ANALYST REPORT - ALTVEST CAPITAL LTD

Share code	4AAVC	Shares outstanding	10 000 000
Recommendation	BUY	Market cap	24 000 000
Date	27-11-2023	Industry	Investment holding
Fair value today	R6,80	ISIN	AE400000143
Market price today	R2,40	Stock Exchange URL	https://www.ctexchange.co.za/Security/4AAVC

Executive summary:

Altvest is operating in a highly growing industry. Altvest has a business model that will plausibly result in successful and robust sources of income. They have a truly unique value proposition, offered by no other in South Africa, and the competition is lacking. Though Altvest is expected to make net cash outflows in some coming years, the growth rate of the industry in itself, paired with the lack of competition, is majority of the reason for Altvest having the high fair value that it has.
The valuation was done using a discounted cash flow method, and a discount rate of 18,14% with growth of revenues at 11,5% pa (due to high growth rate of the industry) and growth of expenses at 6% pa (due to inflation)
The fair value came to R6,80 resulting in a large upside of 263%.

Who is Altvest and what do they do?

Altvest is a financial services firm which seeks to bring bespoke investment opportunities to the general public. To date, they have made public access possible to 3 private companies: Umganu lodge (Pty) Ltd, Bambanani family group (Pty) Ltd, and Altvest Credit opportunities Fund Ltd. They engage in the following main business model:

1. Finding, or getting an application from a promising private SME in need of capital. For example, Umganu lodge.
2. Acquiring ordinary equity shareholding in the business (sizeable stakes of 15 to 49%) using their own capital. For example, they invested R15 million of their own capital into Umganu lodge ordinary shares.
3. Altvest then lists preferred ordinary shares linked only to that client business. These Preferred Ordinary Shares in Altvest offer ringfenced exposure to all/part of the economic rights in that specific investment (eg: Class A preferred ordinary shares pass on the dividends and value growth from Umganu lodge only). These Preferred Ordinary Shares are listed on The Cape Town Stock Exchange. This is essentially an innovative, low-cost financial structuring solution for SME's to obtain a listing. Altvest lists an amount at a listing price such that the total issue value equals their investment. For example, Altvest listed 10 million class A preference ordinary shares at R1.50 each, for Umganu. These get purchased and subscribed for over a few years. This means that initially, all the dividends and revaluation gains are enjoyed solely by Altvest.
4. Collaborating with management of the business to unlock additional value and maximise returns for all stakeholders over a 3 to 5 year period, then exit.

It is through this main business model, that most of their income will be generated.

Altvest's income sources

Fees payable by investors:

- Bookbuilding fees. Altvest has developed a subsidiary platform called Altvest Securities within which retail investors are able to pre-order shares in Altvest listings (ie. participating in bookbuilds). For example, Altvest charges 1% on capital committed during bookbuild of Bambanani Family (Pty) Ltd..
- Platforming and management fees. In the Bambanani example, the fee is R250 000 per annum in total and platform management fee (this fee is shared proportionately across all investors).
- Capital gains. In the Bambanani example, the fee is 5% of the capital gain on disposal of Altvest's underlying investment in Bambanani.

Other fees:

- Altvest Capital has an asset management deal with Altvest Credit Opportunities Fund (ACOF), where they charge 2% on assets under management. Altvest also offers a retirement annuity plan where they charge 1% total as fees.

Fees payable by the client business:

- Capital raising fee and advisory fees for financial modelling, structuring, drafting of listing documentation, advisors, facilitation of listing process, supporting marketing and legal/structuring costs of onboarding investors. In the Bambanani example, the fee was R1 million upfront.
- Corporate Finance, Technical Advisory and Business Optimization services fee as a percentage of yearly revenue. In the Bambanani example, this is 1% of revenue per annum from the existing operating location, decreasing to 0.75% of revenue from the next location and 0.5% of revenue from every subsequent location.

But, these revenue sources are entirely dependent on:

1. The incentive for retail and institutional investors to use the platform.
2. The incentive SMEs to raise capital through Altvest

And therefore we will now investigate the benefits they get.

