



Barings BDC (BBDC)

Updated October 11th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$9.74	5 Year CAGR Estimate:	12.0%	Market Cap:	\$1.04 B
Fair Value Price:	\$11.22	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	12/06/2024 ¹
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.9%	Dividend Payment Date:	12/13/2024
Dividend Yield:	10.7%	5 Year Price Target	\$11.79	Years Of Dividend Growth:	6
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Barings BDC is a business development company (BDC) focused on providing senior secured loans to middle-market companies, primarily in the U.S. and internationally. Managed by Barings LLC, a global asset manager, the company invests in businesses with earnings before interest, taxes, depreciation, and amortization (EBITDA) ranging from \$10 million to \$75 million. These companies are typically well-established, generating steady cash flows, and operating in industries with lower cyclicity. Barings BDC seeks to enhance returns via prudent use of leverage, while maintaining a focus on capital preservation. Recent acquisitions of MVC Capital and Sierra Income Corporation have diversified its portfolio and strengthened its market presence.

As of the latest quarter, the company's portfolio had a value of \$2.40 billion, diversified across 329 issuers. About 72% of its loans are secured—66% in First Lien and 6% in Second Lien positions—with 87% linked to floating interest rates. The weighted average spread for the portfolio was 613 basis points.

On August 7th 2024, Barings BDC posted its Q2 results for the period ending June 30th, 2024. Net investment income (NII) was \$42.1 million, or \$0.40 per share, up from \$33.6 million or \$0.31 per share last year. This increase was driven by a higher weighted average yield on performing debt investments, which rose to 10.9%, due to a rising rates environment. Despite net unrealized depreciation of \$30.8 million, largely due to credit performance and market shifts, the BDC saw a net rise in assets from operations of \$19.4 million. Portfolio activity also boosted results, with \$78.5 million in new and existing investments, partially offset by \$116.2 million in loan repayments. For FY2024, we expect NII/share of \$1.32.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
NII	\$2.08	\$2.16	\$1.62	\$1.55	---	\$0.61	\$0.64	\$0.90	\$1.12	\$1.19	\$1.32	\$1.39
DPS	\$2.56	\$2.36	\$1.89	\$1.65	\$0.43	\$0.54	\$0.65	\$0.82	\$0.95	\$1.02	\$1.04	\$1.09
Shares²	29.8	33.2	36.4	46.5	49.9	50.2	48.6	65.3	102.9	107.0	105.9	110.0

Barings BDC's net investment income (NII) per share from 2014 to 2023 reflects the underlying market conditions of this period and a significant shift in its investment approach. In 2014 and 2015, NII was strong at \$2.08 and \$2.16, driven by Triangle Capital's (the company's prior name) focus on lower middle-market investments. The BDC saw record levels of capital deployment and steady portfolio growth, despite some challenges like yield compression and an increase in non-accruals. In 2016 and 2017, NII declined to \$1.62 and \$1.55, respectively, as the BDC faced further yield compression and a rise in portfolio non-accruals. This was due to increasing competition in the middle-market lending space, which put pressure on investment returns. Also, the company's focus on rotating its portfolio to improve asset quality caused a temporary reduction in income.

For 2018, NII data is meaningless, as the BDC underwent a major transition, selling its legacy portfolio and externalizing its management to Barings LLC. This period was marked by the sale of Triangle Capital's entire portfolio for nearly \$1 billion to Benefit Street Partners, and the BDC began rebuilding its portfolio from scratch under Barings' management.

¹ Estimated dated based on past dividend dates.

² Share count is in millions.

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In 2019, NII fell to \$0.61 as Barings BDC shifted to first-lien senior secured loans, prioritizing risk reduction and capital preservation, but with lower short-term yields. By 2020, NII improved to \$0.64 due to increased loan originations and portfolio growth, despite the pandemic's impact. In 2021, NII increased to \$0.90 as economic conditions and lending opportunities recovered. NII continued to grow in 2022 and 2023, reaching \$1.12 and \$1.19, driven by rising interest rates, strong loan originations, and solid credit performance.

Moving forward, we expect that the BDC will grow its NII/share at a CAGR of 1%. The rather muted rate is to account for the fact that Barings is coming off a rather favorable environment, and thus its results could begin normalizing. Barings has also hiked its dividend for five successive years. We expect payouts to grow at a CAGR of 1% through 2029 as well.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.9	10.3	11.8	10.9	---	16.5	13.8	10.9	9.1	7.3	7.4	8.5
Avg. Yld.	9.5%	10.6%	9.9%	9.8%	3.8%	5.4%	7.3%	8.4%	9.4%	11.8%	10.7%	9.3%

Barings BDC has typically traded at a P/NII ratio in the high-single digits to low teens, in line with industry norms. Today, it's trading at just over 7.4 times our projected NII per share, which we view as undervalued. The discount likely reflects investor concerns about the sustainability of the company's favorable conditions. Still, we believe a P/NII of around 8.5 is more appropriate. The stock's 10.7% yield is expected to contribute significantly to the BDC's total return prospects.

