

## Annaly Capital Management

## Good quarter; 10.1% economic return

Reiterate Rating: NEUTRAL | PO: 20.50 USD | Price: 19.08 USD

## Q4 beat; remaining defensive given evolving backdrop

Annaly Capital (NLY) reported Q4 core EPS of \$0.68, above consensus expectations of \$0.64. Relative to the BofA forecast of \$0.65, the variance was largely related to stronger spread income. While the investment outlook is attractive (low to mid-teens ROEs depending on the investment strategy), NLY remains defensive given the potential for addition market volatility as the operating backdrop evolves. Additionally, NLY noted that they will continue to allocate incremental capital towards its credit strategies, which should reduce the volatility related to the Agency portfolio. Still, we remain at Neutral due to rate uncertainty and the possibility of Agency MBS spread widening.

## BVPS + 6.5% to \$19.44; QTD BVPS ~\$19.83

BVPS increased to \$19.44 compared to \$18.25 last quarter due to tighter agency MBS spreads, partially offset by hedges; the BofA BVPS forecast was \$20.10. Positively, BVPS is up about 2% in January (~\$19.83). The Q4 economic return was +10.1% given the 6.5% rise in BV/share and the \$0.65/share Q4 dividend.

## Portfolio -2% to \$74B; leverage declines to 5.7x

The portfolio declined 2% q/q to \$74B (\$76B at Q3) driven by a decline in the Agency portfolio to \$66B (\$69B at Q3). Agency assets represent 88% of total assets (90% last qtr). Prepayment speeds declined to 6.3% from 7.3% last qtr. Despite higher BVPS, leverage declined to 5.7x (6.4x at last qtr) given the decline in the Agency portfolio. Unencumbered assets totaled \$3.8B vs. \$4.7B last qtr. Capital allocation was: 1) Agency, 62% (64% at Q3); 2) Residential Credit, 20% (17% at Q3); and 3) MSRs, 18% (19% at Q3).

## Spread modestly higher to 1.22%

Net interest spread, excluding the premium amortization adjustment (PAA) improved 4bp q/q to 1.22% (1.18% at Q3). Asset yields increased 18bp to 4.64% as NLY continued to focus on moving up the coupon stack. However, funding costs increased 14bp to 3.42%. The portfolio hedge ratio increased to 106% (115% at Q3).

We adjust our estimates for 24/25 core EPS to \$2.63/\$2.61 from \$2.65/\$2.68. We introduce our 2026 EPS forecast of \$2.61.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.23	2.86	2.63	2.61	2.61
GAAP EPS	3.93	(3.61)	2.64	2.61	2.63
EPS Change (YoY)	-9.0%	-32.4%	-8.0%	-0.8%	0%
Consensus EPS (Bloomberg)			2.70	2.71	NA
DPS	3.52	2.60	2.60	2.60	2.60
Valuation (Dec)					
P/E	4.5x	6.7x	7.3x	7.3x	7.3x
GAAP P/E	4.9x	NM	7.2x	7.3x	7.3x
Dividend Yield	18.4%	13.6%	13.6%	13.6%	13.6%

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## Equity

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## Stock Data

Price	19.08 USD
Price Objective	20.50 USD
Date Established	22-Jan-2024
Investment Opinion	B-2-8
52-Week Range	14.52 USD -21.95 USD
Mrkt Val / Shares Out (mn)	9,441 USD / 494.8
Free Float	99.6%
Average Daily Value	74.74 USD
BofA Ticker / Exchange	NLY / NYS
Bloomberg / Reuters	NLY US / NLY.N
ROE (2024E)	0%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

MSR – mortgage servicing right

# iQprofile<sup>SM</sup> Annaly Capital Management

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	1,469	(111)	39	44	51
% change	-15.3%	-107.6%	-134.9%	13.9%	15.6%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	466	(1,325)	1,563	1,552	1,554
Total Operating Income	1,935	(1,436)	1,601	1,596	1,605
Operating Expenses	(163)	(163)	(176)	(182)	(182)
% change	-13.4%	-0.1%	8.1%	3.4%	0.1%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	1,772	(1,599)	1,426	1,415	1,423
Operating Net Income to Comm S/Hold.	1,615	(1,785)	1,318	1,307	1,316
GAAP Net Income	1,725	(1,643)	1,426	1,415	1,423

