Monroe Capital Corporation (MRCC)

Updated May 15th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$7.89	**5 Year CAGR Estimate:**	11.5%	**Market Cap:**	$170.8 M
Fair Value Price:	$8.63	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	06/14/2023[1]
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.8%	**Dividend Payment Date:**	06/30/2023
Dividend Yield:	12.7%	**5 Year Price Target**	$8.63	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 $57 million annually in total investment income and is headquartered in Chicago, Illinois.

On May 10th, 2023, Monroe Capital Corporation reported its Q1 results for the period ending March 31st, 2023. Total investment income for the quarter came in at $16.8 million, compared to $15.2 million in the previous quarter. The $1.6 million increase was primarily the result of increases in portfolio yield resulting from the rising rate environment.

Net investment income per share came in at $0.31, six cents higher from last quarter's $0.25. The increase was due to total expenses growing at a slower pace leading to improved margins. Net asset value (NAV) per share fell 0.96% to $10.29 during the quarter, primarily due to net unrealized losses on a couple of specific portfolio companies.

As of March 31st, 2023, the Company's portfolio comprised 102 companies totaling $541 million, with a weighted average annualized yield of 11.5%. About 84% of its funds are allocated in 1st Lien Senior Secure and 1st Lien "unitranche" securities. Based on the Company's current portfolio composition, we forecast a FY2023 NII/share of $1.02.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
NII/share	$1.13	$1.57	$1.60	$1.55	$1.40	$1.57	$1.42	$1.45	$1.03	$1.02	***$1.15***	***$1.15***
DPS	$1.36	$1.36	$1.40	$1.40	$1.40	$1.40	$1.40	$1.10	$1.00	$1.00	***$1.00***	***$1.00***
Shares[2]	7.6	9.6	11.7	14.5	18.6	20.3	20.4	20.9	21.5	21.7	***21.7***	***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. The dividend cut from a quarterly rate of $0.35 to $0.25 at the time 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 continues to issue equity to fund its investments. The NAV/share has modestly declined from $14.72 in its IPO to $10.29 as of its latest report. Still, NAV/share grew for seven consecutive quarters following Monroe's dividend cut. The streak ended five quarters ago.

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[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.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/NII	12.0	9.0	8.9	9.4	11.1	8.7	8.8	5.1	10.8	9.3	***6.9***	***7.5***
Avg. Yld.	10.0%	9.6%	9.8%	9.7%	9.0%	10.3%	11.2%	14.9%	9.2%	10.7%	***12.7%***	***11.6%***

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 6.9 times its net investment income. The below-average multiple is likely due to investors expecting requiring a higher yield from a YieldCo in a rising-rates environment. Shares are also trading notably lower against their NAV, with investors also likely already pricing in a further decline in NAV over time. Nevertheless, we believe the stock is undervalued at current levels and have set our fair multiple at 7.5X. The dividend yield stands at a noteworthy 12.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

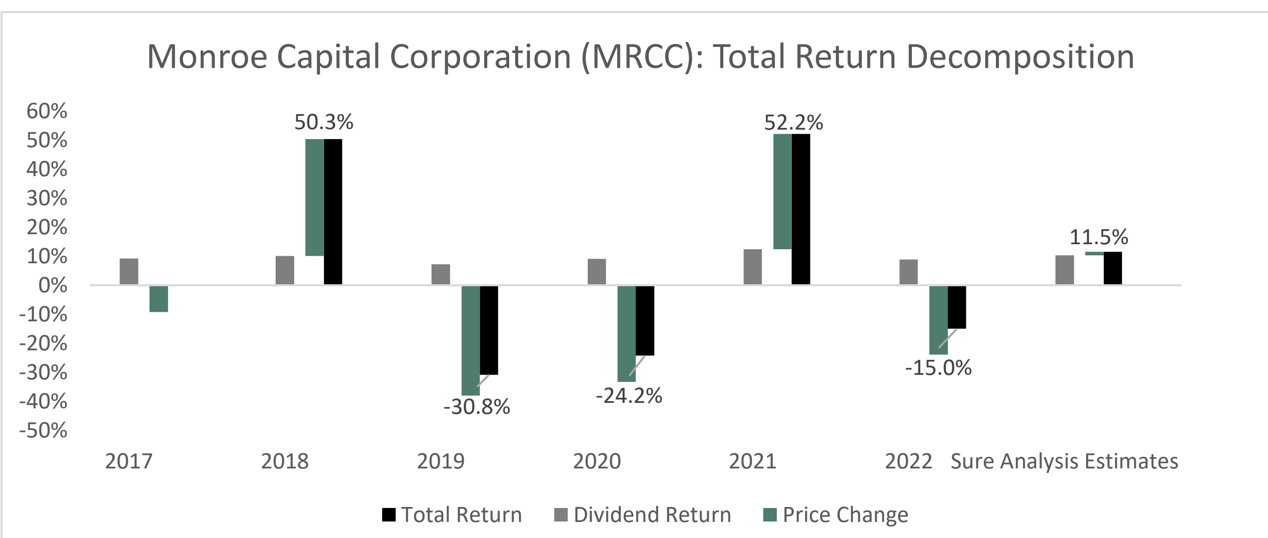
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	120%	87%	88%	90%	100%	89%	99%	76%	97%	98%	***87%***	***87%***

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 $16 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, a massive starting yield of 12.7%, and the possibility of valuation tailwinds, we forecast annualized returns of 11.5% going forward. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	13	17	22	29	17	11	24	7	40	4.5
SG&A Exp.	2	3	3	3	4	4	4	3	4	3.3
Net Profit	10	14	18	24	12	6	19	2	32	-2.8
Net Margin	77.0%	79.8%	82.6%	84.4%	73.2%	53.9%	81.5%	25.3%	80.0%	-62.2%
Free Cash Flow	(63)	(12)	(83)	(52)	(70)	(55)	(39)	75	20	14

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	226	244	357	425	507	580	655	585	590	565
Cash & Equivalents	15	5	5	6	4	4	2	7	3	5.5
Accounts Receivable	88	110	173	184	229	321	406	351	---	---
Total Liabilities	1	1	2	3	4	5	5	5	341	---
Long-Term Debt	84	106	163	178	222	314	396	344	332	330
Shareholder’s Equity	138	134	185	241	279	259	249	234	249	225
LTD/E Ratio	0.61	0.79	0.88	0.74	0.80	1.21	1.59	1.47	1.33	1.47

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.4%	5.9%	6.0%	6.2%	2.6%	1.1%	3.1%	0.3%	5.5%	-0.5%
Return on Equity	8.8%	10.2%	11.2%	11.5%	4.7%	2.2%	7.6%	0.7%	13.4%	-1.2%
ROIC	5.4%	6.0%	6.1%	6.4%	2.6%	1.1%	3.2%	0.3%	5.6%	-0.5%
Shares Out.	7.6	9.6	11.7	14.5	18.6	20.3	20.4	20.9	21.45	21.7
Revenue/Share	1.66	1.82	1.85	1.98	0.89	0.53	1.15	0.31	1.87	0.21
FCF/Share	(8.25)	(1.20)	(7.08)	(3.57)	(3.74)	(2.71)	(1.92)	3.58	0.93	0.65

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