

Taaleem H1 2023/24 Earnings Call Transcript

Taaleem (TALM.CA) FY 2023/24 - April 24, 2024

Call Coordinator:

Mai Nehad - CI Capital

Corporate Participants:

Mohamed El Rashidi - Managing Director and CEO

Khaled Khater - Chief Financial Officer

Ahmed Zayed: Head of Investor Relations

Investors and Analysts:

Shaden Nomeir - CI Capital

Tinashe Hove - Laurium Capital

Omar Fahmy - Arab African Investment Management

Karim Sawabini - Moon Capital Management

Shams Abbas - Thndr

Matthew Hodgkinson - Confluence impact fund

Dean Tlotleng - Steyn Capital Management

Salwa Tarek - Beltone Asset Management

Alaa Tolba - Public Investment Fund

Mohamed Sabri - Naeem Research

Presentation:

Mai Nehad: Hello everyone, thanks for dialing in. This is Mai Nehad, from CI Capital Research, I would like to welcome you all to Taaleem Management Services' H1 2024 Results Conference call hosted by CI Capita. I have the distinct pleasure to have on the call today Taaleem's Managing Director & CEO Mohamed El Rashidi, CFO, Khaled Khater, and Head of Investor Relations, Ahmed Zayed.

As usual, we will start off with a brief presentation by the management team and then we will open the floor 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 H1 2023/24. 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 H1 2023/24. 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 speaking. Thank you for joining today's call.

I am delighted to announce that Taaleem has attained outstanding results in the first half of the current fiscal year. This achievement builds upon the robust performance demonstrated in H1 23/24 and reaffirms our unwavering commitment to financial and operational excellence.

In the first half of the fiscal year 23/24, Taaleem's top line reached EGP 690 million, representing an impressive 61% YoY increase. This substantial growth underscores the sustainability of the momentum observed in the preceding quarter. Our success can be attributed to a strategic focus on various factors over the past year.

Firstly, robust enrollment at NUB saw a notable 33% year-on-year increase, driven by enhancements in the quality of our offerings and the expansion of available capacity. Additionally, tuition fees increased to better reflect the quality of our offerings and partially adjust for inflation. Furthermore, a favorable revenue mix, characterized by a 37% year-on-year increase in medical students.

Our commendable EBITDA margin of 67% underscores our commitment to cost efficiency and the effective utilization of economies of scale. This operational excellence translated into robust profitability, with our net profit reaching EGP 358 million, boasting a formidable 52% margin.

These achievements exemplify Taaleem's unwavering dedication to financial prudence and operational excellence, positioning us for continued success in the future.

Regarding our new projects, I am pleased to inform you that Badya University's development has been making expedited progress since obtaining its license. The construction of the university's first phase is in its final stage and is on schedule to welcome its first students in September 2024. In parallel, efforts on the academic front are underway, we are currently working on the execution of our partnership with the prestigious Texas University Medical Branch.

This collaboration will be a great added value to Badya University's unique positioning in the market. In addition, it opens the doors to many venues for collaboration, such as student and faculty exchange programs, engaging in joint research initiatives, exchanging valuable academic information, and establishing collaborative professional development opportunities.

As for Memphis University, I am delighted to announce that this quarter marks another significant milestone in our expansion journey, as we have received the University's Cabinet approval. The regulatory approval process is currently pending only the issuance of the Presidential Decree. On the development front, phase one construction is underway, and we anticipate launching the university in September 2025.

Looking ahead, we take great pride in the ongoing milestones we have accomplished and eagerly anticipate further successes on the horizon. Our commitment to delivering high-quality education remains unwavering, and we are dedicated to making a positive impact on the lives of our students, our shareholders, and the greater community.

With that, I would like to hand the line over to Khaled, who will walk you through our detailed financial performance for H1 23/24.

Khaled

Khaled Khater:

Thank you. Good day, everyone.

