



Oxford Square Capital Corp. (OXSQ)

Updated October 28th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	\$2.3	5 Year CAGR Estimate:	6.7%	Market Cap:	\$120.8M
Fair Value Price:	\$2.3	5 Year Growth Estimate:	-8.0%	Ex-Dividend Date:	11/12/2020
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.2%	Dividend Payment Date:	11/30/2020
Dividend Yield:	18.3%	5 Year Price Target	\$1.5	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	B	Last Dividend Increase:	N/A

Overview & Current Events

Oxford Square Capital Corp. is a BDC (Business Development Company) specializing in financing early and middle-stage businesses through loans and CLOs. The company holds an equally split portfolio of First-Lien, Second-Lien, and CLO equity assets spread across 11 sectors, with the highest exposure in business services and software, at 25.7% and 21.9%, respectively. The company's assets have a gross investment value of around \$300 million in 30 positions, with 67.2% of debt securities being secured. OXSQ annualizes around \$50 million in interest received and is based in Greenwich, Connecticut.

On October 27th, Oxford Square reported its Q3 results for the quarter ended September 30th, 2020. The company generated approximately \$8.2 million of total investment income, a decline of ~\$0.1 versus Q2. Expenses, which primarily include interest paid on its own financing and managers' fees, amounted to ~\$4 million, relatively unchanged from Q2. As a result, NII amounted to around \$4.2 million. NII is down 56% decline year-over-year. Compared to last year's results, the massive slump was once again attributed to the gradual decline in interest rates, making it impossible for the company to lend its historical, much higher rates. Additionally, management's consistently unsustainable distributions have caused its NAV to gradually deteriorate, resulting in fewer debt reinvestments over time, subsequently lowering its interest income over the years dramatically.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
IIS¹	\$0.89	\$0.96	\$1.12	\$1.07	\$1.17	\$0.66	\$0.52	\$0.60	\$0.67	\$0.81	\$0.40	\$0.26
DPS	\$0.81	\$0.99	\$1.12	\$1.16	\$1.19	\$1.13	\$1.15	\$0.80	\$0.79	\$0.80	\$0.42	\$0.28
Shares²	27.3	32.4	38	51.1	58.8	59.8	51.9	51.5	49.7	47.8	49.1	50.0

The company's investment income per share has been declining at a 5-year CAGR of 9.5%, as financing has become cheaper, preventing Oxford Square from refinancing at its previously higher rates. Additionally, the company has been historically over-distributing dividends to shareholders, decaying its NAV, and hence, future income generation due to fewer assets. Considering that the Fed has made it clear that they intend to hold rates near 0, we find it incredibly unlikely that Oxford Square will be able to return to its previously gross interest generated. Additionally, because its dividends continue to exceed net income despite getting slashed almost in half, we expect its NAV to continue declining, resulting in weaker financials over time. Consequently, we expect an IIS & DPS CAGR of around -5% in the medium term. Since 2019, the company has switched its distributions' frequency from quarterly to monthly.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	9.7	9.27	8.4	9.0	8.1	10.48	11.1	11.3	10.59	7.9	5.8	5.8
Avg. Yld.	8.6%	11.4%	11.0%	11.4%	11.5%	18.3%	19.9%	11.2%	12.2%	12.9%	18.3%	18.1%

¹ Investment Income per Share

² Share count is 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.



Oxford Square Capital Corp. (OXSQ)

Updated October 28th, 2020 by Nikolaos Sismanis

As per the company’s goal to distribute the majority of its net income to shareholders, the stock’s yield has hovered around the mid-teens, averaging nearly 15% over the past decade. Despite management’s recent dividend slash to a monthly \$0.035 payout, the company’s NAV decline has caused its stock to lose around 2/3 of its value during the year, lifting its current yield to an enormous 18.3%. As the market attempts to price another potential distribution cut and future NAV losses, shares are currently trading at an all-time low P/E of around 5.8%. Finally, considering an almost guaranteed deterioration in NAV over time, a valuation expansion is extremely unlikely.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	91%	103%	100%	108%	102%	171%	221%	133%	118%	99%	105%	105%

