



Source: Refinitiv

Market data

EPIC/TKR VTA.NA, VTA.LN, VTAS LN Price (€) 5.22/5.30/459p 12m high (€) 6.38/6.38/549p 12m low (€) 5.20/5.20/459p NAV p/sh (Jun'22, €) 6.08 Discount to NAV 14% Shares (m) 36.6 Mkt cap (€m) 191 2023E div. yield 11.4% Free float 70% Market (NL, UK) AEX, LSE, LSE Currency €, €, GBP

Description

Volta Finance (Volta) is a closedended, limited liability investment company with a diversified investment strategy across structured finance assets (primarily CLOs). It aims to provide a stable stream of income through quarterly dividends.

Company information

Ind. Chairman	Dagmar Kent
	Kershaw,
Ind. NEDs	Graham Harrison,
	Stephen Le Page,
	Yedau Ogundele
Fund Managers	Serge Demay,
AXA IM Paris	A Martin-Min,
	François Touati
Co. Sec./	BNP Paribas
Administrator	Securities Services
	SCA, Guernsey
	Branch

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Key shareholders	
AXA Group	30%
BNP WM	16%
BNP Securities Services	10%

Diary	
Mid-Aug	Jul estimated NAV

Analyst

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VOLTA FINANCE LIMITED

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In our note, *Hardman presentation: Carpe Diem,* we summarised the manager's 15 June Hardman Talks presentation, *Seizing opportunities in volatile times.* The key messages were i) refi/reset helped build annualised cashflows to a high-teen percentage of NAV, more than double the dividend payout, which should allow the NAV to grow over the medium term, ii) most underlying loans are floating rate, and so income will rise with interest rates, and iii) the net US exposure is positive in risky times. The presentation showed how strong the corporate market is and that, while defaults will rise, they start from a low point. There will be mark-to-market (MTM) volatility, but long-term cashflows are good.

- June monthly report: The CLO market experienced a further price adjustment (-7.2% for CLO equity tranches, -4.4% for CLO debt), with the NAV down 4.6%. Cashflows remain very robust (increased in each of last four months), with sixmonth interest and coupons equivalent to 20.6% annualised cashflow to NAV.
- ➤ Current market pricing: The manager comments that loans and CLOs are now priced at levels that are relatively similar to May/June 2020, when default rates were expected to be in the 10% to 15% range on a one year/18-month horizon, against the current expectation that they will increase by a few percentage points.
- ➤ Valuation: Volta trades at a 14% discount to NAV (which is subject to significant external input and oversight). The relative discount to Fair Oaks seems anomalous, as, over the long term, Volta has delivered a better NAV performance. Volta aims for 8% NAV distribution (dividend yield 11.4% 2023E).
- ▶ **Risks:** Credit risk is a key sensitivity (Volta has a widely diversified portfolio). We examined the valuation of assets, highlighting the multiple controls to ensure its validity, in our *initiation note*. NAV is affected by sentiment towards its own and underlying markets. Volta's long \$ position is only partially hedged.
- ▶ Investment summary: Volta is an investment for sophisticated investors, as both the NAV and the discount to NAV reflect sentiment. This may be expected to normalise over time, and we note that BGLF's model-based approach saw its NAV drop by only a third that of Volta in March 2020. Fundamental long-term returns have been good: 7.9% p.a. (dividend reinvested basis) since inception. Volta's performance relative to that of its peers has been strong, and returns for investments made after the financial crisis were double those in prior years.

Financial summary and valuation (Hardman & Co adjusted basis)									
Year-end Jul (€m)	2017	2018	2019	2020	2021	2022E	2023E		
Coupons & dividend	33.2	38.5	42.0	39.4	41.8	45.1	47.5		
Operating income	35.0	37.0	41.0	31.5	44.5	46.4	48.5		
Inv. manager's fees	(5.7)	(4.2)	(4.2)	(3.9)	(14.2)	(4.0)	(8.8)		
Expenses	(8.0)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)		
Total comp. income	28.0	29.7	32.9	25.8	35.2	37.1	38.7		
Statutory PTP	38.7	22.7	7.1	(63.0)	76.8	(8.7)	40.0		
Underlying EPS (€)	0.8	0.8	0.9	0.7	1.0	1.0	1.1		
NAV per share (€)	8.4	8.4	7.9	5.7	7.3	6.4	6.9		
S/P discount to NAV*	11%	15%	12%	23%	17%	19%	25%		
Gearing	12%	14%	12%	0%	0%	19%	20%		
Dividend (€)	0.62	0.62	0.62	0.52	0.52	0.61	0.60		
Dividend yield	11.9%	11.9%	11.9%	10.0%	10.0%	11.7%	11.4%		

*2017-21 actual NAV and share price, 2022-23 forecast NAV to current share price Source: Hardman & Co Research

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