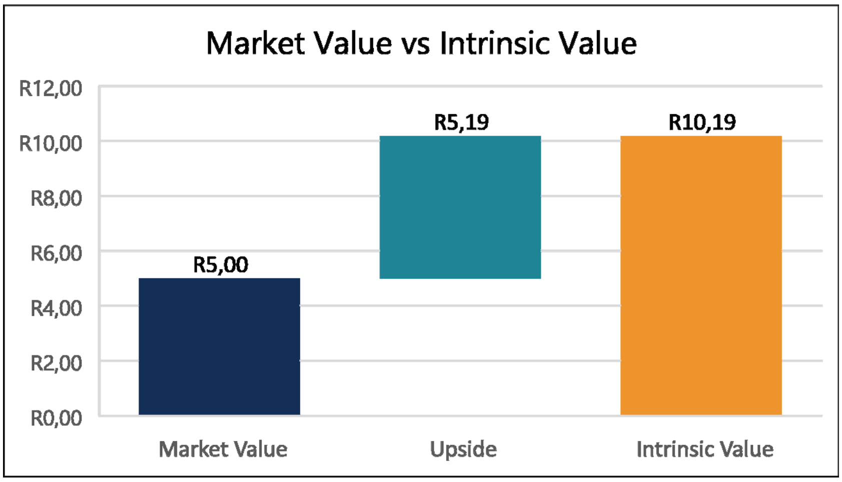
<u>Altvest Capital and Umganu lodge Investment case</u>

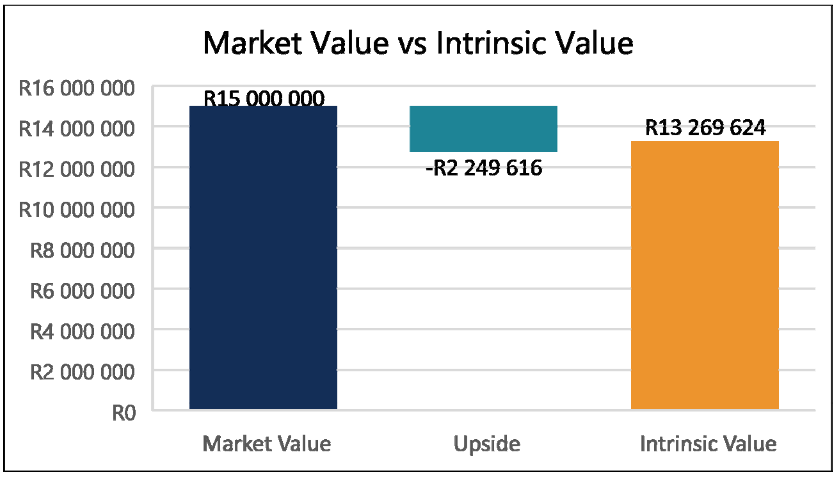
A) Executive Summary

Altvest capital:



Recommendation:
The intrinsic value (as at 18/08/2022) of Altvest capital is above the current market value by just over double the current market price. This indicates the company is undervalued and that there is more value that may be unlocked in future periods. It is expected that the entity will start making profits from the 2025 year and possible dividends and capital gains from share appreciation may be expected in subsequent periods thereafter. Altvests will have diversified earnings from alternative investments such as game reserves, sports clubs, and others. as result less risky. It is as a result recommended to buy and hold the Altvest at the current market price of R5, with possible sell when the price reaches the intrinsic value of about R10,19.

Umganu lodge (Based on 5-year Investment case):



Recommendation:
Based on the assumption that the investor would hold the investment for 5-years and sell their holding thereafter. The Intrinsic value is slightly below the market value due to the estimated Required Rate of Return being higher than Internal Rate of Return. The potential investor would rather put their money in the JSE stock market over the 5-year period as they are likely to make a bit more money in the stock market. The recommendation specific to Umganu listing is a sell with caution as the Intrinsic value is not far off from the market value. Though the potential returns from the sell off may not be significant given that it is a weak sell opportunity.

B) Altvest capital Detailed analysis

Key data inputs

Input description	input	Reference
Discount rate	12%	Note (a)
Perpetual growth rate	3%	Note (b)
Current market price	R5,00	Given
Share outstanding	10 million	Given

Free Cash Flows

Date	*2023/02/28*	*2024/02/28*	*2025/02/28*	*2026/02/28*	*2027/02/28*
EBITDA Less: CAPEX Less: Cash taxes	(35 900 000) (100 000)	(6 400 000) (300 000)	1 300 000 (500 000)	14 700 000 (800 000)	42 000 000 (1 400 000) (2 300 000)
Planning period total	(36 000 000)	(6 700 000)	800 000	13 900 000	40 600 000
Terminal value [Note (c)					277 399 668 (c)
Free cash flow	**(14 100 000)**	**(6 700 000)**	**800 000**	**13 900 000**	**317 999 668**

Discounted free cash flows

Since Altvest currently seems to have no significant non-operating activities, no significant debt, and no significant cash on hand, it is assumed that the discounted free cash flows will be equal to both the enterprise value and the equity value of Altvest.

