

19 August 2022

AltVest Capital | Cape Town Stock Exchange | Initiation

Private Equity for the Everyman? Initiate at Overweight (OW)/High Conviction.

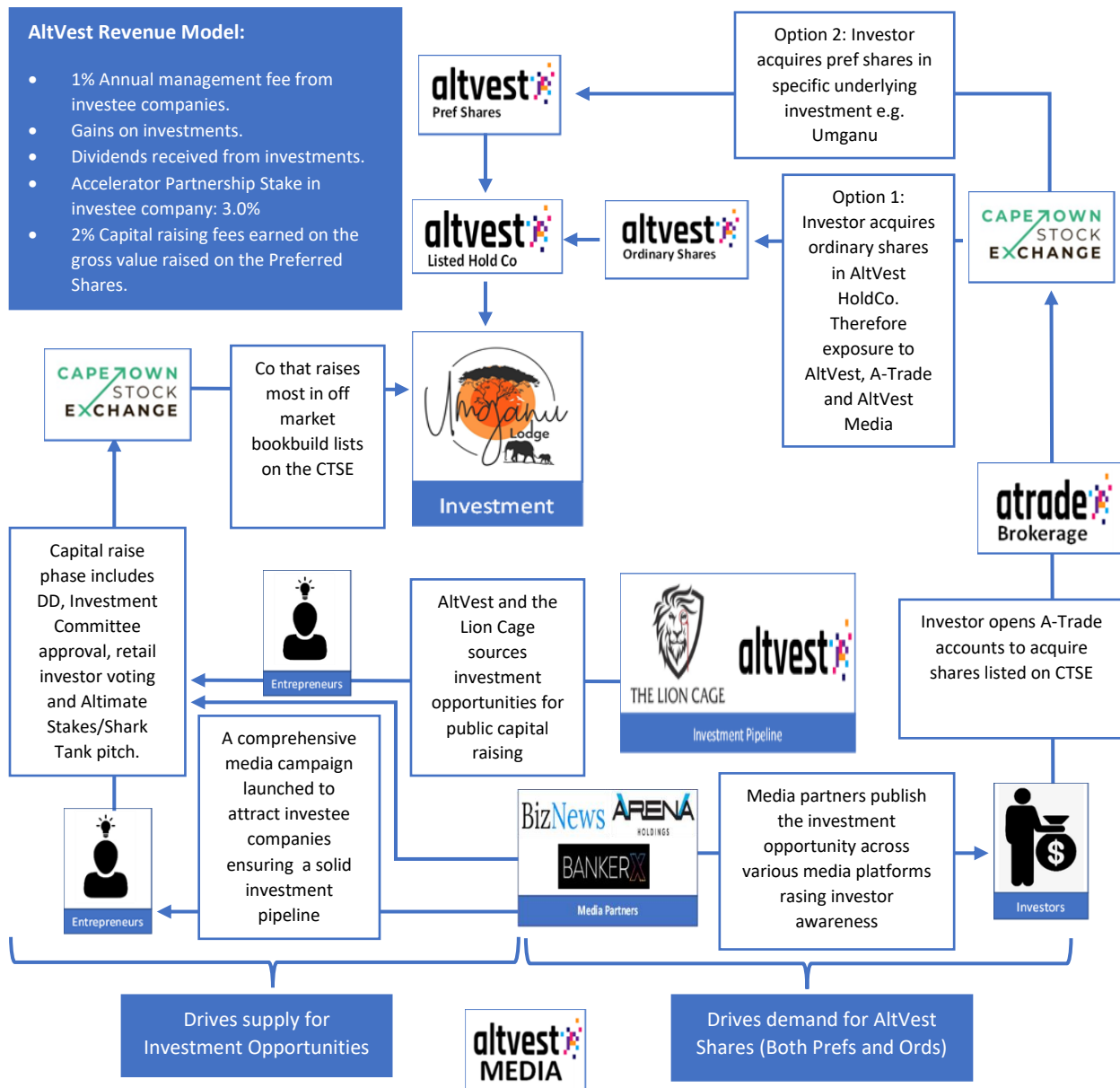
Meme stocks, SPACS, and Shark Tank; AltVest is democratizing access to unlisted investments for retail investors while allowing SMMEs to raise capital in the public market.

Investment positives include: 1) innovative platform ecosystem, 2) fractional share investments, Negatives: Key risks include 1) reduced retail investor demand, 2) subpar investment pipeline.

