

Ladder Capital Corp

Updating estimates post 4Q

Reiterate Rating: NEUTRAL | PO: 11.00 USD | Price: 11.05 USD

Outperformed peers in 2023

Ladder Capital (LADR) has outperformed peers over the past year, which we attribute, in part, to LADR's more diversified, defensive portfolio and solid balance sheet. In 2023, LADR grew undepreciated book value 1% y/y and distributable earnings 13% y/y. And to date, portfolio credit has been solid with limited non-accruals (0.5% of portfolio at year-end). We think LADR's defensive portfolio and ample liquidity provide them with an advantage in this tough macro; that said, broad CRE headwinds make us cautious on CRE mREITs. Reiterate Neutral.

Diversified portfolio & ample liquidity heading into '24

LADR has a more diversified portfolio than most peers and has done a good job of maintaining ample liquidity. As of 12/31, LADR had \$5.6B of investment assets and unrestricted cash made up of: a \$3.1B investment portfolio (56% of total), a \$0.9B net lease equity portfolio (17%), \$0.5B of CRE securities (9%), and unrestricted cash of \$1.0B (18%). Adjusted leverage at year-end was 1.6x and total leverage was 2.5x (peer avg of ~2.8x), adding flexibility for LADR to invest as opportunities arise. At year-end, office loans were 28% of the investment portfolio or 16% of total assets.

Credit remains solid, CECL reserve 1.4% of loans

Portfolio credit in 2023 fared better than most peers, which we expect to continue in 2024. In 4Q, LADR moved a \$15M multifamily loan in Los Angeles to non-accrual status; LADR expects to foreclose on the property in 1H24. At year-end, this was the only non-accrual asset, and represented ~0.5% of the loan portfolio. Two previous non-accrual loans were foreclosed on in 4Q, a \$23M retail property in Manhattan (moved to non-accrual in 2Q23) and a \$35M multifamily new construction loan in Pittsburgh (moved to non-accrual in 2Q23). The CECL reserve at year-end was \$43M or ~1.4% of the loan portfolio (all general reserve, no specific). Three REO assets were added in 2023.

PO to \$11, tweak estimates & introduce 2026

We are raising our PO to \$11 (\$10.50 prior) based on an approximate 0.8x multiple to undepreciated book value (~0.75x prior). We think LADR's defensive portfolio and ample liquidity set them up to outperform peers (which trade at ~0.75x). However, the backdrop for CRE remains challenged. We update our '24/'25 earnings estimates to \$1.23/\$1.33 (\$1.15 and \$1.21 prior) and introduce 2026 distributable EPS of \$1.36.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.17	1.34	1.23	1.33	1.36
GAAP EPS	1.14	0.81	0.77	0.84	0.87
EPS Change (YoY)	138.8%	14.5%	-8.2%	8.1%	2.3%
Consensus EPS (Bloomberg)			1.24	1.35	NA
DPS	0.88	0.92	0.92	0.92	0.92
Valuation (Dec)					
P/E	9.4x	8.2x	9.0x	8.3x	8.1x
GAAP P/E	9.7x	13.6x	14.4x	13.2x	12.7x
Dividend Yield	8.0%	8.3%	8.3%	8.3%	8.3%

12 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	10.50	11.00

Eric Dray, CFA
Research Analyst
BofAS
+1 646 855 5780
eric.dray@bofa.com

Derek Hewett
Research Analyst
BofAS
derek.hewett@bofa.com

Stock Data

Price	11.05 USD
Price Objective	11.00 USD
Date Established	12-Mar-2024
Investment Opinion	B-2-7
52-Week Range	8.76 USD -12.00 USD
Mrkt Val / Shares Out (mn)	1,382 USD / 125.1
Free Float	60.0%
Average Daily Value	7.72 USD
BofA Ticker / Exchange	LADR / NYS
Bloomberg / Reuters	LADR US / LADR.N
ROE (2024E)	10.2%
ESGMeter™	Medium

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[Mortgage Finance: After surprisingly sweet '23, CRE mREITs face rocky road ahead 04 March 2024](#)

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Timestamp: 12 March 2024 10:44PM EDT

iQprofileSM Ladder Capital Corp

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	94	137	163	163	153
% change	4,959.5%	45.5%	19.0%	-0.2%	-6.2%
Net Fee Income	15	9	0	0	0
Securities Gains / (Losses)	116	9	12	17	25
Total Operating Income	345	264	270	287	293
Operating Expenses	(175)	(159)	(165)	(172)	(175)
% change	39.2%	-8.9%	3.5%	4.2%	1.7%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	170	105	105	115	118
Operating Net Income to Comm S/Hold.	142	101	98	107	110
GAAP Net Income	142	101	98	107	110

