New Preferred Stock IPOs, October 2021

Preferred Stock Investing

mrgao/iStock via Getty Images

New Preferred Stocks, October 2021

ELEVEN NEW ISSUES

Symbol	Div Rate	Last Price	Yield CY | YTC | EAR	Moody's	Exchange	Status
BAC-Q	4.250%	$25.15	4.22%	Baa3	NYSE	QDI
EICA	5.000%	$25.39	4.92%	NR	NYSE	QDI
MNSLL	4.250%	$25.21	4.21%	Ba3	OTOTC	QDI
HNNAZ	4.875%	$25.73	4.74%	NR	NGM	
GREEL	8.500%	$24.50	8.67%	NR	NGS	
COMSP	9.250%	$23.90	9.68%	NR	NCM	QDI
ABR-F	6.250%	$25.20	6.20%	NR	NYSE	
GDV-K	4.250%	$25.91	4.10%	Aa3	NYSE	
PRIF-K	7.000%	$24.82	7.05%	NR	NYSE	
HTIBP	7.125%	$25.22	7.06%	NR	NGM	
LFMDP	8.875%	$24.20	9.17%	NR	NGM	QDI

Source: CDx3 Notification Service database, PreferredStockInvesting.com
Green text indicates Exchange Traded Debt securities
NF, NR mean Not Found, Not Rated
Data date: October 27, 2021

About the new issues

Non-traded Real Estate Investment Trust (REIT), Healthcare Trust Inc. (NASDAQ:HTIBP), priced an offering of $80 million worth of new Series B cumulative preferred stock. The new shares offer a fixed dividend rate of 7.125%. This compares to its previously-issued Series A preferred, introduced back in 2019, which offered a rate of 7.375% (NASDAQ:HTIA). The company said that the offering proceeds will be used to pay down its revolving credit facility. The new Series B shares received a credit rating of BBB- from Egan-Jones Ratings Company and will trade temporarily on the OTC under symbol HLTCP before moving to permanent symbol HTIBP on the Nasdaq.

Commercial real estate lender Arbor Realty Trust (NYSE:ABR) priced an offering of $175 million of new Series F cumulative preferred stock, coming on the heels of its Series E preferred offering in August. The new series F shares offer a fixed-to-floating dividend rate, beginning at 6.25% until October 30, 2026; the rate will then float, at a spread of 5.442% above the then-current Secured Overnight Financing Rate (SOFR). The company indicated that offering proceeds will be used towards new investments. The new shares are unrated and will trade temporarily on the OTC under symbol ABRFV before moving to permanent symbol ABR-F on the New York Stock Exchange.

Closed End Fund (CEF) Gabelli Dividend & Income Trust (NYSE:GDV) priced an offering of $150 million of new Series K cumulative preferred stock, offering a fixed dividend rate of 4.25%. The company indicated that proceeds will be used to redeem its previously-issued Series G preferred (5.25%) issued back in 2016. The new shares are expected to receive a rating of Aa3 from Moody's and will trade temporarily on the OTC under symbol GDVKP before moving to permanent symbol GDV-K on the New York Stock Exchange.

Telehealth company LifeMD (NASDAQ:LFMD) priced an offering of $35 million worth of new Series A cumulative preferred stock, offering a fixed dividend rate of 8.875%. The company said that a portion of the proceeds would pay down debt, with the remainder used as working capital and general purposes. The new shares are unrated and trade on the Nasdaq under symbol LFMDP.

Non-traded fund Priority Income Fund, managed by Prospect Capital Management - which also manages Prospect Capital Corporation (NASDAQ:PSEC) - priced an offering of $35 million worth of new Series K cumulative preferred shares, offering a fixed dividend rate of 7%. A regular issuer, the company has 10 prior series of preferreds currently outstanding, with the prior series issued in August. However, each one of those past series have been *Term* preferreds, whereas this new series K is *Perpetual*. The company said it will use the proceeds to redeem its previously issued E shares, with the balance going towards new investments. The new shares were given a rating of BBB- by Egan-Jones and will temporarily trade on the OTC under symbol PRIFP before moving to the New York Stock Exchange under permanent symbol PRIF-K.

Bitcoin miner and power generation company Greenidge Generation (NASDAQ:GREE) priced an offering of $45 million of new exchange traded senior unsecured notes due 2026, offering a fixed coupon of 8.5%. The notes were rated by Egan-Jones Ratings Company, who assigned a B rating. The new notes trade on the Nasdaq under symbol GREEL.

