

# Angel Oak Mortgage REIT (NYSE: AOMR) – Micro-Cap Equity Analysis (Sep 2025)

## Key Financials

- **Market Cap & Revenue:** Market cap  $\approx$  \$238.8M <sup>1</sup> . 23.77M shares outstanding <sup>1</sup> . Trailing revenue  $\approx$  \$57.7M <sup>1</sup> (TTM). Gross margin is very high (~80%), reflecting low financing costs versus interest income.
- **Profitability & Valuation:** 2024 GAAP EPS  $\approx$  \$1.17; trailing P/E  $\approx$  6.4 <sup>1</sup> (forward P/E  $\approx$  7.7). Price/Sales  $\approx$  4 $\times$  (using \$58M rev) or  $\approx$  2 $\times$  (if \$110M 2024 rev) and P/B  $\approx$  1 $\times$  (book  $\approx$  \$10.4/share). EV/Sales is very high (~15–30 $\times$ ) due to heavy leverage.
- **Balance Sheet:** Cash & equivalents  $\approx$  \$40.8M <sup>2</sup> ; restricted cash  $\approx$  \$2.1M <sup>2</sup> . Total liabilities  $\approx$  \$2.03B <sup>3</sup> (mostly non-recourse debt);  $\approx$  \$1.59B in mortgage securitization liabilities,  $\approx$  \$0.13B warehouse loans,  $\approx$  \$0.05B repurchase facilities,  $\approx$  \$0.05B senior notes <sup>3</sup> . Stockholders' equity  $\approx$  \$239M. Net debt (EV)  $\approx$  \$1.99B.
- **Cash Flow:** AOMR earns net interest income ( $\approx$  \$36M in 2024) and pays expenses/fees; it currently does *not* generate free cash flow enough to cover its high dividend (see below). FCF is often negative, with capital markets (debt/equity) used to fund acquisitions and distributions.
- **Dividend:** Quarterly dividend \$0.32 (annualized \$1.28)  $\Rightarrow$   $\approx$  12.7% yield <sup>4</sup> (ex-div date Aug 22). The dividend history has been stable, but payouts greatly exceed current earnings (see Risks).

## Business Model & Competitive Position

- **Core Business:** AOMR is a specialty mortgage REIT that **acquires or finances first-lien, non-QM residential mortgage loans** <sup>5</sup> <sup>6</sup> . “Non-QM” means loans not meeting strict Fannie/Freddie/FHA underwriting (e.g. self-employed borrowers, looser income verification) <sup>7</sup> . Assets include whole loans and mortgage-backed securities, with virtually all loans acquired from Angel Oak’s affiliates.
- **Customers:** Targets borrowers underserved by traditional lenders – typically creditworthy but non-conforming applicants <sup>7</sup> . Its assets are ultimately financed via securitizations (AOMT trust deals) and warehouse lines, rather than being sold to consumers.
- **Vertical Integration:** The company is **externally managed by Angel Oak Capital (Falcons I, LLC)**, whose affiliates originate non-QM loans <sup>5</sup> <sup>8</sup> . This gives AOMR a “built-in” pipeline: Angel Oak Mortgage Solutions and Angel Oak Home Loans are major non-QM originators (the management calls Angel Oak “*the number one non-QM originator*” <sup>9</sup> ). This vertical integration can provide cost savings and deal flow but also creates related-party conflicts.
- **Competitive Position:** AOMR was the first REIT devoted to non-QM mortgage assets <sup>10</sup> . Its strategy differs from agency mREITs (NLY, AGNC, etc.) by avoiding GSE-backed loans. The non-QM market is growing (banks and fintechs tightening credit post-crisis has left a large underserved segment <sup>11</sup> ). Rival non-QM lenders and mREITs have recently increased exposure to this niche, but overall market demand remains strong – management notes that even as “*competitors are increasing Non-QM investment, overall market growth means this is not cutting into Angel Oak’s origination volumes.*” <sup>12</sup> . Angel Oak promotes its brand and scale (via the Angel Oak platform) as advantages.

However, there is **no true moat**: any well-capitalized firm can buy non-QM loans or securitize them. AOMR's success depends on securing financing on favorable terms and maintaining credit discipline.