Safety, Quality, Competitive Advantage, & Recession Resiliency

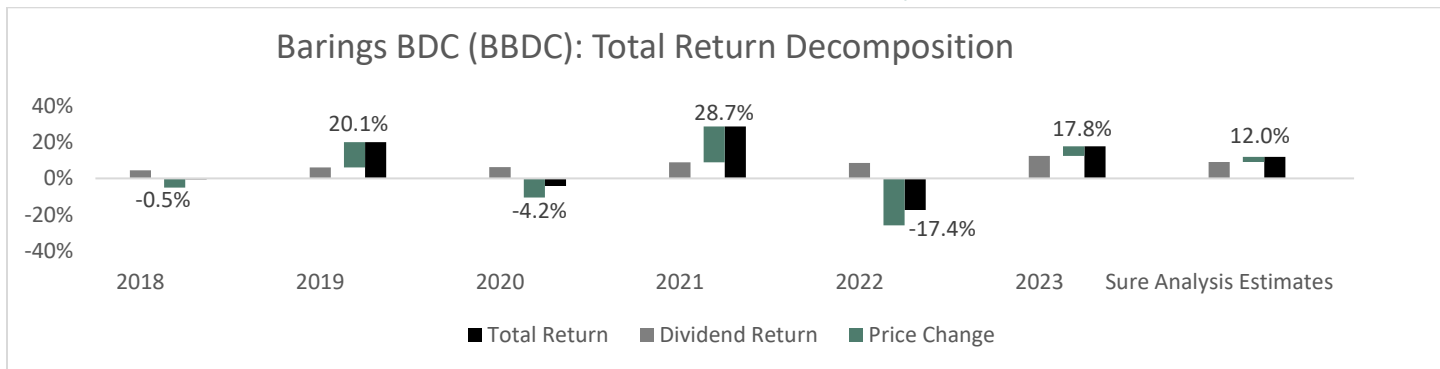
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	123%	109%	117%	106%	---	89%	102%	91%	85%	86%	79%	79%

Barings BDC's competitive edge lies in its affiliation with Barings LLC, offering deep investment expertise and access to quality deals, particularly in senior secured loans. This focus on first-lien, floating-rate loans provides resilience during recessions and rising interest rate environments. Its portfolio is also positioned to withstand economic downturns by investing in less cyclical industries. Dividend safety has improved significantly since 2019, with payout ratios dropping below 100%, reaching a more secure 85-86% in 2022 and 2023, compared to unsustainable levels above 100% in earlier years. We believe this indicates stronger dividend coverage and stability moving forward, though caution is warranted.

Final Thoughts & Recommendation

Barings BDC has a volatile history of NII and dividends, though its performance has stabilized lately. Today, its focus on senior secured middle-market loans and disciplined investment strategy makes it an interesting pick for income-oriented investors seeking high income. We forecast annualized returns of 12% through 2029, powered by our growth estimates, the 10.7% yield, and the possibility of a valuation tailwind. We rate the stock a buy, but don't blindly trust the dividend.

Total Return Breakdown by Year



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Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	53	73	63	(6)	(53)	66	17	87	16	140
SG&A Exp.	4	4	4	5	16	6	6	9	10	10
Net Profit	28	48	34	(29)	(114)	58	8	78	5	128
Net Margin	53.7%	66.0%	54.6%	457%	218%	88.6%	47.7%	89.5%	29.2%	91.6%
Free Cash Flow	(188)	(31)	(23)	8	(198)	(32)	(218)	(397)	86	77
Income Tax	3	0	0	1	(1)	0	0	0	1	2

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	975	1,039	1,160	1,223	1,168	1,253	1,677	2,161	2,710	2,677
Cash & Equivalents	79	53	107	192	12	22	89	84	139	71
Total Liabilities	444	531	548	582	605	682	959	1,419	1,518	1,481
Accounts Payable	11	11	11	16	35	9	10	35	44	13
Long-Term Debt	428	514	535	566	570	669	944	1,373	1,448	1,440
Shareholder's Equity	531	508	611	641	563	571	718	742	1,192	1,197
LTD/E Ratio	0.81	1.01	0.88	0.88	1.01	1.17	1.32	1.85	1.21	1.20

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.2%	4.8%	3.1%	-2.4%	-9.6%	4.8%	0.6%	4.0%	0.2%	4.8%
Return on Equity	5.8%	9.2%	6.1%	-4.6%	-19.0%	10.3%	1.3%	10.6%	0.5%	10.7%
ROIC	3.2%	4.8%	3.2%	-2.4%	-9.8%	4.9%	0.6%	4.1%	0.2%	4.9%
Shares Out.	29.8	33.2	36.4	46.5	49.9	50.2	48.6	65.3	102.9	107.0
Revenue/Share	1.77	2.18	1.72	(0.13)	(1.05)	1.31	0.35	1.33	0.16	1.30
FCF/Share	(6.33)	(0.94)	(0.64)	0.17	(3.97)	(0.63)	(4.49)	(6.07)	0.84	0.72

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

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