PennantPark Floating Rate (PFLT)

Updated March 1st, 2025 by Samuel Smith

Key Metrics

Current Price:	$11.3	**5 Year CAGR Estimate:**	9.3%	**Market Cap:**	$997 M
Fair Value Price:	$11.38	**5 Year Growth Estimate:**	0.2%	**Ex-Dividend Date:**	03/14/25[1]
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date:**	4/03/25[2]
Dividend Yield:	10.9%	**5 Year Price Target:**	$11	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

PennantPark Floating Rate Capital Ltd. is a business development company that seeks to make secondary direct, debt, equity, and loan investments. The fund also aims to invest through floating rate loans in private or thinly traded or small market-cap, public middle market companies, equity securities, preferred stock, common stock, warrants or options received in connection with debt investments or through direct investments. It generally invests in the United States and to a limited extent non-U.S. companies. It aims to invest in companies not rated by national rating agencies. The firm has a market capitalization of approximately $997 million. PennantPark Floating Rate Capital Ltd. is managed by PennantPark Investment Advisers, LLC.

PennantPark Floating Rate Capital (PFLT) reported its Q1 2025 results on February 11, 2025, highlighting stable financial performance and continued investment activity. For the quarter ended December 31, the company posted GAAP net investment income of $0.37 per share and core net investment income of $0.33 per share. PFLT's portfolio grew 11% from the previous quarter to $2.2 billion, driven by $607 million in investments across 11 new and 58 existing portfolio companies at a weighted average yield of 10.3%. The company successfully exited its investment in Marketplace Events, generating a 2.6x multiple on invested capital and a 19% annualized return. PFLT maintains a conservative portfolio with a weighted average debt-to-EBITDA ratio of 4.3x, interest coverage of 2.2x, and a loan-to-value of 53%. The firm expanded its Truist revolving credit facility by $100 million to $736 million and priced a $361 million securitization at a 1.59% spread. The PSSL joint venture continued its growth, reaching $1.1 billion in assets, with plans to expand to $1.5 billion. Nonaccrual loans remained low at 0.4% of the portfolio at cost and 0.1% at market value. PFLT’s debt-to-equity ratio was 1.4x, with a target of 1.5x. Management remains optimistic about investment opportunities in the core middle market, citing strong demand and favorable credit conditions.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.77	$1.25	$1.20	$0.87	$0.29	$0.47	$1.02	$1.18	$1.33	$1.18	***$1.32***	***$1.28***
BVPS	$13.70	$14.10	$13.90	$13.70	$13.00	$12.31	$12.62	$11.77	$11.13	$11.31	***$11.38***	***$11.50***
DPS	$1.12	$1.14	$1.14	$1.14	$1.14	$1.14	$1.14	$1.14	$1.19	$1.23	***$1.23***	***$1.23***
Shares[3]	14.9	26.7	26.7	38.5	38.8	38.8	38.8	45.3	58.7	83.2	***88.0***	***100.0***

As a BDC, PennantPark Floating Rate pays out virtually all of its profits out via dividends. As a result, whenever the business suffers an impairment from meaningful loan losses, its book value will decline with little means of regaining that value. As a result, we expect book value per share to remain relatively stagnant over time and with it, earnings per share. The only thing that would meaningfully boost earnings per share is a large increase in interest rates. Given that the company invests primarily in floating interest rates, rising interest rates would potentially help PennantPark Floating Rate. However, we do not foresee interest rates rising meaningfully more than they have already over the next few

[1] Estimated
[2] Estimated
[3] In millions

years. Therefore, we expect book value per share and the dividend per share to be fairly stagnant over the next half decade.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/B	1.0	1.0	0.8	1.0	1.0	0.9	0.9	0.9	1.0	1.0	***1.0***	***1.0***
Avg. Yld.	8.5%	8.3%	10.0%	8.3%	8.9%	10.9%	9.6%	11.3%	10.7%	11.3%	***10.9%***	***10.7%***

For BDCs, we prefer to use Price-to-Book-Value for our primary valuation metric instead of Price-to-Earnings. We believe that a slight discount to book value is warranted given the high leverage applied and general riskiness of the business model. Given that the dividend has grown over time and book value has not dropped too much, we believe that 1.0x is a fair Price-to-Book-Value multiple, making shares appear fairly valued at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

