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Curro Holdings

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Weak student joiners a short-term concern

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Price (10/03/2025):	R10.35
Market cap	R5.8bn
Shares in issue	564mn

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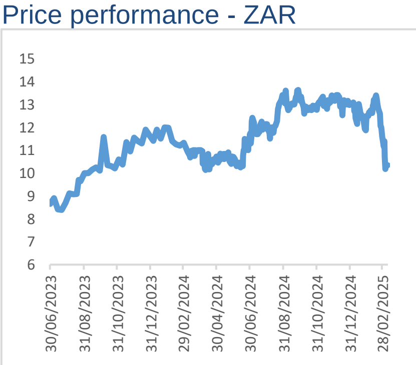
- Curro announced FY24 HEPS of 83c (+13c), in line with our estimates. Given the muted average student number growth of 0.8%, it's an impressive outcome. The outlook for FY25E, however, remains less optimistic given a 0.7% decline in 2025 student numbers. FY24 benefitted from further reductions in discounts (7% to 6.5%), high ancillary fee increases, a reduced tax rate and tight cost management. Apart from the latter, these drivers are unlikely to repeat in FY25E.
- Revenue grew at 8%, tuition fee revenue up 7.6% and ancillary revenue up 12.2%. This was driven by average tuition fees per student up 6.7% with 0.8% student growth. With a 0.7% decline in student numbers and average fee increases of 5.5%, tuition fee revenue is estimated to grow at 5% in FY25E. We see scope for ancillary revenue to grow a little ahead of inflation at 6%, acknowledging that the disjoint between tuition fee and ancillary fee increases can't persist. We therefore forecast 5.1% revenue growth in FY25E.
- EBITDA margins widened to 24.7% in FY24, a level last seen in FY18. With staff costs at 63% of total operating costs, it's difficult to see overall cost growth (+7.6% in FY24) below inflation particularly as we see teacher salary increases at circa 5.3%. The facility cost growth rate should decline given a relatively stable number of schools and considerable electricity and water back up costs in the base – we estimate 7.5% in FY25E. Overall we see cost growth at 5.4%.
- Strict debtors management resulted in a rise in inactive debtors (students have left, in part due to affordability issues). We were uncomfortable with provision coverage levels at 1H24 (30.8%), these have been increased mainly due to higher inactive debtors. Coverage is now at 41.8% but remains below the 44% four year average. Coverage for debt >360 days is at a four year high at 89%. The number of leavers due to financial and other reasons declined in FY24 from 7136 to 6760, suggesting some improvement in affordability. We therefore believe the debtors charge remains at 2.7% of revenue in FY25E, growth of 5%.
- As a consequence, we have EBITDA margins declining from 24.7% to 24.5% in FY25E, an outcome not anticipated twelve months ago. Part of Curro's investment case has been the benefit of operating leverage as schools increase utilisation – utilisation dropped to 70.1% in FY24 and will drop further in FY25E.
- Debt excluding leases declined modestly from R3.3bn to R3.2bn with debt utilised to acquire and cancel R120m of shares. Capex was in line with expectations and the outlook remains for managed expansion with guidance of R660m. We see management favouring buy backs over a higher dividend payout in FY25E, whilst the stock trades at a 20% discount to its NAV
- 2026 students numbers are key to the investment case, with high forecast risk. 2025 enrolments were impacted by a 6.5% drop in joiners (circa 1000 students less). All other variables have improved. In part we see the lower 2025 joiner numbers due to a less tolerant view on student arrears, dissuading parents on the affordability edge of enrolling their children. Existing students are of better credit quality whilst strong academic and sport accolades should help retain students. Therefore, joiners remain the risk. We see student numbers growing a modest 2% in FY26E as affordability improves and leavers don't deteriorate.
- Meridian debt has been restructured equating to a lower interest charge and a FY25E profit, reversing a negative minorities charge. We reduce our FY25E HEPS from 96.7c to 87.8c (+5.7%) and FY26E HEPS from 116.2c to 100.9c (+15%). The ROE rose to 6.5% in FY24 and should rise steadily but will fall short of managements medium term target. Our changes result in our DFCF mid-range valuation declining from 1350c to 1150c.

