

## CMI High Yield Opportunity Fund Corp.

### One of the Highest-Yielding MICs: Initiating Coverage

**Expected Yield (FY2025): 9.5%**  
**Rating\*: 2-**  
**Risk\*: 3**

**Sector: Mortgage Investment Corporations**

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#### Highlights

- We are initiating coverage on CMI High Yield Opportunity Fund Corp. (CMI). Founded in 2019, CMI is **one of three Mortgage Investment Corporations (MICs) managed** by CMI Mortgage Services (the “Manager”), which has been in the mortgage business since 2010. These three funds collectively manage \$320M in assets. Our reports on CMI Balanced Mortgage Fund can be viewed [here](#).
- At the end of Q3-2024 (July 2024), **CMI managed \$154M across 500+ mortgages**, with an average mortgage size of \$177k, and an average loan-to-value of 76%. First mortgages comprised 18% of the portfolio, with 79% of the mortgages concentrated in Ontario.
- Compared to other MICs with over \$100M in AUM that focus on single-family residential units, we believe CMI **exhibits a higher-than-average risk profile**, largely attributed to lower exposure to first mortgages, and higher LTV, **resulting in higher yields**.
- CMI's current yield of 10.8% places it **among the highest-yielding MICs in the country**.
- Lending rates have started declining following the Bank of Canada's recent rate cuts. With cooling inflation and a softer jobs market, we expect further rate cuts, and **a boost in CMI's transaction volumes in the coming 12 months**.
- Anticipating lower rates, we find high-yielding funds, such as CMI, increasingly appealing. We are **projecting a yield of 10.8% in FY2024** (FY2024: 10.4%), and 9.5% in FY2025.

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

#### Offering Summary

Issuer	CMI High Yield Opportunity Fund Corp.
Securities Offered	Non-Voting Preferred Shares
Unit Price	\$1
Minimum Subscription	\$5,000
Distributions to Investors	Monthly
Redemption	Allowed after 12 months
Management Fee	1% p.a. of mortgages + 20% of the net yield over 9% p.a.
Auditor	KPMG
Sales Commission	up to 3% of gross proceeds upfront + 1% p.a.

Key Financials (C\$)/YE: Oct 31st	2021	2022	2023	2024E	2025E
Mortgage Receivables	\$23,827,236	\$51,691,732	\$92,195,527	\$160,000,000	\$190,000,000
Debt to Capital	0%	0%	0%	23%	30%
Revenue	\$1,806,147	\$5,014,872	\$10,218,397	\$16,947,539	\$19,320,000
Income before dividends	\$1,490,160	\$4,400,048	\$8,004,535	\$12,096,897	\$12,525,271
Distributions/Invested Capital	9.16%	10.37%	10.37%	10.82%	9.50%

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

## Investment Strategy

- Primary focus on residential units in Ontario
- **Ideal portfolio mix: 25% (first):75% (second mortgages)**
- >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
- **<85% LTV**

*Short-term loans secured by real estate*

*Management runs three funds totaling \$320M in assets under management*

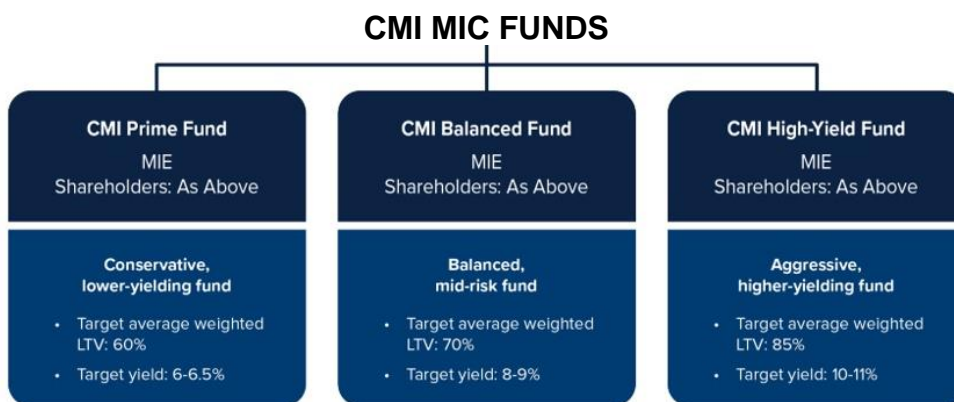
*CMI High-Yield has the highest risk profile among the funds under management*

