

# Executive summary – Altvest Capital

## Making the 1%'s investments accessible to the remaining 99%

### What does Altvest Capital Ltd do?

Altvest Capital Ltd, listed on the Cape Town stock exchange, is a financial services firm and alternative asset/investment platform. The company aims to disrupt the private equity and SME equity funding landscape in South Africa through:

- 1) An innovative, low-cost financial structuring solution for SME's to obtain a listing,
- 2) Unique deal sourcing ability in alternative asset class,
- 3) A highly experienced and savvy management team and,
- 4) Its value-added partnerships.

### Most important questions any potential investor in Altvest Capital should ask:

1. What is the unique value proposition, or "moat" of Altvest Capital?
2. What value add will Altvest Capital bring to the Investee companies?
3. Is this truly a unique asset class for retail investors?

**Answer 1:** The unique value proposition of Altvest Capital Ltd is its ability to provide SME's and alternative assets with low-cost, partial listings on a recognized exchanged (via a preference share structure listed on the Cape Town Stock exchange). This mechanism is unique in that it is more cost effective and less onerous from a regulatory standpoint when compared to the alternatives such as 1) listing via a SPAC (Special Purpose Acquisition Company) and 2) substantially lower costs and less onerous than listing directly.

**Answer 2:** For investee companies, the value-add provided by Altvest Capital are obvious.

- 1) Significantly lower listing costs (and lower regulatory and admin burden),
- 2) Access to an experienced management team that will assist in the strategic direction of the investee's business,
- 3) Value added partnerships that can bring tangible value to the investee's business via better managing media and market exposure and raising capital
- 4) The ability to grow the business and assist the investee's management in taking it from start-up to fully-functioning, well-governed and well-funded corporate (in other words, professionalizing of the management and operational structures).

These are some of the main value-added services that Altvest Capital bring to the relationship, which are also part of the unique value proposition [\(see question 1\)](#)

**Answer 3:** Altvest Capital is also positioning itself as the go-to platform for **retail investors** that want the opportunity to invest in assets and businesses which otherwise would not have been accessible to the average investor in South Africa, namely the alternative asset class. The benefit to the retail investors are the following:

- 1) The ability to access alternative asset classes (which have unique risk and rewards)
- 2) Access to an asset class that tend to be uncorrelated with the equity markets
- 3) Obtaining exposure to these assets via a method with lower friction costs
- 4) Only quality assets (approved by an experienced investment committee) are available.
- 5) Safe pair of hands (management does the active management of the assets)
- 6) Lastly can cherry pick assets, which include prestigious wine farms, ultraluxury game lodges, high-end art, and even sports teams.

### Valuation

The valuation was done using a top-down approach and then ending with a discounted cashflow. The premise of the valuation started with all the SME's in South Africa and defining the total addressable market, which came to 129 investee companies.

The Umganu investment was used as a base case for future investments.

A 10yr timeline for the DCF was used, and a 17.73% discount rate for the free cashflows were used (see main report for more detail.)

## Recommendation

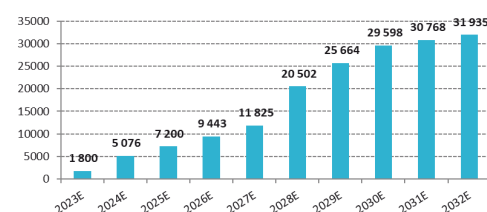
**My BUY recommendation is based on a fair value of R7.93 for Altvest Capital Ltd.** That provides upside of 57%.

**Cobus Cilliers**  
Twitter : @CobusC82

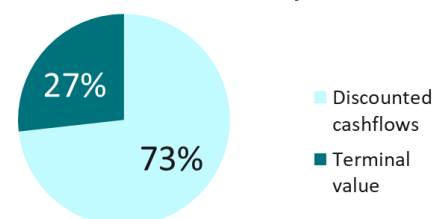
### Company Data - Altvest Capital Ltd

Share Code	4AAVC
Recommendation	<b>BUY</b>
Date	19 August 2022
Share price today	R5.05
Fair value today	<b>R7,93</b>
Shares Outstanding	10 000 000
Market Cap	R50 500 000
Industry	Investment Holding
ISIN	AE400000143
Discount rate used	<b>17,73%</b>
Listing date	2022/05/05
Stock exchange URL	<a href="https://www.ctexchange.co.za/Security/4AAVC">https://www.ctexchange.co.za/Security/4AAVC</a>

