**CREDIT RATING ANNOUNCEMENT**

# GCR affirms Curro Holdings Limited's long- and short-term issuer ratings of A(ZA) and A1(ZA) with a Stable Outlook on the back of sustained earnings recovery.

## Rating action

Johannesburg, 31 May 2024 – GCR Ratings (GCR) has affirmed the long and short-term national scale issuer ratings assigned to Curro Holdings at A(ZA) and A1(ZA) respectively, with a Stable Outlook.

| Rated entity | Rating class | Rating scale | Rating | Outlook/Watch |
|---|---|---|---|---|
| Curro Holdings Limited | Long Term Issuer | National | A(ZA) | Stable Outlook |
| | Short Term Issuer | National | A1(ZA) | |

## Rating rationale

The affirmation of Curro Holdings Limited's ratings (Curro or the group) balances the improved operating performance, solid competitive position, modest gearing levels and good liquidity.

Curro maintains a solid competitive position as one of the largest independent school groups in South Africa. Against the backdrop of inadequate education spend in public schools, the underlying supply-demand dynamics in the private education space is sustaining learner enrolments and above inflationary growth in average school fees per learner.

As a result, Curro has maintained compelling revenue growth, reporting a 13.5% increase to ZAR4.7 billion (USD0.25 billion) for the financial year ended 31 December 2023 (2022: 17.3% growth to ZAR4.2 billion, following the lows seen during the pandemic). This was driven by a combination of increasing learner numbers, reduction in fee discounts and significant growth (33%) in ancillary revenues including non-tuition fee revenue from transport, boarding schools and after-care. Coupled with stringent management of operating expenses and more efficient fee collections, EBITDA margins increased to 24.5% in 2023 from 22.3% in both 2022 and 2021.GCR expects continued growth in profitability as capacity utilisation at the schools progresses against the relatively high fixed cost base.

Curro refinanced all its outstanding debt during 2022, with longer tenors of three to five years. In support of its leverage profile, this refinancing package, which included a sustainability overlay, saw a significant lengthening in the group's debt maturity profile, with low debt repayments due over the next 2 financial years (ZAR404 million in total). In addition, two new funders (Absa and Rand Merchant Bank) were introduced to the existing pool of funders, enhancing lender diversity. While debt maturity concentrations are evident in financial 2026 (41%) and financial 2027 (45%), Curro intends to proactively refinance well ahead of time. Given the group's sound funding relationships and access to capital, GCR views refinancing risk to be minimal.

With the business transitioning into a more mature phase following its aggressive growth strategy since its inception in 1998, gross debt levels are expected to remain relatively stable, which should see further improvements in key credit protection measures as earnings grow. Although net debt increased marginally in 2023 to ZAR3.3 billion (2022: ZAR3.1 billion), key credit protection metrics strengthened on the back of stronger earnings, with GCR calculated net debt to EBITDA reported at 2.9x (2022: 3.4x) and operating cash flow coverage of gross debt increasing slightly to 23.9% (2022: 22.8%). Interest cover (GCR calculated) remained stable at 3.8x (2022: 3.9x) even amid the higher interest rate environment, with all covenants evidencing ample headroom against requisite levels – a trend which is expected to be sustained over the rating horizon.

GCR expects Curro to continue to demonstrate a sound liquidity profile over the rating horizon. This on the back of minimal debt repayments until 2026, strong forecast cash flows, cash on hand of ZAR81 million and ZAR350 million in committed unutilised revolving credit facilities (at 30 April 2024). Moreover, capex for 2024 is forecast to remain modest at ZAR700 million (2022: ZAR725 million). Notably, operating cash flows exceeded capital spending in 2023, and we expect free cash flow generation forecast to increase in 2024 and beyond. GCR expects uses versus sources coverage to register at 1.6x during 2024, although the strong liquidity ratios balance the group's high asset encumbrances.

## Outlook statement

The Stable Outlook reflects GCR's expectation that Curro will benefit from firm revenue and earnings growth, supported by favourable demand trends in the private education market. Moreover, as the group exits its highly acquisitive (and riskier) growth phase and enters a phase of sustained maturation, we expect the solid earnings to translate into a stronger leverage and liquidity profile.

