



Monroe Capital Corporation (MRCC)

Updated March 13rd, 2024 by Nikolaos Sismanis

Key Metrics

| | | | | | |
|-----------------------------|--------|--|--------|----------------------------------|------------|
| Current Price: | \$7.42 | 5 Year CAGR Estimate: | 10.5% | Market Cap: | \$160.8 M |
| Fair Value Price: | \$7.21 | 5 Year Growth Estimate: | 0.0% | Ex-Dividend Date: | 03/14/2024 |
| % Fair Value: | 103% | 5 Year Valuation Multiple Estimate: | -0.6% | Dividend Payment Date: | 03/29/2024 |
| Dividend Yield: | 13.5% | 5 Year Price Target | \$7.21 | 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 about \$64 million annually in total investment income and is headquartered in Chicago, Illinois.

On March 11th, 2024, Monroe Capital Corporation reported its Q4 and full-year results for the period ending December 31st, 2023. Total investment income for the quarter came in at \$15.5 million, compared to \$15.6 million in the previous quarter. The weighted average portfolio yield fell during the quarter, from 12.4% to 12.1%, though it remained rather high as a result of an elevated interest rates environment. A lower number of portfolio companies also impacted total investment income.

Net investment income per share came in at \$0.24, one cent lower from last quarter’s \$0.25. The decline was due to lower total investment income. For the year, NII/share came in at \$1.07. Net asset value (NAV) per share fell 1.9% to \$9.40 during the quarter, primarily due to net unrealized losses on a couple of specific portfolio companies.

As of December 31st, 2023, the Company’s portfolio comprised 96 companies totaling \$488.4 million, with a weighted average annualized yield of 12.1%. About 82.4% 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 FY2024 NII/share of \$1.03.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| NII/share | \$1.57 | \$1.60 | \$1.55 | \$1.40 | \$1.57 | \$1.42 | \$1.45 | \$1.03 | \$1.02 | \$1.07 | \$1.03 | \$1.03 |
| DPS | \$1.36 | \$1.40 | \$1.40 | \$1.40 | \$1.40 | \$1.40 | \$1.10 | \$1.00 | \$1.00 | \$1.00 | \$1.00 | \$1.00 |
| Shares¹ | 9.6 | 11.7 | 14.5 | 18.6 | 20.3 | 20.4 | 20.9 | 21.5 | 21.7 | 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 declined from \$14.72 in its IPO to \$9.40 as of its

¹ Share count is in millions.

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latest report. Still, NAV/share grew for seven consecutive quarters following Monroe's dividend cut. The streak ended seven quarters ago.

Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|------------|------|------|------|------|-------|-------|-------|------|-------|-------|-------|-------|
| Avg. P/NII | 9.0 | 8.9 | 9.4 | 11.1 | 8.7 | 8.8 | 5.1 | 10.8 | 9.3 | 6.7 | 7.2 | 7.0 |
| Avg. Yld. | 9.6% | 9.8% | 9.7% | 9.0% | 10.3% | 11.2% | 14.9% | 9.2% | 10.7% | 14.0% | 13.5% | 13.9% |

Monroe's valuation currently stands at 6.8 times its net investment income. The below-average multiple is likely due to investors requiring a higher yield from a YieldCo in a rising-rates environment, as well as Monroe's shrinking portfolio. Shares are also trading notably lower against their NAV, with investors likely already pricing in a further decline in NAV over time. We maintain our fair multiple at 7.0, seeing the current multiple as more or less fair. The stock's dividend yield is currently hovering at a substantial 13.5%. It could signal an upcoming cut, but it remains covered for now.

Safety, Quality, Competitive Advantage, & Recession Resiliency

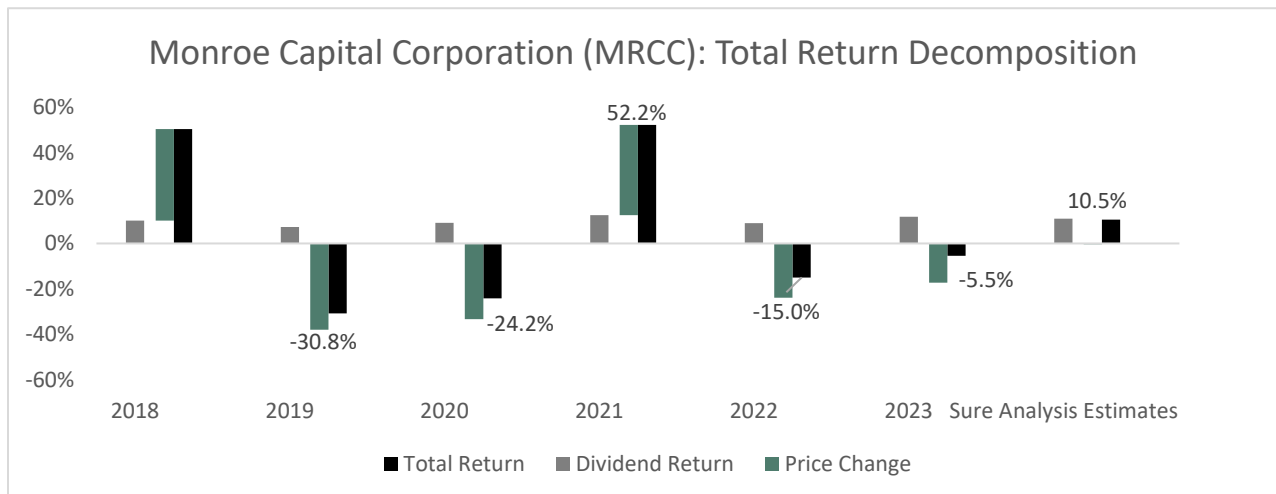
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 87% | 88% | 90% | 100% | 89% | 99% | 76% | 97% | 98% | 93% | 97% | 97% |

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 \$18.4 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 13.5%, and the prospect of a soft valuation headwind, we see annualized returns of 10.5% going forward. Shares earn a cautious 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.

Disclaimer

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