*The manager charges a management fee of 1% p.a. on mortgages, along with a performance fee of 20% on net yields exceeding 9% p.a.*

*We believe CMI's management fees align with comparables*

*We note that it is not uncommon for MICs with a higher-risk tolerance to charge performance fees*

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



Source: Company

The following table shows how CMI's portfolio compares to that of other MICs (with AUM of \$100M+) focused on single-family residential units.

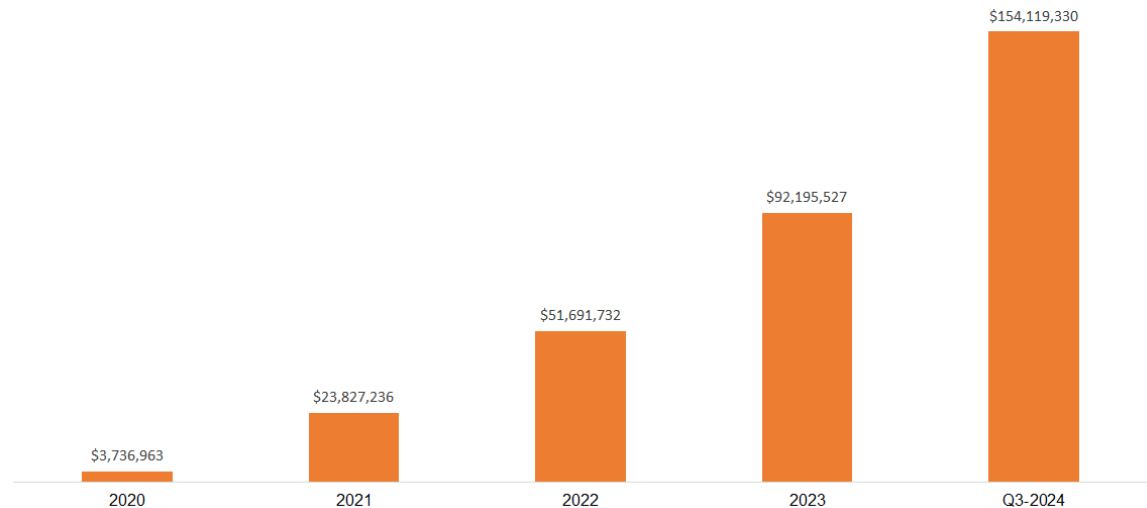
	CMI	Average
First Mortgage	18%	74%
B.C.	8%	39%
ON	79%	49%
AB	8%	7%
Others	5%	5%
LTV	76%	58%
Yield	10.8%	9.6%
Debt to Capital	22%	22%
Average Loan Size	\$176,638	\$501,965
Stage Three % of Mortgages	11.3%	5.0%
Allowances % of Mortgages	0.5%	0.8%

Source: FRC / Various

## Portfolio Details (YE: Oct 31<sup>st</sup>)

Mortgage Receivable (Net)

In FY2024 (9M), mortgage receivables were up 67% YTD to \$154M – the highest in CMI's history



