

Closed End Investments


Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTAS LN
Price (€)	5.18/5.13/440p
12m high (€)	5.50/5.50/491p
12m low (€)	4.85/4.60/400p
NAV p/sh (Aug'23, €)	6.53
Disc. to NAV (%)	-21
Shares (m)	36.6
Mkt cap (€m)	189
2022 div. yield (%)	11.0
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. Chair	Dagmar Kent Kershaw
Ind. NEDs	Graham Harrison, Stephen Le Page, Yedau Ogundele Joanne Peacegood
Fund Managers	AXA IM Paris
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-Oct	Sep estimated NAV
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Analyst

 Mark Thomas mt@hardmanandco.com

VOLTA FINANCE LIMITED

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We have highlighted previously why current conditions are especially favourable. The *August factsheet* reported a 16.6% YTD NAV return. Performance has been driven by "the generous carry that CLOs offer indeed, but it was ultimately the confirmation that the asset class successfully managed to withstand the volatility induced by rates and the banking sector jitters". As expected, on 20 September, Volta announced its *quarterly dividend* (€0.13 per share payable on 12 October 2023, equating approximately to an annualised 8% of NAV, cost ca.€4.76m). In August, Volta received \$8m from a Bank Balance Sheet Transaction (BBST) principal repayment at par. The BBST exposure reduced to 2.4% (July 5.6%, proceeds to be re-invested in CLOs).

- ▶ **Strong current position:** In *August*, Volta's six-month cash receipts were a record €25.7m, 21.5% of NAV, reflecting low defaults (strong corporate cashflows and profitability), low locked-in CLO borrowing costs, CLOs being floating-rate investments, and Volta's portfolio positioning into CLO equity.
- ▶ **Resilience going forward:** In our note, *R&A shining light on 20%+ IRR base-case scenarios*, we reviewed how Volta generated cashflows, and why defaults would rise – but not to the level built into loan prices. We highlighted Volta's diversification and geographical exposure. We also noted that the R&A disclosure could help to understand these issues.
- ▶ **Valuation:** Volta trades at a double discount, with its share price at a 21% 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 (9.8% 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 robust: 7.8% 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	40.9
Operating income	41.0	31.5	44.5	41.6	44.9	40.9
Inv. manager fees	(4.2)	(3.9)	(14.2)	(3.9)	(6.3)	(7.3)
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	32.6
Statutory PTP	7.1	(63.0)	76.8	(17.8)	29.9	33.9
Underlying EPS (€)	0.9	0.7	1.0	0.9	1.0	0.9
NAV per share (€)	7.94	5.69	7.28	6.22	6.45	6.78
S/P prem./disc (-) to NAV*	-12%	-23%	-17%	-16%	-21%	-25%
Gearing	12%	0%	0%	0%	0%	0%
Dividend (€)	0.61	0.53	0.51	0.57	0.51	0.54
Dividend yield	11.8%	10.2%	9.8%	11.0%	9.8%	10.4%

*2019-23 actual NAV and share price, 2024 forecast NAV to current share price

Source: Hardman & Co Research