Prospect Capital Corporation (PSEC)

Updated May 30th, 2026, by Josh Arnold

Key Metrics

Current Price:	$2.41	**5 Year CAGR Estimate:**	10.0%	**Market Cap:**	$1.2 B
Fair Value Price:	$2.53	**5 Year Growth Estimate:**	-5.0%	**Ex-Dividend Date:**	06/27/26
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	07/21/26
Dividend Yield:	17.4%	**5 Year Price Target**	$1.96	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Sector:**	Financials	**Rating:**	Sell

Overview & Current Events

Prospect Capital Corporation is a business development company, or BDC. It provides private debt and private equity to middle-market companies in the U.S. The company focuses on direct lending to owner-operated companies, as well as sponsor-backed transactions. Prospect invests primarily in first and second lien senior loans and mezzanine debt, with occasional equity investments. The company went public in 2004 and currently has a market capitalization of $1.2 billion. Prospect produces about $630 million in annual revenue.

We note that Prospect has had to file amended 1099 tax forms at times in the past, causing additional work for those that own shares when filing taxes for dividends received from the company.

Prospect posted third quarter earnings on May 8th, 2026, and results were somewhat worse than expected once again. Net investment income per share was 16 cents, which was better than the 11 cents that was expected, but fell sharply from the year-ago period of 19 cents, and the prior quarter that was also 19 cents.

Total interest income of $140 million was off from $149 million in the prior quarter and from $159 million a year earlier. It also missed estimates by almost $3 million.

Total pay-in-kind income was $17.1 million, off from $19.5 million a year ago. Total investment income was $150 million, missing estimates by a whopping $13 million, and falling from $176 million in the prior quarter and from $171 million in the year-ago period.

Total originations were $115 million, up sharply from $80 million in the prior quarter. Repayments and sales were $222 million, nearly triple the level of Q2. On a net basis, originations were -$107 million versus +$1.2 million in the prior quarter.

Total investments at fair value were $6.3 billion, down from $6.44 billion in the prior quarter. Nonaccrual loans were 0.7% of assets, flat to the prior quarter. NAV ended the quarter at $6.05 per share, down from $6.21 in December.

We note the dividend was cut once again, starting in May 2026, to a new level of 42 cents per share annually.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
NII	$1.04	$0.85	$0.79	$0.79	$0.72	$0.75	$0.75	$0.89	$1.02	$0.77	***$0.46***	***$0.36***
DPS	$1.00	$1.00	$0.77	$0.72	$0.72	$0.72	$0.72	$0.72	$0.72	$0.54	***$0.42***	***$0.36***
Shares[1]	357	360	364	367	374	389	392	402	425	456	***470***	***550***

Growth has been tough to come by for Prospect in the past decade. The company weathered the financial crisis quite well – 2010 results excluded – but since 2012, net investment income has struggled. Part of this is due to Prospect's prodigious share count, which is much higher today than it was a decade ago. While it is typical for a BDC to issue shares to fund acquisitions, Prospect's dilution has been excessive at times. Given this history of dilution and weak net investment income performance, we expect -5% annual growth on a per-share basis.

[1] Share count in millions

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Prospect has had additional trouble growing net investment income because its balance sheet has slowly grown smaller over time. The company's total assets continue to dwindle, at around $6.3 billion today, after having given back prior gains in recent quarters.

The company's dividend has also shrunk over time as this year's payout of $0.42 is well under half the value of the dividend from before the financial crisis. Shrinking net investment income has taken its toll on the company's ability to finance the dividend. We see the dividend potentially declining further as NII doesn't cover the payout today. Prospect has funded deficits in its NII in the past, and we are still cautious on its ability to fund the dividend at current levels given the convergence of NII and the dividend payment, even after the most recent cut. We think the odds of another dividend cut are high, and indeed are looking for exactly that.

Valuation Analysis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Now	2031
Avg. P/NII	9.9	8.7	8.0	8.2	8.2	8.5	9.3	7.0	5.4	4.1	***5.2***	***5.5***
Avg. Yld.	11.8%	11.3%	10.6%	12.1%	12.1%	11.3%	10.3%	11.6%	13.0%	18.3%	***17.4%***	***18.4%***

Prospect's price to net investment income has averaged ~8 in the past decade. We see fair value at 5.5 times earnings given that the company's growth outlook has deteriorated with higher rates. We see a fractional tailwind to total annual returns from the valuation potentially drifting lower.

