

Guild Holdings Company

Beat the Street, we remain cautious on the sector

Reiterate Rating: UNDERPERFORM | PO: 12.50 USD | Price: 14.25 USD

Beat the Street, mortgage outlook still challenging

Guild Holdings (GHLD) reported Q4 Adj EPS of \$0.21, above the Consensus estimate of \$0.14. Adjusted EPS was mostly in line with the BofA EPS forecast of \$0.23. While there are early signs of stabilization for mortgage originators, we remain cautious on the sector due to a “higher for longer” rate environment, low housing inventory, and elevated competition, which should continue to weigh on production volume and margins. And given this challenging operating backdrop, earnings visibility will likely remain low for the foreseeable future, in our view. Reiterate Underperform.

Originations decline 17% QoQ

Total originations in Q4 were \$3.5B, down 17% compared to \$4.3B the prior quarter. According to Inside Mortgage Finance, industry volume was down 22% QoQ so GHLD gained market share. GHLD continues to benefit from its purchase volume focus, with 93% of volumes purchase (industry average was 81% according to the Mortgage Bankers Association estimate). January/February originations were \$2.2B (\$2.6B adjusted lock volume).

GoS margin remains under pressure

The Gain on Sale (GoS) margin in the quarter was 3.30%, compared to 3.77% last quarter. And given the challenging operating backdrop due to elevated competition and high rates, the margin should remain well below the LT average of ~4.00% since 2008. The GoS margin (pull-through adjusted locked volume) was 3.47% vs 3.89% at Q3.

During the quarter, GHLD repurchased 98k shares at an average price of \$11.69/share. At quarter-end, GHLD had \$11.2M remaining as part of its share repurchase program. TBV/share declined 9% to \$15.90 (from \$17.47) largely due to a non-cash MSR valuation adjustment of \$122M (pre-tax) reflecting lower rates in Q4.

Adjusting earnings forecast, increasing PO to \$12.50

Following the 4Q print, we adjust our EPS estimates for 2024/2025 to \$1.37/\$1.60 from \$1.34/\$1.57. Introducing our 2026 EPS estimate of \$2.36. We increase our PO to \$12.50 (\$10.50 prior) based on a ~8x multiple to our 2025E (vs 7x 2024E) EPS estimate, in line with smaller mortgage originators.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.14	0.78	1.37	1.60	2.36
GAAP EPS	5.35	(0.64)	1.14	1.37	2.13
EPS Change (YoY)	-73.1%	-31.6%	75.6%	16.8%	47.5%
Consensus EPS (Bloomberg)			1.37	1.65	NA
DPS	0	0.50	0	0	0
Valuation (Dec)					
P/E	12.5x	18.3x	10.4x	8.9x	6.0x
GAAP P/E	2.7x	NM	12.5x	10.4x	6.7x
Dividend Yield	0%	3.5%	0%	0%	0%

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13 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	10.50	12.50

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Stock Data

Price	14.25 USD
Price Objective	12.50 USD
Date Established	13-Mar-2024
Investment Opinion	C-3-9
52-Week Range	9.08 USD -15.06 USD
Mrkt Val / Shares Out (mn)	870 USD / 61.0
Free Float	49.6%
Average Daily Value	0.05 USD
BofA Ticker / Exchange	GHLD / NYS
Bloomberg / Reuters	GHLD US / GHLD.N
ROE (2024E)	6.9%
ESGMeter™	Medium

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MSR: mortgage servicing right

TBV: tangible book value

iQprofileSM Guild Holdings Company

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	19	38	37	28	(2)
% change	650.5%	101.2%	-2.8%	-25.3%	-106.7%
Net Fee Income	441	107	177	179	212
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	1,165	655	931	1,109	1,364
Operating Expenses	(745)	(701)	(838)	(998)	(1,190)
% change	-37.4%	-5.8%	19.5%	19.1%	19.3%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	420	(46)	93	112	173
Operating Net Income to Comm S/Hold.	329	(39)	69	84	130
GAAP Net Income	5	(39)	70	84	130

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	3,240	3,677	4,121	4,543	4,989
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	1,249	1,183	1,259	1,349	1,479

Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	21.8%	15.2%	25.0%	25.0%	25.0%
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	6.4%	4.0%	6.9%	7.5%	10.2%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	0%	NA	0%	0%	0%
Efficiency Ratio (Cost / Income Ratio)	63.9%	107.0%	90.1%	89.9%	87.3%

Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	98.4%	94.2%	96.0%	97.5%	100.1%
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

Guild Mortgage was founded in 1960 and it is an independent mortgage lender in the U.S. The Company is headquartered in San Diego, CA. They began originating and servicing mortgage loans focused primarily on the West Coast, but they now operate in 31 states. Guild is a retail originator primarily focused on purchase originations supported by locally based loan officers. Guild has grown its market share from 0.2% in 2010 to 1% in 2019.

