

## Three Point Capital Corp.

**Strong Performance and Resilient Yield Outlook Amid Declining Rates**

**Expected Yield (2025):  
8.2%**  
**Rating\*: 2**  
**Risk\*: 2**

### Sector: Mortgage Investment Corporations

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#### Highlights

- In the first nine months of 2024, mortgage receivables were up 2% to \$207M, **the highest in Three Point's history**. In 2023, receivables were up 12% YoY to \$203M vs our estimate of \$185M.
- The **yield increased** from 5.9% in 2022, to 8.1% in 2023 vs our forecast of 7.7%, driven by higher lending rates. Net income was up 49% YoY, **beating our estimate by 2%**. In 2024 (9M), net income was up 42% YoY, and the yield increased to 9.5%.
- **Focus remains on first mortgages on single-family units**. As of September 2024, 60% of mortgages were in B.C., and 31% in ON. First mortgages accounted for 91% of the portfolio.
- At the end of Q3-2024, **impaired (stage three) mortgages accounted for 0.9%** of total mortgages vs the sector average of 5%. We believe the fund is **comfortably positioned** with a low LTV of 55%.
- We anticipate further rate cuts by the Bank of Canada (due to slower GDP growth, high unemployment, and cooling inflation), and a rise in Three Point's transaction volumes in 2025.
- Anticipating lower rates, we find high-yielding funds, such as Three Point, increasingly appealing.
- We find high-yielding funds, like Three Point, 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 yields of 9.3% in 2024** (2023: 8.1%), and 8.2% in 2025.

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

Offering Summary	
Issuer	Three Point Capital Corp.
Securities Offered	Class A Shares
Unit Price	\$1
Minimum Subscription	N/A
Distribution to Investors	Monthly
Redemption (penalties)	n/a
Management Fee	1.50% p.a.
Sales Commissions	up to 1% p.a.
Auditor	Grant Thornton

Financial Summary	2021	2022	2023	2024E	2025E
Mortgage Investments (net)	\$136,120,907	\$181,102,955	\$202,477,294	\$210,000,000	\$225,000,000
Debt as a % of Mortgage Outstanding	25%	34%	34%	24%	25%
Revenue	\$9,256,099	\$13,091,999	\$18,553,077	\$22,851,242	\$22,293,750
Net Income	\$5,826,514	\$6,708,840	\$9,992,155	\$13,382,844	\$13,343,663
Net Asset Value	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Yield	6.04%	5.90%	8.13%	9.27%	8.24%

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

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

Three Point has higher first mortgages, lower LTV, and smaller loan sizes

The fund also has significantly lower stage three/impaired mortgages

Three Point's yield is slightly lower due to its lower risk profile

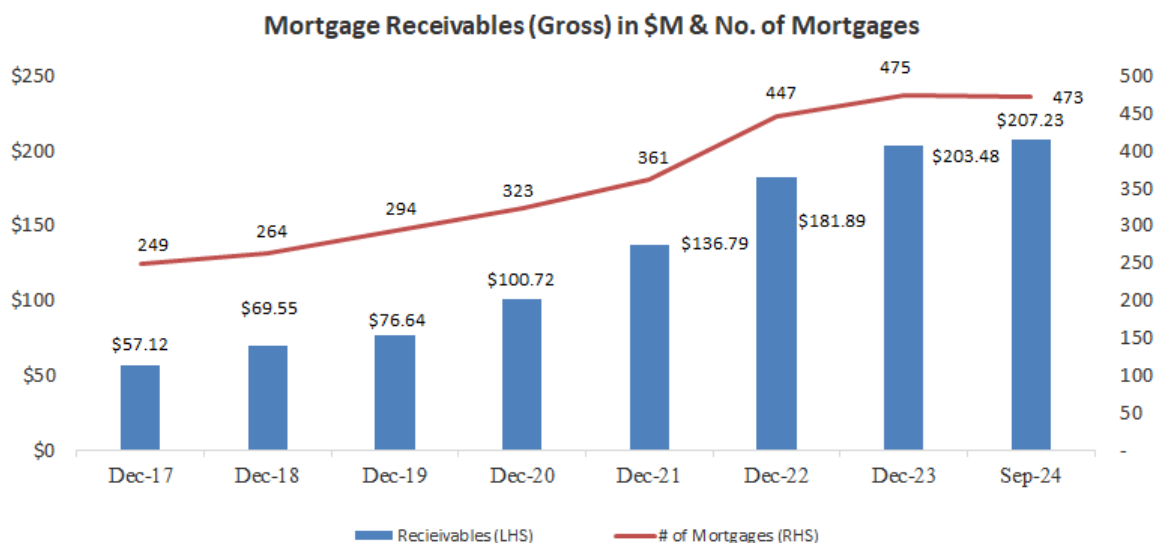
	ThreePoint	Average
First Mortgage	91%	74%
B.C.	60%	39%
ON	31%	49%
AB	8%	7%
Others	0%	5%
LTV	55%	58%
Yield	9.5%	9.6%
Debt to Capital	26%	22%
Average Loan Size	\$438,133	\$501,965
Stage Three % of Mortgages	0.9%	5.0%
Allowances % of Mortgages	0.5%	0.8%

