ANCHOR STOCKBROKERS

Creating capacity for growth

- Since unbundling from Curro Holdings and separately listing in 2017, STADIO has grown from 840 students to over 50 000, making it the second largest private tertiary educator in SA. Acquisitions facilitated circa 30 000 students by 2019 with subsequent growth largely organic. Its roots are in distance learning, a market it dominates in the private space, and a popular format for students, accounting for 35% of public sector students, with Unisa the dominant operator, but looking vulnerable to student loss, an opportunity for STADIO.
- It has invested R2.2bn in infrastructure and programme development, establishing a platform that provides capacity and programme choice to achieve its goal of 80 000 students in 2030, an 8% CAGR. Currently only 13% of students are contact learners, a growth opportunity as its the favoured choice for school leavers and STADIO is underrepresented in this market. Capex is currently being channelled into contact campuses to build foundations for growth that will ultimately accommodate 20% of all its students.
- Demand for tertiary education in SA remains incredibly strong given lower unemployment rates for graduates. With a young population, SA delivered over 600k matriculants with university access in 2024, unfortunately only circa 200k can be accommodated by public universities resulting in a significant shortfall that grows annually. Affordability is the challenge to fulfill this demand, with STADIO well positioned given that distance learning is considerably cheaper than contact and its scale allows it to challenge increased competition.
- The group currently offers 96 programmes with ongoing growth expected. A considerable number of programmes are under 3-years old ensuring strong student growth as each study year is filled and programmes are specialised and supplemented with post graduate offerings.
- We see the target of 80 000 students in FY30E, through organic growth, being achieved. We also see scope for these targets to be exceeded through acquisitions, expansion into other territories, most likely Africa, and increased international collaborations. The balance sheet is ungeared with access to R200m of facilities should opportunities arise.
- By FY27E the bulk of its building capex will have been incurred, with considerable capacity added, allowing for stronger contact student growth rates than distance learning. This will be positive for average fee income per student, and it will facilitate greater fee flexibility as it currently offers courses at considerably lower prices than other private contact student campuses.
- Improvements in capacity utilisation and greater operating leverage from its distance platform, will benefit margins. The FY24 EBITDA margin of 28.4% reflects a sub optimal performance from Milpark due to B2B student weakness and the Centurion campus that recently past breakeven point, despite good student growth. This creates a base for robust margin expansion - we have EBITDA margins rising to 30% and 31% in FY25E and FY26E. Management targets 35% in the long term with some campuses already achieving greater than 30% margins.
- With 8% student growth and circa 5% fee increases, revenue should grow at 13-14% in the medium term. Coupled with margin expansion we anticipate a 3-year CAGR in normalised HEPS of 24%. We forecast ROE expansion from 13.7% in FY24 to 19.3% in FY27E, well on track to achieve the 20% target. The stock trades on a forward 12m P/E of 19.6x (14.7x to FY27E), compared to a 24x 3-year average. In our DFCF valuation we calculate a fair value range of R9.38-R12.65/share, a mid-point of R10.75/share.

Date: 06 August 2025

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Price (05/08/2005):	R8.76
Market cap	R7431mn
Shares in issue	848mn

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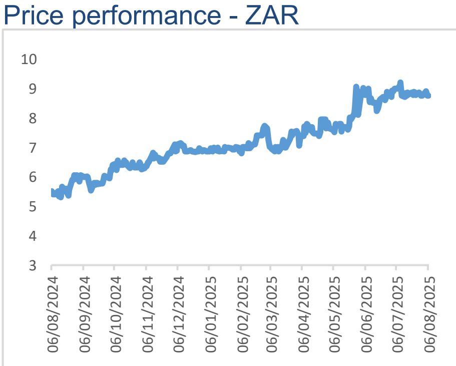
Price performance - ZAR



Source: FactSet

Figure 1 Financial summary – R'm

Year Ending	FY2022 A	FY2023 A	FY2024 A	FY2025 F	FY2026 F	FY2027 F
Income Statement						
Tuition fees	1,135	1,311	1,500	1,733	1,988	2,269
Growth (%)	*10.8%*	*15.5%*	*14.4%*	*15.6%*	*14.7%*	*14.1%*
Ancillary revenue	78	102	112	129	147	167
Growth (%)	*6.7%*	*30.5%*	*9.3%*	*15.0%*	*14.1%*	*13.7%*
Total revenue	1,214	1,414	1,612	1,862	2,135	2,435
Growth (%)	*10.5%*	*16.5%*	*14.0%*	*15.5%*	*14.6%*	*14.1%*
Other income	6	15	15	16	17	18
Operating costs	789	911	1,028	1,158	1,309	1,480
Growth (%)	*10.3%*	*15.4%*	*12.9%*	*12.6%*	*13.0%*	*13.1%*
Expected credit losses	80	127	141	162	181	207
% of revenue	*6.6%*	*9.0%*	*8.7%*	*8.7%*	*8.5%*	*8.5%*
EBITDA	351	391	458	559	662	767
EBITDA Margin (%)	*28.9%*	*27.6%*	*28.4%*	*30.0%*	*31.0%*	*31.5%*
% growth	*13.4%*	*11.3%*	*17.4%*	*21.9%*	*18.5%*	*15.9%*
Recurring EBITDA	351	387	458	559	662	767
Recurring EBITDA Margin (%)	*28.9%*	*27.4%*	*28.4%*	*30.0%*	*31.0%*	*31.5%*
% growth	*13.1%*	*10.2%*	*18.5%*	*21.9%*	*18.5%*	*15.9%*
EBIT (pre impairments)	283	320	387	486	579	681
EBIT Margin (%)	*23.3%*	*22.6%*	*24.0%*	*26.1%*	*27.1%*	*27.9%*
% growth	*16.3%*	*13.2%*	*21.0%*	*25.4%*	*19.3%*	*17.5%*
Profit before tax	269	324	382	492	591	712
Net profit	186	236	276	355	428	516
Net profit post minorities	165	208	262	345	418	506
Headline Earnings	170	208	266	345	418	506
% growth	*17.6%*	*22.7%*	*27.9%*	*29.7%*	*21.0%*	*21.3%*
Headline EPS, ZAc	20.0	24.5	31.4	40.7	49.3	59.7
Normalised headline earnings	176	209	267	345	418	506
% growth	*18.3%*	*18.6%*	*27.8%*	*29.3%*	*21.0%*	*21.1%*
Normalised EPS, ZAc	20.7	24.6	31.5	40.7	49.3	59.7
% Change	*20.9%*	*18.6%*	*28.2%*	*29.1%*	*21.0%*	*21.1%*
DPS, Zac	8.9	10.0	15.1	20.4	32	41.8
Payout ratio (%)	*43%*	*41%*	*48%*	*50%*	*65%*	*70%*
Balance Sheet						
Cash and Cash equivalents	148	130	132	189	317	487
Current assets (ex – cash)	169	233	248	280	316	355
Net Fixed assets	867	872	889	1,151	1,283	1,286
Intangible assets	892	903	923	895	868	842
Investments	119	102	108	91	106	109
Other assets	87	76	90	108	130	157
Total assets	**2,281**	**2,316**	**2,389**	**2,715**	**3,020**	**3,215**
Debt ex lease liabilities	0	0	1	100	150	100
Lease liabilities	170	115	112	117	121	126

Year Ending	FY2022 A	FY2023 A	FY2024 A	FY2025 F	FY2026 F	FY2027 F
Current liabilities	184	287	187	216	247	282
Other liabilities	46	52	66	65	84	101
Total liabilities	**399**	**454**	**366**	**497**	**602**	**609**
Shareholders' equity	1,772	1,795	1,957	2,179	2,428	2,688
Minorities	110	68	67	70	74	77
Total shareholders' equity	**1,882**	**1,862**	**2,024**	**2,249**	**2,502**	**2,743**
BVPS - ZAR	*2.21*	*2.19*	*2.39*	*2.66*	*2.95*	*3.24*
RoE	*9.7%*	*11.2%*	*13.7%*	*16.1%*	*17.6%*	*19.3%*
ROCE	*14.9%*	*17.1%*	*20.1%*	*22.7%*	*24.5%*	*27.5%*
Cash Flow						
Reported profit before tax	**269**	**324**	**382**	**492**	**591**	**712**
Change in net working capital	-53	-44	-5	-4	-5	-4
Net Interest (paid)/received	-10	0	0	6	12	31
Dividends paid	-59	-93	-96	-128	-172	-271
Depreciation	68	71	71	73	82	86
Other adjustments	-44	-105	-93	-131	-163	-214
Cash flow from operations	**172**	**153**	**260**	**309**	**346**	**341**
Net Capex	-40	-59	-105	-335	-213	-90
Capex/revenue (%)	*3.3%*	*4.1%*	*6.5%*	*18.0%*	*10.0%*	*3.7%*
Other investing cash flows	-5	-1	12	28	-7	-1
Cash flow from investing	**-45**	**-59**	**-93**	**-307**	**-221**	**-91**
Equity raised/(bought back)	-14	-52	-139	-17	-19	-21
Net increase/(decrease) in borrowings	-15	0	0	100	50	-50
Other financing cash flows	45	34	70	100	144	242
Cash flow from financing	**-43**	**-111**	**-165**	**55**	**3**	**-101**
Net cash flow	**83**	**-17**	**2**	**57**	**128**	**150**
Free cash flow	**190**	**173**	**239**	**83**	**280**	**477**
Repayment of lease liabilities	**-32**	**-62**	**-29**	**-30**	**-31**	**-33**
Net Free cash flow	**158**	**111**	**210**	**53**	**248**	**444**
Valuation Summary						
Share Price- ZAc	491	522	876	876	876	876
P/E (Underlying) -x	23.7	21.2	27.7	21.5	17.8	14.7
P/BV -x	2.2	2.4	3.7	3.3	3.0	2.7
EV/Sales - x	6.5	5.6	4.9	4.2	3.7	3.2
EV/EBITDA -x	21.0	18.8	16.1	13.2	11.1	9.6
EV/EBIT - x	26.0	23.0	19.0	15.2	12.7	10.8
FCF Yield	3.8%	2.5%	2.8%	0.7%	3.4%	6.0%
Dividend Yield	1.8%	1.9%	1.7%	2.3%	3.7%	4.8%
Net Debt (incl lease liabilities)	22	-15	-20	28	-46	-241
Debt/Equity (incl lease liabilities)	0.01	-0.01	-0.01	0.01	-0.02	-0.09
Net Debt (excl lease liabilities)	-106	-95	-100	-56	-133	-331
Net Debt/Equity (excl lease liabilities)	-0.06	-0.05	-0.05	-0.02	-0.05	-0.12

