

## loanDepot Inc

# Modest 2Q beat, but outlook remains daunting

Reiterate Rating: UNDERPERFORM | PO: 2.00 USD | Price: 2.22 USD

## Beat the Street; outlook still uncertain

loanDepot (LDI) reported Q2 adjusted EPS of \$(0.11), ahead of BofA/Consensus estimates of \$(0.13). Relative to the BofA forecast, the beat was due to better-than-expected gain on sale margins, partially offset by higher OpEx. While LDI progresses on improving profitability, we continue to think elevated mortgage rates and an oversupply of capacity will remain headwinds for mortgage originators in the near-term, limiting profitability and earnings visibility. Maintain Underperform.

## Q2 volumes in-line; outlook implies similar Q3

Funded originations in Q2 were \$6.3B, up 27% QoQ. Industry-wide, origination volumes increased 36% QoQ according to Inside Mortgage Finance, implying some share loss for LDI. Purchase volumes were 73% of originations or \$4.6B vs 71%/\$3.5B in Q1. About 94% of refi volumes were cash-out refi (vs 75% in Q1) as rates moved higher in Q2. The Q3 guidance for origination volumes is \$5.0B-\$7.0B. In Q2, pull-through weighted lock volumes were \$6.1B (\$5.3B in Q1), in-line with the guide of \$5.5B-\$7.5B. The Q3 guide for pull-through weighted lock volumes is \$5.5B-\$7.5B.

## GoS margins highest level since 2021

The pull through weighted gain on sale (GoS) margin was 2.85% (+61bp QoQ), above the guidance of 2.40%-2.80% and the highest level since 2021. The higher GoS margin was due to in part to a favorable mix shift to more profitable FHA loans and a lower provision for loan losses. The rate-lock GoS margin guidance for Q3 is 2.45%-2.85%, implying margin contraction QoQ at the mid-point due to higher interest rates.

## Liquidity/leverage good, cash balance remains elevated

Unrestricted cash at Q2 was \$719M (12% of total assets) vs \$798M (13% of total assets) at Q1. LDI target is to maintain at least 5% of total assets in cash, but given the challenging market, expects to keep the cash position elevated. Corporate debt/equity increased to 2.8x (2.7x at Q1), total funding capacity declined 5% QoQ to \$3.9B, and available borrowing capacity was \$1.7B (\$2.1B at Q1).

## Adjust estimates, raise PO to \$2

Adjust our '23/'24/'25 adj EPS ests to \$(0.44)/\$0.13/\$0.26 from \$(0.50)/\$0.16/\$0.29. We raise our PO to \$2 (\$1.75 prior) on a 15x multiple (in-line with pure-play mortgage origination peers) to our 2024E EPS est (10x prior; raised due to peer multiple expansion).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.72	(1.47)	(0.44)	0.13	0.26
GAAP EPS	0.87	(1.75)	(0.50)	0.06	0.16
EPS Change (YoY)	NA	NM	70.1%	NM	100.0%
Consensus EPS (Bloomberg)			(0.47)	0.11	0.24
DPS	0.85	0.16	0	0	0
<b>Valuation (Dec)</b>					
P/E	1.3x	NM	NM	17.1x	8.5x
GAAP P/E	2.6x	NM	NM	37.0x	13.9x

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 09 August 2023 08:52AM EDT

09 August 2023

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	1.75	2.00

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### Stock Data

Price	2.22 USD
Price Objective	2.00 USD
Date Established	9-Aug-2023
Investment Opinion	C-3-9
52-Week Range	1.25 USD -3.02 USD
Mrkt Val / Shares Out (mn)	709 USD / 319.2
Average Daily Value	0.59 USD
BofA Ticker / Exchange	LDI / NYS
Bloomberg / Reuters	LDI US / LDI.N
ROE (2023E)	-17.0%
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".

