

1H24 – student retention a challenge

- 1H24 HEPS of 40.2c (+16%), is below our expectations. Operational efficiencies continue with improved debtors management, a further reduction in discounts offered and good cost containment - EBITDA margins rose from 23.7% in 1H23 to 24.1% (24.5% in FY23). EBITDA was broadly in line with expectations. Higher funding costs are the primary reason for our HEPS miss.
- Revenue was up 8.3%, ahead of our 7.1% estimate given higher ancillary revenue (+17%), the result of an enhanced student offering aimed at attracting and retaining students. Tuition fee revenue grew 7.4%, benefiting from a circa 6% fee increase and 1% growth in student numbers. Discounts declined from 6.9% of revenue in 1H23 to 6.4%. We forecast 8.7% revenue growth in FY24E.
- Student numbers have disappointed as they have declined in 1H24 - there were 73 159 learners on 5 February 2024 compared to an average of 72 758 in 1H24. The losses largely originate in primary schools, particularly grades R and 1. It reflects affordability pressure with younger families and the prioritising of high school education. There has also been a slight drop in grade 8 students since December 2023. This has contributed to a drop in utilisation rates from 71.8% in FY23 to 70.3%. Newly developed schools are also a contributing factor with 2023 & 2024 developed schools reflecting 46.8% and 40.6% utilisation rates. On a positive note, 2023 developed schools improved from 30% in FY23.
- Expenses (+8.1%) are well contained with staff costs up 7.4% (6.7% like for like) and facility costs up 9.4%. Costs were marginally higher than forecast due to the additional investment in extramural activities, the benefit seen in higher ancillary revenue growth. Excluding this additional investment, costs grew 6.8%. The learner teacher ratio declined from 18.3 in FY23 to 18.0, as a result of 2.7% growth in teacher numbers, primarily for additional classes as its high schools expand. This is keeping pressure on staff costs – we estimate 7.9% and 6.7% growth in FY24E and FY25E despite circa 5% salary increases in FY24E.
- The credit loss charge of R77m is in line with the R78m in 1H23. Provisions have remained flat at R161m; however, provision coverage has dropped from 36% to 31% given a 17% rise in debtors and the write off of highly provided debtors. Management indicated that 1H24 debtors dropped by circa R30m shortly post period end. Factoring this in, debtors grew 11%, still ahead of revenue growth. Despite R54m of debtor write offs, debtors represent 10.2% of revenue, up on 9.3% in FY23. We continue to show some discomfort in the level of provisions – provisions on debtors greater than 180 days has gone from 67% in 1H23 to 55% in 1H24. We would hope to see 100% coverage on debtors more than 540 days, instead of 78%. Active debtor provisions declined from 8.5% to 6.5%. We increase our credit loss estimates for FY24E and FY25E to circa 3% of revenue.
- Debt has risen in 1H24 and is likely to rise further in 2H24E. In part this is due to 116m in share buy backs. Higher debt and lease liabilities (+19%) resulted in higher finance charges than expected. Net capex of R306m (R312m in 1H23) is well contained – we forecast capex of R692m in FY24E in line with guidance.
- We revise FY24E & FY25E HEPS down from 88.4c and 107.2c to 82.1c (+12%) and 96.7c (+18%), primarily due to higher finance charges and credit losses. Higher ancillary revenue compensates for lower student numbers. 2H23 benefited from a R28m drop in the credit loss charge, a trend we don't see recurring in 2H24E given low provision coverage. In our DFCF we calculate a fair mid-range valuation of 1350c (1300c) due to a lower risk free rate. Improved consumer affordability could see an improvement in retention rates which will flow to the bottom line. Declining debt or share buy backs will benefit FY25E.

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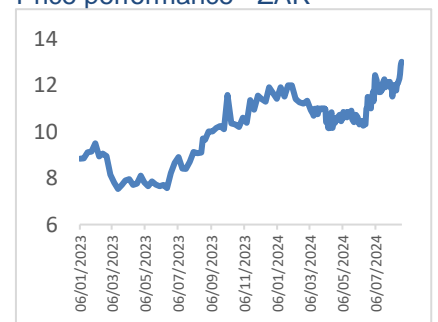
Price (23/08/2024): R13.00

