

CMI Balanced Mortgage Fund Corporation

Increasing Portfolio Size While Boosting Yields

Expected Yield (FY2024): 9.0%
Rating*: 2
Risk*: 3

Sector: Mortgage Investment Corporations

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Highlights

- We are resuming our coverage on CMI. In FY2023 (ended June 2023), CMI's yield was 8.72% (8.57% in FY2022), driven by higher mortgage receivables, and lending rates.
- The MIC **remains focused on first mortgages** for single family residential units in Ontario. At the end of FY2023, mortgage receivables surpassed **\$150M - the highest in CMI's history**.
- We anticipate **the Bank of Canada will initiate rate cuts** in H1-2024, driven by rising unemployment, financial instability, and mortgage costs, declining consumer confidence, and cooling inflation. We anticipate transaction volumes will pick up this year, driven by lower interest rates.
- In FY2023, stage three (impaired) mortgages increased 4.1 pp to 6.3% of mortgage receivables. **We believe CMI's low LTV (65%) puts them in a comfortable position.** In the event of needing to foreclose on collateral assets, we believe there would be ample equity remaining to enable CMI to recover the vast majority, if not all, of its invested capital. Management is confident, which is evident in their decision to allocate only 0.2% of the portfolio to loan loss allowances.
- Anticipating a decline in rates this year, we find high-yielding funds, such as CMI, increasingly appealing.
- We are projecting a yield of **9.0% in FY2024, up from 8.7% in FY2023.**

Sid Rajeev, B.Tech, MBA, CFA
Head of Research

Issuer	CMI Balanced Mortgage Fund Corp.
Securities Offered	Non-Voting Preferred Shares
Unit Price	\$1
Minimum Subscription	\$5,000
Distributions to Investors	Quarterly
Redemption	Allowed after 12 months
Management Fee	1% p.a. of Mortgages Outstanding + 20% of the net yield over 7.5% p.a.
Auditor	KPMG LLP

Key Financials /YE: June 30	2022	2023	2024E	2025E
Mortgage Receivables	\$119,448,107	\$150,035,018	\$175,000,000	\$200,000,000
Debt to Capital	26%	38%	37%	38%
Revenue	\$8,560,281	\$14,188,243	\$17,470,632	\$18,750,000
Net Profit	\$5,744,107	\$8,359,254	\$9,444,324	\$10,513,586
Dividend Yield	8.6%	8.7%	9.0%	8.8%

*See last page of this report for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.

Investment Strategy

Short-term loans secured by real estate in ON

- Primary focus on residential units in Ontario
- >50% of assets will be invested in residential mortgages
- <35% of assets will be invested in commercial mortgages
- <25% of assets will be invested in real estate properties held for revenue generation
- Terms of less than five years
- 65% LTV

The following table illustrates a comparison between CMI's portfolio and that of other similar MICs (with AUM of over \$100M) focused on single-family residential units.

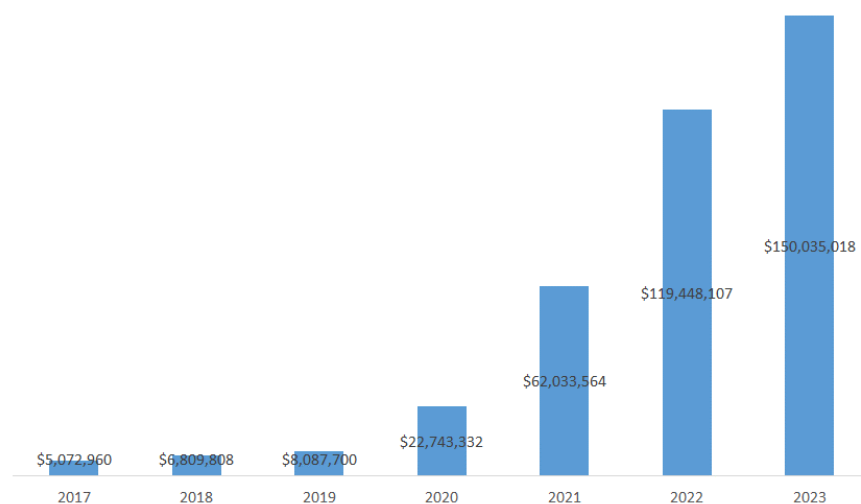
	CMI	Average
First Mortgage	75%	80%
B.C.	10%	41%
ON	75%	47%
AB	10%	6%
Others	5%	6%
LTV	65%	58%
Yield	8.7%	8.0%
Debt to Capital	38%	23%
Average Loan Size	\$320,489	\$599,741
Stage 3 (Impaired)	6.4%	2.3%
Provision	0.2%	0.5%