Price performance - ZAR



Source: FactSet

Figure 1 Financial summary – R'mn

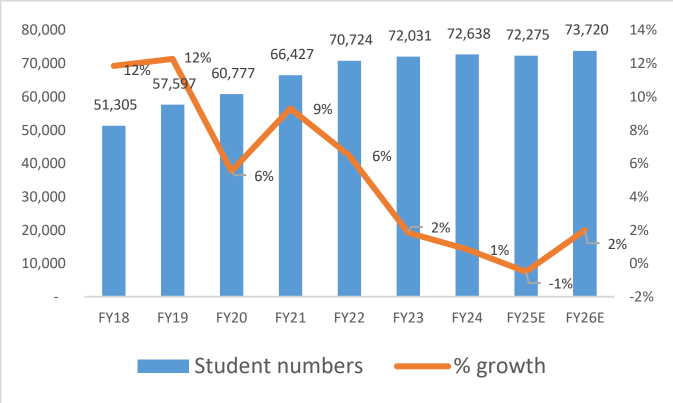
Year Ending	FY2022 A	FY2023 A	FY2024 A	FY2025 F	FY2026 F	FY2027 F
Income Statement						
Tuition fees	3,794	4,283	4,608	4,837	5,205	5,602
Growth (%)	*15.8%*	*12.9%*	*7.6%*	*5.0%*	*7.6%*	*7.6%*
Ancillary revenue	362	436	489	518	547	574
Growth (%)	*36.1%*	*20.4%*	*12.2%*	*6.0%*	*5.5%*	*5.0%*
Total revenue	4,156	4,719	5,097	5,355	5,752	6,176
Growth (%)	*17.3%*	*13.5%*	*8.0%*	*5.1%*	*7.4%*	*7.4%*
Other income	0	45	46	49	52	55
Operating costs	3,083	3,481	3,747	3,950	4,224	4,518
Growth (%)	*17.5%*	*12.9%*	*7.6%*	*5.4%*	*6.9%*	*7.0%*
Expected credit losses	147	128	138	145	155	167
% of revenue	*3.5%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*	*2.7%*
EBITDA	926	1,155	1,258	1,309	1,424	1,546
EBITDA Margin (%)	*22.3%*	*24.5%*	*24.7%*	*24.5%*	*24.8%*	*25.0%*
% growth	*17.4%*	*24.7%*	*8.9%*	*4.1%*	*8.8%*	*8.6%*
EBIT	645	847	934	983	1,088	1,199
EBIT Margin (%)	*15.5%*	*17.9%*	*18.3%*	*18.4%*	*18.9%*	*19.4%*
% growth	*27.0%*	*31.3%*	*10.3%*	*5.2%*	*10.7%*	*10.2%*
Profit before tax	289	98	161	681	790	933
Net profit	235	32	97	495	571	676
Net profit post minorities	239	41	105	491	564	668
Headline Earnings	330	426	469	491	564	668
% growth	*34.7%*	*29.1%*	*10.1%*	*4.7%*	*14.9%*	*18.4%*
Headline EPS, ZAc	61.4	73.2	83.0	87.8	100.9	119.4
Normalised EPS, ZAc	55.6	73.2	83.0	87.8	100.9	119.4
% Change	*35.6%*	*32.6%*	*13.4%*	*5.7%*	*14.9%*	*18.4%*
DPS, Zac	11.1	14.6	16.6	17.6	20.2	29.9
Payout ratio (%)	*20%*	*20%*	*20%*	*20%*	*20%*	*25%*
Balance Sheet						
Cash and Cash equivalents	63	64	59	48	89	59
Current assets (ex – cash)	472	489	514	531	555	555
Net Fixed assets	10,487	10,543	10,548	10,896	11,308	11,702
Intangible assets	902	797	709	688	667	647
Investments	340	341	432	448	437	453
Other assets	0	76	59	55	63	75
Total assets	**12,264**	**12,310**	**12,321**	**12,667**	**13,119**	**13,490**
Debt ex lease liabilities	3,247	3,317	3,232	3,320	3,245	2,985
Lease liabilities	380	424	498	518	539	560
Current liabilities	604	675	648	679	727	778
Other liabilities	777	766	734	762	798	835
Total liabilities	**5,008**	**5,182**	**5,112**	**5,279**	**5,308**	**5,158**

