

Taaleem Q4 2022/23 Earnings Call Transcript

Taaleem (TALM.CA) FY 2022/23 - October 26, 2023

Call Coordinator:

Mai Nehad - CI Capital

Corporate Participants:

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

Investors and Analysts:

Nada Hashim- CI Capital
Tinashe Hove- laurium Capital
Amr Elalfy- Thndr Securities Brokerage
Anup Dhanuka- Moon Capital Management
Adil Alzarooni- Investor
Kiran Thammaneni- Jarir Investment
Ahmed Mokhtar- NBK CAPITAL EGYPT

Presentation:

Mai Nehad: Hello, and welcome everyone to Taaleem Management Services' FY, 2023 Results Conference call hosted by CI Capital, my name is Mai Nehad, from CI Capital Research and today I have the distinct pleasure of introducing Managing Director Mohamed El Rashidi, CFO, and Head of Investor Relations, Ahmed Zayed.

Following an overview of Taaleem's full-year performance, the floor will then be open to a Q&A Session. Please use the built-in Q&A Box to type any questions you may have throughout the call.

During the Q&A Session, participants will also have an opportunity to have their microphones enabled to speak directly with company management. I now give the floor to Ahmed. Please go ahead.

Ahmed Zayed: Good afternoon, ladies and gentlemen. Thanks for being with us on Taaleem's results call for FY 2022/23. Thank you also to the team at CI Capital for hosting our call today. On the line with me are Taaleem's Managing Director, Mohamed El Rashidi, and our Chief Financial Officer, Khaled Khater.

Mr. Rashidi will provide an overview of Taaleem's performance during the period and then Mr. Khater will provide an overview of Taaleem's financial results for FY 2022/23. After that, the floor will be open to your questions.

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, that 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.

I now hand the line over to Mr. Rashidi.

Mohamed El Rashidi:

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

I want to begin by expressing my appreciation for the unwavering commitment and tireless efforts of our entire team. Despite facing unprecedented challenges at both global and local levels, I am delighted to announce that Taaleem has once again achieved exceptional financial and operational results for this fiscal year 2023. This is a testament to our team's hard work and dedication, and I am proud to be part of such an outstanding organization.

Taaleem closed FY 2022/23 with a total revenue of EGP 750mn, growing by a substantial 21% YoY, and recorded a very solid EBITDA of EGP 420mn with a margin of 56% on revenue growth and sustained cost efficiency. Our net profit came in at EGP 299mn, growing by a substantial 30% YoY with a healthy 40% margin.

I am also delighted to share that we have witnessed a remarkable surge in enrollment at NUB for the ongoing academic year of 2023/24. As a matter of fact, we presently have a total of 9,213 students enrolled, which indicates a 33% growth compared to the previous academic year.

In line with Taaleem's growth strategy, which includes its operational institution, Nahda University in Beni Suef (NUB), I'm pleased to inform you that due to the tremendous demand for NUB's Computer Science Faculty, Taaleem has increased its intake quota from 200 to 450 students which is the second increase in two years. This expansion allows more students to follow their passion while enhancing the learning environment, promoting collaboration, and fostering innovation within the faculty. Furthermore, the licensed faculty of Architecture will be launched in the academic year 2024/25. Taaleem is also planning to introduce two new faculties, Nursing and Medical Sciences, which are currently in their licensing process and will be launched in the next few years. Finally, the university hospital is in its final stages of development, and it is scheduled to launch fully during the academic year of 2023/24.

Alongside the developments at NUB, I am excited to share some significant updates regarding the progress at Badya University. The university received its Presidential Decree in August 2023, marking the conclusion of the licensing process. In addition, the construction of the first phase of the university, encompassing the faculties of Dentistry, Physiotherapy, Business, and Computer Science, is progressing on schedule to launch in September 2024. Finally, we continue to work on securing an international academic partnership with a reputable university to ensure an exceptional educational offering with excellent learning experience that prepares Badya's students for success in the job market.

