



SLR Senior Investment Corp. (SUNS)

Updated May 6th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$15.70	5 Year CAGR Estimate:	3.9%	Market Cap:	\$251 M
Fair Value Price:	\$13.00	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	05/21/2021
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.7%	Dividend Payment Date:	06/02/2021
Dividend Yield:	7.7%	5 Year Price Target	\$13	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

SLR Senior Investment is a Business Development Company (BDC) which is externally managed by Solar Capital Partners. It invests primarily in senior first lien secured loans of private, middle-market companies. Its investment criteria include companies that generate revenues between \$50 million and \$1 billion, EBITDA of \$15 million to \$100 million, and demonstrate resilient cash flows through economic cycles. Hence management avoids speculative investments as much as possible. SLR Senior Investment was founded in 2010 and is based in New York, New York. Effective February 25th, 2021, the company changed its name from Solar Senior Capital to SLR Senior Investment Corp, for branding reasons.

On May 5th, 2021, SLR Senior Investment reported its Q1-2021 results for the quarter ended March 31st, 2021. Gross and net investment income (NII) came in at \$8.8 and \$3.2 million, a 25% and 43.85% decline year-over-year, respectively. The massive declines were attributed to the company's portfolio yield (currently around 9.5%) falling due to its exposure to LIBOR (London Interbank Offer Rate) and an overall smaller portfolio due to exiting some of its investments. As a result, NII/share was \$0.20 vs. \$0.35 during the comparable period last year. NAV/share remained stable quarter-over-quarter, at \$15.91, as the company's dividend cut in 2020 helped in not deteriorating NAV further due to the current pressured performance. The company's investment portfolio remains diversified, with approximately 203 unique borrowers in over 115 industries with an average issuer exposure at \$2.4 million, or <0.5% of its total loans. Management expects the company's portfolio and earnings to grow in the coming quarters from its growing pipeline of first-lien cash flow and asset-based loan investment opportunities. Hence, we retain our NII/shares estimates at \$1.30.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
IIS¹	(\$0.03)	\$1.46	\$1.10	\$1.01	\$0.09	\$1.88	\$1.46	\$0.86	\$1.43	\$0.87	\$1.30	\$1.30
DPS	\$0.60	\$1.29	\$1.41	\$1.41	\$1.41	\$1.41	\$1.41	\$1.41	\$1.41	\$1.27	\$1.20	\$1.20
Shares²	8.6	9.5	11.4	11.5	11.5	12.9	16.0	16.0	16.0	16.0	16.0	16.0

Solar Senior's conservative investment strategy has been a double-edged sword. The company's avoidance of higher-risk investments has failed to deliver stable returns, as originally intended. Low-risk companies can easily access financing at the current ultra-low rate environment, not allowing Solar to get high-enough portfolio yields. Financial services, insurance, and other traditional companies account for the majority of its investments. Industries that could potentially attract higher yields are almost completely absent, such as software, which makes up around 6.5% of its investments. Hence, investment income per share (IIS) has struggled to sustain distributions. With the pandemic further increasing global credit availability and with higher credit yields only found in tech at the moment, management was forced to cut its distributions in 2020 to an annualized rate of \$1.20. This was a move that was necessary considering the lackluster results as of late. The company pays its dividends on a monthly basis. The company's recent exits should hopefully reallocate capital towards more fruitful returns. However, we don't expect any IIPS or DPS growth going forward. It's quite common for BDCs to issue equity in order to fund their future expansion since they have to distribute at least 90%

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.



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of their net income. As the table depicts, the company has not issued any shares lately, indicating a lack of available investments that meet both the company's conservative criteria and adequate yields.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/I	---	12.3	16.7	16.9	---	11.4	11.8	19.3	11.7	22.5	12.1	10.0
Avg. Yld.	3.5%	7.6%	7.6%	9.1%	9.9%	8.8%	8.7%	8.7%	8.1%	8.1%	7.7%	9.2%

Solar Senior Capital's valuation has been slightly higher than its peers, despite the company's relatively weak performance. We believe that the company will continue to struggle due to its strict and limited industry investment criteria. Hence, we believe that the company's current multiple on our expected FY2021 results is not quite justified. We believe that valuing the stock around 10 times its underlying net income, which is closer to the industry average, is more suitable. This implies the possibility of a small valuation headwind in the medium term. The yield presently sits at around 7.7%, which should be the main driver of future shareholder returns. We can see the stock with a higher yield attached in the future as its valuation might compress.

