

Taaleem Q2 2021/22 Earnings Call Transcript

Taaleem (TALM.CA) H1 2021/22 - April 19, 2022

Call Coordinator:

Omar Aboulmagd - Renaissance Capital

Corporate Participants:

Mohamed El Rashidi - Managing Director
Khaled Khater - Chief Financial Officer
Ahmed Zayed: Head of Investor Relations

Investors and Analysts:

Gareth Visser - Sustainable Capital
Mirna Kozman - EFG Hermes
Omar Darwish - AAIM
Saleh Airakaf - GIB Capital
Tinashe Hove - Laurium Capital
Yasser Al Qahtani -Jarir Investment

Presentation:

Omar Aboulmagd: Good morning and good afternoon, everyone. This is Omar Aboulmagd from Renaissance Capital, and I would like to welcome you all to Taaleem's Q2 2022 results conference call. I am pleased to have on the call today, Mohamad El Rashidi, the Company's Managing Director and CEO, Khaled Khater, the Company's CFO, and Ahmed Zayed, Head of Investor Relations.

I will now hand over the call to the management to begin with a presentation, which will then be followed by a Q&A session. Ahmed, please go ahead.

Ahmed Zayed: Thanks, Omar and thanks to Rencap for hosting our call today. Good evening, ladies and gentlemen. Thanks for being with us on Taaleem's results call for the first half of the financial year. On the line with me are Taaleem's Managing Director and CEO, Mohamed El Rashidi and our Chief Financial Officer, Khaled Khater.

Mr. Rashidi will provide an overview of Taaleem's latest updates and developments then leave the floor to Mr. Khater, who will offer an overview of Taaleem's financial results for the period.

Before we begin our discussion today, I would like to read out this general disclaimer. The information and opinions contained on this call, provided as of today's date, are based on general information gathered at such date and are subject to changes without notice. None of the future projections, expectations, estimates, or prospects discussed on this call should be taken as forecasts or promises. Such forward-looking statements contain known and unknown risks, uncertainties, and other important factors, which may cause the Company's

actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Thank you everyone for bearing with me and now without any further delay I hand the line over to Mr. Rashidi. Please go ahead, sir.

Mohamed El Rashidi: Thank you, Ahmed. Hello everyone and Ramadan Kareem. This is Mohamed El Rashidi speaking and thank you for joining today's call.

Yet again, Taaleem has delivered a strong financial and operational performance for the six-months period despite the challenges faced by the market at the start of the year, which demonstrates Taaleem's operational resilience. Khaled will run you through the numbers shortly, but I would like to note here that Nahda University in Beni Suef (NUB), our existing institution, has delivered healthy growth even as overall enrollment and intake at the university fell during the period, considering the government's introduction of the new secondary school examination system implemented as of the previous academic year.

I am very pleased that NUB has officially obtained the presidential decree required to launch the two new faculties of arts and architecture. This will further diversify the faculty specializations offered to our students at the university, bringing the total number of faculties to 10. Such diversification is part and parcel of our ongoing expansion efforts at NUB. NUB's first teaching hospital is also expected to launch soon, operating under a management agreement with one of Egypt's top-tier medical groups and bringing together a pool of highly skilled medical professionals. The first phase of this expansion plan and the commencement of operations in the new faculties are expected during the next academic year.

As for our plans for Badya, we expect construction to commence on the university as soon as we receive the Supreme Council of Private Universities' approval, by which time the university's operations will only be subject to cabinet and presidential approvals. We already finished the first package of land grading and preparation. We have also made significant progress in our negotiations with one of the top European universities to establish a strong academic partnership with Badya University. Currently, we have a draft agreement in place, and we are waiting for the European University to finalize the due diligence process on Taaleem to able to sign the contract.

We remain confident that Taaleem will enjoy further growth during the rest of the current academic year, despite the challenges that our market is currently facing given the global and local economic conditions. We are optimistic about the months and years ahead as we focus all our efforts on providing high-quality and best value academic offerings across Egypt.

With that, I hand the line over to Khaled, who will walk you through our numbers for the six-months period before we take your questions. Khaled...

Khaled Khater: Thank you, Mohamed. As we just mentioned, this year saw a decline in student intake, however, we were able to meet such a decline with the implementation of strong cost containment efforts that not only preserved our margins, but also enhanced them. I will now begin by walking you through our financial results.

