

Altvest Investment Case

Executive Summary

Altvest is an investment holding company listed on both the Cape Town Stock Exchange and A2X, through which a diverse group of investors can gain access to alternative and bespoke investment opportunities. Its aim is to democratize alternative investments, provide ordinary individuals with bespoke investment opportunities and educate and raise awareness about these investment opportunities.

The Altvest portfolio is comprised of Altvest Securities, Altvest Credit Opportunities Fund, Bamabanani and Umganu Lodge.

Recommendation

Recommendation:	BUY	Altvest, currently trading at R2.40, exhibits substantial potential with a projected fair value of R6.49 according to discounted cash flow valuation.
Current price	R2.40	
Target Price	R6.49	Anticipated profitability starting in 2026 enhances its long-term investment appeal. In the context of South Africa's growing fintech industry, Altvest, guided by chairman Koshiek Karan's adept guidance, presents a strategic opportunity for investors aiming to capitalize on both immediate and future market prospects.
Upside (%)	170%	

Altvest stands as a compelling investment opportunity in the evolving South African financial landscape, boasting a 170% upside potential based on discounted cash flow valuation. As such, the recommendation for the Altvest stock is a **strong buy**. However, a significant concern emerges from fresh entrants into the market, as evidenced by Investec's Clarity trading platform. This underscores the imperative for Altvest Capital to proactively innovate and fortify its market position for it to remain attractive in the long run.

Detailed Analysis

Industry Analysis

Altvest resides in the Fintech space as it provides a platform to connect retail investors to private equity investment opportunities that would previously only be for a select group of high-net-worth individuals. In the fintech industry, digital investments have \$567.8 million in AUM in 2023 and the digital assets market is set to experience 29.3% revenue growth in 2024. This growth is drawing in new players, exemplified by Investec's plan to launch a new trading platform named Clarity in early 2024.

Business Model

Their core business model involves acquiring significant stakes in private companies and offering financial support to entities requiring capital infusion. The company adopts a strategic approach with a 3 to 5-year plan to unlock inherent value and optimize shareholder returns from its diverse portfolio of invested businesses.

Competitive Advantage:

Facilitating access to alternative investments, the challenge of investing in unlisted companies, particularly for ordinary investors, is effectively addressed. The structured listings on the Cape Town Stock Exchange not only broaden accessibility but also mitigate the typical liquidity constraints associated with private equity investments.

Financial Performance

Altvest Capital faces competition from Easy Equities, a platform with strong customer retention and a 23.8% growth in active clients as of February 2023. To gain market share, Altvest employs an aggressive media and marketing campaign, justifiable given Easy Equities' operational inefficiencies highlighted by negative Return on Assets and Return on Equity. Despite Easy Equities' larger asset base, Altvest Capital, with its Credit Opportunity Fund driving its first profit milestone and contributing to a substantial asset increase to R101 million, has room for establishment. Financial metrics, such as Altvest's lower current ratio, higher Return on Equity, and strategic asset composition, reveal potential areas for Altvest to gain a competitive edge. As of August 2023, Altvest Capital's Net Asset Value of R7.83 per share, compared to a current share price of R2.40, indicates trading at a discount, positioning the company for positive revenue generation and potential free cash flow in the future.

SWOT

Strengths: The management team and Board exhibit exceptional expertise in finance, investment management, and corporate governance, instilling confidence in their capability to deliver outstanding results.

Weaknesses: The inherent risk in investments, particularly in alternative assets, may evoke skepticism among potential clients, presenting a challenge to garner trust and commitment. Furthermore, it is heavily dependent on its founders for financial assistance coupled with short-term liquidity pressure.

Opportunities: The exploration of non-traditional asset classes and innovative investment products provides a promising avenue for the business to craft a distinctive and unique offering, tapping into evolving market preferences.

Threats: The presence of formidable competition from established financial service companies poses a significant threat to the business, necessitating strategic measures to maintain a competitive edge in the market.

Valuation

A discounted cashflow model (DCF) was used to value the Altvest stock. The results of the model are displayed below.

Key Assumptions used were a discount rate of 16%, annual projected revenue equal to 70% of the forecasted revenue for each year in the Altvest's business plan for the 2024-2027 financial years, a tax rate of 27% and a growth rate = 2%

The figures below display the results of the DCF model. The results of the model yielded a fair value of R6.49, which represents an upside of 170%. Furthermore, the results of the sensitivity analysis display significant upside for the Altvest stock. Based on this, the recommendation is to **buy** the Altvest stock.

	2024	2025	2026	2027	2028
Revenue	R9 100 000	R17 990 000	R28 350 000	R50 190 000	R75 285 000
less: total operating expense	R19 982 000	R25 132 000	R26 574 000	R48 003 150	R72 004 725
EBIT	-R10 882 000	-R7 142 000	R1 776 000	R2 186 850	R3 280 275
less: Income Tax Expense	R2 938 140	R1 928 340	R479 520	R590 450	R885 674
Plus: Depreciation & Armotization	R300 000	R500 000	R800 000	R1 400 000	R1 505 700
Less: CapEx	R300 000	R500 000	R800 000	R1 400 000	R1 800 000
Plus: change in working capital	R1 219 650	R3 722 600	R17 422 400	R48 025 600	R20 132 300
Free cashflow	-R12 600 490	-R5 347 740	R18 718 880	R49 622 001	R22 232 601

	2024	2025	2026	2027	2028	Terminal value
Free cashflow	-R12 600 490	-R5 347 740	R18 718 880	R49 622 001	R22 232 601	R156 394 847
discount factor	0.86	0.74	0.63	0.54	0.47	0.47
PV of Free cashflow	-R10 815 871	-R3 940 202	R11 838 647	R26 938 324	R10 360 021	R72 877 390
Enterprise value	R107 258 310					
cash	R191 432					
debt	R3 412 500					
Equity value	R104 037 242					
shares outstanding	16039619					
fair value	R6.49					
current price	R2.40					
upside (MWK)	R4.09					
upside (%)	170%					

Sensitivity Testing

		WACC								
		14.0%	14.5%	15.0%	15.5%	16.0%	16.5%	17.0%	17.5%	18.0%
growth rate	-1%	6.94	6.64	6.35	6.09	5.83	5.60	5.37	5.16	4.96
	0.0%	7.34	7.00	6.68	6.39	6.12	5.86	5.61	5.39	5.17
	1.0%	7.79	7.41	7.06	6.74	6.43	6.15	5.89	5.64	5.41
	2.0%	8.31	7.89	7.50	7.13	6.80	6.49	6.20	5.92	5.67
	3.0%	8.93	8.45	8.00	7.60	7.22	6.87	6.55	6.25	5.97
	4.0%	9.68	9.12	8.60	8.14	7.71	7.32	6.95	6.62	6.31