Morgan Stanley (NYSE:MS) priced an offering of $1.3 billion of new Series O non-cumulative preferred stock, offering a fixed dividend rate of 4.25%. The new shares were rated by all four of Moody's, Standard & Poor's, Fitch, and DBRS, at Baa3, BB+, BBB-, and BBB, respectively. The new shares will trade temporarily on the OTC under symbol MNSLL before moving to permanent symbol MS-O on the New York Stock Exchange.

Closed-end investment company Eagle Point Income Company (NYSE:EIC) announced an offering of $30.5 million of new Series A term preferred stock due 2026. The new shares were given a rating of BBB by Egan-Jones Ratings Company, and offer a fixed dividend rate of 5%. Trading will take place temporarily on the OTC under symbol EICPP before moving to permanent symbol EICA on the New York Stock Exchange.

Bank of America (NYSE:BAC) priced an offering of $1.3 billion of new non-cumulative Series QQ preferred stock, offering a fixed dividend rate of 4.25%. The new shares have been rated by all three of Moody's, S&P, and Fitch, at Baa3, BBB-, and BBB+, respectively. Trading will take place temporarily on the OTC under symbol BOAPV before moving to permanent symbol BAC-Q on the New York Stock Exchange.

Investment manager Hennessy Advisors (NASDAQ:HNNA) priced an offering of $40.25 million worth of new exchange traded unsecured notes due 2026, offering a fixed coupon of 4.875%. The new notes received a rating of 'A' from Egan-Jones Ratings Company. The company indicated that proceeds will be used for general purposes that may include future acquisitions or repurchases of common stock. The new notes trade on the Nasdaq under symbol HNNAZ.

COMSovereign Holding Corp. (NASDAQ:COMS), which owns a portfolio of communications technology companies, priced an offering of $8 million worth of new Series A cumulative preferred stock, offering a fixed dividend rate of 9.25% annualized, paid in monthly installments. The company indicated that proceeds will pay down debt, and be used for working capital and general purposes. The new shares are unrated and trade on the Nasdaq under symbol COMSP.

Sources: Preferred stock table: CDx3 Notification Service database - Preferred Stock Investing.

SEC filings: HTIBP, ABR-F, GDV-K, LFMDP, PRIF-K, GREEL, MS-O, EICA, BAC-Q, HNNAZ, COMSP

Buying new shares for wholesale

Preferred stock IPOs often involve a temporary period during which

OTC trading symbols are assigned until these securities move to their retail exchange, at which time they will receive their permanent symbols.

But there is no need to wait. Individual investors, armed with a web browser and an online trading account, can often purchase newly introduced preferred stock shares at wholesale prices just like the big guys (see "*Preferred Stock Buyers Change Tactics For Double-Digit Returns*" for an explanation of how the OTC can be used to purchase shares for discounted prices).

Those who have been following this strategy of using the wholesale OTC exchange to buy newly introduced shares for less than $25 are more able to avoid a capital loss if prices drop (if they choose to sell).

Your broker will automatically update the trading symbols of any shares you purchase on the OTC, once they move to their permanent symbols. A special note regarding preferred stock trading symbols: Annoyingly, unlike common stock trading symbols, the format used by exchanges, brokers and other online quoting services for preferred stock symbols is not standardized.

For example, a given Series A preferred stock might have a symbol ending in "-A" at TD Ameritrade, Google Finance and several others, but this same security may end in "PR.A" at E*Trade and ".PA" at Seeking Alpha. For a cross-reference table of how preferred stock symbols are denoted by sixteen popular brokers and other online quoting services, see "*Preferred Stock Trading Symbol Cross-Reference Table*."

Past preferred stock IPOs below par

While most of our subscribers focus on preferred stocks that score 10 out of 10 for their CDx3 Compliance Score, others keep room in their portfolios for more speculative situations and are willing to take a look at preferreds with a lower score. Often, the return on offer for lower-ranked preferreds can be dramatically higher (and in turn, carry higher risk).

One such example is the Series A preferred issued by Prospect Capital back in July, which now trades on the New York Stock Exchange under symbol PSEC-A. It has a CDx3 Compliance Score of 9 out of 10 - failing to score a perfect 10 because it is rated below investment grade at Ba2 by Moody’s and BB by Standard & Poor's.

