Date: August 2022
Analyst: Muofhe Kwinda
Business Name - Listed Exchange|Industry - Ticker: Altvest Capital - CTSE|Investment Holding - 4AAVC
Current Share Price | Market Cap: R5,05 | R50,5m
Target Price | Upside: R7,76 | 54%

Analyst's Opinion - Buy

- Altvest is a new SA-domiciled platform business which provides retail investors with access to the private equity market through its various subsidiaries - I believe that the market opportunity is significant and that Altvest has a first mover advantage in the space but also that Altvest's management have been quite ambitious regarding their targeted/assumed portfolio growth rates, especially when you consider the weak state the of SA consumer and the low growth environment that is widely expected to prevail over the medium term.
- Management are young but relatively well experienced and given their extensive backgrounds in the investment banking and asset management spaces, I see no clear red flags but maintain that the execution risks associated with the SA SME space are high, especially in the currently weak economic environment as mentioned above.
- Also, while the balance sheet Is sitting in a comfortable cash position (ie: low financial risks at this point), the business is expected to remain loss making until at least 2025, at which point, cash generation will start to kick in with an expected acceleration in management fee income.
- The valuation for Altvest looks attractive at current levels, in my view - with a strong belief that the Altvest share price will begin to 'rate' as the management successfully build on their track record (and overall portfolio) and prove that the business model can successfully operate in the South African context - a feat that I believe the current management is very capable of achieving.

Key Headwinds

- Financially-stressed SA consumer - coupled with rising interest rates (ie: increased cost of funding) likely to see some subscriber numbers come under pressure.
  - This will probably also filter through into lower retail deposits for platform businesses in general.
- Weak SA macro environment - Likely to filter through to investee company revenues and profitability, directly impacting Altvest's management fee incomes - this may also lead to a deterioration in investor/investee company appetite, which will ultimately be detrimental to all of Altvest's revenue line items.

Key Tailwinds

- First mover advantage in providing private equity exposure to retail investors in South Africa.

Valuation

- Using a DCF (50% weighted to EV/EBITDA multiple approach and 50% weighted to perpetual growth approach), my target price for Altvest is R7,76, presenting 54% upside from the current share price of R5,05.
  - EV/EBITDA approach: Cash flows discounted at 13,5%, in line with long term JSE annual returns - with an exit multiple of 15x, using Purple Group (EV/EBITDA of ±17,8x) as a proxy and adjusting downwards to reflect the lower quality of- and higher risks associated with Altvest.
  - Perpetuity growth method: Cash flows discounted at 13,5%, in line with long term JSE annual returns - using a terminal growth rate of 2,5% in line with historic (& expected) SA GDP growth.

Value Per Share

Terminal EBITDA Multiple		
12,5x	15,0x	17,5x
R 8,67	R 10,97	R 13,26
R 8,28	R 10,50	R 12,71
R 7,91	R 10,04	R 12,18

Value Per Share

Terminal Perpetuity Growth Rate		
–	*2,5%*	*5,0%*
R 4,15	R 6,10	R 9,35
R 3,41	R 5,01	R 7,56
R 2,79	R 4,12	R 6,15

