



AGNC Investment Corporation (AGNC)

Updated May 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$9.7	5 Year CAGR Estimate:	10.5%	Market Cap:	\$7.1B
Fair Value Price:	\$11.1	5 Year Growth Estimate:	-4.6%	Ex-Dividend Date:	5/31/24
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.6%	Dividend Payment Date:	6/11/24
Dividend Yield:	14.8%	5 Year Price Target	\$9	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.

AGNC Investment's first-quarter non-GAAP earnings continued their downward trend amid the company's operation in a higher interest rate environment. Q1 net spread and dollar roll income per share of \$0.58, slightly surpassing expectations, declined from previous quarters. The quarter's earnings excluded an estimated "catch-up" premium amortization benefit. Tangible net book value per common share increased to \$8.84, although the economic return on tangible common equity declined. The company highlighted favorable conditions for fixed income investors during Q1, with interest rate volatility decreasing, agency MBS spreads remaining stable, and the Federal Reserve indicating a likely peak in short-term rates. AGNC's stock experienced a slight gain in after-hours trading. The REIT's annualized net interest spread decreased slightly, and its fixed-rate agency MBS and TBA securities' weighted average coupon increased. Despite challenges ahead, including increased interest rates and volatility, AGNC remains optimistic, citing its liquid agency MBS-focused approach as advantageous in navigating evolving investment dynamics.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	(\$0.72)	\$0.54	\$1.79	\$2.04	\$0.21	\$2.26	\$2.70	\$3.02	\$3.11	\$2.61	\$2.21	\$1.75
DPS	\$2.61	\$2.48	\$2.30	\$2.16	\$2.16	\$2.16	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44
Shares¹	353	349	331	358	441	546	538	522	575	695.0	726.9	800

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 reduce earnings per share. We also believe that dividend growth will be non-existent for the foreseeable future.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	-30.4	31.8	10.1	9.9	83.6	7.5	5.5	5.4	3.1	3.6	4.4	5.0
Avg. Yld.	11.9%	14.4%	12.7%	10.7%	12.3%	12.7%	9.7%	8.8%	14.9%	15.2%	14.8%	16.5%

¹ Share count 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.



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AGNC is currently trading at 4.4 times its projected 2024 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	NA	459%	128%	106%	1029%	96%	53%	48%	46%	55%	65%	82%

