

# Ladder Capital

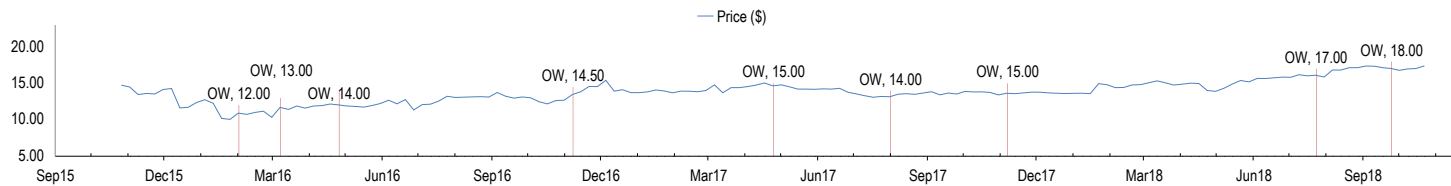
Richard Shane<sup>AC</sup>  
(1-415) 315-6701

# J.P.Morgan

Equity Research  
J.P. Morgan Securities LLC  
23 October 2018

Recommendation	Price Target	PT End Date	Price	Upside/Downside to PT
Neutral	\$18.00	31-Dec-19	\$17.10	5.26%

Ladder Capital Corp operates as a commercial real estate company. The Company offers commercial mortgage lending, investments in securities secured by first mortgage loans, and investments in selected net leased and other commercial real estate assets. Ladder Capital serves clients in the States of New York, California, and Florida.



Note: All analysts forecasts are as of last note published on 24-Oct-2018

Source: Bloomberg, J.P. Morgan estimates.

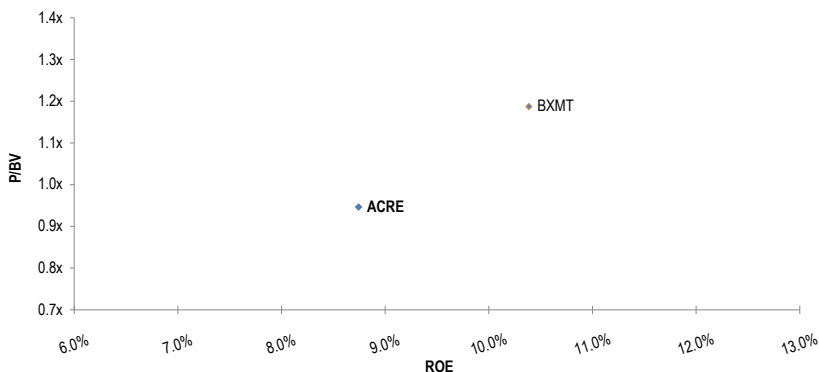
The Upside/Downside to PT is calculated based on the previous day's closing price which is quoted above.

Key Financials (\$mn, year end Dec)	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	116	118	141	154	173
Net Revenue	279	304	367	357	375
Provision for loan losses	(0)	0	(5)	(3)	(3)
Net Profit	159	169	200	193	201
Net Loans & Receivables	4,455	4,615	5,196	5,496	5,696
Long Term Investments	n/a	n/a	n/a	n/a	n/a
Total Assets	5,578	6,026	6,563	6,855	7,040
Deposits	n/a	n/a	n/a	n/a	n/a
Total Shareholder's equity	1,510	1,488	1,515	1,523	1,529
Total Interest Earning Assets	n/a	n/a	n/a	n/a	n/a
Total Interest Bearing Liabilities	n/a	n/a	n/a	n/a	n/a
Non-performing loans	n/a	n/a	n/a	n/a	n/a
BV per share (\$)	14.76	14.60	15.30	15.66	16.10
EPS (\$)	1.47	1.54	1.75	1.69	1.82
DPS (\$)	1.28	1.22	1.29	1.34	1.40

Key Ratios	FY16	FY17	FY18E	FY19E	FY20E
NIM	n/a	n/a	n/a	n/a	n/a
ROA	n/a	n/a	n/a	n/a	n/a
NPL/Gross Loans	n/a	n/a	n/a	n/a	n/a
Tier 1 Ratio	n/a	n/a	n/a	n/a	n/a
CAR	n/a	n/a	n/a	n/a	n/a
Loans to deposits (period end)	n/a	n/a	n/a	n/a	n/a
Loan Loss Reserves / NPL	n/a	n/a	n/a	n/a	n/a
RORWA	n/a	n/a	n/a	n/a	n/a
RWAs/Total assets (Period end)	n/a	n/a	n/a	n/a	n/a
P/BV	1.2x	1.2x	1.1x	1.1x	1.1x
ROE	n/a	n/a	n/a	n/a	n/a
Payout ratio	87.1%	78.8%	73.5%	79.2%	76.9%

Source: Company data, Bloomberg, J.P. Morgan estimates.

## Peer Valuation Chart FY18E



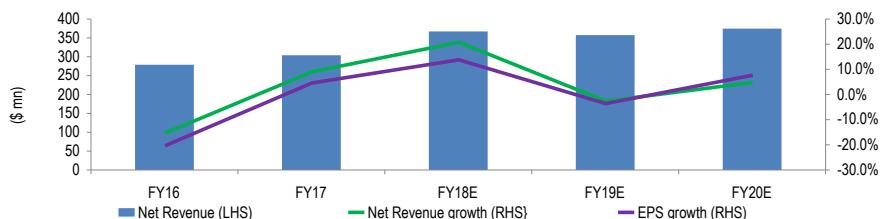
Source: Company data, Bloomberg, J.P. Morgan estimates.

## Margin Analysis (LADR)

Source: Company data, J.P. Morgan estimates.

