

Nuveen Churchill Direct Lending

Strong Q4 results

Reiterate Rating: BUY | PO: 19.00 USD | Price: 16.75 USD

Beat the Street; generating strong risk-adjusted returns

Nuveen Churchill Direct Lending (NCDL) reported Q4 core EPS of \$0.66, above Consensus expectations of \$0.63. Relative to the BofA EPS forecast of \$0.64, the variance was due to the timing of the 4Q23 pre-IPO capital draw. GAAP EPS was \$0.73 due to portfolio gains. Overall, Q4 results were strong. Capital deployment was solid, NAV/share increased 1%, credit remains pristine, and GAAP ROE was an impressive 16.6% (core ROE was 14.9%). We think NCDL is well positioned to generate strong risk-adjusted returns despite the complex market environment due to its proprietary origination platform, strong risk management, and improving liquidity. Maintain Buy.

Defensive portfolio; asset quality outstanding

Credit has been outstanding and there have been only 2 non-accrual investments since inception. There were no non-accruals during Q4, compared to 0.2% of investments (cost basis) the prior quarter. The larger BDC peer average non-accrual rate was 2.6% at Q3 (most recent data available). While the portfolio has been defensively constructed (over 87% is lower risk first lien senior secured), NCDL is able to generate strong risk-adjusted returns due to its lower cost, investor friendly fee structure.

NAV/share +1% to \$18.13; leverage lower to 1.26x

NAV/share increased to \$18.13, compared to \$17.96 the prior quarter. The increase was largely due to core EPS above the dividend (+\$0.11/share) and portfolio appreciation/other, net (+\$0.06/share). Reported leverage was 1.26x, compared to 1.35x the prior quarter. Target leverage is 1.0-1.25x.

Portfolio +11% to \$1.6B; yield +10bp to 11.7%

The portfolio (fair value) totaled \$1.6B at Q4, compared to \$1.5B the prior qtr. Originations of \$254M and exits/sales of \$67M resulted in \$187M of net investment activity. The portfolio yield (cost basis) increased to 11.7%, up from 11.6% the prior quarter. The weighted average rate on new floating rate investments was 11.2% (11.5% the prior quarter).

24/25 EPS outlook unchanged; Maintaining \$19 PO

Maintaining our 24/25 core EPS forecast of \$2.20/\$1.95. Introducing our 26 core EPS forecast of \$1.85. Maintaining our PO of \$19.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.95	2.50	2.20	1.95	1.85
EPS Change (YoY)	23.4%	28.2%	-12.0%	-11.4%	-5.1%
Consensus EPS (Bloomberg)			2.28	2.06	NA
DPS	1.81	2.41	2.10	1.97	1.82
Valuation (Dec)					
P/E	8.6x	6.7x	7.6x	8.6x	9.1x
Dividend Yield	10.8%	14.4%	12.5%	11.8%	10.9%

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Stock Data

Price	16.75 USD
Price Objective	19.00 USD
Date Established	20-Feb-2024
Investment Opinion	C-1-8
52-Week Range	16.01 USD -17.96 USD
Mrkt Val / Shares Out (mn)	913 USD / 54,542.1
Free Float	95.7%
Average Daily Value	NA
BofA Ticker / Exchange	NCDL / NYS
Bloomberg / Reuters	NCDL US / NCDLN
ROE (2024E)	12.4%

[NCDL: Leading credit platform backed by a premier global financial. Initiate at Buy](#)

iQprofileSM Nuveen Churchill Direct Lending

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Interest Income	57	101	143	149	150
% change	114.5%	77.2%	42.4%	4.1%	0.7%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	57	101	143	149	150
Operating Expenses	(11)	(17)	(24)	(43)	(49)
% change	81.9%	52.9%	39.0%	77.5%	15.5%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	45	83	119	106	101
Operating Net Income to Comm S/Hold.	45	83	119	106	101
GAAP Net Income	45	83	119	106	101

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	1,254	1,731	2,237	2,237	2,236
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	0	0	0	0	0
% 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	525	748	990	989	991

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	NA	NA	NA	NA	NA
ROE	10.4%	14.2%	12.4%	10.8%	10.2%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	92.7%	96.5%	95.3%	101.0%	98.7%
Efficiency Ratio (Cost / Income Ratio)	19.9%	17.2%	16.8%	28.6%	32.8%

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

NCDL was established in 2019 and is a specialty finance company, regulated as a BDC under the Investment Company Act of 1940, as amended, which invests in middle market debt. NCDL's investment objective is to generate attractive risk-adjusted returns primarily through current income.

Investment Rationale

We rate NCDL Buy. We believe it has a differentiated strategy which can generate solid risk-adjusted returns due to: (1) Propriety deal flow due to its partnership with TIAA / Nuveen, (2) superior portfolio credit, (3) strong shareholder alignment from management. That said, NCDL has limited operating history, and has not navigated through a business cycle. We think current valuation is attractive.

Stock Data

Average Daily Volume NA

Quarterly Earnings Estimates

	2023	2024
Q1	0.60A	0.50E
Q2	0.60A	0.57E
Q3	0.62A	0.56E
Q4	0.66A	0.58E

Initial Public Offering

NCDL completed its initial public offering (IPO) in January 2024. NCDL issued 5.5M million shares of its common stock at \$18.05 per share (~1.0x 4Q23 NAV/share) for gross proceeds of roughly \$99M.

Dividend outlook

The 4Q23 dividend was \$0.55/share, unchanged QoQ. Post IPO, the core dividend will be \$0.45/share. Additionally, there will be 4 quarterly supplemental dividends of \$0.10/share for the first 4 quarters post IPO (i.e. 2Q24-1Q25). To be clear, the 1Q24 dividend will be \$0.45/share and the 2Q24, 3Q24, 4Q24, and 1Q25 dividends will each be \$0.55/share (\$0.45 core plus \$0.10 special).

