

Ocwen Financial Corporation (OCN, Neutral)

OCN Releases Encouraging Preliminary 4Q19 Results, Higher Book Value and Improved FY20 Originations Outlook

WHAT YOU SHOULD KNOW: Ocwen Financial Corporation (OCN) provided preliminary 4Q19 results highlighting \$37M of pre-tax income and total book value of \$412M at 12/31, an 8.1% QoQ increase. More importantly, OCN provided an update related to the company's cost savings plan and expected return to profitability during 3Q20, increased originations targets for FY20 and provided an update related to the impact of CECL. The company also authorized a \$5M share repurchase authorization. We view the book value improvement and positive CECL adjustments as significant positives insofar as one of our primary concerns about OCN shares was book value erosion while the company continued to report losses before generating positive net income in 2H20.

- **Outlook** – OCN expects to achieve profitability during 3Q20 as the impact of cost re-engineering efforts reduce expenses. As of 4Q19, OCN GAAP operating expenses fell to \$139M and realizing \$385M of run-rate cost savings ahead schedule compared to the target of achieving \$400M by 3Q20. OCN expects the implementation of CECL to result in a \$47M favorable accounting adjustment related to reverse mortgage tail draws.
- **Originations** – The company's run rate annualized originations volume increased to \$9B and OCN increased its FY20 origination target to \$15B from \$10B. This is a significant positive because it will provide significant MSR replenishment and should allow OCN to grow owned MSR UPB during FY20.
- **Improved Outlook** – Between 4Q19 book value reaching \$412M and the anticipated \$47M CECL related benefit, OCN's proforma BV will increase to ~\$459M or \$3.38 per share. This is a material improvement compared to our previous estimates that had through BV per share falling as low as \$2.75 per share before beginning to rise again.
- We view the improved financial results and a higher book value as a significant positive development for OCN. The increased origination volume outlook is especially encouraging because it will provide a material source of MSR sourcing/growth that should stabilize the portfolio. Going forward, additional detail about the OCN's return on capital growth/targets after achieving profitability would be a significant improvement that could potentially justify a higher valuation for the company.
- **Valuation:** Based on our comparable company valuation analysis for OCN, we believe the stock is likely to trade within +/- 15% of current levels over the next 12 months. BTIG does not assign price targets to Neutral-rated stocks.



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COMPANY DATA	
Closing Price:	\$1.07
Price Target:	-
Market Cap (\$M):	143.88
Shares Out (M):	134.5
Avg Daily Vol - 3 Months (M):	0.28
Dividend/Yield:	\$0.00/0.0%

REVISIONS		
	Previous	Current
Rating	Neutral	Neutral
Price Target	-	-
FY19E EPS	-	\$(0.52)
FY20E EPS	-	\$(0.89)
FY19E Rev. (M)	\$1,296.76	\$1,063.05

Diluted EPS (Adjusted)			
FY Dec	2018A	2019E	2020E
Q1	(0.13)	0.04	(0.49)
Q2	0.03	(0.06)	(0.43)
Q3	(0.10)	(0.19)	(0.27)
Q4	0.03	(0.30)	0.30
Calendar EPS	(0.17)	(0.52)	(0.89)
Calendar P/E	-	-	-

REVENUE (\$M)			
FY Dec	2018A	2019E	2020E
Q1	321.86	260.26	303.89
Q2	311.30	253.58	274.34
Q3	284.64	238.28	283.52
Q4	276.77	310.93	236.38
FY	1,194.58	1,063.05	1,098.12

Source: IDC, BTIG Estimates and Company Documents
(\$ in millions, except per share amount)

Investment Thesis

We have a Neutral rating on shares of Ocwen Financial. We believe the company's shares are fairly valued and the upside/downside scenarios are equally weighted. As the company works through its cost savings plan and is able to demonstrate the ability to return to growth, we believe the potential upside scenario will become clearer.

Upcoming Catalysts

- 4Q19 Earnings

Base Case Assumptions

- We assume OCN returns to profitability during FY20.
- Origination volumes increase to \$10B+ during FY20.
- Modest MSR portfolio growth.

