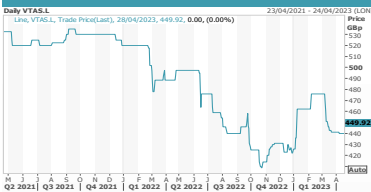


Closed End Investments


Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTAS LN
Price (€)	5.06/5.00/440p
12m high (€)	6.10/6.08/512p
12m low (€)	4.55/4.60/400p
NAV p/sh (Mar'23, €)	6.04
Discount to NAV	-16%
Shares (m)	36.6
Mkt cap (€m)	185
2023E div. yield	11.6%
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
Fund Managers	Serge Demay,
AXA IM Paris	François Touati
Co. Sec./	BNP Paribas
Administrator	Securities Services SCA, Guernsey Branch
	BNP: +44 (0)1481 750853 www.voltafinance.com

Key shareholders

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

Diary

Mid-May	Apr estimated NAV
16 May	Cenkos investor lunch

Analyst

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VOLTA FINANCE LIMITED

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In our review, *An easy guide to the benefits of CLOs*, we noted that the industry-specific terminology can give the impression of a complexity that belies reality. Accordingly, in that note, we gave investors a simple guide to what CLOs are, the benefits they provide, and how Volta is taking the market opportunities. The core of CLOs is uncomplicated cashflows. They are just a pooling of loans into a vehicle, which funds itself by issuing a range of debt and equity. The pool has diversification and credit-enhancement benefits, which result in investors in debt getting a better-than-average risk/return, and investors in equity getting double-digit returns. Cenkos is hosting an investor lunch on 16 May (contact mt@hardmanandco.com for further details).

- ▶ **Strong current position:** Volta's current annualised cash receipts are ca.20% 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 over recent years 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 Report and Account disclosure could help understand these issues.
- ▶ **Valuation:** Volta trades at a double discount: its share price is at a 16% 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 (11.6% 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: 7.7% 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 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%	-24%	-28%
Gearing	12%	0%	0%	0%	0%	0%
Dividend (€)	0.62	0.52	0.52	0.61	0.59	0.61
Dividend yield	12.3%	10.3%	10.3%	12.1%	11.6%	12.0%

*2019-22 actual NAV and share price, 2023-24 forecast NAV to current share price
Source: Hardman & Co Research