



Arbor Realty Trust Inc. (ABR)

Updated November 8th, 2024 by Samuel Smith

Key Metrics

| | | | | | |
|-----------------------------|--------|--|-------|----------------------------------|----------|
| Current Price: | \$15.5 | 5 Year CAGR Estimate: | 6.6% | Market Cap: | \$3.2 B |
| Fair Value Price: | \$12.2 | 5 Year Growth Estimate: | 0.6% | Ex-Dividend Date: | 11/15/24 |
| % Fair Value: | 128% | 5 Year Valuation Multiple Estimate: | -4.8% | Dividend Payment Date: | 11/27/24 |
| Dividend Yield: | 11.1% | 5 Year Price Target | \$13 | Years Of Dividend Growth: | 11 |
| Dividend Risk Score: | F | Retirement Suitability Score: | C | Rating: | Hold |

Overview & Current Events

Arbor Realty Trust (ABR) is a nationwide mortgage real estate investment trust (REIT) that acts as a direct lender and operates in two reporting segments: Agency Business and Structured Business. The trust provides loan origination and servicing for multifamily, seniors housing, healthcare, and other diverse commercial real estate assets. Arbor Realty's specific focus is government-sponsored enterprise products, although its platform also includes commercial mortgage-backed securities (CMBS), bridge and mezzanine loans, and preferred equity issuances.

Arbor Realty Trust, Inc. (ABR) reported third-quarter 2024 results with net income of \$0.31 per diluted common share, matching expectations, and distributable earnings of \$0.43 per share. Revenue reached \$88.81 million, a 17.23% year-over-year decrease but still beating estimates by \$3.10 million. The company declared a cash dividend of \$0.43 per share and announced agency loan originations totaling \$1.1 billion, supporting a \$33.01 billion servicing portfolio, which grew 10% year-over-year. Structured loan originations reached \$258.5 million, contributing to a \$11.57 billion portfolio. Arbor successfully deleveraged, reducing its debt-to-equity ratio to 3:1 from a 2023 high of 4:1.

Operating highlights include \$77.4 million in agency revenues and \$18.6 million in gain on sales, showing improvements in agency fee margins. The company's structured portfolio held \$11.57 billion in loans with an average yield of 9.04%, supported by a weighted average interest rate of 8.16%. Loan modifications on \$1.15 billion provided rate relief in exchange for borrower capital injections. In financing, Arbor issued \$100 million in 9.00% senior notes in October to pay down debt, aiming to improve liquidity. Total debt financing the loan portfolio stood at \$9.97 billion at a 7.18% interest rate as of September 30, 2024.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|---------|---------|--------|---------|---------|---------|---------|---------|----------------|----------------|
| EPS | \$0.35 | \$0.46 | \$0.80 | \$0.78 | \$1.11 | \$1.11 | \$1.75 | \$2.01 | \$2.23 | \$2.25 | \$1.69 | \$1.75 |
| BVPS | \$8.84 | \$9.34 | \$11.42 | \$11.27 | \$9.56 | \$10.20 | \$10.91 | \$11.51 | \$12.83 | \$12.67 | \$12.15 | \$12.55 |
| DPS | \$0.52 | \$0.58 | \$0.62 | \$0.76 | \$1.13 | \$1.14 | \$1.23 | \$1.38 | \$1.54 | \$1.72 | \$1.72 | \$1.72 |
| Shares¹ | 50.5 | 51.0 | 51.4 | 61.7 | 85.4 | 111.2 | 123.9 | 152.1 | 179.8 | 188.5 | 188.6 | 182 |

Arbor Realty has had to issue a lot of additional common shares to fuel revenue growth over the past decade, thereby diluting bottom line returns for shareholders. Moving forward, we expect the trust's investments to be offset by a weakening real estate and macroeconomic picture as well as dilution to some degree by significant share issuances. As a result, we are expecting book value per share to grow slowly over the next half decade.

Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|------------------|------|------|------|------|-------|-------|------|------|------|-------|--------------|--------------|
| Avg. P/B | 0.94 | 0.78 | 0.73 | 0.73 | 0.83 | 1.07 | 1.16 | 1.43 | 1.71 | 1.12 | 1.28 | 1.00 |
| Avg. Yld. | 6.3% | 8.0% | 7.4% | 9.2% | 14.2% | 10.4% | 9.7% | 8.4% | 7.0% | 12.1% | 11.1% | 13.7% |

¹ 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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Given Arbor Realty’s volatile AFFO history, we believe that measuring the security’s valuation using the price-to-book ratio is a much more reasonable approach than the traditional price-to-AFFO for REITs. As the table above indicates, Arbor Realty’s price-to-book ratio has ranged between 0.73x and 1.71x over the last decade, though in recent years it has consistently been over 1x. At the same time, the trust’s dividend yield since 2013 (the first year that it traded with a material yield) has averaged ~8%, while the trust’s current dividend yield is 11.1%. The trust’s price-to-book value indicates that it is meaningfully overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

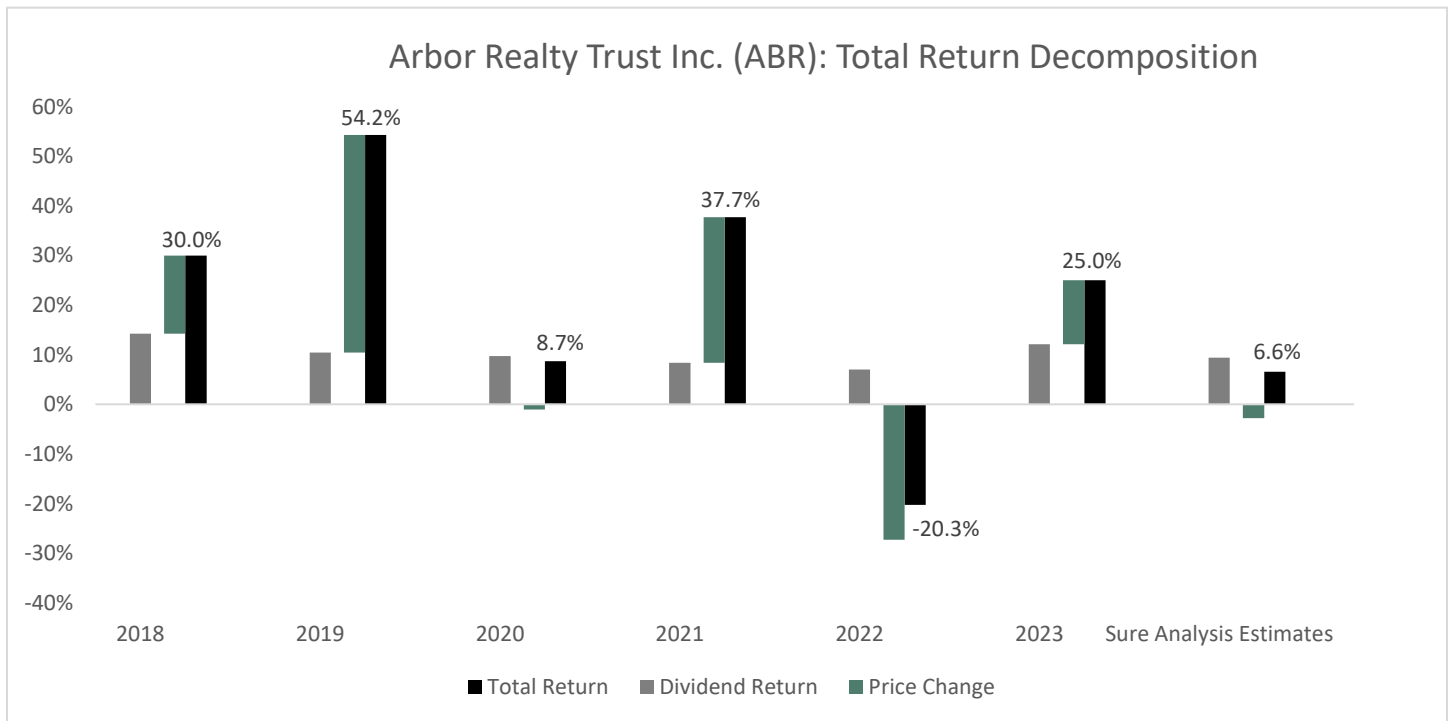
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout ² | 149% | 126% | 78% | 97% | 102% | 103% | 70% | 69% | 69% | 76% | 102% | 98% |

Arbor’s high dividend yield indicates that the market has some concerns about the safety of its current dividend payment. In general, the non-recurring nature of the loans within the mortgage REIT business model make Arbor Realty somewhat less of a sleep-well-at-night stock than some of its peers in the equity REIT universe. We have serious questions about its dividend safety through all economic environments, particularly in light of its high current payout ratio.

