



Blue Owl Capital Corporation (OBDC)

Updated May 11th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$16.55	5 Year CAGR Estimate:	8.6%	Market Cap:	\$6.45 B
Fair Value Price:	\$17.10	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	06/28/2024
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	07/15/2024
Dividend Yield:	8.9%	5 Year Price Target	\$17.10	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating	Hold

Overview & Current Events

Blue Owl Capital Corporation is a business development company (“BDC”) formed in October 2015. The company closed its IPO in July 2019. Blue Owl claims to invest and lend funds to U.S. middle-market companies that generate annual EBITDA between \$10 million and \$250 million and/or annual revenues of \$50 million to \$2.5 billion at the time of investment. The company generates around \$1.2 billion in gross investment income annually and is based in New York, New York. With a market cap of \$6.45 billion, it is currently the third-largest publicly traded BDC.

On July 6th, 2023, the company’s name was changed from Owl Rock Capital Corporation to Blue Owl Capital Corporation, and its ticker from ORCC to OBDC.

On May 8th, 2024, Blue Owl Capital declared a base dividend of \$0.37. It had also previously declared a supplemental dividend of \$0.08 that was paid in March. We are using the annualized rate of Blue Owl’s base dividend, but total dividends/share for the year should be at least \$1.56 (4 X \$0.37 base dividends + 1 X \$0.08 in supplemental dividend).

On the same day, Blue Owl Capital reported its Q1 results for the period ending March 31st, 2024. For the quarter, the company achieved a gross investment income of \$399.2 million, 5.8% higher compared to last year. The increase was due to growth in interest income earned from prepayment fees and accelerated amortization of upfront fees from unscheduled pay downs, partially offset by a decrease in our debt investments portfolio at par.

Net investment income (NII) was \$182.8 million, 2.8% higher than last year. NII/share also grew by two cents year-over-year, coming in at \$0.47.

The company committed \$1.2 billion in new investments across 18 new and 13 existing portfolio companies during the quarter. At the end of Q1, the company’s portfolio had a size of \$12.7 billion, comprising investments in 193 companies across 29 different industries. Internet software, Insurance, and Food/Beverage account for 11.9%, 9.5%, and 7.1% of its industry mix, respectively. Borrower diversification is at solid levels, with its top ten holdings making less than 24% of the portfolio at their fair value. For fiscal 2024, we expect NII/share to come in close to \$1.90.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
NII/shr¹	---	---	\$0.42	\$1.40	\$1.68	\$1.54	\$1.33	\$1.25	\$1.41	\$1.93	\$1.90	\$1.90
DPS	---	---	\$0.06	\$1.35	\$1.42	\$1.45	\$1.56	\$1.24	\$1.29	\$1.59	\$1.48	\$1.63
Shares²	---	---	45.8	97.9	216.2	392.1	389.9	393.7	392.5	389.7	389.7	500.0

The company’s NII/share is heavily reliant on the investment yield spreads it can achieve between its own cost of funds and the yield its investments produce. At the end of last quarter, the weighted average total yield of its debt and income-producing securities stood at 12.4%, up 10 bps sequentially due to rising rates. Still, the three-month SOFR was elevated during the quarter. Hence, the weighted average spread over SOFR did remain stable at 6.7%. Rising rates should benefit the company, but only if it can control its own cost of funding. We don’t expect further NII/share growth

¹ Due to ORCC’s legal structure as a business development company (“BDC”), Net Investment Income is a more meaningful metric

² Share count is 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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from our already high FY2024 base, as dynamics could change in the coming years. In terms of its distributions, Blue Owl currently pays a quarterly base rate of \$0.37, though special dividends have been frequent in the past amid excess gains. However, the company usually posts additional gains/losses amid realized/unrealized capital gains/losses. We expect the base dividend to grow at a slow pace of 2% in the medium-term, which we believe that the company can afford.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	---	---	11.4	9.0	11.6	9.0	6.2	8.7	9.0
Avg. Yld.	---	---	---	---	---	8.9%	12.5%	8.5%	10.0%	13.3%	8.9%	9.6%

Blue Owl Capital's valuation has hovered in the high-single to low-double digits, in-line with its industry peers. We have set the stock's fair multiple at 9.0 times the company's net investment income, which implies the stock is more or less fairly valued. From a NAV/share point of view, the stock appears to be slightly mispriced at its current price. The stock's Net Asset Value (NAV) rose from \$15.45 in Q4 2023 to \$15.47 in Q1 2024. However, the BDC's NAV can easily fluctuate based on the underlying movements in rates. The discount should gradually be corrected. The 8.9% dividend yield is substantial, even without any supplemental dividends.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	14%	96%	85%	94%	117%	99%	91%	82%	78%	86%

