

Blackstone Secured Lending Fund

Another strong quarter; momentum heading into 2024

Reiterate Rating: NEUTRAL | PO: 30.00 USD | Price: 29.60 USD

Another strong quarter

Blackstone Secured Lending (BXSL) reported Q4 core EPS of \$0.96, above Consensus expectations of \$0.93. Relative to the BofA forecast of \$0.91, the variance was largely related to stronger than expected recurring interest income. Additionally, there was a \$0.02/share benefit from fee waivers (post-IPO fee waivers ended October 28, 2023). GAAP EPS was \$0.88 due to modest portfolio depreciation. Overall, BXSL reported another strong quarter - credit remains pristine, NAV/share modestly increased, profitability remains solid (13.2% GAAP ROE), and capital deployment was robust. While we believe BXSL is well positioned to gain share and generate solid risk-adjusted returns, we think risk/reward is balanced at current, premium valuation. Reit. Neutral.

1Q24 dividend stable at \$0.77/share

The Q4 dividend was \$0.77/share, unchanged QoQ but up 28% YoY. The 1Q24 dividend will be \$0.77/share. We note that the dividend yield (based on NAV/share) is an attractive 11.6%. While Q4 "normalized" core EPS of \$0.94/share (excludes the \$0.02/share benefit of fee waivers that end Oct 28) could support a modestly higher dividend, we expect core dividend (\$0.77/share) stability prospectively. That said, BXSL, could implement a formula-based supplemental dividend or announce a special dividend to meet any statutory distribution requirements.

Credit outstanding, non-accruals effectively zero

Since inception in 2018, credit has been outstanding. As of Q4, there was only one non-accrual investment which represented less than 0.1% of the portfolio at cost, unchanged QoQ. Importantly, non-accruals are well below the industry average (large BDC average was ~2.6% at Q3, most recent data available). While the portfolio has been defensively constructed (98% lower risk first lien senior secured), BXSL can still generate strong risk-adjusted returns due to its low cost, investor friendly fee structure plus strong credit performance. Importantly, borrower fundamentals remain solid; interest coverage was 1.8x (trailing 12 months) vs. 1.4x for the private market (only 6% of the portfolio was under 1.0x). And average EBITDA was \$192M, up 15% YoY.

We are adjusting our 24/25 estimates to \$3.55/\$3.30 from \$3.47/\$3.25. Introducing our 2026 core EPS estimate of \$3.15. Increasing our PO from \$28.5 to \$30 (~1.1x NAV) given our higher earnings outlook.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.91	3.90	3.55	3.30	3.15
GAAP EPS	2.44	3.65	3.55	3.30	3.15
EPS Change (YoY)	19.8%	34.0%	-9.0%	-7.0%	-4.5%
Consensus EPS (Bloomberg)			3.59	3.34	NA
DPS	2.91	2.94	3.08	3.08	3.08
Valuation (Dec)					
P/E	10.2x	7.6x	8.3x	9.0x	9.4x
GAAP P/E	12.1x	8.1x	8.3x	9.0x	9.4x
Dividend Yield	9.8%	9.9%	10.4%	10.4%	10.4%

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Timestamp: 29 February 2024 11:43PM EST

29 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	28.50	30.00

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Stock Data

Price	29.60 USD
Price Objective	30.00 USD
Date Established	29-Feb-2024
Investment Opinion	A-2-7
52-Week Range	23.61 USD -30.23 USD
Mrkt Val / Shares Out (mn)	5,499 USD / 185.8
Free Float	81.1%
Average Daily Value	27.54 USD
BofA Ticker / Exchange	BXSL / NYS
Bloomberg / Reuters	BXSL US / BXSLN
ROE (2024E)	13.9%
ESGMeter™	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Blackstone Secured Lending Fund

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	647	877	943	877	868
% change	28.3%	35.6%	7.5%	-7.0%	-0.9%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	647	877	943	877	868
Operating Expenses	(163)	(223)	(282)	(263)	(280)
% change	6.8%	37.0%	26.5%	-7.0%	6.6%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	484	654	661	614	589
Operating Net Income to Comm S/Hold.	484	654	661	614	589
GAAP Net Income	405	612	661	614	589

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	9,909	10,135	11,185	11,185	11,185
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Total Customer Deposits	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	4,159	4,952	5,050	5,100	5,123

