



Sachem Capital Corp. (SACH)

Updated August 16th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$3.44	5 Year CAGR Estimate:	10.3%	Market Cap:	\$151.0 M
Fair Value Price:	\$3.38	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	11/03/2023 ¹
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Dividend Payment Date:	11/14/2023
Dividend Yield:	15.1%	5 Year Price Target	\$3.38	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Sachem Capital Corp is a Connecticut-based real estate finance company that specializes in originating, underwriting, funding, servicing, and managing a portfolio of short-term (i.e., three years or less) loans secured by first mortgage liens on real property located primarily in Connecticut. Each of Sachem's loans is personally guaranteed by the principal(s) of the borrower, which is typically collaterally secured by a pledge of the guarantor's interest in the borrower. The company generates around \$30 million in total revenues. It's worth noting that while the company operates and seems like a Business Development Company ("BDC"), its legal status is that of REIT.

On August 14th, 2023, Sachem Capital Corp. announced its Q2 results for the period ending June 30th, 2023. Total revenues for the quarter came in at \$16.5 million, up 31.2% compared to Q2-2022. The growth in revenue was primarily driven by an increase in lending operations and higher rates that Sachem was able to charge borrowers due to rising interest rates. Net income was approximately \$4.8 million, roughly 12% higher compared to the prior-year period. However, due to a more significant increase in the amount of shares that were issued to fund Sachem's new investments, net income per-share fell by one cent to \$0.11. We continue to forecast FY2023 NII/share² of \$0.45.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
NII/shr	---	---	---	\$0.27	\$0.38	\$0.50	\$0.32	\$0.41	\$0.44	\$0.46	\$0.45	\$0.45
DPS	---	---	---	---	\$0.37	\$0.51	\$0.48	\$0.48	\$0.48	\$0.52	\$0.52	\$0.40
Shares³	---	---	---	11.1	12	15.4	19.4	22.1	26.3	37.7	42.8	70.0

Sachem has lately diversified its holdings, including originating larger loans with established developers. Sachem also continues to expand its lending operations across the U.S. and now has a presence in 14 states, with a strong core focus along the Eastern seaboard.

Moving forward, there should be several key drivers to Sachem's growth. First, despite the rise in interest rates, Sachem believes there is a significant market opportunity for a well-capitalized "hard money" lender to originate attractively priced loans to small and mid-scale real estate developers with good collateral. Second, the competitive landscape for Sachem remains favorable, as many banks and other traditional lenders still have restrictive lending criteria and many non-traditional lenders are under-capitalized. Third, Connecticut's residential real estate market, its primary market, has stabilized and is quite strong. Finally, Sachem continues its expansion beyond Connecticut and has a growing presence in other states, especially in Florida and Texas. That being said, for growth on a per-share basis to be realized, the company will have to take advantage of its growing scale to possibly reduce its financial expenses. Also, given the fact that the company has failed to grow its per-share investment income lately, despite most of its peers recording notable gains, we are now less confident in Sachem's medium-term prospects.

¹ Estimated dates based on past dividend dates.

² Net investment income share is a better performance measure for Sachem, as utilized by the company itself.

³ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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To be prudent, we expect no grow in the BDC's NII/share moving forward. Also, during the Q2-2023 earnings call, management expressed their intention to defend the dividend, claiming that the difference between NII/share of \$0.11 and the dividend per share of \$0.13 was due to the timing of certain revenues and originations. However, they did exclude the potential for a cut due to insufficient coverage. We have thus applied a negative 5% growth in our dividend estimates.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	13.2	8.0	14.4	9.8	9.0	9.0	7.6	7.5
Avg. Yld.	---	---	---	---	7.4%	12.8%	10.4%	12.0%	9.0%	12.6%	15.1%	11.9%

Sachem's valuation multiple has hovered close to that of its industry peers, usually in the high single to low double-digits. The company currently trades at around 7.6 times our forecasted NII/share, notably lower than its historical average. We believe this is a fair valuation, with the stock's massive 15.1% yield reflecting the underlying risks involved. We expect it to remain below the average of its industry peers, as Sachem's performance has held surprises in the past. Investors are also likely pricing in the possibility of an upcoming dividend in the coming quarters.