However, we also saw in this month’s IPO review earlier, how Priority Income Fund - a fund *also* managed by Prospect Capital Management - priced its new series K preferred offering at a fixed dividend rate of 7% (fully 1.65% higher than the rate offered at IPO by PSEC-A) and achieved an investment grade BBB- rating from Egan-Jones. Arguably, Moody's and S&P took a more "strict" approach in its rating of PSEC-A, than did Egan-Jones in its rating of PRIF-K; or said differently, Egan-Jones apparently views less risk to the preferreds of these externally managed closed-end investment companies in general.

PSEC-A was issued at a public offering price of $25, with a fixed dividend rate of 5.35% against par (paid quarterly in installments of 0.3344/share or $1.3375 per share annualized), but in the roughly three months since its issuance, the shares have fallen $1.67/share in price to currently trade at $23.33 each. At this lower trading price, the fixed dividend produces a current yield of 5.73%, and the stock would need to climb 7.16% in order to return to par value.

Interestingly, PSEC also has ongoing offerings of *non-traded* preferred series, and between June and the end of September they have reportedly raised on the order of $250 million selling non-traded preferreds – which offer a fixed dividend rate of 5.5%, paid monthly. These non-traded shares aren't themselves (currently) immediately liquid the way PSEC-A can be traded on a stock exchange thus providing immediate liquidity, but apparently, as per the prospectus, the non-traded preferred has a conversion feature, whereby at any time *prior to the listing of the preferred on a national securities exchange* they can be converted, at the holder's option, into *common* shares of PSEC, generally at a conversion rate that takes the $25.00 par value, plus accrued but unpaid dividends, and divides by the volume weighted average price of PSEC common stock over the prior five trading days. In this way, the holder can seek a liquidity event at a level close to par. (At least until such time as the company decides to list its non-traded preferreds).

By contrast, a buyer of PSEC-A *today* would *not* be able to immediately get an exit at par; such an exit at par would happen only at the *company's* option once the call date is reached, or, in the open market *if* shares were to eventually rebound to trade back to par. Meanwhile, if the PSEC-A preferred was to sink lower in the open market, then a buyer of PSEC-A faces the potential of looking at unrealized capital losses. So, for this reason, a side-by-side comparison of PSEC-A against the non-traded preferred series isn't exactly apples-to-apples.

However, for those investors who would view the non-traded preferred versus the NYSE-listed PSEC-A preferred through the lens of *income*, it is interesting to note that the *liquid* PSEC-A has a current yield of 5.73% to today's buyer, which exceeds by almost a quarter point the 5.5% yield currently being gobbled up by investors in the *non-traded* preferreds (although it should be noted that due to the monthly payment schedule offered by the non-traded preferreds, if compounded through reinvestment, the annual percentage yield would get a little bit of a boost, from 5.5% to about 5.64%).

The perpetual nature of PSEC-A means that buyers can alternatively view the yield level at purchase as either a “blessing” or a “curse” – because, on the one hand, a buyer can take the view that they have successfully “locked in” an attractive yield level (“pay me 5.73% forever, or, cash me out at par with a 7.2% capital gain”)… or… the buyer can take the view that “now I’m *stuck* with a 5.73% return in perpetuity” – so therefore, having benchmarks with which to *compare* the return level is important. Naturally, there are the ‘typical’ benchmarks we can compare that yield against, like the current risk-free rate of return offered by US treasuries (e.g. 30 year bonds yielding a little south of 2%).

But another comparison we also find interesting is to look at the level of return that the *common* PSEC shareholders have experienced over time – after all, the common stockholders are taking on more risk in the capital structure by comparison, with the preferred shareholders sitting *above* them. We’ll *start* with a look at the current dividend yield enjoyed by the common – 8.74% as of the close on 10/27 – but that current yield number tells only *part* of the story because PSEC is a Business Development Company (BDC). As a BDC, PSEC must distribute as dividends nearly *all* of its taxable income, while any losses have the potential to erode the portfolio and in turn per-share net asset value, which all else equal would erode the stock price over time.