Balance Sheets (YE - Oct 31)	2020	2021	2022	2023	Q3-2024
Cash and Equivalents	\$1,294,100	\$1,660,335	\$949,533	\$346,304	\$3,199,999
A/R & Others	\$23,237	\$37,903	\$418,372	\$1,036,542	\$3,330,892
Related Parties	\$305,797	\$2,390,524	\$5,267,151	\$4,749,670	\$1,448,319
Mortgage Receivables (net)	\$3,736,963	\$23,827,236	\$51,691,732	\$92,195,527	\$154,119,330
<b>Total Assets</b>	<b>\$5,360,097</b>	<b>\$27,915,998</b>	<b>\$58,326,788</b>	<b>\$98,328,043</b>	<b>\$162,098,541</b>
A/P & Others	\$26,742	\$281,827	\$257,988	\$57,553	\$416,948
Prepaid Mortgage Interest	\$81,657	\$366,818	\$505,414	\$1,471,279	\$2,822,711
Debt					\$35,000,000
<b>Total Liabilities</b>	<b>\$108,399</b>	<b>\$648,645</b>	<b>\$763,402</b>	<b>\$1,528,832</b>	<b>\$38,239,659</b>
Common Shares	\$100	\$100	\$100	\$100	\$100
Preferred Shares - Class A	\$5,251,598	\$27,167,253	\$48,233,809	\$3,309,205	\$2,416,093
Preferred Shares - Class F	\$0	\$100,000	\$9,329,477	\$93,489,906	121,442,689
<b>Total SE</b>	<b>\$5,251,698</b>	<b>\$27,267,353</b>	<b>\$57,563,386</b>	<b>\$96,799,211</b>	<b>\$123,858,882</b>
<b>Total Liabilities and SE</b>	<b>\$5,360,097</b>	<b>\$27,915,998</b>	<b>\$58,326,788</b>	<b>\$98,328,043</b>	<b>\$162,098,541</b>

Debt to Capital	0%	0%	0%	0%	22%
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Source: Company / FRC

The MIC offers two classes of preferred shares:

- **Class A** - offered to investors directly, and those who purchase shares through dealers (IIROC and Exempt Market Dealers)
- **Class F** – annual yields are 1% higher than Class A shares; offered to funds managed by portfolio managers, and other fee-based investment advisors

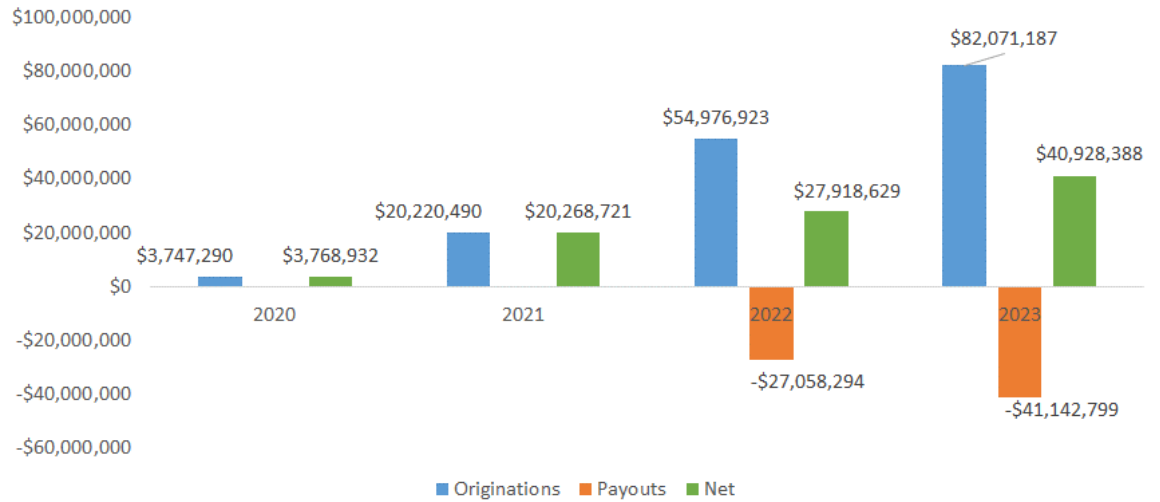
*In FY2023, originations were up 49% YoY; repayments were up 52% YoY*

