



# ARMOUR Residential REIT, Inc. (ARR)

Updated March 29<sup>th</sup>, 2025 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$17.1	<b>5 Year CAGR Estimate:</b>	4.8%	<b>Market Cap:</b>	\$1.7 B
<b>Fair Value Price:</b>	\$17.8	<b>5 Year Growth Estimate:</b>	-10.8%	<b>Ex-Dividend Date:</b>	4/15/25
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.7%	<b>Dividend Payment Date:</b>	4/29/25
<b>Dividend Yield:</b>	16.8%	<b>5 Year Price Target</b>	\$10.0	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Sector:</b>		<b>Rating:</b>	Sell

## Overview & Current Events

ARMOUR Residential (ARR) is a mortgage REIT that was formed in 2008. The trust invests primarily in residential mortgage-backed securities that are guaranteed or issued by a United States government entity including Fannie Mae, Freddie Mac and Ginnie Mae. ARMOUR has a \$1.7 billion market capitalization.

In the fourth quarter of 2024, ARMOUR Residential REIT, Inc. reported a GAAP net loss of \$49.4 million, or \$0.83 per common share. Despite this, the company achieved distributable earnings of \$46.5 million, equating to \$0.78 per common share, which fell short of the anticipated \$0.97. Net interest income for the quarter was \$12.7 million. During this period, ARMOUR raised approximately \$136.2 million through the issuance of about 7.2 million shares via an at-the-market offering program. The company maintained its monthly common stock dividend at \$0.24 per share, totaling \$0.72 for the quarter.

As of December 31, 2024, the book value per common share was \$19.07, with a subsequent estimate of \$19.18 by early February 2025. Operationally, ARMOUR deployed approximately \$2 billion in mortgage assets and TBAs, focusing on higher-coupon specified pools and TBAs, particularly in the 5.5% and 6% coupon segments. Management highlighted the reemergence of discussions around GSE reform as a potential risk factor, though they do not view immediate reforms as likely.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$5.57	-\$5.54	\$2.78	\$2.59	\$2.54	\$1.29	\$0.96	\$1.16	\$4.65	\$3.68	<b>\$3.55</b>	<b>\$2.00</b>
<b>DPS</b>	\$3.89	\$3.02	\$2.28	\$2.28	\$2.04	\$0.93	\$1.20	\$1.20	\$4.80	\$2.88	<b>\$2.88</b>	<b>\$2.00</b>
<b>Shares<sup>1</sup></b>	7	7	8	10	12	13	19	39	49	76	<b>76</b>	<b>60</b>

ARMOUR's cash flow has been volatile since its inception in 2008, but this is to be expected with all mREITs. Of late, declining spreads have hurt earnings while the economic disruption caused by the coronavirus outbreak disrupted the business model, leading to a sharp decline in cash flow per share, as well as a steep dividend cut. Fortunately, ARMOUR is now seeing a measure of recovery, and should continue to see that recovery manifest itself in the coming quarters and years. Moving forward, we expect the company to see earnings plummet in line with its historical pattern and we therefore expect additional dividend cuts in the future.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	Now	2029
<b>Avg. P/E</b>	3.9	---	9.3	8.6	6.7	7.7	10.9	5.0	2.9	4.6	<b>4.8</b>	<b>5.0</b>
<b>Avg. Yld.</b>	17.9%	13.9%	8.8%	10.2%	12.0%	9.4%	11.5%	20.7%	35.6%	14.9%	<b>16.8%</b>	<b>20.0%</b>

As one would expect, ARMOUR's valuation has moved around a lot in recent years. Given the current uncertainty facing the sector and elevated interest rates, we have set fair value at 5 times cash flow. The company's current price to cash

<sup>1</sup> 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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flow is considered undervalued due to the weakness in the share price. Given that shares trade at a discount based on expectations for this year's cash flow per share, we expect slight valuation multiple expansion over the coming years.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

