



# Sixth Street Specialty Lending (TSLX)

Updated May 17<sup>th</sup>, 2025 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$22.69	<b>5 Year CAGR Estimate:</b>	5.7%	<b>Market Cap:</b>	\$2.13 B
<b>Fair Value Price:</b>	\$20.70	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	06/16/2025
<b>% Fair Value:</b>	110%	<b>5 Year Valuation Multiple Estimate:</b>	-1.8%	<b>Dividend Payment Date:</b>	06/30/2025
<b>Dividend Yield:</b>	8.1%	<b>5 Year Price Target</b>	\$20.70	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	F	<b>Sector:</b>	Financials	<b>Rating:</b>	Hold

## Overview & Current Events

Sixth Street Specialty Lending is a specialty finance company focused on providing flexible, fully committed financing solutions to middle-market companies principally located in the US. The fund provides primarily first-lien senior secured loans, mezzanine debt, non-control structured equity and common equity. Management aims to co-invest with other firms to maximize the potential for organic growth, acquisitions, market or product expansion, restructuring initiatives, recapitalizations and refinancing. As of its latest filings, Sixth Street's portfolio includes 115 investments, with no single company accounting for more than 2.3% of total investments. The portfolio remains well-diversified across industries, with Internet Services, Business Services, and Retail & Consumer Products comprising 16.1%, 13.5%, and 10.0% of its exposure, respectively. The \$2.13 billion company holds assets totaling about \$3.5 billion and is headquartered in Dallas, Texas.

On May 6<sup>th</sup>, 2025, Sixth Street Specialty Lending posted its Q1 results for the period ending March 31<sup>st</sup>, 2025. For the quarter, net investment income came in robust at \$58.0 million, up 10.7% year-over-year. NII/share was \$0.62, same as last year. Total yield on debt fell 20 basis points sequentially to 12.3%. Its weighted average interest rate of debt fell 30 basis points to 11.5%. Finally, SOFR fell 20 basis points to 4.1%. All variables combined led to the company's weighted average spread over all floating rate investments falling 20 basis points to 7.5%.

For FY2025, we expect NII/share of \$2.30. We are using the annualized rate of the company's quarterly \$0.46 dividend in our estimates. Still, the company is likely to declare several special dividends this year, as has been the case frequently since 2017. For context, total dividends for FY2024 amounted to \$2.09. The company declared a supplemental dividend of \$0.06 with respect to Q1-2025.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>NII/share</b>	\$1.18	\$2.34	\$1.86	\$1.86	\$2.34	\$2.19	\$1.97	\$2.13	\$2.31	\$2.39	<b>\$2.30</b>	<b>\$2.30</b>
<b>DPS</b>	\$1.56	\$1.56	\$1.75	\$1.78	\$1.81	2.29	\$3.65	\$1.82	\$2.10	\$2.09	<b>\$1.84</b>	<b>\$1.84</b>
<b>Shares<sup>1</sup></b>	54.0	58.6	60.0	64.0	66.1	67.2	77.7	78.2	85.1	92.0	<b>93.9</b>	<b>110.0</b>

Being a BDC (Business Development Company), we believe Net Investment Income (NII) and NAV (Net Asset Value) are the meaningful variables to measure TSLX's performance. Since Sixth Street has chosen to register as a BDC, the company is required by law to distribute at least 90% of net income to shareholders. As a result, its distributions have gradually grown in line with its net investment income per share.

Whenever TSLX generates additional income, as in FY2019 and FY2020, management issues special dividends, as depicted in the FY2020's and FY2021's table entries, to meet its regulatory requirements.

We are forecasting no NII/share and DPS growth moving forward, to be prudent, as higher interest rates could pressure the company's financial expenses more than they could boost its interest earned. It's worth noting that the company has

<sup>1</sup> Share count is in millions.

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never cut its base dividend despite total dividends in FY2022 being lower than those paid in FY2021. This was due to more substantial special dividends in FY2021.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/NII	11.4	13.6	9.6	10.4	10.5	9.2	11.6	9.2	7.6	8.7	9.9	9.0
Avg. Yld.	8.3%	8.2%	8.9%	9.4%	8.7%	8.7%	10.3%	9.2%	12.0%	10.0%	8.1%	8.9%

We believe the current P/NII closely reflects both TSLX's successful history of growing its financials and the ongoing risks related to higher interest rates (e.g., fewer investment opportunities for TSLX amid increased cost of capital). Still, we have set our fair multiple to a more prudent 9.0x. As per BDCs' purpose to distribute the majority of their net income to shareholders, TSLX's dividend yield has been quite lofty, fluctuating in the high single-digit range. Shares are currently trading with a base dividend yield of 8.1%. However, the actual yield for the year should be notably higher, as we expect TSLX to keep declaring supplemental dividends over time. Shares trade at a notable premium compared to NAV. Yet, this has been a recurring theme for TSLX amid its operating excellence.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

