

BUSINESS DEVELOPMENT CORPS

“**Apollo Investment Corp.** (AINV 9.79 Nasdaq – yield 11.40%) is the best buy today among the Business Development Companies (BDCs) on our list. Following an extension and increase in its line of credit as well as an equity raise, the company has a large amount of capital available to invest. With low leverage, around 0.4 times, it has about \$700 million available to invest and still be comfortably below the maximum leverage permitted for BDCs. Capital available, low leverage, and a multi-year line are differentiating factors from other BDCs, ones that will serve it well in the current environment where banks are still extremely tight with lending to small businesses, but the opportunities have increased. Apollo says that not only has its pipeline increased but the quality of opportunities is strong.

Apollo tends to focus on subordinated debt to the upper middle market, and like other BDCs has seen its share of credit problems among its portfolio companies. Currently, just under 7% of its portfolio (at cost) is on non-accrual, which is not disastrous for such a lending company coming out of a recession. Moreover, much of that has been long written down and already priced into the stock. Unlike some other BDCs, however, Apollo has been fairly aggressive in realizing capital losses if appropriate. Credit quality remains a risk, however, should the economy turn down again. In the meantime the dividend (with a current yield over 11%) is well supported by net income, while the company has boosted its dividend once last year (following the sharp cut experienced by virtually all BDCs following the credit crisis) and may well do so again in the near future. With the shares trading below Net Asset Value and a well-covered dividend representing an 11% yield, as well as a strong balance sheet, long-term capital in place, and management that is both opportunistic and conservative, Apollo is a buy here.”

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