Year Ending	FY2022 A	FY2023 A	FY2024 A	FY2025 F	FY2026 F	FY2027 F
Shareholders' equity	7,270	7,151	7,041	7,343	7,817	8,380
Minorities	-14	-23	168	176	185	194
Total shareholders' equity	**7,256**	**7,128**	**7,209**	**7,519**	**8,002**	**8,575**
BVPS - ZAR	*12.1*	*12.4*	*12.8*	*13.6*	*14.4*	*15.5*
RoE	*4.6%*	*5.9%*	*6.5%*	*6.7%*	*7.3%*	*8.1%*
Cash Flow						
Reported profit before tax	**289**	**98**	**161**	**681**	**790**	**933**
Change in net working capital	0	-19	-4	14	24	52
Net Interest (paid)/received	-152	-222	-286	-302	-298	-266
Dividends paid	-49	-65	-83	-94	-97	-112
Depreciation	281	308	324	326	336	347
Other adjustments	380	710	671	116	79	8
Cash flow from operations	**749**	**810**	**783**	**742**	**834**	**963**
Net Capex	-1,111	-694	-627	-675	-748	-741
Capex/sales (%)	*29.3%*	*16.2%*	*13.6%*	*14.0%*	*14.4%*	*13.2%*
Other investing cash flows	37	16	-60	24	39	9
Cash flow from investing	**-1,074**	**-678**	**-687**	**-651**	**-709**	**-733**
Equity raised/(bought back)	-97	-126	-146	-100	0	0
Net increase/(decrease) in borrowings	410	9	70	0	-75	-250
Other financing cash flows	39	51	58	92	88	102
Cash flow from financing	**303**	**-131**	**-101**	**-102**	**-84**	**-260**
Net cash flow	**-22**	**1**	**-5**	**-11**	**40**	**-30**
Free cash flow	**-219**	**360**	**509**	**462**	**481**	**599**
Repayment of lease liabilities	**-10**	**-14**	**-25**	**-26**	**-28**	**-29**
Net Free cash flow	**-229**	**346**	**484**	**436**	**454**	**570**
Valuation Summary						
Valuation metrics						
Share Price- ZAc	900	1165	1,035	1,035	1,035	1,035
P/E (Underlying) -x	16.3	15.9	12.5	11.8	10.3	8.6
P/BV -x	0.7	0.9	0.8	0.8	0.7	0.7
EV/Sales - x	2.4	2.1	2.0	1.9	1.7	1.6
EV/EBITDA -x	9.7	7.8	7.2	6.9	6.3	5.8
EV/EBIT - x	14.0	10.7	9.7	9.2	8.3	7.5
FCF Yield	-4.3%	5.1%	8.3%	7.6%	7.9%	9.9%
Dividend Yield	1.2%	1.3%	1.6%	1.7%	1.9%	2.9%
Net Debt (incl lease liabilities)	3,564	3,677	3,671	3,790	3,695	3,486
Debt/Equity (incl lease liabilities)	0.49	0.52	0.51	0.50	0.46	0.41
Net Debt (excl lease liabilities)	3,222	3,299	3,231	3,332	3,219	2,991
Net Debt/Equity (excl lease liabilities)	0.44	0.46	0.45	0.44	0.40	0.35

