



Stellus Capital Management (SCM)

Updated March 18th, 2026, by Josh Arnold

Key Metrics

Current Price:	\$9.14	5 Year CAGR Estimate:	11.0%	Market Cap:	\$252 M
Fair Value Price:	\$9.27	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	03/31/26
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	04/15/26
Dividend Yield:	14.9%	5 Year Price Target	\$9.74	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Sector:	Financials	Rating:	Sell

Overview & Current Events

Stellus Capital Management is a business development company, or BDC, that bills itself as a flexible source of capital for the middle market. The company provides capital solutions to companies with \$5 million to \$50 million of EBITDA and does so with a variety of instruments, the majority of which are debt. Stellus provides first lien, second lien, mezzanine, convertible debt, and equity investments to a diverse group of customers, generally at high yields, in the US and Canada. The company was formed in 2012, should produce just under \$100 million in revenue for 2026, and has a \$252 million market cap.

Stellus posted fourth quarter and full-year earnings on March 12th, 2026, and results were roughly as expected. The company posted net investment income of 29 cents per share for the quarter, while investment income was \$25.2 million. That was off slightly from \$25.6 million in the year-ago period.

The portfolio ended the quarter at \$1.01 billion across 115 companies, with \$34 million invested in four new portfolio companies, \$18 million in other investments, \$38 million in repayments, a \$7 million gain in equity realizations, and a \$5.5 million realized gain.

At the end of the quarter, 99% of loans were secured and 92% were floating rate. The average loan per company was \$8.8 million, with its largest position at \$19.2 million. Asset quality was okay, with 81% of the portfolio rated 1 or 2, with 5 portfolio companies on nonaccrual. That was 7.5% of total cost and 4.1% of fair value, both of which were slightly worse than the prior quarter.

Stellus cut the dividend to \$1.36 per share annually from \$1.60 prior, as NII was unable to cover the payout for the past year-plus.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
NII	\$1.39	\$1.21	\$1.42	\$1.23	\$1.13	\$1.12	\$1.46	\$1.92	\$1.64	\$1.30	\$1.03	\$1.08
DPS	\$1.36	\$1.36	\$1.36	\$1.36	\$1.09	\$1.08	\$1.36	\$1.60	\$1.60	\$1.60	\$1.36	\$1.00
Shares¹	12.5	14.9	16.0	18.9	19.5	19.5	19.7	24.1	27.5	28.9	30	35

Stellus, like most BDCs, has a difficult time growing NII. The combination of high funding costs (generally with debt and/or preferred stock) as well as varying yields on the company's debt portfolio, make it difficult to offset a rising share count over time. We see 1% earnings change growth forward from 2026's low base.

Stellus has reset much of its investment portfolio with higher rates, leading to a very strong portfolio yield. However, a possible headwind to this is interest rates declining off of currently elevated levels. The company's net assets continue to grow over time, but these gains have been largely offset by a rising share count. We think the share count will continue to be a headwind moving forward, and that Stellus will have a difficult time offsetting this with earnings gains. The company's lending margins have also worsened steadily, and we see this as a continued headwind for the foreseeable future.

¹ Share count 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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Valuation Analysis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Now	2031
Avg. P/NII	7.5	11.3	9.0	11.4	8.4	11.5	9.1	6.7	8.4	9.8	8.9	9.0
Avg. Yld.	13.0%	9.9%	10.6%	9.7%	12.8%	8.4%	10.3%	12.5%	11.6%	12.6%	14.9%	10.2%

Stellus has traded with an average price-to-NII ratio of ~10 in its history as a public company, and we assess fair value at 9 times NII. We note, however, that Stellus' valuation has moved somewhat erratically, trading for 7.5 times NII in 2016 and then 11.3 times the next year, for instance. We see the stock as fairly valued today given it trades for 8.9 times NII, implying little impact from the valuation.

The dividend yield is now 14.9%, which is elevated by any standard. Stellus moved from a monthly dividend to a quarterly one, which accompanied the dividend cut from \$1.36 annually to \$1.00. It has since been reinstated as a monthly payout, and raised to \$1.60 annually, but cut again recently to \$1.36. We believe there's a high likelihood Stellus will need to cut its dividend again, but it's continuing for now. If anything close to our earnings forecast comes to pass, the dividend will need another meaningful cut.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	98%	112%	96%	111%	96%	96%	93%	83%	98%	123%	132%	92%

