

VEF

On track with more expected

VEF's 30%+ NAV CAGR track record and improved ESG assessment have become increasingly credited by the investment community as its discount to NAV has eroded in recent months. VEF offers exposure to a diversified, fast-growing unlisted fintech portfolio. We forecast 30%+ NAV growth to 2022e and have applied a 10% premium to our NAV forecasts. We have raised our fair value to SEK4.6–6.2 (4.0–5.3).

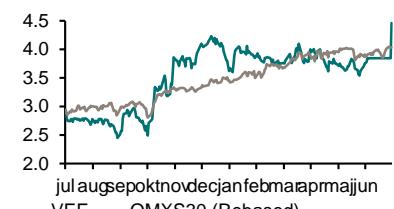
Q2 portfolio highlights. 1) VEF's NAV was largely unchanged QOQ in Q2 in USD although the stage appears set for NAV growth from Juspay, TransferGo, and Jumo in the coming quarters; 2) investment activity remains high, as the company made net investments of USD31m post Q1, which takes its net cash position to cUSD11m (3% of NAV); thus, we would not rule out that it could opt to seek additional funding later this year should it want to sustain this level of investment activity without any portfolio exits; 3) VEF exited Guiabolso and recouped cUSD3m of the USD30m it invested in October 2017; 4) VEF's USD20m pro rata commitment in Konfio did not have a material effect on its NAV, implying it uses accurate and not overly conservative reported NAV calculations; and 5) VEF completed its redomiciling to Sweden (from Bermuda), enabling a more modern and ESG-compatible governance structure.

Creditas (c42% of NAV) on track for potential equity offering in 2022e, which could represent a material NAV uplift for VEF. As Brazil's leading digital-first secured consumer lending platform for home, auto, and payroll, Creditas is one of the few companies in Brazil that expanded origination and revenues at a 2x CAGR in 2017–2020. Given its ambitions to maintain this execution and compounding growth rates in 2021–2022 (it showed record new quarterly loan origination in Q2), we see a fair valuation c35% above VEF's reported NAV. Creditas has accelerated its M&A agenda, having closed three strategic acquisitions in Q2 to build a complete ecosystem for fintech, insurtech, and consumer solutions, which could offer additional upside.

Latest portfolio addition, BlackBuck, India's leading online trucking platform. VEF invested USD10m at a USD1bn+ valuation for a minority stake in BlackBuck, which is digitising India's freight and logistics by operating a marketplace that connects businesses with truck owners and freight operators, with a 90%+ market share in online trucking. Its solutions measure output and productivity growth, which helps streamline many of the logistical challenges in India's trucking system. This marks VEF's third investment in India (one of the largest fintech emerging markets), tapping into a fast-growing innovative payments company with attractive unit economics and a large TAM.

Fair value raised to SEK4.6–6.2 based on our four equally weighted valuation methodologies. In our own valuation assessment of VEF's portfolio by 2022e, we have calculated 30%+ potential NAV growth. VEF offers excellent VC exposure to the wealth catch-up from financial inclusion in emerging markets and we see good prospects for it to repeat its value-creation track record (NAV IRR of 30% since 2016).

VEFAB versus OMXS30 (12m)



Source: Factset

SUMMARY

Share price (SEK) 4.46

Tickers VEFAB SS

CAPITAL STRUCTURE

No. of shares (m) 834.5

No. of shares fully dil. (m) 835.0

Market cap. (SEKm) 3,722

NIBD adj end-2021e (USDm) -11

Enterprise value adj (USDm) 420

Free float (%) 100

Source: Company, DNB Markets (estimates)

Note: Unless otherwise stated, the share prices in this note are the last closing price.

NEXT EVENT

Q3 2021 03/11/2021

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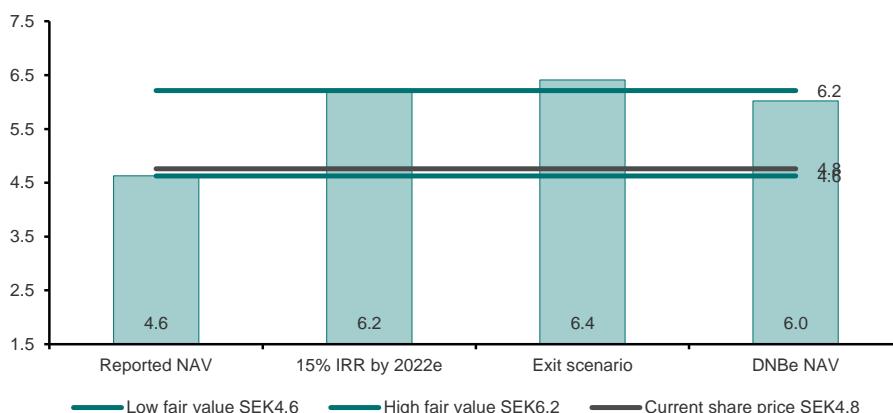
ANALYSTS

Joachim Gunell

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Overview

Valuation (SEK)



Source: DNB Markets

Downside risks to our fair value

- Limited disclosure of early stage private assets (financial, KPIs, cash-burn etc.) adds valuation uncertainty.
- As VC valuations correlate, albeit with a time lag to public markets, it could trigger a change to the narrative and risk assessed for high-growth loss-making VC investments with little fundamental valuation support if public valuations deteriorate, resulting in private investment impairments, etc.
- Additional capital needs to fulfil its current funding pipeline in combination with new investments.
- Emerging markets carry greater risks in terms of politics, financial stability, and FX (USD versus BRL, MXN, RUB, EUR, and ZAR). Still, VEF's main exposure is to USD/SEK as it invests and reports in USD, but the NAV/share and share price are in SEK, where a weakening of USD (and stronger SEK) should have a negative impact. Accordingly, VEF's benefits from a weak SEK and strong USD.
- Failure to retain key persons in the management team and board of directors to secure the best deal flow.