Source: FRC / Various

### Portfolio Update

In 2023, gross mortgage receivables were up 12% YoY to \$203M vs our estimate of \$185M

Receivables rose to \$207M by Q3-2024, up 2% YTD



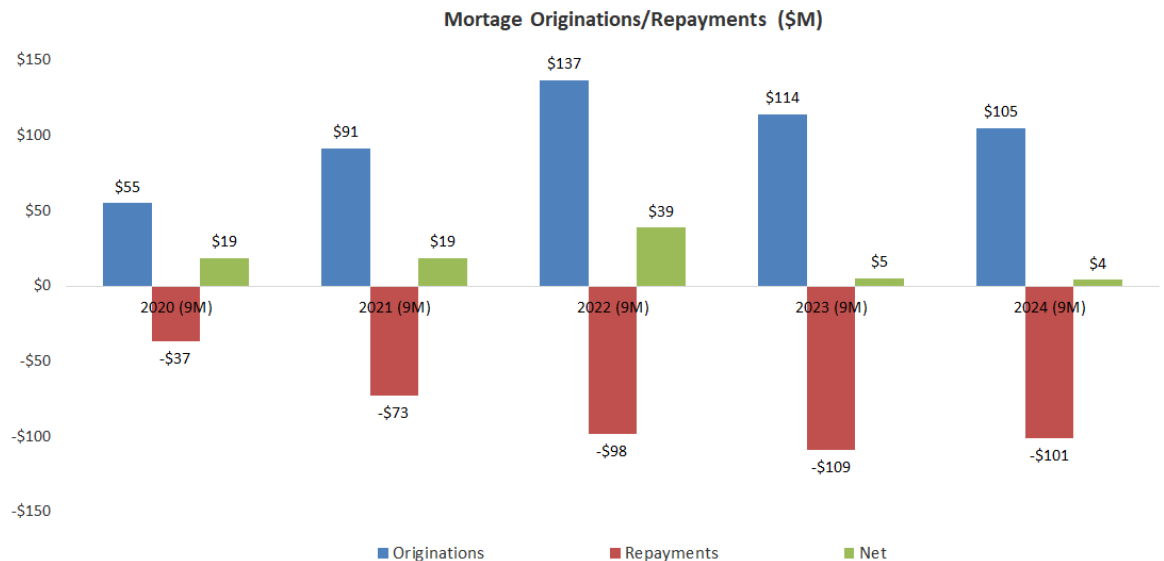
Source: Company / FRC

At the end of Q3-2024, debt to capital was 26%, down from 35% at the end of 2023; we note that comparables range between 20%-40%

