



# ARMOUR Residential REIT, Inc. (ARR)

Updated May 11<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$19.4	<b>5 Year CAGR Estimate:</b>	2.2%	<b>Market Cap:</b>	\$943M
<b>Fair Value Price:</b>	\$20.9	<b>5 Year Growth Estimate:</b>	-13.7%	<b>Ex-Dividend Date:</b>	5/14/24
<b>% Fair Value:</b>	93%	<b>5 Year Valuation Multiple Estimate:</b>	1.5%	<b>Dividend Payment Date:</b>	5/28/24
<b>Dividend Yield:</b>	14.8%	<b>5 Year Price Target</b>	\$10.0	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Sell

## Overview & Current Events

ARMOUR Residential (ARR) is a mortgage REIT that was formed in 2008. The trust invests primarily in residential mortgage-backed securities that are guaranteed or issued by a United States government entity including Fannie Mae, Freddie Mac and Ginnie Mae. ARMOUR has a \$943 million market capitalization.

ARMOUR's first-quarter 2024 results showed GAAP net income available to common stockholders of \$11.5 million or \$0.24 per common share, with net interest income amounting to \$5.3 million. However, expenses included \$9.0 million of non-recurring professional fees related to the Special Committee internal investigation, as disclosed in the company's most recent Annual Report on Form 10-K. Distributable Earnings available to common stockholders stood at \$40.4 million, representing \$0.82 per common share. The company paid common stock dividends of \$0.24 per share per month or \$0.72 per share for the first quarter. ARMOUR's financial position as of March 31, 2024, showcased a book value per common share of \$22.07, with liquidity, including cash and unencumbered agency and U.S. government securities, amounting to \$659.3 million. The agency mortgage-backed securities ("MBS") portfolio totaled \$10.9 billion, while repurchase agreements, net, totaled \$8.7 billion, with 56.2% with ARMOUR affiliate BUCKLER Securities LLC. The debt-to-equity ratio stood at 6.94:1, and implied leverage, including TBA Securities and forward-settling sales and unsettled purchases, was 7.07:1. Interest rate swap contracts amounted to \$7.2 billion of notional amount, representing 83% of total repurchase agreement and TBA Securities.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$7.06	\$5.57	-\$5.54	\$2.78	\$2.59	\$2.54	\$1.29	\$0.96	\$1.16	\$4.65	<b>\$4.18</b>	<b>\$2.00</b>
<b>DPS</b>	\$4.80	\$3.89	\$3.02	\$2.28	\$2.28	\$2.04	\$0.93	\$1.20	\$1.20	\$4.80	<b>\$2.88</b>	<b>\$2.00</b>
<b>Shares<sup>1</sup></b>	45	43	37	40	44	59	65	96	193	48.7	<b>48.8</b>	<b>55.0</b>

ARMOUR's cash flow has been volatile since its inception in 2008, but this is to be expected with all mREITs. Of late, declining spreads have hurt earnings while the economic disruption caused by the coronavirus outbreak disrupted the business model, leading to a sharp decline in cash flow per share, as well as a steep dividend cut. Fortunately, ARMOUR is now seeing a measure of recovery, and should continue to see that recovery manifest itself in the coming quarters and years.

Moving forward, we expect the company to see earnings plummet in line with its historical pattern and we therefore expect additional dividend cuts in the future.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>Avg. P/E</b>	4.2	3.9	---	9.3	8.6	6.7	7.7	10.9	5.0	2.9	<b>4.6</b>	<b>5.0</b>
<b>Avg. Yld.</b>	16.2%	17.9%	13.9%	8.8%	10.2%	12.0%	9.4%	11.5%	20.7%	35.6%	<b>14.8%</b>	<b>20.0%</b>

<sup>1</sup> 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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As one would expect, ARMOUR’s valuation has moved around a lot in recent years. Given the current uncertainty facing the sector and elevated interest rates, we have set fair value at 5 times cash flow. The company’s current price to cash flow is considered undervalued due to the weakness in the share price. Given that shares trade at a discount based on expectations for this year’s cash flow per share, we expect multiple expansion over the coming years, providing a tailwind to total returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

