CMI Balanced Mortgage Fund Corporation

Resilient Yields in a Declining Rate Environment

Expected Yield (FY2025): 8.5%
Rating*: 2
Risk*: 3

Sector: Mortgage Investment Corporations

Click here for more research on the company

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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

Highlights

- The MIC **remains focused on first mortgages** on single family residential units in Ontario. At the end of Q1-FY2025 (September 2024), mortgage receivables surpassed **$180M, the highest in CMI's history**.
- In FY2024 (ended June 2024), revenue was up 23% YoY, amid higher mortgage receivables, and lending rates, falling just 0.3% short of our estimate. Net income was up 13% YoY, beating our estimate by 0.4%. **The yield increased 0.1 pp to 8.8% vs our forecast of 9.0%.**
- At the end of FY2024, CMI had $21M (12% of the portfolio) in stage three (impaired) mortgages, spread across nine out of 52 properties, up from $10M (10% of the portfolio) at the end of FY2023. **We believe CMI's low LTV (69%) puts them in a comfortable position.** CMI does not expect any significant losses from these impaired mortgages, a belief reinforced by both management and their auditor (KPMG), who have allocated only 0.2% of the portfolio to loan loss allowances.
- The Bank of Canada has lowered rates five times this year, totaling 175 basis points, which **should boost CMI's transaction volumes in 2025**. We expect further rate cuts ahead, prompted by slower GDP growth, elevated unemployment, and cooling inflation.
- We find high-yielding funds, like CMI, increasingly attractive in the current declining rate environment. This is because **MIC lending rates are less elastic**, meaning their yields tend to decline less in a falling rate environment, and rise more slowly in a rising rate environment.
- We are **projecting a yield of 8.5% in FY2025** (FY2024: 8.8%) vs management's guidance of 8.6% - 8.8%.

Key Financials /YE: June 30	2022	2023	2024	2025E	2026E
Mortgage Receivables	$119,448,107	$150,035,018	$172,479,325	$194,039,241	$213,443,165
Debt to Capital	26%	38%	35%	36%	36%
Revenue	$8,560,281	$14,188,243	$17,421,614	$19,448,813	$20,063,415
Net Profit	$5,744,107	$8,359,254	$9,483,318	$10,362,137	$10,843,857
Dividend Yield	8.4%	8.7%	8.8%	8.5%	8.0%

*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

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

Based on our discussions with management, we anticipate CMI's yields aligning with the sector average in FY2025, driven by reduced G&A expenses, and a higher weighted average lending rate through increased exposure to second mortgages

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

	CMI	Average
First Mortgage	65%	74%
B.C.	10%	39%
ON	76%	49%
AB	8%	7%
Others	6%	5%
LTV	69%	58%
Yield	8.8%	9.6%
Debt to Capital	35%	22%
Average Loan Size	$240,191	$501,965
Stage Three % of Mortgages	12.1%	5%
Allowances % of Mortgages	0.2%	0.8%

Source: FRC / Various

Portfolio Details (YE: June 30th)

In FY2024, mortgage receivables were up 15% YoY to $172M vs our forecast of $175M

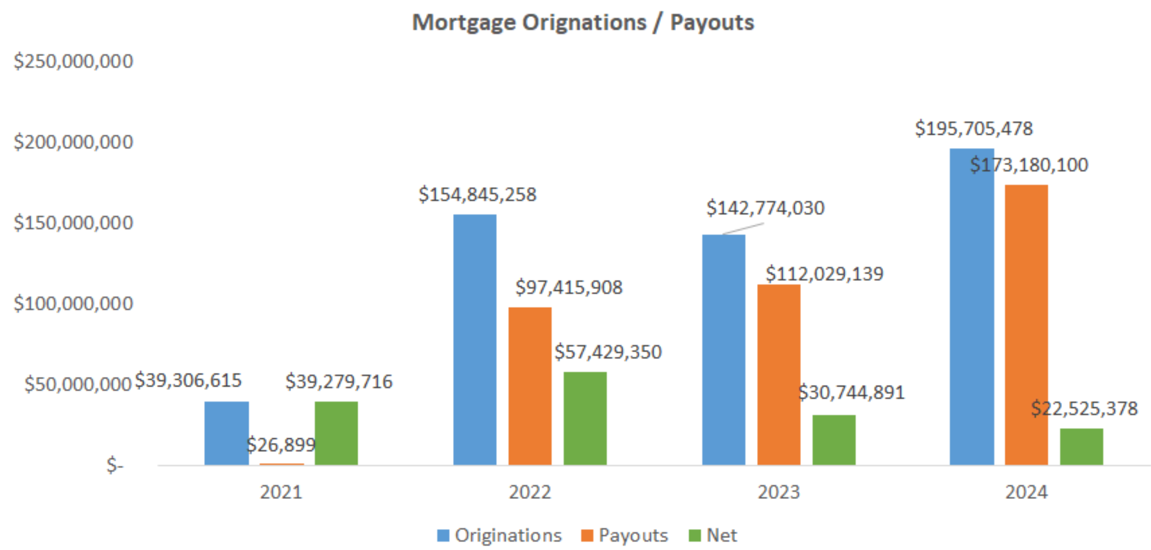
In Q1-FY2025, receivables were up 6% YTD to $182M; the highest in CMI's history