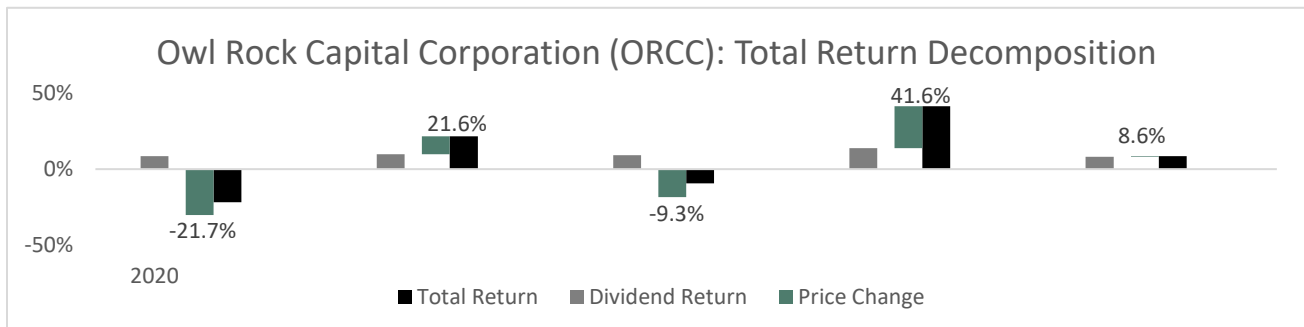
Considering that the company has historically paid multiple special distributions, we believe that its current base distribution rate of \$0.37 should remain covered at the present yield margins. Being a BDC, the company does not display any groundbreaking competitive advantages, though we can name a few.

Firstly, its industry-leading market capitalization speaks for its reputation and could help retain high lending rates. Further, the stock is rated by all the major credit agencies, which is rare in the industry and should help secure a low cost of capital going forward. Finally, Blue Owl Capital utilizes CLOs (Collateralized Loan Obligations). These are different from MBS (Mortgage-Backed Securities), which brings to mind the Great Financial Crisis, and have ultra-low default rates that usually hover below 0.1%. Hence, Owl Rock is likely to generate more resilient results than your average BDC.

Final Thoughts & Recommendation

Blue Owl Capital is one of the largest BDCs, offering exposure to a diversified portfolio both in terms of the weight of its individual holdings and the industries in which its investments operate. While the company's publicly traded history is fairly short, Owl Rock certainly displays some solid qualities. We forecast annualized returns of 8.6% in the medium-term, mainly powered by the company's dividend. We rate the stock a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	--	--	25	117	222	458	303	689	536	864
SG&A Exp.	--	--	6	10	13	19	23	26	25	28
Net Profit	--	--	17	104	202	498	388	625	466	793
Net Margin	--	--	66.9%	88.8%	91.1%	108.8%	127.9%	90.7%	86.9%	91.8%
Free Cash Flow	--	--	(945)	(1,335)	(3,172)	(2,527)	(1,560)	(1,227)	217	1,136
Income Tax	--	--	0	0	1	2	6	12.6	9.8	17

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	--	--	1,181	2,444	5,951	9,204	11,304	13,300	13,580	13,510
Cash & Equivalents	--	--	209	17	122	310	349	426	349	573
Total Liabilities	--	--	500	971	2,686	3,226	5,558	7,360	7,702	7,490
Accounts Payable	--	--	-	34	82	137	152	122	130	136
Long-Term Debt	--	--	492	919	2,568	3,038	5,293	7,079	7,282	7,077
Shareholder's Equity	--	--	681	1,473	3,265	5,977	5,746	5,938	5,882	6,021
LTD/E Ratio	--	--	0.72	0.62	0.79	0.51	0.92	1.19	1.24	1.18

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	--	--	--	5.7%	4.8%	6.6%	3.8%	5.1%	3.5%	5.9%
Return on Equity	--	--	--	9.6%	8.5%	10.8%	6.6%	10.7%	7.9%	13.3%
ROIC	--	--	--	5.8%	4.9%	6.7%	3.9%	5.2%	3.6%	6.0%
Shares Out.	--	--	45.8	97.9	216.2	392.1	389.9	392	394	390
Revenue/Share	--	--	0.06	1.72	1.64	1.41	0.78	1.76	1.36	2.22
FCF/Share	--	--	(2.46)	(19.7)	(23.4)	(7.78)	(4.01)	(3.13)	0.55	2.91

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

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