

## Safehold, Inc

## Navigating the challenging CRE market

Reiterate Rating: BUY | PO: 24.00 USD | Price: 19.61 USD

## Penny beat; challenging CRE environment

Safehold (SAFE) reported Q4 adjusted EPS of \$0.36, a penny above Consensus expectations but in line with the BofA forecast. GAAP EPS was \$0.52 due to a 1x hedging gain of \$15.2M. Despite the earnings beat, CRE transaction volume remains weak given the significant rise in short term rates last year and expectations of a “higher-for-longer” rate environment in the near term. That said, we think SAFE is well positioned to scale the business over time and that ground leases represent an attractive opportunity given the long-term nature of the cash flows plus capital appreciation. Maintain Buy.

## Portfolio stable at \$6.4B; originations limited

The portfolio (gross book value) was \$6.4B at Q4, unchanged QoQ, and +3% YoY. The market remains challenging as Q4 originations were only \$56M (3 multifamily ground leases; 7.4% economic yield). Fundings totaled \$122M (\$46M of new leases, \$68M of prior commitments, and \$8M leasehold fund). Originations should pick-up in 2H24.

## Effective spread stable at 138bp; inflation spread 190bp

SAFE's portfolio effective spread (which assumes 0% inflation) was 138bp, effectively flat QoQ (136bp in Q3). The cash spread was also mostly stable QoQ at 18bp (16bp in Q3). However, the inflation adjusted spread (which uses the Fed's long-term inflation assumption of 2.34%) is about 190bp, which should help earnings over time. As a reminder, ~95% of SAFE's portfolio has some form of inflation upside capture (CPI lookback) which typically begin in year 11 and are capped at 3.0%-3.5%/year.

## Unrealized Capital Appreciation -2% to \$9.8B

Portfolio UCA declined 2% to \$9.8B (\$10.0B in Q3). UCA is calculated as today's estimated combined property value less the total cost basis of SAFE's portfolio. Caret Units track the UCA value, and we think investors currently ascribe very minimal value to them. There are 10M Caret Units, and ownership as of 4Q23 was: 1) 82% SAFE shareholders; 2) 15% management (subject to vesting); 3) 3% other investors.

## Modestly adjusting estimates, PO trimmed to \$24

Following the print, we trim our PO to \$24 (was \$25). Modestly adjusting our 24/25 adjusted EPS forecast to \$1.53/\$1.68 from \$1.54/\$1.61. Introducing our 2026 adjusted EPS forecast of \$1.87.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.17	(0.82)	1.53	1.68	1.87
EPS Change (YoY)	60.7%	NM	NM	9.8%	11.3%
Consensus EPS (Bloomberg)			1.51	1.63	1.85
DPS	0.70	0.71	0.72	0.72	0.72
Valuation (Dec)					
P/E	9.0x	NM	12.8x	11.7x	10.5x
Dividend Yield	3.6%	3.6%	3.7%	3.7%	3.7%

14 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	25.00	24.00

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## Stock Data

Price	19.61 USD
Price Objective	24.00 USD
Date Established	14-Feb-2024
Investment Opinion	C-1-7
52-Week Range	15.00 USD -32.69 USD
Mrkt Val / Shares Out (mn)	1,394 USD / 71.1
Free Float	76.4%
Average Daily Value	6.45 USD
BofA Ticker / Exchange	SAFE / NYS
Bloomberg / Reuters	SAFE US / SAFE.N
ROE (2024E)	4.7%
ESGMeter™	Medium

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Timestamp: 14 February 2024 07:29AM EST

# iQprofile<sup>SM</sup> Safehold, Inc

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	141	172	166	186	211
% change	31.7%	21.4%	-3.0%	11.6%	13.8%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	141	172	166	186	211
Operating Expenses	(62)	(249)	(83)	(79)	(79)
% change	47.0%	304.9%	-66.9%	-4.2%	0%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	145	(53)	113	136	161
Operating Net Income to Comm S/Hold.	145	(55)	113	136	161
GAAP Net Income	135	(55)	113	136	161

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	5,851	6,548	6,898	7,898	8,998
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	3,107	3,255	3,611	4,617	5,717
% change	28.8%	4.8%	10.9%	27.9%	23.8%
Total Customer Deposits	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	2,165	2,296	2,513	2,687	2,951

## 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	0%	0%	0%	0%	0%
ROA	2.5%	-0.9%	1.7%	1.8%	1.9%
ROE	6.7%	-2.4%	4.7%	5.2%	5.7%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	30.2%	NA	47.0%	42.9%	38.4%
Efficiency Ratio (Cost / Income Ratio)	43.5%	145.2%	49.6%	42.5%	37.4%

## Quality of Earnings (Dec)

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

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

SAFE is an internally managed REIT that originates and acquires ground leases in order to generate attractive long-term risk-adjusted returns. The company is the first publicly traded REIT focused solely on ground leases. SAFE is externally managed by an affiliate of iStar (STAR) and is SAFE's largest shareholder.