Source: Company data, ASB Research

SA Higher Education Environment

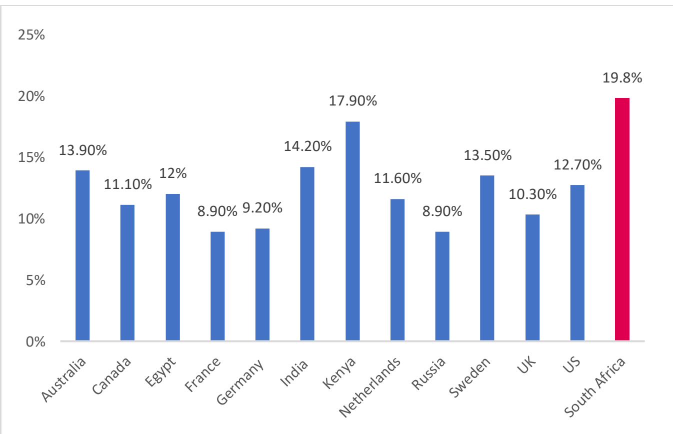
South Africa has a very young population (52% below the age of 30) and therefore the demand for schooling and tertiary education is very high. According to Stats SA, 18% of the population is aged 20-29 (see figure 5 below), STADIO's key target market. Despite having one of the world's highest allocations of the national budget to education (see figure 2 below), the SA government is not adequately fulfilling education demand, both in schooling and tertiary education. These trends have persisted for years and are unlikely to change in the medium to long term given the slow turnaround times of government infrastructure projects.

There has been no development of public universities over the past decade with the number of institutions remaining at 26. There were three added in the 2014/5 period. Excluded from the analysis are the Technical and Vocational Education and Training (TVET) colleges, a market in which STADIO doesn't compete. In 2023 there were 50 public TVET colleges with 564k students, up from 358k in 2010 but down from a peak of 738k in 2015.

This has created the opportunity for private institutions to accommodate demand; however, affordability remains a barrier to growth, not capacity. As per the chart below there has been no improvement in affordability with disposable income per capita at the same level as 2012 and the debt servicing ratio at new highs of 9.2. Interest rate cuts should see some relief in the debt servicing ratio – it declined to 8.9 in 1Q2025.

Unemployment plays a key role in the affordability statistics, with the unemployment rate remaining stubbornly high at 31.9%. The unemployment rate for university graduates is 8.7% which is hugely appealing for young adults, fuelling the demand for university entrants.

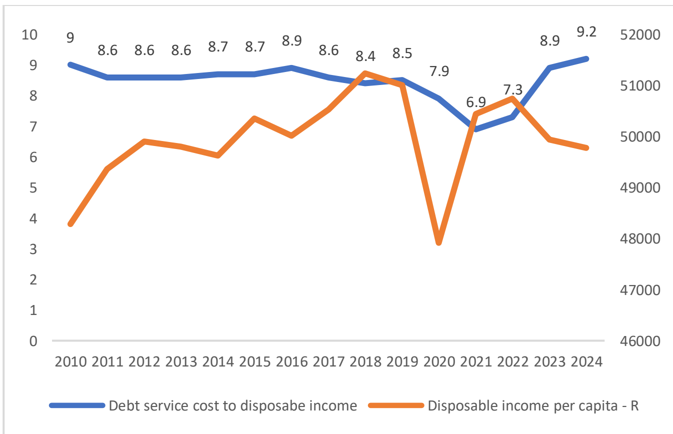
Figure 2 Education spend - % of national budget



Based on data available in 2023. SA declined to 19.6% in 2025/6 budget

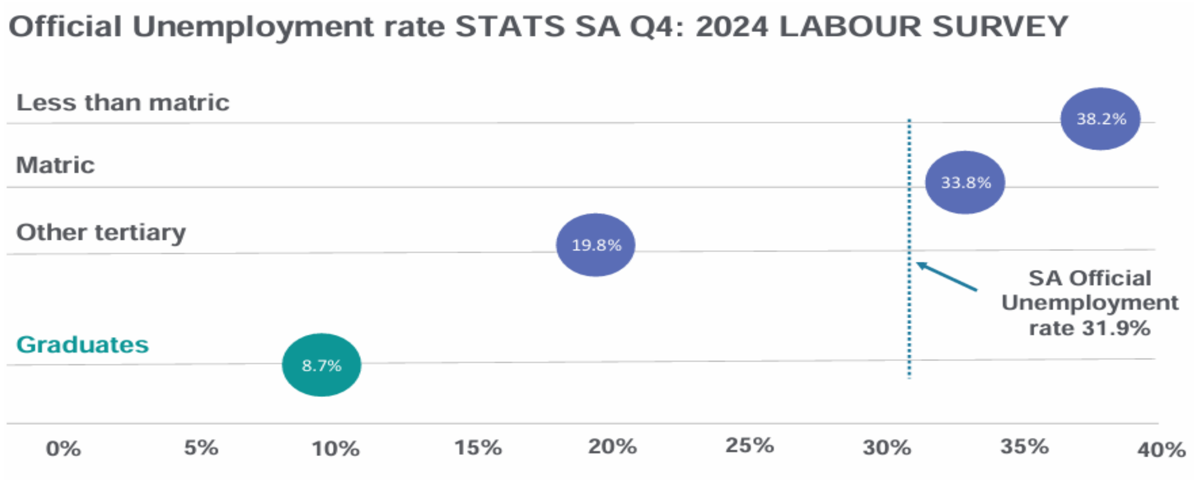
Source: World Bank, ASB Research

Figure 3 SA Affordability measures



Source: SARB, ASB Research

Figure 4 SA unemployment rates at various levels of qualification

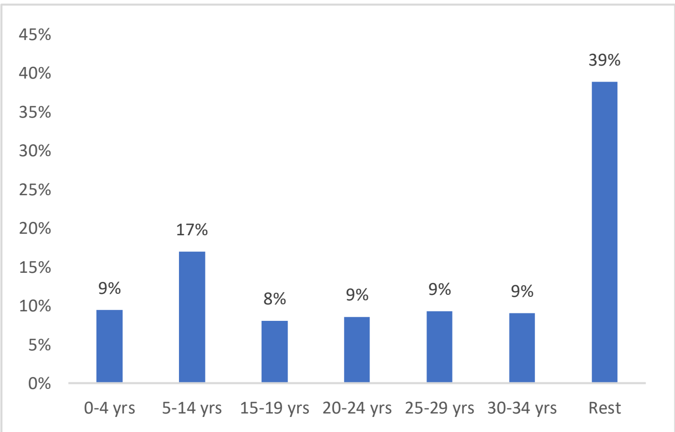


Source: Company data, Stats SA

The number of students in Higher Education Institutions (excl TVET) has grown from 893k in 2010 to 1072k in 2023, with a disproportionate % of growth coming from private institutions. Private has grown from 10% to 21% of total HEI students. There are 138 registered private higher education institutions in 2023 of which 16 had no students enrolled in that year. Public student numbers have declined from a high of 1086k in 2018, highlighting the capacity constraints at these institutions. Over this period private students have grown 30%. In 2023, 35% of public students were distance learners, with 94% coming from Unisa. The two large listed tertiary educators, namely ADvTECH and STADIO, account for 32% of private tertiary students in 2023.

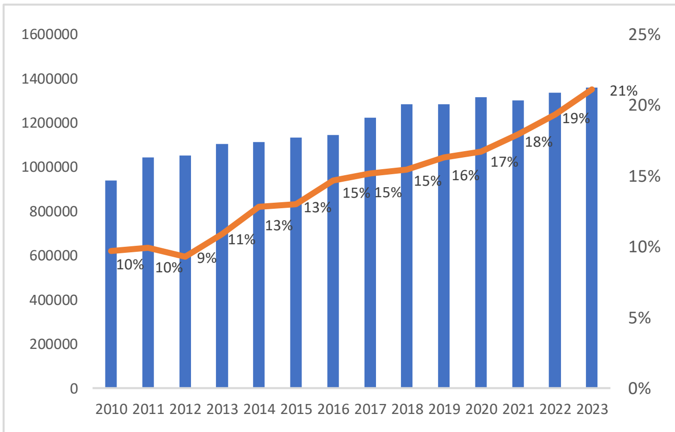
The capacity constraints at public universities are highlighted by the lack of growth in new enrolments as per figure 9 below - 2023 saw 208 697 enrolments compared to 208 661 in 2018. Public universities are running at maximum capacity with no proposed new universities.