Source: Company data, ASB research

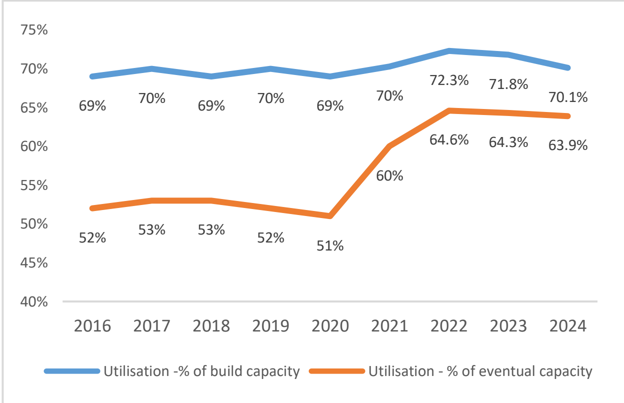
- Student numbers are key to unlocking the operational gearing given low utilisation rates of 70%. FY25E has seen lower fee increases than in the recent past with particular focus on the early primary school grades where numbers have been under pressure. Grades R, 1, 2, 3, 4, 6, 7 and 8 all saw a decline in numbers. Certain grades have fee increases well below the average of 5.5% in FY25E and family discounts have been introduced to improve affordability.
- Of concern is the drop in Grade 8 numbers as this carries forward to the latter grades. The real problem grades are R, 1 and 2 as these are now smaller than 2020, declining each year. With circa 50% of its high school students coming from its primary schools its key to attract and retain students in the early grades.
- As indicated student retention has improved, joiners is the problem, down from 15 623 to 14 605. As its high schools fill up the impact of matric leavers becomes a greater headwind if early grade enrolments remain weak. Our forecast of 2% growth in 2026 student numbers comes with high forecast risk. The positive inroads made in academics and sport across the group should continue to control leavers whilst some affordability improvement and a lower base should see improved joiner numbers. We forecast 2.5% growth in FY27E.
- Management indicated that the number of leads into its schools has risen, however, the conversion rates to a joiner has declined. This speaks positively about the brand.
- Impairments are a feature again in FY24, amounting to a net R383m. There were 17 schools and a building identified for impairment – this was 24 plus certain land parcels in FY23. We believe these are some of its larger schools as management indicated that one third of its schools measured by student numbers are being impaired.
- We calculate staff cost growth of 5.4% based on our outlook for student numbers, a decline in the learner teacher ratio from 18.3 to 18.2 and a 5.3% teacher salary increase. The company has not guided on this year’s teacher salary increases but they are likely to be below the average tuition fee hike which is disclosed at 5.5%. Whilst the learner teacher ratio declines, we don’t anticipate a drop in the number of teachers, given the inability to do so. In most instances it would entail a drop in the class size which doesn’t allow for a change in teacher.
- The company bought back 10.7m shares in FY24 (11.5m in FY23) for a total consideration of R120m, an average price of R11.21. A further 3.9m have been purchased so far in FY25E for R50m. Repurchased shares have been cancelled. We forecast R100m of shares bought back and cancelled in FY25E.
- We estimate a 25.3% adjusted effective tax rate in FY24, benefitting from renewable energy incentives. We forecast a more sustainable tax rate of 27.3% in FY25E.
- At an EBIT level Meridian has been profitable, however post the interest on its debt it generates a loss. In FY24 its headline loss was R15m. As a consequence, the minority charge is an add back to group headline earnings. Towards the end of FY24 its debt was restructured resulting in a lower debt value and more favourable interest rates. We therefore estimate the net interest charge to drop from R86m to R74m, resulting in headline earnings of R12m. There is therefore a swing in the minority line to a deduction from group headline earnings.
- Managements target of a 10% ROCE by FY26E looks unachievable given the student number disappointment. We forecast 9.4% in FY26E.