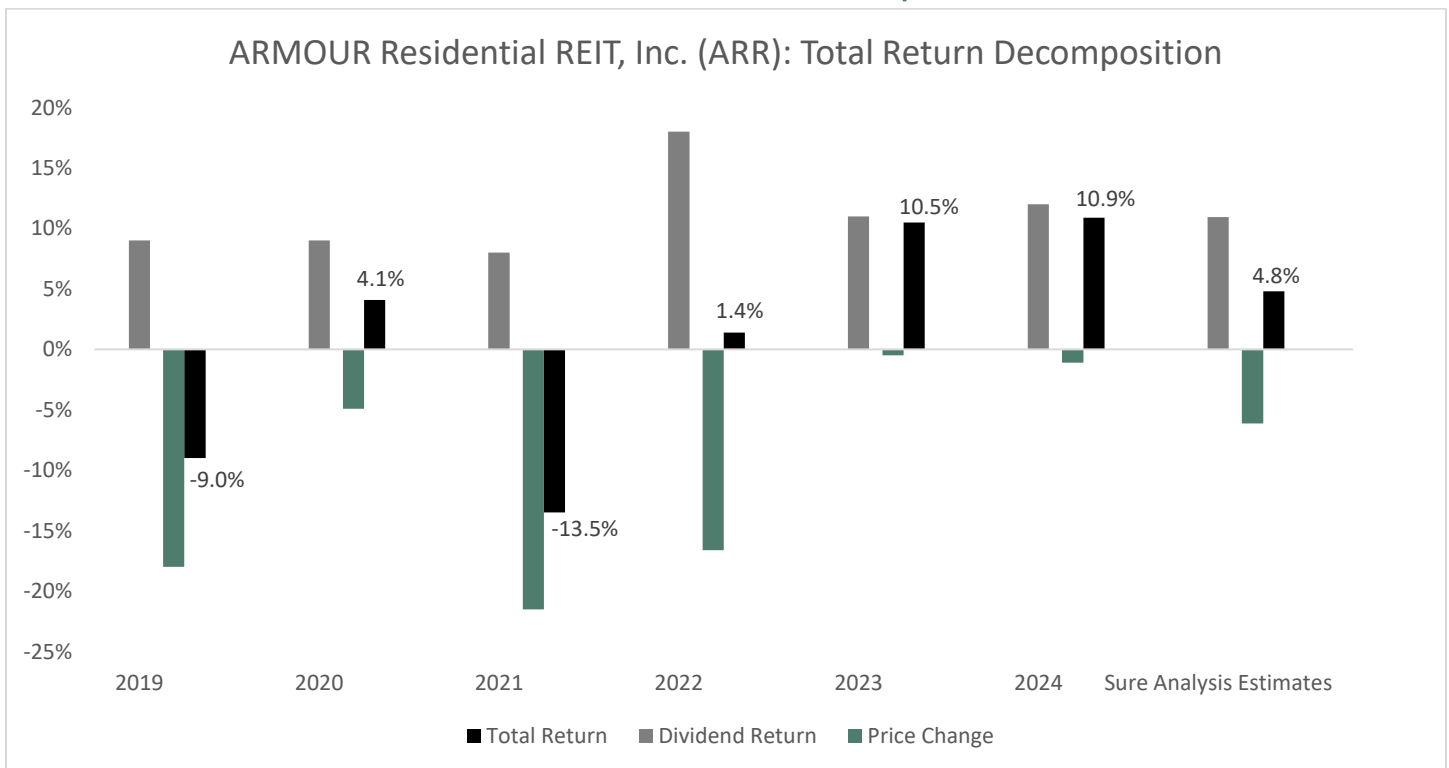
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	70%	-55%	82%	88%	80%	72%	125%	103%	103%	78%	81%	100%

ARMOUR's quality metrics have been volatile given the performance of the trust as rates have moved around over the years. Gross margins have moved down since short-term rates began to rise meaningfully a couple of years ago, although it appears most of that damage has been done. Balance sheet leverage had been moving down slightly, but it saw an uptick again this past quarter. However, we do not forecast significant movement in either direction from this point. Interest coverage has declined with spreads but also appears to have stabilized, so we are somewhat optimistic moving forward, while keeping in mind the significant potential for volatility. ARMOUR faced headwinds from the coronavirus outbreak and an overall economic downturn. As a result, a steep dividend cut was necessary to preserve the balance sheet and allow the REIT to reposition itself for survival and future growth.

## Final Thoughts & Recommendation

We see 4.8% annualized total returns for shareholders in the coming years thanks to the attractive dividend yield of 16.8% offset by some expected valuation multiple contraction, along with significant expected declines in earnings per share. Overall, we rate the stock a Sell at the current price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	(22)	(100)	125	(57)	(217)	(22)	19	(226)	(63)	(0)
SG&A Exp.	3	3	3	4	5	6	7	5	5	5
Net Profit	(31)	(46)	181	(106)	(250)	(215)	15	(230)	(68)	(14)
Net Margin	144.8%	45.7%	145.2%	186.5%	115.4%	968.7%	80.1%	101.8%	108.6%	3011%
Free Cash Flow	238	(203)	110	75	(41)	(258)	12	124	133	261

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	13,055	7,978	8,929	8,465	13,272	5,524	5,277	9,437	12,344	13,548
Cash & Equivalents	290	272	265	222	181	168	338	87	222	68
Acc. Receivable	35	18	22	23	35	13	11	29	47	53
Total Liabilities	11,830	6,886	7,603	7,339	11,836	4,586	4,134	8,325	11,073	12,187
Accounts Payable	26	14	9	14	36	4	4	29	38	41
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Total Equity	1,225	1,092	1,326	1,125	1,437	938	1,144	1,112	1,271	1,361

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	-0.2%	-0.4%	2.1%	-1.2%	-2.3%	-2.3%	0.3%	-3.1%	-0.6%	-0.1%
Return on Equity	-2.1%	-3.9%	15.0%	-8.6%	-19.5%	-18.1%	1.5%	-20.4%	-5.7%	-1.1%
ROIC	-2.1%	-3.9%	15.0%	-8.6%	-19.5%	-18.1%	1.5%	-20.4%	-5.7%	-1.1%
Shares Out.	7	7	8	10	12	13	19	39	49	76
Revenue/Share	(2.52)	(13.58)	15.73	(6.75)	(18.73)	(1.76)	1.19	(9.57)	(1.45)	(0.01)
FCF/Share	27.85	(27.72)	13.88	8.93	(3.52)	(20.44)	0.73	5.26	3.08	5.01

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

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