Source: Company / FRC

In FY2024, debt/capital decreased 3 pp to 35%, amid higher equity investments, which we note is on the higher end of comparables

Balance Sheet (YE - Jun 30)	2020	2021	2022	2023	2024	Q1-2025
Cash and Equivalents	$4,373,148	$613,133	$76,209	$4,218,353	$907,463	$0
Amounts Receivable	$284,614	$2,757,343	$1,625,308	$826,644	$2,712,710	$2,390,847
Inventory	$99,814	$99,813				
Mortgage Receiables (net)	$22,743,332	$62,033,564	$119,448,107	$150,035,018	$172,479,325	$182,080,815
Intangible Assets	$97,463	$47,918	$23,338	$5,903		
Advances	$171,093	$311,819	$1,962,807	$4,979,110	$4,224,495	$3,433,196
Prepaid Expenses and Other Assets	$288,460	$62,513			$116,250	$77,500
Total Assets	**$28,057,924**	**$65,926,103**	**$123,135,769**	**$160,065,028**	**$180,440,243**	**$187,982,358**
Accts Payable and Accrued Liabs	$468,426	$1,053,319	$1,142,706	$1,727,636	$2,441,791	$2,843,278
Bank Indebtedness	$8,137,271	$14,999,750	$31,530,790	$60,000,000	$61,939,411	$65,000,000
Advances	$338,448	$2,250	$20,627	$1,226,701		
Total Liabilities	**$8,944,145**	**$16,055,319**	**$32,694,123**	**$62,954,337**	**$64,381,202**	**$68,773,899**
Common Shares	$4	$4	$4	$4	$4	$4
Preferred Shares	$19,142,927	$49,899,932	$90,470,794	$97,110,687	$116,059,037	$120,791,590
Equity (Deficit)	-$29,152	-$29,152	-$29,152			
Total SE	$19,113,779	$49,870,784	$90,441,646	$97,110,691	$116,059,041	$119,208,459
Total Liabilities and SE	**$28,057,924**	**$65,926,103**	**$123,135,769**	**$160,065,028**	**$180,440,243**	**$187,982,358**
Debt to Capital	30%	23%	26%	38%	35%	35%
Interest Coverage	5.2	4.2	6.3	3.7	3.0	3.2

In FY2024, originations were up 37% YoY, while repayments were up 55% YoY



Source: Company / FRC

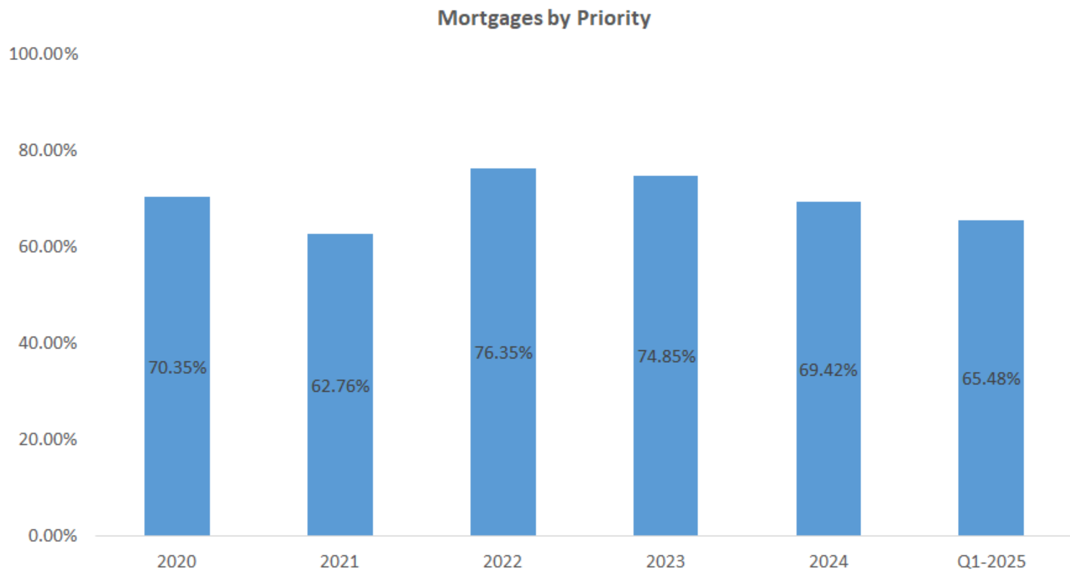
Exposure to first mortgages declined, implying a higher risk profile

