



# Eagle Point Credit Company Inc. (ECC)

Updated November 29<sup>th</sup>, 2019 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$14.35	<b>5 Year CAGR Estimate:</b>	6.3%	<b>Volatility Percentile:</b>	36.7%
<b>Fair Value Price:</b>	\$15	<b>5 Year Growth Estimate:</b>	-5.0%	<b>Momentum Percentile:</b>	26.9%
<b>% Fair Value:</b>	98%	<b>5 Year Valuation Multiple Estimate:</b>	0.4%	<b>Growth Percentile:</b>	0.6%
<b>Dividend Yield:</b>	16.7%	<b>5 Year Price Target</b>	\$11	<b>Valuation Percentile:</b>	76.3%
<b>Dividend Risk Score:</b>	NA	<b>Retirement Suitability Score:</b>	NA	<b>Total Return Percentile:</b>	49.2%

## 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 Q3 earnings on November 19<sup>th</sup>. Net investment income and realized capital gains per share came in at \$0.37, down from \$0.41 in the year-ago quarter. Net asset value per share also declined rather rapidly sequentially, down to \$11.45 from \$13.45 at the end of June. Further weighing on the company's profitability moving forward is the decline in the weighted average effective yield on the company's CLO equity portfolio, now standing at 13.38% against 13.49% at the end of the previous quarter. NAV per common share continued to decline following quarter end, reaching ~\$10.11 as of October 31<sup>st</sup>.

## Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	---	---	---	---	---	---	\$1.90	\$2.28	\$2.05	\$2.20	<b>\$1.56</b>	<b>\$1.21</b>
<b>DPS</b>	---	---	---	---	---	---	\$2.35	\$2.40	\$3.25	\$2.40	<b>\$2.40</b>	<b>\$1.20</b>
<b>Shares<sup>1</sup></b>	---	---	---	---	---	---	23	23	23	23	<b>23</b>	<b>23</b>

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 its 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.

## Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
<b>Avg. P/E</b>	---	---	---	---	---	---	10.5	7.0	9.8	8.2	<b>9.2</b>	<b>9.4</b>
<b>Avg. Yld.</b>	---	---	---	---	---	---	11.8%	15.0%	16.2%	13.3%	<b>16.7%</b>	<b>10.5%</b>

<sup>1</sup> Share count in millions

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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 9.2 multiple. Therefore, we expect a very modest annual tailwind to total returns from multiple expansion.

## 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%

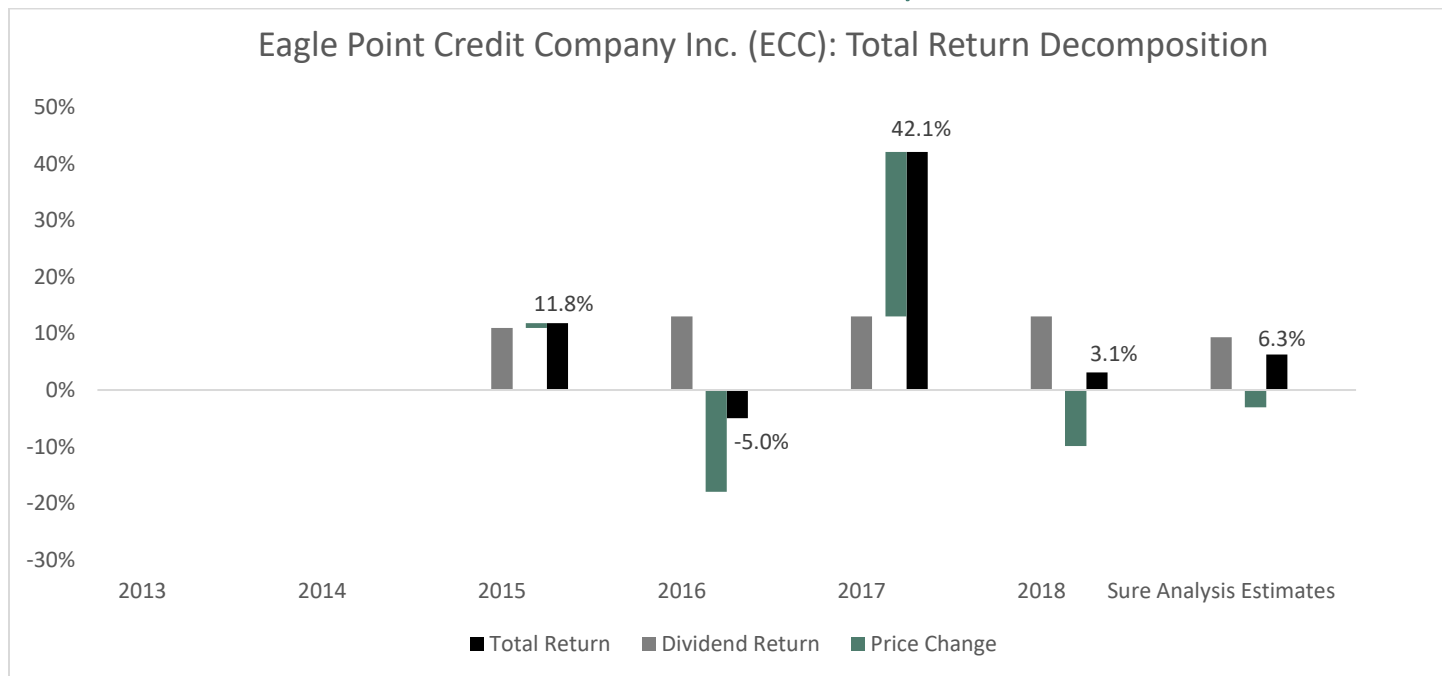
The number one risk here is obviously an acceleration in defaults and bankruptcies in underlying borrowers, which would lead to increased losses and a rapid deterioration in net asset value for Eagle Point Credit. As a result, the company is not recession resistant, even though it has yet to go through 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 16.7% dividend yield is enticing, the expected declines in earnings (-5% annually) give it a mediocre 6.3% annual total return outlook over the next half decade. Combined with the higher risk business model, we view it as a sell.

## Total Return Breakdown by Year



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