Investment Rationale

We rate GHLD Underperform. The backdrop for mortgage originators has noticeably weakened given higher interest rates and elevated industry competition. While purchase volume (GHLD's primary focus) is expected to modestly improve, expectations are declining given weaker purchase application data and low inventory.

Stock Data

Average Daily Volume 3,614

Quarterly Earnings Estimates

	2023	2024
Q1	-0.04A	0.23E
Q2	0.15A	0.31E
Q3	0.48A	0.41E
Q4	0.21A	0.42E

Academy Mortgage acquisition

The acquisition of Academy Mortgage, a mortgage lender based in Utah, closed in February. Academy Mortgage represents about 25% of GHLD's origination volume. Notably, acquisition profitability has historically taken 4-6 months. However, in the current macro backdrop, acquisition profitability is expected to occur in ~12 months.

Price objective basis & risk

Guild Holdings Company (GHLI)

Our \$12.50 PO is based on a roughly 8x PE multiple to our 2025 EPS forecast, in line with small cap peers. We believe a this multiple is warranted when balancing potential upside with limited visibility into normalized volumes and margins, elevated execution risk, and increased competition in the purchase market.

Upside risks to our PO are higher-than-forecast origination volumes or gain-on-sale margins, a faster-than-expected recovery, declining rates, and market share gains.

Downside risks to our PO are a more hostile macroeconomic or interest rate backdrop, weaker than expected housing market conditions, execution, increased competition, and regulatory changes.

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				
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	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
	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
	Nuveen Churchill Direct Lending	NCDL	NCDL US	Derek Hewett
	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
	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

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Annaly Capital Management	NLY	NLY 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 Mortgage Trust Inc	BXMT	BXMT US	Eric Dray, CFA
	Blackstone Secured Lending Fund	BXSL	BXSL 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	Eric Dray, CFA
	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
	Starwood Property Trust	STWD	STWD US	Eric Dray, CFA
	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

UNDERPERFORM

	Apollo Commercial Real Estate Finance	ARI	ARI US	Eric Dray, CFA
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Eric Dray, CFA
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	BrightSpire Capital Inc.	BRSP	BRSP US	Eric Dray, CFA
	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
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Eric Dray, CFA
	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

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 & 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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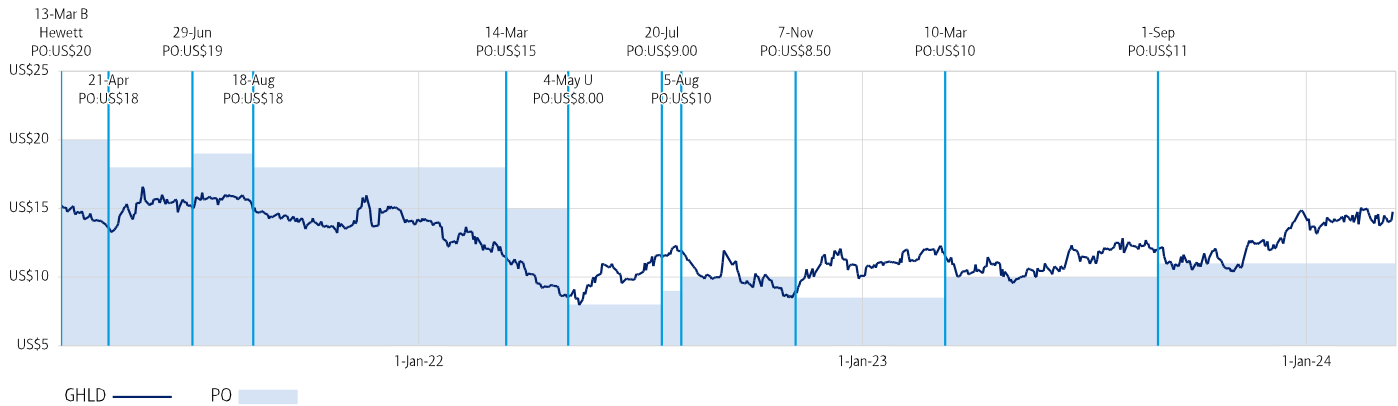
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Guild Holdings (GHL) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{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%

^{R1} 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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Underperform	N/A	≥ 20%

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