



Eagle Point Credit Company Inc. (ECC)

Updated October 8th, 2019 by Samuel Smith

Key Metrics

Current Price:	\$17	5 Year CAGR Estimate:	2.7%	Volatility Percentile:	32.0%
Fair Value Price:	\$15	5 Year Growth Estimate:	-5.0%	Momentum Percentile:	52.7%
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Growth Percentile:	0.5%
Dividend Yield:	14.1%	5 Year Price Target	\$11	Valuation Percentile:	43.6%
Dividend Risk Score:	NA	Retirement Suitability Score:	NA	Total Return Percentile:	21.0%

Overview & Current Events

Eagle Point Credit is a closed-end fund launched and managed by Eagle Point Credit Management LLC. It was formed on March 24, 2014 and is domiciled in the United States. It invests in fixed income markets of the United States, primarily equity and junior debt tranches of collateralized loan obligations that mainly consist of below investment grade U.S. senior secured loans. Eagle Point Credit is a popular CLO fund among institutional investors thanks to management's long term buy-and-hold philosophy and conservative approach to running the business.

The company reported Q2 earnings on August 15th. Q2 net investment income came in at 7 cents per share, consisting of 36 cents of NII and 29 cents of realized capital losses. These numbers were down significantly from the net investment income of 36 cents in Q1 and 34 cents in the year-ago quarter. At quarter end, net asset value per common share stood at \$13.45.

During the quarter, management deployed \$60.9M in gross capital, received \$36.8M in proceeds from the sale of investments, and received \$26.0M in recurring cash distributions net of proceeds from called investments. At the end of July, NAV per common share stood at ~\$13.07.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	---	---	---	---	---	\$1.90	\$2.28	\$2.05	\$2.20	\$1.56	\$1.21
DPS	---	---	---	---	---	---	\$2.35	\$2.40	\$3.25	\$2.40	\$2.40	\$1.20
Shares¹	---	---	---	---	---	---	23	23	23	23	23	23

Eagle Point Credit's growth prospects could get a tailwind from outflows in senior loan ETFs, which would result in lower prices and higher effective yields. The company is poised to profit from price dislocations in the senior loan market, which would make it capital raises more accretive. Furthermore, the CLOs that dominate ECC's balance sheet will benefit from widening bank loan spreads. In the meantime, many of their CLOs are older and are therefore at risk of being called and generating lower returns. If management can effectively sell out of its debt tranches and further move into equity positions to boost yield, they can offset this and keep returns healthy.

At the same time, however, the company should exercise care not to take on excessive risk, especially so late in the cycle. Management is also looking to lengthen investment periods through resets and re-financings in order to boost yield. The negative of this move, however, is that refinancing activity disrupts cash flows and also incurs additional fees which eat into short-term returns. Due to these headwinds and the fact that management has a penchant for overdistributing earnings, we believe earnings will continue to decline by 5% per year over the next half decade, leading to another steep dividend cut.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	---	---	---	10.5	7.0	9.8	8.2	10.9	9.4
Avg. Yld.	---	---	---	---	---	---	11.8%	15.0%	16.2%	13.3%	14.1%	10.5%

Eagle Point Credit's earnings are rather choppy, but it is still possible to calculate its average price to earnings ratio with some certainty. Thus far in its history, it has averaged a 9.4 trading multiple to its earnings. Given that earnings will likely be shrinking, leading to another dividend cut, we believe that this is a fair estimate of fair value relative to its current 10.9 multiple. Therefore, we expect a modest annual headwind to total returns from multiple contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	124%	105%	159%	109%	154%	99%

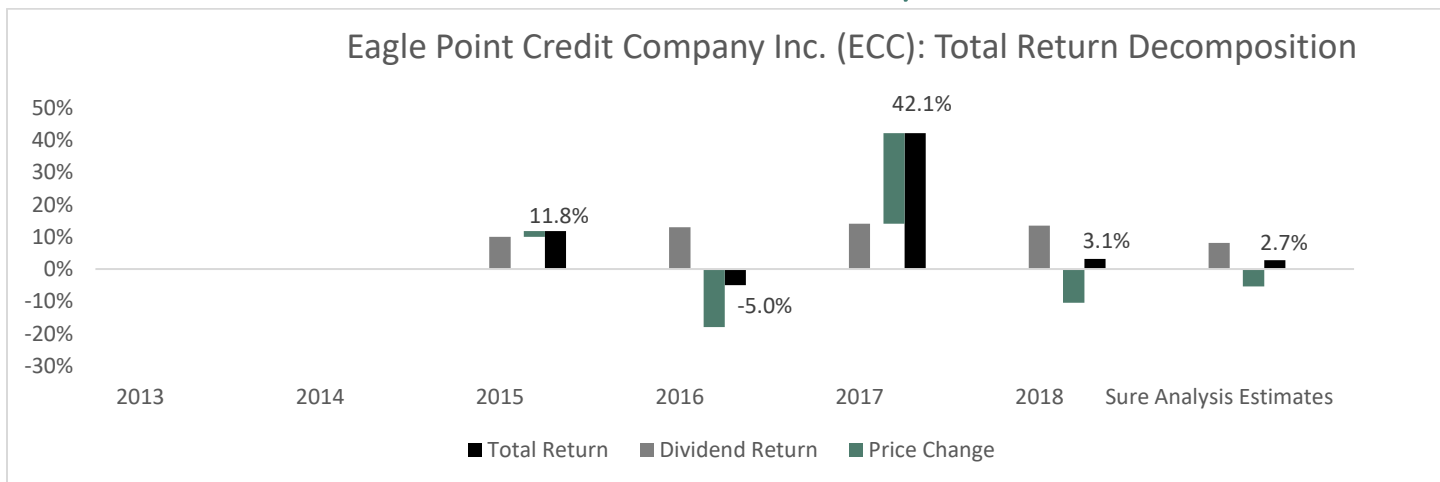
The number one risk here is obviously an acceleration in defaults and bankruptcies in underlying borrowers, which would lead to increased losses and a rapid deterioration in net asset value for Eagle Point Credit. As a result, the company is not recession resistant, even though it has yet to go through one.

The good news here is that the company employs a very aggressive hands on approach to its investments and uses wide diversification, mitigating this risk significantly. Still, in a broad downturn in the economy, this is a very real risk. Furthermore, the fund's leverage could force it to issue equity or sell assets at dilutive prices in order to sustain its mandatory debt coverage ratios. These risks aside, CLO equity does offer attractive return potential late in the credit cycle. A look back at the financial crisis shows that some of the best performing CLO equity tranches were issued immediately prior to the economy crashing. This in large part due to the reinvestment option inherent to CLO equity. The main competitive advantage for Eagle Point Credit is its hands-on approach to its investments, enabling it to mitigate risks and drive greater risk adjusted returns than it would otherwise.

Final Thoughts & Recommendation

Eagle Point Credit is a unique company given its closed end fund model. While the 14.1% dividend yield is enticing, the expected declines in earnings (-5% annually) as well as multiple compression (-2.9% annually) give it a poor 2.7% annual total return outlook over the next half decade. As a result, we view it as a sell.

Total Return Breakdown by Year



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