CMI has a higher-than-average risk profile (due to lower first mortgages, and higher LTV), and higher yields

Source: FRC / Various

Portfolio Details (YE: June 30th)

Mortgage Receivable (Net)



In FY2023, mortgage receivables were up 25% YoY to \$150M – the highest in CMI's history

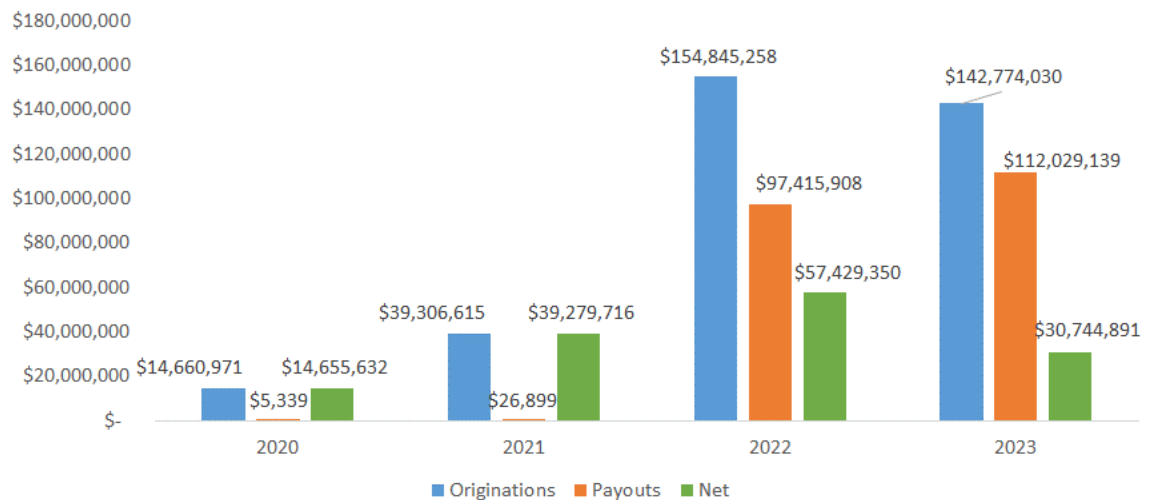
Source: Company / FRC

Debt/capital increased 12 pp to 38%, which we note is on the higher end of comparables

Balance Sheet (YE - Jun 30)	2019	2020	2021	2022	2023
Cash and Equivalents	\$2,418,585	\$4,373,148	\$613,133	\$76,209	\$4,218,353
Amounts Receivable	\$127,377	\$284,614	\$2,757,343	\$1,625,308	\$826,644
Inventory		\$99,814	\$99,813		
Mortgage Receivables (net)	\$8,087,700	\$22,743,332	\$62,033,564	\$119,448,107	\$150,035,018
Intangible Assets	\$61,262	\$97,463	\$47,918	\$23,338	\$5,903
Advances	\$59,777	\$171,093	\$311,819	\$1,962,807	\$4,979,110
Prepaid Expenses and Other Assets	\$33,999	\$288,460	\$62,513		
Total Assets	\$10,788,700	\$28,057,924	\$65,926,103	\$123,135,769	\$160,065,028
Accts Payable and Accrued Liabs	\$146,993	\$468,426	\$1,053,319	\$1,142,706	\$1,727,636
Bank Indebtedness		\$8,137,271	\$14,999,750	\$31,530,790	\$60,000,000
Advances		\$338,448	\$2,250	\$20,627	\$1,226,701
Total Liabilities	\$146,993	\$8,944,145	\$16,055,319	\$32,694,123	\$62,954,337
Common Shares	\$4	\$4	\$4	\$4	\$4
Preferred Shares	\$10,670,855	\$19,142,927	\$49,899,932	\$90,470,794	\$97,110,687
Equity (Deficit)	-\$29,152	-\$29,152	-\$29,152	-\$29,152	
Total SE	\$10,641,707	\$19,113,779	\$49,870,784	\$90,441,646	\$97,110,691
Total Liabilities and SE	\$10,788,700	\$28,057,924	\$65,926,103	\$123,135,769	\$160,065,028

