

Rocky Maivia

Corporate Services

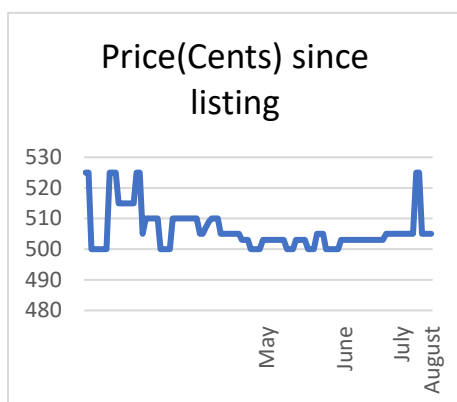
16 August 2022
South Africa
Equity Research

Rating: **Sell***

Share Momentum Unfavourable
Price (16 August 22, ZAR): 5.05
Target Price (ZAR): 4.64
CTSE Share Code: 4AAVC
Listing date: 05/05/2022
Market Cap (ZAR m): 50.50
Equity value(ZAR m): 46.36

Research Analyst
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*Target price is for 12 months



Altvest Capital Limited

Banking on democratizing alternative assets

Altvest Capital Limited (Altvest) is a recently listed investment holding company which aims to democratize alternative investments by offering bespoke investment opportunities to retail and institutional investors. Each project is planned to have a 3-5 year life cycle and will be realized to maximise stakeholder returns. Altvest plans to market and co-invest in each project.

Altvest owns 50% A Trade (Pty) Ltd, a low-cost investment platform which provides a complementary service to facilitate the trading of the fractionalized shares. While A Trade makes trading on the CTSE available, no further mention on the capabilities of other trading on other stock exchanges have been made.

In line with managements' business plan (purchasing an investment within the first six weeks of listing), Altvest acquired 50% of the issued share capital in Umganu Lodge (Pty) Ltd with the intention to make 43.3% available to the public.

Revenue is dependent on the number of listings and the success of these investments. Management have given guidance with their investment intention to list up to four opportunities in 2022 and eventually "ramp up" up to a listing every month.

We believe their revenue targets maybe on the high side, given the high execution risks. However, Altvest can capitalize on businesses struggling with cash flow after Covid 19. There is value to unlock.

Our target price is based on the discounted cashflows model which reflects Altvest planned growth with their investments.

Owning Altvest as an investment today will depend on the level of patience, we believe over the next 6-12 months the share will produce negative returns.

Key metrics

	FY23F	FY24F	FY25F	FY26F	FY27F
Current ratio	4.45	0.55	0.35	1.00	2.61
Planned investments	4.00	6.00	8.00	8.00	8.00
Employee costs/Revenue	2.06	0.53	0.29	0.19	0.11
Listing costs/Revenue	1.45	0.83	0.60	0.40	0.24
Revenue Growth		177%	97%	59%	77%

Source: Business Plan

Conflict of interest

Corporate broking	No
Trading in corporate shares	No
Analyst ownership	No
Advise to corporate	No
Brokerage activity at A Trade	No
Client of A Trade	Yes

Valuation

Summary

Discount factor to be applied					22.3%
Maintainable long term growth rate					6.5%
Currency: R'm	FY23F	FY24F	FY25F	FY26F	FY27F
Annual Management Fee	1.8	7.1	16.0	27.4	40.6
Dividends from investment companies	0.2	0.8	1.8	3.1	4.6
Sale of investments(once off per investment)	0.0	0.0	0.0	0.0	13.8
Capital raising fee income	2.0	3.8	5.5	6.0	6.5
Revenue	3.96	11.66	23.28	36.48	65.52
Employee costs	(9.70)	(6.90)	(7.30)	(7.70)	(8.20)
Operating expenses	(20.20)	(1.70)	(1.80)	(1.90)	(2.00)
Depreciation	(0.10)	(0.30)	(0.50)	(0.80)	(1.40)
Altvest listing costs	(3.80)	0.00	0.00	0.00	0.00
Listing costs - Investee companies	(6.80)	(10.80)	(15.30)	(16.20)	(17.20)
Net profit before tax per Forecast	(36.64)	(8.04)	(1.62)	9.88	36.72
Adjustment to earnings:					
Net Profit before tax	(36.64)	(8.04)	(1.62)	9.88	36.72
Current Tax	0.00	0.00	0.00	0.00	(2.30)
Normalised profit after taxation	(36.64)	(8.04)	(1.62)	9.88	34.42
Add back:					
Depreciation	0.10	0.30	0.50	0.80	1.40
Less:					
Capital Expenditure	(0.10)	(0.30)	(0.50)	(0.80)	(1.40)
Net maintainable cashflow after tax	(36.64)	(8.04)	(1.62)	9.88	34.42
Terminal Value					138.91