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	81,851	93,227	91,330	91,699	91,747
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	11,270	11,256	11,273	11,279	11,286

## Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	2.6%	NM	NM	NM	NM
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	2.2%	1.6%	1.4%	1.4%	1.4%
ROE	NA	NA	NA	NA	NA
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	89.6%	NA	98.6%	99.5%	98.8%
Efficiency Ratio (Cost / Income Ratio)	11.1%	-145.9%	452.7%	411.0%	355.6%

## Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	24.1%	92.2%	97.6%	97.2%	96.8%
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

Annaly Capital Management, a REIT, purchases residential mortgages in the form of AAA-rated mortgage-backed securities (MBS). As a REIT, NLY pays out substantially all of its qualified investment earnings to shareholders as dividends. Dividends tend to be strongest during steep yield-curve environments, but can come under pressure as the yield curve flattens.

## Investment Rationale

NLY should produce a low double digit total return for investors over the next 12 months, as its dividend yield supports the share price. BVPS should remain under moderate pressure in the near term.

## Stock Data

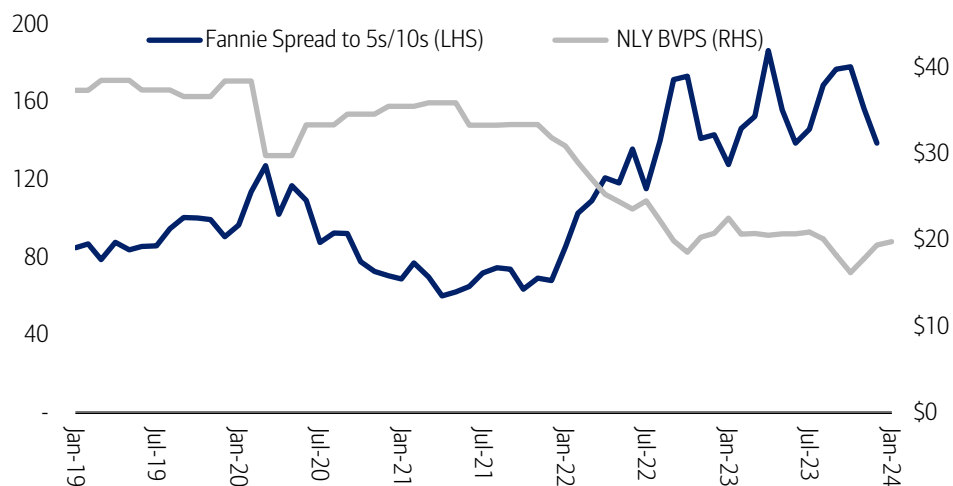
Average Daily Volume 3,917,397

## Quarterly Earnings Estimates

	2023	2024
Q1	0.81A	0.65E
Q2	0.72A	0.65E
Q3	0.66A	0.67E
Q4	0.68A	0.67E

**Exhibit 1: BVPS is inversely correlated to spreads**

NLY BVPS vs Spreads, 2019-present

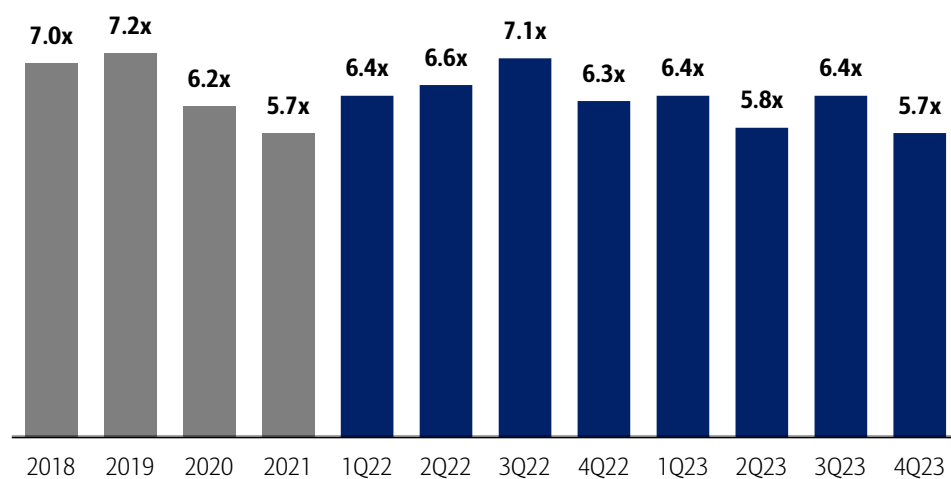


Source: Bloomberg, BofA Global Research

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**Exhibit 2: NLY decreased leverage in 4Q23**

NLY leverage, 2018-present



Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Annaly Capital Management (NLY)

