



Market data

EPIC/TKR	VTA .NA, VTA.LN, VTAS LN
Price (€)	4.39/4.45/402p
12m High (€)	6.74/7.04/642
12m Low (€)	3.20/3.38/285p
NAV (€)	5.87
Shares (m)	36.6
Mkt Cap (€m)	160
2020E yield	9.3%
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 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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Key shareholders

Axa Group	30%
BBVA Madrid & BNP WM	7%
Ironside Partners & Deutsche	6%

Diary

Mid-Aug'20	July 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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There has been a continued strong recovery from March lows. At the end of the month, the average price for Volta's USD CLO debt was 71.8%. All the company's USD CLO debt positions are receiving their coupons in full; none of them have been downgraded. Of all their equity positions, only one is expected to suffer a July diversion of cash flow (a 2013 position that has significantly amortised). Of the other CLO equity positions, three out of 46 came close to breaching a reinvestment test, but they improved in May and June, and now have larger cushions. The future will have challenges, but this appears more than priced into CLO positions.

- ▶ **Volta monthly report:** In June, Volta's NAV rose by 4.5% (May +4.5%, April +5.7%, March -32.4%, YTD -21.6%). CLO debt was up 13% and equity tranches up 10% (71% of portfolio). Bank balance sheet transactions rose 1% (13%) and ABS positions fell 6% (5%). Cash is now 2% of GAV, down from 10% at end-April.
- ▶ **June peer reports:** Blackstone GSO Loan Financing's € NAV rose 6% (mark-to-model accounting basis, ytd -7%), Fair Oaks Income's \$ NAV rose 8% (one year down 35%), TwentyFour Income Fund's £ NAV rose 6% (one year down 3%, but includes significant residential mortgages), and Marblepoint's £ NAV rose 5% (YTD -32%).
- ▶ **Valuation:** Volta trades at a 25% discount to NAV, which is subject to significant external input and oversight. The relative discounts to FAIR and MPLF appear anomalous, as, over the long term, Volta has delivered a better NAV performance. Volta declared a €0.1 dividend on 11 May, and is aiming for 8% NAV distribution.
- ▶ **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 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)	2015	2016	2017	2018	2019	2020E	2021E
Coupons & dividends	33.7	34.7	33.2	38.5	42.0	42.3	25.5
Operating income	46.0	36.5	35.0	37.0	41.0	41.3	24.4
Inv. manager's fees	-4.5	-4.3	-4.6	-4.6	-4.4	-3.4	-1.5
Adj. perform. fees	-3.5	-1.3	-1.2	-1.3	-2.1	-2.6	-1.3
Total expenses	-1.8	-0.9	-0.8	-0.9	-1.0	-1.0	-1.0
Total comp. income	35.7	29.3	28.0	29.7	32.9	33.8	20.1
Statutory PTP	47.6	12.6	38.7	22.7	7.1	-89.7	83.3
Underlying EPS (€)	0.98	0.80	0.77	0.81	0.90	0.92	0.55
NAV	299.2	289.3	305.5	305.7	290.6	186.0	252.6
S/P prem./disc. to NAV	-46%	-44%	-47%	-47%	-45%	-14%	-36%
Gearing	9%	12%	12%	14%	12%	0%	0%
Dividend yield	14.1%	14.1%	14.1%	14.1%	14.1%	9.3%	10.4%

Source: Hardman & Co Research