The interest coverage ratio is in line with that of comparables

Mortgages advanced were down 8% YoY in 2024 (9M); repayments were down 7% YoY

Balance Sheet	2021	2022	2023	Q3-2024
<b>Assets</b>				
Cash	-			
Accounts Receivable	74,878			8,329
Prepaid Expense	36,849	215,068	187,349	148,312
Mortgage Investments (net)	136,120,907	181,102,955	202,477,294	206,226,784
<b>Total Assets</b>	<b>\$136,232,634</b>	<b>\$181,318,023</b>	<b>\$202,664,643</b>	<b>\$206,383,425</b>
<b>Liabilities</b>				
Loan Payable and accruals				
LOC	\$33,054,302	\$60,309,386	\$67,300,810	\$53,192,758
Promissory Notes	\$451,844	\$1,430,915	\$1,871,782	\$1,229,256
A/P & Accrued Liabilities	\$307,195	\$696,945	781,771	\$982,321
Dividends payable	\$891,789	\$703,171	2,425,742	
<b>Total Liabilities</b>	<b>\$34,705,130</b>	<b>\$63,140,417</b>	<b>\$72,380,105</b>	<b>\$55,404,335</b>
Share capital	\$100,808,942	\$117,248,060	\$129,219,635	\$148,163,263
Retained earnings	\$718,562	\$929,546	\$1,064,903	\$2,815,827
Net Asset	\$101,527,504	\$118,177,606	\$130,284,538	\$150,979,090
<b>SE + Liabilities</b>	<b>\$136,232,634</b>	<b>\$181,318,023</b>	<b>\$202,664,643</b>	<b>\$206,383,425</b>
Debt to Capital	25%	34%	35%	26%
Debt as a % of Mortgage Outstanding	25%	34%	34%	26%
Interest Coverage Ratio	10.3	3.6	3.3	3.7



Source: Company / FRC

Exposure to first mortgages decreased slightly, but remain in line with the historic range of 90%-95%

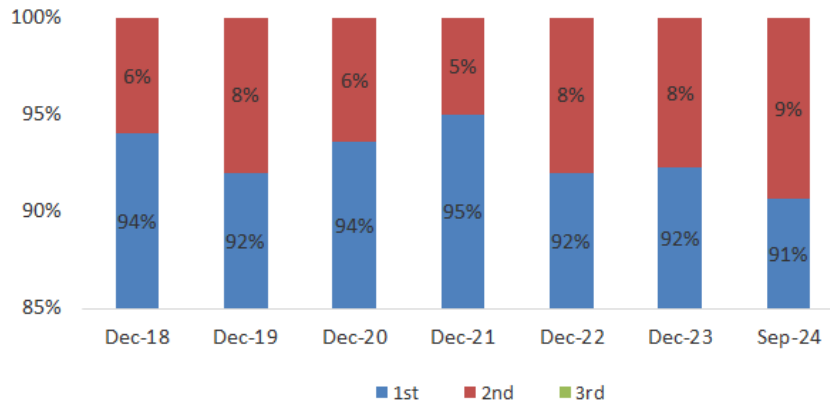
Focus remains on already-built single family residential properties

Lending rates increased with market rates

We believe the BoC's rate cuts since June 2024, and expected future reductions, should lower Three Point's rates, though more gradually due to its fixed-rate mortgages