As for our plans for Memphis University, which is our most recent acquisition in East Cairo, the excavation work has been completed, and we have signed a construction contract with El-Hazek Construction, marking the beginning of phase one development. The first phase will include the faculties of Dentistry, Engineering, and Business and is expected to launch in the academic year of 2024/25 or 2025/26, depending on the progress of the licensing and construction. Currently, we are waiting for the cabinet's approval and the issuance of the presidential decree for the university's licensing process to be completed.

Looking back on the year 2023, we can see that Taaleem has successfully laid the foundation for becoming Egypt's leading higher education services provider. Our achievement during the year fills me with optimism, and I believe that Taaleem's best days are still ahead. The coming year is an exciting chapter for Taaleem, and we remain committed to creating value and maximizing returns for our shareholders.

With that, I would like to hand the line over to Khaled, our CFO, who will walk you through our detailed financial performance for FY 2022/23.

Khaled

Khaled Khater:

Thank you. Good day, everyone.

We exhibited strong financial and operational performance across the board during FY 2022/23, reflecting our operational achievements, efficient cost management, and ability to translate revenue growth to profitability.

- Taaleem booked a total revenue of EGP 750mn in FY 2022/23, up by 21% YoY. This is mainly due to the increase of 13% YoY in the student body to reach 6,913 enrolled students and the increase of 8% YoY in the average revenue per student, mainly driven by the rollout of the Faculties of Medicine and Physiotherapy, currently representing 25% of the total student body, in addition to the replacement effect.
- Operating cost for the period recorded EGP 228mn, up by 13% YoY, mainly on the increase in operating salaries and wages by 18% YoY, which reflects the annual salary raise and maintains a stable salaries/sales ratio of 12% compared to the preceding year, along with an increase in educational activities expenses by 31% YoY, driven by inflation and payments of international partnerships.
- General and administrative expenses grew 31% YoY, totaling EGP 167mn, with a G&A/sales ratio of 22% up from 21% compared to the preceding year. The increase in G&A is mainly due to a 28% YoY increase in salaries and wages, recording an admin salaries/sales ratio of 8%, almost stable compared to the preceding year, followed by a 107% YoY increase in professional fees due to additional services related to Taaleem's M&As and new projects. Normalizing for the EGP 3.7mn ESOP expense booked in FY 22/23, G&A grew only by 28% YoY.
- We booked an EBITDA of EGP 420mn, growing 18% YoY with a substantial 56% margin due to ongoing cost management efforts. Excluding the ESOP expense, adjusted EBITDA grew by 20%.
- EBITDA filtered down to a robust net profit of EGP 299mn, reporting a 30% YoY growth and a solid 40% margin.

- As of FY 22/23, we stand on EGP 429mn in cash and hold a total debt of EGP 589mn, reflecting a Net Debt position of EGP 160mn, which comes in line with the company's growth and capital structure optimization plans.

- Our CAPEX for the period was EGP 893mn, with 36% allocated to NUB and 64% for Badya's Phase 1. 98% of Taaleem's CAPEX for the period was disbursed on growth initiatives, including Badya University, NUB's university hospital, and the new faculties of Arts and Architecture.

With this, ladies and gentlemen, we conclude our discussion of Taaleem's FY 2022/23 results and open the floor to your questions.

Operator, could you please open the floor to the Q&A?

Questions & Answers:

Mai Nehad: Thanks to Taaleem's management team. We will now open the floor to questions as a reminder. You can type your questions in the dedicated Q&A box, or you can click or tap the raise hand button to have your microphone unmuted, to speak directly with company management. We have a question from Tinashe, please go ahead as your line is open.

Tinashe Hove: Hi, good afternoon. Thank you for taking the time to speak to us, and first question and comment well done on the strong intake for 2024 year. Can you give us an idea of the expected increase in average tuition per student considering your intake for 2024, and how does that compare to 2023?