Debt to Capital	0%	30%	23%	26%	38%
Interest Coverage	NA	5.2	4.2	6.3	3.7

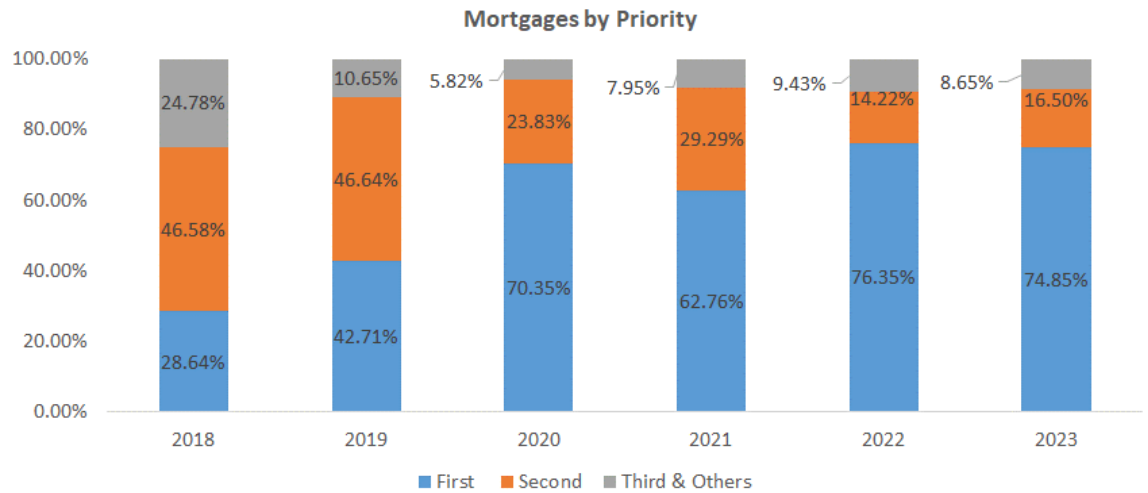
Mortgage Originations / Payouts



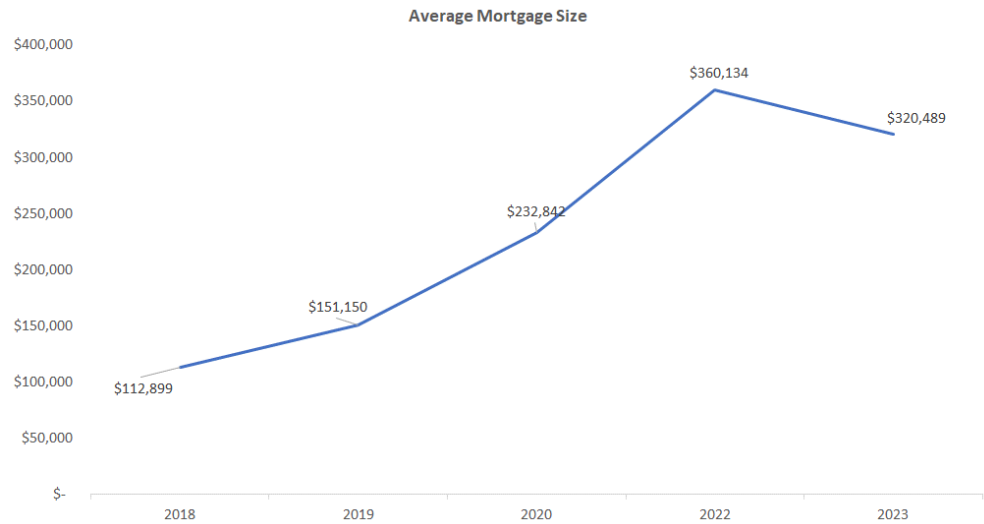
Source: Company / FRC

In FY2023, originations were down 8% YoY, while repayments were down 15% YoY

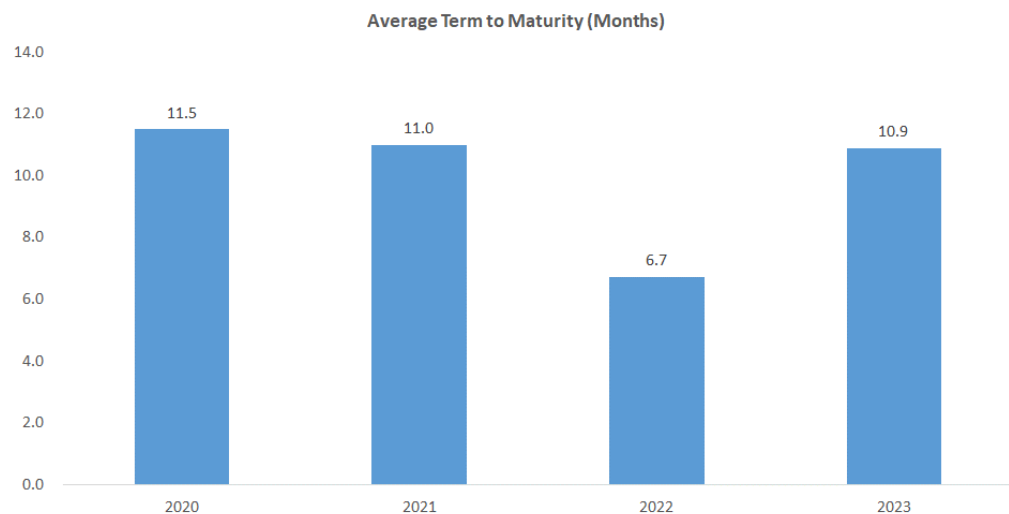
