Date:27/11/2023 Headquarters: **Sandton, Johannesburg** Recommendation: **Buy**

Ticker: **4AAVC** Current Price:**2,5 ZAR** Target Price:**7,48 ZAR**

Highlights

I initiate coverage on **ALTVEST CAPITAL LIMITED** (4AAVC) with a **BUY** recommendation, based on a one-year price target of 7,48 **ZAR** and a possible 186,8 % upside from its closing price of 2,5 **ZAR** on **OCTOBER** the 27th, 2023. This recommendation is based on the following factors.

First mover Advantage | *A competitive advantage?*

Recent technological and brokerage advancements in South Africa have made it easier for retail investors to acquire fractional shares at reduced costs. Simultaneously, the Cape Town Stock Exchange (CTSE) introducing eased listing requirements compared to the JSE. This creates a prime opportunity for SMEs to list on the CTSE. Given that Altvest, is one of the few firms offering cost-effective investment banking advisory services for SMEs to list on the CTSE, it stands to benefit.

Poised for Growth | *A beneficiary of increased focus on SME's.*

SMEs are key drivers of South Africa's economic growth, with the Department of Small Business Development aiming to boost their GDP contribution from 40% to over 80%. Altvest is strategically positioned to benefit from increased funding for SMEs, this is exemplified by initiatives like the IDC's R200 million township energy fund. The recent private credit market upturn also favours Altvest. The push to formalize SMEs, offering incentives like improved access to capital, better credit terms, and the formation of an informal trader alliance, expands Altvest's client base as these firms look for well positioned strategic implementation partners to help in achieve the main policy objective.

Building a Listed Startup | *A messy endeavour.*

Altvest has an intriguing story and vision, but listing as a startup has subjected it to significant market scrutiny. Startups are expected to be dynamic in their strategies, and this may limit Altvest Capital's ability to easily shift to a different approach. This is viewed negatively because the management not only needs to weigh the potential benefits of a strategy pivot but must also carefully balance these considerations with market expectations. Additionally, managing the predictability of cash flows is crucial, and this can be impacted by potential shifts in strategy.

One notes that Altvest might continue to trade at a discount to its Net Asset value (NAV) as the business continues to try out new ideas that might impact cash-flows. Secondly the illiquidity of the CTSE when compared to counterparts like the JSE (Johannesburg Stock Exchange), might mean there simply will not be enough flow to warrant Altvest trading at a par value to its NAV.

Environmental Social & Governance | *Innovative?*

Altvest Capital recently won the ESG investment initiative of the year at the Africa Environmental Finance Sustainable Investment Awards. With its objective to make alternative investments and private equity accessible to ordinary investors in Africa, aiming to democratize such opportunities. Its innovative approach to this is further elaborated in the succeeding portion of the report.

There are however some governance concerns which one would like to raise with respect to the company spending R13,5 million in FY22 on advertising. The money at the time accounted for 24% of its market capitalization more recently this number would account for over 50% of altvest market cap. One questions weather this has done anything to benefit shareholders and the business in general. One would like caution against such resource's allocation decisions in the future as one believes it was not an efficient allocation of capital in terms of long-term suitability planning.

Figure 1

Describing Altvest Capital

Altvest capital was founded in 2021 by several professionals with varied experience across the finance industry. The company was listed on the Cape Town Stock exchange on the 5th of May 2022 and has its headquarters in Sandton, South Africa.

Business Model| *Provide investment banking services to SME's.*

Altvest Capital functions as an investment holdings company with two operating segments. Firstly, it is involved in asset management, overseeing funds raised to offer credit financing to SMEs while occasionally maintaining a stake in alternative assets through direct investments in various entities. Secondly, the company operates in corporate finance and advisory business, earning fee income by assisting in the listing of companies and advising these companies on strategy and compliance requirements.