Exhibit 1: NCDL summary income statement

We forecast core EPS of \$2.20/\$1.95/\$1.85 in '24/'25/'26

	2022A	2023A	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Income Statement (thousand)									
Interest Income	79,868	157,243	51,272	57,431	57,079	58,460	224,242	233,448	232,396
PIK interest income	789	3,268	-	-	-	-	-	-	-
Dividend income	225	101	42	45	47	48	181	193	193
Other income	1,571	1,143	500	500	500	500	2,000	2,400	3,200
Total Investment Income	82,453	161,755	51,813	57,977	57,626	59,008	226,423	236,041	235,789
Interest and other debt financing costs	25,695	61,205	19,709	21,215	20,874	21,465	83,262	86,957	85,731
Net Interest Income	56,758	100,550	32,105	36,761	36,752	37,543	143,161	149,084	150,058
Non-Interest Expense	11,298	17,279	5,950	5,930	6,026	6,120	24,025	42,647	49,275
Net Investment Income	45,460	83,271	26,155	30,832	30,726	31,423	119,136	106,437	100,783
Net Realized Gain/(Loss) on Investments	(262)	(7,953)	-	-	-	-	-	-	-
Net Unrealized Gain/(Loss) on Investments	(27,912)	619	-	-	-	-	-	-	-
Net gain on Investments	(28,174)	(7,334)	-	-	-	-	-	-	-
Net Increase in Net Assets from Operations	17,286	75,937	26,155	30,832	30,726	31,423	119,136	106,437	100,783
Diluted Shares Outstanding (thousand)	23,279	33,353	52,727	54,542	54,542	54,542	54,088	54,542	54,542
End of Period Shares	28,651	41,242	54,542	54,542	54,542	54,542	54,542	54,542	54,542
Earnings per Share									
GAAP EPS (diluted)	\$0.74	\$2.28	\$0.50	\$0.57	\$0.56	\$0.58	\$2.20	\$1.95	\$1.85
Core EPS (diluted)	\$1.95	\$2.50	\$0.50	\$0.57	\$0.56	\$0.58	\$2.20	\$1.95	\$1.85
Annualized EPS Growth (Linked)									
Dividends Paid	\$1.81	\$2.41	\$0.45	\$0.55	\$0.55	\$0.55	\$2.10	\$1.97	\$1.82
NAV (Book Value) per Share	\$18.32	\$18.13	\$18.10	\$18.12	\$18.13	\$18.16	\$18.16	\$18.14	\$18.16

Source: Company reports and BofA Global Research estimates

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Price objective basis & risk

Nuveen Churchill Direct Lending (NCDL)

Our \$19 PO is based on a roughly 1.05x multiple to current NAV/share, which we think is achievable as NCDL delivers stable margins, continued growth and outperforms on credit.

Downside risks to achieving our PO include: 1) a material weakening in credit markets, 2) a deteriorating macroeconomic environment, 3) disruptions in capital markets, and 4) 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
	Sixth Street Specialty Lending, Inc	TSLX	TSLX 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
	Annaly Capital Management	NLY	NLY US	Derek Hewett

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

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



Valuation Toolkit

Numerator

Denominator

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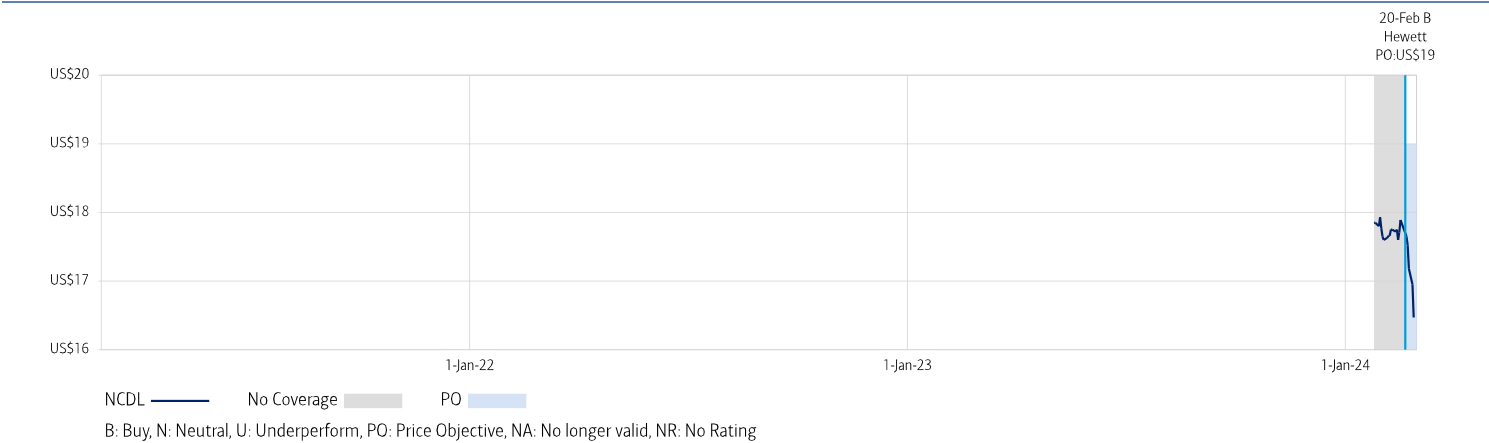
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Important Disclosures

Nuveen Churchill DL (NCDL) 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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