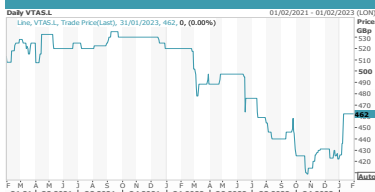


Closed End Investments


Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTAS LN
Price (€)	5.22/5.23/462p
12m high (€)	5.30/6.30/536p
12m low (€)	4.55/4.60/400p
NAV p/sh (Dec'22, €)	5.84
Discount to NAV	-11%
Shares (m)	36.6
Mkt cap (€m)	191
2023E div. yield	11.3%
Free float	70%
Market (NL, UK)	AEX, LSE, LSE
Currency	€, €, GBP

Description

Volta Finance (Volta) is a closed-ended, 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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www.voltafinance.com
Key shareholders

AXA Group	30%
BNP WM	16%
BNP Securities Services	11%

Diary

Mid-Feb	Jan estimated NAV
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Analyst

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VOLTA FINANCE LIMITED

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In our note, *R&A shining light on 20%+ IRR base-case scenarios*, published on 11 January 2023, we reviewed how Volta generated cashflows at near-record levels, and looked forward, considering why defaults would rise – but not to the level built into loan prices. We also highlighted Volta's diversification and geographical exposure. We also reviewed how investors can use the recent Report and Account (R&A) disclosure to better understand the true business drivers and that Volta's mark-t o-market accounting creates volatility around these positive fundamentals. The *December 2022 factsheet* reinforced these messages with annualised cashflow at 21.1% of NAV. 2022 actual defaults were one fifth the level predicted at the time of the Ukraine invasion.

- ▶ **Strong current position:** Current cash receipts are 21.1% of NAV, reflecting low defaults (strong corporate cashflows and profitability, ability to pass on inflation to date), CLOs having low, locked-in borrowing costs, CLO floating rate investments and Volta's portfolio positioning over recent years into CLO equity.
- ▶ **Resilience going forward:** The rating agency's/Volta's/our confidence in a low expected level of defaults reflects i) a strong starting position, including high cash cushions in CLO structures, ii) a preponderance of PE, iii) inflation still being friend, not foe, iv) covenant-lite documentation, and v) Volta's diversification.
- ▶ **Valuation:** Volta trades at a double discount: its share price is at an 11%, discount to NAV, and we believe its mark-to-market (MTM) NAV still includes a further sentiment-driven discount to the present value of expected cashflows. Volta targets an 8% of NAV dividend (11.3% 2023E yield on current share price).
- ▶ **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: 7.3% 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)	2019	2020	2021	2022	2023E	2024E
Coupons & dividend	42.0	39.4	41.8	42.9	45.0	42.6
Operating income	41.0	31.5	44.5	41.6	44.9	42.5
Inv. manager's fees	(4.2)	(3.9)	(14.2)	(3.9)	(8.1)	(7.6)
Expenses	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total comp. income	32.9	25.8	35.2	33.4	35.8	33.9
Statutory PTP	7.1	(63.0)	76.8	(17.8)	37.1	35.3
Underlying EPS (€)	0.9	0.7	1.0	0.9	1.0	0.9
NAV per share (€)	7.9	5.7	7.3	6.2	6.6	7.0
S/P prem./disc (-) to NAV*	-12%	-23%	-17%	-16%	-21%	-26%
Gearing	12%	0%	0%	0%	0%	0%
Dividend (€)	0.62	0.52	0.52	0.61	0.59	0.61
Dividend yield	11.9%	10.0%	10.0%	11.7%	11.3%	11.6%

*2019-22 actual NAV and share price, 2023-24 forecast NAV to current share price

Source: Hardman & Co Research