Ellington Credit Company (EARN)

Updated March 19th, 2025 by Quinn Mohammed

Key Metrics

Current Price:	$5.69	**5 Year CAGR Estimate:**	18.2%	**Market Cap:**	$172 M
Fair Value Price:	$6.86	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	03/31/2025
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	3.8%	**Dividend Payment Date:**	04/25/2025
Dividend Yield:	16.9%	**5 Year Price Target**	$8.35	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Ellington Credit Company acquires, invests in, and manages residential mortgage and real estate-related assets. Ellington focuses primarily on corporate CLOs, primarily mezzanine debt and equity tranches. The corporation trades on the NYSE under the ticker symbol EARN. EARN is headquartered in Old Greenwich, Connecticut and is a small-cap company with a market capitalization of $172 million. Ellington Credit Company is externally managed by an affiliate of Ellington Management Group, LLC.

The company has an agency residential mortgage-backed securities (RMBS) portfolio of $512 million. Agency MBS are created and backed by government agencies or enterprises.

On August 4th, 2022, Ellington reduced its dividend to $0.08 monthly, a 20% decrease compared to the $0.10 paid monthly from October 2021 to May 2022.

In April 2024, Ellington Residential Mortgage REIT changed its name to Ellington Credit Company, and announced its intention to transform into a collateralized loan obligations ("CLOs")-focused company, moving away from its focus on MBS. On January 17, 2025, shareholders voted and approved of the conversion. The conversion should take place on April 1, 2025, when Ellington will complete its transition from an MBS-focused REIT to a CLO-focused closed-end fund.

On March 12th, 2025, Ellington Residential reported its fourth quarter results for the period ending December 31, 2024. The company generated net loss of $(2.0) million, or $(0.07) per share. Ellington achieved adjusted distributable earnings of $7.8 million in the quarter, leading to adjusted earnings of $0.27 per share, which covered the dividend paid in the period. Ellington's net interest margin was 5.07% overall. At quarter end, Ellington had $31.8 million of cash and cash equivalents, and $79 million of other unencumbered assets. The debt-to-equity ratio was 2.9X. Book value per share saw a reduction from the previous quarter to $6.53, a 5% sequential decrease.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Adj. EPS	$2.41	$1.71	$1.91	$1.34	$0.91	$1.26	$1.27	$1.06	$0.86	$1.18	***$0.98***	***$1.19***
DPS	$2.00	$1.65	$1.57	$1.45	$1.18	$1.12	$1.18	$1.04	$0.96	$0.96	***$0.96***	***$0.96***
Shares[1]	9.1	9.1	11.6	12.8	12.5	12.4	12.7	12.7	14.9	28.7	***30.0***	***38.0***

Ellington has seen its adjusted distributable earnings (referred to as core earnings prior to Q2 2022) per share shrink rather than grow for the most part. However, since 2019, the compound annual growth rate has been 5.3%. In its first few years, the company held its share count consistent, but following 2016, the number of shares outstanding has grown, which can be another barrier to growing earnings on a per share basis. In April 2024, Ellington Credit began the refocusing and rotation of its portfolio into CLOs. In the most recent quarter, the company grew its CLO portfolio by 18% to $171 million. Given the refocusing of Ellington's business plan, along with its poor track record of earnings growth, we expect low single digit growth of 4%. The dividend has been cut nearly every single year in its history with an increase in

[1] Share count is 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.

2021, followed by the dividend schedule being modified to monthly over quarterly, which some shareholders may appreciate. And in May 2022, the dividend was cut again, by 20%.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	6.1	7.4	7.4	8.3	12.2	8.3	9.3	7.8	8.0	5.7	***5.8***	***7.0***
Avg. Yld.	14.4%	13.8%	10.9%	13.1%	11.7%	10.8%	9.4%	15.0%	14.4%	10.3%	***16.9%***	***11.5%***

Ellington's P/E ratio has hovered around 8.1 times core earnings since 2015, and 7.8 times since 2019. Today, EARN trades at 5.8 times earnings, below its historical valuation. We peg fair value at 7.0 times earnings; thus, we forecast a moderate valuation tailwind to total annual returns. The current 16.9% yield is in excess of its historic average of 12.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

