



Dynex Capital Inc. (DX)

Updated February 10th, 2025 by Samuel Smith

Key Metrics

Current Price:	\$13.3	5 Year CAGR Estimate:	1.6%	Market Cap:	\$1.13 B
Fair Value Price:	\$12.6	5 Year Growth Estimate:	-8.7%	Ex-Dividend Date:	4/23/25 ¹
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-1.0%	Dividend Payment Date:	5/3/25 ²
Dividend Yield:	13.5%	5 Year Price Target	\$8	Years of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Sell

Overview & Current Events

Dynex Capital, Inc. was founded in 1987 and is headquartered in Glen Allen, Virginia. As an mREIT, Dynex Capital invests in mortgage-backed securities (MBS) on a leveraged basis in the United States. It invests in agency and non-agency MBS consisting of residential MBS, commercial MBS (CMBS), and CMBS interest-only securities. Agency MBS have a guaranty of principal payment by an agency of the U.S. government or a U.S. government-sponsored entity, such as Fannie Mae and Freddie Mac. Non-Agency MBS have no such guaranty of payment. The trust is structured to have internal management, which is good because it can reduce conflicts of interest and often leads to lower management expenses.

Dynex Capital reported solid fourth-quarter and full-year 2024 results, highlighting resilience in navigating the evolving macroeconomic environment while capitalizing on attractive investment opportunities. Co-CEO Byron Boston emphasized the company's focus on building a sustainable, long-term business at the intersection of capital markets and housing finance, where demographic trends continue to support residential mortgage-backed securities (RMBS). Co-CEO Smriti Popenoe announced the appointment of T.J. Connelly as Chief Investment Officer, highlighting his expertise in structured finance and risk management. The company expanded its board, increased its common equity capital by over 40% to exceed \$1 billion, and maintained a disciplined capital allocation strategy that has positioned it as a leader among agency-focused mortgage REITs in total shareholder returns over multiple timeframes. CFO Rob Colligan detailed the financial performance, with book value ending the quarter at \$12.70 per share and an economic return of 7.4% for the year. Leverage increased slightly to 7.9x as the company deployed capital into higher-yielding agency RMBS, particularly 30-year 4.5%, 5%, and 5.5% coupons. The shift from treasury futures to interest rate swaps was a key strategy, enhancing portfolio returns by 200 to 300 basis points and improving net interest spread. Dynex raised \$64 million in capital during the fourth quarter, maintaining ample liquidity to navigate volatility. Looking ahead, the company expects agency RMBS to continue offering double-digit ROEs, supported by a positively sloped yield curve, modest net issuance, strong bond fund flows, and renewed bank demand for mortgage securities.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$0.42	\$2.07	\$1.38	-\$0.24	\$2.16	\$1.92	\$1.97	\$1.04	(\$0.25)	(\$0.35)	\$1.58	\$1.00
DPS	\$2.88	\$2.52	\$2.16	\$2.16	\$2.01	\$1.66	\$1.56	\$1.56	\$1.56	\$1.60	\$1.80	\$1.00
Shares³	18	16	17	19	24	23	37	54	59	85	85	42

With interest rates rising rapidly and the mortgage market currently suffering from plummeting demand, Dynex may have a challenging time growing. On top of that, a recession is considered increasingly likely, which in turn could lead to a jump in defaults on Dynex' investments, posing a further headwind to growth. As a result, when combined with Dynex' sky-high payout ratio, we are expecting earnings power to stagnate in the coming years, leading to a likely dividend cut.

¹ Estimated

² Estimated

³ 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	7.3	12.0	40.0	9.5	15.0	NA	7.8	9.4	9.0	8.4	8.4	8.0
Avg. Yld.	94.6%	10.1%	3.9%	11.1%	6.2%	13.0%	10.2%	16.0%	12.6%	13.5%	13.5%	12.5%

Due to lumpiness in earnings, it is difficult to establish an accurate price to earnings ratio from the past decade. Excluding the outliers in 2015 and 2018, we see that in most years Dynex' price to earnings ratio has been between 7.0 and 10.0. Given that the company has a history of dividend cuts and growth prospects are poor, we do not believe that the multiple should be much higher than this. As a result, we believe that a multiple of around 8 times earnings is appropriate. If achieved over the next half decade, multiple contraction would provide a headwind to annual total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	686%	122%	157%	-900%	NA	86%	79%	150%	-624%	NA	114%	100%

Dynex brings to the table some competitive advantages, which could enable it to generate strong returns for investors throughout business cycles. These include the trust's experienced management team with expertise in managing securitized real estate assets through multiple economic cycles, as well as its emphasis on maintaining a diversified pool of highly liquid mortgage investments with minimal credit risk.