*As of July 2024, first mortgages accounted for 18% of the portfolio*

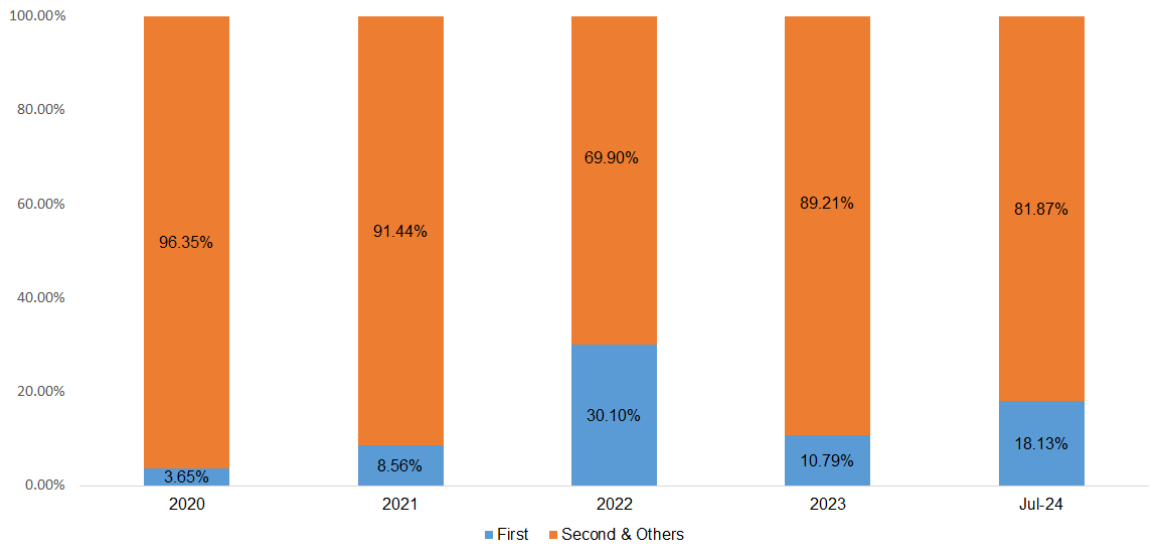
*Management aims to increase this to 25%*