Figure 2 Student numbers – growth momentum slowed



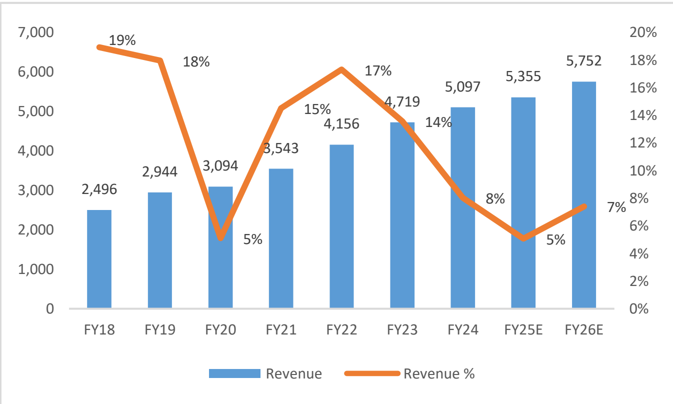
Source: Company data, ASB Research

Figure 3 Utilisation rates – under pressure



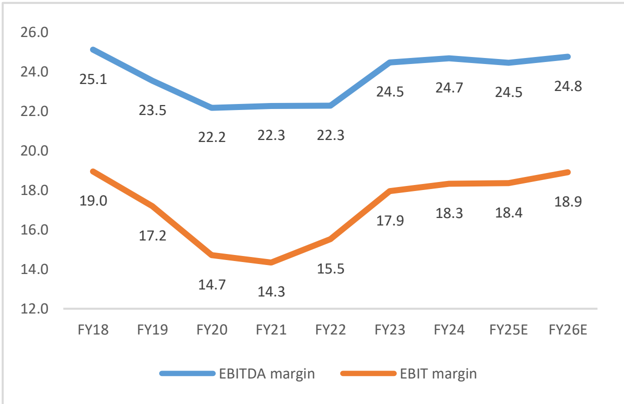
Source: Company data, ASB Research

Figure 4 Total revenue – R'm (growth in %)



