

## CREDIT RATING ANNOUNCEMENT

GCR upgrades Curro Holdings Limited's long- and short-term issuer ratings to A<sub>(ZA)</sub> and A1<sub>(ZA)</sub> following debt refinancing

### Rating action

Johannesburg, 30 May 2022 – GCR Ratings ("GCR") has upgraded the long and short-term national scale issuer ratings assigned to Curro Holdings Limited from BBB<sub>(ZA)</sub> and A2<sub>(ZA)</sub> to A<sub>(ZA)</sub> and A1<sub>(ZA)</sub> respectively, with a Stable Outlook.

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

### Rating rationale

The upgrade of Curro Holdings Limited's (Curro or the group) ratings follows the strong improvements in its capital structure and liquidity following successful refinancing efforts. Further rating support derives from the group's strong competitive position and continued earnings growth.

Curro refinanced all of its outstanding debt during financial year to 31 December 2022, with longer tenors of three to five years. The refinancing package, which has a sustainability overlay, included a c.R500m debt upside, increasing bank facilities to ZAR3.3 billion (financial 2021: ZAR2.8 billion). This saw a significant lengthening in the group's debt maturity profile, with minimal debt repayments due over the next 3 financial years (ZAR153 million in total). In addition, two new funders (Absa and Rand Merchant Bank) were introduced to the existing pool of funders, enhancing diversity.

As such, GCR expects pressure on liquidity to be limited for the group over the next 24 months, given no significant debt repayments due until 2026, strong forecasted cash flows, cash on hand of ZAR120 million and ZAR659 million available on committed revolving credit facilities at 30 April 2023. Moreover, capex for financial 2023 is forecast to be lower at ZAR800 million (financial 2022: ZAR1.1 billion), as financial 2022 included capex that had been deferred during the pandemic. GCR calculates uses versus sources coverage at a much improved 1.7x for financial year 2023 compared to less than 1x previously. Moreover, the strong liquidity ratios help to offset some of the risks of the group's high asset encumbrances.

With the business transitioning into a more mature phase following its aggressive growth strategy, gross debt levels are expected to remain stable, which should see further improvements in key credit protection measures as earnings grow. GCR calculated net debt to EBITDA remained flat at 3.8x in financial 2022 (financial 2021: 3.8x), with interest coverage at 3.9x (financial 2021: 4.0x) against a covenant level of 2.5x. Operating cash flow to debt also remained relatively stable at 22.8% (financial 2021: 25.4%), but continues to remain somewhat constrained.

Curro maintains a strong 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 are expected to sustain high growth in learner enrolments over the medium term. Curro has seen a strong return in revenue growth coming out of the pandemic, reporting a 17.3% increase for financial 2022 to ZAR4.2 billion

(financial 2021: 14.5% growth). This was driven by a combination of increasing learner numbers, reduction in fee discounts and growth in ancillary revenues (non-tuition fee revenue from transport, boarding schools, after-care, etc). EBITDA margins have remained resilient (financial 2022 and 2021: 22.3%), despite the economic pressures. GCR expects continued growth in profitability as capacity utilisation at the schools progresses against the high fixed cost base.

## 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.

## Rating triggers

Positive rating action would be considered on the back of 1) strong earnings accretion and widening in EBITDA margins 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

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## Related criteria and research

Criteria for the GCR Ratings Framework, January 2022  
 Criteria for Rating Corporate Companies, January 2022  
 GCR Ratings Scales, Symbols & Definitions, May 2023  
 GCR Country Risk Scores, May 2023  
 GCR Corporate Sector Risk Scores, March 2023

## Ratings history

Curro Holdings Limited					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term Issuer	Initial	National	BBB <sup>-</sup> <sub>(ZA)</sub>	Stable	May 2013
Short Term Issuer	Initial	National	A3 <sub>(ZA)</sub>		
Long Term Issuer	Last	National	BBB <sup>+</sup> <sub>(ZA)</sub>	Stable	May 2022
Short Term Issuer	Last	National	A2 <sub>(ZA)</sub>		

## Risk score summary

Rating Components & Factors	Score
<b>Operating environment</b>	<b>14.00</b>
Country risk score	7.00
Sector risk score	7.00
<b>Business profile</b>	<b>0.50</b>
Competitive position	0.50
Management and governance	0.00
<b>Financial profile</b>	<b>-1.00</b>
Earnings	0.75
Leverage & cash flow	-1.00
Liquidity	-0.75
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Peer comparison	0.00
<b>Total Risk Score</b>	<b>13.50</b>

## Glossary

Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Coverage	The scope of the protection provided under a contract of insurance.
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.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Income	Money received, especially on a regular basis, for work or through investments.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
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.
Operating Cash Flow	A company's net cash position over a given period, i.e. money received from customers minus payments to suppliers and staff, administration expenses, interest payments and taxes.
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.
Short Term	Current; ordinarily less than one year.
Upgrade	The rating has been raised on its specific scale

### 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, and therefore, GCR has been compensated for the provision of the ratings.

The rated entity participated in the rating process via face-to-face management meetings, as well as other written 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 2022
- Five years of comparative audited numbers
- Results presentation for the financial year ended 31 December 2022
- Detailed facility breakdown as at 30 April 2023
- Integrated Annual Report as at 31 December 2022
- Covenant Compliance Certificates and calculations as at 31 December 2022
- SENS announcements

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