



Prospect Capital: A Class Above Its Peers.

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Prospect Capital Corporation (NASDAQ:PSEC), a leading New York based provider of flexible private debt and equity capital to both sponsor- owned and non-sponsor owned middle market companies in United States and Canada.

PSEC is a publicly traded closed end investment company,

which completed its Initial Public Offering (IPO) in 2004. Prospect Capital through its predecessors and affiliates has a 25 year history of investing in companies and managing high yielding debt and equity investments through the use of both private partnership and publicly-traded close- end structures.

Prospect increased its portfolio's annualized yield to 13 percent as of September 30, 2015, well above the industry average, while the percentage of total investment income from interest income was 96 percent, providing considerable

earnings visibility .

Prospect Capital has also brought down its debt to equity ratio from 77.6 percent in June 2015 to 76 percent in the September 2015 quarter. This shows that Prospect Capital is reducing its risk profile and becoming more financially stable. Prospect Capital expects to continue increasing this stability through growing its net investment income per share through centering its activities on match booked funding to capitalize on investments with attractive risk adjusted returns across the company's multi-lines

of businesses (Prospect closed investments worth of \$2.0 billion in the 2015 fiscal year). Prospect Capital will also pursue initiatives such as harvesting controlled investments at a gain, lowering its cost of debt capital, and repurchasing shares at a discount to net asset value, while rotating the portfolio out of lower yielding assets into higher yielding assets.

In order to better understand how well Prospect Capital has performed in 2015 financial year as against 2014, it will be compared to its peers in the market for the same time period.

The table below will compare Prospect Capital to its peers based on Return on Average Assets (ROAA), Return on Average Equity (ROAE), Net interest Margin, Net income Growth, Total Equity/Total Assets, Investments/Assets and Dividend Yield.

Prospect Capital Corporation's peer group consists of the following: American Capital, Ltd. (ACAS), Apollo Investment Corporation (AINV), Ares Capital Corporation (ARCC), BDCA Venture, Inc. (BDCV), BlackRock Capital Investment Corporation (BKCC), Capital Southwest Corporation (CSWC), Fidus Investment Corporation (FDUS), Fifth Street Finance Corp. (FSC), Firsthand Technology Value Fund, Inc. (SVVC),



Full Circle Capital Corporation (FULL), Gladstone Capital Corporation (GLAD), Gladstone Investment Corporation (GAIN), Golub Capital BDC, Inc. (GBDC), GSV Capital Corp. (GSVC), Harris & Harris Group, Inc. (TINY), Hercules Technology Growth Capital, Inc. (HTGC), Horizon Technology Finance Corporation (HRZN), KCAP Financial, Inc. (KCAP), Main Street Capital Corporation (MAIN), MCG Capital Corporation (MCGC), Medallion Financial Corp. (TAXI), Medley Capital Corporation (MCC), MVC Capital, Inc. (MVC), New Mountain Finance Corporation

(NMFC), OHA Investment Corporation (OHAI), PennantPark Floating Rate Capital Ltd. (PFLT), PennantPark Investment Corporation (PNNT), Saratoga Investment Corp. (SAR), Solar Capital Ltd. (SLRC), Solar Senior Capital Ltd. (SUNS), THL Credit, Inc. (TCRD), TICC Capital Corp. (TICC), Triangle Capital Corporation (TCAP)

Prospect Capital Corporation's financial data is as of 9/30/2015.