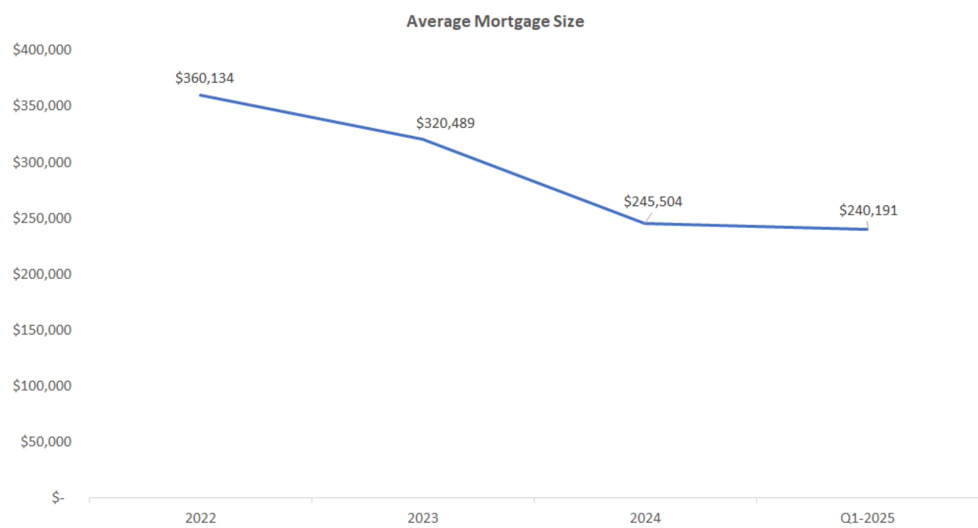
Management plans to reduce first mortgage exposure to the 50%-60% range, and boost lending rates

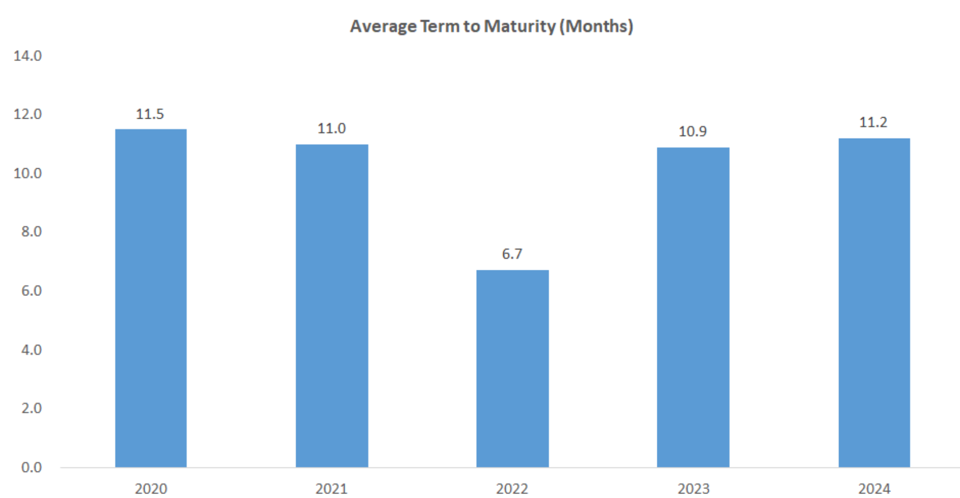
To account for the potential increase in portfolio risk, we are conservatively assuming higher loan loss provisions for FY2025 and FY2026