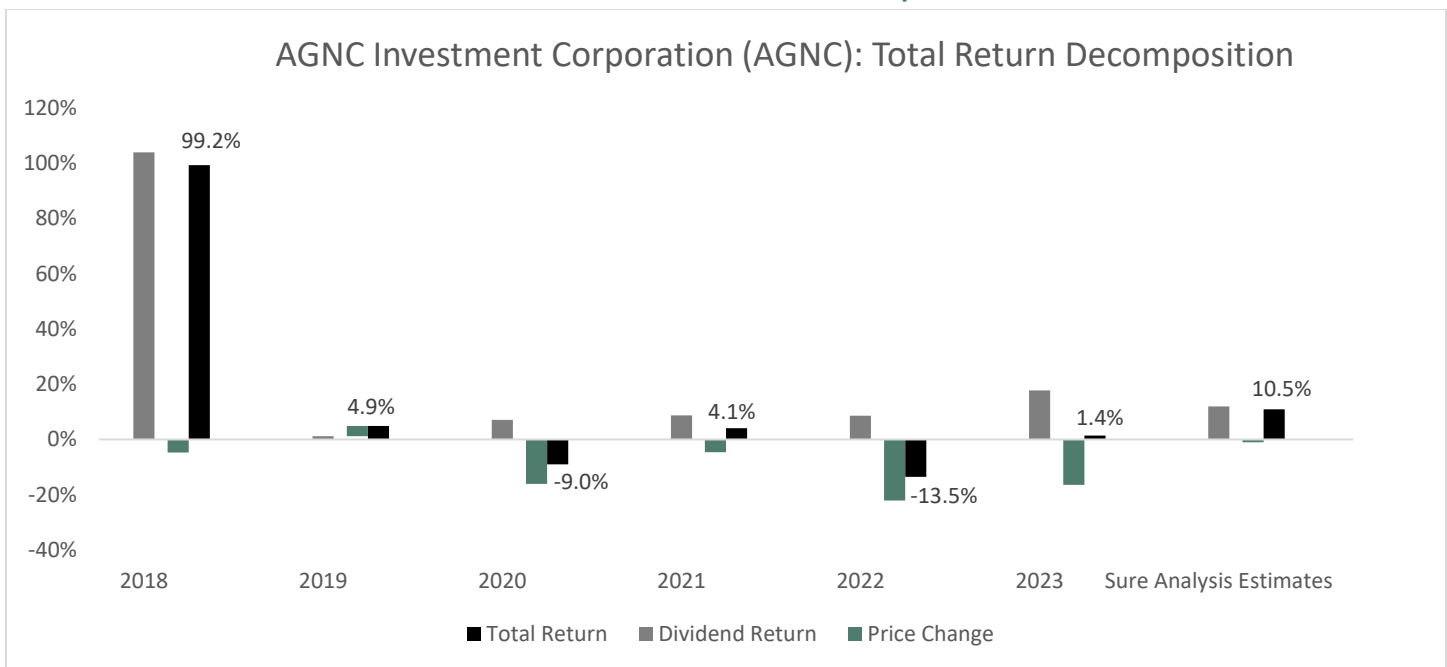
Given that it had its IPO in 2008 – in the midst of the financial crisis – it is hard to get an accurate picture of exactly how it can be expected to perform during this recession. However, the mortgage-backed security industry – given its leverage and interest rate sensitivity – is very prone to underperform 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 14.8% and a discount to fair value in its earnings multiple, though it is expected to see its earnings per share decline in the years to come. As a result, we expect 10.5% 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 high enough that we rate shares a speculative Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	(211)	238	676	844	229	771	(173)	837	(1,116)	251
SG&A Exp.	-	-	19	42	45	47	56	54	41	62
D&A Exp.	-	-	2	3	25					
Net Profit	(233)	215	623	771	129	688	(266)	749	(1,190)	155
Net Margin	110.4%	90.3%	92.2%	91.4%	56.3%	89.2%	153.8%	89.5%	106.6%	61.8%
Free Cash Flow	1,622	1,428	1,352	1,260	1,113	1,180	1,747	1,540	1,013	

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	67,766	57,021	56,880	70,376	109,241	113,082	81,817	68,149	51,748	71,596
Cash & Equiv.	1,720	1,110	1,208	1,046	921	831	1,017	998	1,018	518
Goodwill & Int.		-	554	551	526	526	526	526	526	526
Total Liabilities	58,338	49,050	49,524	61,622	99,335	102,041	70,738	57,858	43,878	63,339
Long-Term Debt	761	4,348	3,497	357	275	228	177	126	95	80
Total Equity	9,092	7,635	7,020	8,270	9,422	10,109	9,590	8,802	6,236	6,623
LTD/E Ratio	0.08	0.55	0.48	0.04	0.03	0.02	0.02	0.01	0.01	0.01

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-0.3%	0.3%	1.1%	1.2%	0.1%	0.6%	-0.3%	1.0%	-2.0%	0.3%
Return on Equity	-2.6%	2.6%	8.5%	10.1%	1.5%	7.0%	-2.7%	8.1%	-15.8%	2.4%
ROIC	-2.4%	1.9%	5.4%	7.7%	1.3%	6.4%	-2.4%	6.9%	-12.9%	1.9%
Shares Out.	353	349	331	358	441	546	538	522	575	694.3
Revenue/Share	(0.60)	0.68	2.04	2.35	0.52	1.42	(0.31)	1.58	(2.08)	0.41
FCF/Share	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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