Imagine a diversified portfolio of below-investment-grade debt investments all paying healthy coupons: the interest income from those coupon payments is all going to be taxable. But, over the course of time, some of these risky investments are inevitably going to “go sour” and generate capital losses. The same would be expected by a preferred stock investor who maintains a diversified portfolio: the dividends received will certainly outpace that of a portfolio of risk-free government bonds, but the investor has got to expect that from time to time one of the riskier preferreds in the portfolio is going to run into trouble and end up in a capital loss. If a portion of the total dividends generated by the portfolio each year is *retained* by the preferred stock investor and recycled/reinvested into *new* preferred investments, then it would be possible for the portfolio size to grow over time, rather than shrink on account of those inevitable duds. But if the investor *spends/lives on* 100% of that portfolio dividend income, then the occasional losses over time will eventually add up, causing gradual portfolio shrinkage.

And something similar can happen in the case of BDCs: if they are paying out all of their taxable income as dividends, but then, there is an occasional failure in the portfolio, then those duds can erode the "principal amount" of the BDC's portfolio over time. (The reverse can happen if the BDC makes an equity investment that generates a large gain). This movement in net asset value can be hard to detect and pinpoint on a *quarter to quarter* basis because of noisy mark-to-market movements, but, as the quarters become years and the years become *decades*, the phenomenon becomes more apparent.

PSEC happens to be one of the older BDCs around, so we are fortunate to be able to examine a long-term history and see that from the starting $13.67 of net asset value per share reported in this early quarterly earnings release in 2004, over the years, through to the reporting period at June 30, 2021, net asset value per share has gone down by $3.86, to the most recently reported $9.81; and in that same time period, investors collected a whopping $18.84/share in dividends. So, while the dividends collected handily overwhelm the loss in per-share net asset value and handily exceed the starting net asset value per share itself, the *total return* experienced was indeed *lower than the dividend return by itself* because of the loss in per-share net asset value.

Thus, as a benchmark, instead of looking at the current dividend rate of the common and use that 8.74% current yield for our expectation of forward returns to the common stock, it may make more sense to instead study the longer-term annualized returns that encompass *both* the dividend rate *and* the changing level of stock price (which would presumably move up/down with some relationship to underlying net asset value) in order to account for what is happening at that all-important net asset value level as well - and to be conservative, we'd want to build in some expectation of shrinkage due to the occasional dud in the portfolio.

And indeed, looking at shareholder returns from [the IPO]() on July 7, 2004, through to the end of the quarter on September 30, 2021, according to the CAGR calculator at ValueForum.com, common stockholders have experienced an average annual return of approximately 7.4% with dividends reinvested:

	PSEC
Start date:	07/27/2004
End date:	09/30/2021
Start price/share:	$15.00
End price/share:	$7.70
Starting shares:	666.67
Ending shares:	4,456.42
Dividends reinvested/share:	$18.84
Total return:	243.14%
Average Annual Total Return:	7.44%
Starting investment:	$10,000.00
Ending investment:	$34,333.15
Years:	17.19

Source: valueforum.com CAGR calculator

This long-term return experience argues for a common shareholder to have an expectation of perhaps 7.0-7.5% returns for the risk, as opposed to the 8.74% level that the current dividend yield would suggest.

Another interesting indicator for context as a benchmark has to do with the investment advisory agreement between the PSEC fund itself and the external manager of the fund. According to the latest 10-K filing, the manager charges a base fee to run the fund, and then, there is an incentive fee component whereby after the common shareholders have earned **7.00%** annualized as measured by pre-incentive-fee net investment income divided into the net asset value level at the start of the measurement period, an incentive fee is then earned by the manager: If returns exceed the 7% benchmark level, then the external manager then takes 100% of the returns above that 7% level and 8.75%; and if the level of returns exceed even that lofty 8.75% level, then the manager takes 20% of the amount above 8.75%, and shareholders take the other 80%.

This structure, placing such an emphasis on the 7% return benchmark, therefore provides a second argument for common shareholders to set an expectation for returns in the 7% neighborhood over long periods. By comparison to this return level that the *common* shareholders can expect, arguably the *preferred* shareholders in turn should be content with a *lower* level of return, in exchange for the lower capital structure risk (what with ~3.2 billion of common equity cushion sitting *underneath* the preferred, a lot would have to go wrong with the common before the preferred shareholder is irreparably harmed).

If PSEC-A were to trade down to the $19-20 level, which would produce a 7% *current yield* level, arguably that would be a level that all else equal would be like locking in a common equity level rate of *return* for preferred-level *risk*. The 6% current yield point for PSEC-A would meanwhile be approximately $22.29, only about 4.4% below where PSEC-A trades today.

