

## Rocket Companies, Inc.

# Slowly turning the corner but valuation keeps us cautious

Reiterate Rating: UNDERPERFORM | PO: 7.00 USD | Price: 11.56 USD

## Reiterate Underperform; challenging valuation

We are reiterating an Underperform rating for mortgage originator Rocket Companies (RKT) following its 4Q print. 4Q Adj. Revenues and EPS of \$885M/\$0.00, were ahead of BofAe/cons at \$788M/(\$0.05) and \$768M/(\$0.05) on higher servicing income and better on gain on sale margins. RKT also continues to execute nicely on cost saving initiatives, which we view as a positive. That said, RKT shares are currently trading at 38x / 20x consensus '24/'25 EPS forecasts and 2.7x book value, which we view as high given the challenging mortgage market backdrop, cyclical, and uncertain earnings outlook.

## Key metrics – variance table on page 3

**Adj. revenue (+):** of \$885M was above our \$788M estimate and consensus at \$768M due to higher gain on sale margins and core servicing income.

**Originations (+):** Closed loan volumes were \$17.3B above BofAe at \$16.9B but relatively in line with cons. Rate lock volumes were \$16.1B, below BofAe at \$16.9B.

**Gain on sale (GoS) margins (+):** Rate lock margin at 2.68%, down 8bps q/q and but above consensus at 2.50% and BofAe at 2.54%. RKT noted that GoS margins are improving and 1Q should be above '23 peak (2.76%).

**Operating expenses (+):** Total OpEx was \$937M, slightly below BofAe/cons at \$960M/\$959M. Expenses came-in in at the better end of the \$50-\$100M expense reduction guide.

## More optimistic about the outlook heading into '24

We thought RKT struck a positive tone on the call and highlighted that with capacity coming out of the market, margins should be better. RKT also touted industry forecasts that call for the origination market to be 30%+ larger than '23. RKT believes it can handle meaningfully higher volumes, while keeping fixed-costs flat. Management touted its artificial intelligence (AI) capabilities and provided some examples of how it is leveraging AI to drive productivity in underwriting and servicing. These are positives that should drive higher earnings in '24. We increase '24e EPS forecast to \$0.37 from \$0.32 prior. We also increase our PO to \$7.00 (\$6.00 prior) based on an unchanged 19x PE multiple to '24e EPS. Given inherent volatility in margins and earnings for originators, we view current valuation 30x BofAe and 38x consensus as too high. Underperform.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.08	(0.23)	0.37	0.45	0.56
GAAP EPS	0.29	(0.15)	0.39	0.46	0.58
EPS Change (YoY)	-96.4%	NM	NM	21.6%	24.4%
Consensus EPS (Bloomberg)			0.30	0.58	0.90
DPS	1.01	0	0	0	0
Valuation (Dec)					
P/E	144.5x	NM	31.2x	25.7x	20.6x
GAAP P/E	39.9x	NM	29.6x	25.1x	19.9x
Dividend Yield	8.7%	0%	0%	0%	0%

25 February 2024

## Equity

### Key Changes

(US\$)	Previous	Current
Price Obj.	6.00	7.00

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## Stock Data

Price	11.56 USD
Price Objective	7.00 USD
Date Established	25-Feb-2024
Investment Opinion	C-3-9
52-Week Range	7.17 USD -15.19 USD
Mrkt Val / Shares Out (mn)	22,792 USD / 1,971.6
Free Float	92.7%
Average Daily Value	26.91 USD
BofA Ticker / Exchange	RKT / NYS
Bloomberg / Reuters	RKT US / RKT.N
ROE (2024E)	0%
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"](#).

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 25 February 2024 06:32PM EST

# iQprofile<sup>SM</sup> Rocket Companies, Inc.

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	184	153	192	222	257
% change	9.0%	-16.7%	25.2%	15.5%	15.8%
Net Fee Income	1,644	701	837	661	579
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	5,838	3,799	5,230	5,561	6,055
Operating Expenses	(5,097)	(4,202)	(4,468)	(4,607)	(4,773)
% change	-24.8%	-17.5%	6.3%	3.1%	3.6%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	742	(403)	762	955	1,282
Operating Net Income to Comm S/Hold.	46	(16)	31	39	52
GAAP Net Income	46	(16)	31	39	52