Figure 5 SA population by age - 2022



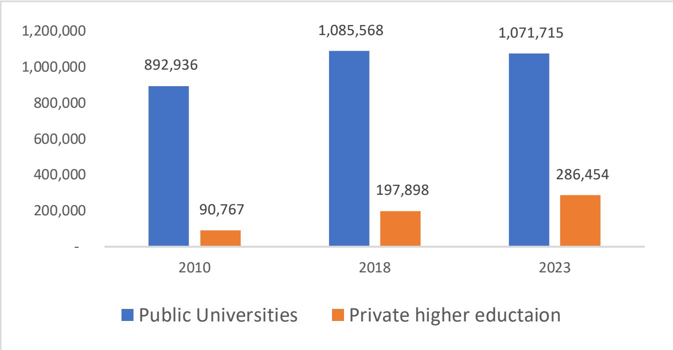
Source: Stats SA, ASB Research

Figure 6 Total HEI students and % in private



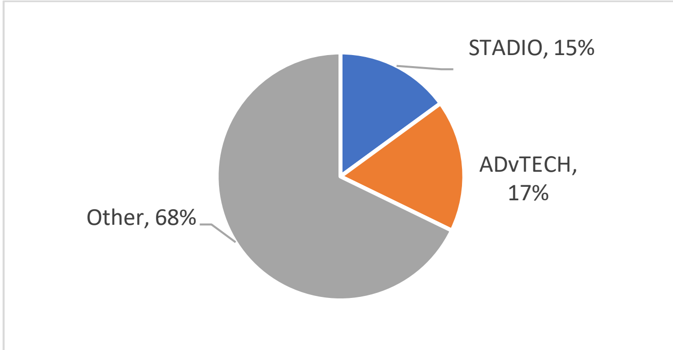
Source: DHET, ASB Research

Figure 7 Split between private & public HEI students



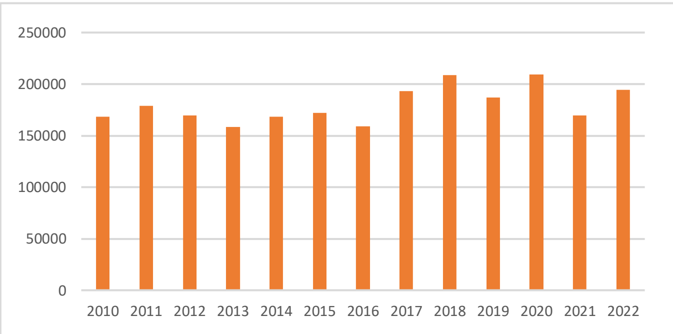
Source: DHET, ASB Research

Figure 8 HEI student market share - 2023



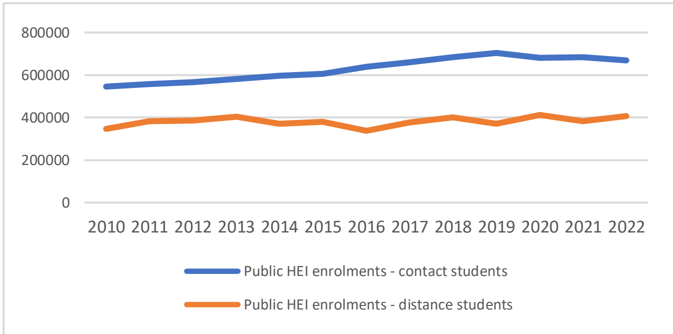
Source: Company data, ASB Research

Figure 9 Annual enrolments in public HEI



Source: DHET, ASB Research

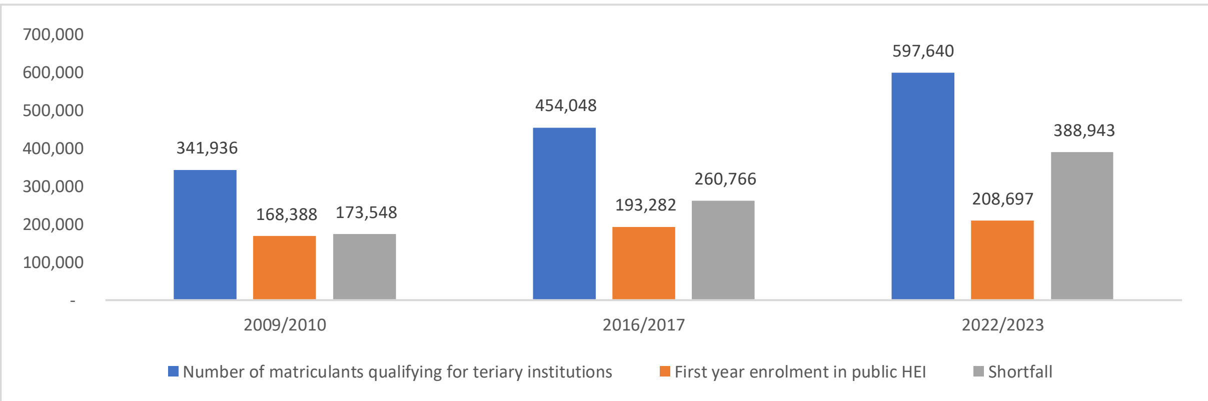
Figure 10 Public students – contact vs distance



Source: DHET, ASB Research

The capacity issues within public universities is one which is compounding annually as the number of matriculants qualifying for university entrance grows and far exceeds the annual enrolment capacity. In the chart below we show the number of NSC (National Senior Certificate) and IEB (Independent Examinations Board) matriculants qualifying with a Bachelors, Diploma and Higher Certificate pass in the respective years compared with the public HEI enrolment numbers at the start of the following year. The shortfall consistently rises and is estimated to be over 430k in 2025 as the NSC pass rate has risen to a new high. For example, in 2025 the University of Johannesburg was 33x oversubscribed with Stellenbosch 15x oversubscribed.

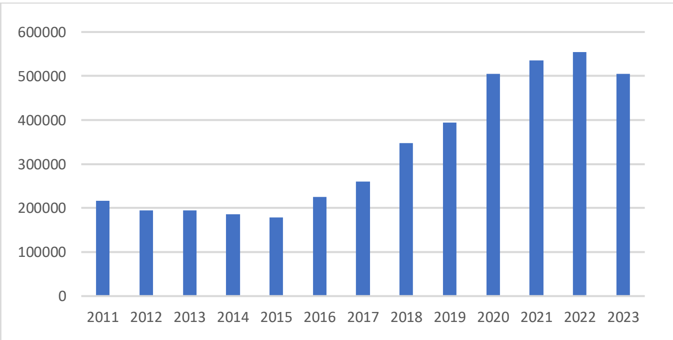
Figure 11 Shortfall of matriculants gaining access to public HEI



Source: DHET, ASB Research

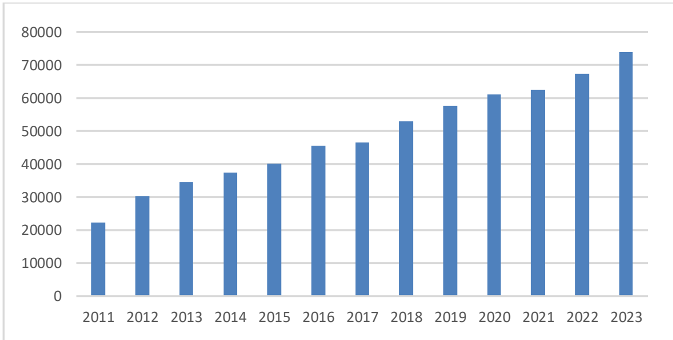
In conclusion, the demand for private tertiary education is strong, affordability being the key challenge. As the large private operators continue to gain scale affordability should improve. Focus on cheaper distance learning by the large operators will also address affordability. Added to this, private institutions are looking at ways of providing financial assistance to its students through associations with lending institutions such as Capitec Bank that offers students loans. Unfortunately bank student loans are for short periods (84 months for Capitec) and interest rates still remain high given its unsecured credit, making the monthly payments unaffordable for most. As a consequence, student finance is only used by a small percentage of students. STADIO provides monthly payment plans and introduced Milpark Credit for its MBA students, the latter being a small book and likely to remain so. Unfortunately, private students do not have access to the National Student Financial Aid Scheme (NSFAS) and changes in this regard are highly unlikely. The NSFAS scheme has been very popular with 504 569 students making use of it in 2023. However, poor graduation rates at public universities implies that the return on NSFAS funding is far from optimal.

Figure 12 Number of NSFAS students



Source: DHET, ASB Research

Figure 13 Average NSFAS loan amount per student



Source: DHET, ASB Research

STADIO's Background

Established in 1998, STADIO Holdings was a subsidiary of JSE listed Curro Holdings, a provider of pre-school and school-based education. In February 2017 it was unbundled from Curro with 840 students, and it listed on the JSE on 3 October 2017. At the time of listing, the group had 1 952 students and set a target to achieve 56 000 students by the end of 2026. Its focus is on the growth and development of higher education in Southern Africa, widening access to quality education through affordability.

At the time of its unbundling its sole offering was an accredited teacher education qualification out of Embury (100% owned), which was acquired by Curro in 2013. Embury was a contact and distance learning institution. Prior to listing it acquired 100% of AFDA (The South African School of Motion Picture Medium and Live Performance), a contact learning institution with a capacity of 4 000 students. A 74% stake was also acquired in SBS (Southern Business School) shortly after listing, a distance learning institution founded by the current CEO Chris Vorster in 1996. At 31 December 2017 the group had 12 976 students with 9 985 from SBS. It had 28 accredited programmes with 9 campuses.