The primary goal of Altvest Capital is to improve access to capital for small and medium-sized enterprises (SMEs). Concurrently, the company seeks to democratize access to alternative investments, making them available to everyday retail investors.

The Structure | *complexity not helping with price discovery.*

Altvest provides retail investors and the opportunity to own a fractional ringfenced and unlisted stake in an SME that they would normally not have access to through the listing of an economic linked note on the cape town stock exchange through listed preferential ordinary shares which gives retail investors the liquidity of secondary market trading.

Concurrently SME's benefit from using Altvest Capital's platform and expertise in selling a portion of equity to raise capital at a reasonable cost. These are services SME's would not be able to access given there relatively small size.

Given the complexity Altvest's operation there is potential that ordinary investors might not understand what is being done and there is potential that lack of understanding might negatively affect their willingness to not only invest Altvest but also all the other SME it lists through its platform.

Industry & Competitive Positioning

Industry Outlook | *Poised for growth.*

In South Africa, (SMEs) have played a crucial role in shaping the economy contributing an estimated 2.9 trillion rands to Gross Domestic Product (GDP), in 2022. This reflects a substantial growth from 18% in 2010 to over 40% in 2020. Despite their impactful role in bolstering the economy, SMEs paradoxically the South African Reserve Bank (SARB), reports that SMEs represented ZAR 631 billion in the credit exposure of banks by the close of 2020, constituting 25% of the total business loans in the country. This disparity underscores a notable capital deficiency for SMEs, presenting a significant market opportunity for Altvest Capital to provide facilities so these enterprises can raise essential capital.

Out of the roughly 2.6 million SMEs in South Africa, only 37% are formalized or registered, possibly contributing to the mentioned economic disparity. However, the current initiative aimed at formalizing a larger proportion of these SMEs indicates a growing demand for the services provided by Altvest's platforms. This is in line with policy objectives to enhance SMEs' contribution to the economy, aiming for a target of around 80%. Altvest is well positioned to capitalize on this trend and stands to benefit significantly.

Porters Force Analysis

Altvest is well positioned to capture this growth, with more investors locally looking at allocating more to non-traditional or alternative assets. The Jaltech's survey found that domestically 79% of investors plan to increase their allocation to alternative investments as they seek diversification, the chance for increased returns, and the prospect to invest in financial assets that do not show correlation with conventional markets. Refer to *figure 2.*

Threat of New entrants | *Relatively Low - 2*

Although traditional investment banks offer these types of services that altvest offers they are usually reserved for large companies not SME's as SME funding requirements are on the smaller end of the scale. This scale issue also acts as a deterrent for potential competitors trying to enter the market as in order to archive profitability, they will need to offer services to a significantly large number of SME's to achieve economies of scale. This would also require significant amounts of capital.

Threat of Substitutes | *Moderate - 3*

There are other specialised SME private equity and specialised credit providers that do compete with Altvest. However, they do charge very high interests on the loans and would usually want a significant portion of the equity. This is due to the risks associated with investing in SME's. However, Altvest has the opportunity to offer all these services with a chance of reducing the cost and equity requirements due to its platform that enables SMEs to raise equity directly from the public enabling better terms as the liquidity premium is reduced.

Strength of competition | *Relatively High – 4*

Altvest faces competition from established players in the financial industry, including traditional financial institutions, private equity firms, and specialized SME finance institutions. While these competitors have a strong presence, their high costs and stringent minimum finance requirements may be challenging for small and medium-sized enterprises (SMEs). Altvest has an opportunity to assist SMEs that are unable to access or afford these traditional services, thereby creating a profitable niche. Altvest's success hinges on offering more competitive terms, such as lower minimum investments and listing sizes, to outperform the competition.

Buyer Power | *Relatively Low - 2*

The Altvest platform is quite innovative in that it allows SME's the opportunity to list a portion of equity to the public. This allows SMEs to raise more stable long-term capital that has no repayment obligation. Equity capital also has more flexible terms and does not adversely affect cash-flows. The above gives Altvest significant powers over SME's.