## Investment Rationale

SAFE is the only publicly traded REIT focused solely on ground leases. We believe ground leases are attractive on a risk-adjusted basis, as the long-term cash flow from the land offers superior principal safety and the potential for capital appreciation. And given the size of the commercial real estate market in the top 30 US markets (over \$7 trillion), we think SAFE is uniquely positioned to institutionalize and scale the ground lease business over time.

## Stock Data

Average Daily Volume 329,034

## Quarterly Earnings Estimates

	2023	2024
Q1	0.07A	0.38E
Q2	0.35A	0.38E
Q3	-1.81A	0.38E
Q4	0.58A	0.39E

## Funding

In October, Moody's upgraded SAFE's credit rating to A3; stable outlook (previously Baa1). SAFE believes this will improve funding costs and access to capital over time. The weighted average debt maturity is 22.2 years and there are no corporate maturities until 2026 (SAFE's corporate revolving facility).



## Price objective basis & risk

### Safehold, Inc (SAFE)

Our PO of \$24 is based on DCF analysis. We assume moderate GNL portfolio growth relative to the existing \$6.4B portfolio, and we assume asset yields and funding costs are higher. We assume some operating expense. In general, once a ground lease is entered into, the owner of the ground lease has almost no day-to-day activities other than collecting rent payments, making GNLs one of the more passive real estate strategies. We assume a discount rate of roughly 6%.

Risks to our achieving our price objective are that 1) slower-than-expected origination volumes could create capital drag and reduce earnings, 2) tighter assets spreads could reduce returns on incremental investments, 3) failure to access capital at reasonable prices could limit portfolio growth and impact earnings, 4) materially higher interest rates could reduce the value to the current portfolio to underperform.

## 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
	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	TS LX	TS LX 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
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala

## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>NEUTRAL</b>				
	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
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Palmer Square Capital BDC	PSBD	PSBD 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
<b>UNDERPERFORM</b>				
	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

### 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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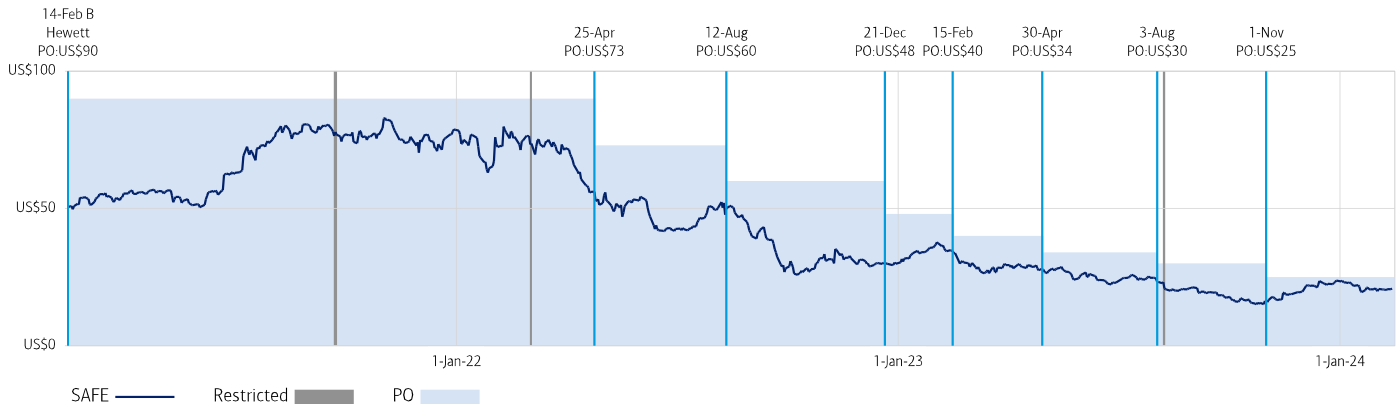
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### Safehold, Inc (SAFE) Price Chart



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### 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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