Monroe Capital Corporation (MRCC)

Updated August 3rd, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$9.11	**5 Year CAGR Estimate:**	9.6%	**Market Cap:**	$197.4 M
Fair Value Price:	$9.39	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	09/15/2022[1]
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Dividend Payment Date:**	09/30/2022
Dividend Yield:	11.0%	**5 Year Price Target**	$9.39	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 August 2nd, 2022, Monroe Capital Corporation reported its Q2 results for the period ending June 30th, 2022. Total investment income for the quarter came in at $13.0 million, compared to $12.5 million in the previous quarter. The $0.5 million increase in investment income was primarily driven by higher fee income, partially offset by a decline in interest income.

Net investment income per share remained stable at $0.23, two cents lower sequentially. The decline was due to an increase in expenses during the quarter was primarily driven by higher incentive fees. Net asset value (NAV) per share also fell 5.2% to $10.71 during the quarter, primarily due to net unrealized losses on the portfolio due to overall market volatility and spread widening in the loan market.

As of June 30th, the company's portfolio comprised 98 companies totaling $536 million, with a weighted average annualized yield of 7.9%. Around 83.8% of its funds are allocated in 1st Lien Senior Secure and 1st Lien "unitranche" securities, while equities only account for just about 7.5% of its portfolio. Based on the company's current portfolio composition, we forecast a FY2022 NII/share of $1.01.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
NII/share	$0.15	$1.13	$1.57	$1.60	$1.55	$1.40	$1.57	$1.42	$1.45	$1.03	***$1.01***	***$1.01***
DPS	$0.34	$1.36	$1.36	$1.40	$1.40	$1.40	$1.40	$1.40	$1.10	$1.00	***$1.00***	***$1.00***
Shares[2]	5.4	7.6	9.6	11.7	14.5	18.6	20.3	20.4	20.9	21.4	***21.6***	***30.0***

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. Still, we do not project any dividend growth ahead amid little to no room for dividend hikes at the moment. 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 moving forward as Monroe

[1] Estimated dates based on past dividend dates

[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.

continues to issue equity to fund 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 $10.71 as of its latest report. Still, NAV/share grew for seven consecutive quarters following Monroe's dividend cut. The streak ended two quarters ago.

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	***9.0***	***9.3***
Avg. Yld.	2.2%	10.0%	9.6%	9.8%	9.7%	9.0%	10.3%	11.2%	14.9%	9.2%	***11.0%***	***10.6%***

Monroe's valuation has remained close to that of its industry peers, hovering in the high single to low double-digits. The multiple currently stands at 9.0 times its net investment income. The below-average multiple is likely due to investors expecting further NAV deterioration amid Monroe's relatively compressed bottom line. Shares are also trading notably lower against their NAV for the same reason. Still, we expect the stock's P/NII to advance slightly, closer to its decade average of 9.3, which is a fairer multiple in our view. This is due to the juicy yield, which should attract investor interest.

Safety, Quality, Competitive Advantage, & Recession Resiliency

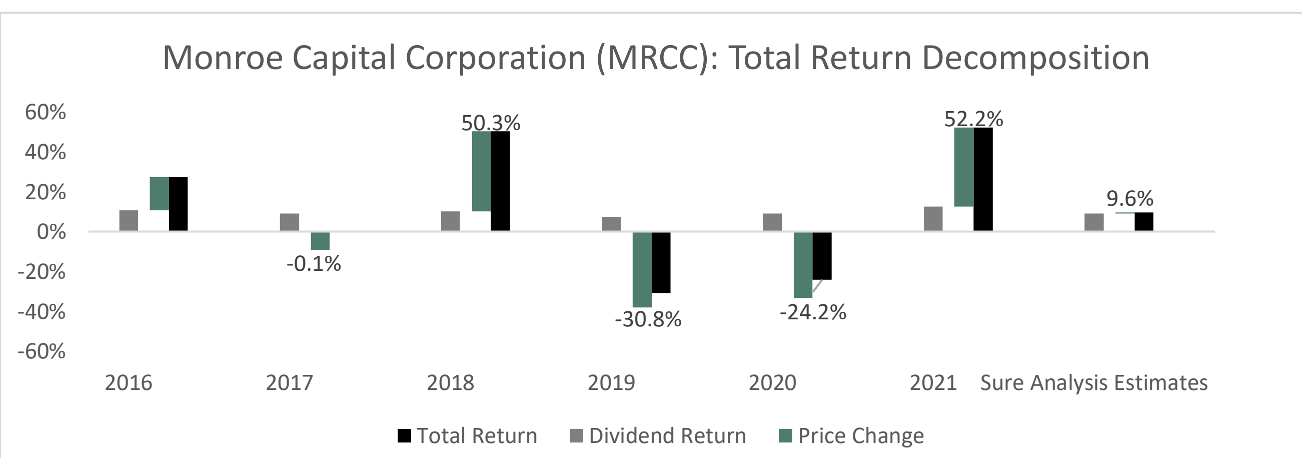
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	120%	87%	88%	90%	100%	89%	99%	76%	97%	***99%***	***99%***

Monroe's dividend is adequately covered by the company's net investment income generation. However, another cut is not unlikely at this point, as the company's book value has been deteriorating again. That said, the company's qualities include a well-diversified portfolio of companies with a robust investment yield and a prudent management team. Monroe has not been tested by a prolonged recession, which could damage its performance if it were to occur, nonetheless. 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 stable financials, along with the possibility of slight valuation tailwinds, we forecast annualized returns of 9.6% going forward. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1	13	17	22	29	17	11	24	7	40
SG&A Exp.	0	2	3	3	3	4	4	4	3	4
Net Profit	1	10	14	18	24	12	6	19	2	32
Net Margin	76.8%	77.0%	79.8%	82.6%	84.4%	73.2%	53.9%	81.5%	25.3%	80.0%
Free Cash Flow	(132)	(63)	(12)	(83)	(52)	(70)	(55)	(39)	75	20

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	139	226	244	357	425	507	580	655	585	590
Cash & Equivalents	4	15	5	5	6	4	4	2	7	3
Accounts Receivable	56	88	110	173	184	229	321	406	351	---
Total Liabilities	0	1	1	2	3	4	5	5	5	341
Long-Term Debt	55	84	106	163	178	222	314	396	344	332
Shareholder's Equity	84	138	134	185	241	279	259	249	234	249
LTD/E Ratio	0.66	0.61	0.79	0.88	0.74	0.80	1.21	1.59	1.47	1.33

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets		5.4%	5.9%	6.0%	6.2%	2.6%	1.1%	3.1%	0.3%	5.5%
Return on Equity	2.3%	8.8%	10.2%	11.2%	11.5%	4.7%	2.2%	7.6%	0.7%	13.4%
ROIC		5.4%	6.0%	6.1%	6.4%	2.6%	1.1%	3.2%	0.3%	5.6%
Shares Out.	5.4	7.6	9.6	11.7	14.5	18.6	20.3	20.4	20.9	21.45
Revenue/Share	0.23	1.66	1.82	1.85	1.98	0.89	0.53	1.15	0.31	1.87
FCF/Share	(24.5)	(8.25)	(1.20)	(7.08)	(3.57)	(3.74)	(2.71)	(1.92)	3.58	0.93

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