LISOF was 100% acquired on 1 January 2018 with 686 contact learning students primarily focused on the fashion industry. An 87.2% stake in Milpark Education was acquired in March 2018 (via a 70% direct investment and a further purchase of 17.2% from Brimstone Investment Corporation Limited for the issue of STADIO shares with Brimstone becoming its B-BBEE shareholder) with 14 735 students in both contact and distance learning, the majority in distance. Milpark was established in 1997 as one of the first private providers of higher management education in SA. Including these acquisitions as at 31 December 2017, the group had 28 397 students with 51 accredited programmes and 13 campuses. Acquisitions were funded through a R640m rights issue on 27 October 2017 and a R200m B-BBEE private placement on 4 December 2017.

Milpark acquired CA Connect in April 2018, which would later provide access to the Postgraduate Diploma in Accounting (PGDA), an offering that far exceeded expected student numbers. A 100% interest in Prestige Academy was acquired in November 2018 with 529 students. It offered 21 accredited programmes at the time with a focus on Media & Design, Information Technology and Commerce. It therefore played a small part in the student growth in 2018.

2019 was a year of consolidation for the group. It acquired the minorities in SBS and acquired two sites for the future development of comprehensive campuses in Centurion and Durbanville. Student numbers increased to 31 869 from 29 885 in December 2018.

In 2020 the group registered a new private higher education institution, STADIO, essentially incorporating all the brands apart from AFDA and Milpark and rebranding them STADIO Higher Education. The purpose was to unlock opportunities, to actively deliver on the marketing, operational and regulatory efficiencies that arose from operating as a single higher education institution. Student numbers grew 10% to 35 031.

2021 saw the consolidation of the brands into STADIO Higher Education. It was decided to move away from contact learning at Milpark and therefore the Milpark campus would close in 2022. An early settlement deal for the CA Connect acquisition resulted in the Milpark shareholding diluting from 87.2% to 68.5% as CA Connect shareholders were granted R100m in Milpark shares as part of the settlement agreement. Phase 1 of the Centurion campus was completed and transfer of the land in Durbanville was taken. Students from the smaller Montana and Banklaan campuses moved across to the Centurion campus and the Montana campus was sold, and the lease ended on Banklaan. The Centurion campus opened to new students in January 2022. The student numbers increased 9% to 38 262, negatively impacted by the cyclical training needs of various corporate clients (B2B business), particularly in Milpark and the impact of COVID-19.

Phase 2 of the Centurion Campus was completed in 2022, becoming fully operational with an option to build a further phase in the future. Additional qualifications were accredited and offered at Centurion. There were no acquisitions in the year with a focus on both its contact and distance offerings. Distance learning numbers were once again negatively impacted by weak B2B business, with returning contact learning students still impacted by the effects of COVID-19 (new contact learning students in 2021 were lower which impacted the roll-over of students) and Milpark transitioning away from contact learning. Student numbers increased 8% to 41 296 in 2022. The group declared its maiden dividend in respect of FY21.

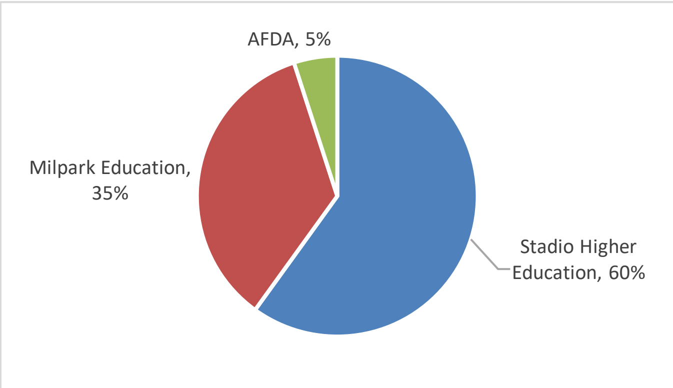
In 2023 the STADIO Higher Education's distance learning logistics centre opened. The group agreed to acquire additional shares in Milpark bringing the effective holding to 83.9% effective 1 January 2024. STADIO Higher Education introduced professional and casual sport to students on a phased approach.

In 2024, STADIO Higher Education's School of Fashion students moved to the Centurion campus from the Randburg and Hatfield campuses. The Randburg campus was put on the market (currently in the process of being sold) and the Hatfield campus will open to AFDA students in 2026. The Board approved the construction of the Durbanville campus, commencing in 2024 for students enrolling in January 2026.

Overview of operations

STADIO's core focus is on distance learning, with a stated target of 80% of its students in this format. This makes it a direct competitor with Unisa, the biggest distance learning institution in SA with 222k students in 2023. However, it must be noted that Unisa students benefit from NSFAS funding which is not accessible to STADIO students and hence a switch from the one institution to the other is dependent on affordability.

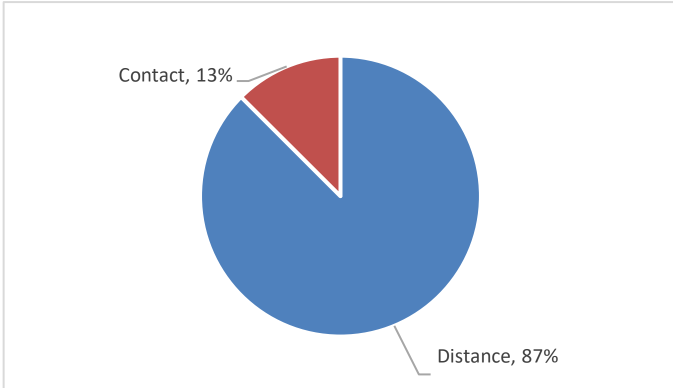
Figure 14 Estimated split of student numbers



Note: Based on Semester 2. The split varies from semester 1 to 2

Source: Company data, ASB Research

Figure 15 Distance vs Contact students – FY24



Source: Company data, ASB Research

STADIO has a presence across SA, however, contact student campuses are located in the larger CBD's (we focus on these in more detail in the sections below). It is not STADIO's intention to build campuses in every city and management is comfortable that their current campus footprint (including developments underway) will achieve their targeted 20% contact learning student mix. It has an operation in Namibia supporting distance learning students. The Namibian operation contributed 3.4% and 2.8% to FY24 group revenue and EBITDA making it immaterial in a group context.

Figure 16 Southern African footprint

Source: Company data

What does distance learning entail?

Distance learning provides education without requiring attendance at venue-based classes. STADIO's distance learning offering differs across the qualifications with some of Milpark's qualifications (e.g. PGDA) effectively being contact learning online, whereas other qualifications are traditional distance learning.

At STADIO Higher Education, distance learning is supported by technology, including a learning management system (LMS) where students can access materials, assessments, and live online classes. Some qualifications also provide printed study materials. Key dates for assignments and online sessions are communicated in advance, with online sessions recorded for convenience. Participation in live sessions is encouraged but not mandatory.

Academic support is easily accessible through the online module environment, and students have access to online library resources, eBooks, databases, and a physical library at the Krugersdorp campus. Distance learners can feel isolated and therefore additional support services are offered to promote academic success and well-being. The full learning experience is accessible via mobile devices.

Distance learning is ideal for students who wish to study remotely, offering flexibility to create personalised study schedules while meeting assignment deadlines. It suits working adults, mature learners, and school-leavers who prefer learning at their own pace or have other commitments. Students have access to expert lecturers and peer engagement through the online learning environment. Some assessments, including final exams, will require attendance at one of STADIO's exam venues in South Africa or internationally, ensuring qualification integrity and credibility. Printed study materials are available for most distance learning modules in Administration and Management, Commerce, Law, and Policing and Law Enforcement.

Students are expected to engage with study materials and use the online LMS to access and submit assessments. Access to a computer and the internet is required. STADIO believes motivation and consistent engagement are key to success, and students are expected to meet deadlines, participate in learning activities, and adhere to the Student Code of Conduct and Institutional policies.

At Milpark, there are two categories of distance learning; Distance Learning (DL) and Distance Learning Online (DLO). DL allows self-paced study with optional live sessions and lecturer support through online chat and is similar to STADIO Higher Education's offering above. DLO includes instructor led engagement, structured milestones and regular interaction with lecturers – this is more closely aligned to remote contact learning.

There are three institutions within STADIO that we focus on in more detail below:

STADIO Higher Education (SHE)

SHE is a comprehensive institution offering qualifications across various disciplines including Education, Commerce, Management and Administration, Policing, Law, Information Technology, Fashion, Media and Design, Architecture and Spatial Design and Humanities, with qualifications offered on both the contact and distance learning modes of delivery. Student numbers have now exceeded 30 000 with over 50 qualifications, the biggest institution within the group (see figure 14 above). There are 10 Academic Schools each covering a faculty with courses ranging from under and post graduate degrees, diplomas and higher certificates. Engineering will be offered from 2026. There is no medical faculty due to government restrictions (private students don't have access to beds in public hospitals for practical training purposes and this is a requirement for trainee doctors) and its unlikely to be introduced in the medium term, although a nursing qualification is permissible for private institutions. In addition, dentistry or physiotherapy are options.

There are 4 contact learning campuses (Durbanville will replace Bellville), one distance learning campus and five distinct distance learning support centres. The contact learning campuses also double up as distance learning support centres.

SHE continues to roll out professional and recreational sports to students. This is being introduced on a phased approach with sports facilities constructed in Centurion, Waterfall and Musgrave in 2024. As part of this initiative sport bursaries and sponsorships are offered. This investment will further support the STADIO brand.

In a bid to ensure ongoing affordable connectivity for students, STADIO Connect, a mobile network was launched in 2024. It provides affordable data and airtime whilst zero-rating certain websites to eliminate affordability of data as a barrier to accessing online teaching and learning resources. Students receive a SIM that provides access to the STADIO Connect App from which data, airtime and bundles can be acquired at affordable rates.