Benefits to the stakeholders

Benefits to the retail investor:

- Access to asset classes that are diversified, difficult to access, non-correlated to traditional markets.
- These benefits are accessible via regulated public markets.
- Only the private assets that have been thoroughly evaluated and are actively managed by an experienced team are part of the set of possible investments. Therefore, institutional investors no longer have to spend the resources in doing the same for those businesses. They can put their money in 3 potentially high returning funds / low market correlation funds provided by Altvest, which are ACOF, Altvest Opportunities fund, and Altvest Growth Fund.
- Altvest provides a market leading platform for creation, issuance, sale, distribution, management, tracking and trade of direct fractional ownership in unlisted assets. The benefits of the platform brings flexibility, liquidity, real time valuation and speed of execution to private asset owners. The real time valuation addresses the information asymmetry inherent in alternative investments.
- The minimum investment requirement has been substantially reduced. For example, the entry point for Umganu lodge, Bambanani, and ACOF were R1.50, R10, and R3 respectively, whereas previously, they would have been in the hundreds of thousands.

Benefits to the SME in need of capital:

- Because of the due diligence process of preparing financial statements and compliance checks, as well as undergoing a scrutinizing assessment and fair valuation process, only the most promising businesses are green-lighted for capital raising.
- These businesses get access to world-class business tools to manage, scale and improve investability of the business in the long term, as well as an expert team to help with operations, strategy, accounting, regulations compliance, marketing, or any other shortfall.
- A (indirect) listing on the CTSE. Listing is cheaper this way. This provides access to capital, especially from retail investors and potentially from the businesses' own customers.
- Not only equity financing, but also debt financing option from Altvest's integration with ACOF.

Altvest's performance

Because Altvest is a very new company, it does not make sense to analyse ratios in the conventional way, or to assess robustness of income, since these ratios are subject to great change as the business matures, and income generated so far has not been representative of what Altvest is building up to. Instead, we must analyse the quality of their investments, since this will determine the attractiveness to retail and institutional investors in using Altvest, thus providing a strong base of revenue. Capital raising fees will also be a strong base of revenue if Altvest is an attractive company to raise capital from, which will happen if management is especially helpful in unlocking additional value for the company. Thus, we should assess the quality of Altvest's investments as well as their ability to improve the businesses themselves.

Assessing their investments:

Umganu lodge:

- Pros: Umganu experienced strong historic capital growth of 12% annually, with management expectations of between 15%-18% based on future growth plans. Occupancy rate was 70% in 2023, while the average pre-covid South African overall occupancy was ±45% across all tourism accommodation types[1].
- Cons: of the amount that Altvest Invested into Umganu, R4 million was used to repay historic shareholder loans in full. This means far less of the capital raised is available for expansion and growth.
- Forecasted return:

Scenarios	Key assumptions		Annual capital gains appreciation for land/buildings				
	Implied occupancy	Annual price escalation	0%	5%	10%	15%	20%
Growth	65%	10%	11%	13%	16%	19%	22%
Expected	55%	8%	9%	11%	14%	17%	21%
Conservative	45%	6%	7%	9%	12%	16%	19%

Management thus expects an IRR of 16%. Even in more conservative estimates, the IRR is attractive as an investment, especially given the low correlation to equity market returns.

Bambanani family

- Pros: The restaurant has developed a strong local brand and network of passionate guests, many of whom visit several times a month for years. This is in line with Mr. Wheatley's vision, where the customers of the business becomes the investors themselves, thus turning them into many ambassadors of the business[2]. The restaurant has been alive for 14 years,
- Cons: Decreased revenues and higher operating costs in fy2023 compared to fy2022. New location's scheduled opening was mid 2023. It is now almost December 2023 with no public information or google maps information about the opening of the new location.
- Forecasted return:

IRR Matrix	Key assumptions		Target weekday occupancy*				
	Target Friday Occupancy*	Timing of new location	40%	45%	**50%**	55%	60%
Growth case	75%	Q1 2023	12.7%	13.3%	13.8%	14.4%	15.0%
Expected Case	**65%**	**Midway through 2023**	12.2%	12.8%	**13.3%**	13.9%	14.5%
Conservative case	50%	End 2023	11.5%	12.1%	12.7%	13.3%	13.9%

Management thus expects a 13.3% IRR. Again, even in more conservative estimates, this is an attractive investment, especially given the low correlation to equity market returns.

