

Capital Direct I Income Trust

Record-Breaking 2023 Sets Stage for Continued Growth in 2024

Estimated Yield (2024):
9.4%
Rating*: 2-
Risk*: 3

Sector: Mortgage Investment Entities

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Highlights

- Capital Direct I Income Trust is **one of the larger** Mortgage Investment Entities (MIEs) in Canada. The MIE is **focused on first/second mortgages** for single family residential units in B.C. and ON.
- In 2023, mortgage receivables were up 8% to \$393M vs our forecast of \$398M. In Q1-2024, receivables increased 7% YTD to \$418M - **the highest in Capital Direct's history.**
- The **yield on class F units increased** from 7.5% in 2022, to 8.6% in 2023 (our forecast was 8.0%), and to 9.4% in Q1-2024.
- In 2023, the fund achieved record revenue and net income. Net income was up 23% YoY, **beating our estimate by 6%**, due to higher lending rates. Net income was up 23% YoY in Q1-2024 as well.
- As of March 2024, 42% of mortgages were in B.C., and 40% in Ontario. First mortgages accounted for 55% of the portfolio.
- In 2023, **stage three (impaired) mortgages increased** 4.2 pp YoY to 7.4% of mortgages. However, management lowered loan loss allowances by 3 bp to 0.33% of mortgages, indicating they foresee no significant losses. We believe the fund is **comfortably positioned** with a low LTV of 53%.
- In spite of a sharp decline in real estate activity in 2023, **residential property prices have remained resilient.** We anticipate transaction volumes picking up in H2-2024, driven by lower interest rates.
- Anticipating lower rates, we find high-yielding funds, such as Capital Direct, increasingly appealing. **We are projecting a yield of 9.4% in 2024 (2023: 8.6%) vs management's guidance of 9.5%-10.0%.**

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

Offering Summary	
Issuer	Capital Direct I Income Trust
Securities Offered	Class F Trust Units
Unit Price	\$10
Minimum Subscription	\$5,000
Distribution to Investors	80% of net income on a quarterly basis
Redemption	A fee of 2% is applicable within the first 6 months, with no fee thereafter
Management Fee	1.0% p.a. of NAV
Auditor	MNP

Financial Summary	2021	2022	2023	2024E	2025E
Mortgage Investments (net)	\$334,981,715	\$364,338,646	\$392,617,096	\$431,878,806	\$453,472,746
Debt as a % of Mortgage Outstanding	29%	28%	30%	28%	30%
Revenue	\$25,402,829	\$30,199,267	\$40,371,531	\$45,347,275	\$43,160,888
Net Income	\$17,564,199	\$21,397,295	\$26,423,407	\$29,627,989	\$28,264,578
Net Asset Value	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
Yield (Class F)	7.06%	7.45%	8.63%	9.35%	8.58%

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

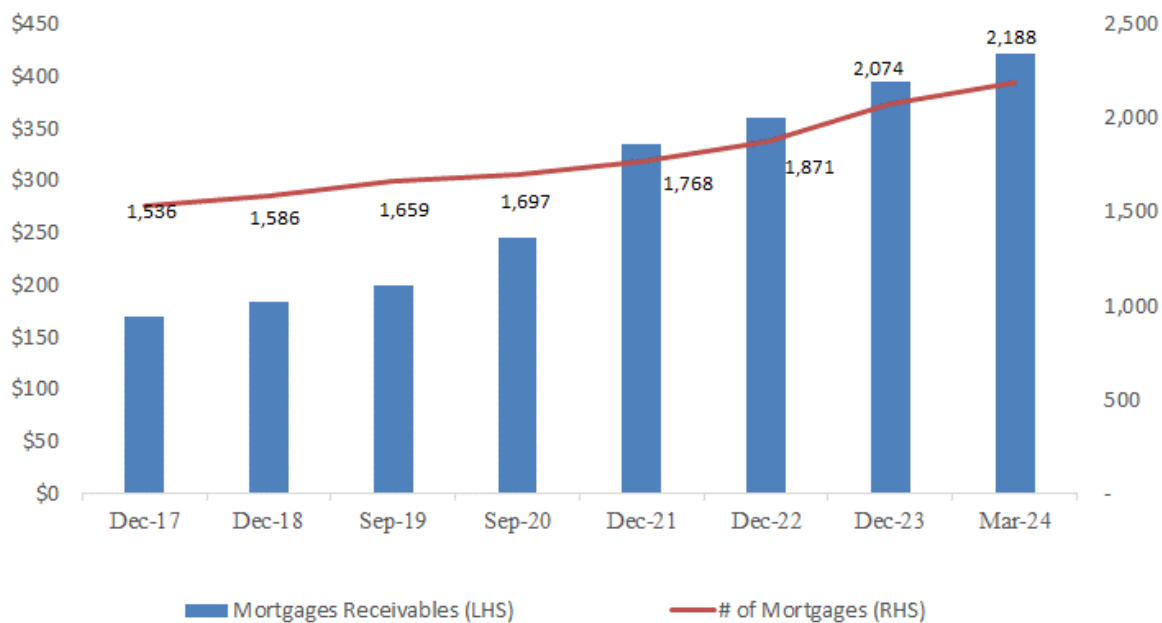
The following table shows how Capital Direct's portfolio compares to that of other MIEs (with AUM of \$100M+) focused on single-family residential units.

