

## AGNC Investment Corp

# Beat the Street; investment outlook improving

Reiterate Rating: NEUTRAL | PO: 10.00 USD | Price: 9.72 USD

## Beat the Street, investment outlook improving

AGNC Investments (AGNC) reported Q4 core EPS of \$0.59, a penny above Consensus but in-line with the BofA forecast. The economic return was an impressive +12.1% given the 7.7% rise in TBV/share and the \$0.36/share Q4 dividend. AGNC noted that the investment outlook is attractive given historically wide Agency MBS spreads, declining rate volatility, a less inverted yield curve, and easing monetary policy. And AGNC believes they can generate ROEs in the mid-teens on new investments. However, we reiterate Neutral due to rate uncertainty and the possibility of Agency MBS spread widening.

## Q3 TBV/share +7.7%; further improved QTD to ~\$8.83

TBV/share as of Q3 was \$8.70, up 7.7% compared to \$8.08 at Q3; the BofA estimate was \$8.85. QTD, TBV/share has improved 1-2% (~\$8.83 midpoint). The improvement in TBV/share during Q4 was driven by tightening mortgage spreads. While mortgage spreads remain well above historic averages, we think further spread tightening in the near-term is limited due to weaker demand technicals, ongoing geopolitical risks, and other macro factors.

## Leverage declines to 7.0x; raised \$376M of capital

Leverage decreased to 7.0x, compared to 7.9x the prior quarter. The decline in leverage was largely due to the combination of portfolio appreciation from tightening spreads and accretive equity issuance. During Q4, AGNC raised \$376M of common stock (46.3M shares at roughly \$8.12/share) through “at the market” offerings. Importantly, liquidity remains strong with cash and unencumbered Agency MBS assets of \$5.1B (66% of tangible equity, a record level), vs \$3.6B (52%) the prior quarter.

## Portfolio slightly higher to \$60B, hedging 112% of funding

The portfolio was slightly higher at \$60B, compared to \$59B at Q3. The portfolio was 89% Agency MBS (94% at Q3), 9% TBA (4% at Q3), and 2% credit (2% at Q3). The hedge portfolio was 112% of funding (116% last qtr) as AGNC remains defensive.

## Adjusting estimates; PO to \$10

We adjust our 24/25E EPS estimates to \$2.15/\$2.10 from \$2.18/\$2.18. Introducing our 26E EPS forecast of \$2.05. We increase our PO to \$10 (1.1x TBV/share) from \$9.50 (1.05x TBV/share) given the more favorable rate backdrop.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.12	2.62	2.15	2.10	2.05
GAAP EPS	(2.53)	0.05	2.11	2.06	2.02
EPS Change (YoY)	3.3%	-16.0%	-17.9%	-2.3%	-2.4%
Consensus EPS (Bloomberg)			2.19	2.04	2.40
DPS	1.44	1.44	1.44	1.44	1.44
Valuation (Dec)					
P/E	3.1x	3.7x	4.5x	4.6x	4.7x
GAAP P/E	NM	194.4x	4.6x	4.7x	4.8x
Dividend Yield	14.8%	14.8%	14.8%	14.8%	14.8%

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24 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	9.50	10.00

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### Stock Data

Price	9.72 USD
Price Objective	10.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-2-8
52-Week Range	6.81 USD -12.25 USD
Mrkt Val / Shares Out (mn)	6,749 USD / 694.3
Free Float	99.1%
Average Daily Value	139.71 USD
BofA Ticker / Exchange	AGNC / NAS
Bloomberg / Reuters	AGNC US / AGNC.OQ
ROE (2024E)	21.8%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

TBV: Tangible book value

TBA: To be announced

# iQprofile<sup>SM</sup> AGNC Investment Corp

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	965	(246)	(129)	(175)	(229)
% change	-25.0%	-125.5%	-47.6%	36.0%	30.7%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	965	251	1,690	1,658	1,631
Operating Expenses	(74)	(96)	(101)	(102)	(108)
% change	-15.9%	29.7%	5.5%	0.7%	5.8%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	891	155	1,589	1,556	1,524
Operating Net Income to Comm S/Hold.	786	32	1,465	1,432	1,400
GAAP Net Income	891	155	1,589	1,556	1,524

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	51,748	71,596	73,955	83,166	87,361
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Total Customer Deposits	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Tangible Equity	5,656	6,043	6,508	6,940	7,340
Common Shareholders' Equity	6,236	6,623	7,088	7,520	7,920

## Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	NM	NM	NM	NM	NM
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	10.9%	8.4%	8.8%	8.3%	8.4%
ROA	2.8%	2.6%	2.1%	1.9%	1.7%
ROE	22.3%	25.2%	21.8%	20.0%	18.4%
RoTE	29.7%	26.8%	22.9%	21.0%	19.4%
Dividend Payout Ratio	98.6%	2,783.4%	68.3%	69.8%	71.4%
Efficiency Ratio (Cost / Income Ratio)	7.7%	38.2%	6.0%	6.1%	6.6%

## Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	0%	198.0%	107.6%	110.6%	114.1%
NPLs plus Foreclosed Real Estate / Loans	NA	NA	NA	NA	NA
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	NA	NA	NA	NA	NA

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

AGNC Investment Corp is an internally-managed mortgage real estate investment trust (REIT). The company will generate earnings from its investments in mortgage related investments, with the intent to distribute its earnings to shareholders as dividends. AGNC principally invests in Agency RMBS.