We exhibited outstanding financial and operational performance across the board during H1 23/24, reflecting our operational achievements, efficient cost management, and ability to translate revenue growth to profitability.

- Taaleem booked a total revenue of EGP 690mn in H1 2023/24, up by 61% YoY. This growth was mainly fueled by a substantial 33% YoY increase in the student base and a 21% YoY rise in average revenue per student (12% annualized).
- Operating cost for the period recorded EGP 143mn, up by 25% YoY, mainly coming from the rise in salaries and wages by 33% YoY, reflecting the annual salary raise and the cost of new hires to accommodate the increase in students, while recording a salaries/sales ratio of 8%, lower than the preceding year's 10%, reflecting economies of scale. Another factor is the rise in educational activities expenses by 27% YoY, driven by the increase in the number of students, in addition to the FX rate impact on educational cost items (laboratory materials and affiliation payments).
- General and administrative expenses grew 50% YoY, totaling EGP 119mn. Adjusting for the ESOP expense and other non-recurring items, G&A grew 49% YoY. The increase in G&A is mainly owed to a 41% YoY increase in non-academic salaries and wages, recording a lower salaries/sales ratio of 5% compared to the preceding year's 6%. This is followed by a 63% YoY increase in advertising costs mainly owed to Badya University's marketing and branding plan.

- We booked an EBITDA of EGP 463mn, growing 73% YoY with a strong 67% margin. Excluding the ESOP expense and non-recurring items, adjusted EBITDA recorded a 68% margin.
- As of H1 23/24, we had EGP 462mn in cash, while total debts stood at EGP 1.1bn, reflecting a net debt position of EGP 603mn in line with Taaleem's growth and capital structure optimization plans.
- Our CAPEX for the period was EGP 818mn, with 25% allocated to NUB and 75% for Badya's phase one. 97% of Taaleem's CAPEX for the period was disbursed on growth initiatives, including the first phase of Badya University, NUB's university hospital, and the two faculties of Arts and Architecture.

With this, ladies and gentlemen, we conclude our discussion of Taaleem's H1 2023/24 results and open the floor to your questions.

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

Questions & Answers:

Mai Nehad: Thank you very much to Taaleem's management team for the presentation. We will now open the floor to questions. If you would like to ask a question, please use the raise hand button to have your microphone unmuted, alternatively, you can type your questions in the dedicated Q&A box. We have a few questions in the chat box from Matthew Hodgkinson. We can take them one by one, if you'd like. What are the CAPEX expectations for the remainder of the year?

Khaled Khater: By the end of first half, we spent EGP 818mn of CAPEX and we will continue the developments at NUB and Badya University. Accordingly, we expect to spend EGP 950mn at the end of the year broken down as EGP 100mn at Nahda University and EGP 850mn on Badya developments.

Mai Nehad: Okay. The next question is how many students have signed up for Badya University so far? And what are your hopes for signups by launch in September 2024?

Mohamed El Rashidi: We are targeting the first-year intake of 900 students. We are launching an early campaign for Badya because K12's usual campaigns start in July and it will start for enrollment in May. Therefore, in the next quarter we can give a clear view of the enrollment expectations for Badya. However, our initial target is 900 students for the four faculties in the first phase.

Mai Nehad: Thank you. The last question from Matthew, what has been the average fee level of new students at Badya University?

Khaled Khater: The level of the tuition fees would be different compared to Nahda university. For example, in some faculties, the fees will be 30 to 40% higher, while in others, such as business and computer science, they could be 2 to 4 times higher. We are currently analyzing the market and comparing our fees with those of other universities in the area. We will announce our tuition fees in the next quarter.

Mai Nehad: Thank you. The next question from Dean asking, what is the expected tuition increase for the next academic year?

Khaled Khater: The usual tuition fees and movement of inflation levels is 7 to 20%. We aim to adjust our fees to account for recent inflation, passing on some of the impact to our tuition rates. It is guided by market trends, our research, and affordability in Beni Suef. So, the limit or the floor for our target is the normal tuition increases and we look to apply higher increases if the market condition and affordability allows.

