



Orchid Island Capital, Inc. (ORC)

Updated May 7th, 2025 by Samuel Smith

Key Metrics

Current Price:	\$7.02	5 Year CAGR Estimate:	13.0%	Market Cap:	\$720 M
Fair Value Price:	\$6.72	5 Year Growth Estimate:	-4.3%	Ex-Dividend Date:	5/30/25 ¹
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.9%	Dividend Payment Date:	6/27/25 ²
Dividend Yield:	20.5%	5 Year Price Target	\$5.40	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Sector:	Real Estate	Rating:	Sell

Overview & Current Events

Orchid Island Capital, Inc. is a Real Estate Investment Trust, or REIT, operating in the mortgage industry. Mortgage REITs differ from most other REITs. For example, traditional REITs typically own a portfolio of physical real estate, which they lease to tenants to collect rental income. Mortgage REITs are purely financial entities, and Orchid Island does not own any physical properties. Instead, it is an externally managed REIT (by Bimini Advisors LLC) that invests in residential mortgage-backed securities (RMBS), either pass-through or structured agency RMBSs, which are financial instruments that collect cash flow based on residential loans such as mortgages, including subprime, and home-equity loans.

On April 24, 2025, Orchid Island Capital reported its financial results for the first quarter of 2025. The company announced a net income of \$17.1 million, or \$0.18 per common share, a decrease from \$19.8 million, or \$0.38 per share, in the same quarter of the previous year. Net interest income improved to \$19.7 million, driven by a higher average yield on Agency RMBS of 5.41% and a reduction in borrowing costs to 4.29%. Total expenses for the quarter were \$4.2 million, and the company recorded net realized and unrealized gains of \$1.6 million on RMBS and derivative instruments. The book value per share declined to \$7.94 as of March 31, 2025, from \$8.09 at the end of 2024, reflecting dividend distributions and market volatility. The company declared a dividend of \$0.36 per common share for the quarter. Orchid Island Capital maintained a strong liquidity position with \$446.5 million in cash and unpledged securities, representing approximately 52% of stockholders' equity. The leverage ratio increased to 7.8x, up from 7.3x in the previous quarter. Management highlighted that the first quarter was characterized by relatively stable market conditions, which allowed for capital raising and portfolio expansion. However, the introduction of tariffs in late March led to increased market volatility and an 8.8% decline in book value by mid-April. In response, the company reduced its portfolio by approximately 8% to maintain prudent leverage levels. Looking ahead, Orchid Island Capital plans to continue focusing on higher coupon, shorter duration assets and maintain ample liquidity to navigate uncertain market conditions.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
BPS	\$58.20	\$50.50	\$43.55	\$34.20	\$31.35	\$27.30	\$21.70	\$11.93	\$9.10	\$8.09	\$7.47	\$6.00
EPS	\$12.52	\$12.95	\$11.34	\$6.92	\$4.29	\$5.98	\$4.64	\$2.20	(\$0.96)	(\$0.17)	\$0.53	\$2.00
DPS	\$9.60	\$8.40	\$8.40	\$5.35	\$4.80	\$3.95	\$3.90	\$1.14	\$1.44	\$1.44	\$1.44	\$1.55
Shares³	4.4	6.6	10.6	9.7	13.0	17.0	35.4	39.1	51.3	93.3	93.3	100.0

Orchid Island has experienced extreme earnings volatility over the past several years, with a net loss in 2013 and 2018, along with multiple years in which the trust barely generated a profit. As a result, we are using book value per share as an alternate metric to earnings-per-share. The growth outlook for mortgage REITs is challenged. Mortgage REITs make money by borrowing at short-term rates and lending at longer-term rates, then pocketing the difference. This is referred

¹ Estimate

² Estimate

³ In millions

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to as the spread, which is how Orchid Capital generates its cash flow. When the spread between short-term rates and long-term rates compresses, profitability erodes at a rapid pace. This is why mortgage REITs can be dangerous if the yield curve flattens. Moving forward, we expect the book value per share to continue declining in the coming years and the high payout will result in weakening earnings per share and dividends per share.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/B	1.0	1.0	1.2	0.9	0.9	1.0	0.9	0.9	1.0	1.1	0.9	0.9
Avg. Yld.	16.8%	16.3%	16.5%	16.8%	16.8%	14.2%	19.1%	10.6%	15.8%	16.2%	20.5%	28.7%

Since we are using book value instead of earnings-per-share, we will also use the price-to-book ratio for valuation instead of the price-to-earnings ratio. The stock presently has a price-to-book ratio of 0.9, which is in line with our fair value estimate of 0.9 which accounts for uncertainties and risks facing the business. Some investors may be enticed by the extremely high dividend yield for the stock, which drives the investment thesis. However, we offer two cautionary notes. First, the dividend has already been cut multiple times since 2015. Second, and just as important, is that despite an exceptionally high starting yield, total returns can be dampened significantly by the erosion in the share price as time goes on.