Safety, Quality, Competitive Advantage, & Recession Resiliency

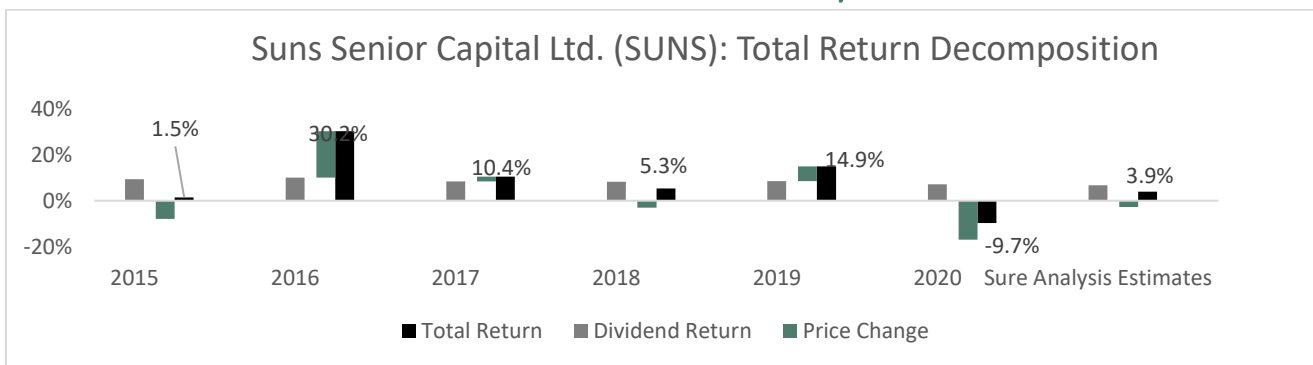
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	88%	128%	140%	---	75%	97%	164%	99%	146%	92%	92%

The recent distribution cut should help the company sustain its current annualized dividend. However, considering the company's investment style, which limits portfolio growth, another cut is not impossible. While the company was not public during the last recession, its investment performance held relatively ok during the challenges caused by the pandemic. The company's issues are mostly related to the available investments and refinancing rates rather than its underlying portfolio, which is currently 100% operational. Finally, while there are some qualities to appreciate, such as the stable cash flows and the external management that reduces costs, the company doesn't showcase any competitive advantages whatsoever.

Final Thoughts & Recommendation

Solar Senior Capital has performed decently over the past few years, with a relatively stable distribution track record despite 2020's dividend cut. However, as financing has become cheaper, the company's portfolio has been performing weaker both due to LIBOR declining and companies having cheaper capital options. Total return potential comes in at 3.9% per annum, driven by the 7.7% distribution yield offset by the possibility for a significant valuation headwind. Shares earn a sell rating amid a lack of a favorable risk/reward ratio.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	17	15	14	3	25	24	16	23	13
SG&A Exp.	3	2	2	2	3	3	3	3	3
Net Profit	14	13	12	1	24	23	14	23	14
Net Margin	83.2%	83.9%	86.4%	38.5%	97.4%	96.8%	88.2%	98.1%	108%
Free Cash Flow	(20)	(44)	(26)	54	60	(47)	(126)	84	338

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	217	273	385	363	522	522	459	578	648
Cash & Equivalents	3	3	42	53	152	109	5	107	304
Total Liabilities	43	65	181	174	253	252	198	316	393
Accounts Payable	2	1	37	57	153	124	26	105	303
Long-Term Debt	39	61	143	116	98	124	169	209	88
Shareholder's Equity	174	208	204	188	269	270	261	262	255

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.9%	5.2%	3.6%	0.3%	5.5%	4.5%	2.8%	4.4%	2.3%
Return on Equity	8.0%	6.6%	5.7%	0.5%	10.6%	8.7%	5.2%	8.8%	5.4%
ROIC	7.1%	5.2%	3.8%	0.3%	7.2%	6.1%	3.4%	5.1%	3.4%
Shares Out.	9.5	11.4	11.5	11.5	12.9	16.0	16.0	16.0	16.0
Revenue/Share	1.76	1.32	1.17	0.24	1.94	1.51	0.98	1.46	0.82
FCF/Share	(2.07)	(3.83)	(2.25)	4.67	4.63	(2.91)	(7.85)	5.25	21.08

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

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