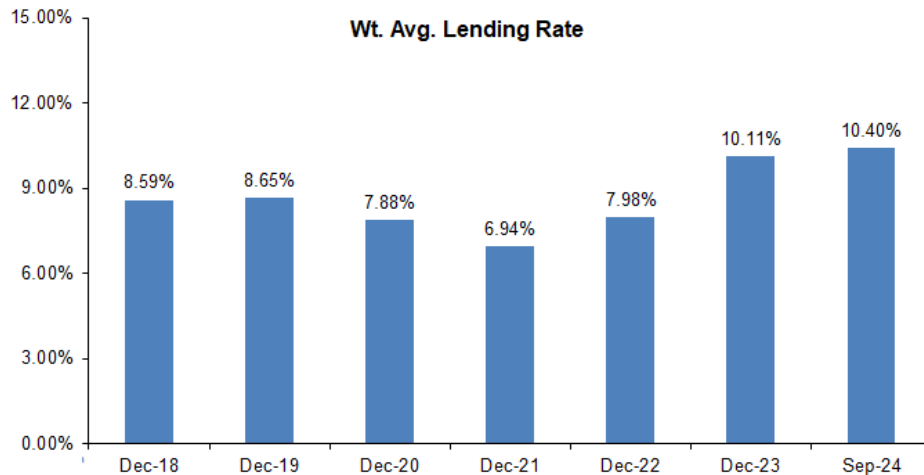
No change in LTV

**Mortgages by Priority**

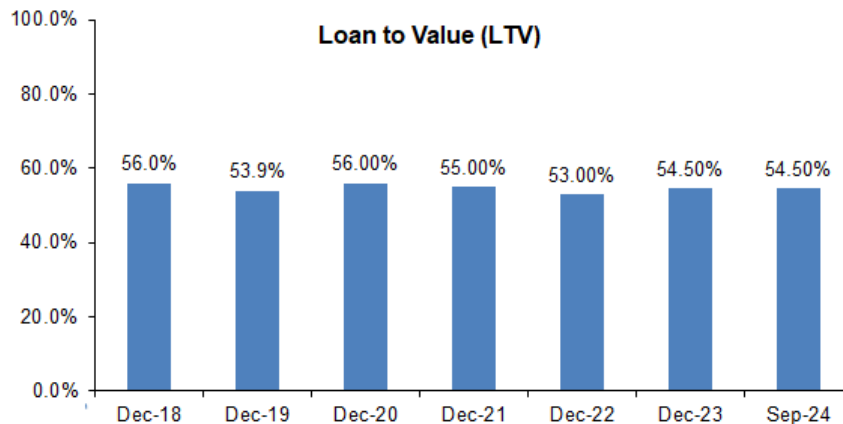


Loans by Property Type	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Sep-24
Residential Homes	89.0%	92.0%	94.4%	97.0%	94.0%	95.0%	93.8%
Vacant Land	3.0%	2.0%	1.4%	1.0%	1.0%	2.0%	2.2%
Construction	5.0%	4.0%	4.4%	1.8%	5.0%	3.0%	4.0%
Residential	97.0%	98.0%	99.0%	99.8%	100.0%	100.0%	100.0%
Commercial	3.0%	2.0%	1.0%	0.2%	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**Wt. Avg. Lending Rate**

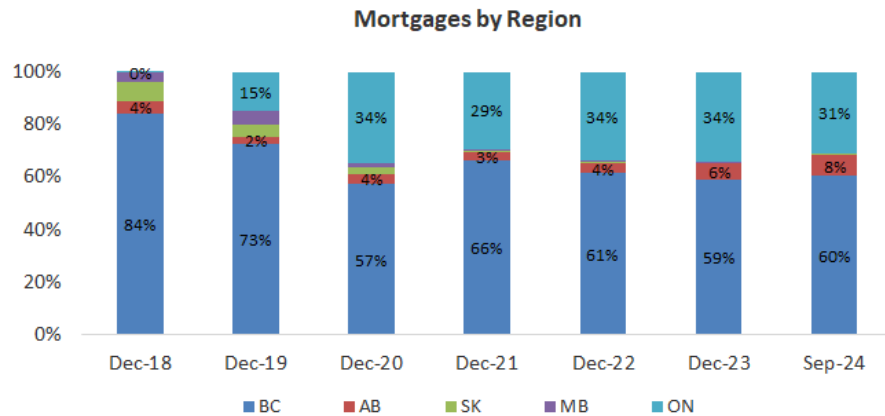


**Loan to Value (LTV)**

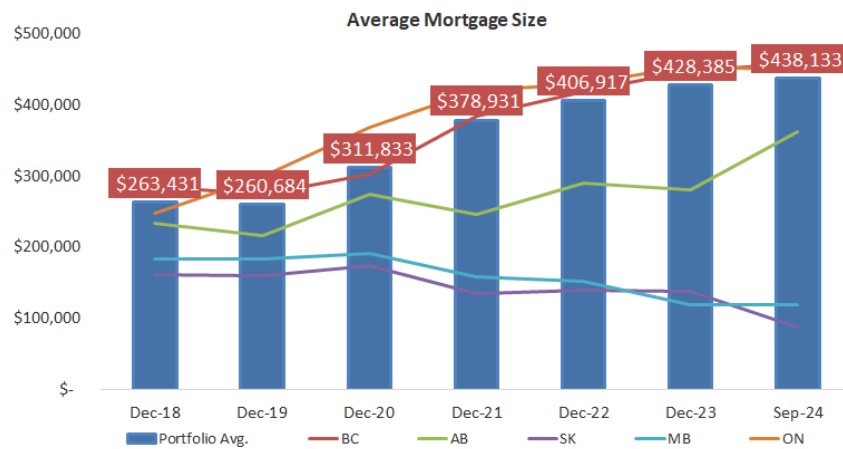


Source: Company / FRC

Lowered exposure to ON, while raising exposure to AB, implying enhanced geographical diversification