Source: DNB Markets

Valuation methodology

- Our fair value continues to be based on: 1) reported NAV; 2) a target IRR of 20% by end-2022e for its holdings (versus its 30% IRR target); 3) a multiple on invested capital of 4x and 20% cost of capital using an exit period six years from its initial investment; and 4) our 2022e NAV based on its respective holdings' peer multiples.
- We apply a 10% premium to NAV (previously 0%) target in our valuation scenarios. VEF is trading at a 13% premium to NAV (versus its five-year average discount of 17%).

Source: DNB Markets

DNB Markets estimates

- VEF has a track record of generating substantial shareholder value (NAV IRR of 30% since 2016) and is building traction in the investment community from recent successful portfolio exits (Tinkoff Bank exited at 65% IRR, iyzico at 57% IRR in 2019).
- With a net cash position of USD11m (3% of GAV), we believe it has firepower to support parts of its portfolio in future funding rounds, but do not rule out if could recap to become more opportune on new investments.
- Creditas and Konfio hold the largest short-term potential to unlock value (today composing 60% of its NAV) which on a stand-alone basis could boost VEF's NAV by 21%+ by 2022e, according to our analysis.
- VEF is clearly not a low-risk holding, but lends access to VC in some novel fintech markets. The Latin American-tilted portfolio holds leading versions of proven western business models such as Klarna, Tink, Lendo, Betterment, Fortnox, etc., providing potential exposure to wealth catch-up from financial inclusion in emerging markets.

Source: DNB Markets

Upside risks to our fair value

- Value crystallisation from portfolio exits at attractive terms. We believe VEF strives for 30% IRRs and returns of invested capital of 3–5x.
- New funding rounds (and potentially IPOs in the medium term) in its existing portfolio successes could drive positive NAV revisions from valuation uplifts, which should increase investor appetite, as seen historically.
 - Financing rounds have generally taken place every 18 months.
 - Short-term potential NAV catalysts: Creditas, TransferGo, Rupee, Juspay, and Nibo, in our view.
- VEF is improving its communication and documentation of how its fintech investments can generate a positive social impact by increasing accessibility and affordability of financial services in under-served segments, which could increase ESG investor appetite.
- We believe VEF will continue to buy back shares when the stock is trading at 20–25%+ below NAV.

Source: DNB Markets

ESG overview

Sustainability assessment

	Positive	Negative
Conclusions	<ul style="list-style-type: none"> ■ The capital VEF injects into fintech investments can generate a positive social impact by increasing accessibility and affordability of financial services, especially for under-served segments (low- and middle-income, and SMEs) that are ignored by traditional banks. ■ Other key ESG considerations from its portfolio holdings relate to responsible lending and debt prevention, increased client transparency and fair advice. Also, there is a layer of energy efficiency from its digital distribution models. 	<ul style="list-style-type: none"> ■ Domiciles in Bermuda and Cyprus (considered tax havens) could hurt its governance rating. Granularity in how it presents and discloses ESG considerations have until late been relatively poor. ■ VEF's holdings increase access to credit for under-served segments, which we believe acts as a substitute for traditional lending in segments that would otherwise resort to informal or expensive lending. Still, a change in consumer behaviour with rapidly growing consumer debts in emerging markets could reduce financial stability.
Actions being taken by company	<ul style="list-style-type: none"> ■ With sizeable minority stakes of 10–20% and board representation, VEF has the ability to influence its holdings' directions. Its fintech portfolio is an indirect enabler of almost all the UN's SDGs by 2030, but a direct enabler of SDG 1, 2, 4, 5, 8, and 10, with increased financial inclusion and literacy through less-expensive financial services. 	<ul style="list-style-type: none"> ■ As VEF is increasingly communicating and providing documentation regarding how it leverages finance as a force of good in emerging markets, we believe its ESG assessment should improve over time. Also, we do not rule out that it could change to a more modern and ESG-compatible governance structure.
Key ESG drivers		
Short-term	<ul style="list-style-type: none"> ■ Good examples where VEF's holdings' offer to remove barriers for financial inclusion are: <ul style="list-style-type: none"> ■ JUMO's mobile money marketplace gives the low-income population and SMEs in Africa and Asia access to financial services (who are otherwise excluded from the financial system). ■ Creditas and Konfio help to materially lower borrowing costs in markets that have some of the highest interest rates in the world. ■ Xerpa allows employees to withdraw portions of their salary before payday in Brazil, where tens of millions of Brazilians resort to predatory creditors to meet their cash needs until the next pay cycle. ■ TransferGo dramatically reduces the remittance transaction costs for blue-collar workers sending money cross-border to families back home. 	<ul style="list-style-type: none"> ■ The evolution in borrowing behaviour and large-scale adoption of consumer loans could increase credit losses, lessen consumer protection and comprise financial stability risks in VEF's markets.
Long-term	<ul style="list-style-type: none"> ■ VEF has the greatest impact on ESG considerations by being an active and responsible owner. Our analysis suggests VEF is increasingly developing its own ESG competence (from investment screening to board decision-making), and we expect it to place high expectations on its portfolio holdings to drive such trends, mainly focusing on the social aspects of financial inclusion of the underbanked population in emerging markets at lower cost. 	<ul style="list-style-type: none"> ■ The key to VEF's success is the networks of its skilled management in order to identify successful fintech entrepreneurs and source the best investment ideas. Its future success could depend on its ability to retain and attract new talent. Thus, it is important to have compensation guidelines in line with VC/PE fund benchmarks. VEF's board of directors has a discretionary mandate to pay extraordinary bonuses to key employees upon substantial shareholder value creation (exits, etc.)

