

loanDepot Inc

Making progress but macro headwinds persist

Reiterate Rating: UNDERPERFORM | PO: 1.90 USD | Price: 2.35 USD

Expense reduction continues, outlook still uncertain

loanDepot (LDI) reported Q4 adj EPS of \$(0.08), mostly in line with the BofA Consensus-like forecast of \$(0.07). Elevated rates have created revenue headwinds for mortgage originators (LDI revenues were down 22% y/y in 2023) and LDI has responded by taking aggressive cost cutting measures. In 2023, LDI reduced costs by 36% and announced additional cost cutting measures as part of its Vision 2025. We are encouraged by LDI's additional expense initiatives. That said, given high rates, low housing affordability, and elevated competition, earnings visibility is low, and profitability should remain weak for the foreseeable future, in our view. Maintain Underperform.

Vision 2025 progressing, more cost savings in '24

Implemented in July of 2022, the goal of Vision 2025 is to reduce costs, simplify the business model and improve profitability. Since the launch, LDI has reduced non-volume related expenses by 40% or \$666M/yr. And LDI expects an additional ~\$120M of expense benefits to occur on an annualized basis during 2024 principally from lower third-party spend, process efficiencies, and lower real-estate related costs.

Q4 volume lower, Q1 guide implies additional pressure

Funded originations in 4Q were \$5.4B, down 12% from \$6.1B the prior quarter. Industry originations in 4Q were down 22% QoQ according to Inside Mortgage Finance (IMF). Purchase volumes were 76% of the total (\$4.1B) vs 71% in 3Q. The \$1.3B of refinances were 94% (\$1.2B) cash out refinances. Total pull-through weighted lock volumes declined 22% QoQ to \$4.4B (\$5.7B in 3Q). The 1Q24 guidance for origination volume and rate-lock volume is \$3.5B-\$5.5B (17% QoQ decline at \$4.5B midpoint; Q1 volume guide was impacted by the January cybersecurity event).

GoS margin lower in Q4, rate-lock 1Q guided lower

Gain on sale (GoS) margin in Q4 was 2.43%, down from 2.74% in Q3. The pull through rate lock GoS margin was 2.96% compared to 2.93% in Q3. The rate-lock margin guide for 1Q24 was 2.70%-3.00%.

Tweak ests, introduce '26 & raise PO to \$1.90

Update our '24/'25 adjusted EPS ests to \$(0.02)/\$0.24 from \$0.03/\$0.20. We raise our PO to \$1.90 (\$1.65 prior) based on a ~8x multiple (prev. 9x) to '25E EPS, still in line with smaller cap peers. We introduce our 2026 estimates with adjusted EPS of \$0.28.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(1.43)	(0.44)	(0.02)	0.24	0.28
GAAP EPS	(1.75)	(0.34)	(0.05)	0.07	0.10
EPS Change (YoY)	NM	69.2%	95.5%	NM	16.7%
Consensus EPS (Bloomberg)			0.05	0.29	NA
DPS	0.16	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	9.8x	8.4x
GAAP P/E	NM	NM	NM	33.6x	23.5x
Dividend Yield	6.8%	0%	0%	0%	0%

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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13 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	1.65	1.90

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Stock Data

Price	2.35 USD
Price Objective	1.90 USD
Date Established	13-Mar-2024
Investment Opinion	C-3-9
52-Week Range	1.14 USD -3.71 USD
Mrkt Val / Shares Out (mn)	750 USD / 319.2
Free Float	74.4%
Average Daily Value	0.91 USD
BofA Ticker / Exchange	LDI / NYS
Bloomberg / Reuters	LDI US / LDI.N
ROE (2024E)	-0.9%
ESGMeter™	Medium

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iQprofileSM loanDepot Inc

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	49	8	9	11	12
% change	12.0%	-83.8%	16.4%	20.8%	6.3%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	1,256	974	1,161	1,314	1,383
Operating Expenses	(1,905)	(1,252)	(1,193)	(1,237)	(1,280)
% change	-37.7%	-34.3%	-4.8%	3.7%	3.5%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	(649)	(278)	(32)	78	104
Operating Net Income to Comm S/Hold.	(570)	(236)	(20)	59	79
GAAP Net Income	(509)	(175)	(2)	77	94