The average mortgage size was up 2% YTD



Stage three (impaired) mortgages increased 158% YTD to 0.9% of mortgages vs the sector average of 5%

Loan loss allowances held steady at 0.5% of mortgages

Redemptions as a percentage of invested capital have been relatively low (<5% per year), reflecting investor confidence in the management team

	2021	2022	2023	2024 (9M)
Actual Losses	71,140	322	3,237	159,735
% of Mortgage Receivables	0.06%	0.00%	0.00%	0.08%
Stage Three	878,221	851,047	702,462	1,814,678
% of Mortgage Receivables	0.65%	0.47%	0.35%	0.88%
Distributions	\$5,611,535	\$6,497,856	\$9,856,798	\$8,236,161
Reinvested	\$4,706,926	\$5,028,216	\$6,061,186	\$6,193,848
% of Distributions	84%	77%	61%	75%
Redemptions	\$3,557,363	\$4,018,062	\$6,058,898	\$3,468,014
% of Invested Capital	3.8%	3.7%	4.9%	2.5%
Loan loss provisions	\$86,334	\$116,329	\$220,886	\$137,839
Loan loss allowances (year/quarter ended)	\$673,142	\$789,149	\$1,006,798	\$1,009,902
% of Mortgage Receivables	0.49%	0.44%	0.50%	0.49%

Source: Company / FRC

Overall, we believe the portfolio's risk profile remains unchanged, with two green and two red signals

Parameter	Risk Profile
Average Mortgage Size	↑
Diversification	↑
Debt to Capital	↓
Priority	-
LTV	-
Property Type (lower-risk properties)	-
Default	↑

- red (green) indicates an increase (decrease) in risk level

Source: FRC

## Financials

2023 revenue was up 42% YoY, beating our estimate by 2.6%, due to higher lending rates

Net income was up 49% YoY, beating our estimate by 2.4%

2024 (9M) net income was up 42% YoY, beating our estimate by 31%, amid higher lending rates, and lower than expected loan loss provisions

Income Statement	2021	2022	2023	YoY	2023 (9M)	2024 (9M)	YoY
<b>Revenue</b>							
Interest Income	\$8,378,222	\$11,807,705	\$16,949,620	44%	\$11,916,123	\$16,054,943	35%
Fees & penalties	\$877,877	\$1,284,294	\$1,603,457	25%	\$1,174,324	\$1,123,138	-4%
	<b>\$9,256,099</b>	<b>\$13,091,999</b>	<b>\$18,553,077</b>	42%	<b>\$13,090,447</b>	<b>\$17,178,081</b>	31%
<b>Expenses</b>							
G&A	\$399,823	\$460,592	\$508,492	10%	\$342,174	\$379,669	11%
Management Fees	\$2,316,858	\$3,218,179	\$3,485,778	8%	\$2,543,412	\$2,931,210	15%
Loan Loss Provision	\$86,334	\$116,329	\$220,886	90%	\$115,481	\$137,839	19%
Interest on Loan Payable	\$626,570	\$2,588,059	\$4,345,766	68%	\$3,037,464	\$3,742,280	23%
	<b>\$3,429,585</b>	<b>\$6,383,159</b>	<b>\$8,560,922</b>	34%	<b>\$6,038,531</b>	<b>\$7,190,998</b>	19%
Net Income	<b>\$5,826,514</b>	<b>\$6,708,840</b>	<b>\$9,992,155</b>	49%	<b>\$7,051,916</b>	<b>\$9,987,083</b>	42%
Dividends	\$5,611,535	\$6,497,856	\$9,856,798	52%	\$5,318,626	\$8,236,161	55%
<b>Net Asset Value</b>	\$1.00	\$1.00	\$1.00	0%	\$1.01	\$1.01	0%
Shares Outstanding	101,886,694	118,370,586	130,398,339	10%	124,899,424	149,385,961	20%
Payout Ratio	96%	97%	99%		75%	82%	