The average mortgage size declined, implying lower risk

Most mortgages have terms of <12 months

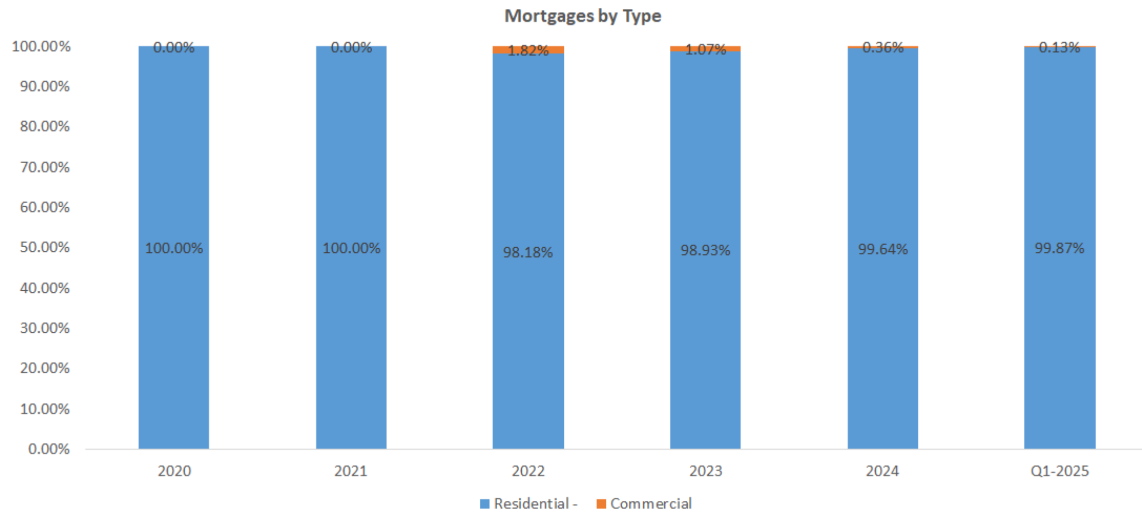




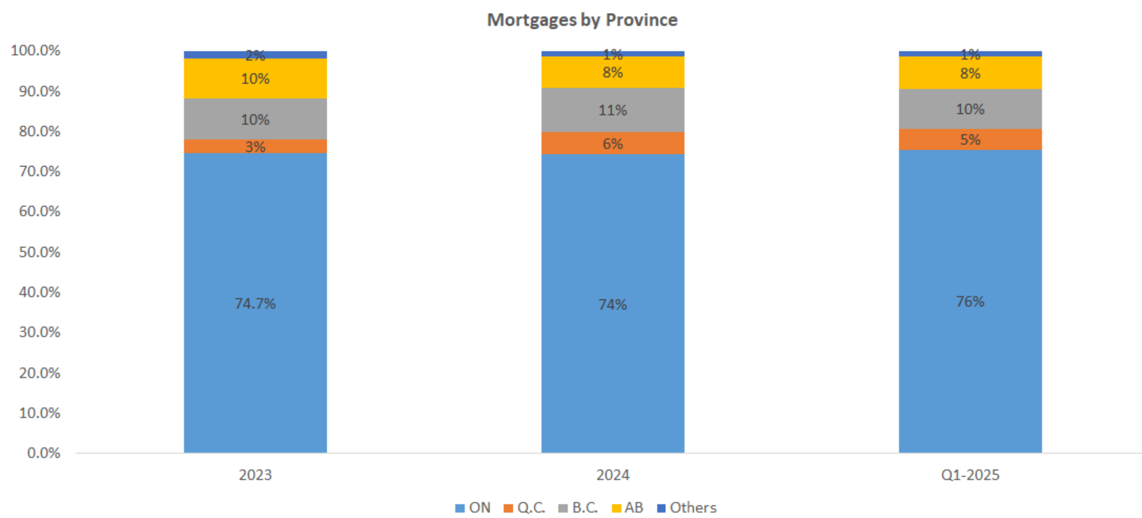


Source: Company / FRC

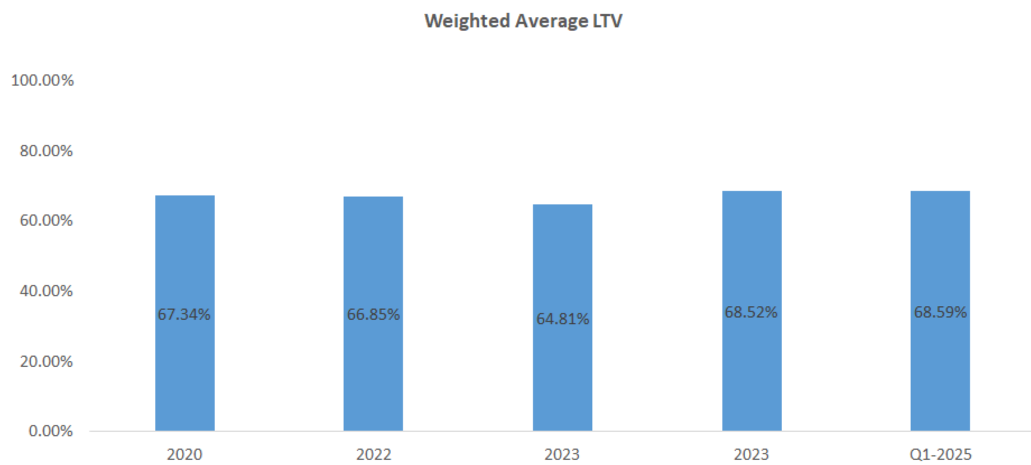
Focused on already-built residential units



As of September 2024, 76% of mortgages were in ON, followed by B.C. (10%), and AB (8%)

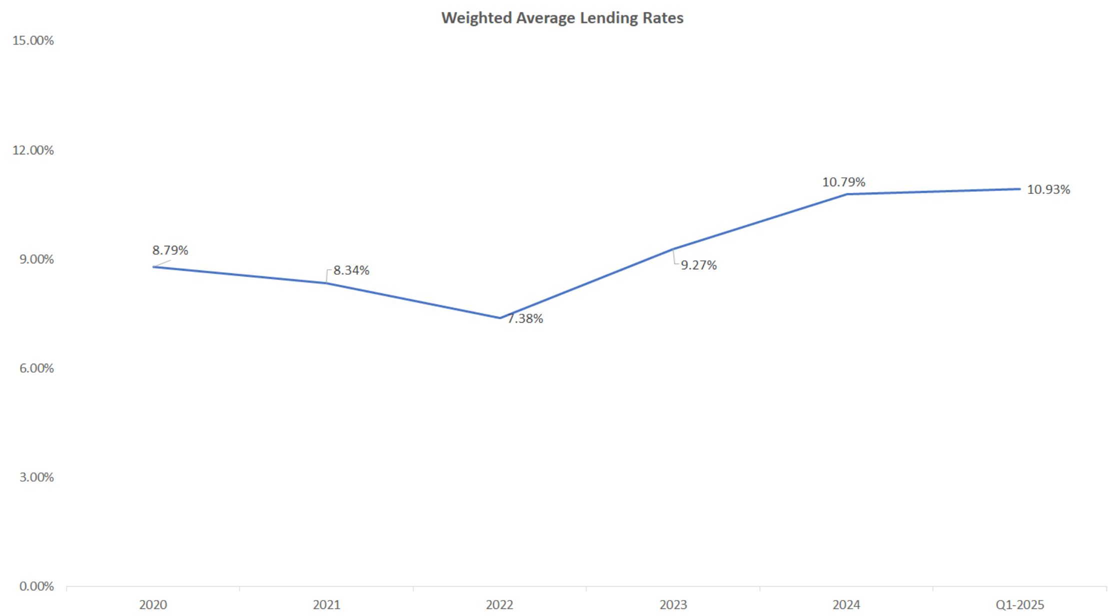


LTV increased, driven by lower first mortgages, implying higher risk



Source: Company / FRC

Lending rates increased with market rates



In FY2024, stage three (impaired) mortgages increased 6 pp to 12% of mortgage receivables, implying increased risk

	2021	2022	2023	2024	Q1-2025
Loan loss allowances (end of period)	$101,644	$116,451	$274,430	$355,500	
% of Total Mortages	0.16%	0.10%	0.18%	0.21%	0.20%
Actual/Realized Losses	$0	$0	$816	$337,139	
% of Total Mortages	0.0%	0.0%	0.0%	0.2%	
Impaired Mortgages (Stage 3)	$381,445	$2,773,195	$9,628,042	$20,857,104	
% of Total Mortages	0.6%	2.3%	6.4%	12.1%	

Source: Company / FRC

Management **has not allocated any material loan loss allowances** as they are not expecting any significant losses from impaired mortgages, given the security held against them. We note that most MICs typically allocate 0.2%-1.0% of their mortgages to loan loss allowances.

