



# Ellington Financial Inc. (EFC)

Updated March 10<sup>th</sup>, 2024 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$11.35	<b>5 Year CAGR Estimate:</b>	11.1%	<b>Market Cap:</b>	\$975 M
<b>Fair Value Price:</b>	\$10.85	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	03/27/2024
<b>% Fair Value:</b>	105%	<b>5 Year Valuation Multiple Estimate:</b>	-0.9%	<b>Dividend Payment Date:</b>	04/25/2024
<b>Dividend Yield:</b>	13.7%	<b>5 Year Price Target</b>	\$11.40	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Ellington Financial Inc. acquires and manages mortgage, consumer, corporate, and other related financial assets in the United States. The company acquires and manages residential mortgage-backed securities (RMBS) backed by prime jumbo, Alt-A, manufactured housing, and subprime residential mortgage loans. Additionally, it manages RMBS, for which the U.S. government guarantees the principal and interest payments. It also provides collateralized loan obligations, mortgage-related and non-mortgage-related derivatives, equity investments in mortgage originators and other strategic investments. The company has a market cap of \$975.0 million and is headquartered in Old Greenwich, Connecticut.

On February 27<sup>th</sup>, 2024, Ellington Financial reported its Q4 results for the period ending December 31<sup>st</sup>, 2023. Due to the company's business model, Ellington doesn't report any revenues. Instead, it records only income. For the quarter, gross interest income came in at \$98.7 million, up 2.6% quarter-over-quarter. Ellington's strong numbers from its residential transition loan portfolio and its Agency and non-agency MBS didn't offset dilution and expenses related to the merger with Arlington Asset and net losses from Longbridge and other positions, leading to a small negative economic return overall for the quarter.

Adjusted (previously referred to as "core") EPS came in at \$0.27, six cents lower versus Q3-2023. The decline was mainly due to higher professional fees. For the year, adjusted EPS came in at \$2.52, but mostly due to asset sales.

Ellington's book value per share fell from \$14.33 to \$13.83 during the last three months, with the dilutive merger ending up eroding value. Management decided to recommend a dividend cut from a monthly rate of \$0.15 to \$0.13, which the board approved, to build some equity value up. However, investors were displeased with the unfolding events, while during the earnings call, management faced substantial scrutiny from analysts, casting doubt on their capability to generate shareholder value. Management mentioned the possibility of a future rebound in dividends but urged investors not to establish it as a firm expectation. We expect adjusted EPS of \$1.55 in FY2024.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.09	\$1.13	(\$0.48)	\$1.04	\$1.52	\$1.76	\$1.63	\$1.83	\$1.68	\$2.52	<b>\$1.55</b>	<b>\$1.63</b>
<b>DPS</b>	\$2.96	\$2.30	\$1.90	\$1.72	\$1.64	\$1.40	\$1.26	\$1.64	\$1.80	\$1.80	<b>\$1.56</b>	<b>\$1.56</b>
<b>Shares<sup>1</sup></b>	28.0	33.4	32.8	32.1	30.3	32.8	44.1	49.2	59.9	68.3	<b>68.3</b>	<b>80.0</b>

Ellington's EPS generation has been quite inconsistent over the past decade, as rates have mostly been decreasing. As a result, DPS has also mostly declined since 2015. However, the company has done its best to diversify its portfolio and reduce its performance variance. For example, 88% of its RMBS exposure is allocated to 30-year fixed mortgages. Additionally, while around 77% of its credit portfolio is invested in residential mortgages, that 77% is split among many different securities types (non-QM, Reverse mortgages, Real-estate-owned loans etc.). The point is that Ellington has taken great care as of late not to concentrate its risk in too few areas, which improves economic return volatility.

<sup>1</sup> Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Ellington Financial Inc. (EFC)

Updated March 10<sup>th</sup>, 2024 by Nikolaos Sismanis

At Ellington's current portfolio construction, a 50bp decline in interest rates would result in \$6.2 million in equity losses (i.e., -0.54% of equity), while a 50bp increase in rates would also result in losses of \$172 thousand (-0.01% of equity).

Ellington has designed its portfolio in such a way that these inevitable movements in rates over time won't have a major impact on its overall portfolio. Still, the current setup appears to more or less drive some downside. We adjusted EPS to grow by 1.0% per year over the medium-term, hoping that Ellington's trajectory improves from here. We also anticipate the monthly dividend to remain unchanged. Still, our trust in the dividend has declined notably following the recent cut.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.1	8.4	---	9.7	9.4	9.9	7.9	9.8	8.5	4.6	7.3	7.0
Avg. Yld.	15.1%	10.0%	8.7%	7.3%	9.2%	8.2%	7.8%	9.1%	12.6%	15.5%	13.7%	13.7%

Ellington cut its dividend in 2020. While, management did resume the monthly rate to its previous monthly rate of \$0.15 in the coming years, the dividend was cut again entering 2024. The heavy discount in Ellington's valuation likely reflects ongoing irritation, especially following the dilutive merger with Arlington Asset that took place last year. We see the potential for further compression in Ellington's valuation, even in light of the stock's seemingly appealing dividend yield.

