Altvest Capital | South Africa

Stock rating	Stock rating	Price Target
Overweight (Buy)	N/A	R9.49

Altvest Capital released their interim financials which has left us with a bit of mixed feeling in terms of the company's position. We can sight some of the impeding factors that have hindered the growth of the group such as a constraint retail market, operating within a very illiquid exchange and the inability to offer attractive companies to name a few. Looking at its current share price, one could make the assumption that more can be done by the company to justify this as a cheap entry.

What can we expect?

Altvest Capital Ltd	From	To
Price Target	R 2.40	R 9.49

Backdrop: Inflation is up to 5.9%, with the prime rate sitting on 11.75% which means without a doubt one could contextualise the constraint equity capital markets face. This has resulted in an upheaval in alternative investments.

One of the key driving forces for alternative investments has been private credit. The market is showing strong growth as global interest rates remain elevated. In South Africa, the repo-rate stands at 8,25% signifying a continuation in market depression in terms of discretionary spending (interest rates have a negative impact on consumer spending, holding other factors constant). The impact of interest rates has a two-fold implication for Altvest, the first being, it might be difficult to attract retail investors when they have little to no disposable income. The second implication is quite a tailwind in this regard. Interest rates are so high that an attractive yield is almost guaranteed with the Altvest Credit Opportunity Fund (the private credit segment of the business). As such, appraising Altvest is much more complicated than just assuming they will perform bad or good in prevailing conditions, at the end of the day, they are an alternative asset manager, from a legislation point of view, they are able to explore creative techniques to drive shareholder value, but given they are listed on an exchange, they have a paradoxical duty to also comply with listed company regulations, this might be a hinder for the business in terms of creativity. But this is what it is, and this is what the firm is involved in, them being private would defeat the purpose of democratizing private equity and other alternative asset classes.

On the note of "alternative asset classes", the business struggles with bringing excitement into its community. When one envisions alternative asset classes, they usually think of investing in the late development of bitcoin, investing in a strategic hedge fund or investing in a private equity fund that is focused on technological enterprise solutions. In short, retail investors don't want restaurants or leisure products, the active management involved in delivering a private equity opportunity should

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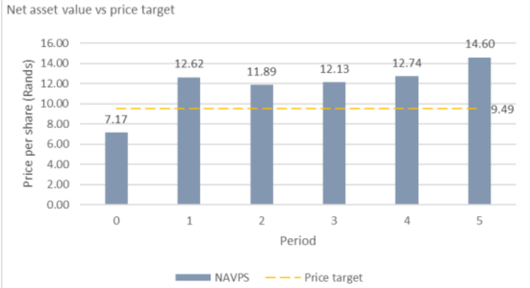
Altvest Capital Ltd (4AAVC)	
EMEA - investment holdings	
Stock rating	Overweight
Industry view	In-Line
Price Target (Rands)	9.49
Shr price, close (27/Nov)	2.40
Mrkt Cap('000)	24 000
Net debt ('000)	7 142
NAV, current	7.17
IFRS consideration	

Ratios	0	1	2
ROCE	23%	138%	147%
ROE	24%	206%	180%
Asset turnover	2%	154%	189%
Cash Ratio	0.04%	9.88%	9.07%
Current ratio	28%	386%	374%
P/E	1.41x	0.13x	0.13x
P/B ratio	0.03x	0.03x	0.02x

Income statement('000)	0	1	2
Revenue	1 966	245 058	293 251
Fair value gain/(loss) on investments designated at FVTPL	77 258	140 000	145 000
Fair value gain/(loss) on liabilities designated at FVTPL	1 574	3 640	3 625
Interest Income received	114	213	220
Foreign currency gains	3	6	6
Other administrative expenses	(59 856)	(190 165)	(240 466)
Profit/(loss) before finance charges	21 059	198 751	201 636
Finance charges	150	490	587
Profit/(loss) before taxation	21 209	199 242	202 223
Taxation	(4 214)	(13 613)	(13 091)
Of which: deferred taxation	4 214	13 613	13 091
Net profit/(loss) after taxation	16 995	185 628	189 132
Other comprehensive income	-	-	-
Total comprehensive income/(loss) for the period	16 995	185 628	189 132
EPS			
Basic	1.70	18.56	18.91

Balance Sheet	0	1	2
Assets			
Non-current assets	97 983	100 749	89 231
PPE	1 124	1 489	1 405
Investments in financial assets	96 859	99 260	87 826
Investments in subsidiaries	-	-	-
Deferred tax	-	-	-
Current assets	3 268	58 568	65 874
Trade and other receivables	467	23 499	16 069
Loan receivables	2 796	33 570	48 206
Cash and cash equivalents	5	1 500	1 600
Total assets	101 251	159 317	155 105



signify solving problems that are rudimentary to the development of entire sectors and industries. The following year, one can hope that Altvest will invest in industries that will deliver exponential development.

