



INVEST/STAY CONNECTED

INITIAL REPORT OCTOBER 25, 2024
LAST UPDATED OCTOBER 25, 2024

RITHM CAPITAL CORP.

We are continuing our analysis of publicly traded loan portfolios with Rithm Capital (RITM). Rithm is a mortgage servicer, servicing \$645 billion in mortgages representing 3.6 million homeowners. The company’s origination business funded \$36.9 billion and \$67.6 billion of mortgages for the years ended December 31, 2023, and 2022, respectively. The Mortgage Bankers Association estimated total U.S. origination volume in 2023 at \$1.6 trillion and predicted that this will increase to \$1.95 trillion in 2024. The company also owns and manages a \$17 billion investment portfolio consisting of servicing related investments, such as residential mortgage securities, mortgages, individual properties and other types of loans. RITM, in contrast to most peers in the mortgage REIT category, has a lower risk profile. This is due to the relative safety of the servicing and origination business. However, the company has an above average dividend yield of 9.45%.

Recently, Rithm has begun to expand outside of the origination and servicing business. Rithm acquired Sculptor, a \$32 billion asset manager focused on fixed income, in 2023. Also, in 2023 Rithm Capital entered into an agreement to acquire mortgage servicer Computershare for a purchase price of approximately \$720 million, this will add \$136 billion to Rithm’s servicing portfolio. The company is developing a single-family rental business and currently owns over \$1 billion in homes. Another new focus is specialty lender Genesis. In 2023, Genesis originated \$2.1 billion in loans to fund the construction and development of, or investment in, residential properties. The company outlines these different components in the [recent presentation](#).

Overall, we see Rithm as a buy at 6 X 2024 consensus earnings and a yield over 9%. Our target of \$14 is based on a more reasonable 8 X 2024 earnings. The company is also embarking on a new trajectory of growth, which may cause investors to reprice the shares higher. We caution that the mortgage servicing rights, which are a tangible asset, are repriced quarterly based on interest rates. This can cause a lot of variation on the income sheet but does not affect the earnings available for distribution (EAD) and in general should be ignored. We see Rithm shares as a safe income producing asset and the 9.45% dividend as attractive at over 100% above the 10-year treasury yield and more than 50% over the high yield index (HYG). We project that the 2024 earnings available for distribution will cover the dividend by over 170% in 2024.

\$10.52 / Recommendation: BUY, target \$14

Company Stats & Estimates \$

Dividend Yield	9.46%
Projected common Dividend	\$1.00
Shares outstanding mm	513
Equity Market Cap	5,422
Total Assets	33,858
Total Liabilities & PFD	27,920
2024 Total Revenue	4,972
2024 Distributable EPS	1.72
2025 Distributable EPS	1.88
2024 Distributable Earnings	891
2025 Distributable Earnings	974
2024 EAD Yield	16.26%
Enterprise Value	33,342
Pre-Tax Income	1,192
Dividend coverage @1.00	172%
Price to Dist. Earnings / Share	6.7 X
2024 YE book value / share	\$12.16

RTHM INVESTOR RELATIONS



SMART YIELD

Income Fund

BROXTON CAPITAL ADVISORS RITM as of 6/30/2024

Friday, October 25, 2024

share price \$10.57

PROJECTIONS IN MM fiscal yr 2024 2025 2026

Income Statement

Net Servicing & Other Revenue 4,972 5,017 5,065

Total Expenses 3,680 3,725 3,725

Pre-Tax Income **1,192** **1,292** **1,340**

Tax 203 220 228

Earnings available for Dist. (EAD) 891 974 1,014

EAD / Share* \$1.72 \$1.88 \$1.96

Net Income 891 974 1,014

Net Income / Share GAAP 1.72 1.88 1.96

2023

Interest Income 1,676

Interest Expense 1,421

Dividend **1.00** **1.00** **1.00**

Common Dividend Coverage % **172%** **188%** **196%**

Price to Dist Earnings / Share **6.1** **5.6** **5.4**

Valuations

Distributable Earnings Yield **16.3%** **17.8%** **18.5%**

Dividend Yield **9.46%**

PE ratio 6.1 5.6 5.4

Enterprise Value 33,342

Equity Market Cap 5,422

Capital Structure

Shares outstanding * 513

Senior Notes 1,617

PFD Shares Face Value **634.0**

Liquidity

Dec. 31 2023

Cash 1,369

Borrowing Availability est. 1000+

Total Assets 33,858

Total Liabilities & PFD 27,920

Ratio 121%

Book Value

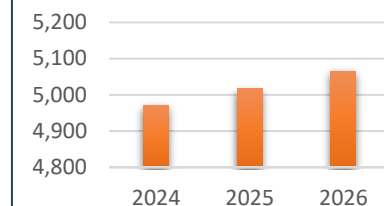
Company Reported BV / Share \$12.16

Book Value 5,938

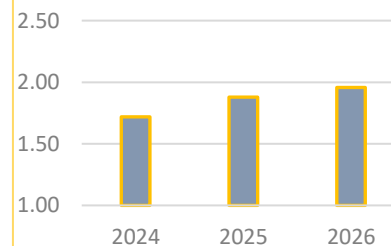
NOTES:

*Includes September 2024 issuance of common shares. Broxton does not compute noncash MSR changes in the projections.

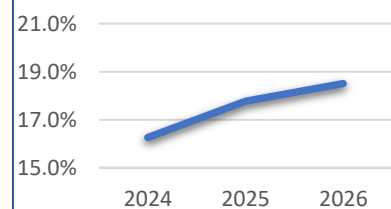
Revenue Projection



EPS Projection



Distributable Earnings Yield



Disclosures

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded, or financial performance falls below our projections. Since Smart Yield returns will be calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton offers Smart Yield for other investment managers. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. Targeted performance does not guarantee future results. 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Also, from time-to-time we may also discuss and display charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions.

Broxton Capital Advisors 151 Calle San Francisco
San Juan PR, 00901 broxtoncapital.com
310-208-2191

Allen Cooke Portfolio Manager 310-208-2151
Cell 310-279-3338
allen@broxtoncapital.com

BROXTON
CAPITAL ADVISORS
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