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Global Investor Spotlight



Insider Buying Says It All



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Insiders have been scooping up shares of Prospect Capital, is a big pay day on the way?

Insider Buying At Prospect Capital

Prospect Capital Corporation (PSEC) is the company analysts love to hate. It gets criticism for many reasons; it's a BDC, it pays a high (and supposedly unsustainable) dividend, management looks out for themselves before shareholders and many, many other reasons. I'm not here to sugar coat things, the company may very well deserve some of the criticism it gets but to say that management isn't looking out for shareholders is a misstatement at best.

Sure, management may have made some decisions that, on the surface, appear better suited to inflating their fees but to say these decisions are not in the best interest of share holders ignores the fact that the insiders are shareholders, and they have been purchasing stock like mad over the past 12 to 14 months. In a previous article I hit on the fact that there was more than \$55 million worth of insider buying in 2015. Purchases were made throughout the year with the bulk of them made in December when CEO John Barry and COO Grier Eliasek doubled their personal holdings.

Buying did not stop in 2016. In fact, insiders continued to buy aggressively and now hold nearly 5% of shares outstanding with another 14% held institutionally. Starting with the release of earnings the two top managers purchased more than 19.25 million shares. Grier Eliasek increased his holding by 25% and now owns more than 687,000 shares, John Barry increased his holdings by 50% and now owns nearly 18.75 million shares; together the two own 19.3872 million shares with a market value greater than \$140 million at today's prices. This is more than little skin in the game and plenty of reason to think they would be acting in the best interest of shareholders. 



Date	Name	Shares	Stock	Transaction
02/26/2016	Eliasek M Grier CHIEF OPERATING OFFICER	15000	PSEC	Purchases - *** Undefined Type ***
02/25/2016	Eliasek M Grier Chief Operating Officer	15000	PSEC	Purchases - *** Undefined Type ***
02/24/2016	Eliasek M Grier CHIEF OPERATING OFFICER	15000	PSEC	Purchases - *** Undefined Type ***
02/23/2016	Eliasek M Grier CHIEF OPERATING OFFICER	15000	PSEC	Purchases - *** Undefined Type ***
02/22/2016	Eliasek M Grier CHIEF OPERATING OFFICER	15000	PSEC	Purchases - *** Undefined Type ***
02/22/2016	Barry John F Chief Executive Officer	950000	PSEC	Purchases - *** Undefined Type ***
02/22/2016	Barry John F Chief Executive Officer	150000	PSEC	Purchases - *** Undefined Type ***
02/19/2016	Eliasek M Grier CHIEF OPERATING OFFICER	15000	PSEC	Purchases - *** Undefined Type ***
02/19/2016	Barry John F CHIEF EXECUTIVE OFFICER	1114700	PSEC	Purchases - *** Undefined Type ***
02/19/2016	Barry John F CHIEF EXECUTIVE OFFICER	1114000	PSEC	Purchases - *** Undefined Type ***
02/17/2016	Eliasek M Grier CHIEF OPERATING OFFICER	15000	PSEC	Purchases - *** Undefined Type ***
02/17/2016	Barry John F CHIEF EXECUTIVE OFFICER	299045	PSEC	Purchases - *** Undefined Type ***

What is interesting to note is that there were no purchases made during January or February until after the release of earnings on February 9th. This is most likely due to SEC oversight and the insider trading laws. Eliasek and Barry surely knew at the time performance was improving but to trade on insider information material to the stock price before it is made public is a big no-no.

Why Did Insiders Buy?

Why did they buy and what did they get? The answer for each is the same; A stock valued at a deep discount paying one of the highest, and safest, yields on the market. In early February, just before earnings were released, the company was selling at a discount to NAV never before seen, -44%, and delivering a dividend with yield slightly greater than 20%, two metrics more than attractive for dividend investors.

I know that these numbers can be a red flag for investors, often times this kind of valuation and yield are the result of poor earnings and precede distribution cuts. Some times, and this was one of them, these numbers can come on the back of misplaced negative sentiment and provide substantial returns for savvy investors.