	Capital Direct	Average
First Mortgage	55%	75%
B.C.	42%	39%
ON	40%	48%
AB	12%	7%
Others	6%	6%
LTV	53%	58%
Yield	9.4%	8.7%
Debt to Capital	30%	23%
Average Loan Size	\$192,761	\$508,064
Stage Three % of Mortgages	7.4%	4.7%
Allowances % of Mortgages	0.3%	0.6%

Source: FRC / Various

Portfolio Update

Mortgage Receivables gross in \$M & No. of Mortgages



Source: Company / FRC

In 2023, mortgage receivables were up 8% to \$393M vs our forecast of \$398M

In Q1-2024, receivables increased 7% YTD to \$418M

In 2023, debt to capital increased 2 pp to 30%, in line with that of comparables (20%-40%)

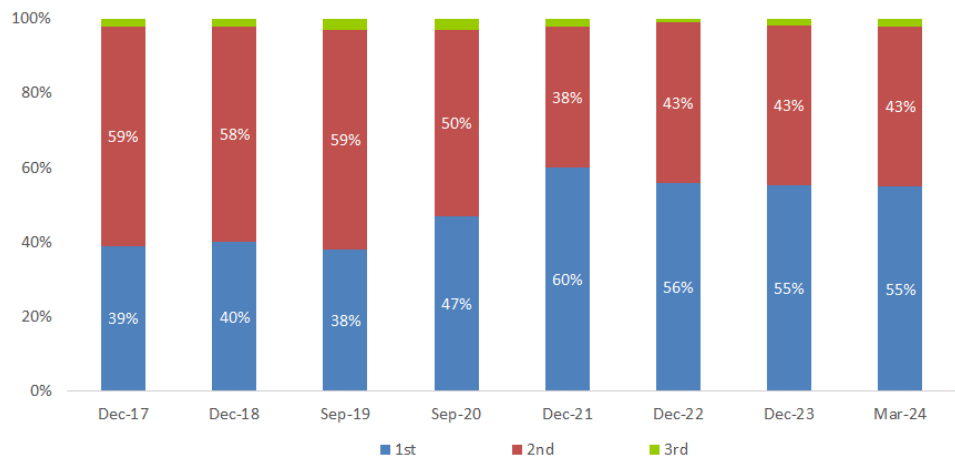
The interest coverage ratio is also in line with that of comparables (3x-5x)