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

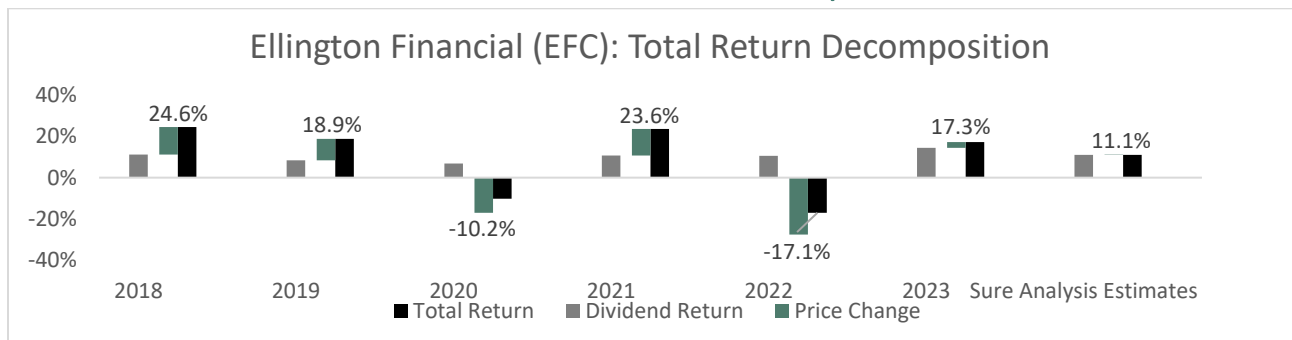
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	142%	204%	-396%	165%	108%	80%	77%	90%	107%	71%	101%	96%

We don't consider Ellington's dividend safe at this point, with a rollercoaster of cuts and hikes in recent years hampering the stock's investment case. Still, the most recent cut should allow Ellington to build some equity value on the balance sheet and potentially improve the overall margin of safety for investors. The days of mortgage REITs employing 8x or 9x leverage have come and gone, but risks attached to over-leveraged balance sheets have not evaporated. In case, it's worth mentioning that Ellington's recourse debt-to-equity ratio of 2.0:1 at the end of 2023, adjusted for unsettled purchases and sales, appears healthy.

## Final Thoughts & Recommendation

Since its IPO, Ellington has paid cumulative dividends of nearly \$33/share, which equals nearly 1.5x its IPO share price of about \$22.50 back in 2010. Hence, it has delivered a fruitful income stream to its shareholders over the past decade that has adequately compensated for the losses in share capital (current price of \$11.35). Our future EPS and DPS projections point to annualized returns of 11.1% in the medium-term. Investors should be aware of the fact that mortgage REITs have riskier credit profiles than traditional REITs. We rate the stock a speculative buy, but, as highlighted in prior reports, we note that the dividend should not be blindly trusted.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Ellington Financial Inc. (EFC)

Updated March 10<sup>th</sup>, 2024 by Nikolaos Sismanis

## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	87	73	53	2	53	75	82	31	122	43
SG&A Exp.	6	12	10	12	10	15	15	17	21	30
Net Profit	79	59	38	(16)	34	47	58	25	133	(70)
Net Margin	90.5%	81.4%	72.1%	-822.1%	64.7%	62.4%	71.0%	80.6%	109%	(163%)
Free Cash Flow	(244)	(604)	654	70	(463)	(494)	79	---	51	43

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,975	3,945	2,992	2,413	2,993	3,971	4,338	3,414	5,177	14,090
Cash & Equivalents	183	114	184	123	47	45	72	112	93	317
Total Liabilities	2,349	3,157	2,253	1,768	2,372	3,376	3,470	2,492	3,854	12,860
Accounts Payable	196	104	171	92	209	496	80	14	54	84
Long-Term Debt	1	1	---	24	268	497	830	892	3,636	12,400
Shareholder's Equity	620	782	732	638	600	564	718	774	1,064	967
LTD/E Ratio	0.00	0.00	---	0.04	0.45	0.88	1.00	1.01	2.82	10.37

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.1%	1.7%	1.1%	-0.6%	1.3%	1.3%	1.4%	0.7%	3.0%	(0.73%)
Return on Equity	13.9%	8.4%	5.0%	-2.3%	5.5%	8.0%	9.0%	3.4%	14.5%	(6.9%)
ROIC	13.8%	8.4%	5.0%	-2.3%	4.4%	4.7%	4.2%	1.4%	3.2%	(0.8%)
Shares Out.	23.6	28	33.4	32.8	32.1	30.3	32.8	43.5	48.54	59.85
Revenue/Share	3.68	2.60	1.58	0.06	1.64	2.47	2.55	0.72	2.51	0.72
FCF/Share	(10.36)	(21.61)	19.58	2.13	(14.44)	(16.31)	2.47	---	1.06	0.71

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

## Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.