The very day after Prospect Capital Corporation released its earnings, better than expected earnings I might add, shares of the stock jumped +10.5% and have since gained 40% from the low. Obviously, yield has come down and the discount to NAV has shrunk but there is still value to be had. At current prices the discount is still about -30% with a yield of 13.5%, both better than the long running averages. Historically, PSEC tends to trade at a discount of less than -15% with a yield in the range of 10% to 12%.

Earnings, Outlook And Dividend Health

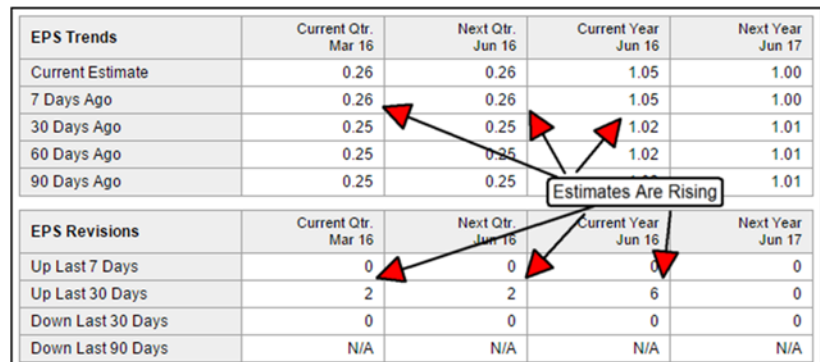
None of this matters if the company isn't performing. At last report earnings were better than expected and more than cover distributions. Net investment income and taxable income was reported at \$0.28 per share, \$0.03 better than expected and more than enough to cover dividend. Dividends are currently set at \$1.00 per share, paid monthly, with coverage in 2015 running at 105%. This is important to take note off for two reasons. First, coverage is there with little expectation for earnings to fall. Second, earnings are already on track to beat this years estimates which serves as insurance against a distribution cut as well as upping the chances there will be a special dividend in the future.

Outlook for the coming year is very good and estimates have been on the rise of late. The average analyst estimate for full year earnings is now \$1.05, up 3 cents from just a month ago. The low estimated is \$1.00, just enough to cover distributions, with a high estimate of \$1.11. Over the past 30 days we've seen a total of 6 upgrades to full year earnings with 2 each for the current and next quarter, fiscal 3rd and 4th quarter 2016. In my estimation full year earnings should be at least \$1.05. Regardless of the estimates, the March, May and April dividends have already been declared, in line with previous.

EPS Trends	Current Qtr Mar 16	Next Qtr Jun 16	Current Year Jun 16	Next Year Jun 17
Current Estimate	0.26	0.26	1.05	1.00
7 Days Ago	0.26	0.26	1.05	1.00
30 Days Ago	0.25	0.25	1.02	1.01
60 Days Ago	0.25	0.25	1.02	1.01
90 Days Ago	0.25	0.25	1.01	1.01

EPS Revisions	Current Qtr Mar 16	Next Qtr Jun 16	Current Year Jun 16	Next Year Jun 17
Up Last 7 Days	0	0	0	0
Up Last 30 Days	2	2	6	0
Down Last 30 Days	0	0	0	0
Down Last 90 Days	N/A	N/A	N/A	N/A

Estimates Are Rising



Negative Sentiment Provides Opportunity

Even with all the good news negative sentiment persists. Over the past month short interest has been on the rise, increasing to 10.8% of float from about 2.5% at the end of January. This sentiment is misplaced in light of performance, expectations and yield and setting the market up for 2 possibilities that are not mutually exclusive. The first is that another opportunity to buy the stock at a deeper discount and yield than offered today may be on the horizon. The second is that short covering rally is likely on the way, either from current levels or once a pull back occurs, in either event (regardless of either event) there is opportunity for investors with Prospect Capital Corporation. The stock is cheap, it is undervalued, it pays a stellar dividend with positive distribution coverage, rising revenue and earnings. If you don't believe me then believe the insiders because they are buying this stock like it's set to skyrocket.