

Closed End Investments


Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTAS LN
Price (€)	6.30/6.15/530p
12m High (€)	6.30/6.33/546p
12m Low (€)	3.84/3.80/342p
NAV p/sh (Aug'21, €)	7.24
Discount to NAV	13%
Shares (m)	36.6
Mkt Cap (€m)	230
2023E div. yield	10.3%
Free Float	70%
Market (NL, UK)	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	Dagmar Kent Kershaw, Stephen Le Page, Paul Varotsis
Fund Managers	Serge Demay, A Martin-Min, François Touati
Co. Sec./Administrator	BNP Paribas Securities Services SCA, Guernsey Branch

BNP: +44 1481 750853

www.voltafinance.com
Key shareholders (31 Jul'20)

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

Diary

Mid-Oct'21	Sep estimated NAV
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Analyst

 Mark Thomas 020 3693 7075
mt@hardmanandco.com

VOLTA FINANCE LIMITED

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In our 28 July note, *Yield (10%, covered and growing) + capital growth*, we explored how favourable market conditions mean that CLO vehicles can refinance debt cheaply, enhancing the value of Volta's equity positions; this is expected to lift total returns by 1%-1.5% p.a. for several years. We noted how it will further increase dividend cover (Hardman & Co FY'21E: 1.8x) and generate capital returns through a growing NAV. The latter, in turn, will see the dividend rise (Hardman & Co FY'23E yield: 10.3%). A high and growing dividend yield, and capital growth, could be attractive to a range of buyers. Despite this favourable outlook, Volta still trades at a 13% discount to NAV.

- ▶ **Volta monthly report:** Volta's *Aug'21 report* showed that its NAV fell by 0.5% (YTD: 12.8%). By asset type, it was -1.3% for CLO equity tranches, +0.6% for CLO debt, +0.7% for Cash Corporate Credit deals and ABS (this bucket has a one-month delay in publishing its NAV), and +1.5% for Bank Balance Sheet transactions.
- ▶ **Monthly commentary:** The six-month rolling interest and coupons received represent a 19.6% annualised cashflow yield on August NAV. The September CLO primary market pipeline is so high (with unprecedented YTD volume) that AXA IM expects some spread widening and reinvestment at attractive levels.
- ▶ **Valuation:** As noted, Volta trades at a 13% 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 (8.3% 2021 yield, 10.3% 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: 8.8% p.a. (dividend reinvested basis) since inception. 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)	2017	2018	2019	2020	2021E	2022E	2023E
Coupons & dividend	33.2	38.5	42.0	39.4	42.3	45.0	45.1
Operating income	35.0	37.0	41.0	31.5	44.4	46.1	46.0
Inv. manager's fees	-4.6	-4.6	-4.4	-3.6	-8.7	-8.9	-8.1
Expenses	-0.8	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0
Total comp. income	28.0	29.7	32.9	25.8	35.1	36.9	36.8
Statutory PTP	38.7	22.7	7.1	-63.0	77.0	41.0	38.2
Underlying EPS (€)	0.77	0.81	0.90	0.71	0.96	1.01	1.01
NAV per share (€)*	8.36	8.36	7.94	5.69	7.28	7.79	8.18
S/P disc. to NAV**	-11%	-15%	-12%	-23%	-17%	-19%	-23%
Gearing	12%	14%	12%	0%	15%	16%	17%
Dividend (€)	0.62	0.62	0.62	0.52	0.52	0.61	0.65
Dividend yield	9.8%	27.9%	9.8%	8.3%	8.3%	9.7%	10.3%

*July 2021 NAV updated, detailed profit and loss to follow with results **2017-22 actual NAV and share price, 2022-23 forecast NAV to current share price, Source: Hardman & Co Research;