Financials

FY2024 revenue was up 23% YoY, amid higher mortgage receivables, and lending rate, falling just 0.3% short of our estimate

Net income was up 13% YoY, beating our estimate by 0.4%

In FY2024, the yield increased by 0.11 pp to 8.8% vs our estimate of 9.0%

The yield was 8.8% in H1-FY2025 (ended December 2024)

Income Statement (YE - Jun 30)	2021	2022	2023	2024	YoY	Q1-2025
Revenue	**$3,912,350**	**$8,560,281**	**$14,188,243**	**$17,421,614**	**23%**	**$4,646,054**
G&A	$492,895	$845,852	$1,047,427	$1,114,831		$274,073
Bank Charges and Interest	$735,290	$1,078,334	$3,104,350	$4,661,162		$1,212,310
Management Fee	$317,334	$877,181	$1,518,417	$1,744,094		$506,953
Provision for Impairment	$26,497	$14,807	$158,795	$418,209		
Expenses	**$1,572,016**	**$2,816,174**	**$5,828,989**	**$7,938,296**	**36%**	**$1,993,336**
Net Income (Loss)	**$2,340,334**	**$5,744,107**	**$8,359,254**	**$9,483,318**	**13%**	**$2,652,718**
Dividends	**$2,340,334**	**$5,744,107**	**$8,359,254**	**$9,483,318**	**13%**	
Common Shares	4	4	4	4		
Preferred Shares	49,899,932	90,470,794	97,139,839	116,059,037	19%	
Dividend/Preferred Share	$0.07	$0.08	$0.09	$0.09	0%	
NAV per Share (Preferred)	$1.00	$1.00	$1.00	$1.00	0%	

% of Mortgage Receivables (net)	2021	2022	2023	2024	Q1-2025
Revenues	9.23%	9.43%	10.53%	10.80%	10.48%
Less:					
G&A	1.16%	0.93%	0.78%	0.69%	0.62%
Bank Charges and Interest	1.73%	1.19%	2.30%	2.89%	2.74%
Management Fee	0.75%	0.97%	1.13%	1.08%	1.14%
Provision for Impairment	0.06%	0.02%	0.12%	0.26%	0.00%
Net Income	**5.52%**	**6.33%**	**6.20%**	**5.88%**	**5.64%**
Investors' Returns	6.78%	8.18%	8.91%	8.90%	
Yield	**8.44%**	**8.41%**	**8.72%**	**8.83%**	**8.84%**

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

With rates expected to trend downward, we foresee yields declining in 2025

We are projecting yields of 8.5% in FY2025, and 8.0% in FY2026; management's guidance for FY2025 is 8.6%-8.8%

Key Financials /YE: June 30	2022	2023	2024	2025E	2026E
Mortgage Receivables	$119,448,107	$150,035,018	$172,479,325	$194,039,241	$213,443,165
Debt to Capital	26%	38%	35%	36%	36%
Revenue	$8,560,281	$14,188,243	$17,421,614	$19,448,813	$20,063,415
Net Profit	$5,744,107	$8,359,254	$9,483,318	$10,362,137	$10,843,857
Dividend Yield	8.4%	8.7%	8.8%	8.5%	8.0%

Source: FRC

Our estimate for the FY2025 yield varies between 6.1% and 9.4%, as loan loss provisions and lending rates vary

FY2025 Yield		YoY Decline in the Weighted Average Lending Rate in FY2025				
	8.5%	0.40%	0.60%	0.50%	0.75%	1.00%
Loan Loss Provisions % of Receivables (FY2025)	0.00%	9.42%	9.11%	9.27%	8.88%	8.49%
	0.25%	9.02%	8.71%	8.87%	8.48%	8.10%
	0.50%	8.63%	8.32%	**8.47%**	8.09%	7.70%
	1.00%	7.83%	7.52%	7.68%	7.29%	6.91%
	1.50%	7.04%	6.73%	6.89%	6.50%	6.11%

Source: Company / FRC

We are maintaining our overall rating of 2, and risk rating of 3. Given the BoC's recent and anticipated rate cuts, yields are set to decline. However, we believe the risk of higher default rates is easing, and the mortgage origination market is likely to gain momentum in 2025. We find high-yielding funds, like CMI, increasingly attractive in the current declining rate environment. This is because MIC lending rates are less elastic, meaning their yields tend to decline less in a falling rate environment, and rise more slowly in a rising rate environment.

