



# Monroe Capital Corporation (MRCC)

Updated March 3<sup>rd</sup>, 2022 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$11.11	<b>5 Year CAGR Estimate:</b>	7.3%	<b>Market Cap:</b>	\$239.3 M
<b>Fair Value Price:</b>	\$11.50	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	03/15/2022 <sup>1</sup>
<b>% Fair Value:</b>	106%	<b>5 Year Valuation Multiple Estimate:</b>	-1.1%	<b>Dividend Payment Date:</b>	03/31/2022
<b>Dividend Yield:</b>	9.0%	<b>5 Year Price Target</b>	\$11.50	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	N/A

## Overview & Current Events

Monroe Capital Corporation is a specialty finance company focused on providing financing solutions primarily to lower middle-market companies in the United States and Canada. It is externally managed by Monroe Capital and has chosen to be treated as a development company (BDC). The company primarily invests in senior and “unitranche” secured loans ranging between \$2.0 million and \$25.0 million each. It generates nearly \$60 million annually in total investment income and is headquartered in Chicago, Illinois.

On March 2<sup>nd</sup>, 2022, Monroe Capital Corporation reported its Q4 and full-year results for the period ending December 31<sup>st</sup>, 2021. Total investment income for the year came in at \$53.8 million, compared to \$61.6 million in FY2020. The \$7.8 million decline during the year was primarily the result of the inclusion of \$7.4 million of previously unrecorded interest and fee income associated with the company’s investment in Rockdale Blackhawk, LLC last year.

Consequently, net investment income per share declined from \$1.45 to \$1.03 year-over-year. Net asset value (NAV) per share increased 4.6% to \$11.51 during the year, primarily driven by net realized and unrealized gains and net investment income in excess of dividends paid during the year.

As of December 31<sup>st</sup>, the company’s portfolio comprised 96 companies totaling \$561.7 million, with a weighted average annualized yield of 7.9%. Around 84.6% of its funds are allocated in 1st Lien Senior Secure and 1st Lien “unitranche” securities, while equities only account for just about 8% of its portfolio. In terms of the portfolio’s industry exposure, banking/financials/real estate, business services, and high tech, accounted for 17.6%, 12.7%, and 9.6%, respectively. Based on the company’s current portfolio composition, we forecast a FY2022 NII/share of \$1.05.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>NII/share</b>	\$0.15	\$1.13	\$1.57	\$1.60	\$1.55	\$1.40	\$1.57	\$1.42	\$1.45	\$1.03	<b>\$1.05</b>	<b>\$1.05</b>
<b>DPS</b>	\$0.34	\$1.36	\$1.36	\$1.40	\$1.40	\$1.40	\$1.40	\$1.40	\$1.10	\$1.00	<b>\$1.00</b>	<b>\$1.10</b>
<b>Shares<sup>2</sup></b>	5.4	7.6	9.6	11.7	14.5	18.6	20.3	20.4	20.9	21.4	<b>21.4</b>	<b>30.0</b>

Since Monroe Capital Corporation’s IPO in 2012, the company has produced stable net investment income per share, maintaining a robust relationship between its investment yields and financing costs. Performance remained resilient even during 2020, a year of significant challenges, assisted by management’s fee waivers, which showcased prudent behavior. Last year’s cut from a quarterly rate of \$0.35 to \$0.25 also displayed management’s prudent behavior.

Management assured investors that there was not a coverage issue, as Monroe achieved an adequate NII/share. Instead, this was only a precautionary decision, and they are likely to readjust the dividend upon evidence of a sustained economic recovery resulting in a positive impact on its NII. For this reason, we have implemented a DPS CAGR of 2% over the next five years to price in the possibility of such a hike materializing. We are also expecting NII/share to remain rather stable in the medium term, as even if NII/share grows slightly moving forward, the possibility of a lower investment yield later cannot be ignored, and hence it has to be accounted for. The share count should continue to grow

<sup>1</sup> Estimated dates based on past dividend dates

<sup>2</sup> Share count is in millions.



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moving forward as Monroe continues to issue equity to funds its investments. Finally, while the dividend has always been covered, not deteriorating the underlying NAV, the NAV/share has modestly declined from \$14.72 in its IPO to \$11.51 as of its latest report. Still, NAV/share has now grown for seven consecutive quarters following Monroe's dividend cut.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/NII	---	12.0	9.0	8.9	9.4	11.1	8.7	8.8	5.1	10.8	<b>10.6</b>	<b>10.0</b>
Avg. Yld.	2.2%	10.0%	9.6%	9.8%	9.7%	9.0%	10.3%	11.2%	14.9%	9.2%	<b>9.0%</b>	<b>10.5%</b>

Monroe's valuation had remained close to that of its industry peers until 2019, hovering in the high single to low double-digits. The multiple currently stands at 10.6 times its net investment income. We expect the stock's valuation to decline closer to a fairer, in our view, P/NII of 10, where a higher yield would provide a wider margin of safety. While the stock is also currently trading lower than its NAV/share, the increase in NAV has only been due to the dividend cut.