Exposure to first mortgages declined 1.5 pp, implying a modest increase in risk profile



The average mortgage size declined YoY, from \$360k to \$320k



Duration increased to historical levels

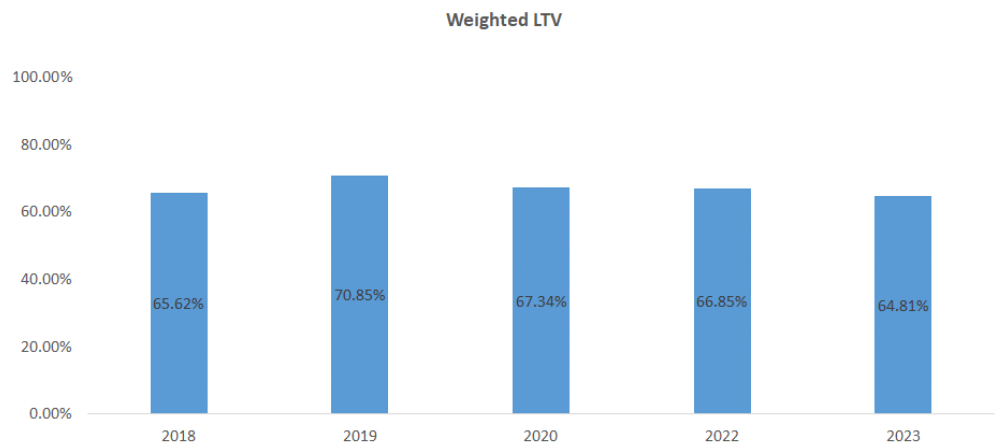
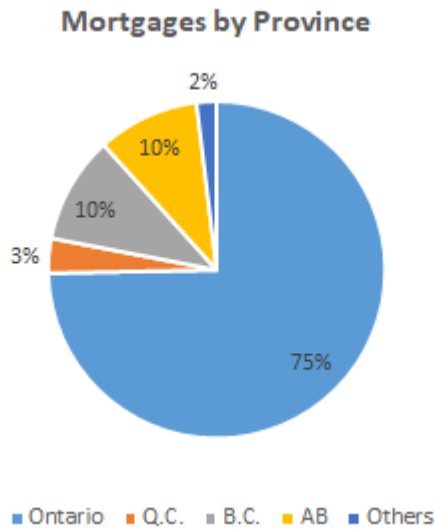
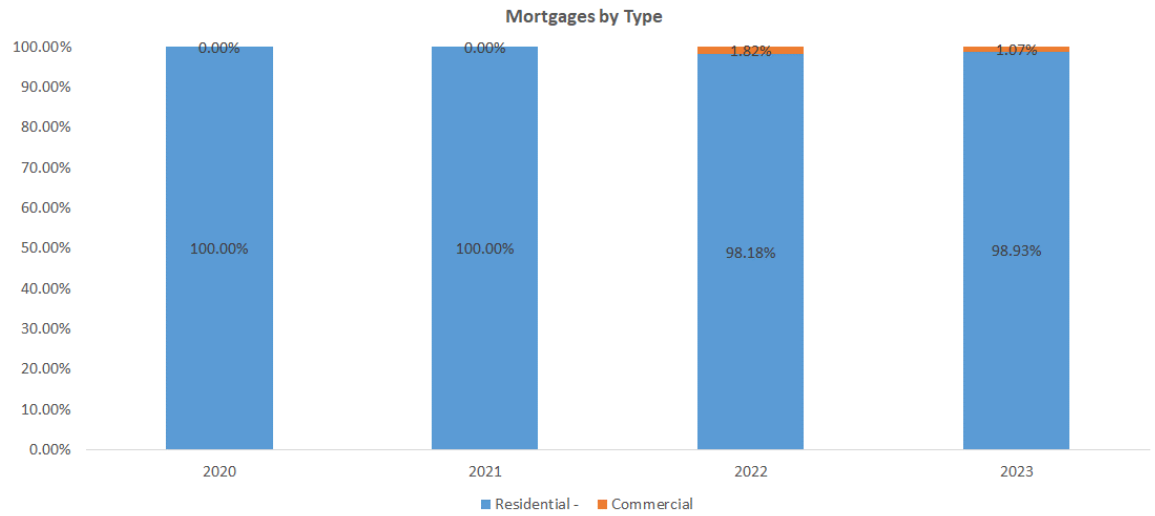