Mai Nehad: Thank you. As a reminder for our participants. If you would like to ask a question, please type within the chat box or click the raise hand button at the bottom of your screen. In the meantime, I have a question regarding the associate income that appeared on the income statement this quarter is that related to Memphis, or is it the recurring thing?

Khaled Khater: It is related to Memphis, the latest acquisition by Taaleem. The University is not operational yet, but it has a cash balance generating interest and the amount appearing in Taaleem's financial statements. We account for it as an investment in association. So, we recognize our share of the net income of the company.

Mai Nehad: Yes, clear. So, you expect that to possibly recur?

Khaled Khater: The EGP 300mn cash injection by Taaleem. The amount is decreasing because we use the amount to pay the contractor and the amount is decreasing until we perform another fund the company with fresh cash.

Mai Nehad: Yes, and regarding Memphis, the CAPEX has been revised upwards to around EGP 2bn for phase one or EGP 2.1bn, Is that correct?

Khaled Khater: Yes, correct from which EGP 1bn is already funded being the EGP 640mn land price and EGP 300mn of cash injection by Taaleem and EGP 1.1mn to be funded going forward.

Mai Nehad: Thank you. We have another question from Dean. Are you seeing any new developments and higher education institutions being built by the government and/or private universities?

Mohamed El Rashidi: Currently Taaleem is the only one on the scene coming up with in the next couple of years with 2 private universities. The new national universities program has been seized by the government recently because they are in the process of assessing previous experience with developing 11 national universities that came into the high education sphere last year and performing poorly. For the next couple of years, we don't see any new serious development except the 2 assets of Taaleem coming online this year, and the year after.

Mai Nehad: Okay, thank you. Another question in the chat box. Can you please elaborate more on the call option available and how it works? I'm not sure if that's the call option in Memphis.

Khaled Khater: In Memphis Yes. Taaleem initially acquired 32% of the company and had a call option to acquire 90% to reach 51%. Noting that once Taaleem acquired 32% has the full control over the company with no reserving matters or any other rights and Taaleem has all the rights to control and manage the company only the university. So, the call option is an additional 19% exercisable after 12 months or one year after the enrollment of the first students and valid for an additional 12 months.

Mai Nehad: Thank you. Another question from Dean. What is your expected total student intake for the next academic year?

Mohamed El Rashidi: You can calculate the ramp up of NUB clearly. And I gave guidance on the number of students expected for Badya University's first year.

Mai Nehad: Okay, thank you. And as a final reminder for our attendees. If you would like to ask a question, please type it in or use. There is a hand button. Another question on the option again, but on the put option, can you elaborate more on the put option I think, for Badya?

Khaled Khater: The put option for Badya is a put option granted to Palm Hills to sell its 40% stake at Badya, 6 months after the start of the university and valid for 24 months. Based on 2 valuations, one is an average of 10 times EBITDA and the fair market value, and the other one is valid for 24 h by the end of the first option and based on the fair market value of the land. The amount is recognized in Taaleem's financial statements as a liability in balance sheet and a debit balance to Taaleem's equity. Now it stands at EGP 520mn, and the amount is calculated based on the report of an independent appraisal, who valued the land in 2029 to provide the valuation of the land at the time of the exercise, and it was EGP 1.2bn against the 40% share and the amount is discounted and recognized in Taaleem's financial statements as I mentioned.

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

Mohamed El Rashidi: I want to take the opportunity to appraise the relentless efforts and dedication of our management team throughout our journey. Looking ahead Taaleem's vision as we see that was conveyed since inception to a shareholder shaping up beautifully into a unique institutional government platform specialized in higher education in the Egyptian market. I would like also to thank our shareholders for their trust and their resilience with us and believing in our business. Thank you. We will see you next quarter with always positive news, and meeting expectations. Thank you.

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