Key Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	NM	NM	NM	NM	NM
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	4.8%	6.7%	6.4%	6.0%	6.0%
ROE	14.8%	14.8%	13.9%	13.3%	13.2%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	96.5%	83.5%	86.8%	93.5%	97.8%
Efficiency Ratio (Cost / Income Ratio)	25.2%	25.4%	29.9%	29.9%	32.2%

Quality of Earnings (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Non-Interest Inc / Operating Inc	0%	0%	0%	0%	0%
NPLs plus Foreclosed Real Estate / Loans	NA	NA	NA	NA	NA
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	NA	NA	NA	NA	NA

Company Sector

Financial Services-Consumer/Commercial

Company Description

BSXL which commenced investing in 2018, is a specialty finance company, regulated as a BDC under the Investment Company Act of 1940, as amended, that invests in debt and equity of middle market commercial enterprises. BSXL's objective is to generate current income with the potential for capital appreciation for distribution to shareholders as dividends. The company principally underwrites floating-rate credit structures at the upper end of the capital structure.

Investment Rationale

We believe BSXL is well positioned to gain share due to (1) a proprietary origination platform, (2) late-cycle oriented portfolio, (3) favorable fee structure creates greater shareholder alignment. That said, BSXL has a limited operating history and the company has not operated through a full economic cycle. We view valuation as full given NAV is at a premium to the peer average and we see limited catalysts for the shares to re-rate higher.

Stock Data

Average Daily Volume 930,378

Quarterly Earnings Estimates

	2023	2024
Q1	0.93A	0.90E
Q2	1.06A	0.91E
Q3	0.95A	0.89E
Q4	0.96A	0.86E

NAV/share up modestly to \$26.66

NAV/share increased to \$26.66 from \$26.54 the prior quarter. The NAV growth was driven by core earnings above the dividend (+0.19/share), modest portfolio depreciation (-\$0.08/share), and accretion from common stock issuance (+\$0.01/share).

Leverage lower at 1.0x, liquidity solid

Reported leverage declined to 1.00x (1.08x at Q3), which puts BXSL's leverage at the lower end of its stated target range of 1.0x-1.25x and providing them with more flexibility to grow the portfolio over time. We estimate BXSL has the capacity to grow the portfolio ~\$1.3B (~13%) with existing capital.

Available liquidity was \$1.8B, compared to \$1.5B last quarter. Notably, ~56% of BXSL's debt is unsecured, increasing financial flexibility and liquidity, in our view. There are no debt maturities in 2024 or 2025.

Portfolio +4% to \$9.9B

Originations in the quarter were \$1.0B (strongest quarter since 2021) and fundings were \$874M. Repayments/exits were \$526M for net funded activity of \$348M. As a result, the portfolio increased 4% to \$9.9B. The portfolio is 99% floating. The portfolio yield (cost basis) was 11.8%, unchanged QoQ.

Raised ~\$330M through ATM offerings

During Q4, BXSL raised ~\$330M of common capital through its at-the-market (ATM) program. The issuance was \$0.01/share accretive to NAV/share.

Exhibit 1: Raise 24/25 estimates to \$3.55/\$3.30 from \$3.47/\$3.25 & Introducing our 2026 core EPS estimate of \$3.15