No material changes in exposure to first mortgages

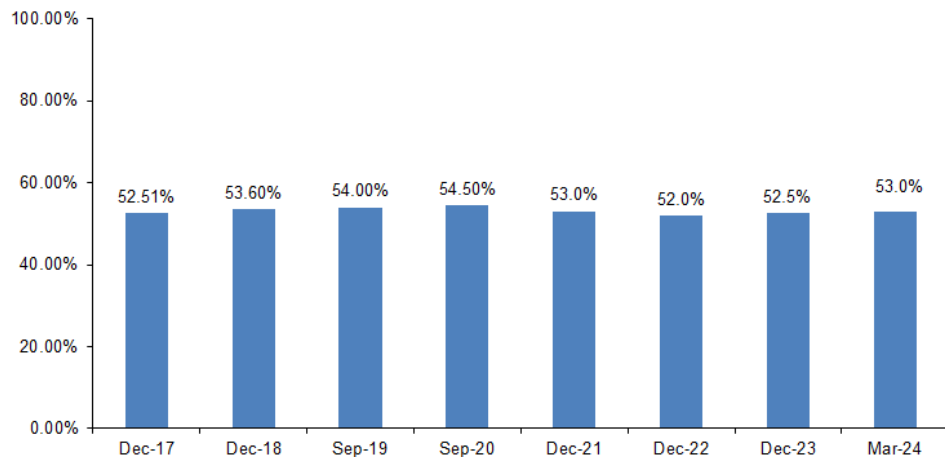
No material changes in LTV

Balance Sheet	2019	2020	2021	2022	2023	Q1-2024
Assets						
Cash	\$14,405,424	\$10,020,064	\$13,541,298	\$13,619,660	\$13,303,792	\$9,785,514
Accounts Receivable	\$4,004,506	\$5,100,374	\$3,429,247	\$5,916,889	\$6,883,133	\$3,275,174
Assets held for sale	\$834,499					
Mortgage Investments (net)	\$200,483,054	\$259,760,322	\$334,981,715	\$364,338,646	\$392,617,096	\$418,245,805
Total Assets	\$219,727,483	\$274,880,760	\$351,952,260	\$383,875,195	\$412,804,021	\$431,306,493
Liabilities						
Debt	\$22,355,427	\$62,380,903	\$98,320,737	\$101,459,633	\$116,662,856	\$129,650,966
Accounts Payable & Accrued Liabilities	\$13,726,639	\$7,791,655	\$12,267,106	\$9,383,013	\$8,522,326	\$5,371,546
Total Liabilities	\$36,082,066	\$70,172,558	\$110,587,843	\$110,842,646	\$125,185,182	\$135,022,512
Net Asset	\$183,645,417	\$204,708,202	\$241,364,417	\$273,032,549	\$287,618,839	\$296,283,981
SE + Liabilities	\$219,727,483	\$274,880,760	\$351,952,260	\$383,875,195	\$412,804,021	\$431,306,493
Debt to Capital	11%	23%	29%	27%	29%	30%
Debt as a % of Mortgage Outstanding	11%	24%	29%	28%	30%	31%
Interest Coverage Ratio	10.9	16.8	8.1	5.0	4.3	4.0

Mortgages by Priority

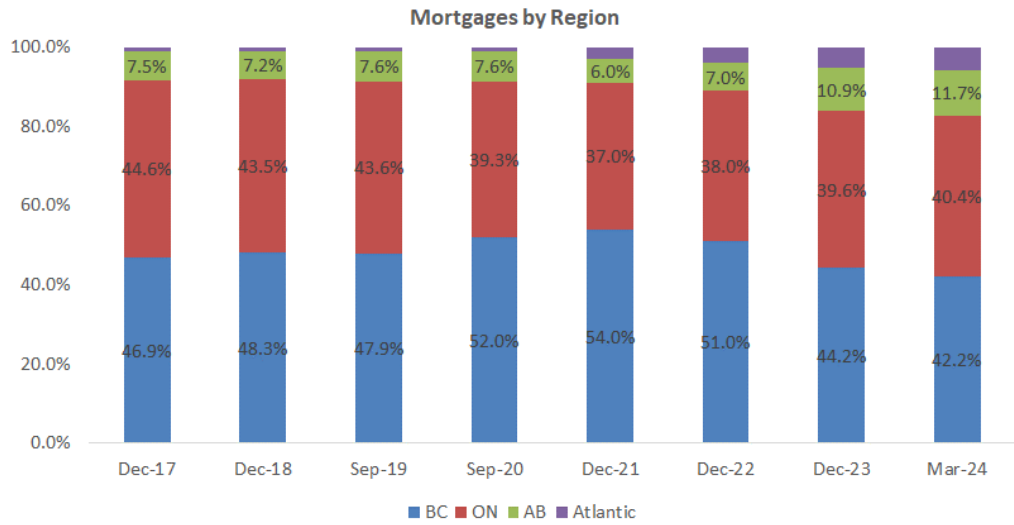


Loan to Value (LTV)