Our \$20.50 price objective is based on roughly 1.0x book value (BV), and above the estimated residential mortgage real estate investment trust (mREIT) peer average of about 0.9x. NLY's premium valuation is justified due to stronger economic returns, minimal credit risk, and better access to liquidity.

Upside / downside risks to achieving our price objective are 1) changes in the absolute level of rates resulting in lower / higher funding costs and BV pressure, 2) a steepening / flattening of the yield curve causing investment spreads to increase / decline, 3) significant decreases / increases in MBS spreads causing BV pressure, 4) improving / deteriorating capital markets leading to lower / higher borrowing costs, 5) material decreases / increases in refinance activity causing higher / smaller interest spreads and 6) positive / adverse government intervention in the mortgage markets or government-sponsored enterprises (GSEs). Execution risk, namely poor asset selection, could also negatively impact shares.

## 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	TSIX	TSIX 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

## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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

## 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



## 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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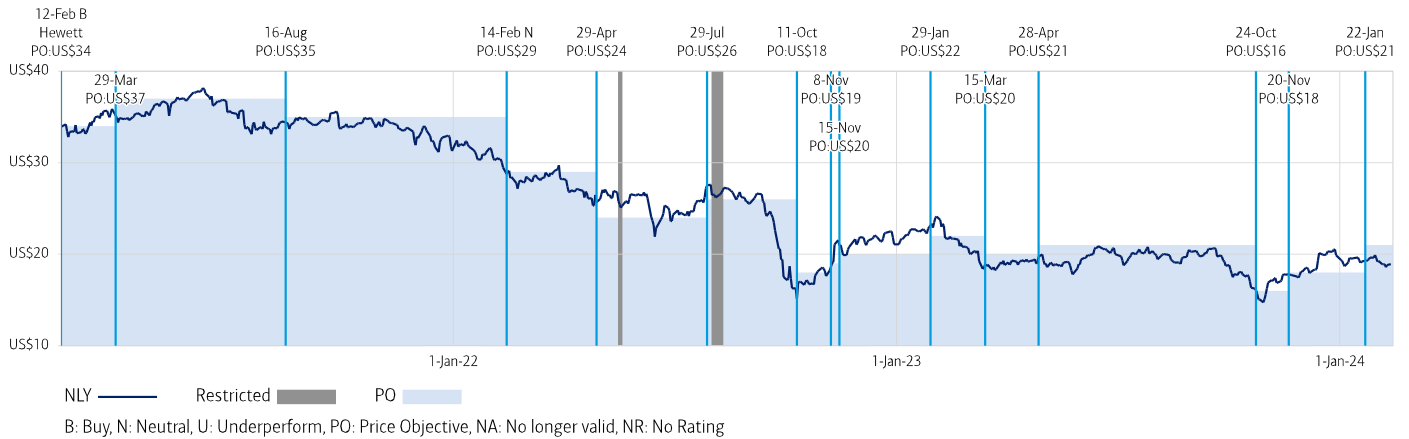
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### Annaly Capital (NLY) Price Chart



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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%

<sup>R1</sup> 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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