Safety, Quality, Competitive Advantage, & Recession Resiliency

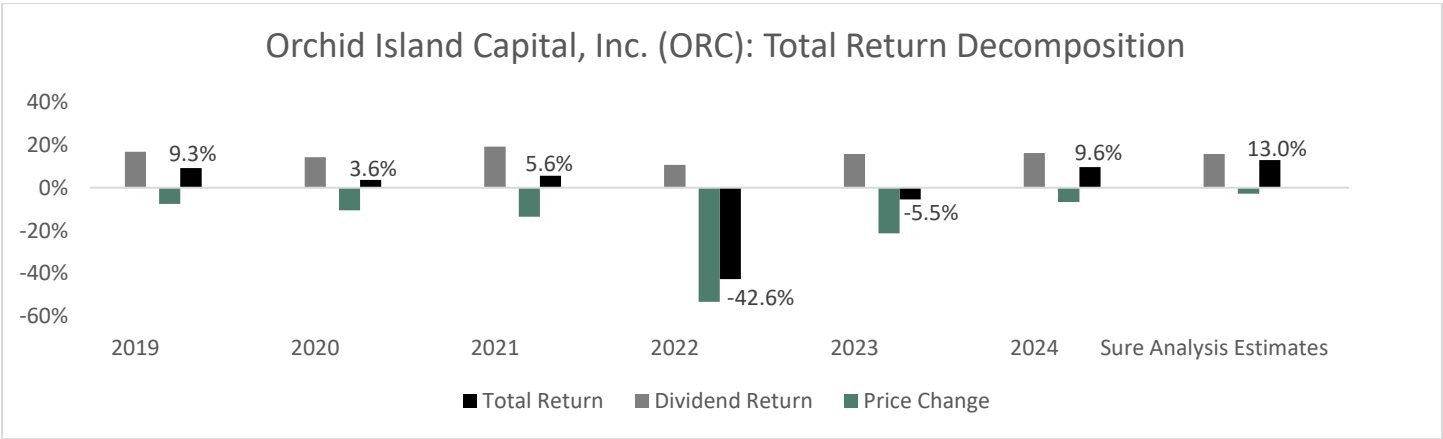
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	77%	65%	74%	77%	112%	66%	84%	52%	-150%	NA	272%	78%

Orchid Island is not a safe stock. The above payout ratios are extreme due to low or non-existent earnings. Mortgage REITs are exposed to a number of risks, including interest rate risk, as well as credit risk. These risks pertain to the direction of interest rates, as well as the ability of borrowers to repay the mortgage loans. Moreover, mortgage REITs do not possess many competitive advantages. Since mortgage REITs do not provide differentiated products and services, traditional competitive advantages such as brand power or manufacturing efficiencies do not apply. In addition, Orchid Island is not a recession-resistant trust. A recession generally leads to higher mortgage defaults.

Final Thoughts & Recommendation

Orchid Island Capital offers an extremely attractive dividend yield. That said, it is an extremely risky stock due to its track record of consistently destroying shareholder capital and slashing its dividend repeatedly. Given that the economy is facing growing risks and headwinds, we expect book value and dividend erosion in the coming years, and the payout ratio is very high as well. We therefore rate the stock as a Sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	9	11	13	(32)	35	13	(50)	(241)	(21)	54
SG&A Exp.	2	2	2	2	1	2	3	3	3	3
Net Profit	1	2	2	(44)	24	2	(65)	(258)	(39)	38
Net Margin	11.9%	17.9%	15.2%	137%	70.0%	16.8%	129.8%	107.2%	189.5%	69.2%
Free Cash Flow	31	47	85	94	48	55	96	289	8	67

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,242	3,139	4,023	3,396	3,882	4,058	7,069	3,866	4,265	5,722
Cash & Equivalents	57	73	214	108	194	220	385	206	172	309
Accounts Receivable	8	12	14	13	12	10	19	12	15	23
Total Liabilities	1,989	2,806	3,561	3,060	3,487	3,643	6,301	3,427	3,795	5,053
Accounts Payable	1	2	7	6	11	1	1	9	8	11
Long-Term Debt	188	-	-	-	-	-	-	-	-	-
Shareholder's Equity	253	333	462	336	396	415	768	439	470	669

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.1%	0.1%	0.1%	-1.2%	0.7%	0.1%	-1.2%	-4.7%	-1.0%	0.8%
Return on Equity	0.5%	0.7%	0.5%	-11.1%	6.6%	0.5%	-10.9%	-42.8%	-8.6%	6.6%
ROIC	0.3%	0.5%	0.5%	-11.1%	6.6%	0.5%	-10.9%	-42.8%	-8.6%	6.6%
Shares Out.	4.4	6.6	10.6	9.7	13.0	17.0	35.4	39.1	51.3	93.3
Revenue/Share	2.21	2.30	1.60	(3.11)	3.08	0.94	(2.06)	(6.43)	(0.46)	0.83
FCF/Share	7.58	9.76	10.35	9.00	4.28	4.12	3.98	7.72	0.18	1.02

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

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