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	6,610	6,151	5,722	5,836	6,087
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	921	704	667	726	805

Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	12.3%	15.4%	36.5%	23.9%	23.9%
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	-35.8%	-17.5%	-0.9%	11.1%	11.8%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	NA	NA	NA	0%	0%
Efficiency Ratio (Cost / Income Ratio)	151.7%	128.6%	102.8%	94.1%	92.5%

Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	96.1%	99.2%	99.2%	99.1%	99.1%
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

Mortgage Finance

Company Description

Founded in 2010, loanDepot is the fifth largest non-bank originator of residential mortgages in the U.S. The company is headquartered in Foothill Ranch, California and operates nationally. LDI has leveraged its growing consumer brand, proprietary technology platform and data analytics to quickly scale its platform through its two interconnected strategies: Retail and Partner.

Investment Rationale

We rate LDI Underperform. The backdrop for mortgage originators has noticeably weakened given higher interest rates and elevated industry competition. While LDI has a differentiated offering, it is exposed to margin pressure from competitive forces and also has execution risk given aggressive growth plans.

Stock Data

Average Daily Volume 386,117

Quarterly Earnings Estimates

	2023	2024
Q1	-0.19A	-0.08E
Q2	-0.11A	-0.01E
Q3	-0.08A	0.04E
Q4	-0.08A	0.04E



Price objective basis & risk

loanDepot Inc (LDI)

Our \$1.90 PO is based on an approximate 8x PE multiple to our 2025 EPS forecast, in line with other smaller cap peers. We think that the multiple is justified given improving earnings, but with earnings visibility remaining low.

Upside risks to our PO are a stronger origination market, faster and stronger market share gains, better-than-expected margins, and LDI's dividend yield.

Downside risks to our PO are a more hostile macroeconomic or interest rate backdrop, weaker-than-expected housing market conditions, execution, increased competition that could pressure margins, volumes, and / or market share. Mortgage origination and servicing is also highly regulated, and a change in laws or a breach of servicing responsibilities could negatively impact fundamentals and the share price.

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

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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

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	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

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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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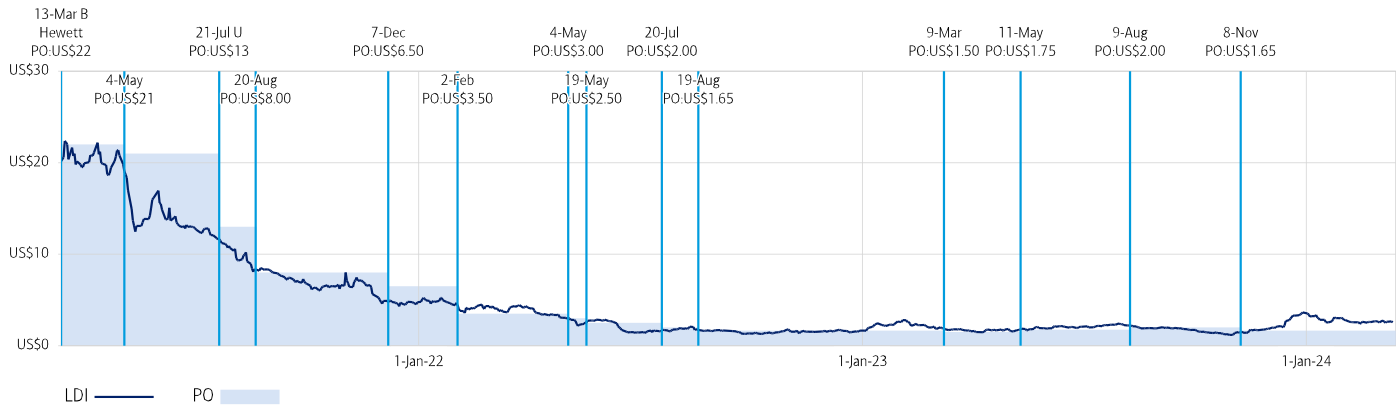
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Important Disclosures

loanDepot (LDI) 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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