



PennyMac Mortgage Investment Trust (PMT)

Updated October 28th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$13.7	5 Year CAGR Estimate:	11.7%	Market Cap:	\$1.2 B
Fair Value Price:	\$10.8	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	12/28/2024
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.7%	Dividend Payment Date¹:	01/26/2025
Dividend Yield:	11.6%	5 Year Price Target:	\$16	Years of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

PennyMac Mortgage Investment Trust invests in residential mortgage loans and mortgage-related assets. The trust focuses on creating mortgage-related assets through its correspondent production activities, which includes mortgage servicing rights. PennyMac operates as a mortgage real estate investment trust (REIT). It trades under the ticker symbol PMT on the NYSE and has a market capitalization of \$1.2 billion. PMT has three segments: credit sensitive strategies, interest rate sensitive strategies and correspondent production.

PennyMac Mortgage began its operations in 2009 with \$324 million of assets, which has grown to \$13.1 billion as of September 30th, 2024. PMT is externally managed by PNMAC Capital Management, which itself is a wholly owned subsidiary of PennyMac Financial Services (PFSI). As a result of being externally managed, PMT has only one employee on record. The growth of PMT is dependent upon PFSI's 4,000 employees. It is headquartered in Westlake Village, California.

PennyMac Mortgage Investment Trust reported third quarter 2024 results on October 22nd, 2024, for the period ending September 30th, 2024. PMT reported net investment income of \$80.9 million, which compares unfavorably to NII of \$163 million in the prior year quarter. The trust generated \$0.36 per share profit in the quarter, which was a 29% decrease from the year-ago quarter.

The book value per share decreased from \$15.89 on June 30th, 2024 to \$15.85 on September 30th, 2024. In the third quarter, the company added \$88 million in new mortgage servicing rights (MSRs).

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.47	\$1.16	\$1.08	\$1.48	\$1.99	\$2.42	\$0.27	\$0.26	(\$1.26)	\$1.63	\$1.20	\$1.76
DPS	\$2.38	\$2.30	\$1.88	\$1.88	\$1.88	\$1.88	\$1.52	\$1.88	\$1.81	\$1.60	\$1.60	\$1.60
Shares²	82.2	83.3	77.1	74.6	69.4	87.7	99.4	96.3	89.1	111.0	86.8	100.0

PMT has not produced much in terms of per-share growth over the past decade, in both diluted earnings per share and net investment income per share. Net investment income generated by the whole company has risen, however as the trust raises capital through equity issuance, existing shareholders are heavily diluted. The number of outstanding shares has tripled since 2011, and thus the earnings are spread across a larger number of shares. However, the company has now resumed repurchasing shares, with a meaningful decline expected for 2024. Furthermore, these repurchases are made at an attractive price, as the stock is trading well below book value.

The dividend has been a struggle to pay for certain years over the last decade, and the company has cut its dividend multiple times. We expect PennyMac Mortgage's core MSR and CRT assets will lead to growth of 8.0% annually over the next five years. Mortgage rates have declined from their recent highs amid the decrease in interest rates from the Fed, and the U.S. origination market is expected to improve in 2024 and 2025 compared to 2023, which bodes well for PennyMac.

¹ Estimate

² In millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	7.1	6.7	11.4	13.9	11.2	10.2	7.1	13.0	-	8.0	11.5	9.0
Avg. Yld.	13.0%	13.4%	13.6%	11.0%	10.1%	8.8%	11.1%	10.9%	12.1%	13.2%	11.6%	10.1%

PennyMac's current P/E ratio of 11.5 is a premium compared to its 5-year average of 9.6. Given the current mortgage origination market, we peg fair value at 9.0 times EPS, implying the potential for a valuation headwind. The current 11.6% yield is significant. As we predicted in our research report in November 2022, PennyMac announced in early December 2022 that it cut its quarterly dividend by 15% to \$0.40 per share, where it has remained since.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	96%	198%	174%	127%	94%	78%	563%	723%	-	98%	133%	91%