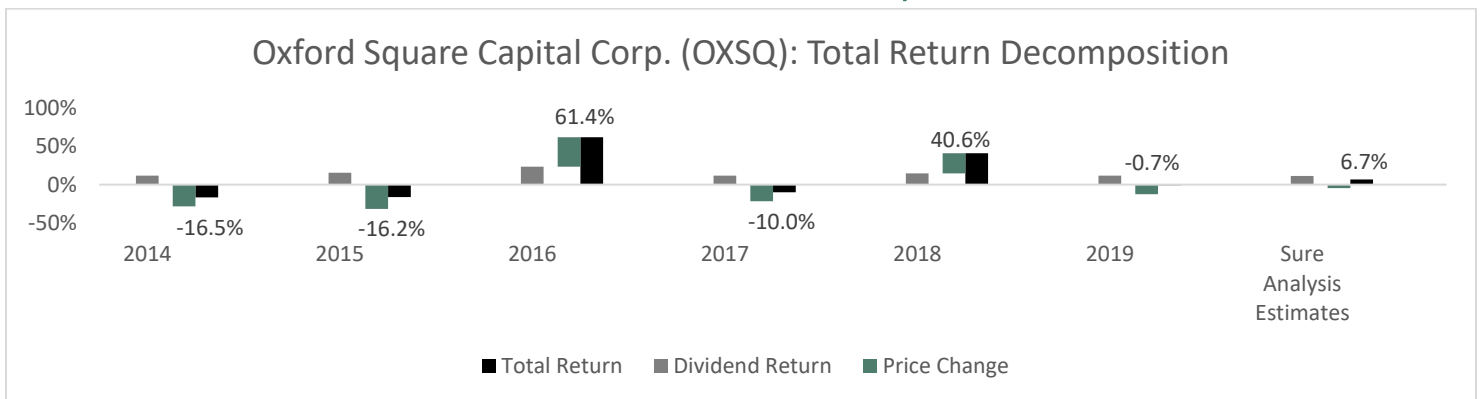
As we mentioned, OXSQ’s payout ratio has remained above 100% over the years, as management pays investors more than what the company earns. While the stock’s dividend yield has been seemingly attractive over the years, the company has been wiping an equal, and sometimes higher, amount from its NAV. Such a strategy could be sustained only via a gradually increased interest income. However, with rates declining over time, the company’s receivables have been further pressurized, worsening its financials annually. Due to the low-rates set to persist, coupled with the stock’s currently unsustainable dividend payouts, the company will likely continue to contract. Finally as COVID-19 adversely affects small and medium-sized businesses, OXSQ’s current loans defaulting should not surprise investors.

Overall, we believe that the company’s future inflows carry substantial risks, while a potential recession and an adverse economic environment could severely damage its interest income.

Final Thoughts & Recommendation

Oxford Square Capital Corp. currently operates in an unfavorable credit market environment, dominated by cheap financing, which prevents it from sustaining and growing its income. Based on gradually rotting its NAV, we expect its financials to continue deteriorating over time, resulting in substantial equity losses. At the same time, however, the company’s yield remains enormous. Considering it’s only but slightly not covered at the moment, management may be able to sustain it, in the short-term, before inevitably slashing it again. Combining its near 20% yield and beaten-down stock price, we can see shares sustaining a positive total return outcome in the mid-single digits, despite an almost certain future decline in the stock’s equity value. Investors looking to generate a stable monthly income stream are likely to find more trustworthy and reliable options. Currently, OXSQ remains incredibly risky, with limited potential returns to compensate current investors.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Oxford Square Capital Corp. (OXSQ)

Updated October 28th, 2020 by Nikolaos Sismanis

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	71.81	24.80	84.09	83.90	23.88	-57.03	121.57	49.41	-5.52	-28.74
SG&A Expense	6.73	9.39	14.45	23.07	25.08	7.61	10.06	4.66	2.56	2.98
Net Income	63.95	14.21	68.32	58.94	-3.35	-66.13	110.36	43.61	-9.21	-32.80
Net Margin	89.1%	57.3%	81.3%	70.3%	-14.0%	---	90.8%	88.3%	---	---
Free Cash Flow	18.73	-114.5	-215.7	-201.6	-53.01	243.81	182.91	217.63	-33.86	47.76

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	317.9	424.1	756.0	998.2	1042.6	718.3	612.5	454.1	467.1	385.3
Cash & Equivalents	68.8	4.5	51.4	14.9	20.5	23.2	8.3	30.0	13.9	14.4
Total Liabilities	3.8	119.0	346.4	471.9	521.8	357.4	226.5	65.7	152.4	137.3
Accounts Payable	---	17.3	9.2	16.7	20.1	6.3	1.7	0.0	0.5	0.6
Long-Term Debt	0.0	99.7	330.3	450.7	501.1	347.7	220.0	62.3	148.2	134.4
Total Equity	314.1	305.1	409.6	526.2	520.8	360.9	386.0	388.4	314.7	248.0
DE Ratio	0.00	0.33	0.81	0.86	0.96	0.96	0.57	0.16	0.47	0.54

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	23.5%	3.8%	11.6%	6.7%	-0.3%	-7.5%	16.6%	8.2%	-2.0%	-7.7%
Return on Equity	23.8%	4.6%	19.1%	12.6%	-0.6%	-15.0%	29.6%	11.3%	-2.6%	-11.7%
ROIC	23.8%	4.0%	11.9%	6.9%	-0.3%	-7.6%	16.8%	8.3%	-2.0%	-7.8%
Shares Out.	27.25	32.43	40.58	61.11	68.86	69.79	61.77	51.48	49.66	47.76
Revenue/Share	2.63	0.76	2.07	1.37	0.35	-0.82	1.97	0.96	-0.11	-0.60
FCF/Share	0.69	-3.53	-5.32	-3.30	-0.77	3.49	2.96	4.23	-0.68	1.00

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.