Peer financial data is as of 9/30/2015 except for these companies:

- BDCA Venture, Inc.'s financial data is as of 6/30/2015.
- Capital Southwest Corporation's financial data is as of 6/30/2015.
- Fifth Street Finance Corp.'s financial data is as of 6/30/2015.
- Firsthand Technology Value Fund, Inc.'s financial data is as of 6/30/2015.
- Full Circle Capital Corporation's financial data is as of 6/30/2015.
- Gladstone Capital Corporation's financial data is as of 6/30/2015.
- Golub Capital BDC, Inc.'s financial data is as of 6/30/2015.
- Harris & Harris Group, Inc.'s financial data is as of 6/30/2015.

| Performance Ratios (%) | PSEC | Peer Median | Peer Average |
|---------------------------|---------|-------------|--------------|
| ROAA | 4.30 | 3.69 | 2.32 |
| ROAE | 7.87 | 5.45 | 4.22 |
| Net interest margin | 9.02 | 7.31 | 6.38 |
| Net Income Growth | (10.27) | (14.24) | (10.91) |
| Balance sheet ratios (%) | | | |
| Total Equity/Total Assets | 55 | 55.79 | 61.59 |
| Investments/Assets | 97.88 | 94.03 | 88.39 |
| Market Ratios (%) | | | |
| Dividend Yield | 13.83 | 10.07 | 10.29 |

Table 1

- MCG Capital Corporation's financial data is as of 6/30/2015.
- Medallion Financial Corp's financial data is as of 6/30/2015.
- Medley Capital Corporation's financial data is as of 6/30/2015.
- MVC Capital, Inc.'s financial data is as of 10/31/2014.
- OHA Investment Corporation's financial data is as of 6/30/2015.
- PennantPark Floating Rate Capital Ltd's financial data is as of 6/30/2015.
- Saratoga Investment Corp's financial data is as of 8/31/2015.

Important Ratio Analysis for Investors

- **Return on Average Assets** is a performance ratio, used to determine the profitability of the assets of a firm. This metric is used to reflect the efficiency of the company in utilizing its assets. It represents the number of cents earned on each dollar of assets, hence the higher the value, the more profitable the organisation. PSEC boasts an **ROAA of 4.30**, which is **85 percent higher** than its peer average and **17 percent higher** than its peer median.
- **Return on Average Equity** as a performance ratio, provides a more accurate measure of the profitability of a company; especially in situations where the shareholders' equity has changed significantly over the

financial year. PSEC again rises well above its peer group with an **ROAE of 7.87**, which is **86 percent higher** than its peer group average. This shows from the investor's point of view, that PSEC is excellent at efficiently utilizing equity from investors and this would almost always translate to higher stock value.

- **Net Interest Margin** is a performance metric used to show how correct an organisation's investment decisions are, when compared to its debt situations. The higher the value, the better the organisation's investment decisions. PSEC once again surpasses both the peer average and the peer median, showing strong leadership and excellent judgement by the company.
- **Net Income Growth Rate** refers to the percentage gain or loss in net income over a time period. It is an excellent indicator of the rate at which profits are grown. PSEC grew its profits remarkably well during this financial period especially as its peers were recording losses. PSEC performed at a 5 percent higher than its peer average.
- **Total Equity/Total Assets ratio**, is used to indicate the portion of the companies' assets owned by equity, it is also used to indicate the how much debt has financed the company. PSEC

has a ratio of **55** which is lower than both the peer group median and average of 55.79 and 61.59, which indicates a nice balance between equity and assets when compared to its peers.

- **Dividend Yield** is used to indicate how much a company pays out in dividends each year relative to its share price. It is a way to measure to measure how much "bang for your buck" you get for every dollar invested in as equity. PSEC has a dividend yield of **13.83**, which is **34 percent** higher than its peer group average. So yes! You get more bang for your buck with PSEC.

OUR VERDICT

There is only one way to go for Prospect Capital and that is up! Our analysis has shown PSEC to be a resilient company, with sound leadership from its CEO and Chairman, John Francis Barry III. They are making the right investment choices, performing well above their peers, efficiently utilising their equity. You may be undecided after PSEC's 2014 performance but their dividend yield is 34 percent higher than their peer group average in 2015, also its Net Income Growth rate is higher than its peer group average by 5 percent. This points to dividend stability with significant total return potential for investors.

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