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

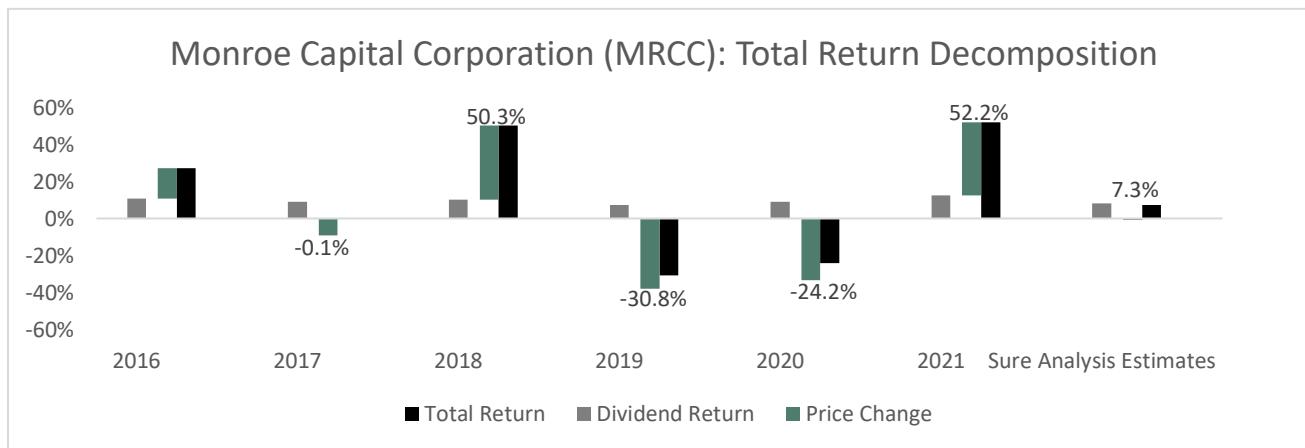
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	120%	87%	88%	90%	100%	89%	99%	76%	97%	<b>95%</b>	<b>105%</b>

Monroe's dividend could be considered relatively safe, adequately covered by the company's net investment income generation. We believe another dividend cut is quite unlikely at this point. The company's qualities include a well-diversified portfolio of companies with a robust investment yield and a prudent management team. That being said, Monroe has not been tested by a prolonged recession, which could indeed damage its performance if it were to occur. Being a business development company of modest size, the company does not enjoy any noteworthy competitive advantage other than the experience of its investment advisor, Monroe Capital, whose senior management averages more than 30 years of experience, overseeing around \$9.5 billion in assets under management.

## Final Thoughts & Recommendation

Overall, we believe that Monroe Capital Corporation is a prudently managed company that has showcased resilient investment income results, despite experiencing modest NAV losses over the years. Powered by our expectations of a potential dividend increase over time, along with the possibility for valuation headwinds, we forecast annualized returns of around 7.3% going forward. Shares earn a hold rating.

## Total Return Breakdown by Year



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*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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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	1	13	17	22	29	17	11	24	7	
<b>SG&amp;A Exp.</b>	0	2	3	3	3	4	4	4	4	3
<b>Net Profit</b>	1	10	14	18	24	12	6	19	2	
<b>Net Margin</b>	76.8%	77.0%	79.8%	82.6%	84.4%	73.2%	53.9%	81.5%	25.3%	
<b>Free Cash Flow</b>	(132)	(63)	(12)	(83)	(52)	(70)	(55)	(39)	75	

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	139	226	244	357	425	507	580	655	585	
<b>Cash &amp; Equivalents</b>	4	15	5	5	6	4	4	2	7	
<b>Accounts Receivable</b>	56	88	110	173	184	229	321	406	351	
<b>Total Liabilities</b>	0	1	1	2	3	4	5	5	5	
<b>Long-Term Debt</b>	55	84	106	163	178	222	314	396	344	
<b>Shareholder's Equity</b>	84	138	134	185	241	279	259	249	234	
<b>LTD/E Ratio</b>	0.66	0.61	0.79	0.88	0.74	0.80	1.21	1.59	1.47	

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>			5.4%	5.9%	6.0%	6.2%	2.6%	1.1%	3.1%	0.3%
<b>Return on Equity</b>	2.3%	8.8%	10.2%	11.2%	11.5%	4.7%	2.2%	7.6%	0.7%	
<b>ROIC</b>			5.4%	6.0%	6.1%	6.4%	2.6%	1.1%	3.2%	0.3%
<b>Shares Out.</b>	5.4	7.6	9.6	11.7	14.5	18.6	20.3	20.4	20.9	
<b>Revenue/Share</b>	0.23	1.66	1.82	1.85	1.98	0.89	0.53	1.15	0.31	
<b>FCF/Share</b>	(24.5)	(8.25)	(1.20)	(7.08)	(3.57)	(3.74)	(2.71)	(1.92)	3.58	

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

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