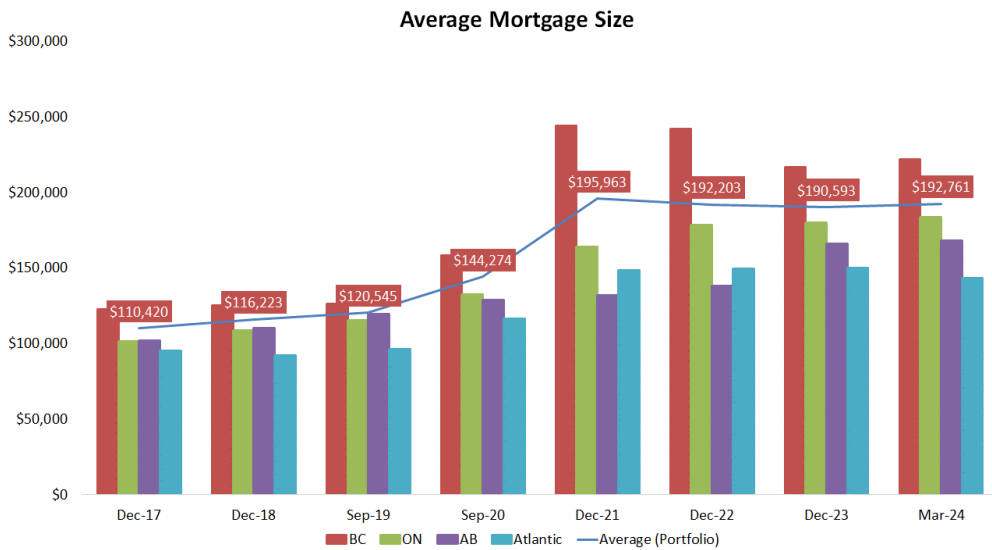


Source: Company / FRC

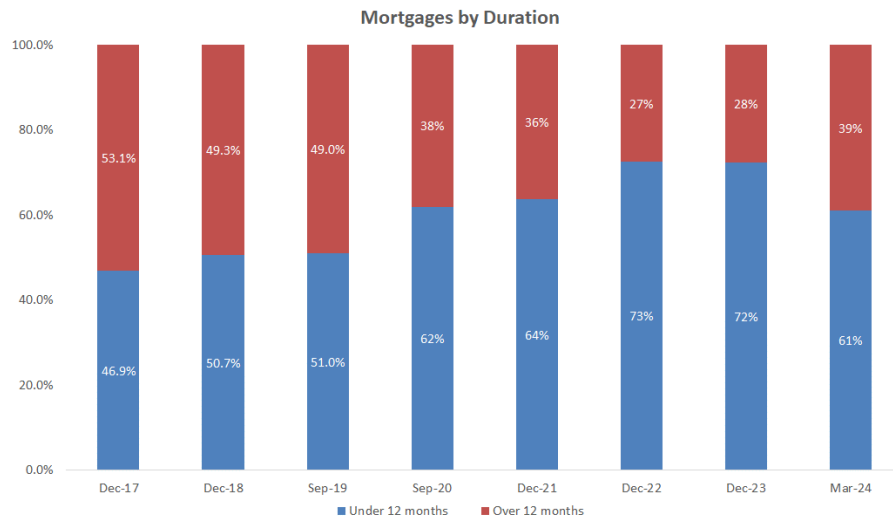
Trimmed B.C. exposure, implying enhanced geographical diversification



No material changes in the average mortgage size



Duration increased, but remained lower than the historic average



Source: Company / FRC

No material realized losses

In 2023, stage three mortgages increased 4.2 pp YoY to 7.4% of mortgages

However, management lowered loan loss allowances by 3 bp to 0.33% of mortgages, indicating they foresee no significant losses