BXSL summary income statement

	2021A	2022A	2023A	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Income Statement (thousand)										
Interest From Investments - Interest Income	558,015	841,230	1,117,207	300,678	310,943	314,773	306,403	1,232,797	1,160,821	1,133,825
Prepayment/Accelerated OID	60,900	4,900	19,300	5,000	5,000	5,000	5,000	20,000	20,400	20,800
Fee income	5,785	4,162	7,010	2,000	2,000	2,000	2,000	8,000	8,400	8,800
	-	-	-	-	-	-	-	-	-	-
Total Investment Income	624,700	850,292	1,143,517	307,678	317,943	321,773	313,403	1,260,797	1,189,621	1,163,425
Interest Expense	120,469	203,579	266,420	71,463	78,670	84,089	83,572	317,793	312,827	294,955
Net Interest Income	504,231	646,713	877,097	236,215	239,273	237,685	229,831	943,004	876,794	868,471
Non-Interest Expense	152,555	162,937	223,192	69,690	70,947	71,391	70,377	282,405	262,562	279,930
Income Tax	-	-	-	-	-	-	-	-	-	-
Net Investment Income	351,676	483,776	653,905	166,525	168,326	166,294	159,454	660,599	614,232	588,540
Net Realized Gain/(Loss) on Investments	4,568	42,929	12,619	-	-	-	-	-	-	-
Net Unrealized Gain/(Loss) on Investments	104,178	(122,149)	(54,573)	-	-	-	-	-	-	-
Net gain on Investments	108,746	(79,220)	(41,954)	-	-	-	-	-	-	-
Net Increase in Net Assets from Operations	460,422	404,556	611,951	166,525	168,326	166,294	159,454	660,599	614,232	588,540
Diluted Shares Outstanding (thousand)	144,510	166,073	167,615	185,830	185,927	186,023	186,119	185,975	186,334	186,667
End of Period Shares	169,274	160,363	185,782	185,879	185,975	186,071	186,167	186,167	186,500	186,834
Earnings per Share										
GAAP EPS (diluted)	\$3.19	\$2.44	\$3.65	\$0.90	\$0.91	\$0.89	\$0.86	\$3.55	\$3.30	\$3.15
Core EPS (diluted)	\$2.43	\$2.91	\$3.90	\$0.90	\$0.91	\$0.89	\$0.86	\$3.55	\$3.30	\$3.15
Dividends Paid	\$2.03	\$2.91	\$2.94	\$0.77	\$0.77	\$0.77	\$0.77	\$3.08	\$3.08	\$3.08
NAV (Book Value) per Share	\$26.27	\$25.93	\$26.66	\$26.78	\$26.92	\$27.04	\$27.12	\$27.12	\$27.35	\$27.42

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Blackstone Secured Lending Fund (BXSL)

Our \$30 PO is based on a roughly 1.1x multiple to current NAV/share, which we think is achievable as BXSL maintains stable margins and continued portfolio growth. BXSL's premium valuation is justified, in our view, given its strong sponsor, superior operating performance, ability to grow core EPS, and fee waivers.

Downside risks to achieving our price objective are 1) material weakening in credit markets, 2) a significant slowdown in investment activity, 3) a deteriorating macroeconomic environment, 4) disruptions in the capital markets, and 5) weaker than expected investment performance.

Analyst Certification

I, Derek Hewett, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Nuveen Churchill Direct Lending	NCDL	NCDL US	Derek Hewett
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Palmer Square Capital BDC	PSBD	PSBD US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
UNDERPERFORM				
	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Brandon Berman
RSTR				
	Sixth Street Specialty Lending, Inc	TSIX	TSIX US	Derek Hewett

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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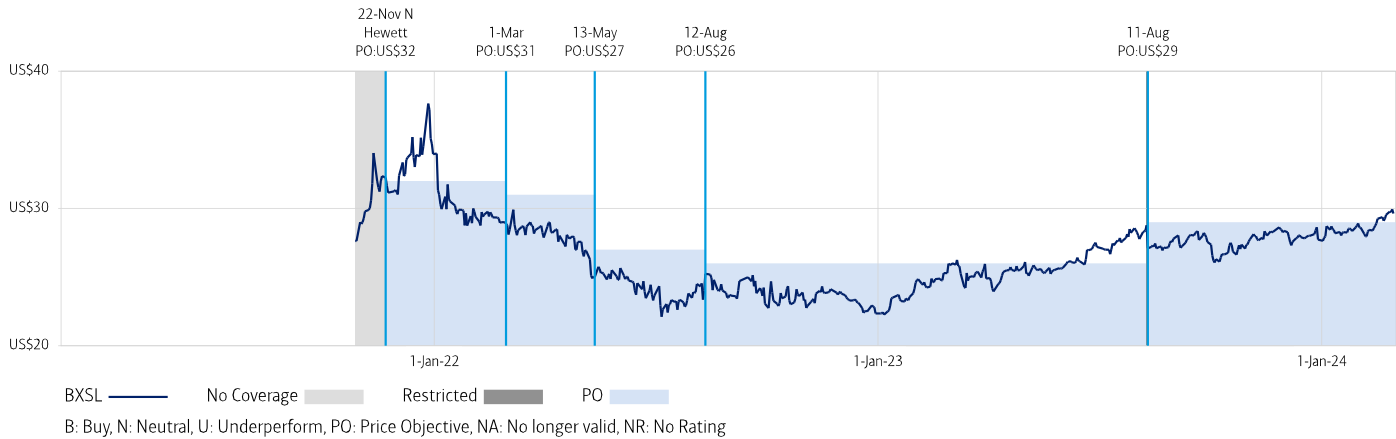
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Disclosures

Important Disclosures

Blackstone Secured (BXSL) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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