Executive Summary

Recommendation: Buy

Ticker: 4AAVC

Intrinsic Value Per Share: R12.04 per share

Current Price (per CTSE): R2.40

Market Capitalisation: R24,000,000

#StockTake

Report by: Justin Heunis

- **Growth Potential:** The company's strategic focus on SMEs and women-owned businesses, coupled with its innovative approach to broadening access to financial markets, positions it well for future growth in emerging market segments.
- **Innovative Business Model:** Altvest's disruptive platform offers low-cost investments and asset management solutions. This unique positioning in the market, emphasizing digital and traditional media platforms, makes it an attractive proposition for investors seeking exposure to innovative financial services.
- **Market Positioning:** The transition from trading at a premium to NAV per share to trading at a discount highlights a potential undervaluation, presenting a favourable entry point for investors.
- **Liquidity and Cash Flow Prospects:** With the launch of ACOF and the expected immediate revenue generation of at least R3 million before the end of the financial year, short-term liquidity pressures are expected to ease.
- **Founders' Commitment:** The commitment from founding shareholders to support working capital requirements until cash flow positivity is achieved underscores confidence in Altvest's strategic direction and long-term viability.

Market Context and Trends:

The financial market in South Africa has been facing several challenges. In 2023, economic growth slowed to an estimated 2.0% and is projected to decrease further to 1.7%. This decline was primarily due to ongoing load-shedding and is expected to persist due to the implementation of rolling blackouts. Fiscal conditions have also deteriorated, with concerns over government revenue shortfalls and a worsened macroeconomic situation since the 2023 budget publication. Household consumption expenditure growth is expected to decelerate significantly, while the economy experienced only modest year-on-year growth in Q2 2023. A cost-of-living crisis is currently impacting South Africa, with further monetary tightening having the potential to stabilize prices at the risk of jeopardizing growth. The near-term economic outlook has weakened, with projections of a sharp deceleration in real GDP growth due to intense power cuts and weaker commodity prices. The financial markets are unpredictable and volatile, struggling with high unemployment, inflation, and a depreciating rand.

In contrast, the alternative investment sector in South Africa has seen a surge in investor confidence and interest. The hedge fund industry has experienced a 30% growth in assets under management in 2022, ending the year with R113 billion compared to R86.93 billion at the end of 2021. Healthy net inflows were recorded in 2022 as opposed to net outflows in 2020. The industry is expected to grow further in 2023, following the amendments to Regulation 28 of the Pension Funds Act, which allows local pension funds to invest more in hedge funds and private equity investments.

Private debt is another alternative investment class experiencing significant growth in South Africa, offering lower volatility, lower market correlation, and better cash returns compared to traditional asset classes. Known as direct lending, private debt investments are loans from non-bank lenders for various purposes. They typically provide higher returns, lower volatility, lower risk, portfolio diversification, predictable cash flows, and potential tax efficiency. A recent survey shows that private debt, structured products, and hedge funds are the top three alternative investments for sophisticated South African investors, with many planning to increase their allocations to these alternative investments, with a considerable focus on offshore markets.

The current global economic trends, including the anticipation of continued monetary tightening and the impact of the cost-of-living crisis, have likely influenced the shift in investor preferences towards these alternative investments, which offer potential for higher returns and lower risks compared to traditional investments. These trends suggest a growing recognition of the need for diversification and socially responsible investing, which alternative investments can provide, particularly in a challenging economic environment.

Market Position and Disruption:

The company is positioned as a disruptor in the investment market, leveraging both traditional and digital media platforms to democratize access to alternative investments. Its approach to enabling ownership and trading of unlisted assets is innovative, aiming to revolutionize the private equity market in South Africa.