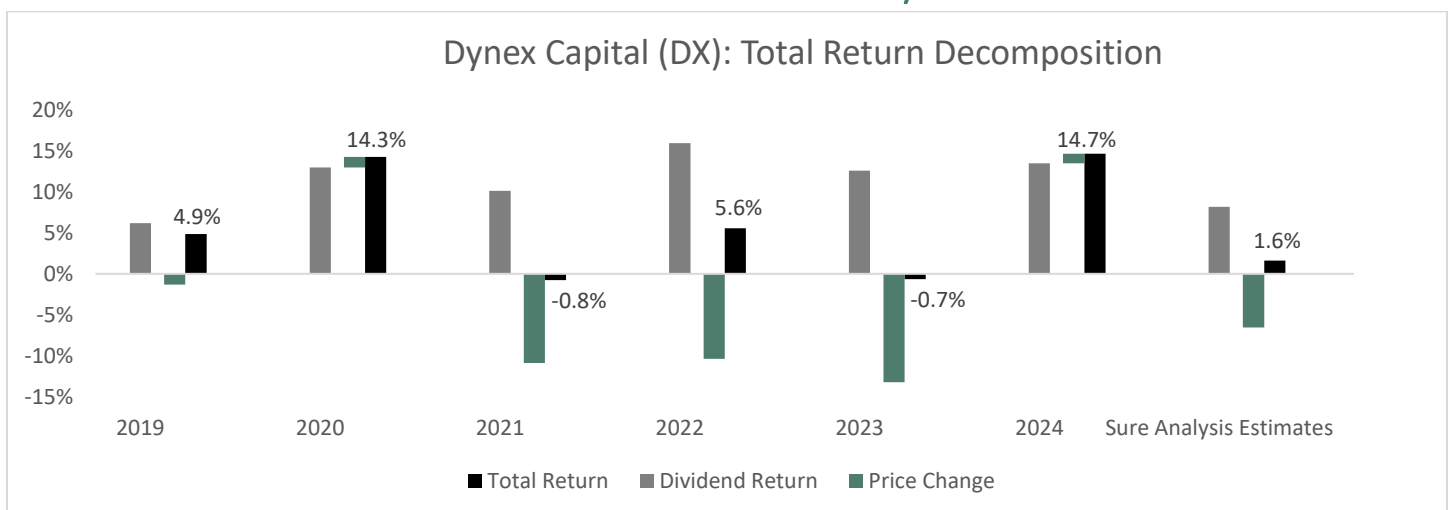
One of the biggest challenges is the shrinking spread between 3-month LIBOR and short-term repo rates, as repo rates remain elevated due to the Fed's pause on the Fed Funds rate. Another risk is that prepayment speeds could rise due to seasonal factors. Additionally, the fall in mortgage rates could increase refinancing activity, further cutting into profits.

The trust's normalized diluted earnings per share were actually quite stable through the last recession, though shares still sold off very heavily, losing about 40% of their market value. All in all, there's little margin of safety here due largely to the payout ratio being so high, combined with highly volatile earnings-per-share.

Final Thoughts & Recommendation

Looking ahead to the next half decade, we expect total annualized returns of 1.6%. Given the current headwinds facing the sector, we feel that these total returns are even less attractive on a risk-adjusted return basis. Therefore, we rate Dynex as a Sell despite its attractive dividend yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	34	57	50	24	(137)	200	128	177	27	150
SG&A Exp.	18	15	16	15	16	21	24	32	31	35
D&A Exp.	5	2	1	1	2	2	2	2	2	
Net Profit	17	43	34	7	(153)	178	102	143	(6)	114
Net Margin	49.3%	75.8%	68.0%	29.6%	112%	88.9%	80.1%	80.9%	-22.9%	75.7%
Free Cash Flow	217	211	204	181	175	174	147	126	62	

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	3,670	3,398	3,306	3,886	5,371	3,095	3,640	3,605	6,370	8,185
Cash & Equivalents	34	74	41	35	63	296	366	332	120	377
Acc. Receivable	23	20	20	21	26	14	14	15	29	33
Total Liabilities	3,178	2,931	2,749	3,359	4,788	2,461	2,868	2,704	5,499	7,000
Accounts Payable	2	3	4	10	16	1	1	16	53	45
Long-Term Debt	528	6	6	3	3	-	-	-	-	-
Total Equity	382	357	416	384	420	459	663	793	763	1,077
LTD/E Ratio	1.07	0.01	0.01	0.01	0.00	-	-	-	-	-

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.4%	1.2%	1.0%	0.2%	-3.3%	4.2%	3.0%	4.0%	-0.1%	1.6%
Return on Equity	3.0%	9.0%	6.6%	1.3%	-27.5%	29.2%	14.6%	17.1%	-0.7%	11.1%
ROIC	2.0%	5.8%	6.5%	1.3%	-27.4%	29.1%	14.6%	17.1%	-0.7%	11.1%
Shares Out.	18	16	17	19	24	23	37	54	59	85
Revenue/Share	1.90	3.47	2.97	1.23	(5.79)	8.64	3.90	4.14	0.49	2.11
FCF/Share	12.32	12.86	12.17	9.39	7.42	7.53	4.49	2.96	1.13	

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

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