



Owl Rock Capital Corporation (ORCC)

Updated February 27th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$13.60	5 Year CAGR Estimate:	10.4%	Market Cap:	\$5.32 B
Fair Value Price:	\$15.30	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	03/30/2023
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.4%	Dividend Payment Date:	04/14/2023
Dividend Yield:	9.7%	5 Year Price Target	\$15.30	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating	Buy

Overview & Current Events

Owl Rock Capital Corporation is a business development company (“BDC”) formed in October 2015. The company closed its IPO in July 2019. Owl Rock aims to invest and lend funds to U.S. middle-market companies that generate annual EBITDA between \$10 million and \$250 million and/or annual revenues of \$50 million to \$2.5 billion at the time of investment. The company generates around \$1.2 billion in gross investment income annually and is based in New York, New York. With a market cap of \$5.32 billion, it is currently the third-largest publicly traded BDC.

On February 22nd, 2023, Owl Rock Capital reported its Q4-2022 and full-year results for the period ending December 31st, 2022. For the quarter, the company achieved a gross investment income of \$350.5 million, 11.6% higher compared to Q4-2021. The increase was due to an expanded debt investment portfolio, higher dividend income, and rising rates. Net investment income (NII) was \$162.5 million, 17.9% higher than the comparable period last year. NII/share also grew by six cents year-over-year, coming in at \$0.41. For the year, NII/share grew by 12.8% to \$1.41.

The company allocated \$1.77 billion in new investments across 52 new and 23 existing portfolio companies during the year. At the end of Q4, the company’s portfolio had a size of \$13.0 billion, comprising investments in 184 companies across 28 different industries. Internet software, Insurance companies, and Food/Beverage account for 13.3%, 9.3%, and 6.7% of its total holdings, respectively. Borrower diversification is at solid levels, with its top ten holdings making up 23% of the portfolio at their fair value. For fiscal 2022, we expect NII/share to climb toward \$1.70 due to higher investment spreads.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
NII/shr¹	---	---	---	\$0.42	\$1.40	\$1.68	\$1.54	\$1.33	\$1.25	\$1.41	\$1.70	\$1.70
DPS	---	---	---	\$0.06	\$1.35	\$1.42	\$1.45	\$1.56	\$1.24	\$1.29	\$1.32	\$1.46
Shares²	---	---	---	45.8	97.9	216.2	392.1	389.9	393.7	392.4	392.4	600.0

The company’s NII/share is heavily reliant on the investment yield spreads it can achieve between its own cost of funds and the yield its investments produce. At the end of last quarter, the weighted average total yield of its debt and income-producing securities stood at 1.5%, up 130 bps sequentially amid rising rates. However, the three-month LIBOR also expanded by 100 basis points during the quarter. Still, the weighted average spread over LIBOR did expand meaningfully to 6.8%, 10 bps up sequentially. Rising rates should benefit the company, but only if it can control its own cost of funding. We don’t expect further NII/share growth from our FY2023 elevated base, as dynamics could change in the coming years. In terms of its distributions, Owl Rock currently pays a quarterly base rate of \$0.33, though special dividends have been frequent in the past amid excess gains. However, the company usually posts additional gains/losses amid realized/unrealized capital gains/losses. During Q3, the company achieved \$0.37 in NII/share and gained another \$0.07 from exits/valuation hikes in its investments. Thus, the stock’s Net Asset Value (NAV) rose from \$14.85 in Q3 to

¹ Due to ORCC’s legal structure as a business development company (“BDC”), Net Investment Income is a more meaningful metric

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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\$14.99 in Q4. We expect the base dividend to grow at a slow pace of 2% in the medium-term, which the company can afford. The company executes buybacks when its stock trades below NAV.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	11.36	9.0	11.6	9.0	8.0	9.0
Avg. Yld.	---	---	---	---	---	---	8.9%	12.5%	8.5%	10.0%	9.7%	9.5%

Owl Rock Capital's valuation has hovered in the high-single to low-double digits, in line with its industry peers. We have set the stock's fair multiple to 9X the company's net investment income, implying the possibility of valuation tailwinds ahead. From a NAV/share point of view, the stock appears to be rather undervalued at its current price levels. Once capital markets normalize, NAV should grow, further exposing the stock's current undervaluation. The yield should remain at hefty levels and attract investor interest.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	14%	96%	85%	94%	117%	99%	91%	78%	86%