*The average term has ranged between 10 and 12 months*

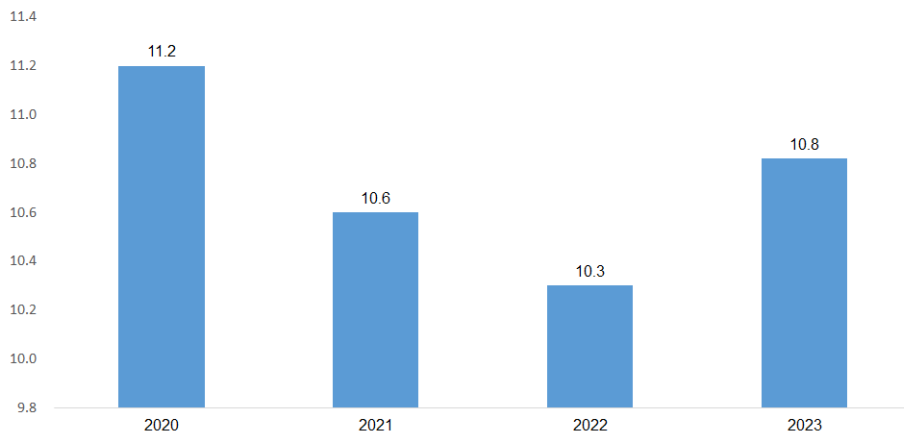
**Mortgage Originations / Payouts**



**Mortgages by Priority**



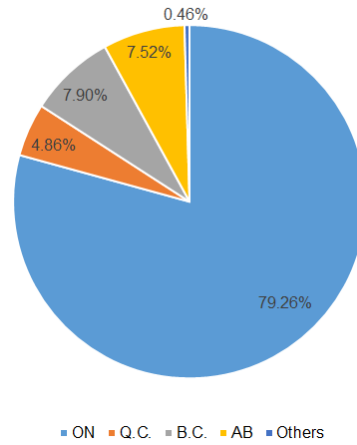
**Average Term to Maturity (Months)**



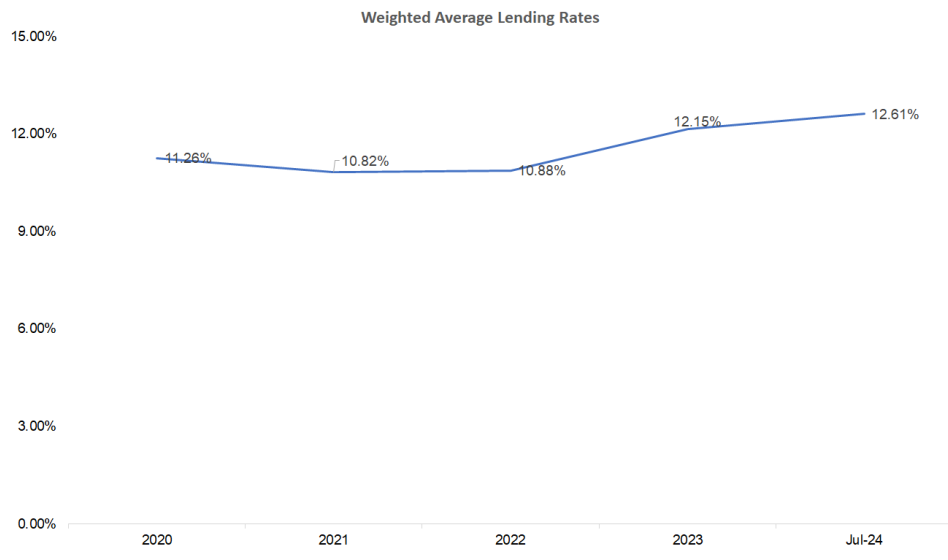
Source: Company / FRC

As of July 2024, 79.3% of mortgages were in ON, followed by B.C. (7.9%), and AB (7.5%)

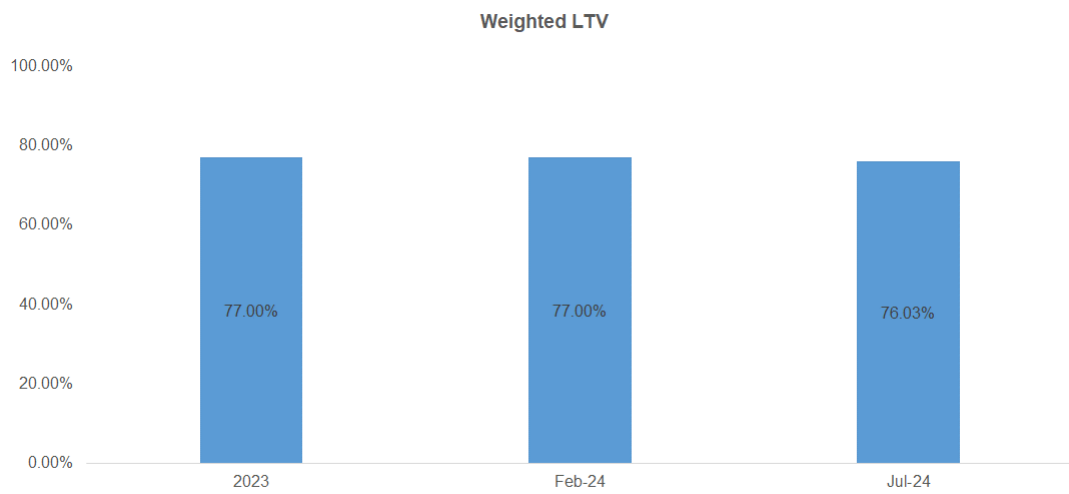
Mortgages by Province (July 2024)



Lending rates have tracked market rates



The average LTV has remained relatively flat



Source: Company / FRC

Although the MIC reported an unusually high level of stage three (impaired) mortgages at the end of FY2023 (October 2023), it **commendably reduced this by 4 pp to 11% of the portfolio by the end of Q3-2024.**