Altvest Credit Opportunities Fund (ACOF), a subsidiary of Altvest Capital:

The principal activities of the company are providing loans to qualifying SMEs. ACOF will obtain capital for deployment from several categories of investors and funders in the form of debt and equity. The primary use of capital raised will be allocated for ACOF to originate structured loans to borrowers through an online platform. ACOF also supports its portfolio of borrowers by offering technical, compliance, marketing and finance related services.

This is a brand new entity, for which an entirely different complete report is required in order to fully justify the expected IRR that we will use.

In short, according to management, ordinary shareholding (for institutional investors) expects an IRR of 26 to 28%, and the same is applicable to the listed preferred shares (for retail investors) on the CTSE. Keep in mind, though, that there are increased default risks and interest rate risks inherent within SME lending. The yield curve in South Africa is upwards sloping, indicating a good reason to think that there are going to be further interest rate hikes. Increased cost of debt is especially troublesome for SMEs, and can lead to default. Other unexpected downturns in the economy will also hurt SMEs especially. SEFA (SOC) Ltd, a competing SME loan issuer, has been realising large losses due to bad debts, despite large grant incomes[3].

Assessing ability to improve the businesses

To assess this, we would need to analyse their history in helping small businesses become unlock additional value. Since Altvest is very new, this information is not yet present. We can, however, take a look at the management and staff to form our level of trust. Their years of experience and high positions in commerce allows us to place a reasonable degree of trust in them being able to deliver. In terms of their marketing ability, this seems to be growing rapidly.

Competition

There are 4 main competitors to Altvest:

1. Special Purpose Acquisition Companies (SPACs). There are a mere 8 SPACs listed across JSE and AltX. This is far fewer than what is, by common sense, the number of company's needing a listing and capital in South Africa. Moreover, these SPACs charge a far greater fee than Altvest. They thus do not count as threatening competitors.
2. Investment banks. These actually should not be classified as competitors because although they are also in the business of raising capital, they do so via IPOs, or by other means, for public companies, institutions, or government. Altvest targets private equity, where SMEs would not actually be helped by an investment bank.
3. Banks. Bank lending is a threat to ACOF, however, ACOF offers advisory and management services to enhance operational productivity, while banks only lend. ACOF also gives preference to women-led businesses, while banks do not. So, such businesses have a go-to option above banks. Banks also tend not to consider lending to Small and Micro enterprises at all, unless they set an expensive rate.
4. Loan providing firms such as Business Partners, Sourcefin, Edge Growth, and more. ACOF has a moat, which is its aggressive preference of women led businesses. Such businesses receive a 25% discount from their borrowing rate, where their borrowings are funded through listed DMTN program on the CTSE. Management also provides their expertise to help the business. ACOF also has integration with Altvest Capital for equity funding. These give a reason to pick ACOF over other lenders.

Industry

According to Nasdaq, the global alternatives assets under management was \$8.8 trillion in 2019, and is expected to grow to \$17.2 trillion by 2025, with a compound annual growth rate of 11.5%[4]. the United States' alternative finance market grew by 71.7% from USD 48.9 billion in 2019 to USD 84 billion in 2020. The Czech Republic and Japan registered the largest increases in volumes transacted compared to 2019 with a rise of 108% and 105% respectively. On the other hand, China's market has declined significantly in recent years, from USD 177 billion in 2018, to USD 84.3 billion in 2019, to just USD 1.15 billion in 2020. The Chinese authorities implemented a long-term supervision mechanism of internet finance to mitigate future internet financial risks. As a result, by June 2020 the number of online lending platforms in China declined from 5000 to just 29. Other countries that experienced a downturn in its alternative financing volumes can be in part explained by the lower volumes in alternative models of lending associated with the uncertainty of the pandemic[5].

South Africa shares none of the reasons to have a downturn in its alternative financing market, and shares all the aspects of a liberal economy to allow for the expected rise in its alternative financing market.