Initiate at OW; R12.28 SOTP Price Target: We use a WACC of 18% and a 5% nominal terminal growth rate.

AltVest Capital Limited	
CTSE Ticker	4AAVC
Sector	Financial Services
Stock Rating	High Conviction
Price Target ZAR	12.28
Share Price, close (18/08/2022)	5.05
52 Week High/Low	5.25/5.00
Market Cap (ZAR m)	50,500

SUMMARY OF ALTVEST ECOSYSTEM



Company Overview

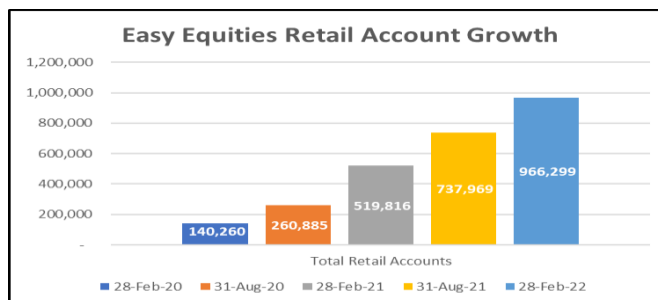
AltVest is best described as a platform ecosystem listed on the Cape Town Stock Exchange. Investors, entrepreneurs, and SMMEs are linked through the platform that encompasses a listed investment holding company (AltVest Capital), a stockbroker (A-Trade), and a media company (AltVest Media). Private equity investments have generally been off limits to retail investors, while SMMEs and entrepreneurs have also struggled to raise public funds. AltVest solves this problem by providing retail traders with direct fractionalized ownership in unlisted assets and opening the public capital market to SMMEs. Media partners further educate the public – driving demand under retail investors – and creates publicity for the SMME.



AltVest Structure		
AltVest Capital	A-Trade	AltVest Media
Altvest aims to mirror the SPAC (Special Purpose Acquisition Company) model. AltVest will utilise its media partners to attract issuers and investors onto its platform and leverage its media assets to raise funds from investors for acquisitions across assets. AltVest will acquire significant stakes in entities by listing preferred ordinary shares available for subscription by investors.	A-Trade is the retail brokerage platform facilitating trading on the Cape Town Stock Exchange (CTSE). AltVest holds a 50% Stake in A-Trade. Importantly, A-Trade was not part of management financial forecasts and presents a significant upside, c R2.61 per share in our base case.	AltVest Media aims to connect ideas to capital, facilitate high-quality dialogue and democratise access to insights through a community model and disruptive media channel strategy. In addition to traditional core media, AltVest Media strongly focuses on non-traditional, fast-growing, viral content avenues.

Market Analysis

The last two years have engaged a new cohort of retail investors. Combined with cyclical and idiosyncratic events since early 2020-2021 (i.e., market volatility, supportive fiscal and monetary stimulus, global travel restrictions, social media influences), the market has seen extraordinary levels of engagement from retail investors. We view EasyEquities (EE) is the closest comparison to A-Trade/AltVest, it promises to “democratize” investing and offers low-cost trading fees and fractional share ownership. EE grew funded accounts from c140K on 28 Feb 2020 to c1 million on 28 Feb 2022, furthermore the CTSE forecasts a market capitalisation of R2 trillion, demonstrating a market opportunity for AltVest supported by secular demand for DIY investing.



Investment Positives and Concerns

2 Investment Positives	2 Investment Concerns
1) Innovative platform ecosystem: Opens up a new market for investors and SMMEs by allowing retail investors to invest in Private Equity while simultaneously allowing SMMEs to raise public capital.	1) Reduced retail investor demand: easing travel restrictions and decreased fiscal and monetary stimulus could lead to retail investors becoming less interested in DIY investing.
2) Fractional share investments: This is particularly advantageous for investors who are working with limited capital as it allows investors to purchase shares based on a ZAR amount they select rather than the price of a whole share.	2) Subpar investment pipeline: Our concern is the supply side; can AltVest ensure a constant flow of high-quality investment targets they can realistically invest in? If the pipeline isn't adequate, then the ecosystem falls apart.