## Investment Rationale

AGNC should produce a single-digit total return for investors over the next 12 months, as its dividend yield supports the share price. We think TBVPS will remain under moderate pressure in the NT

## Stock Data

Average Daily Volume 14,373,206

## Quarterly Earnings Estimates

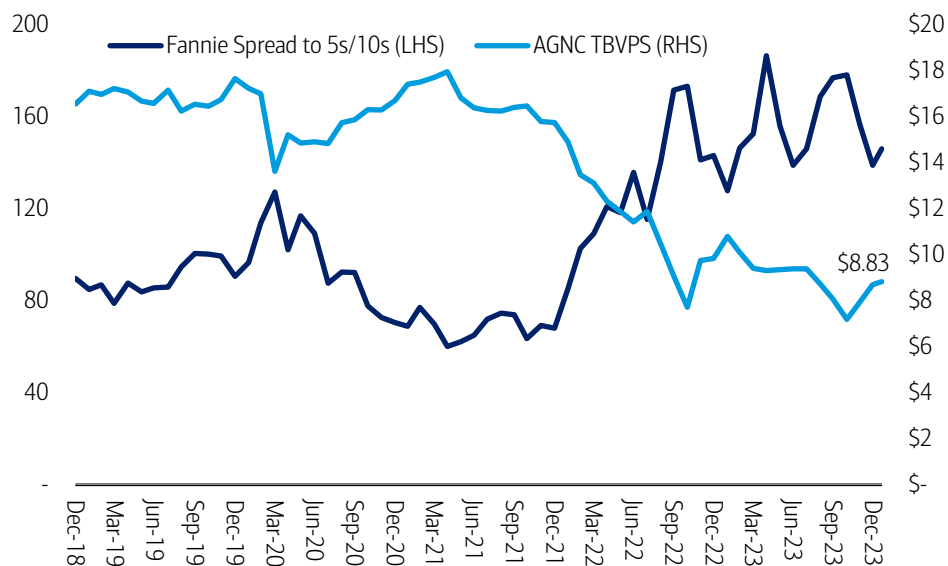
	2023	2024
Q1	0.70A	0.55E
Q2	0.67A	0.55E
Q3	0.65A	0.52E
Q4	0.60A	0.53E

## Adjusted net interest spread up 5bp to 3.08%

The adjusted net interest spread excluding the “catch-up” premium amortization increased to 3.08% vs. 3.03% last quarter. The average yield (excluding “catch-up” premium amortization and TBA securities) was 4.33%, +29bp QoQ. The weighted average repo rate increased to 5.48%, +11bp QoQ. The combined average cost of funds, including swaps and TBA benefits, was 1.39% vs 1.17% the prior quarter. TBA dollar roll income was \$7M (\$0.01/share) vs \$0M (\$0.00/share) in the prior quarter.

### Exhibit 1: AGNC TBV/share is currently ~\$8.83

Spreads & AGNC's TBV/share are inversely correlated

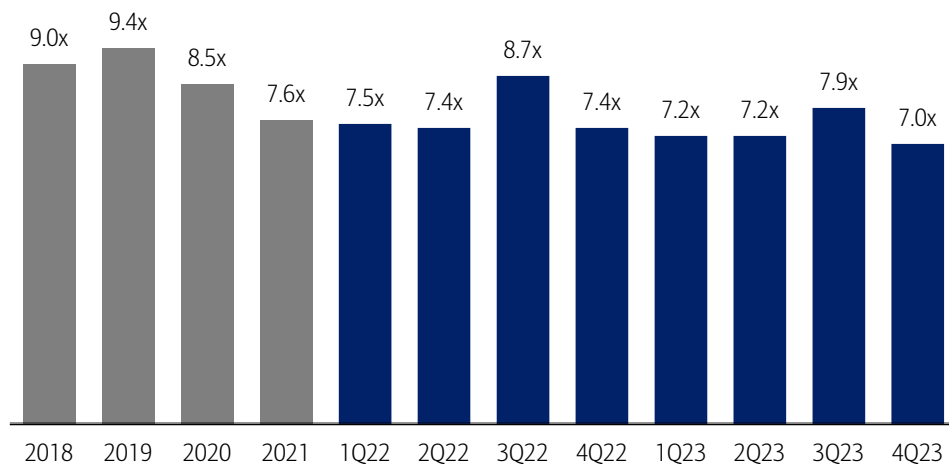


Source: Bloomberg, company reports, BofA Global Research

BofA GLOBAL RESEARCH

### Exhibit 2: AGNC leverage at historically low 7.0x; record levels of unencumbered liquidity at qtr-end

AGNC leverage, 2018-present



Source: Company reports, BofA Global Research

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## Price objective basis & risk

### AGNC Investment Corp (AGNC)

Our \$10 price objective is based on a roughly 1.1x TBV, above the estimated peer average of roughly 0.9x BVPS. AGNC's premium valuation is justified due to stronger economic returns, minimal credit risk, a better access to liquidity, in our view.

Upside / downside risks to achieving our price objective and EPS forecast are 1) changes in the absolute level of rates resulting in lower / higher funding costs and BV pressure, 2) a steepening / flattening of the yield curve causing investment spreads to increase / decline, 3) significant decreases / increases in MBS spreads causing BV pressure, 4) improving / deteriorating capital markets leading to lower / higher borrowing costs, 5) material decreases / increases in refinance activity causing higher / smaller interest spreads and 6) positive / adverse government intervention in the mortgage markets or GSEs. Execution risk, namely poor asset selection, could also negatively impact shares.

## Analyst Certification

I, Derek Hewett, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSIX	TSIX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala

## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala

**NEUTRAL**

	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett

**UNDERPERFORM**

	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Brandon Berman



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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# Disclosures

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### AGNC Investment (AGNC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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