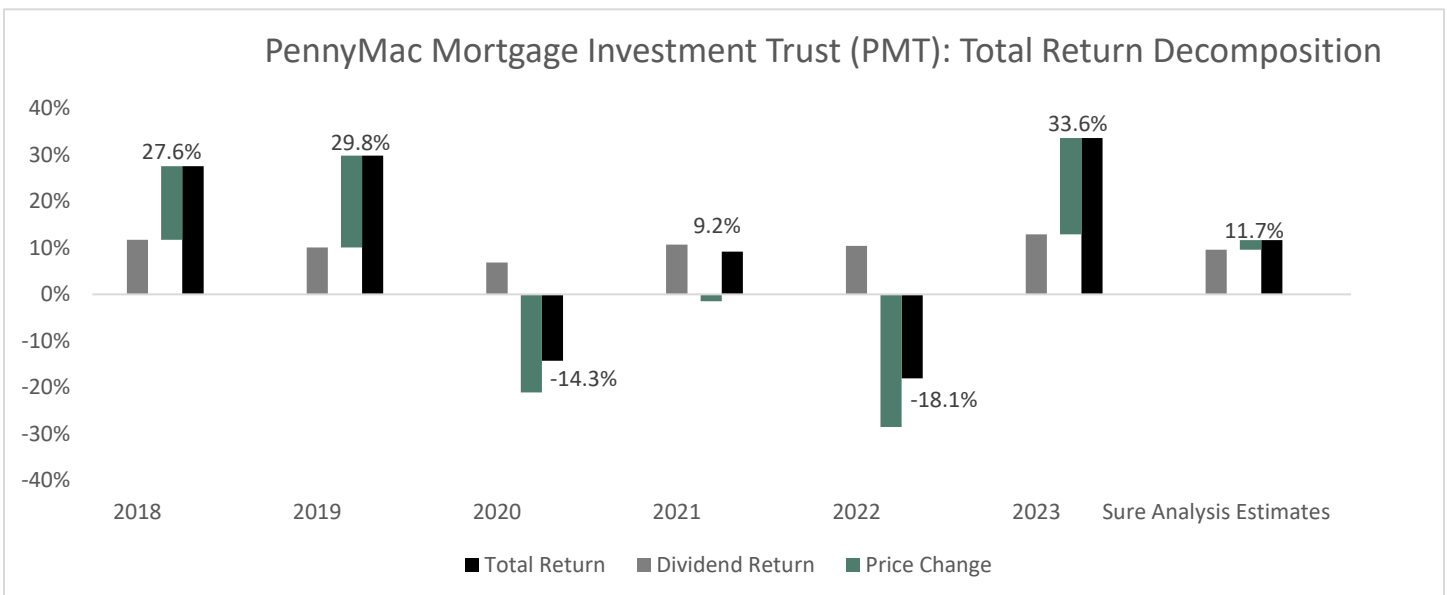
The payout ratio has historically been volatile for PMT, and this increases the risk of the dividend being in danger once again in the future. Expectations for 2024 put the dividend again in dangerous territory. The corporation was formed at the end of the financial crisis so it is hard to know with certainty how it can perform during similar circumstances, though it is likely highly susceptible to recession.

PennyMac's competitive advantage is its position as the largest correspondent aggregator, which will help the trust in increasing sales of MSRs as mortgage banks continue reducing their cash-intensive retention of MSRs. Overall, it does not have a strong competitive advantage in comparison to other mortgage REITs.

Final Thoughts & Recommendation

PennyMac Mortgage Investment Trust is highly dependent on interest rates, and the trust constantly issues equity, which dilutes existing shareholders. PMT does not have a stellar track record of earnings, and this volatility reduces the safety of the dividend. The company trades above our fair value estimate, and we expect 8.0% EPS growth, -4.7% multiple contraction and a high 11.6% dividend yield. Total annual return potential of 11.7% is strong, and we rate PMT as a buy. However, given the slowdown in mortgage originations, volatility in PennyMac's results, and a history of slashing its dividend, only risk-tolerant investors should consider the stock.

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	104	93	156	187	221	107	83	103	282
SG&A Expense	8	7	7	6	7	7	4	4	6	7
Net Income	195	90	76	118	153	226	52	57	-73	200
Net Margin	92.2%	86.3%	81.5%	75.4%	81.6%	102.6%	49.1%	68.6%		70.9%
Free Cash Flow	-366	-866	-624	223	-574	-2,985	672		1,784	
Provision For Tax	-15	-17	-14	7	5	-36	27	-12	136	45

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,897	5,827	6,358	5,605	7,813	11,771	11,492	13,773	13,920	13,110
Cash & Equivalents	76	205	70	266	60	104	58	1,764	1,437	1,491
Goodwill & Int.	358			13	23	25	12	2,893	4,013	3,919
Total Liabilities	3,319	4,331	5,006	4,060	6,247	9,320	9,195	11,405	11,960	11,160
Accounts Payable	68	64	108	65	71	91	125	96	160	388
Long-Term Debt	430	912	901	599	1,149	2,383	2,273	4,494	4,765	4,848
Total Equity	1,578	1,496	1,351	1,245	1,266	2,151	1,997	1,826	1,421	1,416
LTD/E Ratio	0.27	0.61	0.67	0.39	0.73	0.97	0.99	1.90	2.43	2.48

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.2%	1.7%	1.2%	2.0%	2.3%	2.3%	0.5%	0.5%	-0.5%	1.5%
Return on Equity	12.8%	5.9%	5.3%	9.1%	12.2%	13.2%	2.5%	3.0%	-4.5%	14.1%
ROIC	9.4%	4.1%	3.3%	5.4%	6.3%	6.0%	1.1%	1.0%	-1.1%	3.0%
Shares Out.	82.2	83.3	77.1	74.6	69.4	87.7	99.4	97.0	91.4	111.7
Revenue/Share	2.57	1.25	1.21	2.09	2.70	2.52	1.07	0.85	1.13	2.52
FCF/Share	-4.45	-10.39	-8.10	2.99	-8.27	-34.03	6.76		19.52	

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

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