



Chimera Investment Corporation (CIM)

Updated February 14th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	12.8%	Market Cap:	\$1.1 B
Fair Value Price:	\$12	5 Year Growth Estimate:	9.0%	Ex-Dividend Date¹:	4/4/2025
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.4%	Dividend Payment Date:	4/29/2025
Dividend Yield:	10.6%	5 Year Price Target	\$18	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Buy:	Hold

Overview & Current Events

Chimera Investment Corporation is a real estate investment trust (REIT) that is a specialty finance company. The company's primary business is in investing through subsidiaries in a diversified portfolio of mortgage assets, including residential mortgage loans, Non-Agency RMBS, Agency CMBS, and other real estate related securities. Chimera's income is predominantly obtained by the difference between the income the company earns on its assets and financing and hedging costs. The company funds the purchase of assets through several funding sources: asset securitization, repurchase agreements (repo), warehouse lines, and equity capital. It has a market capitalization of \$1.1 billion.

On May 21st, 2024, Chimera executed a 1-for-3 reverse stock split due to its depressed stock price, which resulted from the impact of high interest rates. This is a negative development. Although the fundamentals remain intact, experience has shown that stocks that perform reverse splits tend to vastly underperform the S&P 500 over the long run.

In mid-February, Chimera released (2/12/25) results for the fourth quarter of fiscal 2024. Its core earnings-per-share edged up sequentially, from \$0.36 to \$0.37, thanks to lower provisions for credit losses. Chimera missed the analysts' consensus by \$0.01 and the stock plunged -8% on the day of its earnings release. Moreover, investors should be aware that Chimera has been facing a strong headwind from the surge of interest rates to nearly 23-year highs. An unexpected increase in interest rates is a strong headwind for Chimera, as it exerts great pressure on its margins, i.e., the difference between lending and borrowing rates, without allowing the company to hedge its rates.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$3.75	\$8.79	\$7.86	\$5.91	\$6.75	\$4.38	\$5.34	\$3.24	\$0.39	\$1.47	\$1.55	\$2.38
DPS	\$5.76	\$7.32	\$6.00	\$6.00	\$6.00	\$4.20	\$3.87	\$3.36	\$2.10	\$1.20	\$1.48	\$1.48
Shares²	62.6	62.6	62.6	62.4	62.8	95.7	80.1	78.0	77.5	82.2	85.0	100.0

Chimera has exhibited a markedly volatile performance record over the last decade. It has failed to grow its earnings-per-share over the last decade and posted 10-year low earnings-per-share in 2023. Moreover, the REIT has been caught off-guard, with a high debt load, in the downturn caused by high interest rates. Furthermore, given the unreliable performance and the relatively opaque business model of the company, we prefer to be cautious and assume just 9.0% average annual earnings-per-share growth over the next five years off this year's extremely low base.

Chimera has always offered exceptionally generous dividends to its shareholders, ranging from 9.2% in 2021 to 17.5% in 2009 and 2011. We expect a high yield to remain in place, but the dividend is not safe.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.5	7.3	7.0	8.3	8.6	7.8	7.9	8.8	43.4	9.6	9.0	7.6
Avg. Yld.	14.1%	11.8%	10.8%	11.2%	10.3%	10.5%	9.2%	11.8%	12.4%	8.5%	10.6%	8.2%

¹ Estimated date.

² In millions.

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Chimera’s valuation has fluctuated significantly throughout the last decade. The stock is currently trading at a price-to-earnings ratio of 9.0, which is higher than the 9-year average earnings multiple of 7.6 of the stock. If the stock trades at its average valuation level in five years, it will incur a -3.4% annualized drag in its returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	154%	83%	76%	102%	89%	96%	72%	104%	538%	82%	95%	62%

