



# Eagle Point Income Company Inc. (EIC)

Updated February 17<sup>th</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$17.18	<b>5 Year CAGR Estimate:</b>	6.7%	<b>Market Cap:</b>	\$117.1 M
<b>Fair Value Price:</b>	\$14.30	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	03/10/2022
<b>% Fair Value:</b>	120%	<b>5 Year Valuation Multiple Estimate:</b>	-3.6%	<b>Dividend Payment Date:</b>	03/31/2022
<b>Dividend Yield:</b>	8.7%	<b>5 Year Price Target</b>	\$15.79	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	4.2%

## Overview & Current Events

Eagle Point Income Fund (EIC) is a closed-end fund which invests primarily (75% of its assets) in junior tranches of CLO Debt. The remaining 25% 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 \$169.8 million is comprised of 1,449 loan obligors, none of whom accounts for more than 0.85% of its total assets. The average loan maturity of the portfolio is 5.0 years, against 2.3 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 \$11.88 million in net investment income annually, and is headquartered in Greenwich, Connecticut. The company makes dividend payments on a monthly basis.

On February 17<sup>th</sup>, 2022, Eagle Point Income Fund reported its Q4 and full-year results for the period ending December 31<sup>st</sup>, 2021. Net Investment Income (NII) per share for the year came in at \$0.98, compared to \$1.27 in the previous year. While the company's CLO portfolio expanded and 100% of its investments continued to make their scheduled payments, net investment income was pressured by higher management fees and commission expenses.

In the midst of the pandemic, the company cut its monthly distributions to \$0.08 in order to maintain a prudent profile amid the COVID-19 outbreak. Due to solid performance, management has sequentially grown the monthly dividend during the year to \$0.085, \$0.09, 0.12, and most recently, \$0.125. Hence, its current annual run rate stands at \$1.50, which we have used in our estimates. Due to the company paying out more than it earned in Q4, NAV/share declined by around 5.2%, sequentially to \$16.76. We forecast FY2022 NII/share of \$1.10.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>NII/share<sup>1</sup></b>	---	---	---	---	---	---	---	\$1.32	\$1.27	\$0.98	<b>\$1.10</b>	<b>\$1.21</b>
<b>DPS</b>	---	---	---	---	---	---	---	\$0.69	\$1.50	\$1.33	<b>\$1.50</b>	<b>\$1.66</b>
<b>Shares<sup>2</sup></b>	---	---	---	---	---	---	---	6.0	6.1	6.8	<b>6.8</b>	<b>6.8</b>

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 10.77%), it should be able to keep paying current distributions and gradually grow its portfolio and NII/share. We have 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. Note that while the DPS is not covered by NII/share, the company's net increase in assets from operations is much greater than NII. It was \$1.35/share in 2021, against a NII/share of \$0.98 during the same period. Therefore, distributions were somewhat covered last year.

<sup>1</sup> Net Investment Income

<sup>2</sup> 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.*



# Eagle Point Income Company Inc. (EIC)

Updated February 17<sup>th</sup>, 2022 by Nikolaos Sismanis

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2027
Avg. P/E	---	---	---	---	---	---	---	---	14.7	10.4	15.6	13.0
Avg. Yld.	---	---	---	---	---	---	---	---	2.8%	3.5%	8.7%	10.5%

CLO investment companies generally trade with a multiple in the high single digits to the low double digits. We believe that the premium in the stock's current valuation is due to net investment income not accounting for the increase in assets from operations. Still, we remain cautious due to the industry's historical volatility, expecting a modest growth rate and a fair multiple of 13. At that level, the stock's yield would be pushed above 10%, more in line with its industry peers and better reflecting the CLOs' underlying risks. In addition, this implies the potential for a valuation headwind.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

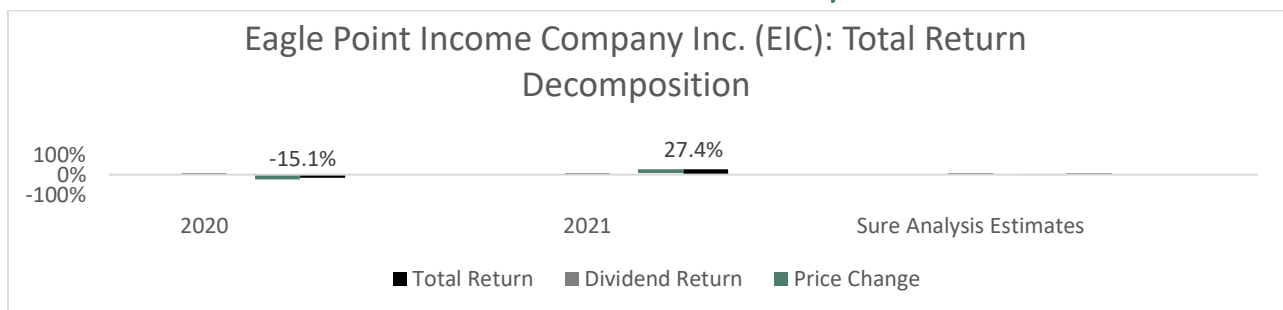
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2027
Payout	---	---	---	---	---	---	---	---	118%	136%	136%	136%

Eagle Point's distribution cut back in 2020 was prudent, preventing further NAV deterioration. Considering the two recent distribution hikes, the robust portfolio performance, and the special payout, we believe distributions are unlikely to be cut in the short term. Again, the increase of assets from operations could cover the ongoing payouts. However, keep in mind that many of the company's peers have experienced sudden adverse scenarios amid sudden defaults and compression in interest rates, which damage the portfolio yields, leading to lower-income levels. Hence, income investors must be cautious of EIC's distribution reliability. The company has an advantage from a competitive standpoint 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 and with adequate diversification. The company is earning a decent yield on its investments, which is likely to increase as its portfolio grows and attracts cheaper financing. However, we believe that valuation headwinds ahead are likely to limit Eagle Point's annualized returns, which we forecast to be around 6.7% through 2027. Shares earn a hold rating.

## Total Return Breakdown by Year



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

### 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.