



AGNC Investment Corporation (AGNC)

Updated August 20th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$10.1	5 Year CAGR Estimate:	9.6%	Market Cap:	\$7.9 B
Fair Value Price:	\$11.1	5 Year Growth Estimate:	-4.6%	Ex-Dividend Date:	8/30/24
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	9/11/24
Dividend Yield:	14.3%	5 Year Price Target	\$9	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	B	Rating:	Hold

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 Corp. (AGNC) announced its financial results for the second quarter of 2024 on July 22, 2024. The company reported a comprehensive loss of \$(0.13) per common share, which included a net loss of \$(0.11) per common share and an additional \$(0.02) per common share in other comprehensive loss (OCI) on investments marked-to-market through OCI. The net spread and dollar roll income per common share was \$0.53, excluding a \$0.02 per common share benefit from a "catch-up" premium amortization due to changes in projected constant prepayment rate (CPR) estimates. AGNC's tangible net book value per common share was \$8.40 as of June 30, 2024, a decrease of \$(0.44) per common share, or 5.0%, from \$8.84 as of March 31, 2024. The company declared dividends of \$0.36 per common share for the quarter, resulting in an economic return on tangible common equity of -0.9%, which was composed of the \$0.36 dividends and a \$(0.44) decrease in tangible net book value per common share. The company's investment portfolio at the end of the quarter totaled \$66.0 billion, consisting primarily of \$59.7 billion in Agency MBS, \$5.3 billion in net forward purchases or sales of Agency MBS in the "to-be-announced" market (TBA securities), and \$1.0 billion in credit risk transfer (CRT) and non-Agency securities and other mortgage credit investments. AGNC's tangible net book value "at risk" leverage was 7.4x as of June 30, 2024, with an average of 7.2x for the quarter. AGNC held \$5.3 billion in unencumbered cash and Agency MBS as of June 30, 2024, representing 65% of the company's tangible equity. The company's portfolio had an average projected life CPR of 9.2% and an actual CPR of 7.1% for the quarter. The annualized net interest spread for the quarter was 2.69%. During the quarter, AGNC issued 45.8 million shares of common equity through its At-the-Market (ATM) offerings, generating net proceeds of \$434 million.

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	782.5	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. 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.

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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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	4.6	5.0
Avg. Yld.	11.9%	14.4%	12.7%	10.7%	12.3%	12.7%	9.7%	8.8%	14.9%	15.2%	14.3%	16.5%

AGNC is currently trading at 4.6 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%

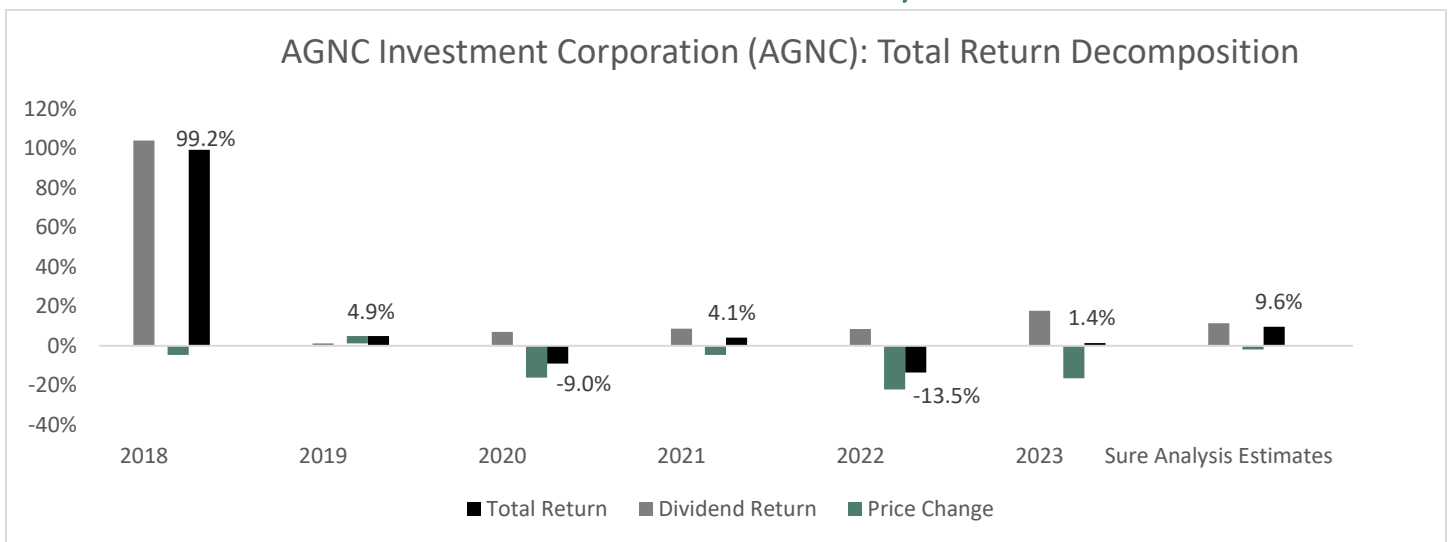
Given that it had its IPO in 2008 – in the midst of the financial crisis – it is hard to get an accurate picture of exactly how it can be expected to perform during this recession. However, the mortgage-backed security industry – given its leverage and interest rate sensitivity – is very prone to underperform 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 14.3% 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 9.6% annualized total returns over the next half-decade. That said, the earnings stream is unpredictable and highly leveraged. We rate shares 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	(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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