The campuses have varying offerings:

- Bellville in Cape Town – this is a contact learning campus, offering: School of Administration and Management, Commerce, Education, Law, Information Technology, Media and Design and Engineering and Architecture. This campus is currently leased, and students will move across to the new Durbanville campus in 2026.

- Durbanville campus in Cape Town – it will become operational in January 2026, opening with an expected 1 000 students out of an eventual 6 000 capacity. This is a contact learning campus, offering: School of Administration and Management, Commerce, Education, Law, Information Technology, Media and Design and Engineering and Architecture. The success of the Bellville campus supported the decision to construct this campus.
- Centurion in Pretoria - this is a contact learning campus, offering: School of Commerce, Education, Fashion, Information Technology and Law. There are currently around 1 500 students on campus, up circa threefold from its opening and built capacity is circa 3 000 students with eventual build capacity of 6 000.
- Musgrave in Durban – this is a contact learning campus and a distance learning campus, offering: School of Education, Information Technology and Law.
- Waterfall in Midrand – a contact learning campus, offering: School of Education, Commerce, Arts and Humanities and Law.
- Krugersdorp campus - this is a distance learning campus that offers some classes to distance learning students, houses the logistics centre and distance learning teaching and learning and support staff. It offers: Schools of Administration and Management, Commerce, Education, Law, Information Technology, Policing and Law and Arts and Humanities.

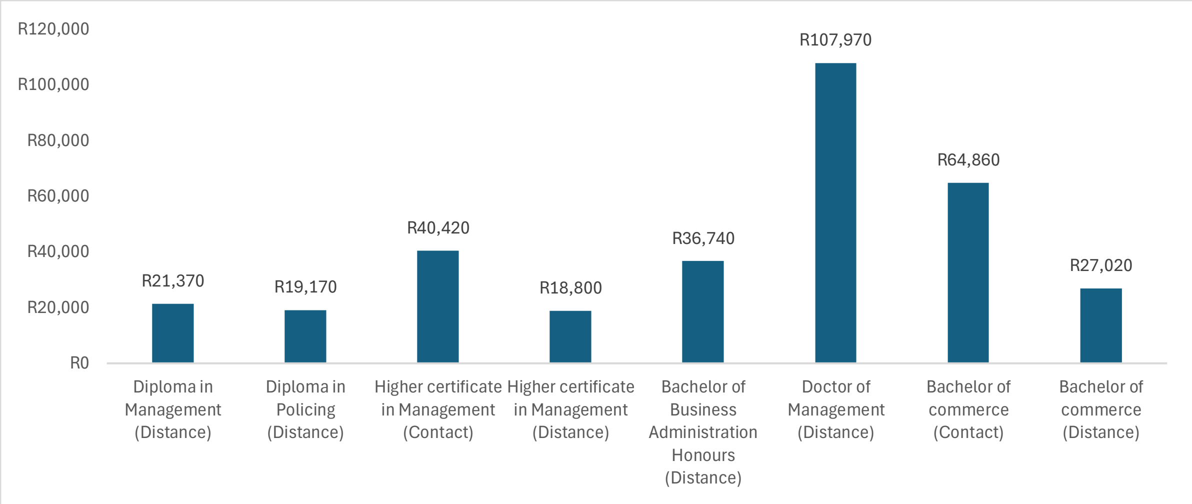
Solar solutions have been installed on all campuses to ensure load shedding risks are eliminated and alternate water solutions are being investigated.

The STADIO brand is still relatively new having been launched in October 2020. It has positioned itself for university status once the regulators allow for this. The timing remains highly uncertain, and we believe the indicative date will not be before 2027. Currently all accredited qualifications offered at private higher education institutions go through the same regulatory process as public universities, however, private higher education institutions may not use the naming convention of “university”.

A new CEO, Prof Stan Du Plessis was appointed effective 1 August 2025. Stan was formerly the COO of Stellenbosch University with considerable knowledge in economics and research, coupled with expertise in contact learning and the public university space, which will be beneficial in growing the contact student base. To date the STADIO Holdings management has doubled up as the management team at SHE. Management believes the time is right for a dedicated team to focus on SHE, and for the Holdings management team to explore further growth opportunities for the group.

In the graph below we provide an indication of the different fee structures within SHE in 2025. These include the registration fees. As is evident the pricing varies on the type of qualification and depending on whether it’s an undergraduate degree, honours, doctorate, diploma or higher certificate. There is also a big differential in Contact verses Distance for the same degree. Programmes supported by the Krugersdorp Learning Campus, which has the largest number of distance students in SHE, are the cheapest and generally range between R20-30k.

Figure 17 2025 Fees including registration fee



Source: Company data, ASB Research

Milpark Education (Milpark)

Milpark is becoming the leader in distance learning online in SA, specifically in the accounting and financial services sectors. It currently offers 23 accredited programmes across Distance Learning (DL) and Distance Learning Online (DLO) modes of learning delivery. DL allows self-paced study with optional live sessions and lecturer support through online chat. DLO includes instructor led engagement, structured milestones and regular interaction with lecturers. DLO is limited to certain courses and accounts for 30-40% of total students.

Milpark was established in 1997, becoming one of the first private providers of higher management education in South Africa. Milpark pivoted away from contact learning and has focused on its DLO offerings. Milpark services the higher education needs of various corporate entities as well as public students, through the qualification offerings of its four schools:

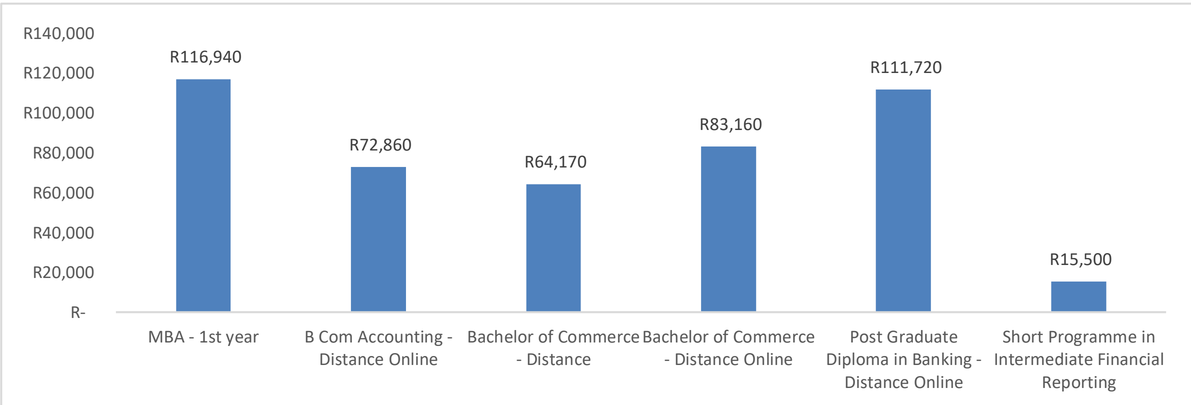
- The Business School - it continues to be the only AMBA accredited MBA in Africa for online learning. It also supports continuous professional development through bespoke Executive Education and a range of online short courses.
- The School of Commerce - it offers a wide range of programmes, from bridging courses to full degrees and prepares students for diverse careers in taxation, HR, marketing, supply chain and logistics and financial management. There are four intakes per year providing students with a flexibility and courses are offered in part time or full-time.
- The School of Financial Services - it's a school for financial services professionals, run by financial services professionals. It offers high-quality, accessible online programmes. It holds accreditations from leading professional bodies, including the Financial Planning Institute of Southern Africa NPC (FPI), the Institute of Risk Management South Africa (IRMSA), the Insurance Institute of South Africa (IISA), the Institute of Loss Adjusters of Southern Africa (ILASA), and the Chartered Insurance Institute (CII). Designed for students looking to become a broker, financial planner, risk manager, investment banker or wealth manager.
- School of Professional Accounting - offers an online Postgraduate Diploma in Accounting (PGDA/CTA), an online CTA Bridging Course, an online BCom in Accounting and a Bridging Programme for the BCom in Accounting. These programmes provide flexible learning options, full online support, and interactive classes.

Milpark's Corporate Learning team partners with clients to create tailored programmes that align with the organisation's culture, products and services and strategic objectives. This would include for example the large banks or insurance companies requiring employees to acquire workplace relevant skills. These courses can commence at a bespoke time in the year. In recent years its corporate clients have reduced spend on employee learning at Milpark, which used to be a key component of its offering. The learning could be in the form of 3-year degree programmes or 1-year higher certificates with the corporate in certain cases tailoring the offering. With the nature of this business becoming more erratic, student number growth has recently been disclosed with or without B2B students. The offering still exists but has become less material to Milpark. Its negative impact on earnings is therefore largely in the base.

Milpark's fast-growing Postgraduate Diploma in Accounting (CTA), retained its status as the dominant fully online private sector programme to be accredited by the South African Institute of Chartered Accountants (SAICA). The school also achieved the highest pass rate of all distance/online institutions in SAICA's ITC exam, surpassing many contact institutions by a wide margin. It is the biggest contributor to the CA pipeline in South Africa and making inroads in neighbouring countries. Its robust growth has in part compensated for the student losses in B2B.

In the chart below we provide an indication of the different fee structures within Milpark in 2025. These include the registration fees. As is evident the pricing varies depending on whether it's an undergraduate, postgraduate, higher certificate or short course. There is also a differential in DL verses DLO, with the latter attracting a premium.