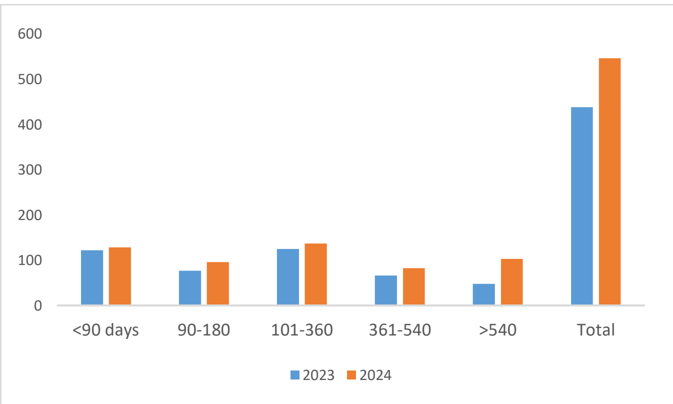
Source: Company data, ASB Research

Figure 5 Margins – FY25E a set back



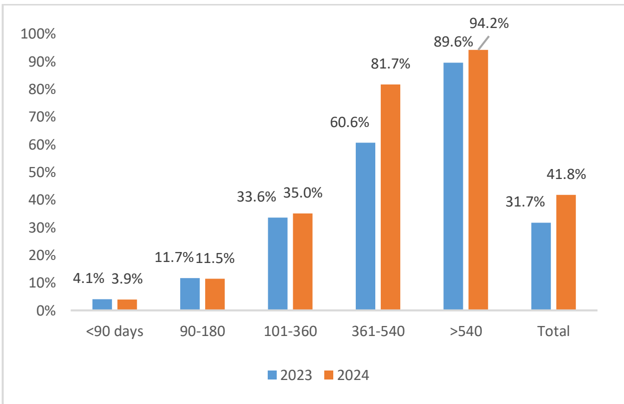
Source: Company data, ASB Research

Figure 6 Debtors ageing – growth in inactive debtors



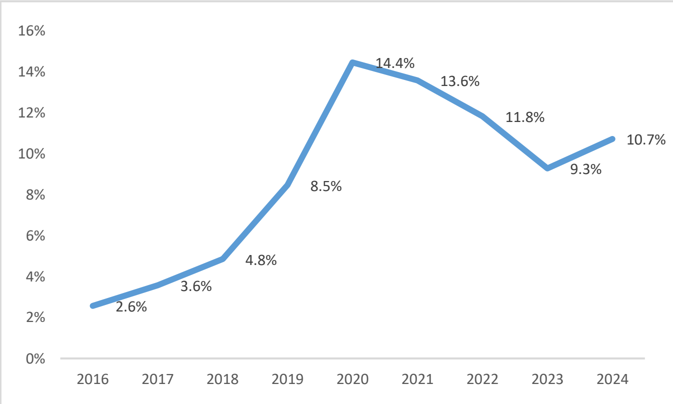
Source: Company data, ASB Research

Fig 7 Provision coverage of arrears has improved



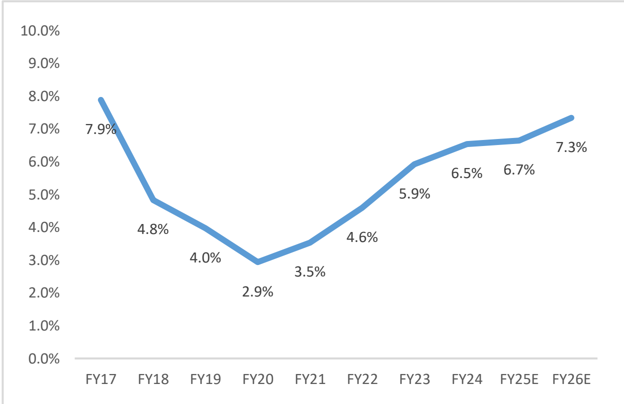
Source: Company data, ASB Research

Figure 8 Debtors as a % of revenue – higher inactive debtors in FY24



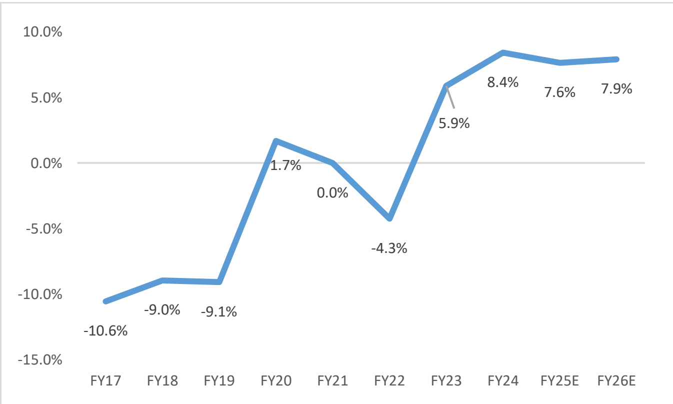
Source: Company data, ASB Research

Figure 9 ROE – medium term target to be missed



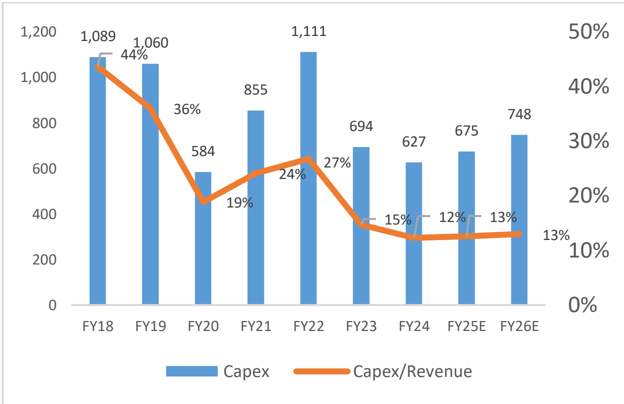
Source: Company data, ASB Research

Figure 10 FCF yield - strong cash generation



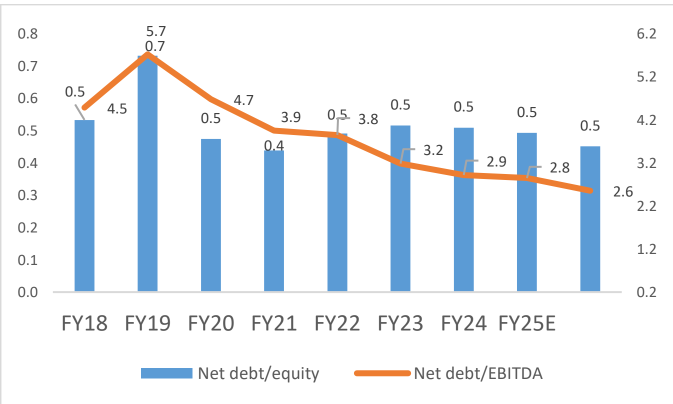
Source: Company data, ASB Research

Figure 11 Capex – R'm – ongoing tight management



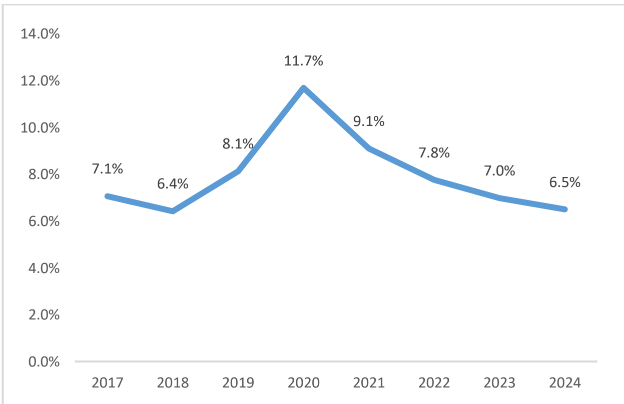
Source: Company data, ASB Research

Figure 12 Gearing – to remain relatively stable



Source: Company data, ASB Research

Figure 13 Discounts – tightly managed



Source: Company data, ASB Research

Updated Valuation

Figure 14 DFCF valuation assumptions

WACC Assumptions	
Risk free rate	10.5%
Beta	0.65
Market risk premium	6.5%
Marginal tax rate	27.0%
Pre-tax cost of debt	9.8%
Cost of equity	14.7%
Target debt/value ratio	35%
Target equity/value ratio	65%
WACC	12.1%
Growth Rate assumption	
Sustainable long term growth rate	4.5%

Source: ASB estimates