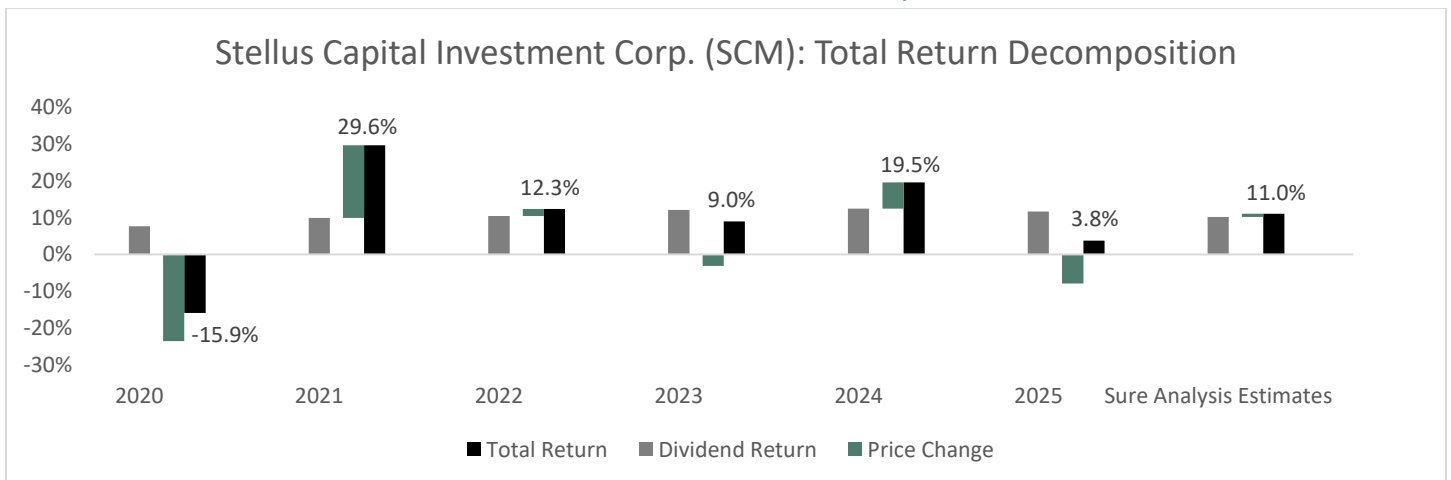
Stellus, like other BDCs, has no competitive advantages. It offers the same products as any other BDC to the same set of customers, so advantages are virtually impossible to achieve. In addition, BDCs suffer mightily during recessions because borrowers have a more difficult time meeting repayment timelines. Stellus wasn't around during the last recession, but we see it as having significant issues with NII generation during future recessions.

Stellus is required to pay all its NII and then some in distributions as a BDC, so the payout ratio will always be high. While the current payout should be safe for the time being, we note that the risk of lower rates means the payout is constantly at risk as well. Stellus has not cut its dividend yet, but we believe it is just a matter of time.

Final Thoughts & Recommendation

Total return potential comes in at 11% annually. Given the lack of dividend safety, we're reiterating the stock at a sell rating. The yield is very high at 14.9%, but we note the risks of owning a small BDC are high as well, so only investors with high-risk tolerances should consider Stellus. The valuation is fair and growth is set to be only fractionally higher for the foreseeable future.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	26	27	31	32	26	43	21	21	51	104
Gross Profit	---	---	---	---	---	---	---	---	---	79
Gross Margin	---	---	---	---	---	---	---	---	---	76.1%
SG&A Exp.	4	5	4	4	5	5	5	6	6	---
Operating Profit	---	---	---	---	---	---	---	---	---	64
Operating Margin	---	---	---	---	---	---	---	---	---	61.6%
Net Profit	23	23	26	26	20	34	14	18	46	27
Net Margin	87.7%	83.0%	84.3%	83.4%	78.0%	78.7%	66.7%	85.7%	89.5%	26.1%
Free Cash Flow	9	19	(102)	(93)	(3)	(76)	(56)	(17)	(29)	30
Income Tax	(0)	(0)	1	1	1	4	1	(2)	2	2

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets	380	400	526	649	675	821	898	908	981	1,041
Cash & Equivalents	9	25	17	16	18	44	48	26	20	209
Accounts Receivable	---	---	---	---	---	---	---	---	---	1,041
Total Liabilities	209	180	301	378	402	536	622	588	611	670
Accounts Payable	3	3	4	4	2	5	5	5	9	---
Long-Term Debt	203	174	292	366	393	518	604	576	593	652
Shareholder's Equity	171	220	225	271	273	285	276	320	370	371
LTD/E Ratio	1.19	0.79	1.30	1.35	1.44	1.82	2.19	1.80	1.60	1.76

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return on Assets	6.2%	5.8%	5.7%	4.5%	3.1%	4.5%	1.7%	1.9%	4.9%	2.7%
Return on Equity	13.8%	11.6%	11.8%	10.7%	7.4%	12.0%	5.2%	5.9%	13.3%	7.3%
ROIC	6.3%	5.9%	5.7%	4.6%	3.1%	4.6%	1.7%	2.0%	4.9%	2.7%
Shares Out.	12.5	14.9	16.0	18.9	19.5	19.5	19.6	22.0	25.6	28.4
Revenue/Share	2.12	1.83	1.95	1.73	1.33	2.19	1.07	0.96	2.00	3.65
FCF/Share	0.71	1.27	-6.42	-5.10	-0.18	-3.90	-2.88	-0.78	-1.12	1.06

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

Disclaimer

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