Figure 18 2025 Milpark Fees



Source: Company data, ASB Research

Milpark is currently 83.9% held with management owning the rest. A key consideration of retaining management as minorities was the ability for them to incentivise themselves for performance. As a consequence, Milpark has its own incentivisation structures. We see scope for the minorities to be acquired and joining the STADIO share incentivisation programme.

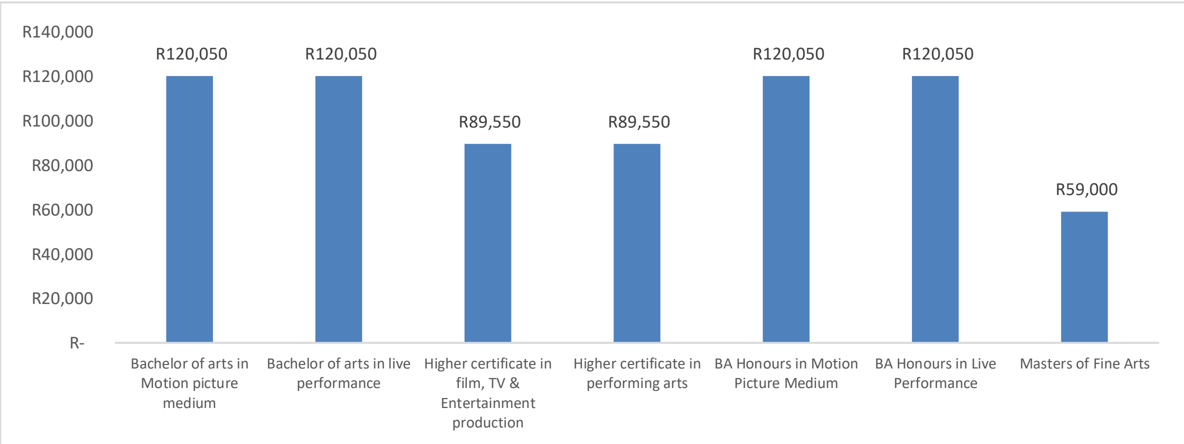
AFDA

AFDA was established in 1994 and has earned a reputation as one of the leading institutions of its kind globally. It is the number one film school in South Africa and the continent. It is a multi-award-winning institution, across staff, students and alumni, with industry holding AFDA alumni in high regard. AFDA films are exhibited at numerous international festivals and have been broadcast worldwide, winning many prestigious awards, including the Student Academy Award winner and Cannes Festival finalist in 2006, as well as eight SAFTA (South African Film and Television Award) awards for Best Student Film.

It offers a range of contact learning programmes from undergraduate degrees, higher certificates to postgraduate degree programmes across its Film School, School of Live Performance, School of Business & Innovation and School of Creative Writing. AFDA's graduates are taught to conceptualise, create and develop products and commodities for the local and international markets. It offers 4 undergraduate degrees, 4 postgraduate programmes and 3 higher certificates. It has over 2 700 students. It operates from four campuses, namely: Johannesburg, Cape Town, Durban and Gqeberha.

Due to its specialisation, and its requirement for specific technology and equipment, its fees are on average the highest in the group as indicated in the chart below. In part this is also because it does not offer distance learning.

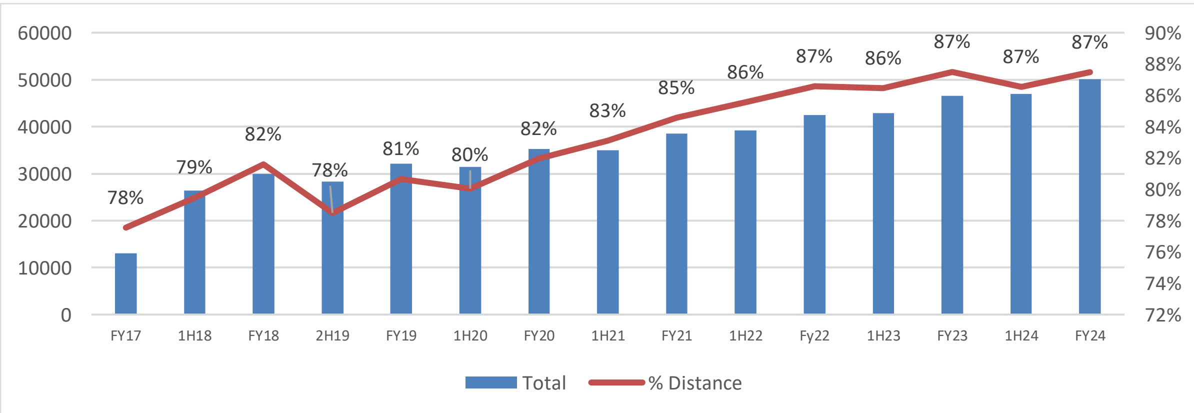
Figure 19 2025 AFDA Fees



Source: Company data, ASB Research

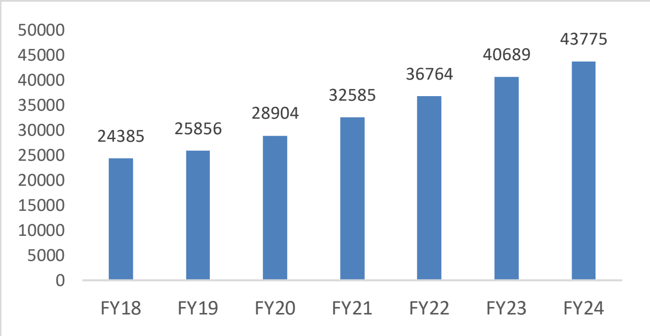
Student numbers

Figure 20 Total number of students and % in distance learning



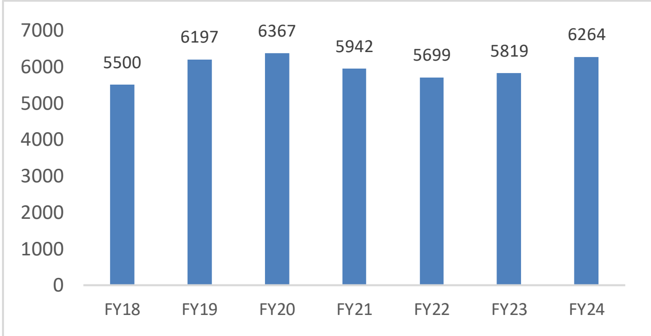
Source: Company data, ASB Research

Figure 21 Semester 2 Distance student numbers



Source: Company data, ASB Research

Figure 22 Semester 2 Contact students numbers



Source: Company data, ASB Research

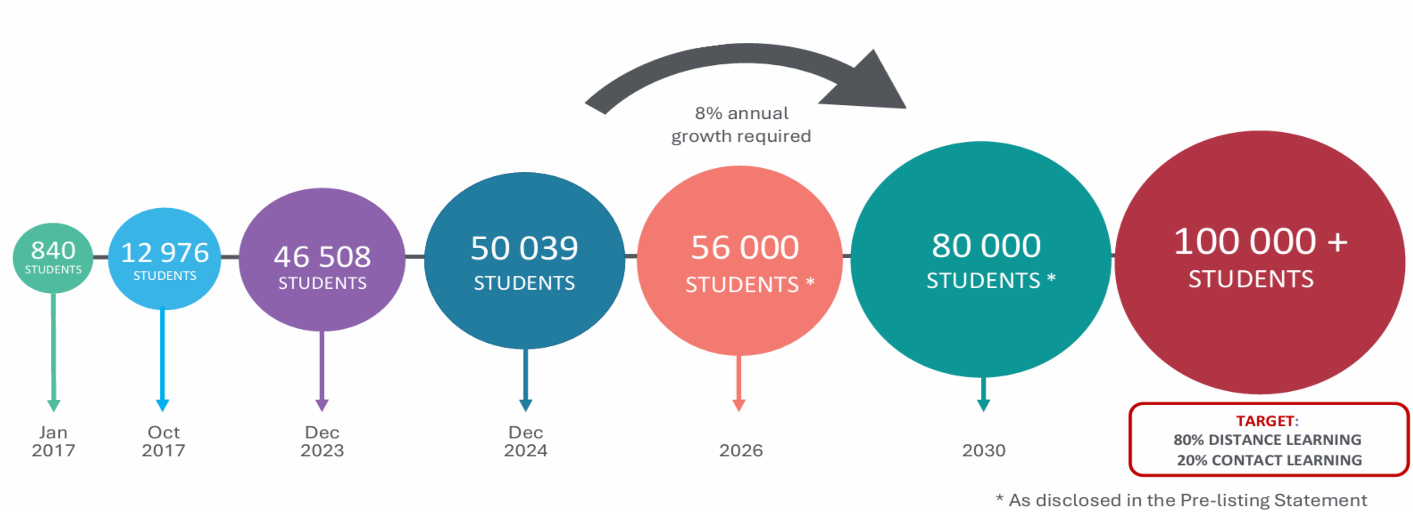
Student numbers only include those students studying accredited courses, therefore most corporate bespoke short programmes are not included. STADIO operates two student intakes per annum, Semester 1 and Semester 2, coinciding with 1H and 2H for reporting purposes (although Semester 2 intake runs over half year and is concluded late July, early August). There are short courses on offer which have four intakes per annum that are not included in the above numbers. Contact students will enrol in Semester 1 while distance learning students can enrol in either Semester 1 or Semester 2 and therefore there is an increase in distance learning student numbers in Semester 2. Overall enrolment growth is stronger in Semester 1. As is evident from the chart above, there has been significant and consistent growth in student numbers. Apart from its formative years, growth has been largely organic since FY18, with a six-year CAGR of 9%. Over this period distance students achieved a 10.2% CAGR with contact students 2.2%. Contact student numbers were impacted by COVID-19 in FY21, declining 7% - this impacted student numbers in FY22 and FY23, with numbers remaining relatively flat. Growth rebounded by 7.6% in FY24. Management targets 56 000 students in 2026, 80 000 in 2030 and >100 000 in the long term with an 80:20 mix between distance and contact.