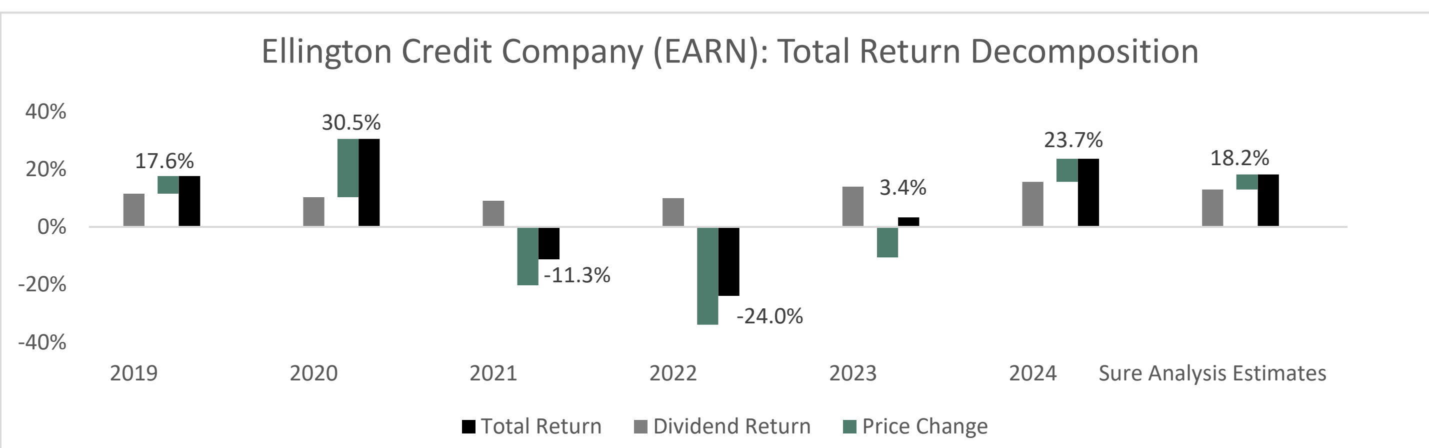
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	83%	96%	82%	108%	130%	89%	93%	98%	112%	81%	***98%***	***81%***

EARN's dividend is far from trustworthy given the corporation has a trail of cuts in the rearview. In five of the last ten years, the company's payout ratio was near or above 100%. Currently, even after another dividend cut, the dividend appears to be under heavy pressure. Ellington claims that its portfolio managers are among the most experienced in the MBS sector and its analytics have been developed over the company's 30-year history. The company possesses advanced proprietary models for prepayments and credit analysis. Also, approximately 20% of the company's employees are focused on research and information technology. While the company's details were not public in the 2008 real estate crash, a recession of that magnitude would most definitely affect EARN. Its focus on government-sponsored MBS provide some safety**,** but a prolonged recession in the future would likely affect EARN's bottom line, and result in further dividend reductions.

Final Thoughts & Recommendation

Ellington Credit has a poor historical record, both in core earnings per share and in the dividend. In fact, EARN slashed the dividend for six years in a row leading up to 2021 and then again in 2022. Despite these constant cuts, the yield remains very high, as share price has also cratered over the long term. Results are volatile, and thus, quite risky. We forecast annualized returns of 18.2% in the intermediate term, driven almost entirely by the stock's 16.9% yield. We also assume a 4.0% annual adjusted distributable earnings growth rate and a 3.8% valuation tailwind. Ellington Credit receives a speculative buy rating due to strong forecasted returns, but we warn it has an abysmal dividend history, and its dividend is still not on solid footing, leaving it open to even further potential dividend cuts.

Total Return Breakdown by Year



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.

Ellington Credit Company (EARN)

Updated March 19th, 2025 by Quinn Mohammed

Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	5	17	16	(6)	28	26	(1)	-25	10	16
SG&A Exp.	3	3	4	3	3	3	4	1	1	2
Net Profit	0	12	11	(11)	22	20	(6)	-30	5	7
Net Margin	0.6%	70%	65%	NA	80%	78%	NA	NA	50%	41%
Free Cash Flow	25	20	34	29	18	24	28	22	-10	

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,557	1,429	1,887	1,676	1,489	1,195	1,598	1054	946	824
Cash & Equivalents	40	34	56	19	35	58	69	35	39	32
Accounts Receivable	4	5	6	6	5	4	5	3	5	11
Total Liabilities	1,412	1,287	1,694	1,522	1,328	1,028	1,444	941	809	630
Accounts Payable	2	3	4	6	4	2	3	50	57	33
Shareholder's Equity	145	142	193	154	161	166	154	112	136	194

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.0%	0.8%	0.7%	-0.6%	1.4%	1.5%	-0.5%	-2.3%	0.5%	0.7%
Return on Equity	0.0%	8.3%	6.5%	-6.5%	14.1%	12.3%	-3.9%	-22.7%	3.7%	4.0%
ROIC	0.0%	8.3%	6.5%	-6.5%	14.1%	12.3%	-3.9%	-22.7%	3.7%	4.0%
Shares Out.	9.1	9.1	11.6	12.8	12.5	12.4	12.7	13.16	14.88	23.58
Revenue/Share	0.57	1.85	1.42	(0.45)	2.21	2.10	-0.04	-1.90	0.68	0.67
FCF/Share	2.71	2.18	2.97	2.25	1.41	1.97	2.20	1.70	-0.67	

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