## Price & Volume Behavior

- **Recent Trend:** The stock has traded roughly between \$7.4 and \$11.2 over the past year <sup>13</sup>. In the last 6 months, it has mostly moved in a ~\$9.0–\$10.1 range. The price bounced off the ~\$7.9 June lows and ran toward \$10 by late August. A key swing occurred on the Q2 earnings release – shares **fell ~5–6%** on the July 31 print <sup>14</sup>, then partially recovered. Overall the 6-month trend is mildly upward/flat.
- **Liquidity:** Average daily trading volume is moderate (~240K shares <sup>15</sup>, ~1.0% of float per day). Liquidity is sufficient for small orders, but large institutional trades could move the price. Volume tends to spike around news (e.g. earnings, new deals). For example, volume jumped to ~800K on Aug 21 (likely related to capital raises) <sup>16</sup>. On average, daily volume is low enough that bid-ask spreads can be wide (~1–2 cents), making trading relatively expensive in absolute terms.
- **Relative Strength:** AOMR's performance has been in line with high-yield mREIT peers – volatile and yield-driven, with little secular appreciation. In recent months it lagged mortgage REIT index rallies but held better than many government-mortgage-heavy trusts. Analysts still rate it favorably (consensus “Strong Buy”, 12-month target ~\$11.25 <sup>17</sup>), implying ~+12% upside, but this is modest over 6 months.

## Risks & Red Flags

- **Dividend Coverage: Major red flag.** Q2 2025 distributable earnings were only \$0.11 per share <sup>18</sup>, yet the quarterly dividend is \$0.32. This payout (~290% of distributable earnings) has been possible only by tapping capital markets (issuing debt/equity) or using reserves. Continued large gaps between income and payouts will pressure the dividend. Any sustained shortfall could force a cut, which would crash the stock given its high yield.
- **High Leverage & Solvency:** AOMR is **heavily leveraged**. Total liabilities ~\$2.03B <sup>3</sup> dwarf equity (~\$239M). Most debt is non-recourse securitization obligations backed by the mortgage collateral (about 7× equity), but the company also carries ~\$129M in recourse warehouse lines and ~\$48M unsecured notes <sup>3</sup>. Interest expense is large (~\$73M in 2024) and rises with higher rates. A tightening of credit markets or spike in defaults could stress these structures. (No going-concern doubt currently, but the debt load is a constant drag.)
- **Dilution Risk:** The company has an ATM shelf for equity. In 2024 it issued 188.5K shares (~0.8% of float) for net \$2.3M <sup>19</sup>. Management may tap this again to shore up the dividend or buy assets if income lags. Future equity raises would dilute existing shareholders. Moreover, if management's guidance falters, equity trades down making such issuances more dilutive.
- **External Management & Related-Party Fees:** AOMR is externally managed by Angel Oak affiliates. The manager collects a **fixed fee equal to 1.5% of stockholders' equity annually** <sup>20</sup> (about \$5–6M/year, ~10% of net income) plus incentive fees. These fees are paid regardless of performance and can dilute returns. The CEO and CFO are Angel Oak veterans, but an external manager inherently adds a conflict (the manager may grow assets to collect fees even if it reduces ROE). Related-party originations are convenient but also raise conflicts (the manager benefits by channeling loans into AOMR).
- **Governance:** There is no evidence of fraud or SEC issues. The board and auditor appear standard; audit reports show no material weaknesses. Listing is on NYSE (no immediate risk of delisting given

equity size). However, insiders do not appear to hold major equity stakes (no >10% holders disclosed), so there is weak alignment of management/shareholders. The Rights Plan (AKIT-style) and registration rights (pre-IPO investors get equity compensation from manager) add complexity.

- **Market/Industry:** AOMR is exposed to interest-rate and housing-market risk. Rising rates can erode loan values and slow origination; falling rates can pressure yields. Non-QM mortgages can default in downturns (although current delinquency is low, see below). Regulatory changes affecting mortgage credit or REIT taxation could also impact it, though nothing imminent is known.

## Upcoming Catalysts (next 1–6 months)

- **Q3 2025 Earnings (Nov 5, 2025):** Scheduled early Nov <sup>21</sup>. The street will watch net interest income, distributable earnings, and credit trends. Any surprise (either better or worse) could move the stock significantly. A return to sequential income growth would be a catalyst; another earnings miss could drive it down.
- **Securitization Transactions:** Management has a pipeline of new AOMT deals. CFO Filson indicated several securitizations likely in Fall 2025 <sup>12</sup> (potentially Sept or Oct). Completing a new deal would raise cash to buy loans (boosting interest income) and pay down older debt. However, such deals also temporarily dilute earnings (via finance costs). Progress here could provide modest upside.
- **Capital Markets:** In July 2025, AOMR issued \$42.5M of 9.75% notes due 2030. Any future debt offerings or equity raises (via ATM or shelf) would be material events. A new capital raise could depress the stock, whereas a retirement of debt (if rates fell) could improve net income.
- **Macro News:** Federal Reserve policy and housing data. Any significant move in mortgage rates (30-year fixed, etc.) or Fed rate shifts may quickly influence AOMR's yields and book value. For instance, a Fed pivot towards cuts (not yet confirmed) could boost REIT valuations.
- **Regulatory/Industry News:** Unlikely in next 6 months, but any major changes to mortgage underwriting standards or REIT tax law (e.g. changes in allowance for loan losses treatment) would matter.

