



Annaly Capital Management (NLY)

Updated August 20th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$20.0	5 Year CAGR Estimate:	11.4%	Market Cap:	\$10 B
Fair Value Price:	\$20.0	5 Year Growth Estimate:	0.9%	Ex-Dividend Date:	9/28/24 ¹
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.0%	Dividend Payment Date:	10/31/24 ²
Dividend Yield:	13.0%	5 Year Price Target	\$21	Years of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Annaly Capital Management, Inc., a diversified capital manager, invests in and finances residential and commercial assets. The trust invests in various types of agency mortgage-backed securities, non-agency residential mortgage assets, and residential mortgage loans. It also originates and invests in commercial mortgage loans, securities, and other commercial real estate investments. Annaly provides financing to private equity-backed middle market businesses and operates as a broker-dealer. The trust has elected to be taxed as a real estate investment trust (REIT). As a REIT, it is not subject to federal income tax to the extent that it distributes its taxable income to its shareholders. Annaly Capital Management, Inc. was founded in 1996 and is based in New York, New York.

On July 24, 2024, Annaly Capital Management, Inc. (NLY) announced its financial results for the quarter ending June 30, 2024. The company reported a GAAP net loss of \$0.09 per average common share, while earnings available for distribution (EAD) were \$0.68 per average common share for the quarter. The company achieved an economic return of 0.9% for the second quarter and 5.7% for the first half of 2024. The book value per common share at the end of the quarter was \$19.25. Annaly's GAAP leverage ratio increased to 7.1x, up from 6.7x in the prior quarter, while economic leverage rose to 5.8x from 5.6x. The company declared a quarterly common stock cash dividend of \$0.65 per share. Annaly's total investment portfolio was valued at \$74.8 billion, with \$66.0 billion invested in a highly liquid Agency portfolio. The Agency portfolio saw a 2% increase quarter-over-quarter due to opportunistic portfolio additions, with a continued focus on migrating up in coupon and into high-quality specified pools. This portfolio represented 58% of Annaly's dedicated equity capital, consistent with the previous quarter. The company maintained a conservative hedge position, with the hedge ratio effectively unchanged, and focused on replacing maturing swaps with Treasury futures throughout the quarter. Annaly's Residential Credit portfolio decreased modestly to \$5.9 billion due to accretive sales of third-party securities, representing 20% of dedicated equity capital. The company's correspondent channel remained robust, with a record loan lock volume of \$4.1 billion during the second quarter. Year-to-date lock volume for 2024 reached \$7.8 billion, surpassing the total lock volume for all of 2023. Annaly's Mortgage Servicing Rights (MSR) portfolio ended the quarter with a market value of \$2.8 billion, up 5% quarter-over-quarter, representing 22% of dedicated equity capital.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	-\$3.56	\$1.96	\$5.92	\$5.88	\$0.16	\$4.76	\$4.40	\$4.64	\$4.23	\$2.86	\$2.86	\$2.99
DPS	\$4.80	\$4.80	\$4.80	\$4.80	\$4.80	\$4.00	\$3.64	\$3.52	\$3.52	\$2.60	\$2.60	\$2.72
Shares³	236.9	231.2	254.7	289.9	350.0	357.6	349.6	365.1	493.6	500.1	501.0	475.0

Instability in the markets created valuation declines across the sector in late 2019 into 2020 as interest rate volatility put pressure on the bottom lines of mortgage REITs, revealing the cyclical nature of this investment vehicle. With rising

¹ Estimated date

² Estimated date

³ In millions

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interest rates, Annaly saw a narrowing between interest income and expenses, as well requiring greater amounts of leverage to produce declining results.

Moving forward, further increases in interest rates could reduce refinancing activity. As long as the real estate market remains on sound footing, Annaly should continue to grow gradually and support its hefty dividend. However, any meaningful pullback could significantly hurt the business and force it to cut its dividend again.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	NA	19	6.7	NA	8	8	6.9	7.7	4.5	5.1	7.0	7.0
Avg. Yld.	10.7%	12.8%	12.0%	10.1%	13.6%	10.5%	11.9%	10.2%	18.5%	17.7%	13.0%	13.0%

The cyclical nature of this trust's earnings makes them difficult to value based on challenging years in the past. We believe that the fair value P/E should be around 8 based on past performance, but current headwinds for the industry are causing us to reduce our estimate to 7 times earnings. As a result, we believe the stock is fairly valued at present based on expected 2024 results.

