



SLR Senior Investment Corp. (SUNS)

Updated November 4th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$15.56	5 Year CAGR Estimate:	4.5%	Market Cap:	\$249.7 M
Fair Value Price:	\$12.10	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	11/18/2021
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-4.9%	Dividend Payment Date:	12/02/2021
Dividend Yield:	7.7%	5 Year Price Target	\$13.36	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 November 3rd, 2021, SLR Senior Investment reported its Q3-2021 results for the period ending September 30th, 2021. Gross and net investment income (NII) came in at \$7.4 million and \$3.7, a decline of 6.3% and 22.9% year-over-year, respectively. Once again, the decrease of the former was attributed to the reduction in the size of the company's income-producing portfolio, while the decline of the latter was due to higher administrative expenses.

NII/share was \$0.15 vs. \$0.54 during the comparable period last year. NAV/share fell quarter-over-quarter, from \$15.87 to \$15.73, as the company distributed more than it earned during the period and deteriorating its financial health. This despite last year's dividend cut. The company's investment portfolio remains diversified, with approximately 224 unique borrowers in over 100 industries with an average issuer exposure at \$2.7 million, or <0.5% of its total loans. We retain our lowered IIS/share estimate of \$1.10 (NII/share of Q1-Q3 stands at \$0.71), as the integration of FastPay, which SLR Senior acquired last quarter, could assist performance. However, unless another dividend cut occurs or the company's results improve, we expect SUNS's NAV/share to keep deteriorating.

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	\$1.10	\$1.21
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

SLR 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 SLR Senior to get high-enough portfolio yields. Financial services, insurance, and other traditional companies account for the majority of SUNS's investments. Industries that could potentially attract higher yields are almost completely absent, such as software, which makes up just 3.6% of its investments. Hence, investment income per share (IIS) has struggled to sustain the dividend. 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 dividend 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.

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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We have assumed investment income per share growth of 2% in the medium term to justify management's decision not to cut the dividend further. We assume that the company's rationale lies in expecting per-share growth moving forward. We don't expect DPS growth moving 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% 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	14.1	11.0
Avg. Yld.	3.5%	7.6%	7.6%	9.1%	9.9%	8.8%	8.7%	8.7%	8.1%	8.1%	7.7%	9.0%

SLR Senior's valuation has been notably 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 view that the company's current multiple on our expected FY2021 results is not quite justified. We estimate that valuing the stock around 11 times its underlying net income, which is closer to the industry average, is more suitable. This implies the possibility of significant valuation headwinds 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 could compress.

Safety, Quality, Competitive Advantage, & Recession Resiliency

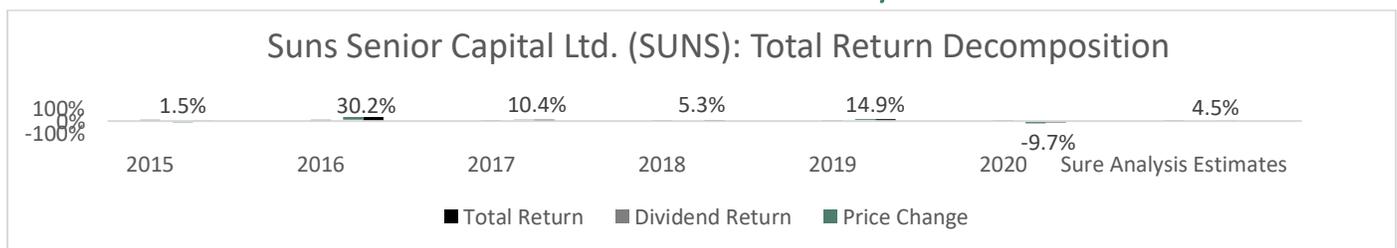
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	88%	128%	140%	---	75%	97%	164%	99%	146%	109%	99%

Despite the recent dividend cut, current payouts are not covered by net investment income, resulting in NAV deterioration. Considering the company's investment style, which limits portfolio growth, and lack of sufficient coverage, 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 stable cash flows and 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 dividend track record despite 2020's dividend cut. However, the company doesn't appear able to cover its current dividend, with its investment results remaining very weak. We forecast a total return potential of around 4.5% per annum, driven by the 7.7% dividend yield offset by the possibility for a significant valuation headwind. SUNS earns a sell rating.

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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