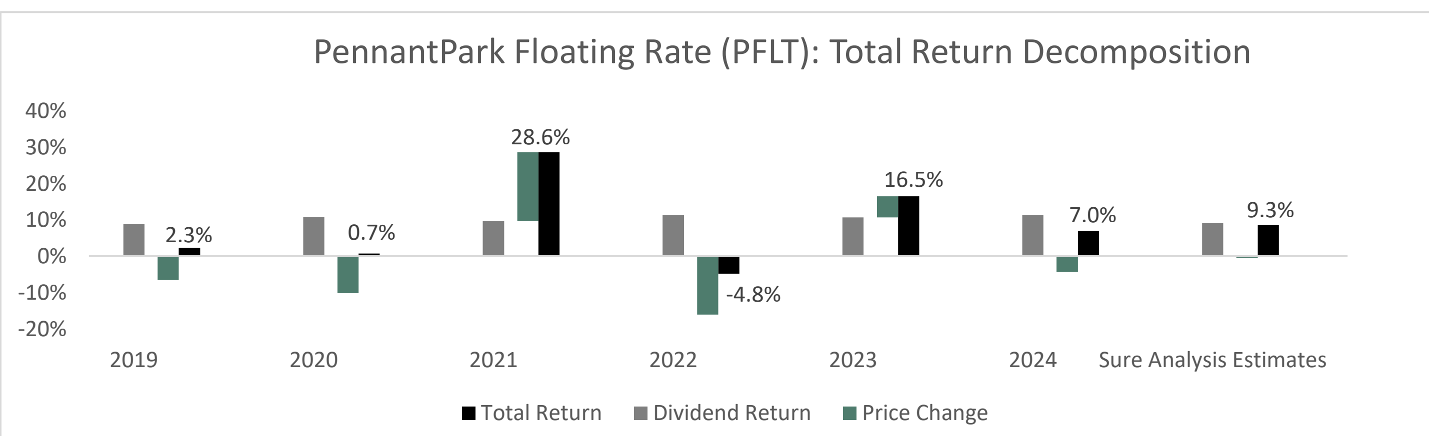
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	145%	91%	95%	131%	393%	243%	112%	97%	89%	104%	***93%***	***96%***

PennantPark Floating Rate does not have any meaningful competitive advantage and was not active during the Great Recession. However, given that the majority of its loans are in the BB – CCC range, we can infer that many of them would struggle to perform under distressed conditions. PennantPark Floating Rate also has a highly leveraged balance sheet and a payout ratio that often nears or exceeds 100% of earnings. While the company can probably sustain this model while the economy is running smoothly – as the growing and stable dividend over the past decade has shown – it may collapse if the economy experiences a significant and prolonged downturn that would cause its loans to underperform. Management seems to have steered the company through the COVID-19 crisis well, thanks in part to the stimulus and bailout packages that were provided to small businesses. However, given the low quality of the balance sheets undergirding the portfolio and their high leverage, in a real sustained downturn we expect things to get much worse. Given the high payout ratio, we would also expect a dividend cut to follow.

Final Thoughts & Recommendation

PennantPark Floating Rate has a strong track record of paying a stable dividend and offers investors decent 9.3% annualized total return potential and an attractive 10.9% dividend yield. It trades roughly in line with its book value at the moment. For investors looking to hedge their portfolio against rising interest rates, its exposure to floating interest rates is a plus. That said, the high leverage and lower quality loans underpinning the portfolio mean it is not a low-risk investment opportunity. Shares earn a Hold rating.

Total Return Breakdown by Year



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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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	17	38	41	50	20	23	62	12	42	109
SG&A Exp.	2	3	4	4	4	4	2	3	4	7
Net Profit	13	33	36	33	11	18	57	3	39	92
Net Margin	72.4%	88.8%	88.8%	67.5%	57.2%	81.2%	91.3%	29.7%	93.1%	84.6%
Free Cash Flow	(2)	(165)	(77)	(208)	(121)	(5)	50	(47)	141	(801)

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	416	631	747	1,076	1,152	1,148	1,171	1,227	1,180	2,109
Cash & Equivalents	21	29	19	72	63	58	50	51	101	112
Total Liabilities	43	256	289	541	649	671	680	700	526	1,232
Accounts Payable	12	18	26	66	19	11	23	12	21	45
Long-Term Debt	30	232	257	468	624	653	653	673	495	1,177
Shareholder's Equity	373	376	458	536	503	477	491	527	654	877
LTD/E Ratio	0.08	0.62	0.56	0.87	1.24	1.37	1.33	1.28	0.76	1.34

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	3.2%	6.4%	5.3%	3.7%	1.0%	1.6%	4.9%	0.3%	3.3%	5.6%
Return on Equity	4.3%	8.9%	8.7%	6.7%	2.2%	3.8%	11.7%	0.7%	6.7%	12.0%
ROIC	3.3%	6.6%	5.5%	3.9%	1.1%	1.6%	5.0%	0.3%	3.3%	5.7%
Shares Out.	14.9	26.7	26.7	38.5	38.8	38.8	38.8	45.3	58.7	83.2
Revenue/Share	1.06	1.41	1.35	1.30	0.51	0.58	1.60	0.28	0.83	1.65
FCF/Share	(0.14)	(6.19)	(2.53)	(5.44)	(3.13)	(0.13)	1.28	(1.13)	2.77	(12.19)

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