Business Overview

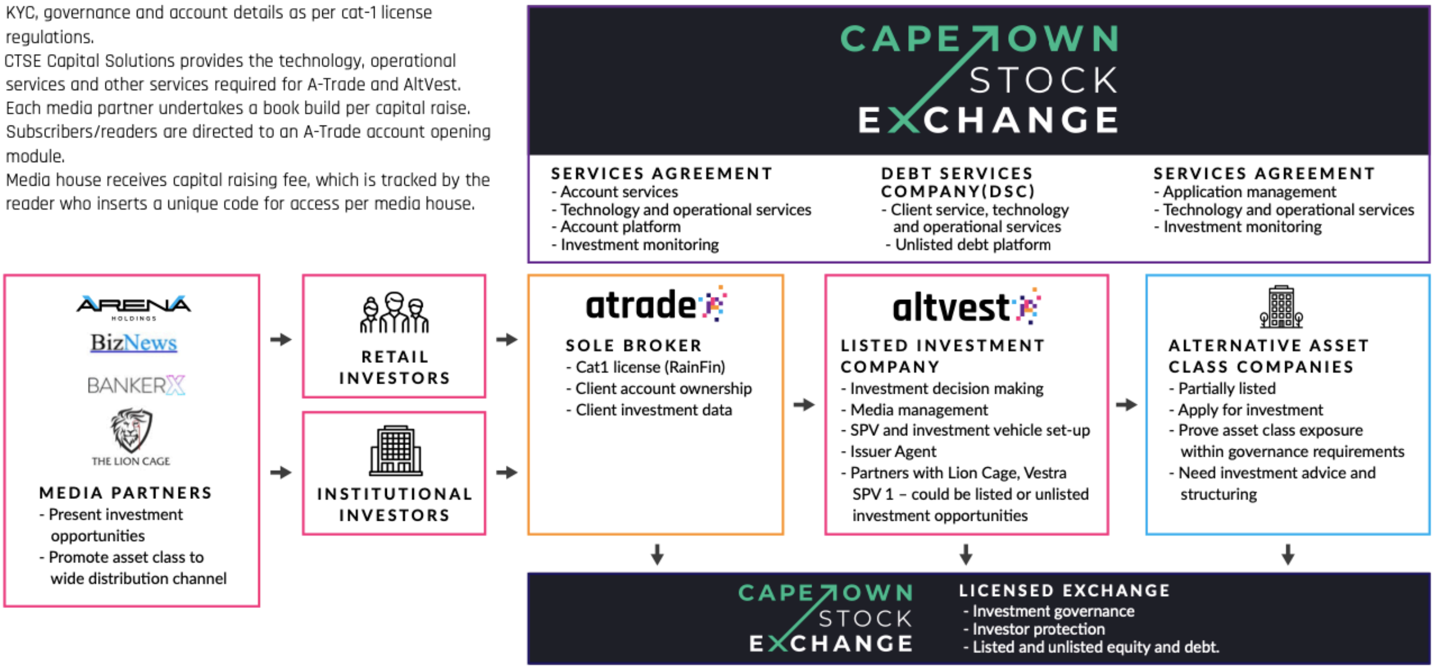
AltVest Capital is Cape-Town Stock Exchange (CTSE) listed platform business which mainly provides retail and institutional investors with a cost effective and efficient way to access different classes of the South African private equity market.

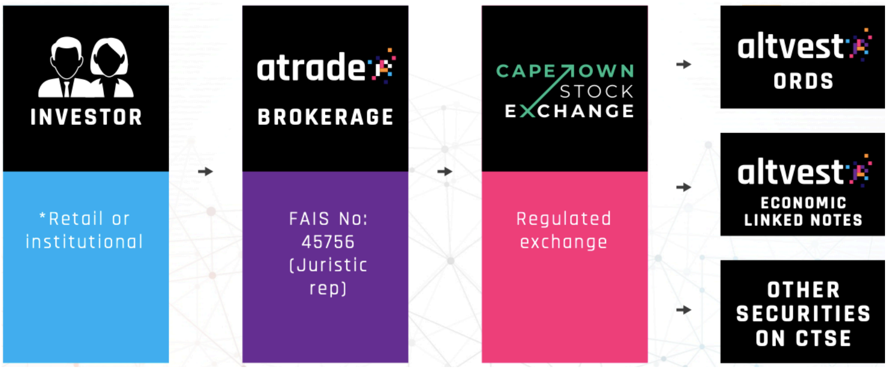
- The business basically sources domestic private investment opportunities, which are advertised through the business' media partners (Arena Holdings; Biznews & Banker X) to the broader public, in an attempt to attract investors and potential issuers/private businesses looking for funding.
  - Altvest takes a material stake in the underlying business (15-49%) and creates synthetic economic exposure through Economic Linked Notes (ELNs) on the CTSE (Cape Town Stock Exchange) that are available to- and can be traded by retail investors in the secondary market through one of Altvest's subsidiaries, ATrade (50% owned by Altvest), which basically facilitates fractional ownership in relation to the investee businesses.

- For the investees, Altvest's key value add comes in the form of lower listing-related costs, broader access to the retail investment community through Altvest's partners and access to the experienced team within Altvest.

