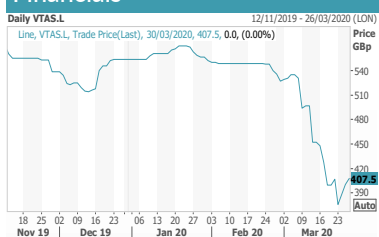


Financials


Source: Refinitiv

Market data

EPIC/TKR	VTA .NA, VTA.LN, VTAS LN
Price (€)	3.84/3.97/400p
12m High (€)	6.74/7.04/642p
12m Low (€)	3.70/3.98/376p
Shares (m)	36.6
Mkt Cap (€m)	140
Trail. 12-mth. yield	16.1%
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

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

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www.voltafinance.com
Key shareholders

Axa Group	30.4%
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Diary

Mid-Apr	Mar estimated NAV
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Analyst

Mark Thomas	020 7194 7622 mt@hardmanandco.com
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VOLTA FINANCE LIMITED

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Volta unusually issued an *intra-month trading update* on 24 March 2020. The key points were as follows: i) liquidity has been managed so that Volta's cash is close to €3m in excess of the amount (\$20m) needed to close the repo and so it will not be a forced seller of assets; ii) the MTM is highly volatile but at that date was down ca.35% on end-February; iii) ultimate losses will reflect the broadly diversified portfolio, which has macroeconomic sensitivities, not stock-specific ones; iv) Volta's \$ assets are largely unhedged and \$ exposure is ca.50% after currency risk management. The discount implies significant deterioration in the macroeconomic outlook.

- ▶ **Outlook:** Current CLO prices imply a ca.12% default rate and Volta's NAV discount implies higher losses. Investors may/may not consider this fair in light of their own views of government remedies. Near term, Volta expects all its assets to pay their April cashflows, allowing them to pay the April dividend and reinvest.
- ▶ **COVID consideration:** Market wide, cov-lite documentation has become increasingly prevalent. This increases lenders' losses in the event of default, but it reduces the probability of default and gives weak borrowers more time. Given the weight of government remedies, extending time is crucial to reducing losses.
- ▶ **Valuation:** Volta trades at a 17% discount to 24 March NAV (which was down ca.35% on end-February). The *24 March trading update* noted the NAV is highly volatile, reflecting fundamental, technical and sentiment effects. The underlying exposure is to ca.700 corporates and so macroeconomic-sensitive.
- ▶ **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 now largely unhedged.
- ▶ **Investment summary:** Volta is an investment for sophisticated investors, as there could be sentiment-driven share price volatility. However, long-term returns have been good, at 8.6% p.a. (dividend-reinvested basis) since inception to end-Feb'20. The current portfolio is generating near-record levels of income, which supports the prospective dividend yield. Sentiment is likely to prove volatile over the short term, but long-term cashflow is likely to be the key to performance.

Financial summary and valuation (Hardman & Co adjusted basis)

Year-end Jul (€m)	2015	2016	2017	2018	2019	2020E	2021E
Coupons & dividend	33.7	34.7	33.2	38.5	42.0	42.3	27.3
Operating income	46.0	36.5	35.0	37.2	41.0	41.3	26.3
Inv. manager's fees	-4.5	-4.3	-4.6	-4.6	-4.4	-3.3	-1.5
Adj. perform. fees	-3.5	-1.3	-1.2	-1.4	-2.1	-2.7	-1.8
Total expenses	-10.3	-7.2	-7.0	-0.9	-1.0	-1.0	-1.0
Total comp. income	35.7	29.3	28.0	29.9	32.9	33.9	21.4
Statutory PTP	47.6	12.6	38.7	22.7	7.1	-91.8	18.9
Underlying EPS (€)	0.98	0.80	0.77	0.82	0.90	0.92	0.59
NAV	299.2	289.3	305.5	305.7	290.6	176.6	173.3
S/P disc. to NAV	53%	51%	54%	54%	52%	20%	19%
Gearing	9%	12%	12%	14%	12%	20%	21%
Dividend yield	16.1%	16.1%	16.1%	16.1%	16.1%	16.1%	16.1%

Source: Hardman & Co Research