NAV overview

Figure 1: VEF NAV overview

Share price (SEK)	4.8	NAV/share (DNB)	4.2	DNB discount to NAV	-13.2%
DNB fair value (low)	4.6	NAV/share (rep)	5.5	Rep. discount to NAV	13.0%
DNB fair value (high)	6.4			DNB discount target	-10.0%
<hr/>					
Investment portfolio	DNB rec.	Rep. MV (USDm)	DNB value (USDm)	Rep. MV (SEKm)	DNB value (SEKm)
Creditas	NO COV	169	230	1,458	1,982
Konfio	NO COV	75	100	650	864
REVO Group	NO COV	16	16	135	135
JUMO	NO COV	16	16	141	141
TransferGo	NO COV	28	52	240	446
BlackBuck	NO COV	10	10	86	86
Xerpa	NO COV	5	5	41	41
Nibo	NO COV	13	24	115	208
Magnetis	NO COV	11	13	91	116
FinanZero	NO COV	13	13	109	109
Finja	NO COV	7	7	63	63
Juspay	NO COV	25	36	213	307
Rupeek	NO COV	7	7	60	60
minu	NO COV	0	0	4	4
Abhi	NO COV	1	1	8	8
Liquidity management		5	5	41	41
Total unlisted		401	535	3,455	4,611
					4.1
					98%
Other				Weight (%) of NAV	% of cap/votes
Cash and equivalents		7	7	57	0.1
Other net liabilities		0	0	0	0%
Other assets/liabilities		0	0	0	0%
Summary NAV					
Total assets		419	553	3,610	4.3
Current net cash		-11	-11	-98	-0.1
Gearing		-2.7%	-2.1%	-2.7%	0.0
Net asset value		407	541	3,512	4,668
					4.2

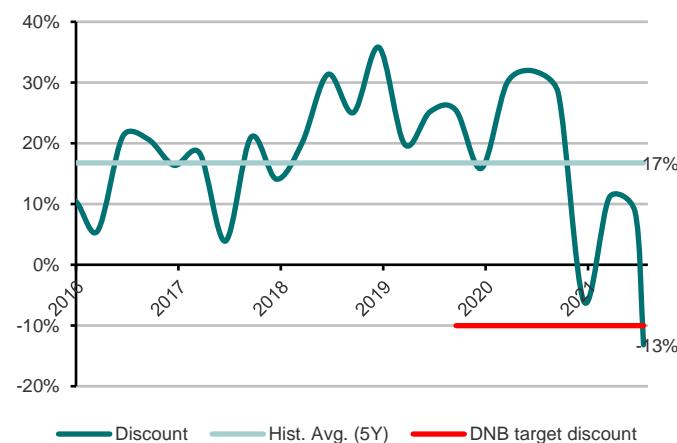
Source: DNB Markets (forecasts), company (historical data)