Figure 15 DFCF sensitivity to WACC and growth rate

		WACC				
		-1%	-0.5%	0%	0.5%	1.0%
Terminal Growth	3.5%	1278	1136	1018	911	816
	4%	1366	1214	1081	965	862
	4.5%	1468	1299	1153	1026	914
	5%	1587	1397	1235	1095	972
	5.5%	1727	1511	1329	1173	1039

Source: ASB estimates

Our WACC declines to 12.1% from 12.4% give the lower risk-free rate. Our valuation range equates to R9.65-R13.97/share, a mid-point valuation of R11.53, 11% upside from current price levels.

Based on our HEPS forecasts, the stock trades on a 12M forward P/E of 11.8x, an EV/EBITDA of 6.9x. By comparison, on our estimates ADvTECH trades on a 13.7x P/E 12m forward.

We see the following as key risks to our outlook:

- Interest rates remaining elevated for longer. This will continue to place affordability pressure on parents with Primary School student numbers most at risk.
- The drop in early grade student numbers flowing through to higher grades including the high schools.
- Further declines in utilisation rates. This is directly related to affordability but will also be impacted by schools in towns that are economically challenged, e.g. highly exposed to a weak commodity cycle. This could also see further impairments.
- Loadshedding has become less of a risk with backup power now across all its schools. However, a deterioration in electricity supply would be negative for facility costs as these are envisaged to reflect an improving energy supply.

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