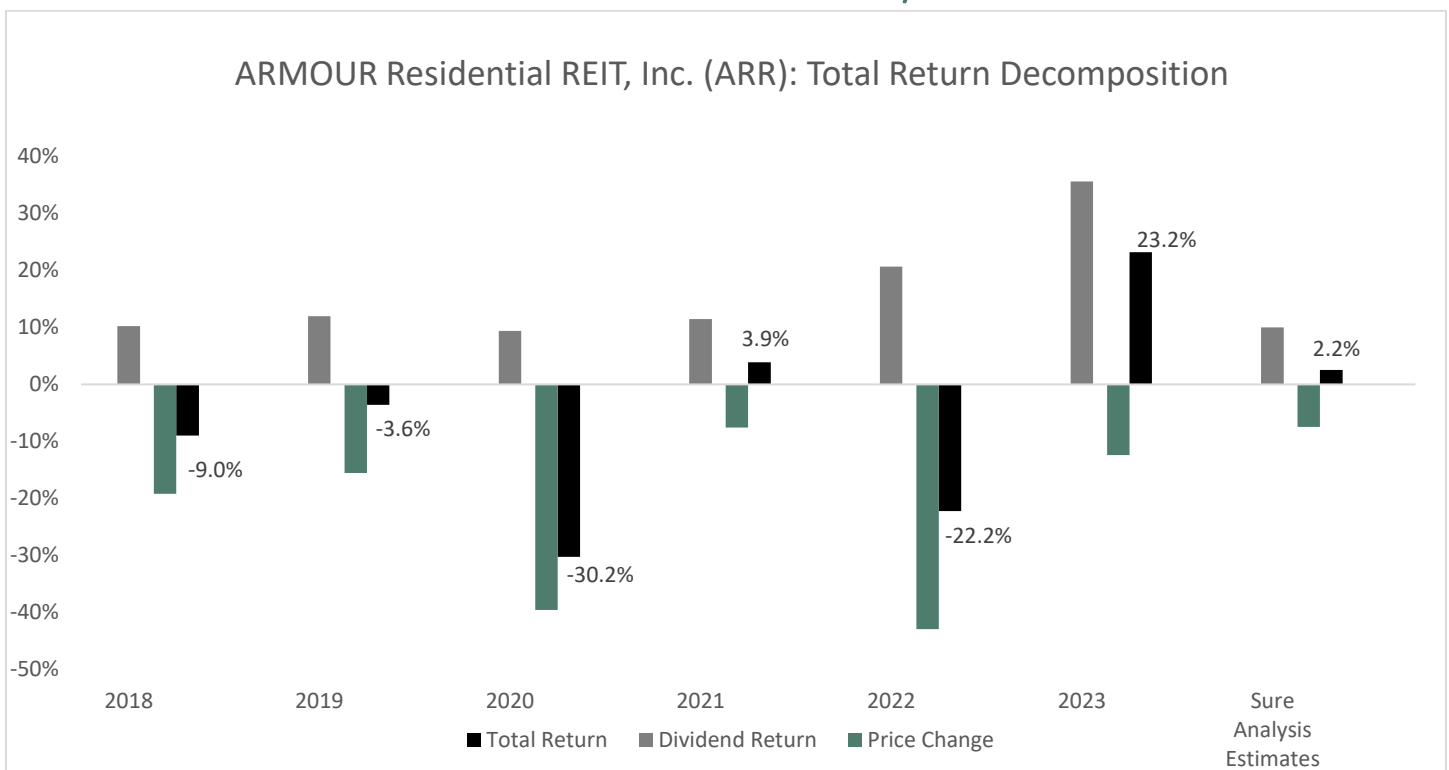
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	68%	70%	-55%	82%	88%	80%	72%	125%	103%	103%	69%	100%

ARMOUR’s quality metrics have been volatile given the performance of the trust as rates have moved around over the years. Gross margins have moved down since short-term rates began to rise meaningfully a couple of years ago, although it appears most of that damage has been done. Balance sheet leverage had been moving down slightly, but it saw an uptick again this past quarter. However, we do not forecast significant movement in either direction from this point. Interest coverage has declined with spreads but also appears to have stabilized, so we are somewhat optimistic moving forward, while keeping in mind the significant potential for volatility. ARMOUR faced headwinds from the coronavirus outbreak and an overall economic downturn. As a result, a steep dividend cut was necessary to preserve the balance sheet and allow the REIT to reposition itself for survival and future growth.

## Final Thoughts & Recommendation

We see 2.2% annualized total returns for shareholders in the coming years thanks to the attractive dividend yield of 14.8% along with some expected valuation multiple expansion offset by significant expected declines in earnings per share. Overall, we rate the stock a Sell at the current price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	(169)	(22)	(100)	125	(57)	(217)	(22)	19	(222)	(63)
SG&A Exp.	4	3	3	3	4	5	6	7	5	5
Net Profit	(179)	(31)	(46)	181	(106)	(250)	(215)	15	(230)	(68)
Net Margin	105.8%	144.8%	45.7%	145.2%	186.5%	115.4%	968.7%	80.1%	103.7%	108.6%
Free Cash Flow	315	238	(203)	110	75	(41)	(258)	12	124	133

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	16,286	13,055	7,978	8,929	8,465	13,272	5,524	5,277	9,437	12,344
Cash & Equivalents	495	290	272	265	222	181	168	338	87	222
Acc. Receivable	303	35	18	22	23	35	13	11	29	47
Total Liabilities	14,537	11,830	6,886	7,603	7,339	11,836	4,586	4,134	8,325	11,073
Accounts Payable	24	26	14	9	14	36	4	4	29	38
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Total Equity	1,749	1,225	1,092	1,326	1,125	1,437	938	1,144	1,112	1,271

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-1.1%	-0.2%	-0.4%	2.1%	-1.2%	-2.3%	-2.3%	0.3%	-3.1%	-0.6%
Return on Equity	-9.8%	-2.1%	-3.9%	15.0%	-8.6%	-19.5%	-18.1%	1.5%	-20.4%	-5.7%
ROIC	-9.8%	-2.1%	-3.9%	15.0%	-8.6%	-19.5%	-18.1%	1.5%	-20.4%	-5.7%
Shares Out.	45	43	37	40	44	59	65	96	193	48.7
Revenue/Share	(18.96)	(2.52)	(13.58)	15.73	(6.75)	(18.73)	(1.76)	1.19	(9.40)	(1.45)
FCF/Share	35.28	27.85	(27.72)	13.88	8.93	(3.52)	(20.44)	0.73	5.26	3.08

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

## Disclaimer

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