PennantPark Floating Rate (PFLT)

Updated December 3rd, 2024 by Samuel Smith

Key Metrics

Current Price:	$11.0	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$929 M
Fair Value Price:	$10.7	**5 Year Growth Estimate:**	-0.6%	**Ex-Dividend Date:**	12/14/24[1]
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Dividend Payment Date:**	1/03/25[2]
Dividend Yield:	11.1%	**5 Year Price Target:**	$10	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

PennantPark Floating Rate Capital Ltd. is a business development company that seeks to make secondary direct, debt, equity, and loan investments. The fund also aims to invest through floating rate loans in private or thinly traded or small market-cap, public middle market companies, equity securities, preferred stock, common stock, warrants or options received in connection with debt investments or through direct investments. It generally invests in the United States and to a limited extent non-U.S. companies. It aims to invest in companies not rated by national rating agencies. The firm has a market capitalization of approximately $929 million. PennantPark Floating Rate Capital Ltd. is managed by PennantPark Investment Advisers, LLC.

On November 26, 2024, PennantPark Floating Rate Capital (PFLT) reported strong results for the fourth fiscal quarter of 2024, with core net investment income of $0.32 per share. The portfolio grew 20% quarter-over-quarter, reaching $2 billion as the firm deployed $446 million across 10 new and 50 existing companies. Investments carried an average yield of 11%, reflecting the continued strength of the middle market lending environment. After the quarter, PFLT remained active, investing an additional $330 million at a yield of 10.2%. The company emphasized the advantages of its core middle market strategy, which features lower leverage, tighter covenants, and higher recovery rates compared to the upper middle market. With a debt-to-equity ratio of 1.35x and a target of 1.5x, PFLT remains positioned for additional growth. Credit quality remains strong, with non-accruals representing just 0.4% of the portfolio at cost.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$0.77	$1.25	$1.20	$0.87	$0.29	$0.47	$1.02	$1.18	$1.33	$1.18	***$1.26***	***$1.23***
BVPS	$13.70	$14.10	$13.90	$13.70	$13.00	$12.31	$12.62	$11.77	$11.13	$11.31	***$11.31***	***$11.00***
DPS	$1.12	$1.14	$1.14	$1.14	$1.14	$1.14	$1.14	$1.14	$1.19	$1.23	***$1.23***	***$1.23***
Shares[3]	14.9	26.7	26.7	38.5	38.8	38.8	38.8	45.3	58.7	83.2	***83.2***	***50.0***

As a BDC, PennantPark Floating Rate pays out virtually all of its profits out via dividends. As a result, whenever the business suffers an impairment from meaningful loan losses, its book value will decline with little means of regaining that value. As a result, we expect book value per share to remain relatively stagnant over time and with it, earnings per share. The only thing that would meaningfully boost earnings per share is a large increase in interest rates. Given that the company invests primarily in floating interest rates, rising interest rates would potentially help PennantPark Floating Rate. However, we do not foresee interest rates rising meaningfully more than they have already over the next few years. Therefore, we expect book value per share and the dividend per share to be fairly stagnant over the next half decade.

[1] Estimated
[2] Estimated
[3] 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.

PennantPark Floating Rate (PFLT)

Updated December 3rd, 2024 by Samuel Smith

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/B	1.00	0.99	0.85	0.94	0.86	1.00	0.96	0.96	1.03	1.00	***0.98***	***0.95***
Avg. Yld.	8.1%	8.3%	9.8%	9.3%	10.8%	8.8%	10.1%	11.1%	10.7%	11.1%	***11.1%***	***11.8%***

For BDCs, we prefer to use Price-to-Book-Value for our primary valuation metric instead of Price-to-Earnings. We believe that a slight discount to book value is warranted given the high leverage applied and general riskiness of the business model. Given that the dividend has grown over time and book value has not dropped too much, we believe that 0.95 is a fair Price-to-Book-Value multiple, making shares appear slightly overvalued at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