Valuation: Discounted Cash FLow

AltVest Financial Forecast	Notes					
(R'm)		FY24	FY25	FY26	FY27	FY28
Capital raising fee income	1	6.4	6.8	7.2	7.6	8.1
Annual Management Fee (1%)	2	0.2	0.4	0.7	1.0	1.4
Fee Income from Revenue on Marketing Budget (1% Recurring):	3	4.0	4.2	4.5	4.8	5.1
ACOF Fund Management Fees (2% of AUM p.a.):	4	3.1	3.3	3.5	3.7	3.9
ACOF Upfront Fee (40% of the upfront fee on loans disbursed):	5	20.0	21.2	22.5	23.9	25.3
Profit on disposal of of investee companies	6					13.8
Total revenue		**33.7**	**36.0**	**38.4**	**41.0**	**57.6**
Employee costs	7	(6.9)	(7.3)	(7.8)	(8.2)	(8.7)
Operating costs	8	(19.3)	(20.4)	(21.7)	(23.0)	(24.3)
Listing costs – investee companies	9	(6.8)	(7.2)	(7.6)	(8.1)	(8.6)
Earnings before interest, tax, depreciation and amortisation		**0.7**	**1.0**	**1.3**	**1.7**	**15.9**
Taxation	10	(0.2)	(0.3)	(0.3)	(0.5)	(2.3)
Cash flow from operations		**0.5**	**0.7**	**0.9**	**1.3**	**13.6**
Investment in Capex	11	(0.1)	(0.3)	(0.5)	(0.8)	(1.4)
Unlevered cash flows		**0.4**	**0.4**	**0.4**	**0.5**	**12.2**
Terminal Cash flow						12.85
Weighted average cost of capital (Wacc)	12	20.30%	20.30%	20.30%	20.30%	20.30%
Discount Factor		100.00%	200.00%	300.00%	400.00%	500.00%
FCFF		**0.4**	**0.3**	**0.3**	**0.4**	**8.7**
Present Value of Terminal Value						**117.5**
Enteprise Value	13	127.5				
Cash		0.0				
Less:Debt	14	(7.1)				
Equity Value		120.4				
Intrinsic value per share	15	**12.04**				
Current share price (per CTSE)		2.4				
Upside potential		**401.7%**				

Notes and assumptions utilised in the forecasted financials

1. Capital Raising Fee (2% Once Off):
- Average listings per year: 4
- Average capital raised per listing: R80 million
- Revenue from Capital Raising fee (80x4x0.02): 6,400,000
- From FY24 onwards, grown by long term growth rate of 6%, (SA long term GDP growth rate, sourced from Fitch)

2. Retail Investors Fee (1% Once Off):
- Number of listings per year: 4
- Average Revenue per investee company: R5m (based on the average of Umganu and Bambanani) escalation at 9% per anum
- Revenue from Annual Management Fee (5m x 4 x 0.01): R200,000

3. Fee Income from Revenue on Marketing Budget (1% Recurring):
- Total annual revenue of investee companies(R100m x 4): R400m
- Revenue from Fee Income from Revenue on Marketing Budget: R4,000,000

4. ACOF Fund Management Fees (2% of AUM p.a.):
- ACOF Assets Under Management (AUM): R156 million
- Revenue from ACOF Fund Management Fee: R3,120,000

5. ACOF Upfront Fee (40% of the upfront fee on loans disbursed):
- Number of loans disbursed by ACOF per year: 10
- Average loan size: R5 million
- Revenue from ACOF Upfront Fee:R20,000,000

6. It is assumed that AltVest exits each investment within 5 years.
- The profits are attributable to the disposal of AltVest's Accelerator Partnership Stake in the investee companies per listing document

7. Employee costs are based on management estimates and are escalated at 6% per annum. (South African long term inflation rate, source from Fitch)
8. Operating costs are based on the latest interim results ofR 9.642m (annualised by multiplying by 2) and escalated at 6% per annum.
9. These are the expected costs of listing the Preferred Ordinary Shares issued by AltVest to raise capital for each investment it makes.
- The costs are assumed to be R1.7 million per investment escalating at 6% per annum.

