

Closed End Investments


Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTAS LN
Price (€)	6.16/6.15/530p
12m High (€)	6.30/6.36/546p
12m Low (€)	3.84/3.80/342p
NAV p/sh (Sep'21, €)	7.24
Discount to NAV	15%
Shares (m)	36.6
Mkt Cap (€m)	227
2023E div. yield	10.6%
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

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

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

Diary

Mid-Nov'21	Oct estimated NAV
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Analyst

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VOLTA FINANCE LIMITED

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In our note *Yield (10% covered and growing) + capital growth*, we explored how favourable market conditions mean that CLO vehicles can refinance debt cheaply, and that this was expected to lift total returns by 1%-1.5% p.a. for several years. The strong CLO equity returns in recent months show that value has already been created through this process. A high and growing dividend yield, well covered by cash earnings and combined with capital growth, could be attractive to a range of buyers. The detail of the FY'21 report and accounts will be reviewed in our next Monthly. Despite the positive outlook, Volta still trades at a 15% discount to NAV.

- ▶ **Volta monthly report:** Volta's *Sep'21 report* showed that its NAV rose by 1.9% (YTD: 15.0%). By asset type, it was +2.1% for CLO equity tranches, +0.2% for CLO debt, +0.3% for Cash Corporate Credit deals and ABS (this bucket has a one-month delay in publishing its NAV), and +0.8% for Bank Balance Sheet transactions.
- ▶ **Monthly commentary:** The six-month rolling payments received represent a 20% annualised cashflow yield on September's NAV, giving dividend coverage of ca.2x. The portfolio's exposure is predominantly to floating-rate notes, making it a beneficiary of rising interest rates (unlike most equities). Defaults remain low.
- ▶ **Valuation:** As noted, Volta trades at a 15% discount to NAV (which is subject to significant external input and oversight). The relative discount to Fair Oaks seems anomalous, as, over the long term, Volta has delivered a better NAV performance. Volta aims for 8% NAV distribution (dividend yield 9.9% 2022E, 10.6% 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: ca.9% 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	2021	2022E	2023E
Coupons & dividend	33.2	38.5	42.0	39.4	41.8	45.1	44.6
Operating income	35.0	37.0	41.0	31.5	44.5	46.4	45.7
Inv. manager's fees	-4.6	-4.6	-4.4	-3.6	-14.2	-9.0	-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	35.2	37.1	36.6
Statutory PTP	38.7	22.7	7.1	-63.0	76.8	41.3	38.0
Underlying EPS (€)	0.77	0.81	0.90	0.71	0.96	1.01	1.00
NAV per share (€)*	8.36	8.36	7.94	5.69	7.28	7.80	8.19
S/P disc. to NAV**	-11%	-15%	-12%	-23%	-17%	-21%	-25%
Gearing	12%	14%	12%	0%	0%	16%	17%
Dividend (€)	0.62	0.62	0.62	0.52	0.52	0.61	0.65
Dividend yield	10.1%	28.6%	10.1%	8.4%	8.5%	9.9%	10.6%

*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;