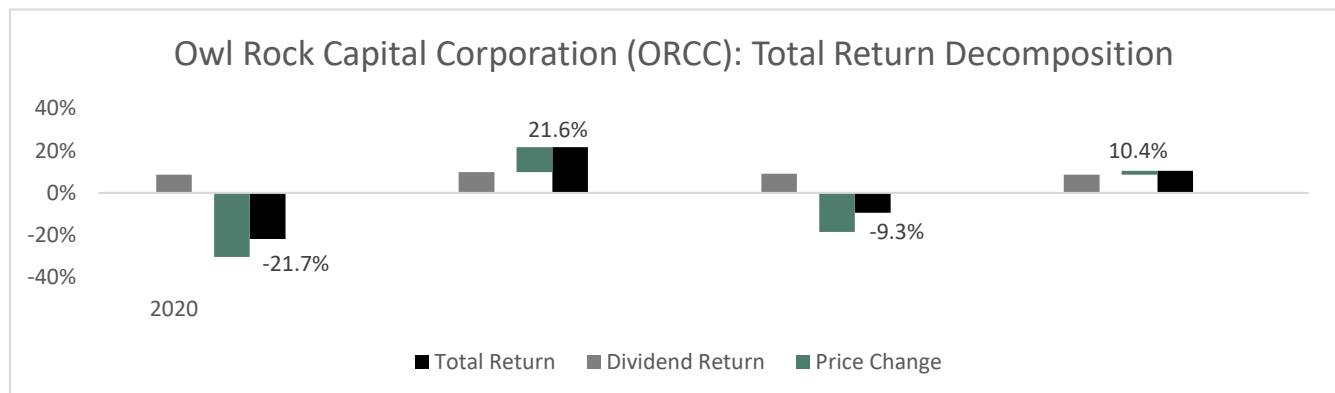
Considering that the company has historically paid multiple special distributions, we believe that its current base distribution rate of \$0.33 should remain covered at the present yield margins. That being said, a future cut is not out of the equation amid potentially pressured results. Being a BDC, the company does not display any groundbreaking competitive advantages, though we can name a few.

Firstly, its industry-leading market capitalization speaks for its reputation and could help retain high lending rates. Further, the stock is rated by all the major credit agencies, which is rare in the industry and should help secure a low cost of capital going forward. Finally, Owl Rock utilizes CLOs (Collateralized Loan Obligations). These are different from MBS (Mortgage-Backed Securities), which brings to mind the Great Financial Crisis, and have ultra-low default rates that usually hover below 0.1%. Hence, Owl Rock is likely to generate more resilient results than your average BDC.

Final Thoughts & Recommendation

Owl Rock Capital is one of the largest BDCs, offering exposure to a diversified portfolio both in terms of the weight of its individual holdings and the industries its investments operate in. While the company's publicly traded history is fairly short, Owl Rock certainly displays some solid qualities. We forecast annualized returns of 10.4% in the medium-term, mainly powered by the company's dividend and possible valuation tailwinds. We rate the stock a cautious buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	--	--	--	--	25	117	222	458	303	689
SG&A Exp.	--	--	--	--	6	10	13	19	23	26
Net Profit	--	--	--	--	17	104	202	498	388	625
Net Margin	--	--	--	--	66.9%	88.8%	91.1%	108.8%	127.9%	90.7%
Free Cash Flow	--	--	--	--	(945)	(1,335)	(3,172)	(2,527)	(1,560)	(1,227)
Income Tax	--	--	--	--	0	0	1	2	6	12.6

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	--	--	--	--	1,181	2,444	5,951	9,204	11,304	13,300
Cash & Equivalents	--	--	--	--	209	17	122	310	349	426
Total Liabilities	--	--	--	--	500	971	2,686	3,226	5,558	7,360
Accounts Payable	--	--	--	--	-	34	82	137	152	122
Long-Term Debt	--	--	--	--	492	919	2,568	3,038	5,293	7,079
Shareholder's Equity	--	--	--	--	681	1,473	3,265	5,977	5,746	5,938
LTD/E Ratio	--	--	--	--	0.72	0.62	0.79	0.51	0.92	1.19

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	--	--	--	--	--	5.7%	4.8%	6.6%	3.8%	5.1%
Return on Equity	--	--	--	--	--	9.6%	8.5%	10.8%	6.6%	10.7%
ROIC	--	--	--	--	--	5.8%	4.9%	6.7%	3.9%	5.2%
Shares Out.	--	--	--	--	45.8	97.9	216.2	392.1	389.9	392
Revenue/Share	--	--	--	--	0.06	1.72	1.64	1.41	0.78	1.76
FCF/Share	--	--	--	--	(2.46)	(19.7)	(23.4)	(7.78)	(4.01)	(3.13)

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

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