- Taaleem booked operating revenues of EGP 334mn in H1 2021/22, up by 5% YoY on the back of the recognition of more revenue days in H1 2021/22 than during the same period of the previous year. In H1 2021/22, we recognized revenue days from the entirety of NUB's first semester, in addition to 10 revenue days of a 111-day second semester. This compares to the first semester and two days of a 118-day second semester in H1 2020/21. If we normalize for the difference in revenue recognition days, revenue would be flat YoY.
- Average tuition revenue per student recorded EGP 52k in H1 2021/22, up by 7% from one year previously. This climb was driven by the increase in number of revenue days recognized and came despite the slight decline in total students enrolled during the period.
- Operating costs for the period booked EGP 99mn, up by 11% YoY. Salaries and wages, which represented 37% of the total operating costs, rose by 8% during the period, reflecting the average annual increase in salaries for our teaching staff. Excluding depreciation and amortization, the increase in operating costs falls from 11% to 4%.
- The increase in the Company's top line has filtered down to sustain Taaleem's profitability, with gross profit recording EGP 235mn for H1 2021/22, up by 3% YoY. Gross profit margin booked 70% for H1 2021/22, demonstrating the high operating leverage Taaleem enjoys, with most of the Company's costs being fixed in nature.
- General & administrative expenses reported EGP 62mn for the period, down by 24% YoY. This significant reduction in general and administrative costs partly reflects the Company's efforts at implementing efficient cost controls.
- We booked an EBITDA of EGP 205mn for H1 2021/22, up by 15% from one year previously. EBITDA margin came in at 61% for the period, up by 5% YoY. Growth in EBITDA reflects both the increase in revenue during the period and Taaleem's successful cost-saving initiatives.
- EBITDA filtered down to a strong net profit of EGP 139.5mn, an 8% increase YoY, and a net profit margin of 42% against the 41% booked one year previously. This came despite a decline in interest income and an increase in tax expense, again, illustrating our successful cost containment efforts.
- Our CapEx for the period was EGP 68mn, of which around 80% were allocated to NUB's teaching hospital, which is currently under construction.

With this, ladies and gentlemen, we conclude our discussion of Taaleem's H1 2021/22 results and open the floor to your questions.

Questions and Answers:

Omar Aboulmagd: Okay, thank you, gentlemen, for the presentation. To ask a question, you can either click on the raise hand button and I will unmute your line or you can type your question in the Q&A box. Let's just wait for a few moments for people to write their questions.

Okay, in the Q&A box, we have two questions from Saleh. The first one is: May you give us an update on the share buyback program? The second question is: What was your student intake like during the first half of this year compared to last year?

Khaled Khater: The share buyback program expired last February, and the Board did not renew the program. We do not intend to renew it in the foreseeable future. As for your second question, we welcomed 916 students this year compared to 1,760 students last year. With the graduation of 1,050 students this year, the total number of students at NUB decreased from 6,273 last year to 6,137 this year.

Omar Aboulmagd: Okay, thank you very much, we have our next question from Mirna: What is the updated guidance for 2022's revenue, EBITDA and earnings?

Khaled Khater: Our guidance has not changed. We are experiencing increased inflation, but we are managing costs in order to achieve the same target. We expect a low single-digit growth in revenue and we managed to decrease our COGS and SG&A collectively by 6% YoY. By the end of the year, our plan is to translate the low single-digit growth in revenue into growth in EBITDA by simultaneously maintaining the decrease in costs or keeping them flat YoY.

Omar Aboulmagd: Okay, thank you very much. Our next question is from Omar Darwish, can you walk us through the academic days recognition process and explain why you recognized less days during H1?

Khaled Khater: We first identify academic days, which are the days in which the students attend classes, based on the academic calendar announced by the Ministry of Higher Education and the SCPU at the beginning of each academic year. We then calculate our revenue based on the number of academic days that fall within our financial quarters. For instance, last year, we recognized two days from the second semester in H1, because the second semester started on the 27th of February and this year, the second semester started on the 19th of February, so we recognized 10 days this year, yielding an 8-day difference in revenue days.