Source: Company / FRC

2023 yield was 8.1% (beating our estimate by 0.4 pp) vs 5.9% in 2022

2024 (9M) yield was 9.5% vs our forecast of 7.8%

% of Mortgage Receivable	2021	2022	2023	2024 (9M)*
Interest Income	7.09%	7.44%	8.84%	10.48%
Fees & penalties	0.74%	0.81%	0.84%	0.73%
<b>Interest Income + Others</b>	<b>7.84%</b>	<b>8.25%</b>	<b>9.67%</b>	<b>11.21%</b>
Less:				
Management Fee	-1.96%	-2.03%	-1.82%	-1.91%
G&A Expenses	-0.34%	-0.29%	-0.27%	-0.25%
Loan Loss Provision	-0.07%	-0.07%	-0.12%	-0.09%
Interest	-0.53%	-1.63%	-2.27%	-2.44%
<b>Net</b>	<b>4.93%</b>	<b>4.23%</b>	<b>5.21%</b>	<b>6.52%</b>
<b>Investors' Returns (% of Invested Capital)</b>	<b>6.04%</b>	<b>5.90%</b>	<b>7.92%</b>	<b>7.85%</b>
<b>Yield</b>	<b>6.04%</b>	<b>5.90%</b>	<b>8.13%</b>	<b>9.49%</b>

\*Annualized

Note that the above figures may be slightly different from the figures reported by Three Point 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 Projections and Rating

With rates expected to trend downward, we foresee yields peaking in 2024, and then declining in 2025

We are projecting yields of 9.3% in 2024, and 8.2% in 2025

Our estimate for the 2025 yield varies between 5.9% and 9.3%, loan loss provisions and lending rates vary

Financial Summary	2021	2022	2023	2024E	2025E
Mortgage Investments (net)	\$136,120,907	\$181,102,955	\$202,477,294	\$210,000,000	\$225,000,000
Debt as a % of Mortgage Outstanding	25%	34%	34%	24%	25%
Revenue	\$9,256,099	\$13,091,999	\$18,553,077	\$22,851,242	\$22,293,750
Net Income	\$5,826,514	\$6,708,840	\$9,992,155	\$13,382,844	\$13,343,663
Net Asset Value	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Yield	6.04%	5.90%	8.13%	9.27%	8.24%

2025 Yield (FRC Estimates)	YoY Decline in the Weighted Average Lending Rate in 2025				
	0.50%	0.75%	1.00%	1.50%	2.00%
0.00%	9.25%	8.92%	8.58%	7.91%	7.24%
0.10%	9.12%	8.78%	8.44%	7.77%	7.10%
Loan Loss Provisions % of Receivables (2025)	8.91%	8.57%	<b>8.24%</b>	7.56%	6.89%
0.25%	8.56%	8.22%	7.89%	7.22%	6.55%
0.50%	7.87%	7.53%	7.19%	6.52%	5.85%

Source: FRC

**We are reiterating our overall rating of 2, and a risk rating of 2.** Management has adhered to their mandate of maintaining a low-risk-profile MIC, as evidenced



by a higher percentage of first mortgages, low LTV, and minimal exposure to stage three mortgages.

FRC Rating	
Expected Yield (2025E)	8.2%
Rating	2
Risk	2

With the BoC expected to continue lowering rates, 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 Three Point, 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.**

## Risks

- Loans are short term and need to be sourced and replaced quickly
- Timely deployment of capital is crucial
- Lower housing prices will result in higher LTVs
- **Shareholders' principal is not guaranteed**, as the NAV per share could decrease from current levels (due to loan losses)
- Although the MIC's primary focus is on first mortgages, it may invest in second mortgages that carry higher risk
- Annual redemptions may be limited to 10% of the total invested capital
- **Default rates can rise during recession**