Source: Company / FRC

Focused on already-built residential units

As of November 2023, 75% of mortgages were in ON, followed by B.C. (10%), and AB (10%)

LTV declined by 2 pp, implying a lower risk profile



Source: Company / FRC

Lending rates increased with market rates

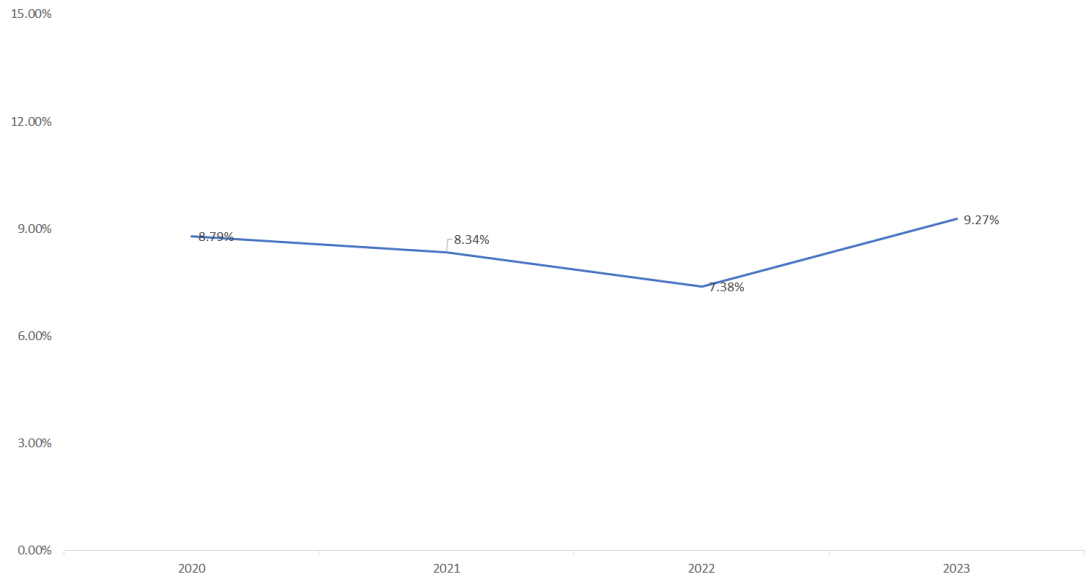
No material realized losses

However, stage three (impaired) mortgages increased 4.1 pp to 6.3% of mortgage receivables, implying increased risk

