



Golub Capital BDC, Inc. (GBDC)

Updated May 7th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$16.89	5 Year CAGR Estimate:	6.5%	Market Cap:	\$2.90 B
Fair Value Price:	\$15.30	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	05/01/24
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	06/21/24
Dividend Yield:	9.2%	5 Year Price Target	\$15.30	Years Of Dividend Growth:	4
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Golub Capital is an externally managed, closed-end investment company that has chosen to be regulated as a Business Development Company (BDC). Golub aims to generate interest income and capital appreciation by investing primarily in one-stop and other senior secured loans of U.S. middle-market companies. The company's investment criteria require its potential investments to generate annual EBITDA of less than \$100 million, have a sustainable leading position in their respective markets, and scalable revenues and operating cash flows. Golub was formed in 2009, generated just over \$600 million in total investment income (NII) per year, and is based in Chicago, Illinois.

On May 6th, 2024, Golub Capital reported its fiscal Q2 2024 results for the quarter ended March 31st, 2024. Note that the company's fiscal year ends September 30th. This applies to the figures shown in our tables.

As a result of a relatively stable investment portfolio and stable investment yields, Golub achieved a total investment income of \$164.2 million, which was mostly flat quarter-over-quarter. Net investment income grew 3.8% to \$87.1 million, as expense control led to robust investment margins. On a per-share basis, net investment income came in at \$0.51, up two cents compared to last year. On an adjusted basis, which excludes amortization of purchase premium per share, EPS came in at \$0.51, stable year-over-year.

As of March 31st, 2024, Golub's portfolio consisted of 366 investments, 85.3% of which were allocated in one-stop debt, 8.9% in senior secured debt, 6.0% in equities, and 0.7% in junior debt. Diversification by weight seems adequate, with the top 10 investments accounting for around 16% of the total portfolio. Software, Healthcare Providers and Services, and Specialty Retail make up the majority of Golub's industry exposure, with these three accounting for 27%, 8%, and 6% of the portfolio, respectively. For fiscal 2024, we expect NII/share of \$1.70.

Golub declared a \$0.06 supplemental dividend, along with a base quarterly dividend of \$0.39, to be paid in June. Thanks to the additional supplementary dividend and the \$0.07 one of the prior quarter, the FY2024 DPS is poised to exceed the annualized \$1.56 rate of the base dividend, which we have utilized in our estimates.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
NII	\$1.26	\$1.20	\$1.25	\$1.23	\$1.27	\$1.36	\$0.94	\$0.99	\$1.15	\$1.70	\$1.70	\$1.70
DPS	\$1.28	\$1.28	\$1.28	\$1.53	\$1.36	\$1.40	\$1.37	\$1.16	\$1.20	\$1.40 ¹	\$1.56	\$1.56
Shares²	45.3	49.0	51.9	59.8	60.1	72.4	167.2	170.0	170.9	169.6	171.5	250.0

Golub's net investment income has remained quite stable over the years, only temporarily suffering as a result of higher expenses. The company currently pays an annualized base dividend of \$1.56. However, over the years, its equity investments have delivered additional gains which are not recorded as net investment income.

The company has been using these additional proceeds to pay special dividends, resulting in higher annual DPS, as shown in the table. This is not always the case, however.

¹ Includes a supplemental dividend of \$0.04.

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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Regarding future profitability, it's hard to estimate accurately. On the one hand, the company's investment income yield was on a declining trend amid declining global rates. It was 8.1% in Q3-2020 and had fallen to 7.3% by Q2-2022. On the other hand, with interest on the rise, investment income yield has now skyrocketed to 12.8%. Accordingly, the net investment spread currently stands at 7.3%, up from 6.7% during the same period last year.

Since it's impossible to speculate on how these private investments will perform under various changes in interest rates, and thus, we don't speculate on higher or lower earnings-per-share moving forward. Golub did not announce any special dividends during FY2021 and FY2022. It announced one \$0.04 supplemental dividend in FY2023 and two year-to-date.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.9	14.2	13.6	14.3	13.0	12.6	15.0	15.8	12.4	7.4	9.9	9.0
Avg. Yld.	7.9%	7.5%	7.5%	8.7%	8.2%	8.2%	9.7%	7.3%	8.4%	11.1%	9.2%	10.2%

Golub's well-diversified portfolio, higher tech-oriented exposure, and frequent additional gains resulting in special dividends have historically attracted a slight valuation premium compared to its industry peers. The current valuation multiple of 9.9X while lower than usual, appears a bit rich, in our view. We believe shares would be more fairly valued at a multiple of about 9.0X, given current interest rates. NAV/share stands at \$15.12, lower from the current stock price. The yield has always been hefty, as per Golub's BDC nature. Excluding any special dividends, shares are yielding 9.2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

