



Ellington Credit Company (EARN)

Updated September 19th, 2025 by Quinn Mohammed

Key Metrics

| | | | | | |
|-----------------------------|--------|--|------------|----------------------------------|------------|
| Current Price: | \$5.73 | 5 Year CAGR Estimate: | 18.6% | Market Cap: | \$213 M |
| Fair Value Price: | \$6.44 | 5 Year Growth Estimate: | 6.0% | Ex-Dividend Date: | 09/30/2025 |
| % Fair Value: | 89% | 5 Year Valuation Multiple Estimate: | 2.4% | Dividend Payment Date: | 10/31/2025 |
| Dividend Yield: | 16.8% | 5 Year Price Target | \$8.62 | Years Of Dividend Growth: | 0 |
| Dividend Risk Score: | F | Sector: | Financials | Rating: | Sell |

Overview & Current Events

Ellington Credit Company is a closed-end fund focused 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 \$213 million. Ellington Credit Company is externally managed by an affiliate of Ellington Management Group, LLC.

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.

On April 1st, 2025, Ellington Credit completed its conversion into a CLO-focused closed-end fund.

On August 19th, 2025, Ellington Credit reported its first fiscal quarter results for the period ending June 30, 2025. The company generated net income of \$10.2 million, or \$0.27 per share. Ellington achieved adjusted net investment income of \$6.6 million in the quarter, or \$0.18 per share. At quarter end, Ellington had \$36.6 million in cash and cash equivalents.

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 | \$0.92 | \$1.23 |
| 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 |
| Shares¹ | 9.1 | 9.1 | 11.6 | 12.8 | 12.5 | 12.4 | 12.7 | 12.7 | 14.9 | 28.7 | 37.6 | 40.0 |

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 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 27% sequentially to \$317 million. Furthermore, its capital allocation to CLOs rose to 87%.

Given the refocusing of Ellington's business plan, along with its poor track record of earnings growth, we expect EPS growth of 6% from here on out.

The dividend has been cut nearly every single year in its history with an increase in 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%.

¹ Share count is in millions.

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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 | 6.2 | 7.0 |
| Avg. Yld. | 14.4% | 13.8% | 10.9% | 13.1% | 11.7% | 10.8% | 9.4% | 15.0% | 14.4% | 10.3% | 16.8% | 11.1% |

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 6.2 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 16.8% yield is in excess of its historic average of 12.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

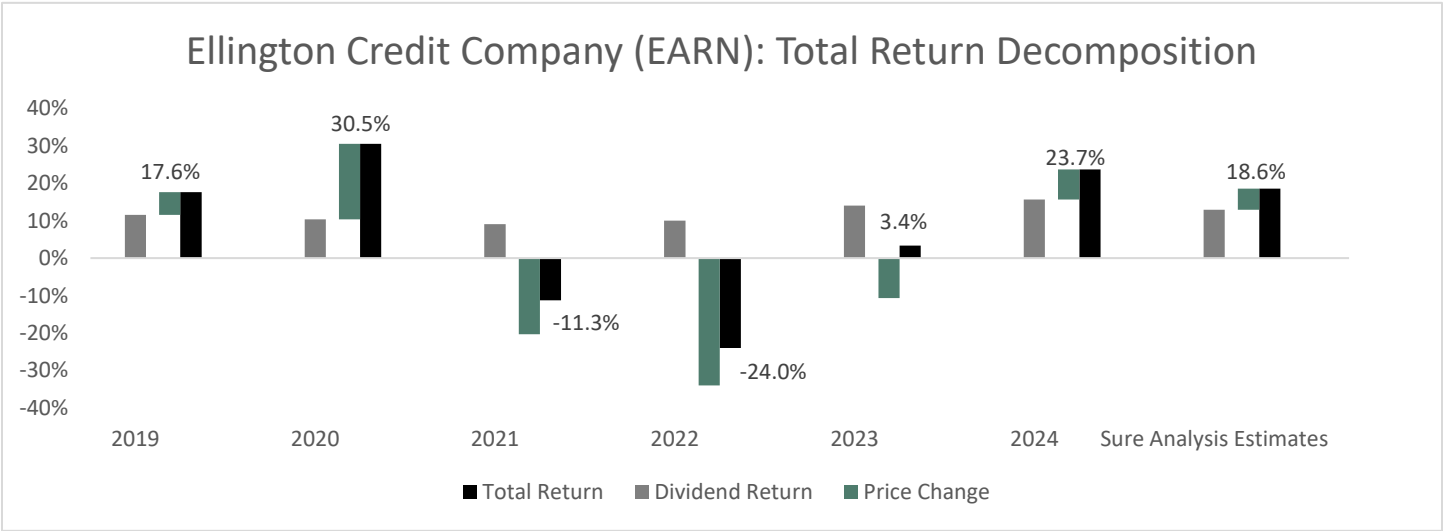
| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 83% | 96% | 82% | 108% | 130% | 89% | 93% | 98% | 112% | 81% | 104% | 78% |

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 the share price has also cratered over the long term. Results are volatile, and thus, quite risky. We forecast annualized returns of 18.6% in the intermediate term, driven almost entirely by the stock’s 16.8% yield. We also assume a 6.0% annual adjusted earnings growth rate and a 2.4% valuation tailwind. Ellington Credit receives a sell rating due to its abysmal dividend history. Furthermore, its dividend is still not on solid footing, leaving it open to even further potential dividend cuts.

Total Return Breakdown by Year



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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.

Disclaimer

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