With its current share price of $23.33, PSEC-A has fallen far enough from par value that it is starting to make for an interesting watchlist candidate, where a further 4.4% fall in price (or more) could really start to take it to levels that look quite appealing in relation to the return level expectation level of the common.

Other past preferreds crossing below par

Here are some of the other recent dips/crosses below par that our CDx3 Notification Service subscribers received email notifications about during the month of October.

Trigger Date	Symbol	CDx3 Score	Type	Volume	Low	Last	Par	Div Rate	Ex-Date
10/26/2021	FGFPP	9	cross	1850	$24.8501	$24.96	$25	8.000%	08/31/2021
10/26/2021	GS-D	7	dip	52509	$24.94	$25.05	$25	Variable	10/25/2021
10/26/2021	NMK-B	5	cross	1448	$99.34	$99.34	$100	3.600%	09/15/2021
Trigger Date	Symbol	CDx3 Score	Type	Volume	Low	Close	Par	Div Rate	Ex-Date
10/25/2021	FDUSG	8	cross	1660	$24.98	$24.9917	$25	5.375%	10/14/2021
10/25/2021	GS-D	7	dip	89935	$24.87	$25.04	$25	Variable	10/25/2021
10/25/2021	RC-C	8	cross	11729	$24.85	$24.85	$25	6.250%	09/29/2021
Trigger Date	Symbol	CDx3 Score	Type	Volume	Low	Close	Par	Div Rate	Ex-Date
10/22/2021	AHT-F	8	dip	4951	$24.8516	$26.66	$25	7.375%	03/30/2020
10/22/2021	FBPRM	6	dip	5545	$24.62	$25.10	$25	7.400%	10/14/2021
Trigger Date	Symbol	CDx3 Score	Type	Volume	Low	Close	Par	Div Rate	Ex-Date
10/21/2021	FDUSG	8	dip	9260	$24.97	$25.06	$25	5.375%	10/14/2021
Trigger Date	Symbol	CDx3 Score	Type	Volume	Low	Close	Par	Div Rate	Ex-Date
10/20/2021	BAC-P	8	dip	580853	$24.97	$25.10	$25	4.125%	10/14/2021
10/20/2021	DLNG-B	8	dip	6710	$24.8	$25.1552	$25	8.750%	08/13/2021
10/20/2021	FDUSG	8	dip	2222	$24.97	$25.01	$25	5.375%	10/14/2021
Trigger Date	Symbol	CDx3 Score	Type	Volume	Low	Close	Par	Div Rate	Ex-Date
10/19/2021	BAC-P	8	dip	516845	$24.97	$25.01	$25	4.125%	10/14/2021
10/19/2021	DHCNL	9	dip	22376	$24.8	$25.10	$25	6.250%	11/12/2021
Trigger Date	Symbol	CDx3 Score	Type	Volume	Low	Close	Par	Div Rate	Ex-Date
10/18/2021	NRZ-B	9	cross	41837	$24.909	$24.9928	$25	7.125%	10/14/2021
10/18/2021	ZIONP	7	cross	1870	$24.95	$24.9603	$25	Variable	08/31/2021
Trigger Date	Symbol	CDx3 Score	Type	Volume	Low	Close	Par	Div Rate	Ex-Date
10/15/2021	ABR-D	9	dip	50892	$24.98	$25.05	$25	6.375%	10/14/2021
10/15/2021	NRZ-B	9	dip	32513	$24.78	$25.04	$25	7.125%	10/14/2021
10/15/2021	PBI-B	9	cross	152489	$24.86	$24.92	$25	6.700%	11/19/2021

Source: CDx3 Free Weekly Newsletters, October 2021, https://www.preferredstockinvesting.com/newsletter/

Source: Free CDx3 Weekly Preferred Stock Newsletters, October 2021.

Until next time…

Here, at CDx3, our typical articles will provide month-end preferred stock (and ETD) IPO summaries, plus a look at selected past preferred stock IPOs that are now trading below par - often the reward on offer for “imperfect” preferred stocks is very high relative to the fully CDx3-compliant professionally rated securities.

Whether you are the kind of investor who sticks with preferred stocks with a *CDx3 Compliance Score* rated 10 out of 10, or whether your portfolio has room for 9-score-and-lower securities, stay tuned for future articles recapping new IPOs and interesting preferred stock activity that we notice here at the *CDx3 Notification Service*. Thanks for reading!