Supplier Power | *Relatively High - 4*

The human capital that Altevest requires given the complexity of its operationions reqires quite a specialised skill set that is in high demand. This in my view gives Altvest empoyees an upper hand when it comes to negotiating for compensation and benefits. This has the potential to baloon altvest human capital expenditure. In FY22 it had to spend 2.5 million in sign in bonuses and share allocations to stalf while simutaniously spending 6.1 million in legal and advisory fees. Altvest might also require some specilised advisory servises itself wich it might not have great deal of pull in negotiting better prices.

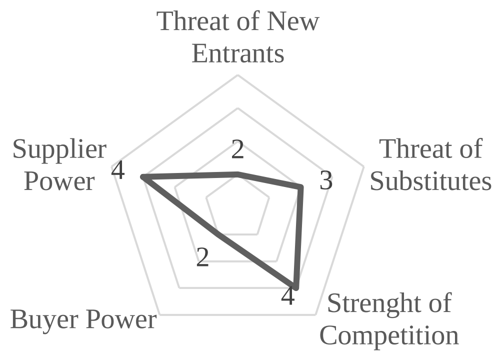

Figure 2

Financial Analysis

In the previous financial year FY22 Altvest capital ran at an operational loss of close to R25 million as the business incurred a great deal of set up costs associated with establishing operations. However, looking at the forward-looking statements as company continues to ramp up SME IPO's and raise more capital for its credit opportunity fund the group will start to realise positive earnings in the current FY23 and positive cashflows on latter end of my 5-year forecast horizon in FY26 and FY27.

In forecasting both revenue and costs one took into account the average fee income obtained from IPO's as well as management fees earned from the credit fund together with the assumption that they meet a major portion of their target to raise R 5billion wish is quite ambitious. This assumption was made as management has in the past proved to be over ambitious hence only a portion of the R5 billion being raised, the CEO has also stated that raising capital has been quite hard "One of his toughest capital raises".

In forecasting the costs, it was assumed that they will increase as a proportion of revenue as the company will need more staff to assist with the increase in assets under management and IPO's being ramped up. Check *figure 3.*

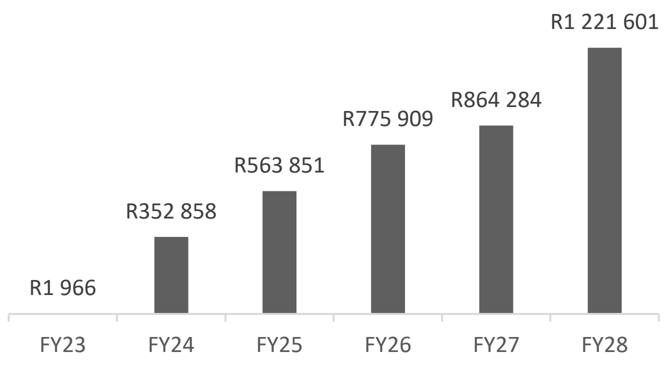

Figure 3

Portfolio Companies | *Good investments?*

Altvest currently owns stakes in 3 entities namely Bambanani family restaurant, Umganu lodge and Altvest Credit opportunities Fund. These assets are currently valued at around 77 million ZAR. With an expected appreciation they are poised to increase the NAV. Although the portfolio is diversified one questions whether these assets the type of alternative assets that investors are looking for?? The Jaltech survey found that individual investors and financial advisors are starting to look at alternative investments in renewable energy, technology/AI, and cryptocurrencies.

Valuation

The one-year price target for Altvest is set at 7.48 ZAR using two asset-based approaches—Net Asset Value (NAV) and Price to Book ratio (P/B). As a holding company with valuable assets, these methods offer a conservative valuation, considering Altvest's growth status and negative cash flows, which make Discounted Cash Flow analysis unsuitable. The focus on assets over future cash flows aims to mitigate assumptions. Altvest is a startup and might need to pivot strategies which will affect predictability of cash flow. Challenges in obtaining precise CTSE price data underline the need for adaptability in valuation methods, including the interpolation of Beta which leads to challenges and potential errors in forming capital market expectations.