Equity value	R119 836 549	Calculated using the excel XNPV formulae, as at 2022/08/18 using the discount rate of 18%.
Equity value per share	R11,98 per share	Calculated by dividing the equity value by the 10 outstanding shares.
Discount %	15%	A discount to the equity value is applied: -To be more conservative as this is a new entity with no track record. -To account for changes in working capital was not considered above. -To adjust the budgeted figures per management to be more conservative.
Adjusted equity value per share	R10,19 per share	This share is above the current market value of R5 per share which indicates that Altvest is undervalued.

Reference notes:

(a) The discount rate is the calculated cost of capital, and it is assumed that this is only funded purely by equity. The required rate of return I.e., the discount rate is as a result, [11%+7,1%] =18,1%p.a.

Risk free rate Market rate of return	11% 7,1%	5-year Government retail bond, obtained from rsaretailbonds.gov.za 10-year market average, obtained from statistic South Africa.

- Market risk premium: From 2022 to 2018 respectively 7,3%; 7,0%; 7,9%; 8,4%; 6,9%; 7,5%; 6,3%; 7,7%; 6,3%; 6,8%; 6,5%; 6,3%. This gives an average is 7,1%. This data was obtained from statistics sa.
- Beta (5Y Monthly): From a listed competitor, Renegen=0,41, RH Bophelo= -0,09, Purple Capital=0,13 giving an average of 0,15. This was obtained from yahoo.finance.com, however Beta was not considered as this is a new entity and investors would only invest in it if it gives a return greater than the market, hence Beta of 1 was used to achieve the minimum required rate of return.

(b) The perpetual growth rate has been determined based on the principle that the sustainable growth should not exceed inflation, the average inflation for the past 5 years from 2021 is 4,37% as per statistic sa, as a result 3% was selected as the sustainable growth rate to be conservative.

(c) Terminal value is formula driven, where free cash flow before terminal value of 2027 period is used to determine the terminal value i.e., [40,6m*(1+0,03)/ (18%-3%)] = 277 399 668.

C) Umagano Lodge detailed analysis

Key fact:

- Independent valuers have valued the land and building of umganu to R30 million rand and 50% i.e., R15 million rand is available as equity stake.

Key assumptions:

- Investor does not dispose of the investment until year 5 and the capital growth of the property is 10% or 15% to perform a form of sensitive analysis.
- IRR is calculated on the investment case of about a 5-year period with investment on 18/Aug/2022 and disposal on 28/Feb/2027
- Investor net cash flows provided and prepared by Umganu lodge were assumed to be reasonable as conservative increases year on year were applied.
- The most reasonable case is the expected case with a 10%p.a. capital gain assumption to remain conservative while the market is (15%-18%p.a.).

Internal rate of return (IRR) vs Required rate of return (RRR):

	IRR (10%p. a capital gain assumptions)	**IRR (15%p. a capital gain assumption**	**RRR (note a)**
Conservative case	12,4%	15,7%	18,1% **(note a)**
Expected case	**14,1%**	**17,2%**	**18,1% (note a)**
Growth case	15,8%	18,8%	18,1% **(note a)**

Comment:
The general principle is that if RRR is above IRR then the discounted cash flows will be below the initial investment, which indicates the investment is not worth it. With Umganu lodge the IRR range is 12,4% - 18,8% from conservative to optimistic respectively. A RRR of 18,1% **(note a)** would mean the Umganu investment would only be worth it if the market performs better than expected. There is not enough head room to clearly state that the 5-year investment case will reap the required returns. The expected case is assumed to be the most likely, however, the RRR of 18,1% is above the expected case IRR of 14,1% indicating this is not a good investment for a 5-year period.

Valuation for the different case based on 18,1% RRR and a capital gain assumption for 10%:

The free cash flow from the Umganu lodge free cash flow model was discounted using 18,1%p.a.

Net cash flows returns per case	**DCF as at 2022/08/18**	**2023/02/28**	**2024/02/28**	**2025/02/28**	**2026/02/28**	**2027/02/28**
Conservative	12 406 854	153 000	304 000	370 000	447 000	24 512 000
Expected	**13 269 624**	**153 000**	**326 000**	**432 000**	**563 000**	**26 085 000**
Growth	14 228 923	153 000	347 000	493 000	685 000	27 859 000

Comment:
The calculated intrinsic value ranges from R12,4m to R14,2m with R13,2m being the realistic intrinsic value. This is below the offering price of R15m as a result the investment is a bit overvalued and will not provide adequate returns for an investor whose benchmark is the market.

Notes

(a) The minimum required rate of return is deemed to be the market RRR = [11%+ 1*(7,1%)] = 18,1%

Risk free rate Market rate of return	11,0% 7,1%	5-year Government bond yield, obtained from rsaretailbond.gov.za 10-year average, calculated from data obtained from statistics sa

This was calculated on the principle that an investor will only invest in Umganu lodge if it will generate more returns than the market. As a result, the minimum required rate of return was calculated to be the market return. This means when using the CAPM model a beta of 1 was used to adequately determine whether Umgano could at least match the market.