Omar Aboulmagd: Okay, thank you. Our next question is from Gareth. Could you discuss your stance with regards to the rising inflation? Will that be a reason for you to alter or increase your tuition rates next year?

Khaled Khater: We usually start assessing our tuition rates between June and August by studying all the offerings in the market, taking into account our improvements in terms of academic quality as well. For the time being, we are still waiting to see the full impact of inflation and interest rate changes over a longer period to be able to precisely determine our upcoming tuition rates.

When we begin assessing the impact of macroeconomic conditions on our business, we first examine our short-term performance, which, in this case, is our upcoming full year results. As I explained earlier, we are very capable of controlling cost elements and are on track in terms of revenue generation and growth. Over the medium and/or long-term, the impact of macroeconomic conditions greatly depends on our ability to pass inflation to the students, which is something we have been doing since the devaluation of the Egyptian pound in 2016. Last year, for example, we increased our tuition fees from EGP 37,000 to EGP 97,000. As long as we are able to pass inflation to students, our CapEx plans for long term projects like Badya University will also remain on track.

Omar Aboulmagd: Okay, thank you. Okay, Saleh has a follow up question about the share buyback. By expiration, do you mean that the transaction got executed or the Board rejected the program?

Khaled Khater: The program should have been executed within three months, however, that time period has passed without executing the program because it did not meet the criteria set by the Board.

Omar Aboulmagd: Okay, thank you very much. Tinashe would like to ask a question. Tinashe, your line is now open.

Tinashe Hove: May you please confirm whether the reversal of the mandated intake quota for the Faculty of Dentistry was also applied to the Faculty of Pharmacy?

Khaled Khater: The ministry reversed its reduction in the Faculty of Dentistry's quota from 252 students to 315 students, which was the initial quota before the reduction. The quota for the Faculty of Pharmacy is still at its reduced level of 300 students instead of 400. This is a country-wide reduction and reversal, not specific to NUB.

Tinashe Hove: Got it, thanks.

Omar Aboulmagd: Okay, thank you. Yasser EL Qahtani is asking what were the parameters, other than share price for the buyback, that made you not buy any shares?

Khaled Khater: There were parameters set by the Board, but mainly, the share did not meet the price set by the Board.

Ahmed Zayed: During the program, the price of the stock slightly increased and towards the end of it, it started to decline again. We also saw that global macroeconomic conditions are negatively impacting all market players, so we decided that we will not implement the program for the time being. To sum up, the main factor was that the share price did not

meet the Board's criteria and we believe that starting the program again will not be the wisest choice. We plan to allocate our cash and resources to our business and invest in our operational growth.

Omar Aboulmagd: Okay, thank you very much. As a reminder, to ask a question, you can either click on the raise hand button to have your microphone unmuted or type your question in the Q&A box.

I would like to ask a few questions. What are your thoughts on the enrollment for next year? Are there any updates from the SCPU? May you also explain the measures you have been taking to optimize your G&A cost items?

Khaled Khater: Okay, I will start with our cost optimization measures. Firstly, we revised our contracts with our suppliers, in terms of margins and the services we are receiving from them, keeping in mind that we always aim to reduce costs while preserving service quality. In terms of salaries and wages, for instance, we implemented an annual increase of 12% at NUB, but we only saw an 8% YoY increase in operating salaries & wages on our P&L, and we increased G&A salaries by 5% YoY, yet only a 1% YoY increase is reflected on our P&L. This is due to our tight controls over attendance, overtime, and allowances.

Mohamed El Rashidi: I will address the question about next year's enrolment. During the SCPU's last meeting on April 9, it was agreed that minimum acceptance grades will be adjusted based on high school students' grades to utilize the capacities of private universities. The SCPU also plans to increase the intake quota for private universities over the next two years to compensate them for this year's distortion in student enrollment following the implementation of the centralized enrolment system. Both decisions are subject to the Minister's approval. These two developments are positive indications for next year's enrolment.

Omar Aboulmagd: Thank you very much. I believe we do not have any further questions now. I will hand the line back over to the management for any closing remarks.

Ahmed Zayed: Thank you, everyone. You may always reach out to us through our IR email if you have any follow up questions. Thank you, Omar very much for hosting the call.

Omar Aboulmagd: Thank you, Ahmed, and thanks to all our participants and attendees. This concludes today's call.