Figure 2: VEF share price (SEK) versus MSCI EM index



Source: Bloomberg

Figure 3: VEF discount to NAV



Source: DNB Markets

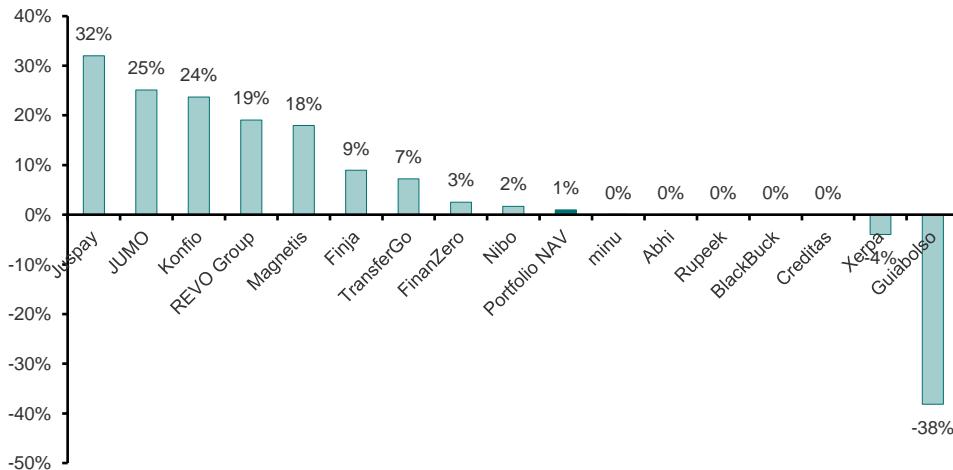
Figure 4: Additional information

Other data	2017	2018	2019	Current	Owners	% of cap	% of votes	5Y track record
Market cap	1,409	1,138	1,927	4,031	Ruane, Cunniff & Goldfarb	21.3	21.3	Ann. TSR 24.1%
NAV	1,635	1,806	2,325	3,521	Libra Fund	14.9	14.9	NAV CAGR 34.6%
NAV growth		11%	29%	51%	Wellington	12.9	12.9	
Net cash	75	40	44	11	Swedbank Robur	8.6	8.6	
Gearing	-4.8%	-2.3%	-1.9%	-2.9%	Fidelity (FMR)	6.5	6.5	
DPS	0.00	0.00	0.00	0.00	Fidelity (FIL)	3.2	3.2	
Dividend yield	0.0%	0.0%	0.0%	0.0%				
Management costs	35	49	54	50	Number of shares (m)			
to NAV	2.16%	2.72%	2.34%	1.41%	VEF			835.0
Analyst: Joachim Gunell (+468 597 91 201, joachim.gunell@dnb.se)					Total			835.0
Source: DNB Markets (portfolio views), company (historical data), Holdings (owner data)								

Figure 5: DNB Markets NAV-based on peer group multiples

	Current NAV (USDm)	NAV growth (USDm)	DNBe 2022e (USDm)
Creditas	169	61	230
Konfio	75	25	100
REVO	16	0	16
JUMO	16	0	16
TransferGo	28	24	52
BlackBuck	10	0	10
Xerpa	5	0	5
Nibo	13	11	24
Magnetis	11	3	13
FinanZero	13	0	13
Finja	7	0	7
Juspay	25	11	36
Rupeek	7	0	7
minu	0	0	0
Abhi	1	0	1
Total	396	134	530
Other assets/liabilities			0
Current net cash			11
Operating expenses until 2021e			-11
Target NAV			530
Target discount to NAV			-10%
Implied fair equity value			583
Number of shares (m)			835
Implied fair value (USD/share)			0.7
Implied fair value (SEK/share)			6.0
Current share price (SEK/share)			4.8

Source: DNB Markets

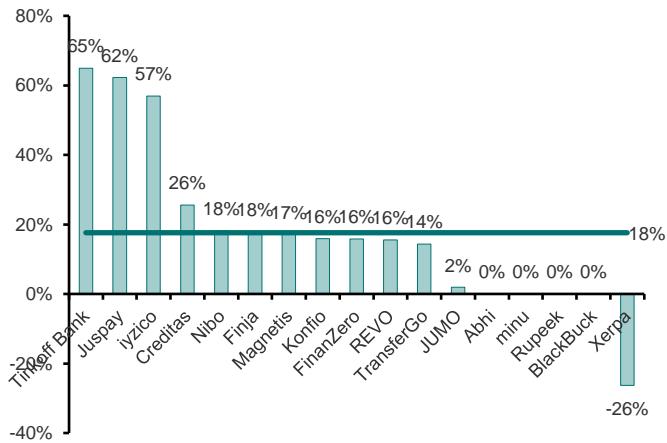
Figure 6: NAV change QOQ versus Q1 (USD)