**APPENDIX**

<b>Income Statement</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
<b>Revenue</b>					
Interest Income	\$8,378,222	\$11,807,705	\$16,949,620	\$21,345,700	\$20,553,750
Fees & penalties	\$877,877	\$1,284,294	\$1,603,457	\$1,505,542	\$1,740,000
	<b>\$9,256,099</b>	<b>\$13,091,999</b>	<b>\$18,553,077</b>	<b>\$22,851,242</b>	<b>\$22,293,750</b>
<b>Expenses</b>					
G&A	\$399,823	\$460,592	\$508,492	\$515,597	\$543,750
Management Fees	\$2,316,858	\$3,218,179	\$3,485,778	\$3,918,534	\$4,132,500
Loan Loss Provision	\$86,334	\$116,329	\$220,886	\$344,598	\$562,500
Interest on Loan Payable	\$626,570	\$2,588,059	\$4,345,766	\$4,689,669	\$3,711,338
	<b>\$3,429,585</b>	<b>\$6,383,159</b>	<b>\$8,560,922</b>	<b>\$9,468,398</b>	<b>\$8,950,088</b>
Net Income	<b>\$5,826,514</b>	<b>\$6,708,840</b>	<b>\$9,992,155</b>	<b>\$13,382,844</b>	<b>\$13,343,663</b>
Dividends	\$5,611,535	\$6,497,856	\$9,856,798	\$13,249,016	\$13,210,226
<b>Net Asset Value</b>	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00
Shares Outstanding	101,886,694	118,370,586	130,398,339	155,398,339	165,398,339
Payout Ratio	96%	97%	99%	99%	99%
<b>Balance Sheet</b>					
	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
<b>Assets</b>					
Cash	-			14,539	31,534
Accounts Receivable	74,878				
Prepaid Expense	36,849	215,068	187,349	196,716	206,552
Mortgage Investments (net)	136,120,907	181,102,955	202,477,294	210,000,000	225,000,000
<b>Total Assets</b>	<b>\$136,232,634</b>	<b>\$181,318,023</b>	<b>\$202,664,643</b>	<b>\$210,211,255</b>	<b>\$225,238,086</b>
<b>Liabilities</b>					
Loan Payable and accruals					
LOC	\$33,054,302	\$60,309,386	\$67,300,810	\$51,425,000	\$56,150,000
Promissory Notes	\$451,844	\$1,430,915	\$1,871,782		
A/P & Accrued Liabilities	\$307,195	\$696,945	781,771	820,860	861,903
Dividends payable	\$891,789	\$703,171	2,425,742	2,547,029	2,674,381
<b>Total Liabilities</b>	<b>\$34,705,130</b>	<b>\$63,140,417</b>	<b>\$72,380,105</b>	<b>\$54,792,889</b>	<b>\$59,686,283</b>
Share capital	\$100,808,942	\$117,248,060	\$129,219,635	\$154,219,635	\$164,219,635
Retained earnings	\$718,562	\$929,546	\$1,064,903	\$1,198,731	\$1,332,168
Net Asset	\$101,527,504	\$118,177,606	\$130,284,538	\$155,418,366	\$165,551,803
<b>SE + Liabilities</b>	<b>\$136,232,634</b>	<b>\$181,318,023</b>	<b>\$202,664,643</b>	<b>\$210,211,255</b>	<b>\$225,238,086</b>
Debt to Capital	25%	34%	35%	25%	25%
Debt as a % of Mortgage Outstanding	25%	34%	34%	24%	25%
Interest Coverage Ratio	10.3	3.6	3.3	3.9	4.6

Cash Flow Statement	2024E	2025E
<b>Operating Activities</b>		
Net Income	\$13,382,844	\$13,343,663
Loan Loss Provision		
	\$13,382,844	\$13,343,663
Changes in non-cash Working Capital		
Accounts Payable and Accrued Liabilities	\$39,089	\$41,043
Interest Payable*	\$121,287	\$127,351
Prepaid Expenses	-\$9,367	-\$9,836
<b>Cash from Operating Activities</b>	<b>\$13,533,852</b>	<b>\$13,502,221</b>
<b>Investing Activities</b>		
Net Purchase of Mortgage Investments	-\$7,522,706	-\$15,000,000
<b>Cash from Investing Activities</b>	<b>-\$7,522,706</b>	<b>-\$15,000,000</b>
<b>Financing Activities</b>		
Debt Proceeds	-\$17,747,592	\$4,725,000
Dividends	-\$13,249,016	-\$13,210,226
Cash Received on Subscription	\$25,000,000	\$10,000,000
<b>Cash from Financing Activities</b>	<b>-\$5,996,608</b>	<b>\$1,514,774</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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