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CAPPREC

Fintech firm looks abroad

As the share price dribbles along on the JSE, management seeks to broaden the shareholder base

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Don't be surprised if fintech investment company Capital Appreciation (Capprec) seeks an additional listing on an international bourse in the future.

The company's tenure on the JSE to date has been rather frustrating, with capital depreciation being the order of the day. Since listing as a special purpose acquisition company, or Spac, in late 2015 with a not insubstantial R1bn in fresh capital, Capprec's share price has dribbled well below the 100c/share prelisting offer price.

It's not as if Capprec's prime movers – including former Netcare and AfroCentric founder Motty Sacks, Bradley Sacks (previously a technology and media sector deal maker for Bank of America), retired Bidvest Bank CEO Alan Salomon and former Macsteel executive Michael Pimstein – have done much wrong.

But it did take longer than expected for the company to bag its first deal(s), an impasse that perhaps resulted in the share drifting off investors' radars. Even when Capprec, in February this year, detailed the purchase of African Resonance (as well as a stake in Resonance Australia), Dashpay and Synthesis for a collective R842m, the market seemed uninterested. The *Financial Mail* canvassed a sample of more adventurous small-cap analysts, but few had as much as glanced at Capprec after the deal.

Interestingly, the deal more or less coincided with another fintech-aligned Spac, M-Fitec International, throwing in the towel in its pursuit for viable assets. Whether that development also weighed on sentiment for Capprec is not clear.

Nevertheless, the three specialist businesses acquired by Capprec all offer technology solutions and services in vibrant niches. The key consideration for Capprec, which has the Public Investment Corp and African Rainbow Capital as sizable backers, is the transformational power of the respective offerings to effect economic and social change among the economically disadvantaged in SA and Africa.

In short, African Resonance provides payment infrastructure (point-of-sale terminals) and related services to established financial institutions and emerging payment service providers, as well as to the hospitality industry and retailers. The smaller Dashpay provides multiproduct transacting platforms to businesses, and is part of Capprec's payments division.

Synthesis offers specialised software development, consulting and integration services, and technology-based product solutions to banking and other financial institutions in SA and other emerging markets.

The collective client base includes SA's big five banks, the three cellular services players, assurers Old Mutual, Discovery and Momentum, as well as Citibank, HSBC, Ethos, Thales, Afgri and BankservAfrica. Retail clients include Makro, Boss, Tsogo Sun, BP, SABMiller, KFC and Mugg & Bean.

The fintech offering is broadly premised on the increasing adoption of and comfort with card-based and digital currency – whether this is through mobile services or government payment distribution. Then there is the burgeoning middle class in SA and emerging economies across Africa, coupled with regulation and security driving new payment devices and services.

On paper, the potential for growth seems compelling. Point-of-sale penetration in SA is just 3.5 per 1,000 people, well below Australia (35), Turkey (30) and Brazil (15). The US, UK, Canada and France are all above 20.

Joint CEO Bradley Sacks, who is based in New York, indicates that the consolidated earnings before interest, tax, depreciation and amortisation as of March 2017 was approximately R100m from the three businesses, and African Resonance and Synthesis had strong cash flows.

He is looking for substantial growth from that level for the 2018 fiscal year.

In its most recent financial year Synthesis produced R21.4m in profit after tax (PAT) at a margin of 28%. The compounded annual growth rate (CAGR) between 2014 and 2017 was 33%. African Resonance produced R51m in PAT at a margin of 27%, with a CAGR of 124% between 2014 and 2017.

Dashpay is small by comparison, with revenues of only R15.4m in the 10 months to end-April and a nearly R8m operating loss. But revenue is expected to grow materially in the short term on the back of new product launches.

While the historic numbers look solid enough, the market will probably want to confirm Capprec's ongoing earnings prowess in mid-2018 when the final results to end-March are published.

But it's also likely that Capprec's operational asset base might be much changed by then. A good chunk of the recent acquisitions were settled in scrip, leaving Capprec with a decent dollop of capital (approximately R450m) to pursue more deals.

The local fintech sector is fragmented and there are numerous consolidation opportunities – especially in fast-growing companies that might need capital to push through the last mile(s) of development.

Bradley Sacks says opportunities in the sector are plentiful. "We are not looking to create our own consumer brand. We will be working to broaden our relationships with larger financial institutions."

It will make sense to list Capprec offshore . . . An international listing would strengthen our shareholder base and give us access to capital

Bradley Sacks

Obviously the longer Capprec's share price dribbles along under 80c on the JSE, the scope for issuing paper to fund acquisitions narrows, as existing shareholders might rail against diluting value by issuing undervalued scrip to vendors. Interestingly, the scrip-settled portions of the African Resonance and Synthesis transactions resulted in new Capprec shares issued to the respective vendors at 100c/share.

The fact that knowledgeable sellers retained sizable portions of scrip in a new and enlarged vehicle could be significant.

In terms of a rerating in Capprec's shares, this may not be a short-term event, as the JSE does tend to initially pay scant attention to "cutting-edge" companies (think of the recent rerating of previously snubbed alternative energy counter Montauk compared with the sceptical ratings still applied to similar counters such as Renergen and Hulisani).

Bradley Sacks agrees that it could make sense to seek an offshore listing for Capprec – presumably on the New York Stock Exchange or Nasdaq, where ratings for fintech stocks are markedly richer.

In fact, an appendix to Capprec's recent investor presentation shows the company is well aware of this trend, noting the strong ratings for "aligned" international counters such as MasterCard (a 21 times earnings multiple), Card-Connect (16 times), PayPal (22) and Wirecard (23).

He reckons: "It will make sense to list Capprec offshore, remembering that we are also looking to explore opportunities not only in SA. An international listing would strengthen our shareholder base and give us access to capital."

The *Financial Mail* estimates that Capprec – factoring in conservative growth expectations for big cogs African Resonance and Synthesis – could post annualised earnings of more than 7c/share in the year to end-March 2018.

That's a fairly modest forward multiple on sprightly growth prospects and on an asset base capable of supporting adventurous corporate manoeuvres. ■

The writer holds shares in Capprec


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