Source: VEF

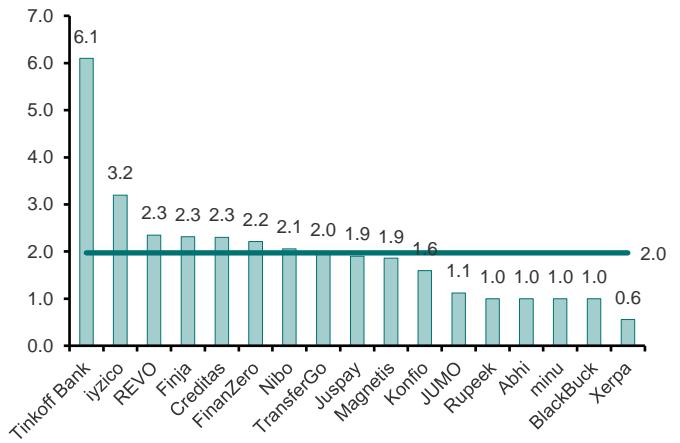
Figure 7: VEF NAV overview

NAV overview (USDm)	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21
Creditas	25.0	25.0	25.0	73.2	73.2	73.2	50.4	80.7	102.1	169.0	169.0	169.0
Konfio	15.0	15.0	15.0	25.0	41.6	41.6	32.4	28.1	40.3	48.5	61.0	75.4
Juspay							13.0	13.0	13.0	17.4	18.7	24.7
Rupeek											7.0	7.0
minu											0.5	0.5
Abhi											0.9	
BlackBuck												10.0
JUMO	16.4	16.4	16.4	16.4	16.4	16.9	9.0	7.5	8.6	9.5	13.1	16.3
REVO Group	17.2	14.6	18.0	18.4	19.2	16.2	9.7	10.2	11.6	11.1	13.1	15.7
TransferGo	13.0	12.8	12.6	12.8	12.3	12.6	13.5	21.4	25.2	28.6	25.9	27.8
GuiaBolso	19.6	15.3	11.0	10.9	10.4	11.5	9.8	9.6	8.7	5.4	4.8	0.0
Nibo	3.8	5.0	8.6	10.0	8.5	10.6	7.0	11.3	13.1	13.6	13.2	13.4
Xerpa						8.5	8.5	4.5	4.5	4.9	5.8	4.9
Magnetics	3.7	5.8	6.3	6.5	8.1	8.1	5.7	6.6	7.7	8.3	8.9	10.5
FinanzZero	5.1	5.0	4.9	7.8	7.3	7.7	5.4	7.6	9.0	9.9	12.3	12.6
Finja	3.3	3.3	3.3	3.3	3.4	3.4	2.3	2.5	4.2	6.7	6.7	7.4
Tinkoff Bank	48.8	7.9										
iyzico	19.0	25.9	26.1	33.9	33.9							
Invested	189.9	152.0	147.1	218.2	242.8	210.4	162.7	203.0	248.2	334.0	359.2	395.9
<i>Invested % of GAV</i>	92%	75%	72%	90%	95%	84%	87%	91%	92%	86%	89%	97%
Liquidity management	9.4	44.9	45.4	13.1	6.5	34.5	20.8	18.0	18.0	48.2	40.7	4.7
Cash	6.6	5.5	11.2	12.1	5.2	5.6	3.2	2.5	2.1	4.2	4.1	7.2
Cash and liquid investments	16.0	50.4	56.6	25.2	11.7	40.1	24.0	20.6	20.2	52.4	44.7	11.9
<i>Cash % of GAV</i>	8%	25%	28%	10%	5%	16%	13%	9%	8%	14%	11%	3%
Other net liabilities	-0.9	-1.0	-0.7	-4.7	-5.5	-1.0	-0.3	-0.4	-0.2	1.7	-0.6	-0.5
Net asset value	205	201	203	239	249	249	186	223	268	388	403	407
NOSH (fully diluted)	663.7	663.0	662.8	661.8	659.4	665.4	663.4	663.7	663.4	834.1	834.4	835.0
NAV/share (USD)	0.31	0.30	0.31	0.36	0.38	0.37	0.28	0.34	0.40	0.47	0.48	0.49
NAV/share (SEK)	2.76	2.75	2.81	3.41	3.62	3.60	2.83	3.13	3.63	3.81	4.22	4.15
VEF share price (SEK)	2.05	1.75	2.28	2.50	2.76	2.94	1.99	2.14	2.57	4.04	3.75	3.76
Market cap (SEKm)	1,361	1,160	1,511	1,655	1,820	1,956	1,317	1,420	1,705	3,370	3,129	3,140
Discount to NAV	26%	36%	19%	27%	24%	18%	30%	32%	29%	-6%	11%	9%
NAV growth (YOY)	10%	1%	-4%	8%	21%	24%	-8%	-6%	8%	56%	116%	82%
NAV growth (QOQ)	-7%	-2%	1%	18%	4%	0%	-25%	20%	20%	45%	4%	1%
Net investments	-7	-1	6	-34	-13	46	0	0	0	-9	-1	6
Gearing (net debt/GAV)	-8%	-25%	-28%	-12%	-7%	-16%	-13%	-9%	-8%	-13%	-11%	-3%
Management costs	-1.4	-1.3	-0.8	-2.3	-1.3	-1.2	-0.5	-1.4	-0.9	-3.3	-1.0	-2.8
Management costs/NAV (LTM)	2.89%	2.74%	2.45%	2.41%	2.30%	2.26%	2.87%	1.99%	1.48%	1.55%	1.62%	1.95%
USD/SEK	8.9	9.0	9.2	9.4	9.6	9.6	10.1	9.3	9.0	8.2	8.7	8.5

Source: DNB Markets (forecasts), company (historical data)

Figure 8: Portfolio IRRs

Source: DNB Markets

Figure 9: Portfolio CoC multiples

Source: DNB Markets

Summary of positives

Secular growth opportunity from emerging market fintech evolution

We believe the receptiveness and market opportunity for fintech is particularly appealing in VEF's emerging markets (with Latin America composing c80%), due to a large underbanked population (allowing for scalability), and tech-savvy young population (more likely to adopt fintech solutions). In our view, emerging markets may benefit disproportionately from fintech innovation by leapfrogging traditional banking services. With growing smartphone and Internet access (acting as key delivery mechanisms), the door for financial inclusion opens up, while incumbent banks have long neglected the growing lower-, middle-income and SMEs, spurning innovation for high-margin retail banking products. This makes the oligopolistic banking markets' profit pools (wide interest-rate margins, high lending rates, transaction costs, etc.) rather vulnerable for fintech entrants that can lower spreads/fees, improve transparency, foster financial inclusion and operate with a leaner cost structure, in our view.

Brazil is one of the most interesting structural fintech opportunities, in our view...

With the portfolio maturing, we note potential value catalysts

Our analysis suggests that VEF's portfolio holds the emerging market versions of proven western fintech models such as Klarna, Tink, Lendo, Betterment, and Fortnox, etc., which taps into a potential addressable market opportunity of USD22bn (cSEK190bn), in our high-level breakdown of its sub-sector segments in: 1) lending; 2) payments; and 3) other fintech (accounting SaaS, wealth management, digital banks, mobile wallets, comparison websites, personal finance management, etc.). Our analysis suggests consumer lending companies Creditas and Konfio hold the largest short-term potential to unlock value and move the needle for VEF's NAV (today composing 60% of its NAV) by 21%+ by 2022e. In addition, its early stage holdings (Juspay, Rupee, TransferGo, Nibo, Magnetis, FinanZero, and Finja) could drive material NAV growth long-term (3–5 years+), if they maintain their current 3–5x top-line CAGRs.