## Rating triggers

A positive rating action would be considered on the back of 1) strong earnings accretion and widening in EBITDA margin towards the group's longer-term targets of 30%, 2) improvement in gearing levels on a sustained basis and 3) sustained high liquidity coverage together with lower asset encumbrances.

Negative rating action would be considered if 1) earnings deteriorate and the EBITDA margin drops below 20%, 2) the group increases its gearing levels resulting in a deterioration in leverage metrics and 3) liquidity coverage reduces to below 1.25x.

## Analytical contacts


| | | |
|---|---|---|
| **Primary analyst**<br>Johannesburg, ZA | Lara Krug<br>Larak@GCRratings.com | Senior Analyst: Corporate & Public Sector Ratings<br>+27 11 784 1771 |
| **Secondary analyst**<br>Johannesburg, ZA | Sheri Morgan<br>Morgan@GCRratings.com | Deputy Sector Head: Corporate & Public Sector Ratings<br>+27 11 784 1771 |
| **Committee chair**<br>Lagos, NG | Adekemi Adebambo<br>Adekemi@GCRratings.com | Chief Ratings Officer<br>+234 1 904 9462 |


## Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
GCR Criteria for Rating Corporate Entities, May 2024
GCR Rating Scales Symbols and Definitions, May 2023
GCR's Country Risk Score report, February 2024
GCR's SA Corporate Sector Risk Score report, March 2024

## Ratings history

| Curro Holdings Limited | | | | | |
|---|---|---|---|---|---|
| Rating class | Review | Rating scale | Rating class | Outlook | Date |
| Long Term Issuer | Initial | National | BBB-(ZA) | Stable | May 2013 |
| Short Term Issuer | Initial | National | A3(ZA) | | |
| Long Term Issuer | Last | National | A(ZA) | Stable | May 2023 |
| Short Term Issuer | Last | National | A1(ZA) | | |

## Risk score summary

| Rating Components & Factors | Score |
|---|---|
| **Operating environment** | **14.00** |
| Country risk score | 7.00 |
| Sector risk score | 7.00 |
| **Business profile** | **0.50** |
| Competitive position | 0.50 |
| Sustainability | 0.00 |
| **Financial profile** | **(1.00)** |
| Earnings | 0.75 |
| Leverage & cash flow | (1.00) |
| Liquidity | (0.75) |
| **Comparative profile** | **0.00** |
| Group support | 0.00 |
| Peer comparison | 0.00 |
| **Total Risk Score** | **13.50** |

## Glossary

| | |
|---|---|
| Debt | An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period. |
| Issuer | The party indebted or the person making repayments for its borrowings. |
| Leverage | With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt. |
| Liquidity | The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price. |
| Long Term Rating | See GCR Rating Scales, Symbols and Definitions. |
| Maturity | The length of time between the issue of a bond or other security and the date on which it becomes payable in full. |
| Rating Outlook | See GCR Rating Scales, Symbols and Definitions. |
| Risk | The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives. |
| Short Term Rating | See GCR Rating Scales, Symbols and Definitions. |

### Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity. The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- The audited financial results to 31 December 2023
- Five years of comparative audited numbers
- Results presentation for the financial year ended 31 December 2023
- Detailed facility breakdown as at 30 April 2024
- Integrated Annual Report as at 31 December 2023
- Covenant Compliance Certificates and calculations as at 31 December 2023
- Exchange Rate Source: https://www.bloomberg.com/markets/currencies (ZAR/USD exchange rate at 31 May 2024: 0.0533)



**CREDIT RATINGS ISSUED BY GCR ARE GCR'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY GCR (COLLECTIVELY, PUBLICATIONS) MAY INCLUDE SUCH CURRENT OPINIONS. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE. SEE APPLICABLE GCR RATING SCALES, SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY GCR'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS") AND OTHER OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.**

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.



GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by GCR from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. GCR adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources GCR considers to be reliable including, when appropriate, independent third-party sources. However, GCR is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by GCR.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.

GCR hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) rated by GCR have, prior to assignment of any credit rating, agreed to compensate GCR for the provision of those credit ratings opinions and services rendered by it. GCR also maintains policies and procedures to address the independence of GCR's credit ratings and credit rating processes.