

APOLLO COMMERCIAL REAL ESTATE

Apollo Commercial Real Estate Finance, Inc. (ARI) is a 9 billion-dollar publicly traded diversified commercial real estate loan portfolio structured as a real estate investment trust or mortgage REIT. The [portfolio](#) is comprised primarily of floating rate first mortgage loans concentrated in the hotel, office, retail and residential areas. The loan portfolio is comprised of 50 loans with a carrying value of \$8.4 billion, a current yield of 8.7% and an average loan to value of 57% (calculated at the time of origination). ARI also has an additional \$1 billion in owned real estate and other lending assets. The entire portfolio is financed with \$7 billion in borrowings, with close to a 7% interest rate as of 4th quarter. This produced a net investment income of \$252 million in 2023 and (Broxton calculation*) distributable earnings of \$210 million or \$1.45 per share after operating costs and other factors in 2023.

Currently the Broxton book value per share is \$14.16 versus a trading price of \$11.00. The trading price is near to a \$450 million discount to the book value. Overall, investors are allocating the discount, as with other commercial mortgage REITs, due to concerns on office buildings loans. The ARI portfolio is comprised of 19% office loans.

Currently ARI has a reserve of \$219 million built into the carrying value of the portfolio and \$694 million of loans have a non-accrual status. This is up from \$468 million at the end of 2022. The portfolio's 4th quarter 2023 net investment income rate declined from 2022 levels due to non-accrual additions and other factors. We believe the portfolio is fairly solid and can survive additional problems due to the low original loan to value of 57%. However, we also believe that the net investment income will continue to decline to \$218 million in 2026 from \$234 million this year and \$252 million last year. It is also likely that the company will see further additions to the non-accrual category of possibly \$300-400 million through 26. We do not believe that this will be life threatening to ARI, but we do see a dividend reduction from the current rate of \$1.40 per share to \$1.00 per share by 2025.

We recommend that investors look at entering new positions sub the \$9 level while keeping apprised of the portfolio. The current discount provides decent protection, but the dividend will probably be reduced and the portfolio may see additional loans put on non-accrual status.

\$11.07 / Recommendation: HOLD, target \$9.00

Company Stats & Estimates \$	
Shares & Units outstanding	144
Equity Market Cap	1,596
Total Assets	9,297
Total Liabilities & PFD	7,256
2024 Total Revenue Est.	327
2024 Distributable Earnings Est.	187
2024 Distributable EPS Est.	1.30
2024 Distributable EPS Yield Est.	11.71%
Enterprise Value in MM	\$8,852
EBITDA (2024 Est.)	644
2024 Dividend coverage @1.40	93%
Price to Dist. Earnings / Share	8.4 X
Current Book Value / Share	\$14.16

[ARI INVESTOR RELATIONS](#)

[RECENT PRESENTATION](#)



ARI monthly chart since 2019

BROXTON CAPITAL ADVISORS ARI as of 12/31/2023

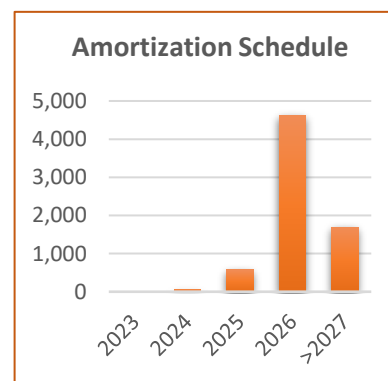
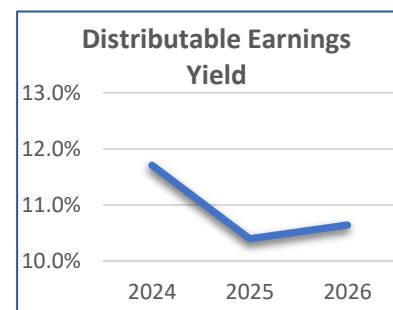
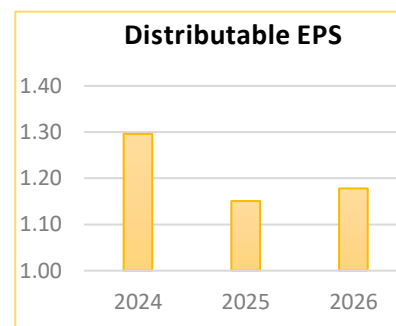
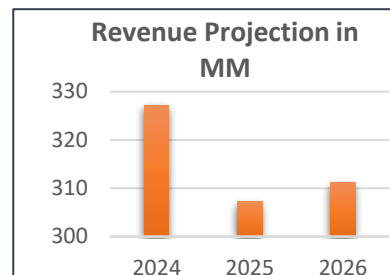
Wednesday, March 27, 2024

share price 3/26/2024 \$11.07

PROJECTIONS IN MM fiscal yr	2024	2025	2026
Income Statement			
Interest Income	691	657	657
Interest Expense	457	443	452
Net Investment Income	\$234	\$214	\$218
Other Revenue	93	93	93
Total Revenue	327	307	311
Total Operating Expenses			
	151	152	152
Operating Income			
	176	155	159
Distributable Earnings			
	187	166	170
Distributable Earnings / Share	1.30	1.15	1.18
EBITDA			
	644	609	622
EV/ EBITDA	14		
Dividend EST.	1.40	1.00	1.00
Common Dividend Coverage %	93%	115%	118%
Price to Dist. Earnings / Share	8.5	9.6	9.4
Valuations			
Distributable Earnings Yield	11.7%	10.4%	10.6%
Dividend Yield	12.65%	9.03%	9.03%
DEPS ratio	8.5	9.6	9.4
Enterprise Value	8,852		
Equity Market Cap	1,596		
Capital Structure			
Shares outstanding mm	144		
Total Borrowings	6,957		
PFD Shares Face Value	169.0		
Liquidity Dec. 31 2023			
Cash	225		
Borrowing Availability est.	100		
Total Assets	9,297		
Total Liabilities & PFD	7,256		
Book Value	\$2,041		
Book Value Dec. 31 2023			
Current BV / Share	\$14.16		

NOTES:

PFD SHARES outstanding: \$169 MM. * Operating Income & Distributable earnings (above) is previous to gains and losses on investments and other adjustments. Distributable earnings are Broxton's Distributable earnings includes operating income + Depreciation on REO and adjustments for stock awards and is previous to gains and losses on investments and other adjustments.



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. 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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

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