	2020	2021	2022	2023	Q1-2024
Actual Losses	\$666,711	\$312,001	\$49,472	\$48,916	\$12,925
Actual Losses (% of mortgage receivable)	0.29%	0.10%	0.01%	0.01%	0.00%
Distributions	\$13,340,835	\$14,717,145	\$17,905,517	\$22,175,017	\$6,384,485
Reinvested	\$8,571,974	\$9,734,434	\$11,177,839	\$13,666,988	\$4,032,053
Reinvested (as a % of Distributions)	64%	66%	62%	62%	63%
Redemptions	\$20,027,958	\$17,699,880	\$32,631,059	\$33,399,916	\$5,088,063
Redemption (% of invested capital)	10%	8%	13%	12%	2%
Stage Three (impaired)	n/a	\$8,823,177	\$11,756,409	\$29,072,130	n/a
% of Receivable	n/a	2.6%	3.2%	7.4%	n/a
Loan loss provisions	\$494,703	\$669,271	\$197,366	\$59,942	-\$267,235
Loan loss allowance (year/quarter ended)	\$798,962	\$1,156,232	\$1,304,126	\$1,315,152	\$1,034,992
% of Receivable	0.31%	0.35%	0.36%	0.33%	0.25%

Source: Company / FRC

In summary, we believe the portfolio's risk profile has increased (one green vs two red signals), primarily driven by higher stage three mortgages

Parameter	Risk Profile
Average Mortgage	-
Diversification	↑
Priority	-
Property Type (lower-risk properties)	-
LTV	-
Stage Three Mortgages	↑
Debt to Capital	-
Duration	↑

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

Source: FRC

Financials

Income Statement	2021	2022	2023	YoY	Q1-2023	Q1-2024	YoY
Revenues							
Interest Income	\$23,392,286	\$28,560,753	\$38,633,064	35%	\$8,198,633	\$11,234,118	37%
Other Income	\$2,010,543	\$1,638,514	\$1,738,467	6%	\$781,787	-\$709,153	-191%
Total Revenue	\$25,402,829	\$30,199,267	\$40,371,531	34%	\$8,980,420	\$10,524,965	17%
Expenses							
G&A	\$596,181	\$532,299	\$783,845	47%	\$126,798	\$79,462	-37%
Bank Charges	\$467,888	\$448,918	\$502,777	12%	\$76,224	\$137,598	81%
Interest on Loan Payable	\$2,464,585	\$4,954,360	\$8,134,065	64%	\$1,860,658	\$2,333,128	25%
Management Fees	\$3,640,705	\$4,207,029	\$4,396,632	5%	\$1,100,079	\$1,148,140	4%
Loan Loss Provision	\$669,271	\$197,366	\$59,942	-70%	\$34,892	-\$267,235	
Total Operating Expenses	\$7,838,630	\$10,339,972	\$13,877,261	34%	\$3,198,651	\$3,431,093	7%
Gain on financial instruments		\$1,538,000	-\$70,863				
Net Income	\$17,564,199	\$21,397,295	\$26,423,407	23%	\$5,781,769	\$7,093,872	23%
Net Asset Value	\$10.00	\$10.00	\$10.00	0%	\$10.00	\$10.00	0%
Distributions							
Investors	\$14,717,145	\$17,905,517	\$22,175,017	24%	\$4,914,504	\$6,384,485	30%
Management	\$2,847,054	\$3,491,778	\$4,248,390	22%	\$867,265	\$709,387	-18%
Investors' Share	83.8%	83.7%	83.9%		85.0%	90.0%	

2023 revenue was up 34% YoY, beating our estimate by 8%, due to higher lending rates