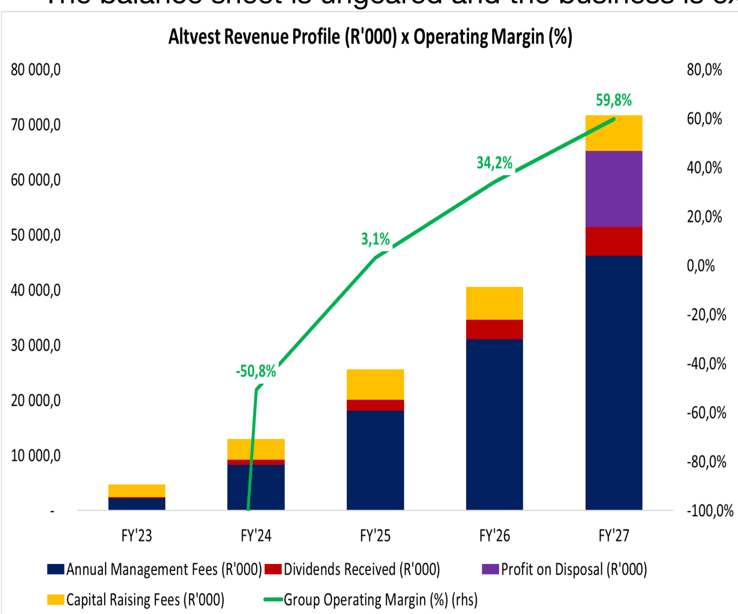
HOW IT WORKS

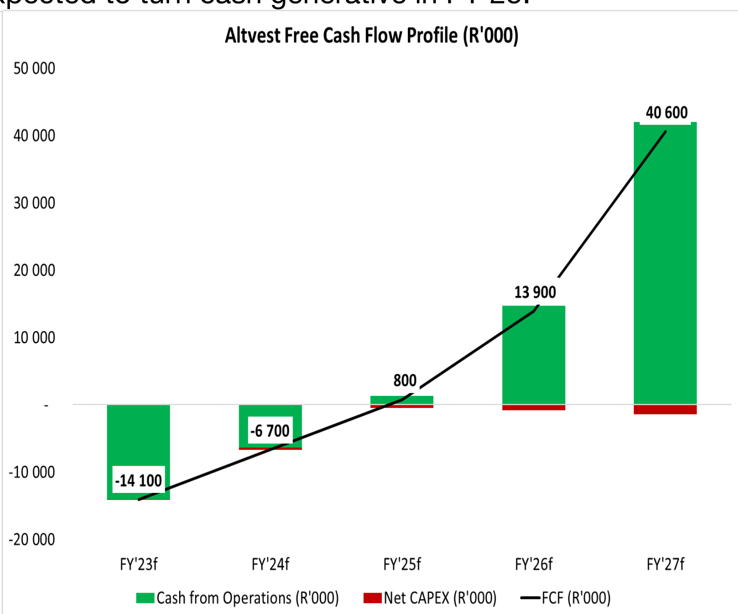
1. AltVest, a listed investment company similar to SPAC, sources investment opportunities for public capital raising;
2. Media partners publish the opportunity across various media platforms. An "invest now" option will be available.
3. A broker account is then opened with A-Trade, who maintains the KYC, governance and account details as per cat-1 license regulations.
4. CTSE Capital Solutions provides the technology, operational services and other services required for A-Trade and AltVest.
5. Each media partner undertakes a book build per capital raise.
6. Subscribers/readers are directed to an A-Trade account opening module.
7. Media house receives capital raising fee, which is tracked by the reader who inserts a unique code for access per media house.