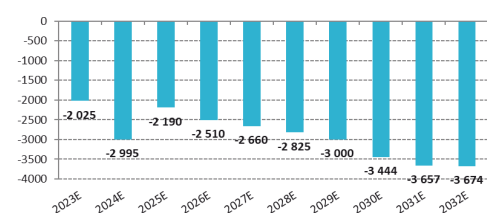
Revenue (R'000)



R7,93 fair value split



Expenses (R'000)



# Altvest Capital Limited

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### Overview of Altvest Capital Ltd

Altvest Capital Limited is a truly unique company in the South African financial landscape, as it fills the role of investment holding company, capital raising platform, professional services provider and on a social front, employment creator by means for making its investee companies better and stronger. Altvest Capital Ltd provides solutions to a unique challenge that two different stakeholders encounter, namely the retail investor (trying to access alternative investment opportunities) and the alternative asset owner (trying to raise capital, corporatize and take their business or asset to the next level).

**For Retail investors**, Altvest Capital Limited provides a platform to access bespoke and exciting investment opportunities in unlisted, alternative assets by means of a listed instruments (preference share) on the Cape Town Stock exchange.

Alternative assets are different to traditional equity and bond asset classes in many ways. Firstly, the idiosyncratic nature of alternative assets makes it highly illiquid with very large cheque sizes required to access the asset (sometimes R100m+). Another characteristic is the high friction costs associated with these assets (commission and transfer duties when buying a private game reserve outright, such as **Umganu**, would be a good example). Then there is the asymmetry of information in alternative investments. Expert knowledge is required to ensure the asset is appropriately valued. Lastly, many of these assets require active management.

All these concerns are addressed by Altvest Capital Ltd. The minimum investment is brought down substantially (as low as R100), there are experts on the investment committee that ensure a proper vetting process is conducted. Given Altvest Capital Ltd also invest alongside the retail investor, provides alignment of interest. The high friction costs are eliminated (instead, via the Cape Town Stock exchange, the transactions costs and settlement process are now low cost and seamless), and these assets are actively managed by a highly competent management team (one of the benefits of having Altvest's involvement in the asset)

**For the Investee companies** (or Alternative asset owner), Altvest Capital provides a platform to raise capital by means of a low-cost way. Given the underlying alternative asset or company is required to go through a vigorous due diligence (Financials, Directors, governance and operation), as well as the scrutiny of a valuation process, only the highest quality assets make it thought (one of the benefits of having Altvest Capital invest alongside the retail investor). Once the asset or investee company is greenlighted, the real work begins. Altvest Capital Ltd essentially assist the investee company with capital raising, media work and exposure, technical aspects, and provide access to many business experts to assist the investee company. The investee company essentially gets an A-team for operations and strategy, which will transform the underlying small business into a better run, growing professional business.

**For Altvest Capital Ltd:** The benefits are in the once off capital raising fee (2% once-off), the 1% per annum fee to retail investors (for all the services provided), and 1% of revenue to the investee company for the various services provided. There are additional fees Altvest can earn, but the main take-away and opinion of the author is that the benefit of the investee companies outweigh the costs many multiple over.

### Industry Analysis

From an industry perspective, when looking at funding for investee companies, the biggest competitor from an equity listing perspective will be a SPAC, although the costs associated with this is multiples what Altvest is requiring. Any investment bank can provide this solution, but this is not really a good comparison, given the types of investments Altvest Capital are targeting will never go for this solution.

On the debt funding side for investee companies, three obvious competitors come to mind (besides the large SA banks).

