



Monroe Capital Corporation (MRCC)

Updated November 22nd, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$8.44	5 Year CAGR Estimate:	10.8%	Market Cap:	\$182.9 M
Fair Value Price:	\$9.12	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	12/13/2024
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	12/30/2024 ¹
Dividend Yield:	11.8%	5 Year Price Target	\$9.12	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 November 12th, 2024, Monroe Capital Corporation posted its Q3 results for the period ending September 30th, 2024. Total investment income for the quarter came in at \$15.7 million, compared to \$15.6 million in the previous quarter. The weighted average portfolio yield declined 90 basis compared to the previous quarter, standing at 11.0%. Nevertheless, an increase in fee income stemming from portfolio investment realizations during the quarter more than offset this decline.

Net investment income per share came in at \$0.30, which was stable quarter-over-quarter. Net asset value (NAV) per share fell by two cents to \$9.18 during the quarter.

As of September 30th, 2024, the company’s portfolio included 94 companies totaling \$474.3 million, with a weighted average annualized yield of 11.9%. About 80% 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	\$1.14	\$1.14
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
Shares²	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 \$9.20 as of its

¹ Estimated dates based on past dividend dates.

² 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 eight 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	7.4	8.0
Avg. Yld.	9.6%	9.8%	9.7%	9.0%	10.3%	11.2%	14.9%	9.2%	10.7%	14.0%	11.8%	11.0%

Monroe's valuation currently stands at 7.4 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 retain our fair multiple at 8.0 due to adjusted net income of \$0.31 covering the hefty, 11.8%-yielding dividend for the 18th consecutive quarter in Q3. Still, we don't exclude the possibility of a dividend cut should Monroe's financials deteriorate in the future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

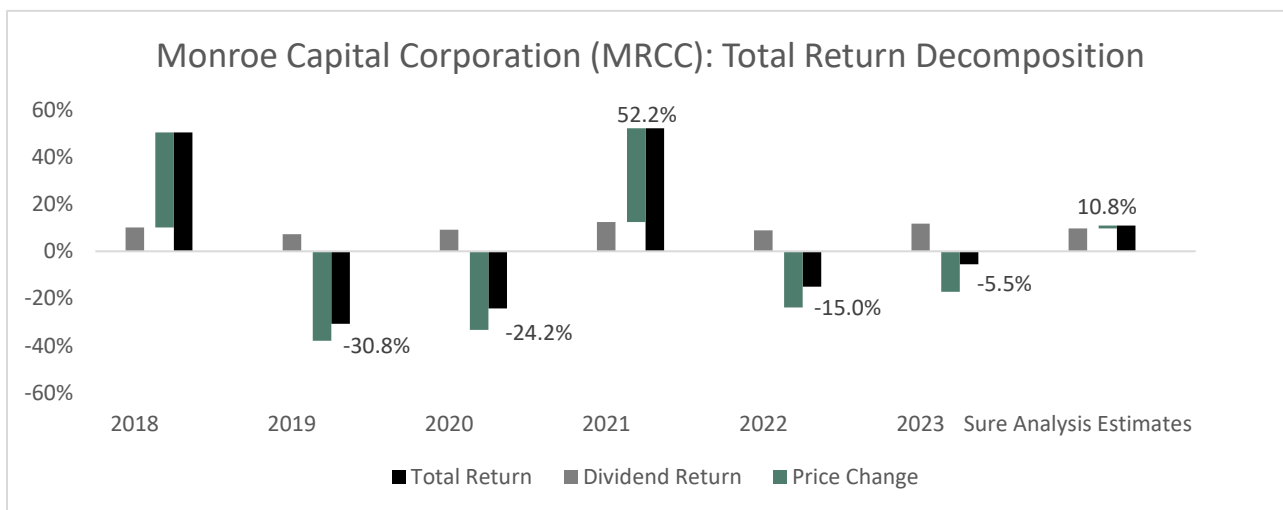
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	87%	88%	90%	100%	89%	99%	76%	97%	98%	93%	88%	88%

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 \$19.5 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 11.8%, and the prospect of a soft valuation tailwind, we see annualized returns of 10.8% going forward. Shares earn a cautious buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	17	22	29	17	11	24	7	40	4.5	5.5
SG&A Exp.	3	3	3	4	4	4	3	4	3.3	3
Net Profit	14	18	24	12	6	19	2	32	-2.8	0.4
Net Margin	79.8%	82.6%	84.4%	73.2%	53.9%	81.5%	25.3%	80.0%	-62.2%	7.3%
Free Cash Flow	(12)	(83)	(52)	(70)	(55)	(39)	75	20	14	52

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	244	357	425	507	580	655	585	590	565	513
Cash & Equivalents	5	5	6	4	4	2	7	3	5.5	5
Accounts Receivable	110	173	184	229	321	406	351	---	---	---
Total Liabilities	1	2	3	4	5	5	5	341	---	309
Long-Term Debt	106	163	178	222	314	396	344	332	330	301
Shareholder's Equity	134	185	241	279	259	249	234	249	225	204
LTD/E Ratio	0.79	0.88	0.74	0.80	1.21	1.59	1.47	1.33	1.47	1.48

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.9%	6.0%	6.2%	2.6%	1.1%	3.1%	0.3%	5.5%	-0.5%	0.1%
Return on Equity	10.2%	11.2%	11.5%	4.7%	2.2%	7.6%	0.7%	13.4%	-1.2%	0.2%
ROIC	6.0%	6.1%	6.4%	2.6%	1.1%	3.2%	0.3%	5.6%	-0.5%	0.1%
Shares Out.	9.6	11.7	14.5	18.6	20.3	20.4	20.9	21.45	21.7	21.7
Revenue/Share	1.82	1.85	1.98	0.89	0.53	1.15	0.31	1.87	0.21	0.25
FCF/Share	(1.20)	(7.08)	(3.57)	(3.74)	(2.71)	(1.92)	3.58	0.93	0.65	2.39

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

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