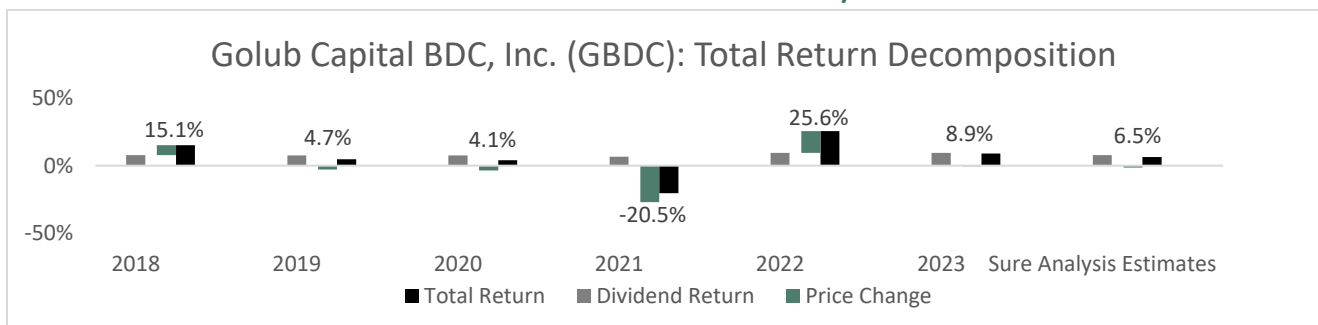
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	102%	107%	102%	124%	107%	103%	146%	117%	104%	82%	92%	92%

With improved earnings following rising interest rates, we believe that at the minimum, Golub's \$1.56 base dividend remains relatively well-covered. Because most of the company's investments are in one-stop debt and secured notes, its assets should prove resilient during a potential recession, though due to its formation post the 2007 to 2009 period, we lack better historical indication. Golub performed somewhat alright during the pandemic, nonetheless. Being an investment company, Golub does not possess any material competitive advantage other than its management's expertise, which seems to be delivering results in line with the industry.

Final Thoughts & Recommendation

Golub is a well-diversified investment company, with an industry-leading investment spread of above 7%. Assuming the stock retains a somewhat stable valuation in the medium-term, we expect annualized returns of 6.5%, as returns from the dividend could be partially offset by a valuation headwind. However, it's quite possible that Golub delivers higher returns based on how its private equity investments perform. It's worth noting that insiders own nearly 13.6% of the \$2.62 billion company, suggesting aligned interest with shareholders. Shares earn a hold rating at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	71.0	76.7	75.1	87.6	87.6	-12.7	66.8	349.5	172.6	284.4
SG&A Exp.	5.6	5.9	5.5	5.3	5.7	5.9	12.0	12.6	12.5	14.8
Net Profit	65.4	70.8	69.2	82.3	82.0	-18.6	54.9	340.3	153.4	258.6
Net Margin	92.1%	92.3%	92.2%	93.9%	93.5%	N/A	82.1%	97.4%	88.9%	90.9%
Free Cash Flow	-255.6	-103.3	-56.1	62.2	-8.5	-118.5	187.7	-306.1	-416.5	195.4

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1443.4	1633.4	1756.5	1754.2	1835.6	4394.9	4444.3	5165	5681	5733
Cash & Equivalents	5.1	5.5	10.9	4.0	5.9	6.5	24.6	175.6	124.1	69.8
Total Liabilities	710.6	822.6	877.7	796.2	866.7	2172.0	2048.1	2582	3137	3186
Accounts Payable	4.6	4.8	5.3	6.1	6.2	39.4	11.9	18.6	26.7	32.3
Long-Term Debt	697.5	806.0	859.5	776.8	842.7	2119.5	2017.8	2551	3076	3118
Shareholder's Equity	732.7	810.9	878.8	957.9	968.9	2222.9	2396.2	2583	2544	2548
LTD/E Ratio	1.0	1.0	1.0	0.8	0.9	1.0	0.8	0.99	1.21	1.224

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.2%	4.6%	4.1%	4.7%	4.6%	-0.6%	1.2%	7.1%	2.8%	4.5%
Return on Equity	9.4%	9.2%	8.2%	9.0%	8.5%	-1.2%	2.4%	13.7%	6.0%	10.2%
ROIC	5.2%	4.6%	4.1%	4.7%	4.6%	-0.6%	1.3%	7.1%	2.9%	4.6%
Shares Out.	47.8	51.7	54.8	60.0	61.7	65.5	148.9	168	170.7	170.3
Revenue/Share	1.49	1.48	1.37	1.46	1.42	-0.19	0.45	2.08	1.01	1.67
FCF/Share	-5.35	-2.00	-1.02	1.04	-0.14	-1.81	1.26	-1.82	-2.44	1.15

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

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