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	5,951	5,513	5,994	6,797	6,897
Average Interest Earning Assets	5,897	5,681	5,775	6,396	6,847
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	1,534	1,532	1,534	1,548	1,565
Common Shareholders' Equity	1,534	1,532	1,534	1,548	1,565

Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	1.60%	2.41%	2.82%	2.55%	2.23%
Effective Tax Rate	2.9%	4.1%	7.4%	7.4%	7.4%
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	25.8%	27.8%	25.6%	22.8%	22.7%
ROA	2.5%	3.0%	2.7%	2.6%	2.5%
ROE	9.7%	10.9%	10.2%	11.0%	11.1%
RoTE	9.6%	10.9%	10.2%	10.9%	11.0%
Dividend Payout Ratio	77.5%	113.8%	119.3%	109.1%	105.9%
Efficiency Ratio (Cost / Income Ratio)	76.3%	62.4%	64.1%	63.9%	65.2%

Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	72.7%	48.1%	39.6%	43.2%	47.8%
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

Mortgage Finance

Company Description

Ladder Capital is a diversified, fully-integrated commercial lending and investment company, primarily engaged in sourcing, underwriting and originating commercial loans for its own account and for sale into the secondary market. Ladder invests opportunistically in commercial mortgage loans, CMBS and commercial real estate and provides a full spectrum of asset management services. Ladder is internally managed and completed a REIT conversion in 2015.

Investment Rationale

LADR's flexible investment platform (CRE lending, CMBS securities, and owned CRE) allows it to pivot quickly into different product types with the best risk-adjusted returns as market conditions change. Additionally, LADR has a strong capital structure that focuses on LT unsecured and non-recourse, non-mark to market funding. However, profitability has lagged peers the last couple of years, which should persist into 2023, in our view.

Stock Data

Average Daily Volume 698,544

Quarterly Earnings Estimates

	2023	2024
Q1	0.38A	0.30E
Q2	0.33A	0.30E
Q3	0.31A	0.31E
Q4	0.32A	0.32E

Price objective basis & risk

Ladder Capital Corp (LADR)

Our \$11 PO is based on roughly 0.8x LADR's undepreciated BV. Commercial mREIT peers trade at approximately 0.75x BV. We think LADR should trade at a modest premium to peers given strong operating history.

Downside risks to achieving our price objective are: 1) material weakening in the CRE market, 2) a significant slowdown in investment activity, 3) a deteriorating macroeconomic environment, 4) disruptions in the capital markets, and 5) weaker-than-expected investment performance.

Analyst Certification

I, Eric Dray, CFA, 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
	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
	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



North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

EV / EBITDA

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

Valuation Toolkit

Numerator

Denominator

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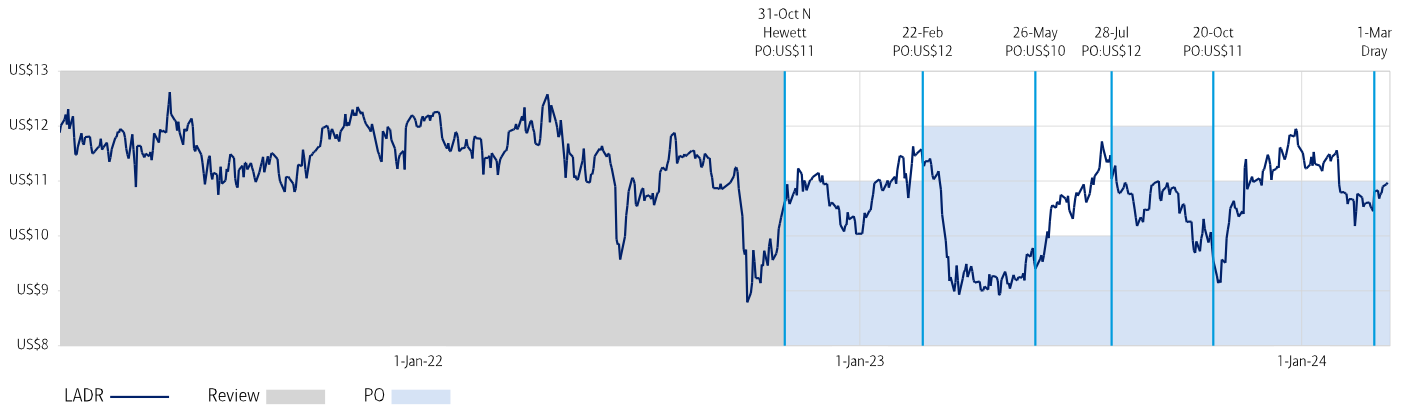
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Ladder Capital Corp (LADR) Price Chart



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%

^{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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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