Dividend Yield	38.3%	7.2%	0%	0%	0%
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# iQprofile<sup>SM</sup> loanDepot Inc

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	44	49	10	15	22
% change	284.9%	12.0%	-79.8%	50.7%	49.3%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	3,725	1,256	1,022	1,314	1,453
Operating Expenses	(3,058)	(1,905)	(1,259)	(1,278)	(1,358)
% change	33.2%	-37.7%	-33.9%	1.5%	6.2%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	667	(649)	(237)	36	95
Operating Net Income to Comm S/Hold.	623	(570)	(195)	26	70
GAAP Net Income	688	(526)	(161)	41	85

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	11,812	6,610	6,532	5,598	5,984
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	1,629	921	744	770	841

## Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	6.5%	12.3%	17.9%	26.3%	26.3%
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	33.8%	-36.8%	-17.0%	5.5%	10.4%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	44.0%	NA	NA	0%	0%
Efficiency Ratio (Cost / Income Ratio)	82.1%	151.7%	123.2%	97.3%	93.4%

## Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	98.8%	96.1%	99.0%	98.9%	98.5%
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 266,195

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.26A	-0.19A
Q2	-0.53A	-0.11A
Q3	-0.37A	-0.08E
Q4	-0.35A	-0.06E



## Latest on Vision 2025

LDI's Vision 2025 plan, which was introduced in July 2022, is the company's response to the increasingly tough market conditions for mortgage originators by simplifying the business and reducing OpEx. The cost cuts were primarily driven by headcount reductions as well as lower G&A and marketing.

Costs in the quarter increased 5% sequentially due to \$6.8M of Vision 2025-related costs as well as elevated origination costs driven by higher volumes. That said, the OpEx cuts from Vision 2025 have helped improve quarterly losses with non-volume related / non-Vision 2025-related expenses down \$10M QoQ.

## Price objective basis & risk

### loanDepot Inc (LDI)

Our \$2 PO is based on an approximate 15x PE multiple to our 2024 EPS forecast, in line with other pure-play mortgage originators. 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.

### US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Baring's BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackrock TCP Capital Corp	TCPC	TCPC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Block Inc	SQ	SQ US	Jason Kupferberg
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	CI&T	CINT	CINT US	Jason Kupferberg
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	EngageSmart	ESMT	ESMT US	Jason Kupferberg
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPV	GPV US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Toast	TOST	TOST US	Jason Kupferberg
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia



## US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>NEUTRAL</b>				
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Ellington Financial	EFC	EFC US	Derek Hewett
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	Marqeta	MQ	MQ US	Jason Kupferberg
	Paymentus	PAY	PAY US	Jason Kupferberg
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Angel Oak Mortgage Inc.	AOMR	AOMR US	Derek Hewett
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	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
	New York Mortgage Trust	NYMT	NYMT US	Derek Hewett
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg
<b>RSTR</b>				
	Safehold, Inc	SAFE	SAFE US	Derek Hewett

## **IQmethod<sup>SM</sup> 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**

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

### **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  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + 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  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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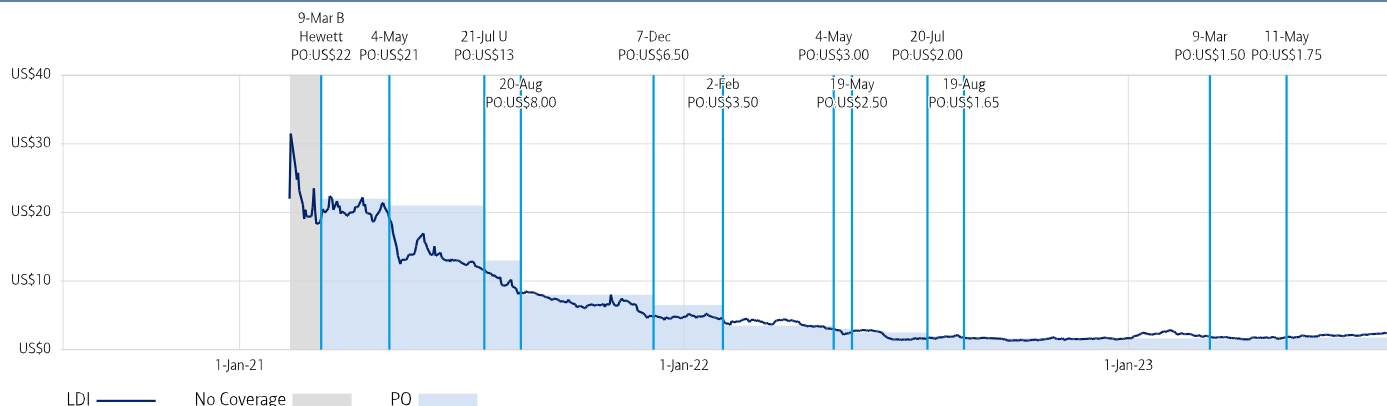
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# Disclosures

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### 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 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	145	50.52%	Buy	91	62.76%
Hold	78	27.18%	Hold	47	60.26%
Sell	64	22.30%	Sell	38	59.38%

### Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

<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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