

EQUITY INSIGHTS

STADIO HOLDINGS: Addressing the Higher Education Opportunity In Southern Africa

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BACKGROUND

On 3 October 2017 Curro Holdings unbundled its 91.7% shareholding in Stadio Holdings via a separate listing on the main board of the JSE. Stadio is an investment holding company focused on the acquisition of, and investment in, higher education institutions across Southern Africa. The rationale for the unbundling of Stadio from Curro is to create a separate entity that can independently access equity and debt markets to raise funding required for growth. The separation creates a more focused entity dedicated to developing operations and pursuing acquisitive opportunities in the higher education market, which is essentially a different market to the traditional primary and secondary education market in which Curro operates. Much like Curro, Stadio is expected to enjoy the continued support of a dedicated anchor shareholder in the PSG Group.

MARKET OPPORTUNITY

The number of students enrolled at higher education institutions across the world has expanded from approximately 100 million to 214 million students between 2000 and 2015. Similar trends are apparent in South Africa, where student numbers have expanded from 557 000 to 1.13 million over the same period. Stadio believe that this number could increase to approximately 2 million students by 2030. The Department of Higher Education and Training expect approximately 1 million students to be enrolled in private institutions by 2030 (growing from roughly 150 000 in 2015). With the operational and funding constraints of South Africa's public higher institutions well known, opportunity abounds for the private sector to benefit from this growth.

GROWTH STRATEGY & EXISTING BRANDS

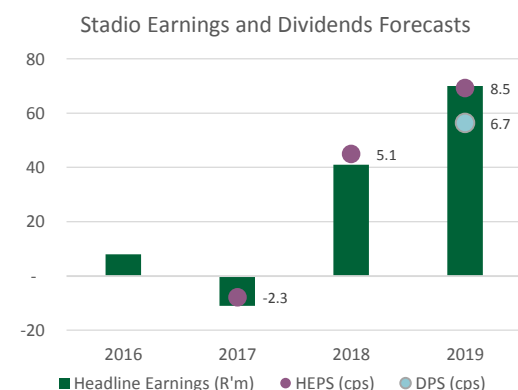
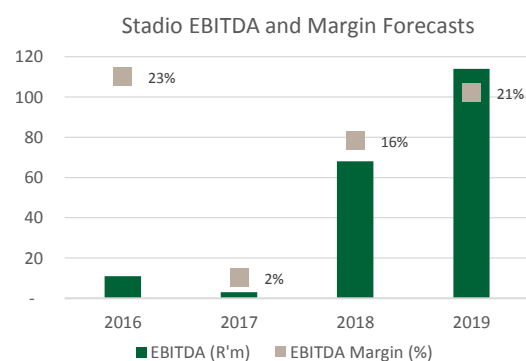
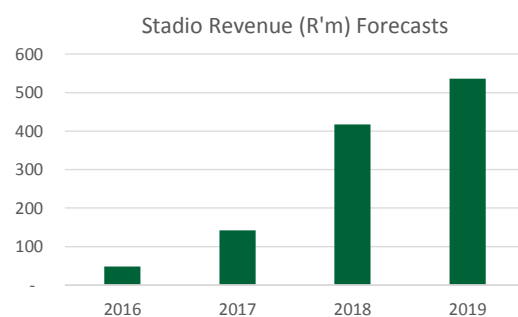
To address the market opportunity, Stadio's ultimate vision is to create a "Multiversity" that will own various registered higher education institutions, each of which will maintain their own brand and operational independence whilst simultaneously benefitting from being part of the broader Stadio group. To this end, Stadio's strategy is to acquire and grow existing registered higher education brands as well as to oversee the greenfield development of new opportunities in the higher education space. At listing, Stadio has approximately 13 000 students across 3 registered higher education institutions, namely Embury, AFDA and Southern Business School. Collectively these institutions offer 28 accredited programmes (ranging from higher certificates to diplomas and post-graduate degrees) across 5 faculties (Education, Commerce and Business, Law, Arts and IT). Stadio is in the process of negotiating potential new acquisitions and we expect this process to continue as the business expands into new markets within the higher education sector. In terms of student numbers, Stadio have set a target of 56 000 students by 2026 with the objective to grow to 100 000 students over the longer term.

VALUATION & RECOMMENDATION

Stadio has rallied approximately 41% since listing (as at 10/10/2017) and trading at an elevated P/E ratio of 160 times Stadio's forecasted earnings to December 2018 (we note this forecast does not include the impact of potential future acquisitions). Though we are intrigued by the industry dynamics and growth strategy of Stadio, augmented by the proven track record of Curro's team, potential investors do need to understand that one would be taking a significant leap of faith in the management team given the extent of the future growth (and acquisitions) already priced in by the market. As was the case in Curro's formative years, Stadio will be cash hungry and further rights issues are almost certain.

Industry
Education
Industry View
Attractive

	SDO
Market Capitalisation	R3.65 billion
Share Price	R8.16
Forecasted 12m EPS – Dec '18	5.1c per share
Forward PE – Dec '18 EPS	160.0x
Next Financial Year End	Dec '17



Sources: Stadio PLS, Factset 10-Oct-17

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