Safety, Quality, Competitive Advantage, & Recession Resiliency

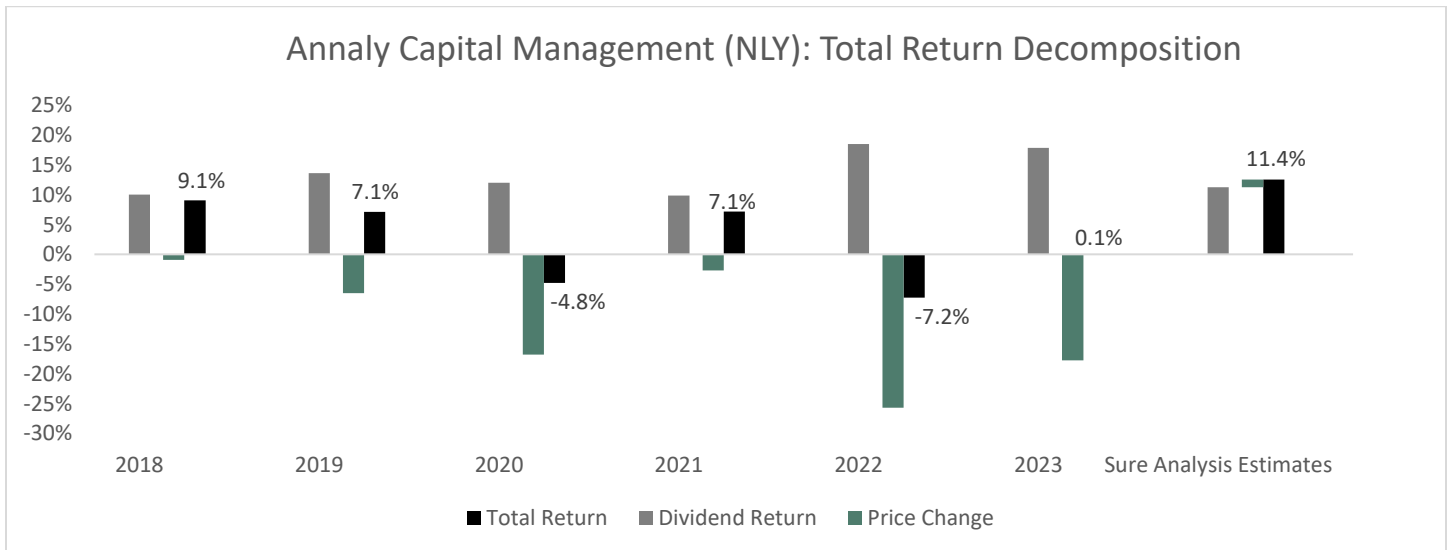
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	NA	NA	81.1%	81.6%	NA	84.0%	82.7%	75.9%	83.2%	90.9%	90.9%	91.0%

The advantage Annaly has over some of its mortgage REIT competitors is diversification within their income stream, providing them the opportunity to pivot depending on the circumstance. That said, Annaly is very interest rate sensitive. Although it is less leveraged than others in the sector, we are concerned that Annaly is using more leverage to generate results and issuing additional shares to drive capital expansion, rather than growing based on increased profitability. With debt ratios rising and interest rates being currently stable, but with the potential to rise further, the payout ratio will almost surely remain very high.

Final Thoughts & Recommendation

With an annualized total return outlook of 11.4% and a mouthwatering 13.0% dividend yield compensating for considerable uncertainty in its business model, we rate the stock a speculative Buy given the inherent risk involved in mREITs alongside the strong total return potential.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	(615)	734	1,565	1,684	275	(1,992)	(548)	2,720	1,954	(1,437)
SG&A Exp.	209	200	250	224	330	272	222	186	163	163
D&A Exp.	5	20	42	28	72	32	41	25	21	25
Net Profit	(842)	467	1,434	1,570	54	(2,163)	(891)	2,390	1,725	(1,643)
Net Margin	136.9%	63.5%	91.6%	93.2%	19.8%	108.6%	162.5%	87.8%	88.3%	114.4%
Free Cash Flow	6,128	(3,643)	1,407	1,621	2,622	(1,200)	528	2,539	4,358	1,970
Income Tax	5	(2)	(2)	7	(2)	(11)	(28)	5	46	39

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	88.36	75.19	87.91	101.76	105.79	130.30	88.46	76.76	81.85	93.23
Cash & Equivalents	1,741	1,769	1,540	707	1,736	1,851	1,244	1,342	153	276
Acc. Receivable	278	231	270	325	426	455	284	238	1,212	3,933
Goodwill & Int.	133	110	758	676	659	471	228	638	1,080	353
Total Liabilities (\$B)	75.02	63.28	75.33	86.89	91.67	114.50	74.43	63.57	70.48	81.88
Accounts Payable	228	205	347	910	1,154	940	1,075	239	1,483	3,537
Long-Term Debt	1,266	4,734	7,865	7,119	8,041	10,564	7,036	7,108	8,795	13,204
Total Equity	12,415	10,983	11,368	13,145	12,334	13,810	12,472	11,633	9,734	9,719
LTD/E Ratio	0.10	0.40	0.63	0.48	0.57	0.67	0.50	0.54	0.78	1.17

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-1.0%	0.6%	1.8%	1.7%	0.1%	-1.8%	-0.8%	2.9%	2.2%	-1.9%
Return on Equity	-6.5%	3.7%	11.7%	11.4%	0.4%	-14.5%	-6.0%	17.6%	14.0%	-14.5%
ROIC	-6.0%	3.0%	7.7%	7.4%	0.2%	-8.9%	-3.8%	11.6%	8.5%	-7.3%
Shares Out.	236.9	231.2	254.7	289.9	350.0	357.6	349.6	365.1	493.6	500.1
Revenue/Share	(2.60)	3.10	6.45	6.32	0.91	(5.55)	(1.55)	7.62	4.75	(2.91)
FCF/Share	25.87	(15.38)	5.80	6.08	8.67	(3.34)	1.49	7.11	10.59	3.98

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

Disclaimer

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