FRC Rating	
Expected Yield (FY2025E)	8.5%
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)	2021	2022	2023	2024	2025E	2026E
Revenue	**$3,912,350**	**$8,560,281**	**$14,188,243**	**$17,421,614**	**$19,448,813**	**$20,063,415**
G&A	$492,895	$845,852	$1,047,427	$1,114,831	$1,346,956	$1,426,188
Bank Charges and Interest	$735,290	$1,078,334	$3,104,350	$4,661,162	$4,652,879	$4,485,000
Management Fee	$317,334	$877,181	$1,518,417	$1,744,094	$2,116,645	$2,241,153
Provision for Impairment	$26,497	$14,807	$158,795	$418,209	$970,196	$1,067,216
Expenses	**$1,572,016**	**$2,816,174**	**$5,828,989**	**$7,938,296**	**$9,086,676**	**$9,219,557**
Net Income (Loss)	**$2,340,334**	**$5,744,107**	**$8,359,254**	**$9,483,318**	**$10,362,137**	**$10,843,857**
Dividends	**$2,340,334**	**$5,744,107**	**$8,359,254**	**$9,483,318**	**$10,362,137**	**$10,843,857**
Common Shares	4	4	4	4	4	4
Preferred Shares	49,899,932	90,470,794	97,139,839	116,059,037	128,559,037	141,059,037
Dividend/Preferred Share	$0.07	$0.08	$0.09	$0.09	$0.08	$0.08
NAV per Share (Preferred)	$1.00	$1.00	$1.00	$1.00	$1.00	$1.00

Balance Sheet (YE - Jun 30)	2021	2022	2023	2024	2025E	2026E
Cash and Equivalents	$613,133	$76,209	$4,218,353	$907,463	$458,595	$560,175
Amounts Receivable	$2,757,343	$1,625,308	$826,644	$2,712,710	$2,983,981	$3,282,379
Inventory	$99,813					
Mortgage Receiables (net)	$62,033,564	$119,448,107	$150,035,018	$172,479,325	$194,039,241	$213,443,165
Intangible Assets	$47,918	$23,338	$5,903			
Advances	$311,819	$1,962,807	$4,979,110	$4,224,495	$4,646,945	$5,111,639
Prepaid Expenses and Other Assets	$62,513			$116,250	$116,250	$116,250
Total Assets	**$65,926,103**	**$123,135,769**	**$160,065,028**	**$180,440,243**	**$202,245,011**	**$222,513,608**
Accts Payable and Accrued Liabs	$1,053,319	$1,142,706	$1,727,636	$2,441,791	$2,685,970	$2,954,567
Bank Indebtedness	$14,999,750	$31,530,790	$60,000,000	$61,939,411	$71,000,000	$78,500,000
Advances	$2,250	$20,627	$1,226,701			
Total Liabilities	**$16,055,319**	**$32,694,123**	**$62,954,337**	**$64,381,202**	**$73,685,970**	**$81,454,567**
Common Shares	$4	$4	$4	$4	$4	$4
Preferred Shares	$49,899,932	$90,470,794	$97,110,687	$116,059,037	$128,559,037	$141,059,037
Equity (Deficit)	-$29,152	-$29,152			-	-
Total SE	$49,870,784	$90,441,646	$97,110,691	$116,059,041	$128,559,041	$141,059,041
Total Liabilities and SE	**$65,926,103**	**$123,135,769**	**$160,065,028**	**$180,440,243**	**$202,245,011**	**$222,513,608**
Debt to Capital	23%	26%	38%	35%	36%	36%
Interest Coverage	4.2	6.3	3.7	3.0	3.2	3.4

Cash Flow (YE - Jun 30)	2025E	2026E
Net Income (Loss)	$10,362,137	$10,843,857
Non-Cash Items		
Change in WC	-$449,541	-$494,496
Cash from Operating Activities	**$9,912,595**	**$10,349,362**
Equity	$12,500,000	$12,500,000
Debt	$9,060,589	$7,500,000
Others	-$10,362,137	-$10,843,857
Cash from Financing Activities	**$11,198,452**	**$9,156,143**
Increase in mortgage loans (net)	-$21,559,916	-$19,403,924
Cash from Investing Activities	**-$21,559,916**	**-$19,403,924**

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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