Market cap R7.3bn

Shares in issue 564mn

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Price performance - ZAR



Source: FactSet

Figure 1 Financial summary – R'mn

Year Ending	FY2021 A	FY2022 A	FY2023 A	FY2024 F	FY2025 F	FY2026 F
Income Statement						
Tuition fees	3,277	3,794	4,283	4,627	4,981	5,389
<i>Growth (%)</i>	15.0%	15.8%	12.9%	8.0%	7.6%	8.2%
Ancillary revenue	266	362	436	501	548	597
<i>Growth (%)</i>	8.6%	36.1%	20.4%	14.8%	9.5%	9.0%
Total revenue	3,543	4,156	4,719	5,128	5,529	5,986
<i>Growth (%)</i>	14.5%	17.3%	13.5%	8.7%	7.8%	8.3%
Other income	0	0	45	24	26	27
Operating costs	2,623	3,083	3,481	3,730	4,008	4,326
<i>Growth (%)</i>	16.0%	17.5%	12.9%	7.1%	7.5%	7.9%
Expected credit losses	131	147	128	154	160	174
<i>% of revenue</i>	3.7%	3.5%	2.7%	3.0%	2.9%	2.9%
EBITDA	789	926	1,155	1,269	1,387	1,514
<i>EBITDA Margin (%)</i>	22.3%	22.3%	24.5%	24.7%	25.1%	25.3%
EBIT	508	645	847	951	1,060	1,177
<i>EBIT Margin (%)</i>	14.3%	15.5%	17.9%	18.5%	19.2%	19.7%
Profit before tax	352	289	98	628	742	889
Net profit	251	235	32	452	534	643
Net profit post minorities	259	239	41	464	547	657
Headline Earnings	245	330	426	464	547	657
	36.9%	34.7%	29.1%	8.9%	17.8%	20.1%
Headline Diluted EPS, ZAc	41.0	61.0	73.2	82.1	96.7	116.2
Normalised Diluted EPS, ZAc	41.0	55.2	73.2	82.1	96.7	116.2
<i>% Change</i>	7.8%	34.7%	32.6%	12.1%	17.8%	20.1%
DPS, Zac	8.2	11.1	14.6	16.4	29.0	34.8
<i>Payout ratio (%)</i>	20%	20%	20%	20%	30%	30%
Balance Sheet						
Cash and Cash equivalents	90	63	64	173	156	171
Current assets (ex – cash)	488	472	489	446	474	484
Net Fixed assets	9,800	10,487	10,543	10,918	11,265	11,647
Intangible assets	849	902	797	773	750	727
Investments	325	340	341	353	378	392
Other assets	0	0	76	50	59	71
Total assets	11,552	12,264	12,310	12,714	13,083	13,493
Debt ex lease liabilities	2,840	3,247	3,317	3,516	3,346	3,206
Lease liabilities	365	380	424	515	536	557
Current liabilities	559	604	675	757	811	874
Other liabilities	688	777	766	802	845	885
Total liabilities	4,452	5,008	5,182	5,590	5,538	5,522
Shareholders' equity	7,110	7,270	7,151	7,254	7,697	8,179
Minorities	-10	-14	-23	-28	-29	-30
Total shareholders' equity	7,100	7,256	7,128	7,226	7,668	8,149

Year Ending	FY2021 A	FY2022 A	FY2023 A	FY2024 F	FY2025 F	FY2026 F
BVPS - ZAR	11.9	12.1	12.4	13.0	13.8	14.7
RoE	3.5%	4.6%	5.9%	6.5%	7.3%	8.3%

Cash Flow

Reported profit before tax	352	289	98	628	742	889
Change in net working capital	75	0	-19	124	27	52
Net Interest (paid)/received	-126	-152	-222	-323	-318	-288
Dividends paid	0	-49	-65	-84	-91	-161
Depreciation	281	281	308	318	327	336
Other adjustments	186	380	710	147	110	42
Cash flow from operations	768	749	810	810	798	870
Net Capex	-855	-1,111	-694	-692	-675	-718
<i>Capex/sales (%)</i>	<i>26.1%</i>	<i>29.3%</i>	<i>16.2%</i>	<i>15.0%</i>	<i>13.5%</i>	<i>13.3%</i>
Other investing cash flows	166	37	16	50	2	11
Cash flow from investing	-689	-1,074	-678	-643	-672	-708
Equity raised/(bought back)	0	-97	-126	-265	0	0
Net increase/(decrease) in borrowings	150	410	9	150	-150	-150
Other financing cash flows	-237	39	51	142	98	163
Cash flow from financing	-87	303	-131	-58	-142	-147
Net cash flow	-8	-22	1	109	-17	15
Free cash flow	7	-219	360	525	532	-155
Repayment of lease liabilities	-8	-10	-14	-15	-15	-16
Net Free cash flow	-1	-229	346	510	517	-171

Valuation Summary

Valuation metrics						
Share Price- ZAc	1,245	900	1,300	1,300	1,300	1,300
P/E (Underlying) -x	30.4	16.3	17.8	15.8	13.4	11.2
P/BV -x	1.0	0.7	1.1	1.0	0.9	0.9
EV/Sales - x	3.2	2.8	2.5	2.3	2.1	2.0
EV/EBITDA -x	13.4	11.4	9.2	8.3	7.6	7.0
EV/EBIT - x	20.8	16.4	12.5	11.1	10.0	9.0
FCF Yield	0.0%	-4.3%	4.6%	7.1%	7.2%	-2.4%
Dividend Yield	0.7%	1.2%	1.1%	1.3%	2.2%	2.7%
Net Debt (incl lease liabilities)	3,115	3,564	3,677	3,858	3,725	3,592
Debt/Equity (incl lease liabilities)	0.44	0.49	0.52	0.53	0.49	0.44
Net Debt (excl lease liabilities)	2,785	3,222	3,299	3,408	3,257	3,105
Net Debt/Equity (excl lease liabilities)	0.39	0.44	0.46	0.47	0.42	0.38

Source: Company data, ASB research

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