



Stellus Capital Management (SCM)

Updated June 9th, 2026, by Josh Arnold

Key Metrics

Current Price:	\$8.76	5 Year CAGR Estimate:	9.0%	Market Cap:	\$254 M
Fair Value Price:	\$8.24	5 Year Growth Estimate:	-1.0%	Ex-Dividend Date:	06/30/26
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date:	07/15/26
Dividend Yield:	15.5%	5 Year Price Target	\$7.84	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 \$254 million market cap.

Stellus posted first-quarter earnings on May 12th, 2026, and results were weak once again, as has been customary for some time. Core net investment income per-share was 27 cents, while total investment income was \$23.3 million, off from \$25 million a year ago.

The company realized gains of \$750k in one equity position, and invested \$18 million in three new portfolio companies. In addition, Stellus received three full repayments totaling \$35 million, as well as \$6.6 million in other repayments.

The company noted 99% of its loans were secured and 92% were priced at floating rates, while 81% of the portfolio was rated 1 or 2, with the balance at 3 or worse.

NAV pressure was due to eight cents per-share in distributions paid, as well as 20 cents of net realized and unrealized losses related to debt investments. Fair value of the portfolio was \$990 million across 116 portfolio companies. Six loans on nonaccrual comprised 9.2% of the portfolio and 5.2% of fair value, which management acknowledged was higher than they'd hoped.

We see \$1.03 per share in adjusted earnings with downside in the years to come based upon current fundamentals.

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	\$0.98
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 going 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.



Stellus Capital Management (SCM)

Updated June 9th, 2026, by Josh Arnold

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	8.5	8.0
Avg. Yld.	13.0%	9.9%	10.6%	9.7%	12.8%	8.4%	10.3%	12.5%	11.6%	12.6%	15.5%	12.7%

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 8 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 slightly overvalued today given it trades for 8.5 times NII, implying little impact from the valuation.

The dividend yield is now 15.5%, 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%	102%

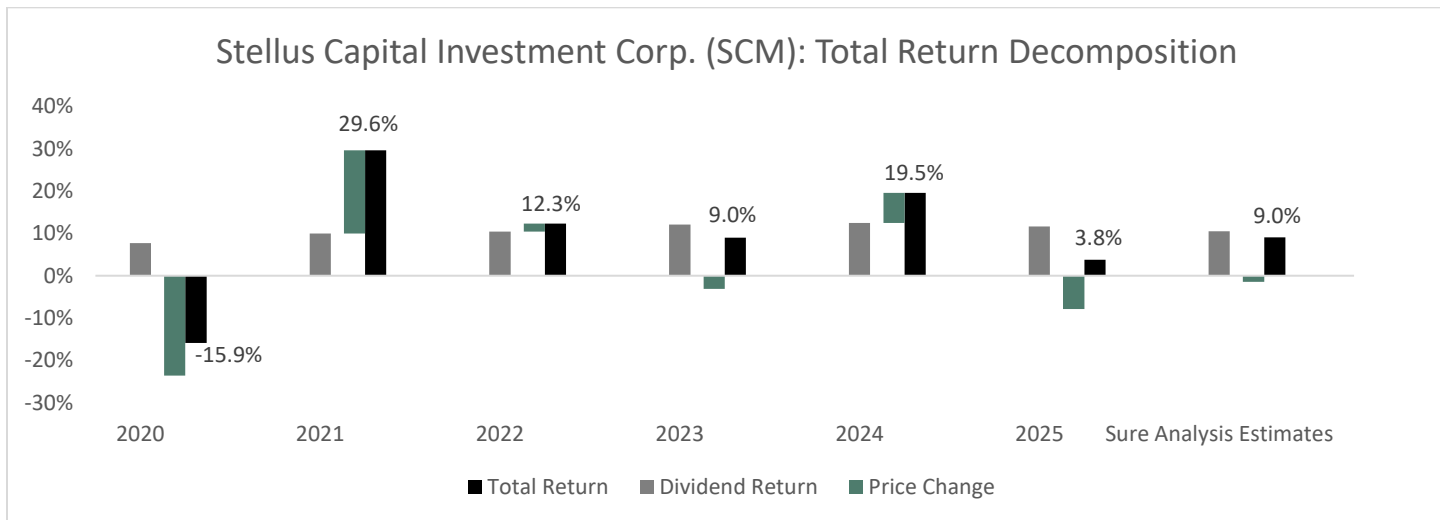
Stellus, like other BDCs, has no competitive advantages. It offers the same products as any other BDC to the same set of customers, so advantages are virtually impossible to achieve. In addition, BDCs suffer mightily during recessions because borrowers have a more difficult time meeting repayment timelines. 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 9% annually. Given the lack of dividend safety, we're reiterating the stock at a sell rating. The yield is very high at 15.5%, 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 stock is quite unattractive and full of risk.

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.



Stellus Capital Management (SCM)

Updated June 9th, 2026, by Josh Arnold

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

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.