*In FY2024 (9M), loan loss allowances were reduced by 0.2 pp to 0.45% of the portfolio*

	2021	2022	2023	2024 (9M)
Loan loss allowances (end of period)	\$31,954	\$80,342	\$594,899	\$692,303
% of Total Mortgages	0.13%	0.16%	0.65%	0.45%
Actual/Realized Losses	\$155	\$0	\$480,962	\$210,342
% of Total Mortgages	0.00%	0.00%	0.67%	0.17%
Impaired Mortgages (Stage 3)	\$0	\$2,530,338	\$14,341,979	\$17,447,494
% of Total Mortgages	0.0%	4.9%	15.6%	11.3%
Past Due (90+ Days)	\$322,989	\$2,530,338	\$4,476,084	\$17,447,494
% of Total Mortgages	1.4%	4.9%	4.9%	11.3%

Source: Company / FRC

## Financials

Income Statements (YE - Oct 31)	2020	2021	2022	2023	YoY	2024 (9M)
Mortgage Interest and Fees	\$197,650	\$1,806,147	\$4,488,113	\$8,715,128	94%	\$12,419,589
Other Income	-	-	\$526,759	\$1,503,269	185%	-\$436,600
<b>Revenue</b>	<b>\$197,650</b>	<b>\$1,806,147</b>	<b>\$5,014,872</b>	<b>\$10,218,397</b>	<b>104%</b>	<b>\$11,982,989</b>
G&A	\$30,113	\$84,273	\$151,264	\$199,045	32%	\$232,309
Management Fee	\$14,653	\$209,932	\$415,172	\$1,019,298	146%	\$1,038,140
Loan Loss Provisions	\$10,327	\$21,782	\$48,388	\$995,519	1957%	\$307,746
Interest Expense						\$1,442,799
<b>Expenses</b>	<b>\$55,093</b>	<b>\$315,987</b>	<b>\$614,824</b>	<b>\$2,213,862</b>	<b>260%</b>	<b>\$3,020,994</b>
<b>Net Income (Loss)</b>	<b>\$142,557</b>	<b>\$1,490,160</b>	<b>\$4,400,048</b>	<b>\$8,004,535</b>	<b>82%</b>	<b>\$8,961,995</b>
Dividends	\$142,557	\$1,490,160	\$4,400,048	\$8,004,535	82%	\$8,961,995

*FY2023 revenue was up 104% YoY, and dividends were up 82% YoY, amid higher mortgage receivables, and lending rates*