Net Asset Value| *A conservative approach.*

The Net asset value of 7,1 ZAR was obtained by first obtaining the net asset value of the of Altvest's stake in the portfolio companies. Then these values were combined, and Altvest's NAV was also added on (excluding the value of the stake in portfolio companies). Which gave a NAV of 7,1 ZAR.

Price to Book Ratio | *benchmarking the valuation.*

The Price to Book ratio was used as a secondary valuation model as it Compares the P/B ratio of the illiquid startup to the average P/B ratio of larger entities in the industry allows for benchmarking. This can provide insights into whether the startup is relatively undervalued or overvalued compared to its peers, even if it has limited liquidity and market exposure. This can be seen as a pseudo way to generate capital market expectations to circumvent the challenges and limitations spoken about earlier in terms of a DCF model challenges. The average P/B of asset managers and holdings companies listed on the JSE was calculated to be 1,52X with a median of 0,66X the average was used as it considers the full account of all observations in the dataset.

This meant that according to this relative valuation technique is around 10,90 ZAR which is higher than the number obtained through the NAV method by around 52%. Refer to *figure 4.*

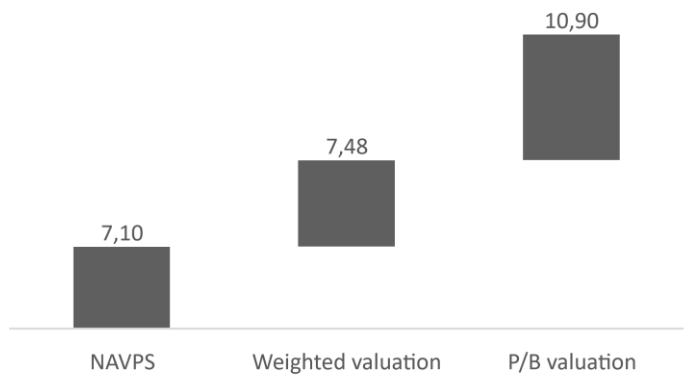

Figure 4

Given that Altvest is in a risky state within its corporate lifecycle, and future earnings are uncertain as company operates in a niche market. As the it might need to pivot which affects the predictability of cash flows. Focusing more on the conservative estimate provided by NAV is a more prudent approach. The NAV will be weighted 90% and the P/B will be weighted 10%. This gives the price target of 7,48 **ZAR**.

Environmental Social and Governance & Risks to Valuation

ESG | There isn't much data on Altvest's Environmental impact so this section will mainly focus on the S &G only.

Potential for great social impact exists as Altvest Capital's digitally enabled investment platform earned acclaim at the Environmental Finance Sustainable Investment Awards for its goal of democratizing access to alternative investments and private equity in Africa. The platform facilitates the creation, issuance, and trade of direct fractional ownership in unlisted assets, benefiting both retail and institutional investors. It also supports entrepreneurs and small businesses in raising capital and offers a secondary market for trading special purpose vehicles. Altvest Capital's community initiatives aim to foster innovation and sustainable growth in Africa by providing media exposure, technology advice, and mentorship to businesses leveraging the platform. The board and management are all well experienced and well-respected individuals offering diverse experiences. However, majority of the board members and management are males with leads one to question the company's commitment to gender transformation.

Risks to the Valuation | *Potential headwinds*

Altvest is a startup, and it might need to pivot strategies which greatly affects the predictability of cash flows.

- The illiquidity of the CTSE might cause the share to continue to trade at a discount to its NAV as there might simply not be enough flow to improve liquidity of Altvest capital.
- Startups have a high failure rate and Altvest might not be spared from this.