Valuation

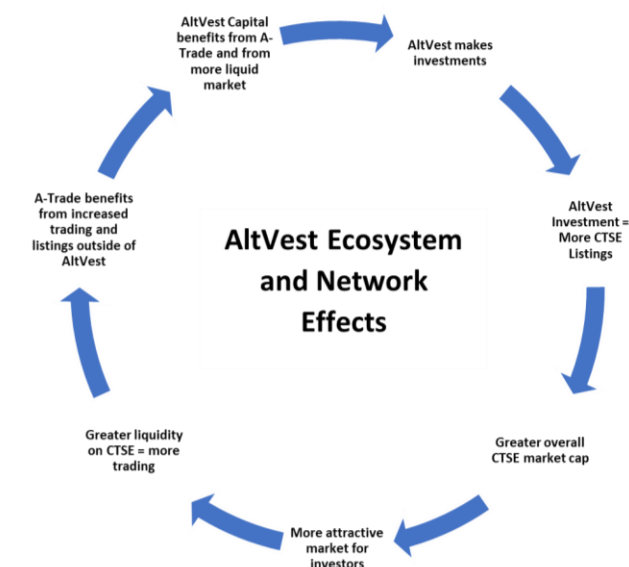
Our primary valuation methodology utilizes a Sum-of-the-Parts (SOTP) valuation, where we separately value AltVest and the 50% interest in A-Trade. We arrive at an **R12.28 price target per share, with R2.61 attributable to A-Trade and R9.67 to AltVest.**

A-Trade

Limited profit visibility inhibits the use of a Discounted Cash Flow (DCF) approach and certain relative valuation approaches such as an EV/EBITDA multiple. We, therefore, use an EV/Revenue valuation approach, which is appropriate for an early-stage company with high growth potential while mitigating the valuation issues experienced by the DCF and other relative valuation approaches.

Recent M&A transactions in the US retail brokerage industry traded at 5x EV/Revenue; we apply a discount for the SA market based on the different scenarios. **Our base analysis implies an equity value of R2.61 per share attributable to A-Trade.**

Scenarios: 1) A-Trade's base case is achieving c6% of the total addressable market (TAM) for retail trading in 2027. Applying a 2x EV/Revenue multiple to the base case 2027 revenue estimate and discounting back five years at a 20% discount rate (after considering estimated long-term debt as well as a 50% stake) results in a one-year forward base case price of R2.61 per share. 2) A-Trade's bear case assumes that retail investors are less interested in DIY trading and the CTSE not achieving projected growth. The bear case leads to a c0.5% 2027 TAM in 2027 and a one-year forward price of R.06 per share. 3) A-Trade's bull case achieves c15% TAM in 2027 and a one-year forward price of R5.40 per share. In this scenario, A-Trade rapidly expands its product offering, and retail customer engagement grows with a supportive macro backdrop in RSA.



A-Trade 50% Valuation Summary			
	Bear Case	Base Case	Bull Case
EV/Revenue Multiple	1.0x	2.5x	3.5x
Discount Rate	25%	20%	18%
Price per Share ZAR	0.06	2.61	5.40
A-Trade % Share of TAM	0.46%	6.05%	15.36%

AltVest

We have visibility regarding AltVest's revenue drivers, which gives us comfort around modelling future cash flows, and we therefore use a DCF as our primary methodology to value AltVest.

Our key DCF assumptions include: (1) WACC of 18% given the high-risk premiums attached to the new and innovative business model; (2) nominal terminal growth rate of 5%, typical for the market; (3) assuming that no tax losses can be utilized; (4) adjusted projected 2027 EBITDA is 27% lower than projected in the Pre Listing Statement, this is to reflect the risk of pipeline investee companies not having the projected R100 million revenue or R15 million EBITDA. Umgana lodge, AltVest's 1st investment, for example is only projected to make gross revenue of R1 million in FY23 and we have therefore adjusted accordingly. **We arrive at an intrinsic value of R9.67 per share attributable to AltVest.**

DCF Sensitivity Price per Share						
		Growth Rate				
		3.0%	4.0%	5.0%	6.0%	7.0%
WACC	15.0%	11.58	12.60	13.83	15.34	17.22
	16.0%	10.34	11.18	12.17	13.36	14.82
	17.0%	9.30	10.00	10.81	11.77	12.92
	18.0%	8.41	8.99	9.67	10.45	11.38
	19.0%	7.64	8.14	8.70	9.35	10.11
	20.0%	6.97	7.40	7.87	8.42	9.04
	21.0%	6.39	6.75	7.16	7.62	8.14
	22.0%	5.87	6.19	6.54	6.93	7.38

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