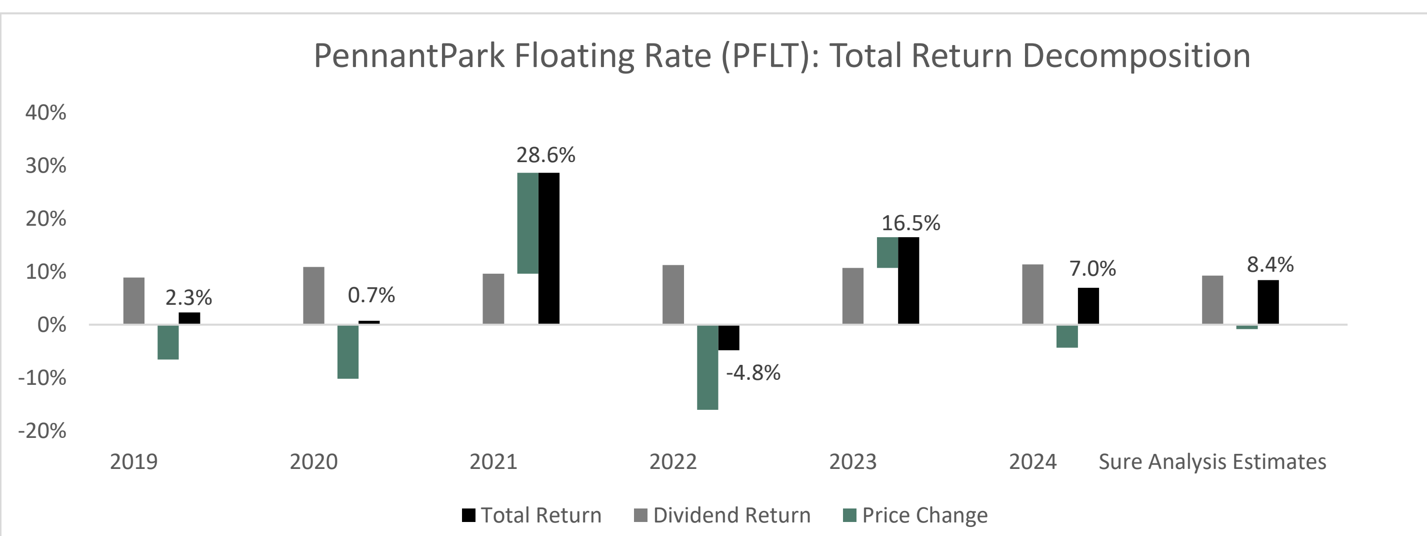
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	145%	91%	95%	131%	393%	243%	112%	97%	89%	104%	***98%***	***100%***

PennantPark Floating Rate does not have any meaningful competitive advantage and was not active during the Great Recession. However, given that the majority of its loans are in the BB – CCC range, we can infer that many of them would struggle to perform under distressed conditions. PennantPark Floating Rate also has a highly leveraged balance sheet and a payout ratio that often nears or exceeds 100% of earnings. While the company can probably sustain this model while the economy is running smoothly – as the growing and stable dividend over the past decade has shown – it may collapse if the economy experiences a significant and prolonged downturn that would cause its loans to underperform. Management seems to have steered the company through the COVID-19 crisis well, thanks in part to the stimulus and bailout packages that were provided to small businesses. However, given the low quality of the balance sheets undergirding the portfolio and their high leverage, in a real sustained downturn we expect things to get much worse. Given the high payout ratio, we would also expect a dividend cut to follow.

Final Thoughts & Recommendation

PennantPark Floating Rate has a strong track record of paying a stable dividend and offers investors decent 8.4% annualized total return potential and an attractive 11.1% dividend yield. It trades roughly in line with its book value at the moment. For investors looking to hedge their portfolio against rising interest rates, its exposure to floating interest rates is a plus. That said, the high leverage and lower quality loans underpinning the portfolio mean it is not a low-risk investment opportunity. Shares earn a Hold rating.

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.

PennantPark Floating Rate (PFLT)

Updated December 3rd, 2024 by Samuel Smith

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	24	17	38	41	50	20	23	62	12	42
SG&A Exp.	2	2	3	4	4	4	4	2	3	4
Net Profit	21	13	33	36	33	11	18	57	3	39
Net Margin	86.9%	72.4%	88.8%	88.8%	67.5%	57.2%	81.2%	91.3%	29.7%	93.1%
Free Cash Flow	(22)	(2)	(165)	(77)	(208)	(121)	(5)	50	(50)	

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	373	416	631	747	1,076	1,152	1,148	1,171	1,224	1,179
Cash & Equivalents	13	21	29	19	72	63	58	50	48	100
Total Liabilities	158	43	256	289	541	649	671	680	697	525
Accounts Payable	5	12	18	26	66	19	11	23	12	20
Long-Term Debt	147	30	232	257	468	624	653	653	673	495
Shareholder's Equity	215	373	376	458	536	503	477	491	527	654
LTD/E Ratio	0.69	0.08	0.62	0.56	0.87	1.24	1.37	1.33	1.28	0.76

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.8%	3.2%	6.4%	5.3%	3.7%	1.0%	1.6%	4.9%	0.3%	3.3%
Return on Equity	9.7%	4.3%	8.9%	8.7%	6.7%	2.2%	3.8%	11.7%	0.7%	6.7%
ROIC	6.1%	3.3%	6.6%	5.5%	3.9%	1.1%	1.6%	5.0%	0.3%	3.3%
Shares Out.	14.9	14.9	26.7	26.7	38.5	38.8	38.8	38.8	45.3	58.7
Revenue/Share	1.58	1.06	1.41	1.35	1.30	0.51	0.58	1.60	0.28	0.83
FCF/Share	(1.49)	(0.14)	(6.19)	(2.53)	(5.44)	(3.13)	(0.13)	1.28	(1.22)	

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.