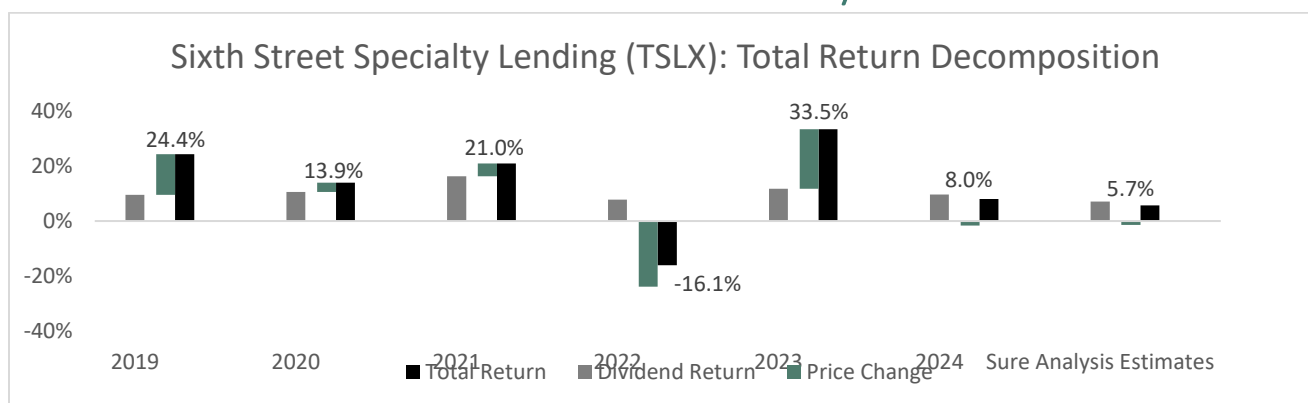
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	132%	67%	94%	96%	77%	105%	185%	85%	91%	87%	80%	80%

At its current state, TSLX's base dividend remains covered by net investment income. However, there are some major risks to consider. Due to the company's obligatory payout requirements, there is little to no margin for capital maneuverings. Further, while the ultra-low LIBOR has helped increase its investment spreads, an increasing LIBOR could squeeze this surplus, leaving no room for profit against its sky-high financing through share issuances. As the company needs to pay out more dividends as it keeps issuing shares, a possible series of defaults by its borrowers can quickly trickle down to write-offs, dividend cuts and overall massive capital losses as seen with various BDCs throughout time. The company has been performing well so far, actively growing its NII/share and dividend while holding a diversified portfolio of investments. Still, a recession could adversely impact its results.

## Final Thoughts & Recommendation

Sixth Street Specialty Lending is a high-quality, prudently-managed BDC despite its relatively short public-market history. While many of its industry peers cut their distributions during the pandemic, TSLX continued to grow its quarterly dividend and even paid back investment surpluses. We forecast that investors are likely to enjoy annualized returns of 5.7% through 2030, excluding special NII/share gains and special dividends. While shares earn a hold rating based on this forecast, total returns are likely to be more substantial, considering the company's supplemental payouts potential.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	78	152	130	141	179	206	236	136	273	253
SG&A Exp.	13	13	11	13	13	13	14	13	13	14
Net Profit	64	137	112	119	155	178	212	108	222	187
Net Margin	81.3%	90.1%	85.7%	84.4%	86.3%	86.4%	89.8%	79.4%	81.3%	73.9%
Free Cash Flow	(191)	(42)	82	119	(378)	145	2.5	(225)	(237)	(45)
Income Tax	2	2	3	3	4	6	0.4	3	2	6.6

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,507	1,676	1,720	1,730	2,281	2,339	2,552	2,837	3,344	3,582
Cash & Equivalents	2	6	7	11	14	3	1.6	10	1,217	5
Total Liabilities	686	723	751	667	1,162	1,177	1,276	1,495	1,847	1,975
Accounts Payable	26	23	23	25	26	28	31	0	0	0
Long-Term Debt	642	681	703	608	1,094	1,110	1,186	1,442	1,780	1,901
Shareholder's Equity	821	952	969	1,063	1,119	1,161	1,276	1,342	1,496	1,608
LTD/E Ratio	0.78	0.71	0.73	0.57	0.98	0.96	0.93	1.08	1.19	1.18

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	4.5%	8.6%	6.6%	6.9%	7.7%	7.7%	8.7%	4.0%	7.2%	5.4%
Return on Equity	7.7%	15.5%	11.6%	11.7%	14.2%	15.6%	17.4%	8.3%	15.7%	12.0%
ROIC	4.7%	8.9%	6.8%	7.1%	8.0%	7.9%	9.0%	4.1%	7.3%	5.5%
Shares Out.	54.0	58.6	60.0	64.0	66.1	67.2	77.7	78.2	85.1	92.0
Revenue/Share	1.44	2.55	2.17	2.20	2.71	3.06	3.04	1.75	3.21	2.75
FCF/Share	(3.53)	(0.70)	1.37	1.86	(5.72)	2.16	0.03	(2.87)	(2.78)	(0.49)

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

### Disclaimer

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