%	2.6%	2.3%	2.3%	2.0%	0.8%	2.1%	1.0%	1.0%
Shares Out.	48.0	82.0	94.0	96.0	114.0	130.1	141.8	168.6	172.3	175.9
Revenue/Share	2.66	3.43	3.47	3.16	3.48	3.26	3.05	3.40	3.68	3.88
FCF/Share	1.67	2.10	2.51	2.37	2.55	2.34	2.37	2.52	2.33	2.66

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

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