Khaled Khater: Yes, we applied for a 15% tuition increase for the incoming students for the AY 2024, except for the Computer Science, which we increased by 25%, the faculty of Arts increased by 10%, and the existing students increased by 5%.

Tinashe Hove: Another question if I may, for your teaching and non-teaching staff, how are you thinking about salary increases considering cost of living and inflation in Egypt today.

Khaled Khater: we have multiple ways to optimize our teaching costs. We optimize the efficiency of teaching through scheduling the students for lectures and sessions, for the salary increase that it raises itself. We applied for a 20% increase for the year 2023/24 for this year. However, last year we applied for a 20% increase for the admin salaries and the efficiency maybe comes from our organizational structure and our ability to delay the hiring of additional admin staff to serve new students and new faculties. This is how we keep our cost structure efficient.

Tinashe Hove: Understood Thank you. Thank you very much.

Mohamed El Rashidi: Thank you, I would like to express my thanks for being so loyal to Taaleem's history.

Mai Nehad: Thank you as a reminder. If you would like to ask a question. Please use the raise hand button or type it in on the Q&A box we have. Nada Hashem on the line. Please proceed. Your line is open.

Nada Hashem: Hi, I just wanted to ask as you mentioned that Memphis construction started. So, what's your estimated CAPEX and capital structure for Memphis University?

Khaled Khater: Our estimated Capex for phase one of Memphis University, is EGP 1.4 bn , and we plan a 35% debt financing.

Nada Hashem: Thank you.

Mai Nehad: Thank you, Nada. We have a question in the chat box from Kiran. He says that the Operational capex guidance for the next year is 6% of sales, which is significantly higher than last year any particular reason, and what is the sustainable rate over the long term?

Khaled Khater: Operating maintenance breaking operation CAPEX for the coming year is budgeted at 35 to 40 million Egyptian pounds. So, this is the amount that would be spent to improve and maintain the faculties and the teaching process.

Mai Nehad: Thank you, I have a question actually, again, regarding the ongoing expansions at Badya and Memphis University, which will be financed through a mix of internal resources and debt. Is there a target capital structure like a whole part figure for the debt on the whole entity level, like within the coming 2 years?

Khaled Khater: We do optimize the capital structure to grow. We introduced the Badya debt of 60%, because at NUB, we have minimal debt. And for Memphis, we incorporated 35% debt financing. And at the group level, it would be around 25%.

Mai Nehad: okay, clear thank you.

Nada Hashem: I have another question. You didn't expect international partner fees for both Badya and Memphis, are they going to be similar to NUB, or a bit higher or a bit lower?

Mohamed El Rashidi: on NUB, we already set with the Medical University of Vienna. The medical field presents almost 64% of the total volume of NUB and in Badya we are in the final negotiating stages with an international partner, it's an IV university. It's going to be announced officially by mid-December. Once it's signed and in Memphis. We are currently in negotiation with a European group of universities to conclude the partnership for Memphis.

Mai Nehad: There seem to be no further questions. I will now hand over the call to you for any concluding remarks.

Mohamed El Rashidi: Okay, thank you for attending the results Call for another solid financial year and performance from Taaleem, I'd like to thank again all Taaleem's team for their relentless efforts. for this year, and, as we mentioned, playing the foundation for a new year or second year for Taaleem we're moving in the next couple of years from one university. 10 faculties assets. 2 operating universities to 3 operating universities with targeted 17 operating faculty uncovering 3 main geographies. But I thank you all for attending and thank you all for the trust in Taaleem and its team. I hope that with the previous year and the coming year that the management will fulfill their promises for growth and sustainability and preserving the shareholders' interest and thank you all.

Mai Nehad: Thank you. On behalf of CI. Capital. I would like to thank Taaleem's management team for their time and comprehensive responses today, and thank you all for dialing in. Have a good rest of the day. Thank you. Goodbye.