For conservatism, we are modelling a 200% increase in loan loss allowances in the next 12 months

FY2023 revenue was up 66% YoY, and dividends were up 46% YoY, amid higher mortgage receivables, and lending rates

Weighted Average Lending Rates



	2018	2019	2020	2021	2022	2023
Loan loss allowances (end of period)	\$77,044	\$74,389	\$75,147	\$101,644	\$116,451	\$274,430
% of Total Mortgages	1.13%	0.92%	0.33%	0.16%	0.10%	0.18%
Actual/Realized Losses	-\$62,992	\$2,655	-\$758	\$0	\$0	\$816
% of Total Mortgages	-1.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Impaired Mortgages (Stage 3)	\$234,700	\$445,950	\$827,300	\$381,445	\$2,773,195	\$9,628,042
% of Total Mortgages	3.4%	5.5%	3.6%	0.6%	2.3%	6.4%

Source: Company / FRC

Financials

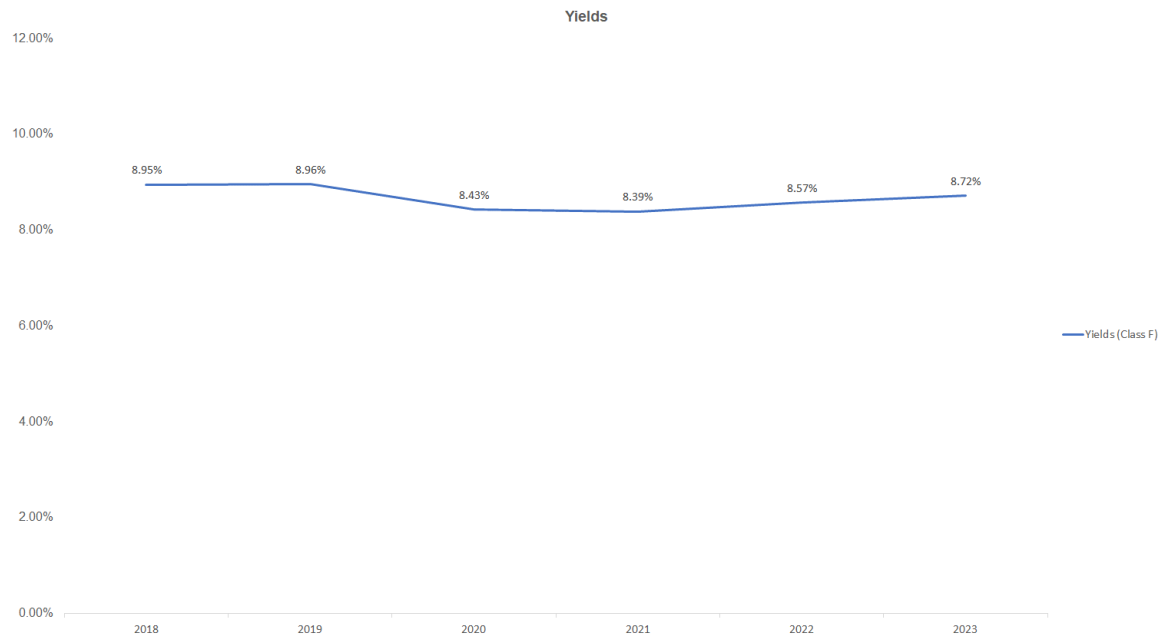
Income Statement (YE - Jun 30)	2018	2019	2020	2021	2022	2023	YoY
Mortgage Interest and Fees	\$784,767	\$907,657	\$1,702,851	\$3,588,983	\$7,832,520	\$11,680,655	
Other Income				\$323,367	\$727,761	\$2,507,588	
Revenue	\$784,767	\$907,657	\$1,702,851	\$3,912,350	\$8,560,281	\$14,188,243	66%
G&A	\$134,966	\$172,306	\$140,689	\$492,895	\$845,852	\$1,047,427	
Bank Charges and Interest			\$262,337	\$735,290	\$1,078,334	\$3,104,350	
Management Fee			\$187,070	\$317,334	\$877,181	\$1,518,417	
Provision for Impairment				\$26,497	\$14,807	\$158,795	
Expenses	\$134,966	\$172,306	\$590,096	\$1,572,016	\$2,816,174	\$5,828,989	107%
Net Income (Loss)	\$649,801	\$735,351	\$1,112,755	\$2,340,334	\$5,744,107	\$8,359,254	46%
Dividends	\$650,399	\$735,351	\$1,112,755	\$2,340,334	\$5,744,107	\$8,359,254	46%
Common Shares	4	4	4	4	4	4	
Preferred Shares	7,436,882	10,670,855	19,142,927	49,899,932	90,470,794	97,139,839	7%
Dividend/Preferred Share	\$0.10	\$0.08	\$0.07	\$0.07	\$0.08	\$0.09	9%
NAV per Share (Preferred)	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	0%