## Alpha Thesis

The bull case for AOMR hinges on **undervalued high-yield and improving fundamentals**. AOMR offers a 12.7% current yield <sup>4</sup> at just ~6.4× earnings, which suggests the market is pricing in severe downside. Yet credit performance has actually improved recently: Q2 delinquency (90+ days) fell to 2.35% <sup>22</sup>, and management notes its loan pools are performing better. The firm is redeploying capital (as seen in new loan purchases at ~8.7% coupon) and expects net interest growth in Q3. Analysts are optimistic on these trends (average 12-mo target ~\$11.25, +12% <sup>17</sup>). The edge would be if mortgage spreads stabilize or tighten – for example if Fed rate expectations ease – the book value and earnings could recover. A successful new securitization could unlock accretive loan yields. In short, if nothing breaks (rate spike or credit loss), the combination of very high dividend and low valuation gives upside.

**Edge:** Strong origination pipeline via Angel Oak affiliates provides deal flow that other REITs lack <sup>10</sup>. The market may have overreacted to Q2 volatility. If the company can gradually grow its income (through securitizations, loan purchases) and/or if market yields on similar assets compress, AOMR stock should re-rate higher. With book value ~\$10.4 and shares at ~\$10, a modest multiple expansion or small earnings boost could yield outsized percentage gains.

**Disproof:** This thesis fails if the high dividend cannot be maintained. If distributable cash remains far below the payout, the dividend would likely be cut or suspended, which would crash the stock. Similarly, any rise in defaults or unrealized losses (as happened in mid-'25) could shrink book value. A sustained rise in interest rates would increase funding costs and reduce loan values. If Angel Oak's financing costs stay high or capital markets choke off new securitizations, growth dries up. In that case the high P/E spread compresses to near zero.

## Final Recommendation: [Sell]

**Reasons:** 1) **Dividend Risk:** Payouts vastly exceed earnings <sup>18</sup>. Current distributable earnings (\$0.11/sh Q2) cover only ~1/3 of the dividend. This payout gap suggests the dividend is unsustainably high, implying a likely cut or steep share dilution ahead. 2) **Extreme Leverage:** Equity (~\$239M) is dwarfed by ~\$2.03B debt <sup>3</sup>. Such high leverage (~8x) means any credit hiccup or rate spike would quickly impair equity value. Limited equity cushion also means bad scenarios would inflict near-total losses. 3) **Costly External Management:** AOMR pays Angel Oak a fixed 1.5% equity management fee plus incentives <sup>20</sup> (~\$5-6M/year), whether or not shareholders profit. These fees structurally reduce shareholder return, making any rally smaller. In sum, the stock is likely fully pricing in available upside – its 12% “yield” is essentially compensation for these deep risks. With no clear short-term catalyst to offset them, the risk/return profile favors selling.

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<sup>1</sup> <sup>4</sup> <sup>13</sup> <sup>15</sup> <sup>17</sup> <sup>21</sup> Angel Oak Mortgage REIT (AOMR) Stock Price & Overview

<https://stockanalysis.com/stocks/aomr/>

<sup>2</sup> <sup>3</sup> <sup>19</sup> <sup>20</sup> 0001766478-25-000019

[https://s27.q4cdn.com/132913738/files/doc\\_financials/2024/q4/bdfe4e8e-075d-4978-918a-a5d80eabd62e.pdf](https://s27.q4cdn.com/132913738/files/doc_financials/2024/q4/bdfe4e8e-075d-4978-918a-a5d80eabd62e.pdf)

<sup>5</sup> Angel Oak Mortgage REIT - Investor Relations

<https://ir.angel oakreit.com/home/default.aspx>

<sup>6</sup> <sup>7</sup> <sup>8</sup> <sup>9</sup> <sup>10</sup> <sup>11</sup> Angel Oak Mortgage Sees Strong Growth Potential in Non-QM Loan Segment | Nareit

<https://www.reit.com/news/reit-magazine/january-february-2022/angel-oak-mortgage-sees-strong-growth-potential-non-qm>

<sup>12</sup> <sup>14</sup> <sup>22</sup> Angel Oak Leans On Securitizations, Credit Strength To Drive Portfolio Growth In Q2 – NMP

<https://nationalmortgageprofessional.com/news/angel-oak-leans-securitizations-credit-strength-drive-portfolio-growth-q2>

<sup>16</sup> Angel Oak Mortgage REIT (AOMR) Historical Stock Price Data

<https://stockanalysis.com/stocks/aomr/history/>

<sup>18</sup> Angel Oak Mortgage REIT - Angel Oak Mortgage REIT, Inc. Reports Second Quarter 2025 Financial Results

<https://ir.angel oakreit.com/news/news-details/2025/Angel-Oak-Mortgage-REIT-Inc--Reports-Second-Quarter-2025-Financial-Results/default.aspx>