Capital Appreciation: a tech gem to appreciate

Capprec has been built through acquisitions and the story is far from over

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Capital Appreciation — it's a clever name, isn't it? Capital appreciates in value (hopefully) and shareholders are appreciative thereof. With a return of 84% in the past year and nearly 100% over five years, Capprec (as it is commonly referred to) is living up to the name.

The company plays in the tech and payments sector, so in the US it would probably be valued at twice the multiple at which it trades on the JSE. Though I would hope that an offshore listing is perhaps a long-term goal for the business, a market cap of under R2.5bn means that Capprec will be sticking to braais and biltong for a long time to come. This is still a small company even by JSE standards.

Many have forgotten that Capprec was the first special purpose acquisition company to list on the JSE back in 2015, raising R1bn in the process. These structures have been a mixed bag globally, but they do serve a purpose, as demonstrated by the success of this company.

The first acquisitions were African Resonance, Dashpay and Synthesis Software Technologies. It didn't take long for Capprec to declare its maiden dividend in 2017. Unlike many companies in the tech sector, this one generates free cash flows and isn't shy to give back to shareholders.

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Capprec plays in a space that carries genuine social responsibility. For example, it holds 35% in GovChat, a technology platform that has the data of 13-million welfare applicants in SA. The old story around data is that if you aren't sure what the product is, then you *are* the product. Capprec has signed a memorandum of understanding with the UN to offer insights on socioeconomic issues faced by local citizens.

Whenever a business plays in politically or socially sensitive arenas in SA you need to consider whether broad-based BEE ownership is sufficient. If not, there's always the risk of dilution. Capprec is a level 4 contributor with strong ownership credentials thanks to a Public Investment Corp stake of more than 25% and a trust that holds about 5.7%. Some subsidiaries have even stronger ratings.

The group has been built through acquisitions and the story is far from over. In March, the company announced a type of deal that has become exceptionally rare on the JSE: an acquisition paid for with the company's shares. Yes, a share-for-share deal by a small JSE-listed firm — your eyes aren't deceiving you! This isn't Capprec's first mergers & acquisitions rodeo, so there are earn-out structures as well to help manage risk in the deal.

By acquiring the Responsive Group, Capprec is gaining exposure to businesses that design and develop digital applications for clients in several countries, especially in the financial services industry. This includes a business focused on user interfaces for these applications.

In an unrelated deal concluded at a similar time, Capprec took a 20% stake in Regal Digital in the Netherlands. This is an R8.5m punt on all the buzzwords: Web 3.0, nonfungible tokens and blockchain solutions. Of course, it offers cloud architecture solutions as well (which self-respecting tech company doesn't?) and owns a software-as-a-service business offering content management systems for Google Firebase.

These acquisitions, as well as the stake in GovChat are interesting, but they aren't the core investment thesis of the group. Far from it, in fact. As an example, payment terminal sales in the six months to September 2021 were R210m, higher than the level achieved in the 12 months to March 2021. The payments and software businesses are the core of Capprec and they are doing very well.

The last reported result was for the interim period to September 2021. Revenue jumped 35.7% to R439.4m, of which the payments division contributed 71% and the software division contributed the rest. Group earnings before interest, taxes, depreciation and amortisation margin was 31.6%, a 640bps improvement on the comparable period. Headline EPS were 7.43c and a dividend of 3.75c was declared, so this is a tech company with a particularly good payout ratio.

At the end of November when interims were released, 48.4c a share (around a third of the value) was attributable to cash on the balance sheet. With no debt on the balance sheet, the enterprise value/ebitda multiple (based on annualised interim numbers — a conservative approach given the core growth) is around seven times. That doesn't seem demanding for a high-growth company with a proven track record in organic and acquisitive growth.

Not all tech gems are found on the Nasdaq — some are right here in Sandton.