



Blue Owl Capital Corporation (OBDC)

Updated November 27th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$15.13	5 Year CAGR Estimate:	8.8%	Market Cap:	\$5.90 B
Fair Value Price:	\$15.20	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	12/31/2024
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	01/15/2025
Dividend Yield:	9.8%	5 Year Price Target	\$15.20	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”) that 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 \$5.90 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 November 6th, 2024, Blue Owl Capital declared a base dividend of \$0.37. It had also declared a supplemental dividend of \$0.05 that was paid in June. It also declared a supplemental dividend of \$0.06 that will be paid in September. We are using the annualized rate of Blue Owl’s base dividend, but total dividends/share for the year should be at least \$1.72 (4 X \$0.37 base dividends + 1 X \$0.08, 2 X \$0.05, 1 X \$0.06 in supplemental dividends).

On the same day, Blue Owl Capital reported its Q3 results for the period ending September 30th, 2024. For the quarter, the company achieved a gross investment income of \$406.0 million, just 1.8% higher compared to last year. The increase was due to higher dividend income and was partially offset by a decrease in the yield of the debt investment portfolio. Net investment income (NII) was \$184.9 million, down 2.7% compared to last year. NII/share fell two cents to \$0.47.

The company committed \$1.2 billion in new investments across 23 new and 14 existing portfolio companies during the quarter. At the end of Q3, the company’s portfolio had a size of \$13.4 billion, comprising investments in 219 companies across 30 different industries. Internet software, Insurance, and Food/Beverage account for 11.2%, 8.3%, and 7.3% of its industry mix, respectively. Borrower diversification is at solid levels, with its top ten holdings making less than 25% 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	390.2	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 11.5%, down 40 bps sequentially. Still, the three-month SOFR softened during the quarter. Hence, the weighted average spread over SOFR fell from 6.3% to 6.2%. That said, due to the decline in the former metric, the weighted average spread of the company rose 20 bps to 5.8%.

High interest rates should benefit the company, but only if it can control its own cost of funding. We don’t expect further

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.

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NII/share growth 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	8.0	8.0
Avg. Yld.	---	---	---	---	---	8.9%	12.5%	8.5%	10.0%	13.3%	9.8%	10.8%

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 8.0 times the company's net investment income, which suggests shares are fairly valued at their current levels. From a NAV/share point of view, the stock also appears to be fairly priced at its current price. The stock's Net Asset Value (NAV) fell from \$15.36 in Q2 2024 to \$15.28 in Q3 2024. However, the BDC's NAV can easily fluctuate based on the underlying movements in rates. The 9.8% dividend yield is substantial, even when excluding 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%

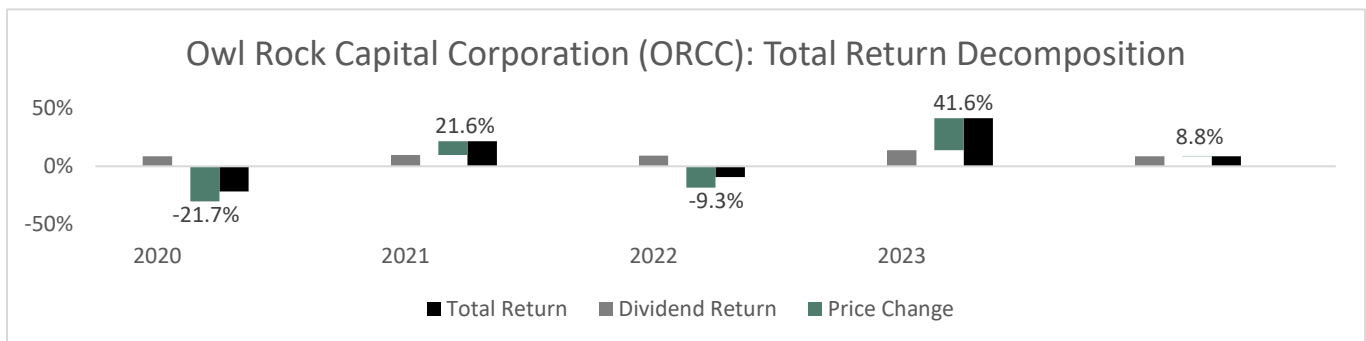
Considering that the company has historically paid multiple special distributions, we believe that its current base distribution rate of \$0.37 should remain covered at the present yield margins. Being a BDC, the company does not display any groundbreaking competitive advantages, though we can name a 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 8.8% 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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