Safety, Quality, Competitive Advantage, & Recession Resiliency

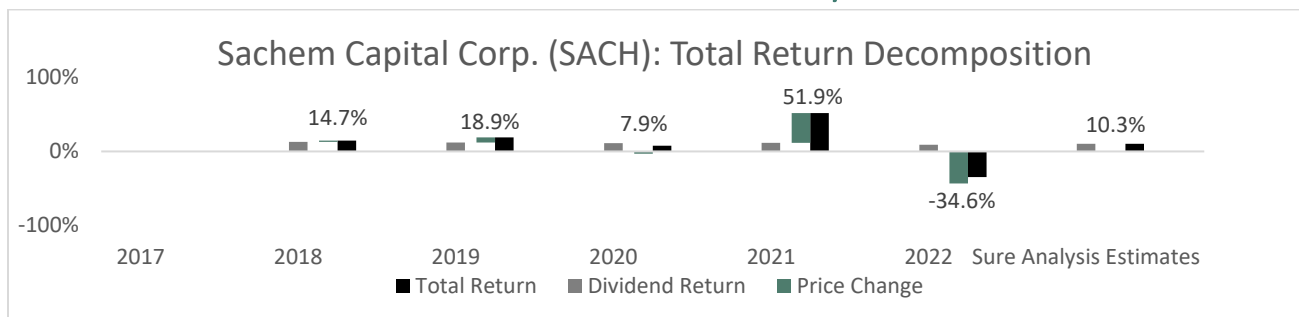
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	102%	150%	117%	109%	113%	116%	89%

Investors should not entirely rely on Sachem's dividend. The dividend increase in Q2-2022 was quickly taken back by Q3-2022, indicating the dividend's razor-thin coverage. A dividend cut in the near term should not surprise you. Further, the company does not have any significant competitive advantages other than those mentioned earlier. Moreover, the company's cost of debt, which currently stands at 9.0%, is not cheap, while its hefty yield will result in a very expensive cost of equity amid additional share issuances going forward. The company will have to reduce its financial cost per share to breathe easier later on. We believe that a prolonged recession will significantly impact Sachem's field of operations, hurting its financials and eventually leading to dividend cuts. Finally, the company's short trading history and small-capitalization against its peers could increase its non-systemic risk profile.

Final Thoughts & Recommendation

Sachem Capital is a rapidly growing real-estate finance company, providing a hefty dividend yield to its shareholders. That said, investors ought to be cautious of its future coverage. Assuming no growth in Sachem's NII/share and the potential for a reduced dividend, combined with the current dividend yield and relatively stable valuation assumptions, we forecast annualized returns of 10.3% in the medium-term. Sachem Capital earns a speculative buy rating, but we highlight again that income-oriented investors should not blindly trust the dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue		2	3	4	6	10	10	13	20	31
SG&A Exp.		0	0	0	1	2	2	2	4	8
D&A Exp.				-	0	0	0	0	0	0
Net Profit		1	2	3	5	8	6	9	13	21
Net Margin		95.1%	90.1%	86.2%	76.8%	77.4%	63.8%	68.9%	65.0%	67.7%
Free Cash Flow		1	2	3	5	6	8	9	27	12

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets		21	31	38	67	86	141	227	418	565
Cash & Equivalents		6	2	2	1	0	19	19	42	24
Accounts Receivable		0	0	1	1	2	2	4	7	12
Total Liabilities		5	7	10	13	33	59	146	238	348
Accounts Payable		0	0	0	0	0	0	0	1	1
Long-Term Debt		5	6	8	10	28	56	139	194	284
Shareholder's Equity		16	24	28	55	53	83	81	180	218
LTD/E Ratio		0.31	0.25	0.30	0.19	0.52	0.68	1.72	1.08	1.31

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets			8.8%	8.8%	9.2%	10.1%	5.5%	4.9%	4.1%	4.3%
Return on Equity			11.4%	11.6%	11.7%	14.5%	9.2%	11.0%	10.2%	10.5%
ROIC			9.0%	9.1%	9.6%	10.7%	5.7%	5.0%	4.5%	4.8%
Shares Out.				11.1	12	15.4	19.4	22.1	26.3	37.8
Revenue/Share		0.18	0.30	0.31	0.53	0.65	0.50	0.59	0.75	0.81
FCF/Share		0.17	0.28	0.29	0.39	0.36	0.41	0.43	1.04	0.31

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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