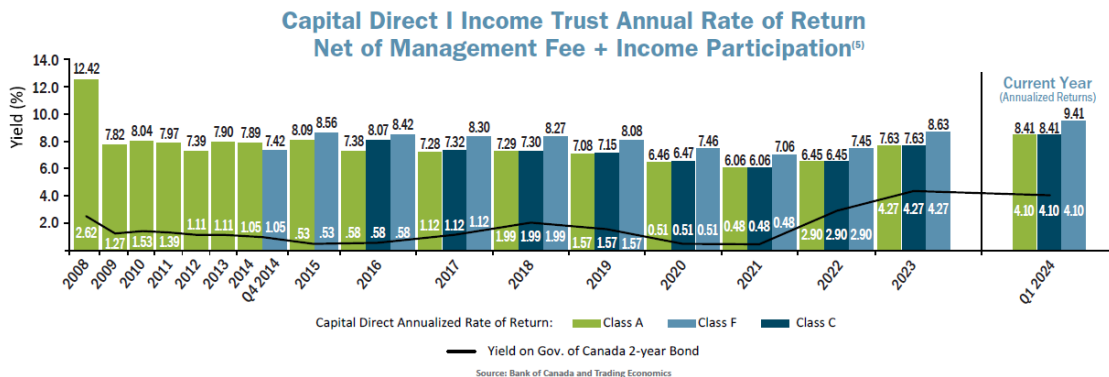
Net income was up 23% YoY, beating our estimate by 6%

In Q1-2024, revenue and net income were up 17% YoY, and 23% YoY, respectively

% of Mortgage Receivable	2021	2022	2023	Q1-2024
Interest Income	7.87%	8.17%	10.21%	11.08%
Other Income	0.68%	0.47%	0.46%	-0.70%
Interest Income + Others	8.54%	8.64%	10.67%	10.38%
Less:				
Management Fee	-1.22%	-1.20%	-1.16%	-1.13%
G&A Expenses	-0.36%	-0.28%	-0.34%	-0.21%
Loan Loss Provision and Others	-0.23%	-0.06%	-0.02%	0.26%
Interest	-0.83%	-1.42%	-2.15%	-2.30%
Net	5.91%	5.68%	7.00%	7.00%
Investors' Returns (% of Invested Capital)	6.60%	6.96%	7.91%	8.75%

Note that the above figures may be slightly different from the figures reported by Capital Direct 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.

The yield on class F units increased from 7.5% in 2022, to 8.6% in 2023 (our forecast was 8.0%), and to 9.4% in Q1-2024



Source: Company

Units Outstanding and Ownership

Units Outstanding	31-Dec-21	31-Dec-22	31-Mar-24	% of Total
Class A	8,548,104	8,645,767	9,026,032	30.5%
Class C	6,133,316	7,908,656	8,143,060	27.5%
Class F	9,455,022	10,748,832	12,459,317	42.1%
Total	24,136,442	27,303,255	29,628,409	100.0%

Source: Company

30M units outstanding at the end of Q1-2024, up 9% YTD

- Class A - offered to investors directly
- Class F - offered to funds managed by portfolio managers, and other fee-based investment advisors.
- Class C - offered to investors who purchase units through dealers (IIROC and Exempt Market Dealers)

FRC Projections and Rating

	2024E (Introducing)	2025E (Introducing)
Mortgage Investments (net)	\$431,878,806	\$453,472,746
Debt to Capital	29%	30%
Revenue	\$45,347,275	\$43,160,888
Net Income	\$29,627,989	\$28,264,578
Net Asset Value	\$10.00	\$10.00
Yield (Class F)	9.35%	8.58%

We are projecting yields of 9.4% in 2024, and 8.6% in 2024

Our estimate for the 2024 yield varies between 8.9% and 9.5%, using various YoY allowances

Loan Loss Allowances (Total Increase of X% in 2024 and 2025)	2024 Yield (FRC Est.)
0%	9.47%
25%	9.42%
60%	9.35%
150%	9.16%
300%	8.86%

Source: Company/FRC

We are reiterating our overall rating of 2-, and a risk rating of 3. Anticipating lower rates, we find high-yielding funds, such as Capital Direct, increasingly appealing. Key risks include a softer mortgage origination market, and higher default rates. We believe **major highlights of Capital Direct** are its above-average yield, a geographically diversified portfolio, and a relatively low LTV.

