3 Private Equity Stocks to Watch

The private equity industry is well-positioned for substantial growth in the future, largely attributable to a growing High-Net-Worth Individuals (HNWI) base, an uptick in global deals, and the sector's enhanced ability to navigate market turbulence. Given this backdrop, private equity stocks Golub Capital BDC (GBDC), WhiteHorse Finance (WHF), and Goldman Sachs BDC (GSBD) could be watched now. Read on….

As we usher in a new year, the private equity industry scenario might continue to be molded by trends reminiscent of those that characterized 2023 – modest fundraising, rising interest rates, and a complex macroeconomic backdrop tainted by geopolitical turmoil. However, a glimmer of optimism illuminates the industry's horizon, courtesy of an expanding pool of high-net-worth individuals (HNWI), a surge in transactional actions, and escalating fundraising initiatives emanating from secondary funds.

Considering this scenario, it would be astute for investors to watch private equity stocks Golub Capital BDC, Inc. (GBDC), WhiteHorse Finance, Inc. (WHF), and Goldman Sachs BDC, Inc. (GSBD) for better entry opportunities.

In 2023, the private equity (PE) landscape navigated through unique circumstances driven by a spike in interest rates, a banking catastrophe, and widespread geopolitical uncertainty. Not surprisingly, these tumultuous conditions led to a slump in PE activity throughout the year. Concurrently, an abundance of uncertainty, an antagonist to successful dealmaking, pervaded the global markets. However, through astute risk mitigation, managers ensured that PE-backed deals proceeded unhindered.

The U.S. currently spearheads the global PE industry with assets trumping $6 trillion. The consistency of the industry was underlined as PE firms pronounced deals worth $101 billion in the third quarter of 2023. Moreover, the rising number of deals reinforced this stability, where sponsors signed 93 deals of $100 million in the third quarter, marking a 63% surge from the first quarter of 2023.

Due to their record dry powder valued at $2.59 trillion and diversified portfolios incorporating fresh asset classes, PE firms are more than well-equipped to withstand market volatility. This diversification has fortified the resilience and agility of PE firms in managing unfavorable alterations in marketplace dynamics.

Furthermore, 2024 appears poised for a substantial uptick in secondary transactions. Secondaries funds exhibited an accelerated fundraising rhythm last year, with a total of $68.1 billion raised as of September 2023. The level of secondaries dry powder reached $202.7 billion.

In recent times, the strategy of PE firms targeting High Net Worth Individuals (HNWI) to amplify fundraising has garnered considerable attention. It will be compelling to observe if this approach makes significant strides in 2024. Considering traditional exit routes have become impassable, PE firms have found an alternative in net asset value financing to generate capital, thereby enabling distributions to Limited Partners.

Consequently, the global PE market is projected to reach $1.10 trillion by 2032, growing at a CAGR of 9.7%.

With these trends in mind, let’s delve into the fundamentals of the three Private Equity stock picks, beginning with the third choice.

Stock #3: Golub Capital BDC, Inc. (GBDC)

GBDC is a business development company and operates as an

externally managed closed-end non-diversified management investment company. It invests in debt and minority equity investments in middle-market companies that are, in most cases, sponsored by private equity investors.

On December 29, 2023, GBDC paid stockholders a quarterly dividend of $0.37 per share. Its annualized dividend rate of $1.48 per share translates to a dividend yield of 9.68% on the current share price. Its four-year average yield is 9.18%. GBDC’s dividend payments have grown at CAGRs of 5.3% and 1.8% over the past three and five years, respectively.

During the three months ended September 30, 2023, GBDC repurchased approximately $0.10 million, or 5,250 shares, of its common stock pursuant to the company’s previously disclosed share repurchase program.

During the year that ended September 30, 2023, GBDC repurchased approximately $16.90 million, or 1.30 million shares, of its common stock pursuant to the company’s previously disclosed share repurchase program.

On November 30, 2023, GBDC announced that it had priced an underwritten public offering of $450 million in aggregate principal amount of 7.05% notes due 2028. The notes will mature on December 5, 2028, and may be redeemed in whole or in part at the company’s option at any time prior to November 5, 2028, at par plus a “make-whole” premium, and thereafter at par.

GBDC’s trailing-12-month cash from operations of $195.37 million is 39% higher than the industry average of $140.56 million. Its trailing-12-month gross profit and net income margins of 100% and 42.88% are 65.6% and 69.4% higher than the industry averages of 60.37% and 25.31%, respectively.

For the fiscal fourth quarter that ended September 30, 2023, GBDC’s total investment income and net investment income after tax increased 6.3% and 13.1% quarter-over-quarter to $164.54

million and $83.44 million, respectively.

For the same quarter, its net gain on investments came at $18.39 million, compared to a net loss on investments of $873 thousand in the prior quarter. Also, its basic and adjusted earnings per common share stood at $0.60, up 39.5% from the previous quarter.

Street expects GBDC's revenue and EPS in the fiscal second quarter ending March 2024 to increase 10.6% and 11.6% year-over-year to $162.48 million and $0.48, respectively. The company surpassed consensus EPS estimates in each of the trailing four quarters and consensus revenue estimates in three of the trailing four quarters, which is impressive.