Total cash flows		(36.6)	(8.0)	(1.6)	9.9	173.3
Years into the future		1.0	2.0	3.0	4.0	5.0
Discount factor		1.2	1.5	1.8	2.2	2.7
Present value of cash flows	31.5	(30.0)	(5.4)	(0.9)	4.4	63.3
Cash and cash equivalents	20.0					
Value at 100% before discounts	51.5					
10% Liquidity discount	5.2					
Value of shares - 100%	46.4					

Revenue growth is difficult to assess due to the nature of the business and the limitless possibilities of investments. We have therefore utilized managements assumptions and adjusted this to include the Umganu acquisition at a 45% occupancy level. The forecast assumes four investments in FY23F, six investments in FY24F and eight investments thereafter. Except for Umganu, each investment is assumed to have R100 million in revenue.

The discount rate has been adjusted for the leadership skills on the board, their capabilities, high execution risks and aggressive growth prospects. We have applied a material discount of 10% for the illiquidity of the share.

The sale of investments in FY27F has been removed from the terminal value calculation as this is a once off income.

Worth Knowing

Management

Altvest's Board comprises of six directors, three executive and three non-executive, which are seasoned in the investment space. Warren Wheatley(CFO) and Koshiek Karan(Executive Chairman) are no strangers to media. Warren has ties to some of the largest media outlets in South Africa and Koshiek is constantly trying to educate the youth on finances with his Banker X platform;

Some of the executive team hold executive positions in other Investment Holding Companies which can create conflict of interests.

All executive directors and staff of Altvest own shares in the company mainly through sweat equity.

Investment Risks

The following present the greatest risks to our investment thesis:

High execution risk: The ability of managements to keep the investment pipeline robust, complete new acquisitions and create value for shareholders. In addition, regulatory delays can add to executions risks.

Poor results from marketing campaigns: While the initial results from the marketing campaigns have been positive, there is no telling how successful campaigns translates to investments in fractionalized shares.

Cash flow risk: Altvest plans to utilize its cash for investments and there are no current plans for leveraged investments. Altvest is not yet cash generative and Management have forecast cash inflows from operations from FY25 onwards. No dividends is planned for the foreseeable future, a mitigating factor.

Liquidity risk: Demand from retail investors for fractionalized shares may not be adequate for certain investments.

Umganu Lodge

Management have been prudent and selective as we view Umganu purchase as a safe property play. The capital appreciation in the luxury real estate market and a fast recovering tourism industry solidifies Altvest's stance of purchasing high quality assets. This investment is planned to be realized in the next five years.

Share price sensitivity

Our valuation could change dramatically because of the extreme sensitivity of our discounted cash-flow model to key inputs such as revenues from investments and the WACC.

		Weighted Average Cost of Capital (WACC)				
		20%	21%	22%	23%	24%
Changes in revenue	-4%	50.3	44.5	38.3	35.4	31.7
	-2%	55.2	49.1	42.3	39.2	35.2
	0%	60.2	53.6	46.4	43.1	38.8
	2%	65.2	58.2	50.4	46.9	42.3
	4%	70.2	62.7	54.5	50.7	45.9

Fractional ownership of investments

So far, Altvest provides access to a invest in a luxury real estate business in a way that was never previously available in South Africa. Internationally, fractional ownership of assets is becoming more accessible with companies like Roofstock(investment properties), Masterworks(fine art pieces) and Otis(unique collectables). If executed correctly, this may be a South African first and could unlock value in the long term.