### NIM trends vs local peers

## Net Revenue and EPS growth



Source: Company data, J.P. Morgan estimates.

Source: Company data, J.P. Morgan estimates.

## Company Data

Market Cap (USDmn)	1,655
Shares O/S (mn)	97
Float	n/a
Dividend Yield	7.5%
EPS (\$)	1.75
3M - Avg daily volume (mn)	0.64
52 wk High/Low (\$)	17.71-13.23

JPM EPS Estimate		BBG EPS Estimate	
FY18E	FY19E	FY18E	FY19E
1.75	1.69	1.84	1.79

Source: Company data, Bloomberg, J.P. Morgan estimates.

Peer Valuation Analysis	Ticker	Fiscal Year End	Last Note Published	Rating	Price Target	Mkt Cap (\$mn)	Tier 1 Ratio		P/BV		NIM		ROE	
							FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
<b>Local peers</b>														
Ares Commercial Real Estate Corp.	ACRE	2017/12	24-Oct-18	N	\$14.50	399	n/a	n/a	0.9x	0.9x	n/a	n/a	8.7%	8.2%
Blackstone Mortgage Trust	BXMT	2017/12	23-Oct-18	N	\$34.00	3,623	n/a	n/a	1.2x	1.2x	n/a	n/a	10.4%	10.3%
<b>Global peers</b>														
<b>Ladder Capital</b>	<b>LADR</b>	<b>2017/12</b>	<b>24-Oct-18</b>	<b>N</b>	<b>\$18.00</b>	<b>1,655</b>	<b>n/a</b>	<b>n/a</b>	<b>1.1x</b>	<b>1.1x</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
Median							n/a	n/a	1.1x	1.1x	n/a	n/a	9.6%	9.2%
Mean							n/a	n/a	1.1x	1.1x	n/a	n/a	9.6%	9.2%
High							0.0%	0.0%	1.2x	1.2x	0.0%	0.0%	10.4%	10.3%
Low							0.0%	0.0%	0.9x	0.9x	0.0%	0.0%	8.7%	8.2%

Source: Company data, Bloomberg, J.P. Morgan estimates.

### **Investment Thesis**

**We reduce our rating to Neutral (from Overweight).** Our Neutral rating reflects our view that shares of LADR should perform in-line with our coverage universe. We maintain our view that LADR is a unique and versatile CRE participant (worthy of a premium multiple), able to operate within different segments of the CRE market as a lender, issuer, CMBS buyer, as well as real estate investor. Assuming CRE fundamentals do not deteriorate materially within our targeted investment horizon, we believe LADR will continue to generate steady returns via its flexible business model.

### **Valuation**

**We reiterate our Dec-19 PT of \$18.00.** We derive our price target by applying a 1.15x (unchanged) multiple on our YE2019 undepreciated book value estimate of \$15.66 (from \$15.70). We believe the current competitive dynamic favors firms with flexible strategies that enable investing in different segments of the capital stack, though we continue to believe CMBS origination volumes should remain subdued as competition in the CRE space remains relatively high. Our price target implies a projected total annualized return of 11.9% through 2019YE, inclusive of forecasted dividends.

### **Risks to Rating and Price Target**

**Upside and downside risks.** If the CMBS market deteriorates more than our projections, LADR's earnings may fall short of our estimates. If LADR's gain-on-sale margins are lower than our forecast, earnings and book value may fall short of expectations. If LADR incurs greater loan losses than we project, earnings may fall short of estimates. If LADR's asset yields are lower than expected, and/or its cost of funding is higher than expected, earnings and book value may fall short of our estimates. If rates increase more rapidly than anticipated, LADR may realize higher gains on its core lending portfolio, exceeding our forecasts. Similarly, if LADR's gains-on-sale from securitization exceed our modelled estimates, share price appreciation could outpace our projections.

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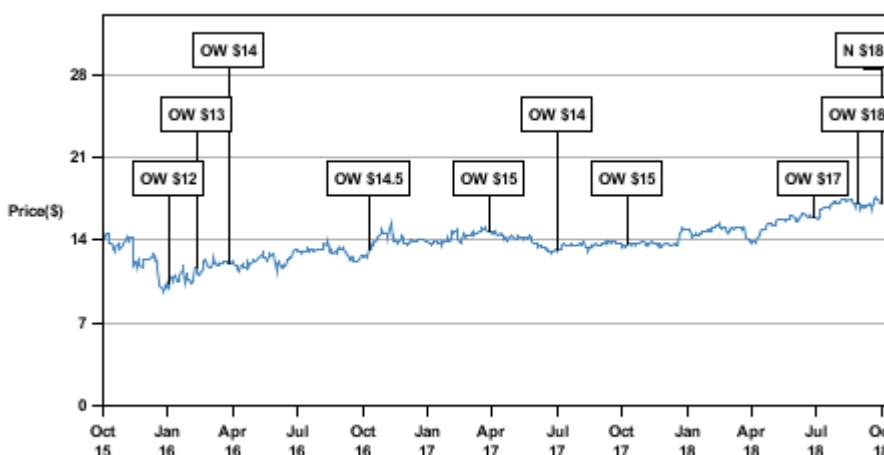
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Ladder Capital (LADR, LADR US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
26-Jan-16	OW	10.25	12.00
07-Mar-16	OW	11.69	13.00
21-Apr-16	OW	12.04	14.00
04-Nov-16	OW	13.23	14.50
21-Apr-17	OW	14.70	15.00
25-Jul-17	OW	13.15	14.00
03-Nov-17	OW	13.70	15.00
23-Jul-18	OW	15.94	17.00
21-Sep-18	OW	17.08	18.00
24-Oct-18	N	17.10	18.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Mar 03, 2014.

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