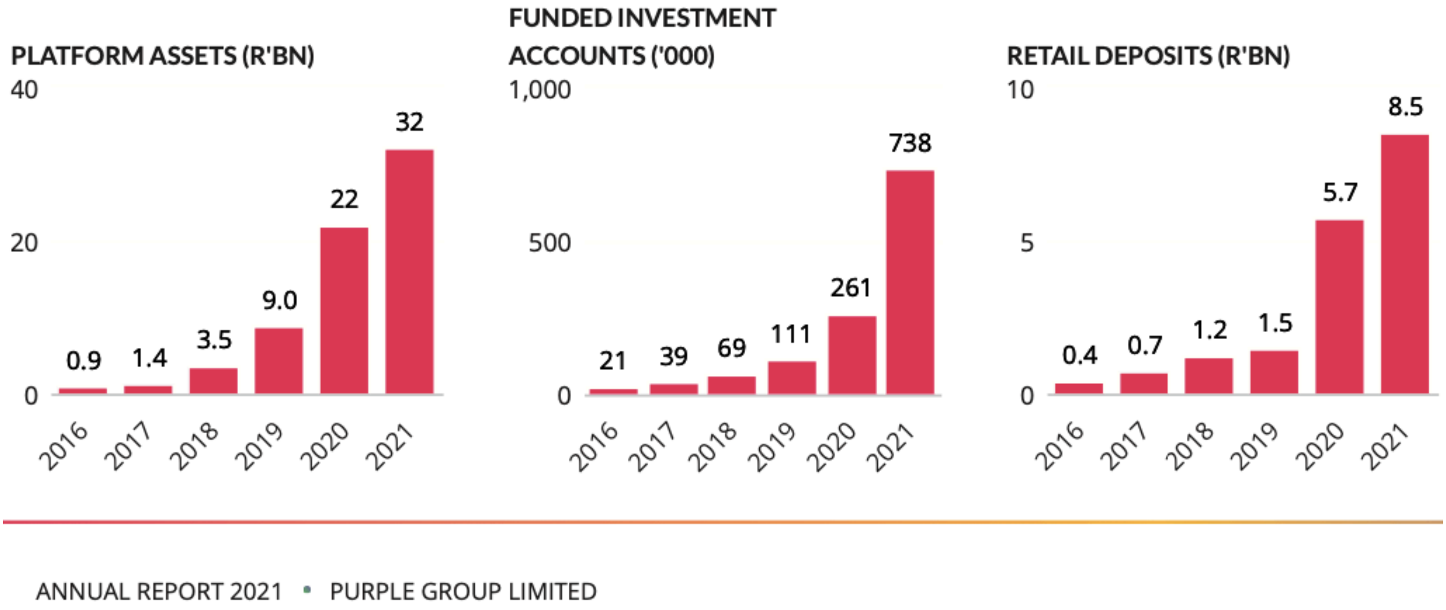


- The business was started in 2021 so there are no historical financials but management have released internal forecasts (shown below) which come across as a bit ambitious, in my view, especially given the currently weak economic environment.
  - It is expected that Altvest will make most of its money from annual management fees, which is a direct function of the number (and size) of listings as well as their relative revenue dynamics given that the fees earned are calculated as a % of the investee company's revenue - The business is also expected to continue making losses in the short term with breakeven expected in FY'25.
  - The balance sheet is ungeared and the business is expected to turn cash generative in FY'25:





- Altvest has a relatively unique business model and has no directly comparable peers in South Africa - Purple Group's subsidiary, EasyEquities (EE), is probably the closest proxy for Altvest, in my opinion, given that AltVest basically operates like EE, just in the private equity space:
  - Using EE as a (loose) proxy for historic growth levels, it is clear to see the potential spike in interest (especially seen in the post-pandemic acceleration in assets, funded accounts and retail deposits) for the Altvest product offering in the graphs below from Purple Group's 2021 annual report.



Group Portfolio/Umganu Lodge Opportunity

- Altvest's investment process focuses on businesses with a strong management team/business strategy as well as a relatively strong track record with some consideration for their subscribers' 'wants and needs', based on market/social media surveys conducted by the business.
- The group's first addition is Umganu Lodge, a 5-bedroom luxury lodge located in the Elephant Point estate, close to the Kruger National Park, which is considered a prime location for an asset of this kind - this property is currently owned by Kevin Peterson and managed by Legacy Hotels (operator of 300 lodges and other developments nationally), with an internal valuation of R30m, in which Altvest will be taking a 50% stake.
  - This investment is well aligned to the verticals targeted by management (Sports Teams; Property; Agriculture & Fintech) and while Altvest is relatively new to market, they intend to list 4 more businesses in 2022, as well as ramp up investment offerings to ± a listing a month, creating a sort-of SA private business index.
- I see the niche Umganu opportunity In a positive light, despite the business being significantly smaller than management's Investee company assumptions/targets - Umganu is expected to achieve sales of ±R2m this year vs the R100m average assumption/target set out by management in its forecasted financials:
  - It is worth noting however that, while Umganu itself doesn't quite have the scale to 'move the needle' in terms of growth for Altvest's overall portfolio, it is a relatively well run asset with net profit margins of ±25% vs industry averages of 5-8% - it is also better positioned as a luxury-level lodge, which have shown to be more economically defensive/viable than lower priced alternatives.
  - I also view it favourably that the targeted consumers (high net worth individuals/wealthy internationals) for this luxury lodge are more economically defensive than the average SA consumer so the weaker domestic consumer environment will probably be less of headwind for Umganu specifically, in my view.
  - Additionally it is also my view that, despite its small size, this listing will provide an accurate gauge of brand strength and investor appetite for the overall Altvest product offering.
- I strong believe that the key catalyst to Altvest achieving its portfolio growth targets will be around attracting profitable and scalable businesses to its platform, which I think will probably be very challenging in the current low growth environment.

Management Quality

- Altvest is headed by Warren Wheatley (Founder of Altvest Capital & ex. Alex Forbes & ABSA Capital), Koshiek Karan (Founder of BankerX, one of the Altvest's partners) & Richard Stronach - this is a relatively young but well experienced team with backgrounds in investment banking and Asset management so I see no clear red flags from that perspective:
  - The business is also owner managed (above-mentioned Directors holding 46% of the business) so the fortunes of the executive are (positively) in line with investors.
- Despite the experience that the above-mentioned team bring to the table & the fact that Altvest is well positioned as a 'first mover' in this space, I still believe that the very nature of the investments targeted by this business have significant execution risks and that the business/management remain unproven for now.
  - I also believe that their strategy to ramp up to ± a listing a month is quite ambitious (although not impossible) given the currently weak economic landscape in South Africa, as mentioned above.