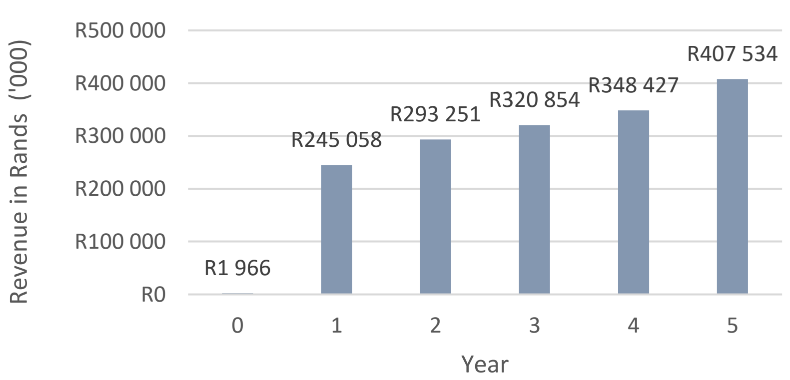
Investment thesis: The interim results cited some headwinds in the business's ability to list this year, but they have maintained that they will, in the following year deliver 5-7 listings a year, which is a bit ambitious when considering South Africa's prolonged economic strain is likely to be the theme for next year as well. But if the business has managed to revitalise their products and marketing, providing investors with investment opportunities delivering high returns, maybe a flight to quality will assist the firm. But even if we assume that alternative investments have a higher yield, we should also note that the Altvest Capital structure also negates the very benefits private equity investments have displayed historically, private equity benefits from illiquidity giving it more discretion in terms of setting prices and exit multiples, but when you introduce public market mechanisms such as participating on an exchange, the market determines the prices.

Financial analysis: Altvest Capital's key revenue drivers are fees earned from investee companies and subsequent transactions carried out to facilitate corporate finance solutions for those companies. So far, the group has had little to no listing, YTD revenue was over ~R2 million which was driven minimal listings, ACOF added a bit of support to the groups topline, but this is not real cash being earned, considering everything else, the group is still in a tough position and needs to drive transactions as soon as possible. Secondly the group will earn management fees from the management of the Altvest Credit Opportunity Fund (ACOF), this only means one thing, now the dynamics have changed, the group can now focus on growing assets under management into ACOF, by forecasting AUM to reach R 2.5bn in the next five years and the business to cover at least 4 – 7 listings a year, we can expect Altvest Capital to generate as much as R407 million in revenue by year five, which is both a mixture of two factors:

1. A general appetite for small cap listings

2. A liquid market to ensure adequate subscription

Figure 1 : Revenue



Business Description

Altvest Capital operates as a holding company. It invests in South African SMEs and aims to raise capital through retail investors. ACOF, of which Altvest owns 100%, is the business' recent attempt to enter the private credit space. When we consider the efforts of Altvest Capital, main revenue drivers are raising capital through its preferred ordinary share structure and offering corporate advice to SMEs who wish to explore DCM/ECM solutions (as an investment bank would)

Valuation: The price target of R 9.49 is computed through the Economic Value Added Method, this is the most appropriate method as it assumes that the value of a company only increases only if it invests in projects that can offer a return above the company's Weighted Average Cost of Capital (WACC). This is suitable for Altvest given earnings are heavily dependent on the group driving up listing, and not just any listings, high yielding listings that have a returns above WACC. The computed WACC of 11.49% is achieved through considering the groups capital structure, and is sensitive to the business increasing debt or issuing more shareholder equity(Figure 2).

Figure 2: Sensitivity Analysis

Equity-to-Capital Capitalisation	Cost of equity								
	11.78%	12.53%	13.28%	14.03%	14.78%	15.53%	16.28%	17.03%	17.78%
86.70%	11.10%	11.75%	12.40%	13.05%	13.70%	14.35%	15.00%	15.65%	16.30%
87.45%	11.18%	11.84%	12.50%	13.15%	13.81%	14.46%	15.12%	15.78%	16.43%
88.20%	11.27%	11.93%	12.60%	13.26%	13.92%	14.58%	15.24%	15.90%	16.57%
88.95%	11.36%	12.03%	12.70%	13.36%	14.03%	14.70%	15.36%	16.03%	16.70%
89.70%	11.45%	12.12%	12.80%	13.47%	**14.14%**	14.81%	15.49%	16.16%	16.83%
90.45%	11.54%	12.22%	12.89%	13.57%	14.25%	14.93%	15.61%	16.29%	16.97%
91.20%	11.63%	12.31%	12.99%	13.68%	14.36%	15.05%	15.73%	16.41%	17.10%
91.95%	11.71%	12.40%	13.09%	13.78%	14.47%	15.16%	15.85%	16.54%	17.23%
92.70%	11.80%	12.50%	13.19%	13.89%	14.58%	15.28%	15.97%	16.67%	17.37%

The WACC of 14.14% is akin to a valuation of R 9.49 given a Return on Capital Employed of 23%. The firm's high yield return and the assumption on increasing listings are key to the company and justify the high valuation implying an upside of 295%. This valuation is only justifiable if Altvest lists more SMEs and focuses on key revenue drivers.

Figure 3: Valuation

EVA Valuation

** Economic value added		ROCE	23%	WACC	14.14%	
Discounted future EVA	0	1	2	3	4	5
Closing asset book value (ABV)	71 707	90 071	104 982	118 603	125 951	133 400
NOPAT (ROCE x Opening ABV)		16 822	21 130	24 628	27 824	29 548
Less: Capital charge (COE x Opening ABV)		10 142	12 739	14 848	16 775	17 814
EVA		6 680	8 391	9 780	11 049	11 734
PV factors		0.88	0.77	0.67	0.59	0.52
PV		5 852	6 440	6 576	6 509	6 056
PV of future EVAs	31 434					
Continuing value	-					
Beginning book value	71 707					
Value of the Firm	103 141					
Less: Value of Debt	8 231					
Value of Equity	94 910					
Value per share	9.49					

Key risks to upside include:

- Increased listings and more transactions being carried out.
- Increased market liquidity favouring activity within the retail market
- ACOF increasing AUM (aggressive capital raise)

Key risks to downside include:

- Prolonged adverse economic conditions (load-shedding, water crisis and higher interest rate)
- Market remains illiquid
- Minimal listings driven by slow traction and inability to effectively market capital raising initiative to retail investors