As indicated previously, there are essentially three categories of students, Contact, Distance Learning (DL) and Distance Learning Online (DLO). The split of the distance learning categories is not provided but DLO is unique to Milpark and accounts for 30-40% of its students. Growth per institution is not disclosed. Student numbers in the past few years have been disclosed on an adjusted basis, stripping out the business-to-business (B2B) Milpark offering as this offering has been impacted by lower corporate spend. In 2024 Semester 1 growth would have been 17% compared to the reported 10%, whilst Semester 2 would have been 13% compared to 8%. The impact of B2B will become less material going forward with the robust growth in online studying partly offsetting its impact to date.

We believe there is sufficient capacity within each of the institutions to continue growing at the existing rates. AFDA has over 2 700 students but was acquired with a capacity of 4 000. The group has campuses that provide capacity for circa 20 000 contact students which is the long-term growth goal. The eventual capacity at Centurion and Durbanville is 6 000 each, with Centurion currently at circa 1 500 and Durbanville set to open in January 2026 with 1 000 students. No capacity constraints exist for distance learning as its easily scalable, with additional staff the largest investment required.

We focus on student growth in greater detail in the revenue outlook section below.

Figure 23 Management's anticipated growth in student numbers

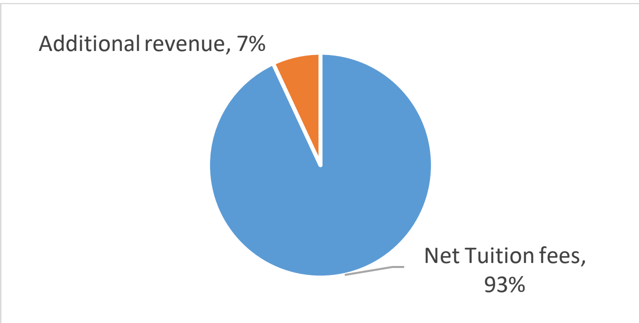


Source: Company data

Financials

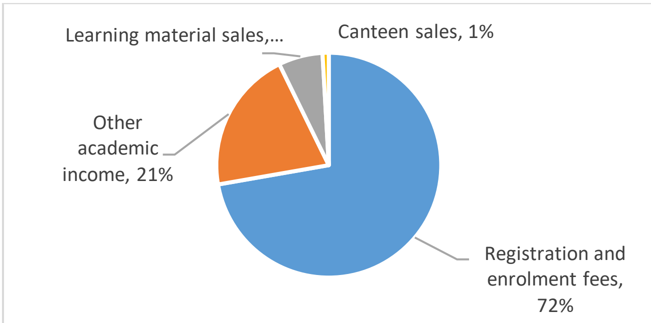
Revenue

Figure 24 Revenue split – FY24



Source: Company data, ASB Research

Figure 25 Additional revenue split – FY24



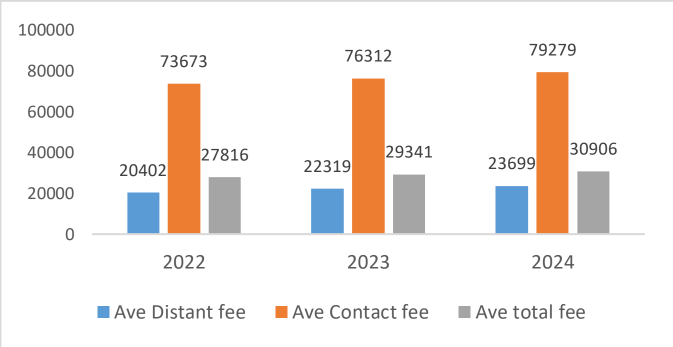
Source: Company data, ASB Research

Revenue is derived primarily from tuition fees, approx. 93%, with the balance from additional or ancillary income. Tuition fees are a function of the number of students, the fees charged, and the discounts and bursaries offered. Discounts is a common industry practice and largely involves discounts to staff, some qualifying students and certain collaborators that pay on behalf of students. Discounts and bursaries granted remains low at 2.5% of revenue in FY24, with an average of 2.9% over the prior five years. Discounts are offered to both Contact and Distance students.

Additional revenue is registration and enrolment fees (registration being more dominant), other academic income, learning material sales and canteen sales. In 2025 SHE registration fees for an undergraduate degree is R1980 in Semester 1 and R1040 in Semester 2. Other academic income includes a variety of ongoing services, for example: assessment extensions, remarks, supplementary exams, student card replacement and changes to studies.

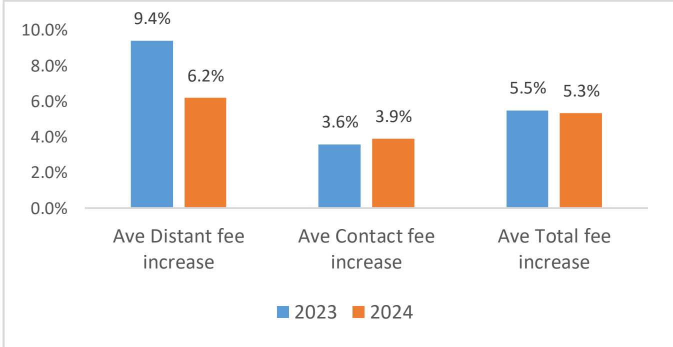
Tuition and enrolment fees are recognised over the period of the programme/course. For those paying upfront it creates a large income received in advance liability which unwinds during the course of the financial year.

Figure 26 Ave calculated annual fee per student



Source: Company data, ASB Research

Figure 27 Ave calculated annual fee increase



Source: Company data, ASB Research

It's clear from Figure 26 above that the average student fee (net tuition fees divided by the average of Semester 1 and 2 student numbers) for Contact students is considerably higher than Distance. There are several reasons for this:

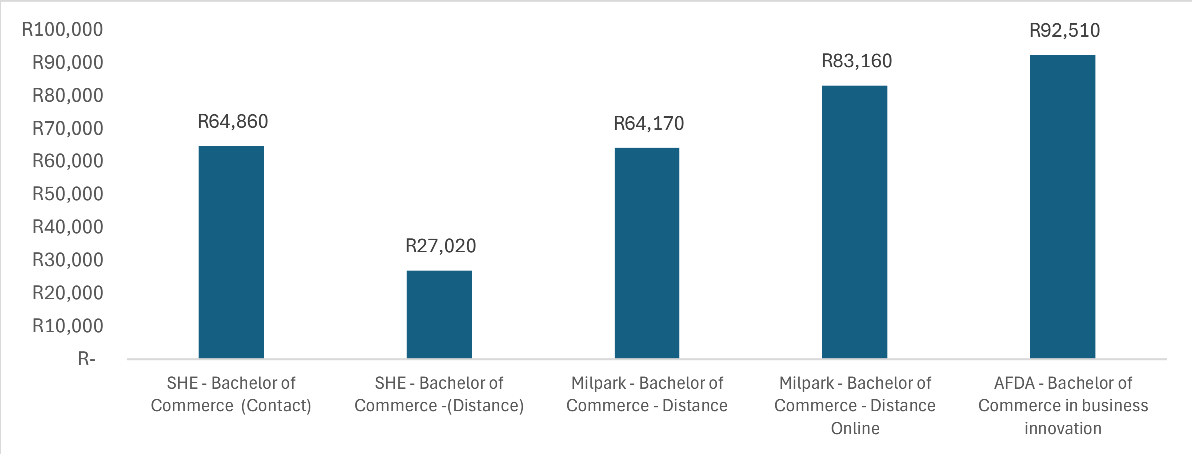
- AFDA only has contact students and its average fees are circa R100k, well ahead of SHE.
- Contact learning reflects the costs of operating a campus as well as the physical access to lectures that require professors and teaching staff.
- Contact learning has a higher proportion of degrees that cost more than diplomas or higher certificates.
- Certain distance learning students choose to take a reduced number of modules and complete their qualifications over a longer time frame which reduces the annual fee.

The average Contact fee of R79.3k is higher than that of ADvTECH at R64.5k in FY24. The ADvTECH numbers are also impacted by distance/online learning which is a cheaper offering and accounts for 13% of students. Unfortunately, disclosure limitations don't allow us to adjust the ADvTECH average for distance learning. ADvTECH's Rosebank College has a very low-cost offering (largely between R30-45k) which is currently in favour with students, bringing its average fee down.

The average distance learning fee is circa R31k in FY24. We indicated in figure 18 that Milpark distance fees for degrees or diplomas are closer to R80-90k. For SHE, distance learning diplomas or higher certificates are around R20k and are very popular, particularly out of its Krugersdorp Learning Campus that accounts for the bulk of its distance learning students. This explains the low average fee of R31k.

The average fee per student increased by 5.5% and 5.3% in FY23 and FY24 respectively, broadly in line with prevailing inflation rates at the time. This compares to 5.6% and 6.5% at ADvTECH for the same periods. Whilst the average fee increase approximates the inflation rate, it is prone to many distortions arising out of the mix of students, institutions and courses. This is highlighted in the chart below which demonstrates the difference in cost between contact, distance and distance online for the same degree at SHE or Milpark and a Bachelor of Commerce degree at AFDA.