FRC Rating	
Expected Yield (2024E) - Class F Units	9.40%
Rating	2-
Risk	3

Risks

- Loans are short term and need to be sourced and replaced quickly
- Lower housing prices will result in higher LTVs
- **Investors' principal is not guaranteed**
- No guaranteed minimum distributions
- The fund has the ability to use leverage, increasing exposure to negative events
- Second mortgages carry higher risk
- **Default rates can rise during recession**

APPENDIX

Income Statement	2021	2022	2023	2024E	2025E
Revenues					
Interest Income	\$23,392,286	\$28,560,753	\$38,633,064	\$44,316,655	\$40,947,509
Other Income	\$2,010,543	\$1,638,514	\$1,738,467	\$1,030,620	\$2,213,379
Total Revenue	\$25,402,829	\$30,199,267	\$40,371,531	\$45,347,275	\$43,160,888
Expenses					
G&A	\$596,181	\$532,299	\$783,845	\$823,037	\$864,189
Bank Charges	\$467,888	\$448,918	\$502,777	\$527,916	\$554,312
Interest on Loan Payable	\$2,464,585	\$4,954,360	\$8,134,065	\$8,987,357	\$7,710,000
Management Fees	\$3,640,705	\$4,207,029	\$4,396,632	\$4,946,975	\$5,312,109
Loan Loss Provision	\$669,271	\$197,366	\$59,942	\$434,000	\$455,700
Total Operating Expenses	\$7,838,630	\$10,339,972	\$13,877,261	\$15,719,286	\$14,896,310
Gain on financial instruments		\$1,538,000	-\$70,863		
Net Income	\$17,564,199	\$21,397,295	\$26,423,407	\$29,627,989	\$28,264,578
Net Asset Value	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
Distributions					
Investors	\$14,717,145	\$17,905,517	\$22,175,017	\$24,828,255	\$23,685,716
Management	\$2,847,054	\$3,491,778	\$4,248,390	\$4,799,734	\$4,578,862
Investors' Share	83.8%	83.7%	83.9%	83.8%	83.8%

Balance Sheet	2021	2022	2023	2024E	2025E
Assets					
Cash	\$13,541,298	\$13,619,660	\$13,303,792	\$92,041	\$381,128
Accounts Receivable	\$3,429,247	\$5,916,889	\$6,883,133	\$7,227,290	\$7,588,654
Mortgage Investments (net)	\$334,981,715	\$364,338,646	\$392,617,096	\$431,878,806	\$453,472,746
Total Assets	\$351,952,260	\$383,875,195	\$412,804,021	\$439,198,136	\$461,442,528
Liabilities					
Debt	\$98,320,737	\$101,459,633	\$116,662,856	\$123,000,000	\$134,000,000
Accounts Payable & Accrued Liabilities	\$12,267,106	\$9,383,013	\$8,522,326	\$8,948,442	\$9,395,864
Total Liabilities	\$110,587,843	\$110,842,646	\$125,185,182	\$131,948,442	\$143,395,864
Net Asset	\$241,364,417	\$273,032,549	\$287,618,839	\$307,249,694	\$318,046,664
SE + Liabilities	\$351,952,260	\$383,875,195	\$412,804,021	\$439,198,136	\$461,442,528
Debt to Capital	29%	27%	29%	29%	30%

Cash Flow Statements	2024E	2025E
Operating Activities		
	\$29,627,989	\$28,264,578
Chnges in non-cash Working Capital		
Accounts Receivable	-\$344,157	-\$361,364
Accounts Payable and Accrued Liabilities	\$426,116	\$447,422
	\$81,960	\$86,058
Cash from Operating Activities	\$29,709,948	\$28,350,636
Investing Activities		
Net Purchase of Mortgage Investments	-\$39,261,710	-\$21,593,940
Cash from Investing Activities	-\$39,261,710	-\$21,593,940
Financing Activities		
Distribution to unitholders (net of reinvestments)	-\$24,828,255	-\$23,685,716
Distribution to Manager	-\$4,799,734	-\$4,578,862
Redemption	\$19,630,855	\$10,796,970
Loan Payable	\$6,337,144	\$11,000,000
Cash from Financing Activities	-\$3,659,990	-\$6,467,608

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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