The stock has gained 16.8% over the past year to close the last trading session at $15.29. Over the past nine months, it has gained 15.9%.

GBDC's fundamentals are reflected in its POWR Ratings. The stock has an overall C rating, equating to Neutral in our proprietary rating system. The POWR Ratings are calculated by considering 118 distinct factors, with each factor weighted to an optimal degree.

GBDC has a B grade for Momentum. Within the Private Equity industry, it is ranked #3 out of 34 stocks.

Beyond what we've stated above, we have also rated the stock for Growth, Value, Stability, Sentiment, and Quality. Get all ratings of GBDC here.

Stock #2: WhiteHorse Finance, Inc. (WHF)

WHF is a business development company, a non-diversified, closed-end management company specializing in originating senior secured loans, lower middle market, and growth capital industries. It typically invests between $5 million and $25 million in companies having enterprise value of between $50

million and $350 million.

On January 3, WHF distributed $0.39 per share to stockholders with respect to the quarter that ended December 31, 2023. Its annualized dividend rate of $1.54 per share translates to a dividend yield of 12.08% on the current share price. Its four-year average yield is 12.38%. WHF’s dividend payments have grown at a 1.4% CAGR over the past three years.

WHF’s trailing-12-month ROTA of 2.11% is 82.2% higher than the industry average of 1.16%. Its trailing-12-month gross profit and EBIT margins of 100% and 70.77% are 65.6% and 226.8% higher than the industry averages of 60.37% and 21.65%, respectively.

For the fiscal third quarter that ended September 30, 2023, WHF’s total investment income and core net investment income increased 20% and 25.2% year-over-year to $25.87 million and $10.81 million, respectively.

For the same quarter, its core net investment income per share stood at $0.47, up 25% from the year-ago quarter. As of September 30, 2023, WHF’s cash and cash equivalents stood at $10.63 million, compared to $9.51 million as of December 31, 2022.

Street expects WHF’s revenue and EPS for the fiscal year of 2023 (ended December 2023) to increase 17.3% and 15.3% year-over-year to $102.65 million and $1.85, respectively. The company surpassed consensus revenue estimates in each of the trailing four quarters and consensus EPS estimates in three of the trailing four quarters.

The stock has gained 2.8% over the past month to close its last trading session at $12.75. Over the past three months, it has gained 1.8%.

WHF’s solid fundamentals are reflected in its POWR Ratings. The stock has an overall rating of B, translating to Buy in

our proprietary rating system.

WHF has a B grade for Momentum. Within the same industry, it is ranked #2.

Beyond what we've stated above, we have also rated the stock for Growth, Value, Stability, Sentiment, and Quality. Get all ratings of WHF here.

Stock #1: Goldman Sachs BDC, Inc. (GSBD)

GSBD is a business development company specializing in middle market and mezzanine investment in private companies. It seeks to invest between $10 million and $75 million in companies with EBITDA between $5 million and $75 million annually.

GSBD's Board of Directors declared a regular fourth quarter dividend of $0.45 per share payable to the shareholders on January 26, 2024. Its annualized dividend rate of $1.80 per share translates to a dividend yield of 12.15% on the current share price. Its four-year average yield is 11.13%.

GSBD's trailing-12-month cash from operations of $355.05 million is 152.6% higher than the industry average of $140.56 million. Its trailing-12-month EBIT and levered FCF margins of 82.29% and 43.34% are 280% and 150.7% higher than the industry averages of 21.65% and 17.29%, respectively.

For the fiscal third quarter that ended September 30, 2023, GSBD's total investment income and net investment income after taxes increased 26.1% and 19.2% year-over-year to $120.06 million and $72.95 million, respectively.

For the same quarter, its basic and adjusted earnings per share came at $0.47, compared to a basic and adjusted loss per share of $0.07 in the prior-year quarter. As of September 30, 2023, GSBD's cash stood at $76.60 million, compared to $39.60 million as of December 31, 2022.

Street expects GSBD's revenue and EPS in the fiscal first

quarter ending March 2024 to increase 6.7% and 17.2% year-over-year to $114.57 million and $0.54, respectively. The company surpassed consensus revenue estimates in each of the trailing four quarters and consensus EPS estimates in three of the trailing four quarters.

The stock has gained 10% over the past nine months to close its last trading session at $14.81. Over the past six months, it has gained 7.6%.

GSBD's robust prospects are reflected in its POWR Ratings. The stock has an overall B rating, equating to Buy in our proprietary rating system.

GSBD has a B grade for Growth and Momentum. It is ranked first within the same industry.

Click here for the additional POWR Ratings for GSBD (Value, Stability, Sentiment, and Quality).

What To Do Next?

43 year investment veteran, Steve Reitmeister, has just released his 2024 market outlook along with trading plan and top 11 picks for the year ahead.

2024 Stock Market Outlook >

GBDC shares rose $0.06 (+0.39%) in premarket trading Monday. Year-to-date, GBDC has gained 1.26%, versus a -1.55% rise in the benchmark S&P 500 index during the same period.

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The stock market dynamics sparked Sristi’s interest during her school days, which led her to become a financial journalist. Investing in undervalued stocks with solid long-term growth prospects is her preferred strategy. Having earned a master’s degree in Accounting and Finance, Sristi hopes to deepen her investment research experience and better guide investors.

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