% of Mortgage Receivables (net)	2018	2019	2020	2021	2022	2023
Revenues	13.21%	12.19%	11.05%	9.23%	9.43%	10.53%
<i>Less:</i>						
G&A	2.27%	2.31%	0.91%	1.16%	0.93%	0.78%
Bank Charges and Interest	0.00%	0.00%	1.70%	1.73%	1.19%	2.30%
Management Fee	0.00%	0.00%	1.21%	0.75%	0.97%	1.13%
Provision for Impairment	0.00%	0.00%	0.00%	0.06%	0.02%	0.12%
Net Income	10.94%	9.87%	7.22%	5.52%	6.33%	6.20%

Investors' Returns	9.95%	8.12%	7.46%	6.78%	8.18%	8.91%
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The yield increased by 0.15 pp to 8.72%

Note that the above figures may be slightly different from the figures reported by the MIC due to the difference in the method of calculation. We used the average of the opening balance, and year-end balance of the mortgages outstanding, and invested capital, to arrive at the above figures.



Source: Company / FRC

FRC Rating

We are projecting a yield of 8.3% in FY2024

Income Statement (YE - Jun 30)	2023	2024E	2025E
Mortgage Interest and Fees	\$11,680,655	\$15,723,569	\$16,875,000
Other Income	\$2,507,588	\$1,747,063	\$1,875,000
Revenue	\$14,188,243	\$17,470,632	\$18,750,000
G&A	\$1,047,427	\$1,300,140	\$1,500,000
Bank Charges and Interest	\$3,104,350	\$4,410,000	\$4,275,000
Management Fee	\$1,518,417	\$2,187,693	\$2,362,500
Provision for Impairment	\$158,795	\$640,187	\$731,643
Expenses	\$5,828,989	\$8,026,308	\$8,236,414
Net Income (Loss)	\$8,359,254	\$9,444,324	\$10,513,586
Dividends	\$8,359,254	\$9,444,324	\$10,513,586
Common Shares	4	4	4
Preferred Shares	97,139,839	112,139,839	127,139,839
Dividend/Preferred Share	\$0.09	\$0.09	\$0.09
NAV per Share (Preferred)	\$1.00	\$1.00	\$1.00

% of Mortgage Receivables (net)	2023	2024E	2025E
Revenues	10.53%	10.75%	10.00%
<i>Less:</i>			
G&A	0.78%	0.80%	0.80%
Bank Charges and Interest	2.30%	2.71%	2.28%
Management Fee	1.13%	1.10%	1.10%
Provision for Impairment	0.12%	0.39%	0.39%
Net Income	6.20%	5.74%	5.43%
Dividends	8.91%	9.03%	8.79%

Our estimate for the FY2024 yield varies between 7.8% and 9.6% using various YoY increases in loan loss allowances

Loan Loss Allowances (% Increase)	FY2024 Yield
	9.0%
0.0%	9.64%
100.0%	9.33%
200.0%	9.03%
400.0%	8.42%
600.0%	7.80%

Source: Company / FRC

We are resuming coverage with an overall rating of 2, and risk rating of 3. Anticipating a decline in rates this year, we find high-yielding funds, such as CMI, increasingly appealing. Key risks include a softer mortgage origination market, and higher default rates.