...and VEF owns the emerging market versions of Klarna, Tink, Lendo, Betterment, and Fortnox, tapping into an addressable market of over USD22bn...

VEF's venture capital portfolio offers scarcity value...

According to Blackrock's 2020 institutional rebalancing survey, institutional capital has been pouring into private illiquid investments in search of alternative sources of return. With few publicly listed fintechs in emerging markets, it remains challenging for investors to gain access to this theme. With a portfolio of 12 emerging market fintech holdings, diversified by geography, business model, and stage of development, we note that VEF offers exposure to the wealth catch-up from financial inclusion in EMs. With USD11m in net cash (3% of GAV), we do not rule out that VEF could seek to recapitalise to become more opportune in new investment opportunities and support its existing portfolio holdings in the coming year.

...lending investors' scarce access to VC fintech in emerging markets

...and a solid exit track record, which is key to the narrative

Exits at attractive returns is key to value creation for holders of VEF, and it is building traction, having started to realise substantial gains in 2019 it had built since inception in 2015 through successful exits (Tinkoff Bank at 65% IRR, iyzico at 57% IRR). While it could prove hard to match the first generation of successful exits, management remains focused on building the next wave of value creation. In our view, VEF is well-positioned to crystallise further value, and its track record of an NAV IRR of 30% since 2015 supports this view.

Management has a track record of creating substantial value through exits and high returns on invested capital (average of 4.7x from two exits)

EM and fintech experience across management and board of directors

VEF was relatively early in 2015 to chase the fintech opportunity in emerging markets, before it became a target market for global investors with larger international funds. In addition, its heritage from Vostok New Ventures (and previously Vostok Nafta) means it enjoys a strong reputation and brand among emerging market entrepreneurs. While the organisational set-up is quite small and reflects a rather concentrated portfolio, VEF can leverage the combined breadth of its management's and board's network, and extensive emerging market and financial services experience, to identify and source the best investment ideas in its regions.

Management and board with extensive emerging market and financial services backgrounds

Summary of negatives

Rare VC exposure, but the risk profile is high

There are inherent risks in fintech VC investing in emerging markets, in our view. Given the early stage nature of VEF's portfolio, it can provide almost no financial disclosure and operational KPIs of its holdings, as well as for competitive reasons. To us, this limits financial forecast visibility, cash burn, etc., which increases valuation uncertainty as investors seldom have the time for the deep-dive required to fully appreciate VEF. Risks related to audit and regulation are higher in the fintech space, we believe. Moreover, VC investing means high illiquidity risk (once you are in, you could be in for good), and while we do not expect a lack of potential interest for high-quality assets (such as Creditas and Konfio), VEF may not be able to exit its investments according to plan. As VEF invests primarily in equity, there is also risk that there will be no recoveries in the event of bankruptcy of individual portfolio holdings.

Lofty VC valuations after more than a decade-long fintech market boom

The private-market orchestra has been playing for a decade, as the VC market is strongly correlated to the stock market, albeit with a slight lag leading to sustained imbalances after a correction. Following a protracted stock market boom for over a decade until 2020, risk appetite has increased, with record capital allocated to private VC markets (potential over-crowding from institutions allocations and investors such as Softbank), resulting in high investment activity and lowered investment standards (difficult to maintain a disciplined investment approach), leaving fintech valuations stretched. Unlike the 2000 IT bubble, many of the fintech 'unicorns' have revenues, but in most cases earnings are still far in the distance. If stock market conditions deteriorate, valuations contract, and private investments get impaired, it should in our view trigger a change to the narrative regarding the risk of VC investments, especially for emerging markets, which could hamper VEF's exit opportunities.

High funding need of its portfolio holdings

As VEF's network of new deal opportunities expands and its current portfolio matures, it has grown its rate of investments, in number and average deal size (USD10m–20m). VEF has funded new investment through rights issues (SEK522m in 2020, and USD69m in 2015), but as it has been able to make two cash realisations from portfolio exits (USD152m to date), balancing net investments, its FCF burn averaged USD0m in 2018–2020. For now, it is adequately capitalised, with a net cash position of USD11m, but should it choose to have a more opportune pipeline or in the absence of major realisations, it would imply a need for further financing (either through equity as seen historically or bonds, as seen with its older sibling VNV).

There are inherent risks from investing in emerging markets

The appeal of emerging markets is clear in terms of their greater potential growth rate, and for VEF a structural wealth catch-up, but they also face greater risks to political and financial stability, while lacking the corporate governance structure of developed markets. 2018–2019 were banner years for Brazilian fintech equities, with the IPOs of Stone, PagSeguro, and XP. Still, Brazil's deep recession in 2015–2016 and the current political turmoil across many Latin American countries are examples of the macroeconomic volatility presented by emerging markets. We also believe that adverse FX effects (stronger USD versus BRL, MXN, RUB, EUR, and ZAR) could have an impact on VEF's results, as we do not believe VEF engages in any hedging. Also, as it invests and reports in USD, while its share price is in SEK, a weaker USD (and stronger SEK) should have a negative impact, in our view.