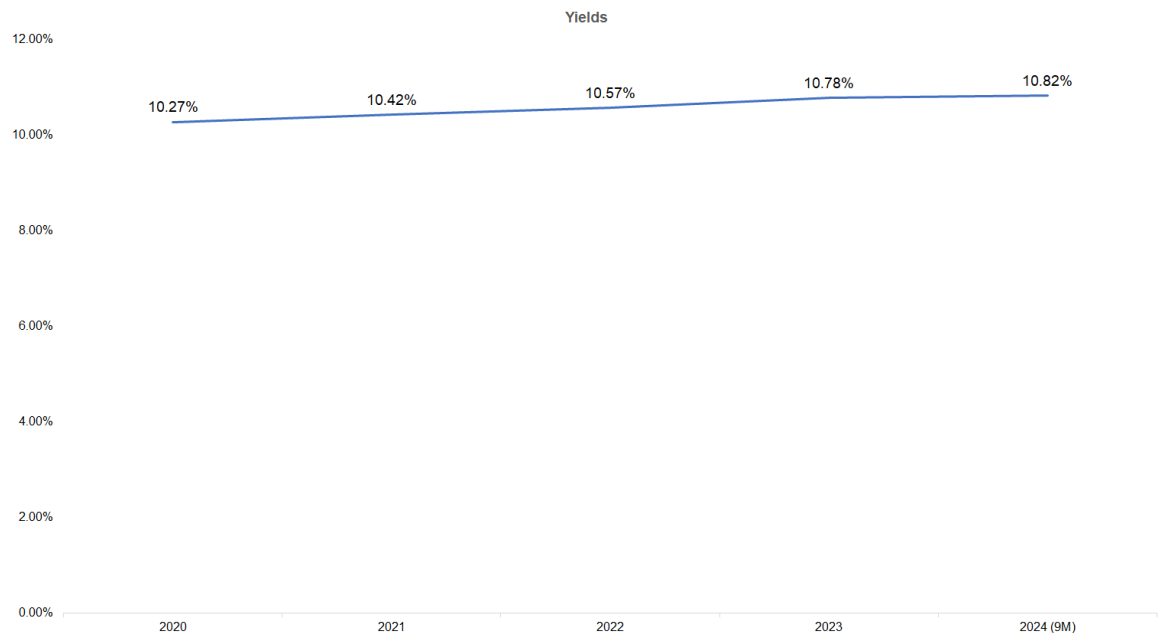
% of Mortgage Receivables (net)	2021	2022	2023	2024 (9M)
Mortgage Interest and Fees	13.11%	11.89%	12.11%	13.45%
Other Income	0.00%	1.40%	2.09%	-0.47%
Less:				
G&A	0.61%	0.40%	0.28%	0.25%
Management Fee	1.52%	1.10%	1.42%	1.12%
Interest Expense	0.00%	0.00%	0.00%	1.56%
Loan Loss Provisions	0.16%	0.13%	1.38%	0.33%
<b>Net Income</b>	<b>10.81%</b>	<b>11.65%</b>	<b>11.13%</b>	<b>9.70%</b>
Distributions/Invested Capital	9.16%	10.37%	10.37%	10.83%

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

*Distributions / Invested Capital increased from 10.4% in FY2023, to 10.8% in FY2024 (9M)*

The yield has been trending higher



Source: Company / FRC

### FRC Rating

We are projecting a yield of 10.8% in FY2024, and 9.5% in FY2025

With rates expected to trend downward, we foresee yields peaking in FY2024 and then declining in FY2025

Our estimate for the FY2025 yield varies between 6.9% and 10.0% using various YoY increases in loan loss allowances

Key Financials (C\$)/YE: Oct 31st	2021	2022	2023	2024E	2025E
Mortgage Receivables	\$23,827,236	\$51,691,732	\$92,195,527	\$160,000,000	\$190,000,000
Debt to Capital	0%	0%	0%	23%	30%
Revenue	\$1,806,147	\$5,014,872	\$10,218,397	\$16,947,539	\$19,320,000
Income before dividends	\$1,490,160	\$4,400,048	\$8,004,535	\$12,096,897	\$12,525,271
Distributions/Invested Capital	9.16%	10.37%	10.37%	10.82%	9.50%

Loan Loss Allowances (% Increase)	FY2025 Yield
25.0%	10.0%
50.0%	9.8%
100.0%	9.5%
300.0%	8.2%
500.0%	6.9%

Source: Company / FRC

**We are initiating coverage with an overall rating of 2-, and risk rating of 3.** With the Bank of Canada implementing three rate cuts since June 2024, and more expected amid easing inflation, we anticipate a decline in defaults in the coming quarters. In light of these anticipated lower rates, we find high-yielding funds, such as CMI, increasingly attractive.

FRC Rating

Expected Yield (FY2025E) 9.5%

Rating 2-

Risk 3

### Risks

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

- Loans are short term and need to be sourced and replaced quickly
- Concentration risk – over 75% of its mortgages are in ON
- **Lower housing prices will result in higher LTVs**
- Shareholders' principal is not guaranteed
- Second mortgages carry higher default/credit risks
- Timely deployment of capital is critical
- **Default rates can rise during recessions**