The company's current dividend yield is 17.4%, which is much higher than its historical average. We forecast the yield rising slightly to 18.4%, which would result from a potentially higher dividend payout over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	96%	118%	97%	85%	100%	96%	90%	81%	71%	70%	***91%***	***101%***

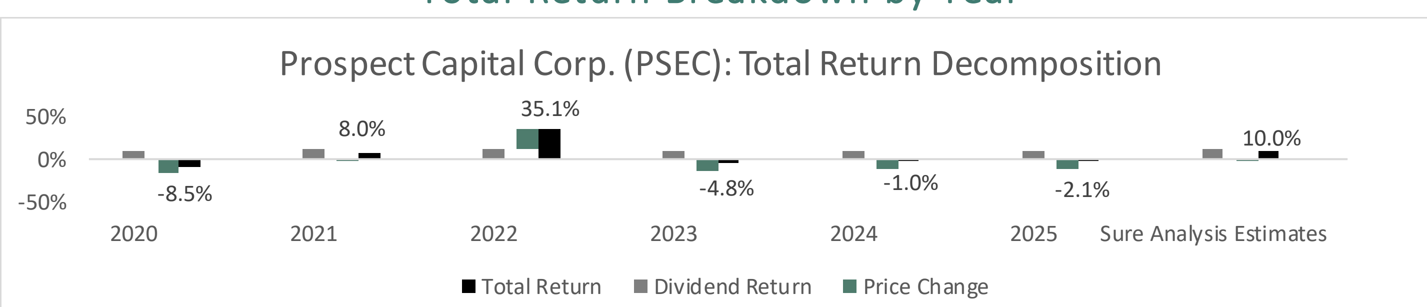
One of the issues with business development companies is that competitive advantages are very difficult to come by, and Prospect is certainly no exception. Scale is the name of the game for BDCs and with a stagnant balance sheet, Prospect has lost some of its relative scale over time. Prospect's assets are on the decline once more, producing yet another headwind for earnings and the dividend.

The company's payout ratio was over 100% for several years in the past decade but isn't any longer for 2026 following the cut. We believe there is some risk for additional cuts in the coming years.

Final Thoughts & Recommendation

Prospect Capital offers investors a huge yield, but it is not without its risks. The valuation is okay but reflects a poor outlook, including shrinking NAV and NII. The yield is strong. We are forecasting 10% in total returns in the coming years, consisting of the 17.4% yield, -5% growth, and a fractional tailwind from the valuation. We are reiterating the stock at a sell rating given significant weakness in its earnings, and the dividend cut.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	137	284	326	199	37	1,008	635	(50)	321	201
SG&A Exp.	32	32	26	34	33	30	30	41	44	---
Net Profit	103	253	300	144	-16	964	583	(102)	263	(470)
Net Margin	75.3%	89.2%	92.0%	81.1%	-43.7%	95.7%	91.8%	-167%	81.9%	-234%
Free Cash Flow	862	376	369	224	429	31	(795)	(221)	280	179

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets	6,236	6,173	5,839	5,800	5,300	6,303	7,663	7,862	7,857	6,805
Cash & Equivalents	318	318	84	107	45	64	35	91	82	1,449
Total Liabilities	2,800	2,818	2,432	2,494	2,244	2,358	3,544	4,129	4,145	2,186
Accounts Payable	71	69	56	56	51	51	50	54	47	---
Long-Term Debt	2,667	2,642	2,312	2,383	2,138	2,233	2,737	2,585	2,434	2,088
Shareholder's Equity	3,436	3,355	3,407	3,306	3,056	3,808	4,119	3,733	3,712	2,989
LTD/E Ratio	0.78	0.79	0.68	0.72	0.70	0.57	0.66	0.69	0.66	0.45

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return on Assets	1.6%	4.1%	5.0%	2.5%	-0.3%	16.6%	8.3%	-1.3%	3.3%	-6.4%
Return on Equity	2.9%	7.4%	8.9%	4.3%	-0.5%	28.1%	14.7%	-2.6%	7.1%	-9.5%
ROIC	1.6%	4.2%	5.1%	2.5%	-0.3%	17.0%	8.9%	-1.5%	4.2%	-6.5%
Shares Out.	357	360	364	367	374	389	434	399	625	440
Revenue/Share	0.39	0.79	0.90	0.54	0.10	2.61	1.46	(0.13)	0.51	0.46
FCF/Share	2.42	1.05	1.02	0.61	1.17	0.08	(1.83)	(0.55)	0.45	0.41

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

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