Key-person risk

VEF's holdings are start-ups growing at 3–5x per year in many cases, where the entrepreneurs behind the business models are often a dominant force. Such fast growth and dependence on entrepreneurs adds execution and key-person risks, in our view. Moreover, the key to VEF's success is the professional networks of its skilled management and board of directors to identify successful fintech entrepreneurs and source the best investment ideas. Its future success could depend on its ability to retain these persons, making it important to have compensation guidelines in line with VC/PE fund benchmarks for key persons, in our view.

VEF is clearly not a low-risk investment, due to the very nature of the early stage VC businesses in which it invests

VC fintech valuations are extremely high, which could reverse if stock market conditions deteriorate, hampering VEF's exit opportunities

Further funding could be needed if it chooses to be more opportune, but for now it has a strong balance sheet

Emerging markets carry greater political, default, and FX risks

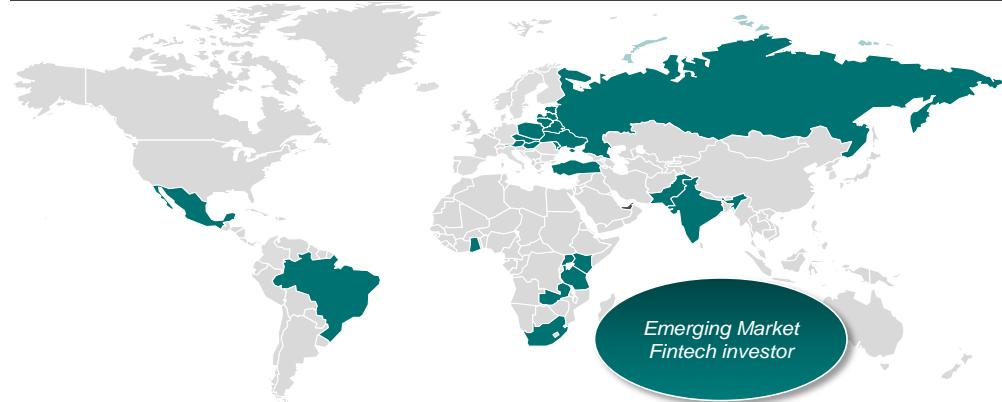
Vital to retain key persons in the management team and board of directors to secure the best deal flow

Company overview

Having been spun-out of Vostok New Ventures in 2015, VEF is a Swedish investment company entirely dedicated to invest in growth stage (VC) private fintech companies operating in scale emerging markets. Its target markets (mainly in Latin America) are in pole position to benefit from fintech adoption, as their large populations are largely 'unbanked' today, whereas penetration of technology (smartphone and internet access being key delivery mechanisms) is reaching a critical mass, while the current oligopolistic financial market structures mean that disruptive consumer-oriented technology can lower the cost of financial services, which are among the highest in the world, and drive financial inclusion.

VEF is an investment company lending investors unique access to VC fintech in emerging markets

Figure 10: Emerging market fintech investor with a heavy Latin America focus

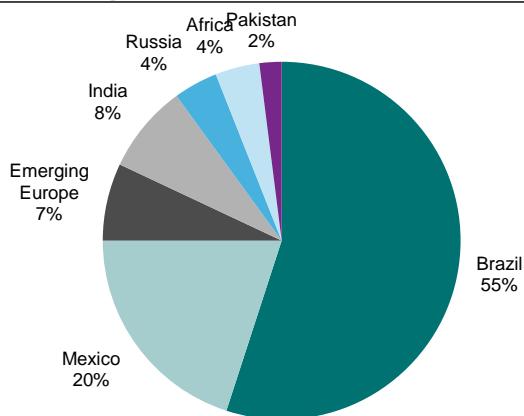


Source: DNB Markets

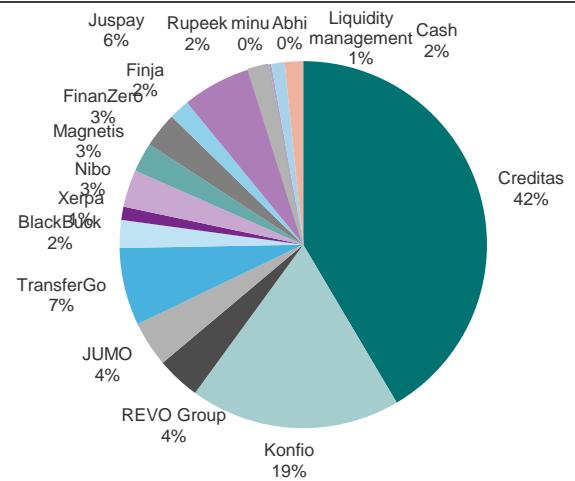
VEF often takes 10–20% ownership stakes and focuses on backing the entrepreneurs behind the business models, targeting the wealth catch across all lines of fintech sub-sectors including payments, credit, mobile money and financial marketplaces, etc. Today it has a portfolio of 15 holdings diversified by geography, business model, and stage of development, and enjoys a strong brand among emerging market fintech entrepreneurs, which we attribute to:

- Being a listed investment company, VEF has access to permanent capital, which means entrepreneurs will not have to worry that it will force an exit before time. (VEF partnered with Tinkoff Bank for almost 14 years).
- With its deep sector expertise and network in emerging markets throughout the world (versus local VCs), it can compare business models, traction, economics, valuation, etc.
- VEF is comfortable with taking a long-term view in the often-volatile world of emerging markets, and can aid its holdings through deep experience of capital-raising processes.