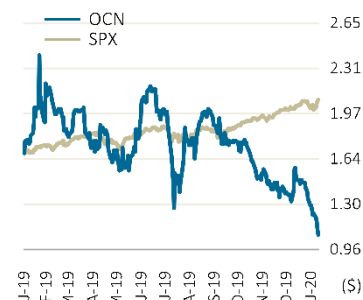
Upside Scenario

- OCN is able to scale profitability after the company achieves breakeven and earns an attractive return on capital.
- Origination volumes come in above expectations and MSR UPB grows significantly.
- Lower prepayment speeds.

Downside Scenario

- OCN is unable to return to profitability.
- Origination volumes fall short and the MSR portfolio contracts.
- Higher prepayment speeds.

Price Performance



Source: IDC

Company Description

Ocwen Financial Corp. is a financial services holding company, which through its subsidiaries engages in the servicing and origination of mortgage loans. The company was founded in February 1988 and is headquartered in West Palm Beach, FL.

Income Statement

OCN - Operating Model	Dec-16	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20
\$ millions	2016A	2017A	1Q18A	2Q18A	3Q18A	4Q18A	2018A	1Q19A	2Q19A	3Q19A	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E
Servicing and subservicing	1,186.6	989.4	222.1	222.2	213.7	276.2	934.3	255.9	239.2	247.1	192.5	934.6	171.0	169.9	169.8	169.3	680.0
Gain on loans held for sale	90.4	103.4	19.8	24.4	16.9	16.6	77.7	17.6	15.1	14.9	19.2	66.8	92.4	107.7	107.1	93.6	400.8
Other	110.2	101.8	18.3	7.0	7.6	18.1	51.0	30.4	20.1	21.6	24.7	96.8	14.7	14.6	27.1	32.7	89.1
Total revenue	1,387.2	1,194.6	260.3	253.6	238.3	310.9	1,063.0	303.9	274.3	283.5	236.4	1,098.1	278.0	292.3	303.9	295.7	1,169.9
Total expenses	1,223.3	998.6	206.5	205.7	217.5	302.8	932.5	280.1	331.5	44.7	139.1	795.4	246.6	256.4	242.4	223.5	968.9
Interest income	19.1	16.0	2.7	3.4	4.0	4.0	14.0	4.6	3.8	4.1	2.0	14.6	2.0	1.9	1.8	1.8	7.5
Interest expense	-412.6	-363.2	-50.8	-77.5	-61.3	-85.4	-275.0	-70.4	-31.6	-285.9	-60.2	-448.2	-58.1	-55.9	-53.8	-51.9	-219.7
Gain on sale of MSRs	8.5	10.5	1.0	0.1	-0.7	1.0	1.3	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Other	14.7	-3.2	-1.6	-2.3	-2.7	64.5	57.9	1.0	0.7	4.7	-0.5	5.9	-0.5	-0.5	-0.5	-0.5	-2.0
Total other expenses	-370.3	-339.9	-48.8	-76.3	-60.8	-15.9	-201.8	-64.9	-27.2	-277.1	-58.7	-427.9	-56.6	-54.5	-52.4	-50.6	-214.2
Income (loss) before income taxes	-206.4	-144.0	5.0	-28.4	-40.0	-7.8	-71.2	-41.1	-84.3	-38.3	38.6	-125.2	-25.1	-18.6	9.1	21.5	-13.1
Income tax expense	-7.0	-15.5	2.3	1.3	0.8	-4.0	0.5	3.4	5.4	4.5	0.0	13.3	0.0	0.0	0.0	0.0	0.0
Net income (loss)	-199.4	-128.5	2.6	-29.8	-40.8	-3.8	-71.7	-44.5	-89.7	-42.8	38.6	-138.4	-25.1	-18.6	9.1	21.5	-13.1
Net income attributable to noncontrolling interests	-0.4	0.5	-0.1	-0.1	0.0	1.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (loss) attributable to Ocwen	-199.8	-128.0	2.5	-29.8	-40.9	-2.3	-70.5	-44.5	-89.7	-42.8	38.6	-138.4	-25.1	-18.6	9.1	21.5	-13.1
