



Sachem Capital Corp. (SACH)

Updated May 13th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$3.19	5 Year CAGR Estimate:	12.2%	Market Cap:	\$151 M
Fair Value Price:	\$3.68	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	08/05/2024 ¹
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.9%	Dividend Payment Date:	08/12/2024
Dividend Yield:	13.8%	5 Year Price Target	\$3.68	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Sachem Capital Corp is a Connecticut-based real estate finance company that specializes in originating, underwriting, funding, servicing, and managing a portfolio of short-term (i.e., three years or less) loans secured by first mortgage liens on real property located primarily in Connecticut. Each of Sachem's loans is personally guaranteed by the principal(s) of the borrower, which is typically collaterally secured by a pledge of the guarantor's interest in the borrower. Sachem generates around \$65 million in total revenues. It's worth noting that while the company operates and seems like a Business Development Company ("BDC"), its legal status is that of REIT.

On May 10st, 2024, Sachem Capital Corp. posted its Q1 results for the period ending March 31st, 2024. Total revenues for the quarter came in at \$17.2 million, up 17% compared to Q1-2023. Revenue growth was powered by higher interest income, due primarily to an increase in rates that the company was able to charge borrowers in comparison to last year. Income from partnership investments, net investment gain, as well as fee and other income all grew compared to the corresponding period in 2023.

Despite the overall positive performance, the net income for the year was approximately \$3.6 million, which was about 14% lower compared to the prior-year period. This decline in net income per share, which came in at \$0.08, down from \$0.10 last year, was also due to a higher share count. This was due to higher interest expenses, and the challenges faced linked to the real estate market for offices. We now forecast FY2024 NII/share² of \$0.49.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
NII/shr	---	---	\$0.27	\$0.38	\$0.50	\$0.32	\$0.41	\$0.44	\$0.46	\$0.27	\$0.49	\$0.49
DPS	---	---	---	\$0.37	\$0.51	\$0.48	\$0.48	\$0.48	\$0.52	\$0.48	\$0.44	\$0.38
Shares³	---	---	11.1	12	15.4	19.4	22.1	26.3	37.7	44.2	47.3	70.0

Sachem has lately diversified its holdings, including originating larger loans with established developers. Sachem also continues to expand its lending operations across the U.S. and now has a presence in 14 states, with a strong core focus along the Eastern seaboard.

Moving forward, there should be several key drivers to Sachem's growth. First, despite the rise in interest rates, Sachem believes there is a significant market opportunity for a well-capitalized "hard money" lender to originate attractively priced loans to small and mid-scale real estate developers with good collateral. Second, the competitive landscape for Sachem remains favorable, as many banks and other traditional lenders still have restrictive lending criteria and many non-traditional lenders are under-capitalized. Third, Connecticut's residential real estate market, its primary market, has stabilized and is quite strong. Finally, Sachem continues its expansion beyond Connecticut and has a growing presence in other states, especially in Florida and Texas. That being said, for growth on a per-share basis to be realized, the company will have to take advantage of its growing scale to possibly reduce its financial expenses. Also, given the fact that the

¹ Estimated dates

² Net investment income share is a better performance measure for Sachem, as utilized by the company itself.

³ 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.



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company has failed to grow its per-share investment income lately, despite most of its peers recording notable gains, we are now less confident in Sachem's medium-term prospects.

To be prudent, we expect no growth in the BDC's NII/share moving forward. We continue to apply a negative 3% growth in our dividend estimates despite the most recent dividend cut due to a rather razor-thin coverage.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	13.2	8.0	14.4	9.8	9.0	9.0	11.7	6.5	7.5
Avg. Yld.	---	---	---	7.4%	12.8%	10.4%	12.0%	9.0%	12.6%	15.2%	13.8%	10.3%

Sachem's valuation multiple has hovered close to that of its industry peers, usually in the high single to low double-digits. The company currently trades at 6.5 times our forecasted NII/share, notably lower than its historical average. We believe that this multiple implies a discount given Sachem's elevated risk profile. We maintain our fair multiple of a modestly higher 7.5. Still the stock's performance has held surprises in the past.

