

Blackstone Mortgage Trust Inc

4Q decent as CRE questions persist

Maintain Rating: BUY | PO: 22.00 USD | Price: 19.85 USD

Decent Q4, 2024 commentary cautiously optimistic

Blackstone Mortgage Trust (BXMT) reported a modestly upbeat 4Q, with distributable earnings (DE) above Street ests and credit issues largely fenced by CECL reserves and upcoming resolutions. Positively, management commentary on 2024 came through as cautiously optimistic, specifically noting that while credit issues will take time to work through the system, CRE momentum has shifted with benchmark CRE borrowing costs down and pipelines rebounding. Commercial real estate faces strong headwinds in 2024, but we think BXMT is better positioned than most to navigate through the environment due to its best-in-class platform, strong asset management, and significant liquidity.

DE stable, higher CECL weighs on GAAP EPS

BXMT reported 4Q Distributable EPS of \$0.69, above Consensus expectations of \$0.62. That said, DE was roughly in-line with the BofA estimate of \$0.70. BXMT estimates that there was a \$0.10/share to \$0.15/share drag to Q4 distributable earnings during Q4 due to non-accruals and excess liquidity, which could provide earnings tailwinds over time. GAAP EPS was \$(0.01) due to rising CECL reserves, which grew \$115M in 4Q and increased \$250M total in 2023 to \$592M at quarter-end. The Q4 dividend was \$0.62/share (dividend coverage was 111% in Q4 and 123% in 2023). Importantly, BXMT noted that the \$0.62/share quarterly dividend (consistent for 34 consecutive quarters) is based on the longer-term earning outlook, not short-term changes in DE that are temporary, suggesting near-term dividend stability, in our view.

Credit still challenging, but some resolutions coming in 1Q

Portfolio credit was slightly worse q/q, but BXMT expects to resolve 4 loans currently on cost recovery in 1Q which will lead to \$70M-\$80M of realized losses in 1H24. Positively, BXMT anticipates only a minimal impact to GAAP EPS and book value due to their in-place CECL reserves. That said, impaired loans increased to \$1.9B as of 4Q23 (7.9% of net book value, 13 loans), up 35% q/q vs \$1.4B as of 3Q23 (5.9% of net book value, 10 loans). 11 loans were downgraded in 4Q, including 3 US office loans moved to cost recovery. The weighted avg risk-rating of the portfolio declined to 3.0x vs 2.9x at 3Q.

BVPS -2.9% due to reserve build, CECL now 2.4% of loans

BVPS declined 2.9% q/q to \$25.16, compared to \$25.90 the prior quarter resulting from weaker credit. CECL reserves at quarter-end were \$592M (includes ~\$15M for unfunded commitments) or \$3.41/share which represents 2.1% of total loans (includes unfunded commitments). The CECL reserve for funded commitments was \$577M or 2.4% of the total loan portfolio (net book value) vs \$463M or 2.0% at 3Q. Asset specific reserves cover 22% of risk-rated 5 loans (23% at 3Q).

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Equity

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Stock Data

Price	19.85 USD
Price Objective	22.00 USD
Date Established	25-Oct-2023
Investment Opinion	B-1-7
52-Week Range	16.61 USD -23.82 USD
Mrkt Val / Shares Out (mn)	3,427 USD / 172.6
Free Float	94.6%
Average Daily Value	50.37 USD
BofA Ticker / Exchange	BXMT / NYS
Bloomberg / Reuters	BXMT US / BXMT.N
ROE (2023E)	12.0%
ESGMeter™	Medium

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Portfolio about flat at \$22B, liquidity remains strong

Total portfolio as of 4Q23 was \$22.0B (net loan exposure), compared to \$22.1B at 3Q. In 4Q, repayments were \$0.6B (\$1.0B in 3Q) and in 2023 BXMT received \$3.8B of repayments, including \$1.0B of office. Available liquidity was marginally lower q/q at \$1.7B (\$1.8B at 3Q) but BXMT has no corporate maturities until 2026. Recourse leverage was slightly higher at 3.7x (3.6x in 3Q).

Price objective basis & risk

Blackstone Mortgage Trust Inc (BXMT)

Our \$22 price objective is based on about 0.9x our forward BVPS forecast. Peers are trading at roughly 0.8x BVPS. BXMT shares will likely continue to be valued at a premium to peers, based on its HQ earnings and its history of strong credit performance

Risks to our achieving our price objective are: 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) material weakening in real estate fundamentals could lead to underperformance in related assets and potentially lead to credit losses, and 5) material increases in interest rates could impair the value of underlying investments and BXMT's shares.

Analyst Certification

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Blackstone Mtg Trust (BXMT) Price Chart



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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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