FRC Rating	
Expected Yield (2024E)	9.0%
Rating	2
Risk	3

Risks

We believe the MIC is exposed to the following key risks (not exhaustive):

- Concentration risk – the bulk of its mortgages are in Ontario
- **Lower housing prices will result in higher LTVs**
- Shareholders’ principal is not guaranteed
- Timely deployment of capital is critical
- **Default rates can rise during recession**

APPENDIX

Income Statement (YE - Jun 30)	2023	2024E	2025E
Mortgage Interest and Fees	\$11,680,655	\$15,723,569	\$16,875,000
Other Income	\$2,507,588	\$1,747,063	\$1,875,000
Revenue	\$14,188,243	\$17,470,632	\$18,750,000
G&A	\$1,047,427	\$1,300,140	\$1,500,000
Bank Charges and Interest	\$3,104,350	\$4,410,000	\$4,275,000
Management Fee	\$1,518,417	\$2,187,693	\$2,362,500
Provision for Impairment	\$158,795	\$640,187	\$731,643
Expenses	\$5,828,989	\$8,026,308	\$8,236,414
Net Income (Loss)	\$8,359,254	\$9,444,324	\$10,513,586
Dividends	\$8,359,254	\$9,444,324	\$10,513,586
Common Shares	4	4	4
Preferred Shares	97,139,839	112,139,839	127,139,839
Dividend/Preferred Share	\$0.09	\$0.09	\$0.09
NAV per Share (Preferred)	\$1.00	\$1.00	\$1.00
Balance Sheet (YE - Jun 30)	2023	2024E	2025E
Cash and Equivalents	\$4,218,353	\$93,365	\$443,666
Amounts Receivable	\$826,644	\$867,976	\$911,375
Inventory			
Mortgage Receivables (net)	\$150,035,018	\$175,000,000	\$200,000,000
Intangible Assets	\$5,903	\$23,338	\$23,338
Advances	\$4,979,110	\$5,228,066	\$5,489,469
Prepaid Expenses and Other Assets			
Total Assets	\$160,065,028	\$181,212,745	\$206,867,848
Accts Payable and Accrued Liabs	\$1,727,636	\$1,814,018	\$1,904,719
Bank Indebtedness	\$60,000,000	\$66,000,000	\$76,500,000
Advances	\$1,226,701	\$1,288,036	\$1,352,438
Total Liabilities	\$62,954,337	\$69,102,054	\$79,757,157
Common Shares	\$4	\$4	\$4
Preferred Shares	\$97,110,687	\$112,110,687	\$127,110,687
Equity (Deficit)			
Total SE	\$97,110,691	\$112,110,691	\$127,110,691
Total Liabilities and SE	\$160,065,028	\$181,212,745	\$206,867,848
Debt to Capital	38%	37%	38%
Interest Coverage	3.7	3.0	3.3

Cash Flow (YE - Jun 30)	2024E	2025E
Net Income (Loss)	\$9,444,324	\$10,513,586
Non-Cash Items		
Change in WC	-\$160,006	-\$149,699
Cash from Operating Activities	\$9,284,318	\$10,363,887
Equity	\$15,000,000	\$15,000,000
Debt	\$6,000,000	\$10,500,000
Others	-\$9,444,324	-\$10,513,586
Cash from Financing Activities	\$11,555,676	\$14,986,414
Increase in mortgage loans (net)	-\$24,964,982	-\$25,000,000
Cash from Investing Activities	-\$24,964,982	-\$25,000,000

Fundamental Research Corp. Rating Scale:

- Rating – 1: Excellent Return to Risk Ratio
- Rating – 2: Very Good Return to Risk Ratio
- Rating – 3: Good Return to Risk Ratio
- Rating – 4: Average Return to Risk Ratio
- Rating – 5: Weak Return to Risk Ratio
- Rating – 6: Very Weak Return to Risk Ratio
- Rating – 7: Poor Return to Risk Ratio

A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:

- 1 (Low Risk)
- 2 (Below Average Risk)
- 3 (Average Risk)
- 4 (Speculative)
- 5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	33%	Risk - 2	10%
Rating - 3	45%	Risk - 3	41%
Rating - 4	8%	Risk - 4	32%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		

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