**APPENDIX**

Income Statements (YE - Oct 31)	2021	2022	2023	2024E	2025E
Mortgage Interest and Fees	\$1,806,147	\$4,488,113	\$8,715,128	\$17,653,687	\$20,125,000
Other Income	-	\$526,759	\$1,503,269	-\$706,147	-\$805,000
<b>Revenue</b>	<b>\$1,806,147</b>	<b>\$5,014,872</b>	<b>\$10,218,397</b>	<b>\$16,947,539</b>	<b>\$19,320,000</b>
G&A	\$84,273	\$151,264	\$199,045	\$346,769	\$481,250
Management Fee	\$209,932	\$415,172	\$1,019,298	\$1,513,173	\$2,100,000
Loan Loss Provisions	\$21,782	\$48,388	\$995,519	\$718,719	\$853,479
Interest Expense				\$2,271,981	\$3,360,000
<b>Expenses</b>	<b>\$315,987</b>	<b>\$614,824</b>	<b>\$2,213,862</b>	<b>\$4,850,642</b>	<b>\$6,794,729</b>
<b>Net Income (Loss)</b>	<b>\$1,490,160</b>	<b>\$4,400,048</b>	<b>\$8,004,535</b>	<b>\$12,096,897</b>	<b>\$12,525,271</b>
Dividends	\$1,490,160	\$4,400,048	\$8,004,535	\$12,096,897	\$12,525,271
Balance Sheets (YE - Oct 31)	2021	2022	2023	2024E	2025E
Cash and Equivalents	\$1,660,335	\$949,533	\$346,304	\$591,060	\$645,212
A/R & Others	\$37,903	\$418,372	\$1,036,542	\$1,140,196	\$1,254,216
Related Parties	\$2,390,524	\$5,267,151	\$4,749,670	\$4,749,670	\$4,749,670
Mortgage Receivables (net)	\$23,827,236	\$51,691,732	\$92,195,527	\$160,000,000	\$190,000,000
<b>Total Assets</b>	<b>\$27,915,998</b>	<b>\$58,326,788</b>	<b>\$98,328,043</b>	<b>\$166,480,926</b>	<b>\$196,649,098</b>
A/P & Others	\$281,827	\$257,988	\$57,553	\$63,308	\$69,639
Prepaid Mortgage Interest	\$366,818	\$505,414	\$1,471,279	\$1,618,407	\$1,780,248
Debt				\$38,000,000	\$58,000,000
<b>Total Liabilities</b>	<b>\$648,645</b>	<b>\$763,402</b>	<b>\$1,528,832</b>	<b>\$39,681,715</b>	<b>\$59,849,887</b>
Common Shares	\$100	\$100	\$100	\$100	\$100
Preferred Shares - Class A	\$27,167,253	\$48,233,809	\$3,309,205	\$2,416,093	\$2,416,093
Preferred Shares - Class F	\$100,000	\$9,329,477	\$93,489,906	\$124,383,018	\$134,383,018
<b>Total SE</b>	<b>\$27,267,353</b>	<b>\$57,563,386</b>	<b>\$96,799,211</b>	<b>\$126,799,211</b>	<b>\$136,799,211</b>
<b>Total Liabilities and SE</b>	<b>\$27,915,998</b>	<b>\$58,326,788</b>	<b>\$98,328,043</b>	<b>\$166,480,926</b>	<b>\$196,649,098</b>

Cash Flow (YE - Jun 30)	2024E	2025E
Net Income (Loss)	\$12,096,897	\$12,525,271
Non-Cash Items		
Change in WC	\$49,229	\$54,152
<b>Cash from Operating Activities</b>	<b>\$12,146,126</b>	<b>\$12,579,423</b>
Equity	\$30,000,000	\$10,000,000
Debt	\$38,000,000	\$20,000,000
Others	-\$12,096,897	-\$12,525,271
<b>Cash from Financing Activities</b>	<b>\$55,903,103</b>	<b>\$17,474,729</b>
Increase in mortgage loans (net)	-\$67,804,473	-\$30,000,000
<b>Cash from Investing Activities</b>	<b>-\$67,804,473</b>	<b>-\$30,000,000</b>

**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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