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	20,082	19,232	23,814	24,801	27,412
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	NA	NA	NA	NA	NA
Common Shareholders' Equity	8,476	8,302	9,049	9,986	11,243

## Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	5.7%	3.2%	1.9%	1.9%	1.9%
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	NA	NA	NA	NA	NA
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	4,289.7%	NA	0%	0%	0%
Efficiency Ratio (Cost / Income Ratio)	87.3%	110.6%	85.4%	82.8%	78.8%
Billings Growth	NA	NA	NA	NA	NA
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	NA	NA	NA	NA	NA

## Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	96.8%	96.0%	96.3%	96.0%	95.8%
Loan Loss Reserves / Total Loans	NA	NA	NA	NA	NA

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

Rocket Companies is the largest mortgage originator in the US. Rocket was established in 1985 and has grown its market share from 1.3% in 2009 to 8% in 2020. Rocket is a tech-enabled mortgage originator that operates via centralized model.

## Investment Rationale

We have an Underperform rating on RKT. While RKT is a high-quality mortgage originator, competition in mortgage origination is fierce and earnings volatile. The interest rate picture is improving but rates remain high by historical standards. Valuation is also a premium to other originators.

## Stock Data

Average Daily Volume

2,328,135

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.06A	0.02E
Q2	-0.02A	0.08E
Q3	0A	0.12E
Q4	0A	0.15E

**Exhibit 1: Better gain on sale margins and core servicing income drove a top and bottom-line beat in 4Q**

## 4Q23 Variance table

	4Q22	3Q23	4Q23	4Q23A	Var	QoQ	YoY	Consensus	QoQ	YoY
Adjusted EPS	(\$0.10)	\$0.00	(\$0.05)	(\$0.00)	\$0.04	-207%	4%	(\$0.05)	-1513.9%	-50.1%
Revenues										
Interest income, net	49.3	37.9	36.2	41.2	0.00	8.5%	-16.5%	33.1	-12.8%	-32.8%
Gain on Sale on Loans, net	280.8	572.1	428.7	430.1	0.00	-24.8%	53.2%	398.3	-30.4%	41.9%
Servicing income, net	(36.5)	356.8	117.2	(10.1)	(0.05)	-102.8%	-72.3%	148.9	-58.3%	-508.0%
Other Income	187.2	236.3	205.9	232.6	0.01	-1.6%	24.2%	191.2	-19.1%	2.1%
Total Revenue, net	480.8	1,203.2	788.0	693.8	(0.04)	-42.3%	44.3%	767.4	-36.2%	59.6%
Adj. Revenue	682.8	1,002.2	788.0	884.8	0.04			768.0	-23.4%	12.5%
Expenses										
Salaries, Commissions and Team Member Benefits	519.0	589.6	503.5	484.8	0.01	-17.8%	-6.6%	509.4	-13.6%	-1.9%
General and Administrative Expenses	196.3	199.4	192.4	207.7	(0.01)	4.1%	5.8%	182.5	-8.5%	-7.0%
Marketing and Advertising Expenses	175.4	193.4	168.4	142.8	0.01	-26.2%	-18.6%	171.6	-11.3%	-2.2%
Depreciation and Amortization	24.0	27.6	27.6	26.6	0.00	-3.8%	10.9%	26.4	-4.5%	10.1%
Interest and Amortization Expense on Non-Funding Debt	38.3	38.4	37.9	38.4	(0.00)	0.0%	0.1%	38.3	-0.1%	-0.1%
Other Expenses	33.1	37.2	29.8	36.5	(0.00)	-1.8%	10.2%	32.4	-12.8%	-2.1%
Business Combination Impact	0.0	0.0	0.0	0.0	0.00	NA	NA	0.0	NA	NA
Total Expenses	986.2	1,085.5	959.6	936.7	0.01	-13.7%	-5.0%	958.9	-11.7%	-2.8%
Income Before Income Taxes	(505.4)	117.6	(171.6)	(242.9)	-0.03	-306.5%	-51.9%	(215.3)	-283.0%	-57.4%
(Provision) Benefit for State and Local Income Taxes	12.8	(2.7)	3.3	10.2		-481.0%	-20.0%	20.9	-879.9%	63.8%
Net Income	(492.7)	114.9	(168.3)	(232.7)	(0.03)	-302.4%	-52.8%	(238.9)	-307.8%	-51.5%
Adjusted Net Income	(197.3)	7.0	(91.3)	(7.5)	0.04	-206.6%	-96.2%	(104.7)	-1592.3%	-46.9%
Key Metrics										
Funded Origination Volume	19,030	22,191	16,878	17,261		-22.2%	-9.3%	17,303	-22.0%	-9.1%
Rate Lock Volume	15,012	20,815	16,878	16,055		-22.9%	6.9%	15,892	-23.7%	5.9%
DTC Originations	10,662	11,947	9,283	9,494		-20.5%	-11.0%	9,300	-22.2%	-12.8%
Partner Originations	8,368	10,244	7,595	7,767		-24.2%	-7.2%	7,998	-21.9%	-4.4%
GoS Margin	1.48%	2.76%	2.54%	2.68%		-2.9%	81.6%	2.50%	-9.4%	69.4%
Market Share	4.50%	5.26%	4.30%	4.40%		-16.4%	-2.2%	4.54%	-13.7%	1.0%