An active owner with board representation in each of its holdings, striving to find and support the best entrepreneurs behind the business model in each market

Figure 11: Geographical split ex cash (2021)

Source: VEF

Figure 12: Portfolio split (2021)

Source: VEF

Note: Percentages have been rounded

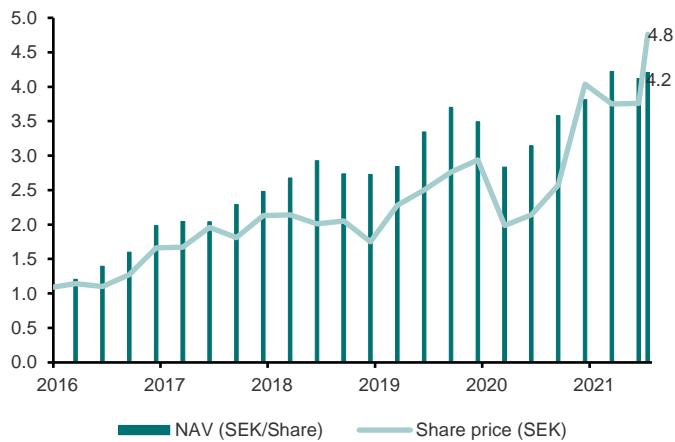
Figure 13: VEF portfolio overview

Company	Geography	Business type	% of VEF's portfolio	Ownership	VEF's investment (USDm)	Fair value (USDm)	IRR	CoC return	Investment date
 creditas		Secured lending platform	42%	9.8%	73.4	169.0	26%	2.3	Dec-17
 konfio		SME lending	19%	10.6%	47.3	75.4	16%	1.6	Jun-18
 JUSPAY		Payments	6%	9.9%	13.0	24.7	62%	1.9	Mar-20
 JUMO	Pan-Africa, Asia	Mobile money marketplace	4%	6.8%	14.6	16.3	2%	1.1	Oct-15
 peBCH		Payments & consumer credit	4%	23.0%	6.7	15.7	16%	2.3	Sep-15
 transferGo		Cross-border remittances	7%	14.3%	13.9	27.8	14%	2.0	Jun-16
 BLACKBUCK		Online trucking platform	2%	1.0%	10.0	10.0	0%	1.0	Jul-21
 nibo		Accounting SaaS	3%	20.1%	6.5	13.4	18%	2.1	Apr-17
 XERPA		HR & payroll platform	1%	16.0%	8.5	4.8	-26%	0.6	Sep-19
 magnetis		Digital investment advisor	3%	17.5%	5.7	10.5	17%	1.9	Sep-17
 FinanZero		Consumer credit marketplace	3%	18.0%	5.7	12.6	16%	2.2	Mar-16
 FINJA		Mobile wallet	2%	22.8%	3.2	7.4	18%	2.3	Jul-16
 rupeeek		Asset-backed lending platform	2%	1.4%	7.0	7.0	0%	1.0	Mar-21
 minu		Salary on demand	0%	1.2%	0.5	0.5	0%	1.0	Mar-21
 abhi		Salary on demand	0%	15.0%	0.9	0.9	0%	1.0	Jun-21

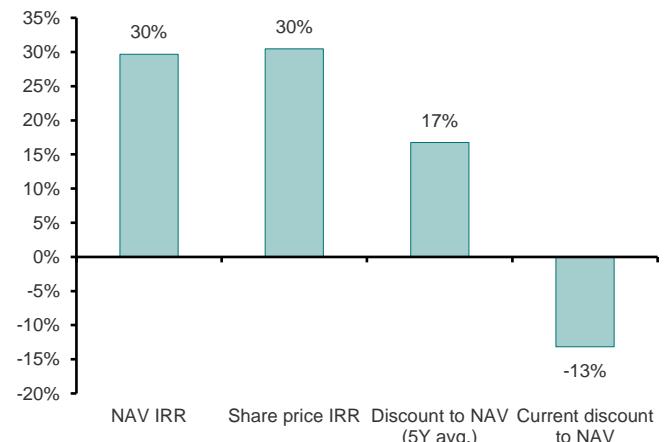
Source: DNB Markets

VEF aims to be stage-agnostic in its investments, but we note that it tends to enter its holdings in series B–C financing rounds (new investments typically in the range of USD10m–20m), where there is a funding gap between local VCs and global investors. Over the past four years, there is a track record of successful exits (Tinkoff Bank exited at 65% IRR, iyzico at 57% IRR) that have generated a 30% share price IRR since Q4 2015 (NAV IRR of 30%), suggesting that VEF can rightly claim that it is building substantial shareholder value.

Recent portfolio exits highlight the value creation potential from its early stage portfolio, having achieved a NAV IRR of 30% from Q4 2015

Figure 14: VEF – NAV and share price (SEK)

Source: VEF (underlying data), DNB Markets (further calculations)

Figure 15: VEF performance and IRR (2015–YTD 2021)

Source: VEF (underlying data), DNB Markets (further calculations)

Important Information

Company: VEF
 Coverage by Analyst: Joachim Gunell
 Date: 29/07/2021

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% of total	52%	35%	6%	7%	
DNB Markets client	24%	11%	3%	4%	119

29 July 2021

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