Because the 11.5% growth rate of alternative financing volumes mentioned above referred to the global average (including the likes of China), we can expect South Africa's growth rate to be even higher than the global average. However, to be conservative in our valuation, we will use a growth rate of 11.5% in our valuation.

[1] https://www.iol.co.za/sunday-tribune/travel/south-african-hotels-recorded-an-increase-in-occupancy-in-july-according-to-the-latest-figures-from-statssa-1e689b35-a4b9-4226-965e-537fd4b22dc3#:~:text=According%20to%20StatsSA%2C%20South%20African,Picture%3A%20Statistics%20SA.

[2] https://www.youtube.com/watch?v=EEMaPU5je9E&t=374s

[3] https://www.sefa.org.za/uploads/files/files/sefa-Annual-Report-2023.pdf

[4] https://www.nasdaq.com/articles/alts-for-all%3A-the-growth-of-alternative-investments-explained

[5] https://www.oecd-ilibrary.org/sites/5c0e189f-en/index.html?itemId=/content/component/5c0e189f-en#section-d1e4159

VALUATION

PROJECTED CASH INFLOWS

Altvest claims that they will engage in 6 to 8 new listings per annum from now on. We will be more conservative and assume that they engage in the lower estimate of 6 listings per annum. We will also assume that Altvest will keep their holdings in the companies for 5 years on average, before selling their holdings and repurchasing the respective preferred ordinary shares (which means that revenue from annual fees charged will be charged for 5 years for each listing in the calculations below). We also assume that Altvest will hold on to ACOF and not let go after 5 years. This means that we will assume the following number of investment holdings per year end:
2024: 9
2025: 15
2026: 21
2027: 26 (disposal of Umganu)
2028: 31 (disposal of Bambanani)
2029: 31 (disposal of 2024 listings, plus 4 new listings)

From 2028 onwards, the total number of listings on offer is expected to grow at 11.5%, in line with growth in demand by retail investors in the alternatives investments market, as discussed earlier.

Corporate Finance, Technical Advisory and Business Optimization services fee as a percentage of yearly revenue.

According to Umganu's management's calculations, its revenue is projected to increase from R2 106 000 in 2023 to R6 330 000 in 2027, representing an estimated nominal average annual compound growth rate of around 25%. The revenue figures for Bambanani for five-month periods in 2022 and 2023 are provided, but due to a lack of available information, yearly figures are extrapolated to be R7 565 153 and R7 260 005, respectively. These sustainable revenue figures are considered reasonable in comparison to other companies on AltX with similar market caps. An estimate of R7 million is placed as the average first year revenue for new listings in 2024, and subsequent new listing in the following years is expected to realise a greater initial revenue in line with inflation (6%). Existing listings are expected to generate revenue with a growth rate of 20% due to expansion from capital raised (instead of 25% due to being conservative). If Altvest charges a 1% pa fee on revenue, the corresponding income from this source is then determined.
2024: 560 000
2025: 1 117 200
2026: 1 812 552
2027: 2 675 269
2028: 3 740 586
2029 onwards: +11.5% pa

Platforming and management fees

Altvest receives 250 000 per annum from this source of income from the Bambanani listing, and 150 000 from Umganu. Taking the average, they will earn 200 000 pa per listing until the time of exit. So, income per year will be as follows:
2024: 400 000
2025: 1 600 000
2026: 2 000 000
2027: 2 800 000
2028: 4 000 000
2029 onwards: +11.5% pa

Capital raising fees + bookbuilding fees + advisory fees for documentation, marketing, legal costs, etc:

The amount received from Umganu was R2 mil. This was for an investment of R15 mil. The amount received from Bambanani was R1 mil. This was for an investment of R12.5 mil. The proportion of fees to capital raise was 13% and 8% respectively. On average, we can assume this to be 9.5%. On average, the capital raise can be expected to be R15 mil, since this is representative of what we have seen, and it is an appropriate amount in terms of purchasing commercial property for expansion / buying equipment / etc. Thus, 9.5% of this is 1 425 000. Levying this fee for the 6 listings per year, and increasing it by 6% each year for inflation, we get the following amount of income per year:

2024: 8 550 000
2025 onwards: + 11.5% pa

Capital gains fees:

There is a fee of 5% of the capital gain on disposal of Altvest's underlying investment, payable by investors. Umganu's management expects this fee to be 680 000 total for the investment into Umganu, implying an expected 13.7% pa capital gain. Over the past decade, the FTSE/JSE Small Cap Index has yielded 3.26%, however, this was mostly due to Covid. In contrast, since the low in march 2020, the annual yield has been 27% pa. Therefore, a capital gain of 13.7% pa neither seems too conservative nor too ambitious. We will use an average capital gain of 13.7% pa over all investments which we previously assumed to be 15 mil on average, increasing at 6% pa. The income will then be:
2024, 2025, 2026: 0
2027: 680 000 (disposal of Umganu)
2028: 172 675 (disposal of Bambanani)
2029: 4 050 960 (disposal of 2024 investments)
2030 onwards: +11.5% pa

The 11.5% pa growth in revenue is due to the increasing demand for alternative investments from retail investors, resulting in greater demand and thus, greater fees payable by investors. As the platform becomes more popular among retail investors, access to capital becomes more abundant, allowing for larger capital raises, thus also leading to larger fees payable by client businesses.

PROJECTED CASH OUTFLOWS:

	2024	2025	2026	2027	2028	2029	2030	2031	2032
Directors remuneration	R3 860 128	R4 091 736	R4 337 240	R4 597 474	R4 873 323	R5 165 722	R5 475 665	R5 804 205	R6 152 458
Employee cost	R6 308 667	R7 323 187	R8 398 579	R9 538 493	R10 746 803	R12 027 611	R13 385 268	R14 824 384	R16 349 847
Finance charges	R95 277	R100 994	R107 053	R113 476	R120 285	R127 502	R135 152	R143 261	R151 857
media and advertising	R3 000 000	R3 000 000	R3 000 000	R1 000 000	R1 000 000	R1 060 000	R1 123 600	R1 191 016	R1 262 477
Legal and advisory fees	R100 000	R106 000	R112 360	R119 102	R126 248	R133 823	R141 852	R150 363	R159 385
staff share and sign up bonuses	R50 000	R53 000	R56 180	R59 551	R63 124	R66 911	R70 926	R75 182	R79 692
other	R106 000	R112 360	R119 102	R126 248	R133 823	R141 852	R150 363	R159 385	R168 948
tax payments	R0	R0	R0	R2 452 900	R3 506 600	R243 600	R2 824 204	R3 286 343	R3 830 348
Total cash outflows	R13 520 072	R14 787 277	R16 130 513	R18 007 244	R20 570 205	R18 967 021	R23 307 030	R25 634 139	R28 155 012
								terminal:	R231 919 372

Assumptions in the above:
- Expenses grow at 6% pa, including director's remuneration.
- Staff grows by 1 person every year, and receive a sign up bonus.
- Legal fees are ongoing.
- The deferred tax expense of 4 134 598 is paid of with any positive net cash flow in the coming years.
- Consulting fees are no longer an expense.
- Media and advertisement are initially around 20% of revenues, and then reduces to below 10%, to retain its customer base (it follows Forbes' guidelines on how much to spend for rapid growth/customer retention).
- Cash inflows from disposals of investments cancel out cash outflows from closing out preferred shares (financial liabilities)
- Tax expense is likely much higher here than will be realised. Allows room for being conservative.
- Cash outflows pertaining to investment in Net Working Capital and Capex are negligible/cancel out over time

DISCOUNT RATE:

- The risk free rate, coming from a 10 year government bond, is 10.14%.
- The market risk premium is 5%.
- Due to the additional risk inherent in a company that is still yet to prove its ability to make stable income, we will assume a beta greater than 1. However, due to the uncorrelated nature of Altvest's underlying investments to the equity market, we can't raise it by too much. The beta is, say, 1.4
- We will add a liquidity risk premium of 1%.
- The resulting discount rate used will be **18.14%**

Final Value: Putting cash inflows and outflows together to get the net inflow over time, then calculating terminal values (using 11.5% growth on revenue and 6% growth in expenses), **the value per Altvest Capital Ltd share comes to R6,80 per share.**