Source: BofA Global Research estimates, Visible Alpha, company reports

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## Price objective basis & risk

### Rocket Companies, Inc. (RKT)

Our \$7 PO is based on a 19x PE multiple to our 2024 EPS forecast. A 19x PE multiple is in-line with mortgage comps currently trading at 19x, which we think is warranted by RKT's superior technology and brand, somewhat offset by a smaller refinance market.

Downside risks to our PO are: 1) lower-than-forecast origination volumes or gain-on-sale margins, 2) macroeconomic risk from a weaker-than-expected recovery or a downturn in the housing market, 3) regulatory changes, 4) execution risk, and 5) complex ownership structure and limited float.

Upside risks to our PO are: higher-than-forecast mortgage origination volumes or gain-on-sale margins, a stronger-than-expected housing market backdrop, and faster market share gains than expected. There is also risk RKT utilizes its strong balance sheet for M&A, dividends, and buybacks, which could improve sentiment and valuation for the shares.

## Analyst Certification

I, Mihir Bhatia, 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.

### US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia

**US - Payments, Processors, Specialty Finance and IT services Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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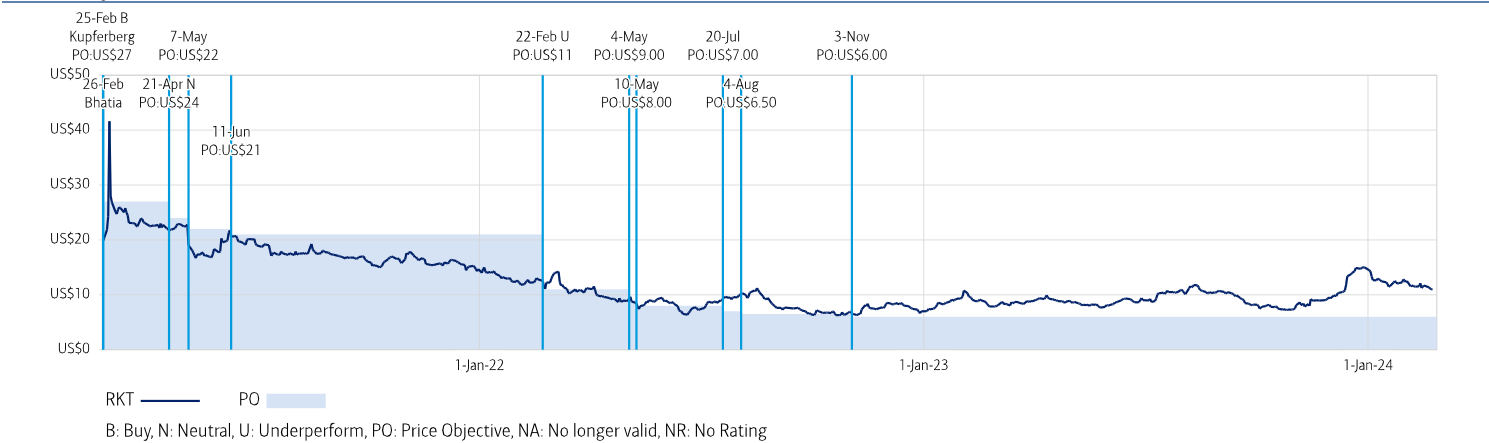
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# Disclosures

## Important Disclosures

Rocket Companies (RKT) Price Chart



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%

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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%

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