- 1) Business Partners<sup>1</sup> (provides financing from R500k to R50m to SME's), 2)
- 2) Addendum <sup>2</sup>(Supply chain funding solutions) and
- 3) Red-inc<sup>3</sup> (have a listed debt note program registered, and other capital raising services)

In all fairness, the value proposition to the Investee companies of the above competitors is lacking, as these entities only provide funding. Altvest Capital Ltd's "moat" is the additional expertise, media coverage and mentorships they provide.

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<sup>1</sup> <https://www.businesspartners.co.za/about-us-who-we-are/>

<sup>2</sup> <https://addendum.co.za/who-we-are/>

<sup>3</sup> <https://www.red-inc.co.za/>

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### Valuation of Altvest Capital

The valuation method used to value Altvest Capital Limited.

1. Top-down approach, coupled with a discounted cashflow model (Free cashflow to the firm)

#### Top-down approach, coupled with a discounted cashflow model (free cashflow to the firm)

The key input in this valuation technique, was to look at the overall SME's in South Africa<sup>4</sup> (the TAM, or total addressable market for Altvest Capital Ltd).

The Bureau of Economic Research 2016 study (see the footnote) estimates that in 2016, there were 2.2m Small businesses in South Africa. The Finscope 210 study estimates 5.9m small business in South Africa. Using a more reliable source of information (SARS), tell us that there were 267 959 firms and 13,565,521 "person year jobs" in the IRP5 data.

Thus taking the more reliable source, which provides a number of Small (68,494) and medium (17,397) businesses in 2016 (thus excluding the 176,333 micro and 5,735 large business) the total the TAM is 85,891. Only taking 0.15% of these businesses as potential Altvest Capital Ltd investee companies, gives me an answer of 129 investee companies.

Spacing these investments over a 10 year period (but exiting at end of year 10), and making a conservative estimate that only one investment is made per month from Sept 2022 (Thus only 120 of the 129 companies are invested into over the 5 year period), and using the Umganu "base expected returns" as an average of what these 120 companies can produce for Altvest Capital (in platform, capital raising and carry). This is conservative, as there would be additional revenue streams for Altvest Capital.

The model uses a discount rate of 15% and terminal growth rate of 6%. The 6% terminal growth rate is nominal (not real), and the discount rate of 15% was determined by means of the capital asset pricing model and a build-up method

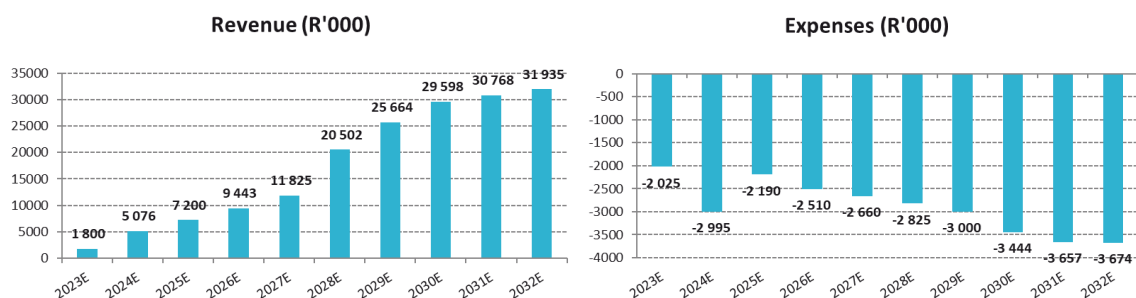
1. Using the R2032 South African sovereign bond yield, which is 10.73%
2. Using a 5% equity risk premium,
3. Taking a beta of 1

That provides a 15.73% discount rate, which is then increased for the illiquid nature of Altvest by 3%, but reduced by 1% due to the quality of management and the strategic moat of the business.

**This provides a discount rate of 17.73%**

Then the model uses the expenses at the given the pre-listing statement for the next 5 years, and grows the expense at a rate of 6.2% for the remaining 5 years.

**Recommendation and value: The value per Altvest Capital Ltd share comes to R7.93.**



### Conclusion

Company with a strong moat, unique value proposition and good pipeline of deals. Buy recommendation with an intrinsic value of R7.93

<sup>4</sup> <https://www.smallbusinessinstitute.co.za/wp-content/uploads/2018/10/SBIbaselineAlert1final.pdf>