Safety, Quality, Competitive Advantage, & Recession Resiliency

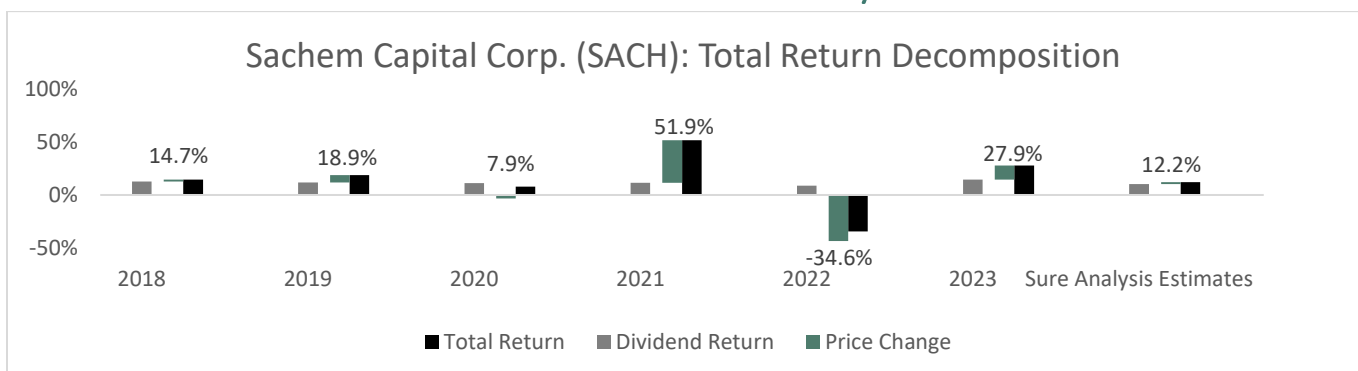
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	0%	97%	102%	150%	117%	109%	113%	178%	90%	77%

Investors should not entirely rely on Sachem's dividend. The dividend increase in Q2-2022 was quickly taken back by Q3-2022, indicating the dividend's razor-thin coverage. Then the dividend was cut again in Q3-2023. Another dividend cut would not be surprising either. Further, the company does not have any significant competitive advantages other than those mentioned earlier. Moreover, Sachem's cost of debt, which currently stands at 9%, is not cheap, while its hefty yield will result in a very expensive cost of equity amid additional share issuances going forward. The company will have to reduce its financial cost per share to breathe easier later on. We believe that a prolonged recession will significantly impact Sachem's field of operations, hurting its financials and eventually leading to dividend cuts. Finally, the company's short trading history and small-capitalization against its peers could increase its non-systemic risk profile.

Final Thoughts & Recommendation

Sachem Capital is a rapidly growing real-estate finance company, providing a hefty dividend yield to its shareholders. That said, investors ought to be cautious of its future coverage. In any case, assuming no growth in Sachem's NII/share and the potential for a reduced dividend, combined with the current dividend yield, and a potential valuation tailwind, we forecast annualized returns of 12.2% in the medium-term. Sachem Capital earns a cautious buy rating, but we highlight again that income-oriented investors should not trust the dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2	3	4	6	10	10	13	20	31	32
SG&A Exp.	0	0	0	1	2	2	2	4	8	12
D&A Exp.			-	0	0	0	0	0	0	0.3
Net Profit	1	2	3	5	8	6	9	13	21	16
Net Margin	95.1%	90.1%	86.2%	76.8%	77.4%	63.8%	68.9%	65.0%	67.7%	50.0%
Free Cash Flow	1	2	3	5	6	8	9	27	12	22

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	21	31	38	67	86	141	227	418	565	626
Cash & Equivalents	6	2	2	1	0	19	19	42	24	13
Accounts Receivable	0	0	1	1	2	2	4	7	12	14
Total Liabilities	5	7	10	13	33	59	146	238	348	395
Accounts Payable	0	0	0	0	0	0	0	1	1	1.8
Long-Term Debt	5	6	8	10	28	56	139	194	284	345
Shareholder's Equity	16	24	28	55	53	83	81	180	218	230
LTD/E Ratio	0.31	0.25	0.30	0.19	0.52	0.68	1.72	1.08	1.31	1.50

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets		8.8%	8.8%	9.2%	10.1%	5.5%	4.9%	4.1%	4.3%	2.7%
Return on Equity		11.4%	11.6%	11.7%	14.5%	9.2%	11.0%	10.2%	10.5%	7.1%
ROIC		9.0%	9.1%	9.6%	10.7%	5.7%	5.0%	4.5%	4.8%	3.0%
Shares Out.			11.1	12	15.4	19.4	22.1	26.3	37.8	44.2
Revenue/Share	0.18	0.30	0.31	0.53	0.65	0.50	0.59	0.75	0.81	0.72
FCF/Share	0.17	0.28	0.29	0.39	0.36	0.41	0.43	1.04	0.31	0.49

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

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