

## Summary

Date of report: Dec 01, 2020  
Stock: Great Ajax, Corp. (AJX)  
Sector: Diversified Financials and Insurance  
Subsector: Real Estate Services

P/E ratio for AJX: 8.54  
P/E ratio for industry: 40.97  
Price target: 13.02  
Current price: 8.16

**Recommendation: HOLD**



## Company Summary

Great Ajax (AJX) is one of our current holdings and is headquartered in Beaverton, Oregon. Great Ajax is structured as a real estate investment trust (REIT) and primarily manages single family residences and properties. Unlike other REITs Great Ajax doesn't manage the properties themselves but a portfolio of mortgage loans secured by the properties. Like most companies they were negatively affected by the COVID-19 pandemic as they saw an increase in the number of defaults on mortgage loans.

## Industry Outlook

The biggest threat to companies like Great Ajax is the potential for another shut down. As unemployment grew the number of defaults on loans grew. This correlation has held true as many have returned to work. In response to COVID-19 certain companies have had to sell off large amounts of assets in order to maintain stable earnings whereas, other companies have structured themselves in a way to mitigate losses without getting rid of many assets. IBIS World expects revenues to decrease for companies with similar structure and operating expenses to remain high in order to mitigate the losses incurred by the pandemic.

## Cash flow history and forecasts

Date: (Year end)	12/31/2016(A)	12/31/2017(A)	12/31/2018(A)	12/31/2019(A)	12/31/2020(E)	12/31/2021(E)	12/31/2022(E)	12/31/2023(E)	12/31/2024(E)
<b>Income:</b>									
Interest income	\$ 70,688	\$ 91,424	\$ 108,181	\$ 112,416	\$ 103,588	\$ 90,098	\$ 95,677	\$ 103,902	\$ 103,571
Interest expense	\$ (25,573)	\$ (39,101)	\$ (53,335)	\$ (59,325)	\$ (52,426)	\$ (39,336)	\$ (44,334)	\$ (51,047)	\$ (51,106)
Net interest income	\$ 45,115	\$ 52,323	\$ 54,846	\$ 53,091	\$ 51,161	\$ 50,761	\$ 51,344	\$ 52,855	\$ 52,465
Provision for credit benefit/(losses)	-	-	\$ (1,164)	\$ (803)	\$ (781)	\$ (916)	\$ (916)	\$ (916)	\$ (866)
Net interest income after provision for credit benefit/(losses)	\$ 45,115	\$ 52,323	\$ 53,682	\$ 52,288	\$ 50,380	\$ 49,845	\$ 50,428	\$ 51,939	\$ 51,599
Income/(loss) from investments in affiliates	\$ 558	\$ 707	\$ 762	\$ 1,332	\$ (345)	\$ 603	\$ 612	\$ 593	\$ 559
Income/(loss) on sale of mortgage loans	-	-	-	\$ 7,123	\$ 4,000	\$ 5,562	\$ 5,562	\$ 5,562	\$ 5,562
Other income	\$ 1,024	\$ 1,765	\$ 3,720	\$ 4,176	\$ 2,487	\$ 2,634	\$ 2,956	\$ 3,195	\$ 3,090
Total Revenue, net	\$ 46,697	\$ 54,795	\$ 58,164	\$ 64,919	\$ 56,523	\$ 58,644	\$ 59,558	\$ 61,288	\$ 60,809
Revenue growth rate					-13%	4%	2%	3%	-1%
Total rev/Interest income	66%	60%	54%	58%	55%	65%	62%	59%	59%
<b>Expenses:</b>									
Loan servicing fees	\$ 6,083	\$ 8,245	\$ 10,148	\$ 9,133	\$ 11,000	\$ 8,922	\$ 9,490	\$ 9,738	\$ 9,657
Management fees	\$ 3,949	\$ 5,340	\$ 6,025	\$ 7,356	\$ 7,865	\$ 6,107	\$ 6,539	\$ 6,778	\$ 6,929
Loan transaction expense	-	-	-	\$ 328	\$ (38)	-	-	-	-
Professional fees	-	-	-	\$ 2,550	\$ 3,074	\$ 2,812	\$ 2,943	\$ 2,878	\$ 2,910
Real estate operating expense	-	-	-	\$ 3,685	\$ 1,500	\$ 2,046	\$ 2,046	\$ 2,319	\$ 2,183
Other expenses	\$ 7,191	\$ 9,794	\$ 9,754	\$ 4,225	\$ 7,350	\$ 11,706	\$ 10,843	\$ 10,630	\$ 8,884
Total expenses	\$ 17,223	\$ 23,379	\$ 25,927	\$ 27,277	\$ 30,751	\$ 32,139	\$ 31,860	\$ 32,344	\$ 30,562
Provision for income tax (benefit)	\$ 35	\$ 131	\$ 64	\$ 124	\$ (199)	-	-	-	-
Loss on debt extinguishment	\$ 565	\$ 1,131	\$ 836	\$ 429	\$ 408	-	-	-	-
<b>Consolidated Net Income</b>	\$ 28,874	\$ 30,154	\$ 31,337	\$ 37,089	\$ 25,364	\$ 26,505	\$ 27,697	\$ 28,945	\$ 30,246
Earnings growth rate					-32%	4%	4%	5%	4%

## Valuation

FCFE								
Date: (Year end)	12/31/2019(A)	12/31/2020(E)	12/31/2021(E)	12/31/2022(E)	12/31/2023(E)	12/31/2024(E)	12/31/2025 (E)	Terminal Value
FCFE	\$ 37,089	\$ 25,364	\$ 26,505	\$ 27,698	\$ 28,945	\$ 30,247	\$ 31,306	\$ 395,138.870
Growth rate		-32%	4.5%	4.5%	4.5%	4.5%	3.5%	
Sector Forward P/E ratio = 12.1								
Discount rate (k)	11.70%							
NPV	\$298,059.22							
NPV of FCFE/shares outstanding	\$13.02							
Recommendation:	HOLD							
Share outstanding (thousands)	22,900							
							Forward P/E = 12.1	
							Short term growth rate = 4.5	
							Discount (k) = .121= 1/(k-.045)	

**Earnings and valuation assumptions:** One of the main drivers that led to a decline in forecasted earnings for 2020 was the number of defaults on mortgage payments. Responses to COVID-19 resulted in many people being let go from their jobs. As the unemployment rate increased, families were having a hard time paying their mortgages and Great Ajax had to respond in order to stabilize earnings. Great Ajax increased provisions in order to mitigate losses incurred. Going forward earnings are projected to increase as unemployment and the number of defaults decreases.