

PennyMac Mortgage Investment Trust

BVPS up ~0.8%; run-rate earnings lower but investment outlook improving

Reiterate Rating: NEUTRAL | PO: 14.00 USD | Price: 13.96 USD

In line quarter excluding market driven valuation changes

PennyMac Mortgage (PMT) reported 4Q GAAP EPS of \$0.44, above BofA/Street expectations of \$0.34. That said, excluding market-driven valuation changes of \$0.11/share, earnings were largely in line with BofA/Street expectations. BVPS increased ~0.8% Q/Q to \$16.13 (BVPS is stable QTD). While the current earnings run-rate was lower, PMT was optimistic about the investment outlook as short-term rates decline. We think risk/reward is balanced at the current valuation. Reiterate Neutral.

Run-rate quarterly EPS outlook down 11% to \$0.31

PMT reduced the quarterly run-rate EPS guide to \$0.31 (\$0.35 in 3Q), which represents a 7.9% annualized ROE (vs 9.1% at 3Q). The lowered guide was primarily due to tighter credit spreads for CRTs in the credit segment and a re-inversion of the yield curve impacting the interest sensitive segment. The EPS run rate remains below the \$0.40 quarterly dividend, but management stated they don't think a change in the dividend is warranted at this time given their view of the path of future earnings.

Another solid quarter from Credit sensitive strategy

The credit sensitive strategy added pretax income of \$61M (\$41M at 3Q), generating a robust 52% annualized ROE. Excluding market-driven value changes, pretax income was \$19M (\$17M at 3Q). Market-driven valuation changes of \$42 (\$24M at 3Q) were due to spread tightening.

Yield curve move drive interest rate strategy weakness

The interest rate sensitive strategy posted a pretax loss of \$17M (\$82M pretax gain in 3Q). Agency MBS provided \$189M of income due to lower rates, but was more than offset by weaker MSR values (down \$116M) and interest rate hedges (down \$94M). Excluding market-driven value changes, the segment generated \$34M in the quarter.

Stronger mortgage banking volumes & income

Correspondent production increased q/q to \$23.6B (\$21.5B at 3Q) despite a seasonally weaker quarter. Conventional production was \$2.5B (\$2.8B at 3Q). The segment contributed pretax income of \$11.3M vs \$8.8M in the prior quarter.

Reducing estimates, PO to \$14

We are reducing our '24/'25 estimates to \$1.29/\$1.38 from \$1.48/\$1.59 due to the lower guidance and introduce 2026 estimates of \$1.43. We reduce our PO to \$14 based on an unchanged ~0.9x multiple (\$14.50 prior).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(1.25)	1.68	1.29	1.38	1.43
EPS Change (YoY)	NM	NM	-23.2%	7.0%	3.6%
Consensus EPS (Bloomberg)			0.98	1.45	NA
DPS	1.81	1.60	1.50	1.40	1.40
Valuation (Dec)					
P/E	NM	8.3x	10.8x	10.1x	9.8x
Dividend Yield	13.0%	11.5%	10.7%	10.0%	10.0%

02 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	14.50	14.00
2024E DPS	1.60	1.50

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Stock Data

Price	13.96 USD
Price Objective	14.00 USD
Date Established	2-Feb-2024
Investment Opinion	B-2-8
52-Week Range	10.52 USD -15.89 USD
Mrkt Val / Shares Out (mn)	1,211 USD / 86.8
Free Float	95.0%
Average Daily Value	7.39 USD
BofA Ticker / Exchange	PMT / NYS
Bloomberg / Reuters	PMT US / PMT.N
ROE (2024E)	10.3%
ESGMeter™	Medium

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Timestamp: 02 February 2024 04:59PM EST

iQprofileSM PennyMac Mortgage Investment Trust

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	(27)	(96)	(73)	(57)	(68)
% change	-75.7%	260.8%	-24.5%	-21.8%	20.2%
Net Fee Income	305	485	432	448	467
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	304	429	409	437	444
Operating Expenses	(241)	(185)	(187)	(199)	(199)
% change	-35.9%	-23.3%	1.2%	6.7%	-0.2%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	63	244	222	237	245
Operating Net Income to Comm S/Hold.	(115)	147	112	120	124
GAAP Net Income	(74)	189	153	161	165

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	13,922	13,114	13,465	13,813	13,968
Average Interest Earning Assets	8,050	7,067	7,527	7,844	7,636
Total Gross Customer Loans	3,335	2,103	2,795	3,170	2,970
% change	-41.9%	-37.0%	32.9%	13.4%	-6.3%
Total Customer Deposits	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Tangible Equity	1,963	1,957	1,945	1,953	1,966
Common Shareholders' Equity	1,963	1,957	1,945	1,953	1,966

Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	-0.33%	-1.36%	-0.96%	-0.72%	-0.89%
Effective Tax Rate	216.2%	18.3%	28.0%	28.0%	28.0%
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	14.1%	14.9%	14.4%	14.1%	14.1%
ROA	NM	1.3%	1.1%	1.1%	1.1%
ROE	NM	12.6%	10.3%	11.0%	11.4%
RoTE	NM	9.0%	7.3%	7.9%	8.1%
Dividend Payout Ratio	NA	95.2%	116.3%	101.4%	97.9%
Efficiency Ratio (Cost / Income Ratio)	79.2%	43.0%	45.7%	45.7%	44.9%

Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	108.8%	122.4%	117.7%	113.0%	115.4%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	0%	0%	0%	0%	0%

Company Sector

Financial Services-Consumer/Commercial

Company Description

PennyMac is an externally managed REIT that primarily invests in residential mortgage loans and mortgage-related assets. A substantial portion of its investment portfolio is in distressed loans acquired at deep discounts to their unpaid principal balance. PMT is externally managed by PNMAC Capital Management, LLC, an indirect subsidiary of PennyMac Financial Services, Inc (PFSI).

Investment Rationale

PMT is positioned to capitalize on growth opportunities in the U.S. mortgage market, which should generate decent returns relative to many peers given the challenging macro backdrop

Stock Data

Average Daily Volume 529,582

Quarterly Earnings Estimates

	2023	2024
Q1	0A	0.31E
Q2	0.16A	0.32E
Q3	0.51A	0.33E
Q4	0.44A	0.34E

Price objective basis & risk

PennyMac Mortgage Investment Trust (PMT)

Our price objective of \$14 is based on an approximate 0.9x BV, above credit sensitive peers at 0.8x BV. We believe this premium multiple is justified due to its flexible liability structure and improving earnings visibility.

Downside risks to achieving our price objective and EPS forecast are: 1) changes in the absolute level of rates resulting in higher funding costs and BV pressure, 2) a flattening of the yield curve causing investment spreads to decline, 3) significant increases in MBS spreads causing BV pressure, 4) deteriorating capital markets leading to higher borrowing costs, 5) deterioration of credit fundamentals resulting in asset price declines and realized losses, 6) material increases in refinance activity causing smaller interest spreads, 7) potential dilution from additional capital issuance, and 8) adverse government intervention in the mortgage markets or GSEs. Execution risk, namely poor asset selection, could also negatively impact shares.

Upside risks are 1) higher leverage 2) improving funding costs, or 3) a combination of both.

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
BUY				
	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



North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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	TSLX	TSLX 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

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

iQmethodSM 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

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

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

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

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + 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

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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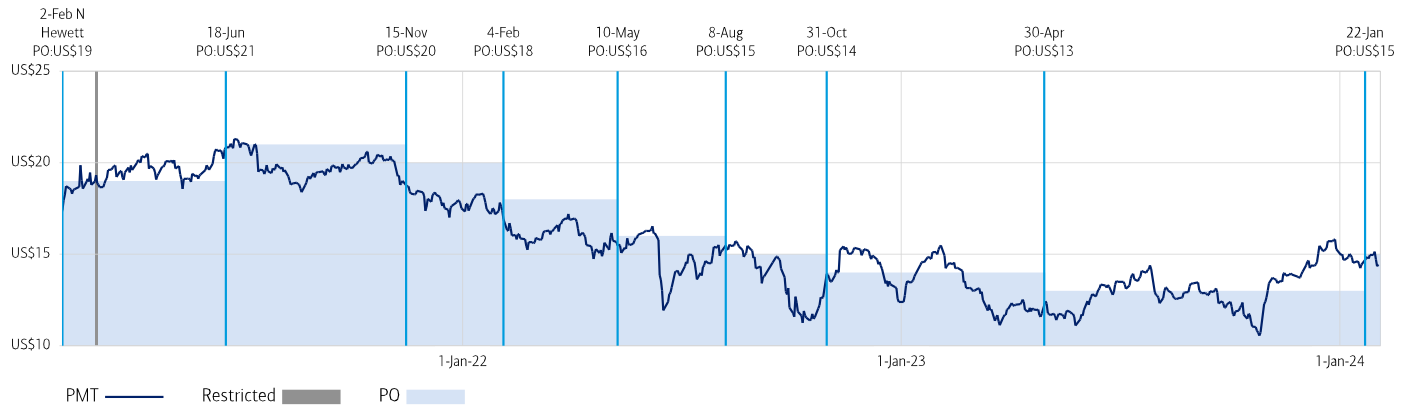
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PennyMac Mortgage (PMT) Price Chart



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 ^{R1}	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 ^{R1}	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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