GAAP EPS - Basic	-\$1.61	-\$1.01	\$0.02	-\$0.22	-\$0.31	-\$0.02	-\$0.53	-\$0.33	-\$0.67	-\$0.32	\$0.29	-\$1.03	-\$0.19	-\$0.14	\$0.07	\$0.16	-\$0.10
GAAP EPS - Diluted	-\$1.61	-\$1.01	\$0.02	-\$0.22	-\$0.31	-\$0.02	-\$0.53	-\$0.33	-\$0.67	-\$0.32	\$0.29	-\$1.03	-\$0.19	-\$0.14	\$0.07	\$0.16	-\$0.10
Adjusted Pre-tax income	\$0.13	-\$0.17	\$0.04	-\$0.06	-\$0.19	-\$0.30	-\$0.52	-\$0.37	-\$0.20	-\$0.14	\$0.29	-\$0.42	-\$0.19	-\$0.14	\$0.07	\$0.16	-\$0.10
Shares outstanding - Basic	124.0	127.1	133.1	133.9	133.9	133.9	133.7	133.9	134.5	134.6	134.9	134.5	135.6	135.2	135.5	135.8	135.5
Shares outstanding - Diluted	124.0	127.1	134.6	133.9	133.9	133.9	134.1	133.9	134.5	134.6	134.9	134.5	135.6	135.2	137.0	137.3	136.3
Pre-tax income (loss)	-206.36	-143.97	4.97	-28.41	-40.00	-7.76	-71.21	-41.08	-84.33	-38.31	38.57	-125.16	-25.14	-18.61	9.08	21.52	-13.15
Expense notables								-9	17	17	0	25	0	0	0	0	0
Non-Agency MSR FV Change								0	0	-252	0	-252	0	0	0	0	0
Non-Agency MSR FV Change - net of hedge								64	95	63	0	222	0	0	0	0	0
NRZ MSR Liability FV Change (Interest Expense)								-33	-46	198	0	119	0	0	0	0	0
Reverse Lending FV Change								-17	-8	-3	0	-28	0	0	0	0	0
Debt repurchase gain								0	0	-5	0	-5	0	0	0	0	0
Call Rights Execution Gain								0	0	0	0	0	0	0	0	0	0
Other/old reporting	222	122	1	20	14	-33	2	-14	0	2	0	-12	0	0	0	0	0
Adjusted Pre-tax Income (loss)	15.64	-21.97	5.97	-8.41	-26.00	-40.76	-69.21	-50.08	-26.33	-18.31	38.57	-56.16	-25.14	-18.61	9.08	21.52	-13.15
UPB - end of period (\$B)	209	179	173	167	161	256	256	251	241	231	223	223	208	207	205	204	204
UPB - average (\$B)	228	195	176	170	164	261	193	254	246	221	213	234	209	208	206	204	207
Book value per share	5.27	4.16	4.74	4.48	4.18	4.14	4.14	3.82	3.14	2.83	3.01	3.01	3.26	3.17	3.22	3.36	3.36
Return on equity	2.2%	-3.7%	4.0%	-5.5%	-17.9%	-29.2%	-11.9%	-37.6%	-22.5%	-18.2%	39.2%	-12.3%	-23.7%	-17.1%	8.4%	19.3%	-3.0%

Source: BTIG Estimates and Company Documents



BTIG Covered Companies Mentioned in this Report

OCWEN FINANCIAL CORP (OCN, Neutral, \$N/A PT; Current Price: \$1.07; Analyst: Giuliano.Bologna)

Appendix: Analyst Certification and Other Important Disclosures

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Ocwen Financial Corporation (OCN, Neutral)

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Ocwen Financial Corporation (OCN)

(\$)



Note: Closing Price and Target Price have been adjusted for corporate actions.

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
29-Nov-18	2.10	N/A	Giuliano Bologna	Neutral

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