10. 27% South African Tax rate
11. Capex expenses per the listing document (average of ~ 2% of Revenue)
12. Weighted average cost of capital for Altvest per lates annual financial report
13. Terminal Value is the FY28 cash flow grown at the long term growth rate of 5% under the perptuity approach (Wacc-sustainable growth)
14. Debt consists of short term borrowings of R1.6m and shareholder loans of R5.5m
15. Number of ordinary shares in issue per the CTSE: 10m

Competitive Landscape:

- **Purple** Group: Purple Group has announced plans to raise funds through rights offer to facilitate its expansion strategies. This includes developing strategic projects and acquisitions aimed at enhancing shareholder value and improving the client experience. A significant part of this strategy involves the expansion of its subsidiary, EasyEquities, which intends to grow internationally, focusing on regions with favourable setups and existing digital ecosystems. Purple Group is actively seeking to capitalize on growth opportunities both locally and internationally.
- **Vunani:** Vunani Limited has reported a 10% increase in revenue and premiums and a 33% rise in operating profit for the year ended February 2023, demonstrating growth and resilience in the challenging economic landscape. Despite a decrease in earnings per share and headline earnings per share, Vunani's core operating activities showed potential for growth. Vunani operates across various segments, including fund management, asset administration, insurance, and investment banking, which positions it as a prominent player in the South African financial services industry.
- **JSE Ltd:** The JSE has launched a voluntary carbon market, allowing local participants to buy or sell carbon credits and renewable energy certificates. This initiative, run by JSE Ventures in collaboration with Xpansiv, is a step towards engaging in the global environmental commodities market and demonstrates the JSE's commitment to sustainable and responsible investing.
- **Sygnia:** Sygnia is focused on attracting billions of rands to its new Ucits funds set up in Ireland as part of its global growth strategy. The company is looking to expand its asset management services and is aiming for significant growth in its funds under management, indicating ambitious plans for expansion and scaling up its operations internationally.

These strategies reflect a broader trend in the South African alternative investment sector towards expansion, both in terms of product offerings and geographic reach, as well as a commitment to sustainable and responsible investing.

Unique Value Proposition:

- Liquidity in Unlisted Assets: Altvest's focus on creating liquidity and facilitating secondary market trading is a key differentiator.
- Direct Investment Enabler: By allowing direct fractionalized investments in unlisted assets, Altvest provides a unique offering that's not commonly available to retail investors.
- International Reach: Altvest's mechanism for reaching both local and international capital pools benefits entrepreneurs and investors alike, potentially increasing the flow of capital into South African businesses.

Risk Assessment:

Risk Category	**Description**
Strategic and Business Risk	Implementation of Business and Operating Model: Altvest's growth and profitability hinge on its business strategy and portfolio management. Ineffective implementation or adaptation could impede financial performance.
IT Risk	Cybersecurity and Technology Failures: Altvest's operations depend on its IT systems. Risks include cybersecurity breaches, data theft, and system failures, which can disrupt operations and harm reputation.
Outsourcing Risk	Dependency on External Service Providers: Outsourcing may introduce risks of third-party non-compliance, service failures, or data breaches, impacting operations and compliance.
Compliance Risk	Regulatory Compliance and Investment Compliance: Altvest operates in a complex regulatory landscape, and non-compliance could lead to penalties and reputational damage.
Market Risk	Portfolio Market Risk: Investment values are subject to market volatility. Economic cycles, interest rates, and stock market changes can affect profitability.
Liquidity Risk	Portfolio Liquidity Risk: There is a risk in the ability to liquidate assets promptly without significant loss, dependent on market conditions and asset liquidity.
Economic Risk	Negative Macro-Economic Conditions: Altvest's operations are susceptible to the economic climate in South Africa, with factors like recession and inflation posing risks.
Operational Risk	People Risk: The risk of losing or failing to attract key personnel could impact operational effectiveness and growth.
Geographic Risk	South African Market/Domicile: Altvest's concentration in South Africa exposes it to the country's specific economic and political risks.
Foreign Exchange Risk	FX Risk: With international exposure, Altvest faces risks from foreign exchange rate fluctuations, affecting overseas investment values.
Reputational Risk	Related Party Risk: Altvest engages in a number of related party transactions, which could raise concerns about conflicts of interest and the fairness of these transactions.