Final Thoughts & Recommendation

Arbor Realty’s dividend yield will immediately make it attractive to income-oriented investors. However, the business model underpinning the yield is heavily leveraged and therefore the dividend is susceptible to the possibility of significant cuts. The company has thus far sustained its dividend, which offers an attractive yield of 11.1%. Given the company’s storied history and its attractive 6.6% expected annualized total return over the next half decade, we rate shares a hold.

Total Return Breakdown by Year



² Note: This payout ratio using AFFO in the denominator.

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Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 95 | 96 | 161 | 257 | 331 | 349 | 434 | 591 | 619 | 721 |
| SG&A Exp. | 53 | 38 | 69 | 130 | 148 | 162 | 182 | 217 | 216 | 211 |
| D&A Exp. | 7 | 5 | 27 | 55 | 56 | 56 | 57 | 66 | 69 | 73 |
| Net Profit | 93 | 53 | 50 | 73 | 116 | 129 | 171 | 339 | 326 | 371 |
| Net Margin | 98.3% | 55.6% | 31.2% | 28.6% | 35.0% | 36.8% | 39.4% | 57.4% | 52.6% | 51.5% |
| Free Cash Flow | 31 | 36 | (199) | 459 | (38) | (227) | 55 | 217 | 1,100 | 236 |
| Income Tax | - | - | 1 | 13 | 10 | 15 | 40 | 46 | 17 | 27 |

Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|
| Total Assets | 1,866 | 1,827 | 2,971 | 3,626 | 4,612 | 6,239 | 7,661 | 15,074 | 17,039 | 15,739 |
| Cash & Equivalents | 50 | 189 | 139 | 104 | 160 | 300 | 340 | 405 | 534 | 929 |
| Goodwill & Int. Ass. | | - | 325 | 374 | 390 | 397 | 485 | 523 | 498 | 483 |
| Total Liabilities | 1,331 | 1,262 | 2,224 | 2,761 | 3,547 | 4,883 | 6,178 | 12,524 | 13,967 | 12,484 |
| Long-Term Debt | 1,279 | 1,208 | 2,099 | 2,631 | 2,736 | 3,464 | 4,681 | 8,395 | 10,138 | 9,395 |
| Shareholder's Equity | 446 | 476 | 498 | 606 | 806 | 1,095 | 1,255 | 1,862 | 2,303 | 2,484 |
| LTD/E Ratio | 2.39 | 2.14 | 3.58 | 3.78 | 3.06 | 2.92 | 3.48 | 3.47 | 3.45 | 3.01 |

Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|-------|------|--------|------|--------|--------|-------|-------|-------|-------|
| Return on Assets | 5.0% | 2.9% | 2.1% | 2.2% | 2.8% | 2.4% | 2.5% | 3.0% | 2.0% | 2.3% |
| Return on Equity | 19.1% | 9.7% | 7.7% | 9.1% | 12.0% | 10.6% | 12.0% | 16.8% | 11.6% | 11.7% |
| ROIC | 5.2% | 3.0% | 2.2% | 2.3% | 3.2% | 3.0% | 3.1% | 4.0% | 2.7% | 2.9% |
| Shares Out. | 50.5 | 51.0 | 51.4 | 61.7 | 85.4 | 111.2 | 123.9 | 152.1 | 179.8 | 188.5 |
| Revenue/Share | 1.88 | 1.88 | 3.12 | 3.20 | 3.54 | 3.01 | 3.24 | 3.79 | 3.11 | 3.29 |
| FCF/Share | 0.61 | 0.71 | (3.84) | 5.71 | (0.40) | (1.95) | 0.41 | 1.39 | 5.52 | 1.08 |

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

Disclaimer

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