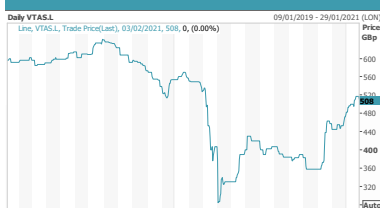


Financials



Source: Refinitiv

Market data

EPIC/TKR	VT.A.NA, VT.A.LN, VTAS LN
Price (€)	5.64/5.80/513p
12m High (€)	6.56/6.63/517p
12m Low (€)	3.20/3.38/285p
NAV p/sh Dec (€)	6.67
Discount to NAV	14%
Shares (m)	36.6
Mkt Cap (€m)	206
2020E div. yield	9.2%
Free Float	70%
Market	AEX, LSE

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	Paul Meader
Ind. Non-Executive	Graham Harrison
Directors	Stephen Le Page
Fund Managers	Paul Varotsis
AXA IM Paris	Serge Demay
	A Martin-Min
	François Touati
Co. Sec.	BNP Paribas
/Administrator	Securities Services SCA, Guernsey Branch

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www.voltafinance.com

Key shareholders (31 Jul'20)

Axa Group	30%
BNP WM	16%
Deutsche	6%
Citibank	6%

Diary

Mid-Feb'21	Jan estimated NAV
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Analyst

Mark Thomas 020 3693 7075
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VOLTA FINANCE LIMITED

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As we outlined in our 11 January 2011 report, *Volta's seven yield uplifts*, Volta's model generates yield uplifts from i) structured debt yield better than mainstream debt, ii) CLO yields are above structured debt, iii) Volta's flexible mandate earns a yield over the CLO market, iv) re-investments are at an above-average spread over the market, v) re-investment offers a material pickup against maturing business, and vi) the potential further pickup in Volta's dividend as its assets' valuations approach expected cashflows, rather than having sentiment-driven discounts. These support its high dividend yield. The NAV discount appears anomalous to these returns.

- ▶ **Volta monthly report:** In December 2020, Volta's NAV rose 4.3% (YTD -6%). CLO debt was up 6%, and equity tranches were up 10% (81% of portfolio). Other positions showed small gains and losses. On a six-month rolling basis, Volta received income of €18.1m, a 14.8% annualised cashflow yield on the current NAV.
- ▶ **Outlook:** High repayments in 2020 meant Volta's CLO investments could re-invest at wider spreads. Current pricing offers the opportunity for CLO issued debt to refinance at lower rates, generating a positive outlook for CLO equity valuations. We also note that the trailing 12-month default rate declined in the US.
- ▶ **Valuation:** Volta trades at a 14% discount to NAV (which is subject to significant external input and oversight). The relative discounts to Fair Oaks and Marblepoint seem anomalous, as, over the long term, Volta has delivered a better NAV performance. Volta aims for 8% NAV distribution (on current discount 9.2% yield).
- ▶ **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: pre-COVID-19, ca.11% p.a. (dividend re-invested basis) over five years. Volta's performance relative to 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)	2016	2017	2018	2019	2020	2021E	2022E
Coupons & dividend	34.7	33.2	38.5	42.0	39.4	35.3	43.9
Operating income	36.5	35.0	37.0	41.0	31.5	37.4	44.7
Inv. Manager's fees	-4.3	-4.6	-4.6	-4.4	-3.6	-4.3	-4.6
Expenses	-0.9	-0.8	-0.9	-1.0	-1.0	-1.0	-1.0
Total comp. income	29.3	28.0	29.7	32.9	25.8	28.6	35.5
Statutory PTP	12.6	38.7	22.7	7.1	-63.0	97.7	40.3
Underlying EPS (€)	0.80	0.77	0.81	0.90	0.71	0.78	0.97
NAV	289	306	306	291	208	287	304
S/P disc. to NAV*	-14%	-11%	-15%	-12%	-23%	-28%	-32%
Gearing	12%	12%	14%	12%	0%	14%	13%
Dividend (€)	0.62	0.62	0.62	0.62	0.52	0.52	0.63
Dividend yield	11.0%	11.0%	11.0%	11.0%	9.2%	9.2%	11.2%

*2016-20 actual NAV & share price, 2021-21 forecast NAV to current share price.

Source: Hardman & Co Research