

ADVTECH/CURRO

Sums and comprehension

SA has a new growth industry: private schooling. It's largely the result of the abysmal showing of its biggest competitor, government. "Parents will do whatever it takes to give their children a good education," says Frank Thompson, CEO of Advtech, one of SA's largest private school and tertiary education providers.

"Growth in private schooling is not a short-term phenomenon," says Coronation Asset Management analyst Siphamandla Shozi. "It's part of a structural change in the education system."

One driver of demand, he adds, is that government no longer fully supports the more academically successful former model-C state schools. It is also establishing no more of them.

"Advtech is in a powerful position," says Thompson. The company was established in 1978 and has through grassroots developments and acquisitions built a formidable platform comprising 59 education sites serving 32 500 full-time and 16 500 part-time students. It has also built a solid profit track record which between 2006 and 2010 saw its headline EPS grow by two-thirds and its dividend almost double.

Frank Thompson
Industry has long lead times



Robbie Tshabalala

The solid earnings performance over the period came despite a setback in 2010 when headline EPS dropped by 7%. This, Thompson explains, is part of the private education game: long lead times make it difficult to time the expansion of capacity with precision. He says the new capacity kicked in during the six months to June 2011, helping to lift Advtech's headline EPS by 10%. Even better news for shareholders was a 19% rise in the interim dividend. "The increase is a signal from the board of the company's strength," Thompson stresses.

For those considering investment in private schooling, choice doubled in June with the listing on the AltX board by PSG of Curro, in which it has retained a 76% stake. PSG, no stranger to taking advantage of growth opportunities, has big plans for Curro, including expanding its base

from a current 12 schools and 5 500 pupils to 40 schools and 45 000 pupils by 2020.

"We had a close look at Curro and walked away," says Shozi. "Their aggressive rollout of schools is a concern." He explains that building a school is a capital-intensive exercise which comes with big upfront fixed costs. Get it wrong and



SOURCE: I-NET BRIDGE

negative financial consequences are significant.

Curro, which turned in a R7,7m net loss in the six months to June 2011, is also priced for perfection. According to Curro's prospectus, it should produce headline EPS of 8,7c/share in its year to June 2012, which puts it on a mind-boggling forward p:e of 67.

Advtech, in contrast, is on a 14 p:e and offers a rock-solid 4% dividend yield. Underpinning the dividend is the Advtech annuity revenue cash cow, which in the six months to June 2011 generated 70,3c/share (R282m) in free cash flow before capital expenditure. This was more than three times its headline EPS of 20c/share.

Curro reported a cash flow of R5,7m in the six months to June 2011.

Further underpinning Advtech is a property asset base which stands at R452m in its balance sheet but in terms of its economic worth was valued 95% higher in 2010 at R883m, or 40% of its market capitalisation.

Advtech and Curro have a vast market to tap. According to Curro, there are 1,7m school pupils in the top LSM 9-10 household income categories. Some investors may go with PSG's proven ability to spot a winner, but the appeal of Advtech's vast experience in this complex industry and its cash flow are for now overwhelming.

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