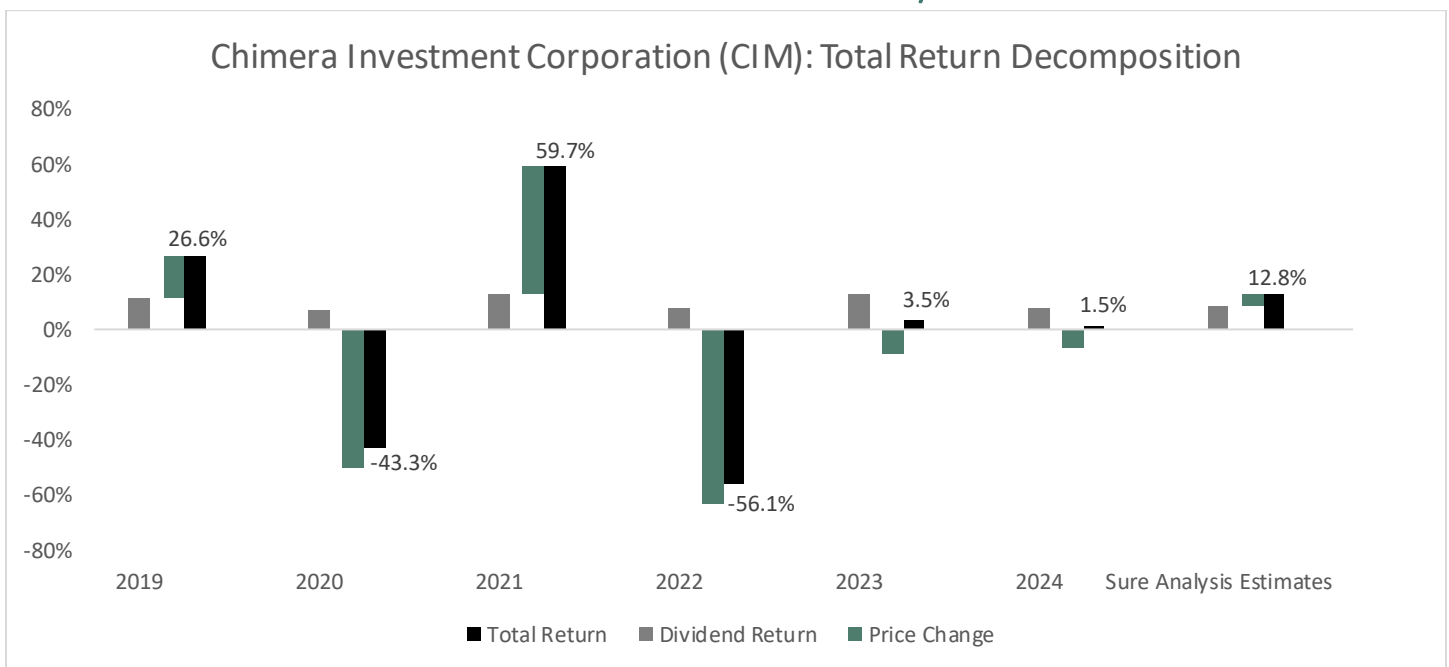
A large part of Chimera’s operations are related to mortgage assets. The company has financing risks from certain transactions which include short-term debt to finance mortgage loans. Chimera has a high net debt load, which currently stands at \$9.0 billion, and hence the company benefited from the depressed interest rates during 2011-2021. Moreover, lower rates are favorable for Chimera, as they generally enhance the margin between funding costs and returns of investments. However, Chimera proved vulnerable to the pandemic. Its losses in the first quarter of 2020 reflect the risky business model of the REIT. Chimera is also highly vulnerable to unexpected interest rate hikes, which exert great pressure on the margins and the book value of the company.

Chimera went public just before the onset of the Great Recession. In its first year, the company incurred losses of -\$9.50 per share. During the Great Recession, the stock plunged nearly -80%. It is thus evident that the stock is highly vulnerable to recessions.

Final Thoughts & Recommendation

Chimera has been severely hurt by the surge of interest rates to nearly 23-year highs. As a result, the stock has shed -79% over the last five years. If inflation subsides, the stock could offer a 12.8% average annual return over the next five years thanks to its 10.6% dividend and 9.0% earnings growth, partly offset by a -3.4% valuation headwind. Chimera is likely to rebound strongly if the Fed lowers interest rates over the next two years. However, due to its unreliable performance record, its opaque business model, its huge downside risk in the event of a prolonged downturn from inflation, and the long-term underperformance of stocks that perform reverse splits, we rate the stock as a hold only for those who realize its high risk.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	316	597	608	444	491	229	1,057	-415	205	258
SG&A Exp.	60	44	48	59	75	70	69	72	56	65
Net Profit	250	552	525	412	414	89	670	-513	126	176
Net Margin	79.1%	92.5%	86.3%	92.6%	84.3%	38.8%	63.4%	-1.2%	61.4%	68.3%
Free Cash Flow	396	553	487	298	65	258	519	326	213	---
Income Tax	0	0	0	0	0	0	4	0	0	0

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	15345	16685	21222	27709	27119	17523	15407	13402	12929	13116
Cash & Equivalents	114	178	64	47	110	269	386	265	222	84
Accounts Receivable	66	80	101	123	116	81	70	62	77	81
Total Liabilities	12398	13561	17587	24005	23165	13744	11671	10735	10370	10590
Accounts Payable	49	65	79	127	70	47	32	47	48	41
Long-Term Debt	4250	7275	9594	8615	8313	8877	7814	10614	10109	10015
Shareholder's Equity	2946	3123	3635	3704	3953	3779	3736	2666	2559	2526
D/E Ratio	1.44	2.33	2.64	2.33	2.10	2.35	2.09	3.98	3.95	3.9644

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	1.5%	3.4%	2.8%	1.7%	1.5%	0.4%	4.1%	-3.6%	1.0%	1.4%
Return on Equity	7.6%	18.2%	15.5%	11.2%	10.8%	2.3%	17.8%	-16.0%	4.8%	6.9%
ROIC	3.1%	6.3%	4.4%	3.2%	3.4%	0.7%	5.5%	-3.7%	1.0%	1.4%
Shares Out.	62.6	62.6	62.6	62.4	62.8	95.7	80.1	78.0	77.5	82.16
Revenue/Share	1.58	3.17	3.23	2.37	2.60	1.01	4.31	-1.77	2.64	3.14
FCF/Share	1.99	2.94	2.59	1.59	1.58	1.14	2.11	1.39	2.75	---

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

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