Eagle Point Income Company Inc. (EIC)

Updated February 24th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$15	**5 Year CAGR Estimate:**	4.3%	**Market Cap:**	$101 M
Fair Value Price:	$12	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	03/11/2021
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.4%	**Dividend Payment Date:**	03/31/2021
Dividend Yield:	6.6%	**5 Year Price Target**	$14	**Years Of Dividend Growth:**	1
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	6.3%

Overview & Current Events

Eagle Point Income Fund (EIC) is a closed-end fund which invests primarily (80% of its assets) in junior tranches of CLO Debt. The remaining 20% may be invested where the manager sees fit including other high yield plays like bonds, preferred issuances, or CLO Equity. More specifically, the fund intends to allocate its capital in the BB-rated tranches of CLO Debt which is typically one of the last debt tranches in the capital stack before getting to the Sub notes.

The fund's portfolio of just over $110 million is comprised of 1,281 loan obligors, none of whom accounts for more than 1.38% of its total assets. The average loan maturity of the portfolio is 4.8 years, against 2.9 years of the average remaining CLO reinvestment period. The average rating on Eagle Point's loans is B+/B. Eagle Point Income Fund was founded in 2018, generates around $11 million in net investment income annually, and is headquartered in Greenwich, Connecticut. The company makes dividend payments on a monthly basis.

On February 23rd, 2021, Eagle Point Income Fund reported Q4 results for the quarter ending December 31st, 2020. Net Investment Income (NII) per share was $0.29, compared to $0.28 in Q4-2019. The company's stable performance was attributed to the resiliency of its CLO assets, with 100% of its investments continuing making their scheduled payments. During April, the company cut its monthly distributions to $0.08 in order to maintain a prudent profile amid the initial COVID-19 outbreak. Due to solid performance, management announced a 6.5% increase in its monthly DPS to $0.085, effective April 2021. FY2021's total DPS should land at $1.01, while its current annual run rate stands at $1.02. Due to the company paying out more than it earned in FY2020, NAV/share declined by $2.45 to $16.89. Amid the distribution readjustments, management estimates its January NAV had already recovered to around $17.22-$17.26 per share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
NII/share	---	---	---	---	---	---	---	---	$1.32	$1.27	***$1.12***	***$1.24***
DPS	---	---	---	---	---	---	---	---	$0.69	$1.50	***$1.01***	***$1.12***
Shares[1]	---	---	---	---	---	---	---	---	6.0	6.1	***6.2***	***6.8***

Eagle Point Income Fund was founded quite recently, so the lack of historical performance makes it hard to get a clear picture of how well the company manages its assets. Assuming the company is able to keep borrowing at around 3.5% to purchase securities yielding around 8%-9% (current portfolio yield is 9.03%), it should be able to keep paying current distributions and gradually grow its portfolio and NII/share. Assuming the company aims to distribute ~90% of its income, as per its investment company status, we expect FY2021 NII/share of $1.12. We have also forecasted a 2% annualized growth rate in both NII/share and DPS, in line with the industry average. However, future performance is likely to be very volatile as CLOs tend to be over the long-term.

[1] 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.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	---	---	---	---	14.7	10.4	***13.8***	***11.0***
Avg. Yld.	---	---	---	---	---	---	---	---	2.8%	3.5%	***6.6%***	***8.2%***

CLO investment companies generally trade with a multiple in the high single digits to the low double digits. We believe that the slight premium in the stock's current valuation is due to investors expecting net investment income to grow back to its 2019 levels. Still, due to the industry's historical volatility, we remain cautious, expecting a modest growth rate and a fair multiple of 11. At that level, the stock's yield would be pushed to 8%+, which is in-line with its industry peers and better reflects CLOs' underlying risks. In addition, this implies the potential for a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

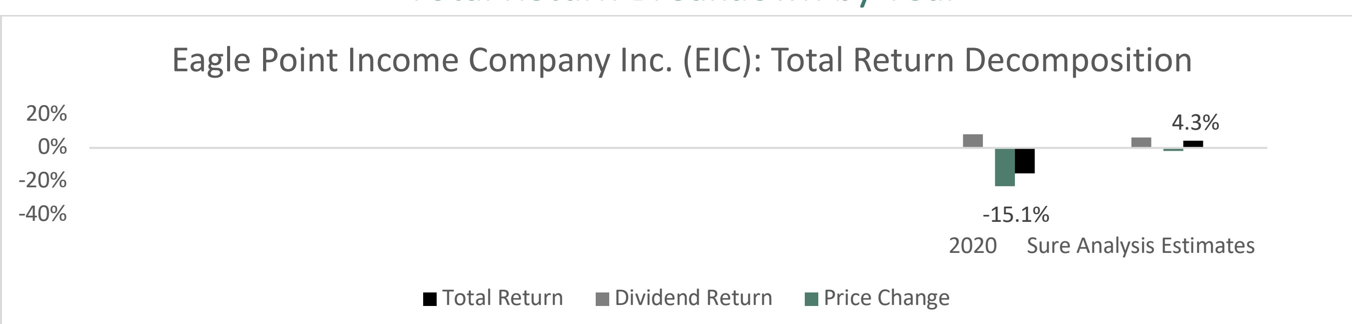
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	---	52%	118%	***90%***	***90%***

Eagle Point's distribution cut back in April was prudent, preventing further NAV deterioration. Considering its 6.3% hike, we believe current distributions are safe and should not be cut amid robust portfolio performance. However, many of the company's peers have experienced sudden adverse scenarios amid sudden defaults and compression in interest rates, which damages the portfolio yield, leading to lower income levels. Hence, income investors must be cautious of EIC's distribution reliability. From a competitive standpoint, the company has an advantage since its advisor will be charging a flat fee of 175bps on gross assets, with no additional fees, which are common in the industry (see ECC/OXLC/OCCI). A potential recession is more than likely to hurt the company's payment collections, nonetheless.

Final Thoughts & Recommendation

Eagle Point Income Fund is a relatively new CLO investment fund, though its portfolio fundamentals seem to be in place, with adequate diversification. The company is earning a decent yield on its investments, which is likely to increase as its portfolio grows and the company attracts cheaper financing. However, we believe that the company's currently below-average distribution yield and premium valuation are not able to provide attractive annualized returns ahead, which we forecast to be around 4.3%. Shares earn a sell rating at the current price.

Total Return Breakdown by Year



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