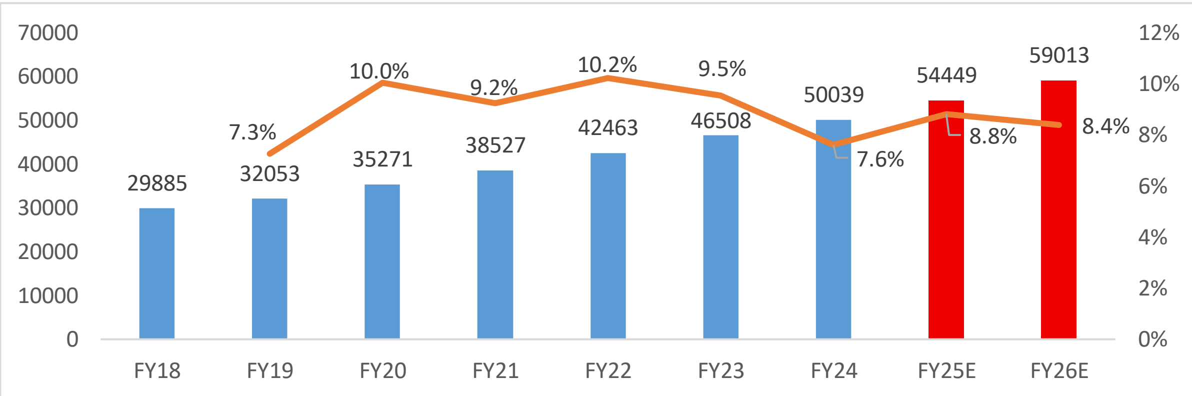
Figure 28 – Fee for 2025 course



Source: Company data, ASB Research

Revenue outlook

Figure 29 – Semester 2 student numbers and growth rate



Source: Company data, ASB Research

The key revenue driver is student numbers. This is a function of greenfield expansion, acquisitions, expansion of programme offerings, expansion of existing facilities, and ultimately higher utilisation rates. Significant acquisitive growth occurred in FY17 and FY18, thereafter growth has largely been organic. The new campuses will facilitate ongoing organic growth without restriction. Acquisitions can't be ruled out but is not considered in managements 80 000 students in 2030.

From the chart above, growth in student numbers has averaged 9% p.a. over the past six years. The FY24 growth rate slowed due to the termination of students with outstanding accounts and the impact from Milpark's B2B business, which impact is now close to working through the numbers. Adjusting for the latter, student growth was 13% in FY24. Contact students' growth started to recover in FY24 after disappointing years in FY22 and FY23. Both FY22 and FY23 were impacted by Milpark pivoting away from contact learning as well as the impact of COVID-19 in FY20 and FY21 which affected the roll-over of students into subsequent years. Contact growth was 7.6% in FY24, in line with distance, however, new contact student growth was up 14% and momentum should continue with Durbanville opening in 2026. We therefore model for stronger growth in contact students in the medium term, although this is off a low base as contact students only account for 13% of total students. We see the key drivers of student growth as follows:

- Ongoing programme development – new programmes generally start with an entry qualification which can serve as a bridging programme. These programmes could be 3-4 years and will start with a year 1 intake and grow each subsequent year. Many of the programmes are less than 3-years old. There are currently 96 programmes, this was 90 in 2020. The offering is dynamic and reflects market conditions, specifically the opportunity for employment. There are therefore programme cancellations, programme replacements with revised material and programme additions. The trajectory, however, is for consistent growth in the net programmes offered.
- Enhancing existing programmes by adding post graduate programmes, NQF8-10 (National Qualifications Framework), for example Honours or Doctorates.
- Ensuring relevant programmes are offered across all campuses and learning centres.
- Competitively priced programmes. Whilst competition is increasing in distance learning, STADIO has a well-established platform that can accommodate students at low incremental cost which allows it to be competitive on price.
- Collaboration with international universities. This is already offered but there is scope for more.
- Expansion into other territories – this is likely to be into Africa.
- There is also longer term potential to supplement student numbers by offering NQF4 certificates. These are the equivalent to a matric qualification but would be specialised towards a certain field (e.g. hospitality, business administration, maintenance technician etc) improving employment opportunities or providing a platform for further studies.

With students at 50k in Semester 2 of 2024, the immediate target of 56k by Semester 2 in 2026 seems achievable, an annual growth rate of 6%. We model for a better outcome, circa 59 000 students in Semester 2 in 2026. With an expanding list of programmes, Durbanville campus fully developed and the potential to achieve university status, we believe at least 8% growth will sustain in the medium term. On this trajectory we reach 80 600 students in 2030, achieving the 80 000 target. However, acquisitions may see the target exceeded. We forecast an 8.5% 3-year CAGR in student numbers, 10.7% in contact and 8.2% in distance.

The prevailing inflation rate is a key consideration in determining fee increases, as is annual staff cost increases. Academic staff remuneration would need to be competitive relative to public institutions. A review of the 2025 fees for certain courses suggests fee hikes around 5-6% in Semester 1, we apply 5.7% to our FY25E forecasts. We believe this is likely to be consistent for Semester 2. This equates to the average fee per student rising 6.2%, boosted by higher growth in contact students. Inflation is declining and is likely to be around 4-5% in C2026. We apply a 5.2% increase to fees in FY26E, which combined with ongoing programme expansion and higher contact student enrolments, equates to an average fee per student increase of 5.8%.

In the short to medium term, we would anticipate that fee increases in contact would be greater than distance. With its contact campuses well established and hopefully gaining the support from its students for the campus life, sports facilities and academics, the opportunity to close the large differential in pricing between itself and other well established private campus universities could present itself. For example, a Bachelor of Commerce at Varsity College is Circa R107k whilst SHE is R65k. This excludes AFDA which is specialised and appropriately priced. Distance on the other hand could see lower fee increases to ensure its competitively priced as competition in this market heats up from both public and private operators.

In total we have 15.6% and 14.7% tuition fee growth forecast for FY25E and FY26E.

Registration fees make up circa 70% of additional income and will largely grow in line with student numbers with a likely inflationary increase. As a consequence, we grow additional income in line with tuition fee growth.

Overall, we estimate revenue growth to be approximately 15.5% in FY25E and 14.7% in FY26E.

EBITDA

Debtors Costs

Figure 30 Gross debtors and provision coverage – R'm

	2019	2020	2021	2022	2023	2024
Gross debtors	105	146	210	260	330	381
Revenue (net of discounts)	815	933	1098	1214	1414	1612
% in debtors	12.8%	15.6%	19.1%	21.5%	23.3%	23.6%
Provisions	-37.9	-77.6	-122	-133	-163.5	-198.5
Provision coverage ratio	36.3%	53.3%	58.2%	51.1%	49.5%	52.1%
Net debtors	67	68	88	127	167	183
Opening B/S Provisions	17	38	78	122	133	164
Provisions raised	35	81	85	83	132	153
Bad debts written off	-14	-41	-41	-72	-102	-118
Provisions at year end	38	78	122	133	164	199
Provisions raised	34.8	80.5	85.2	83.3	132	153
Bad debt recoveries	0	0	-3.2	-3.8	-4.8	-12.4
Income statement charge	34.8	80.5	82	79.5	127.2	140.6
Bad debt ratio [1]	4.3%	8.6%	7.5%	6.5%	9.0%	8.7%
Write off ratio [2]		39%	28%	34%	39%	36%

1 Credit loss charge/revenue

2 Write offs/prior year debtors

Source: Company data, ASB Research

Gross debtors have escalated over the past five years – going from 12.8% of revenue (post discounts) in FY19 to 23.6% in FY24. The primary reason is an operating environment that remains challenging with affordability under pressure. In addition, management does not sell its default book. Contact students also have better payment profiles than distance learners as the latter includes many working adults that prioritise monthly spend differently, impacting the level of monthly collections and hence debtors. Collection rates for working adult students do ultimately improve towards the end of a semester. By comparison, ADvTECH's tertiary debtors are 18.7% of revenue, benefitting from higher contact learner exposure.

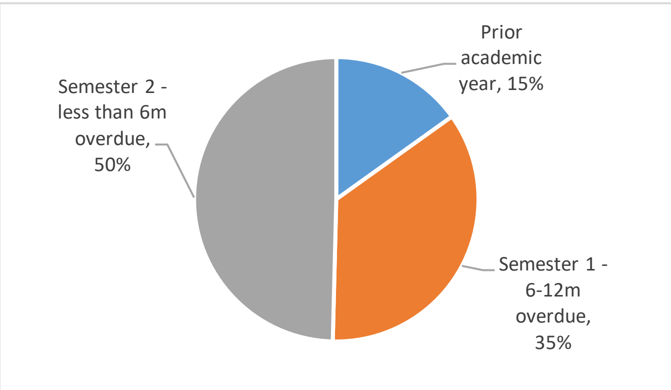
In 2023 the debtors were classified differently, previously they were aged in buckets of current, 30, 60, 90 and greater than 90 days, with the latter attracting the higher provision coverage. This was amended in FY23, utilising prior academic year, Semester 1 and Semester 2:

- Prior academic year includes the oldest debt which is in default with no payment plan and therefore attracts the highest provisions (97%).
- Semester 1 debt is anywhere between six to 12 months in arrears but is not fully impaired as it relates to the current academic year and chances of recovery are still present if the student is still studying. Provision coverage is at 62%.
- Semester 2 debt is current to six months overdue. Late payment is typically received in November or December for students wanting their academic results or settlement soon after year end for those students wanting to continue their studies. Expected credit losses are therefore the lowest for this category with provision coverage at 32%.

Refinements regarding collections are ongoing. Students in arrears are unable to obtain their results or continue to the next semester, which for those performing well academically becomes an incentive to pay. For contact students in arrears over 6 months, payment arrangements must be entered otherwise access to the campus can be restricted. Where collection is problematic, generally greater than 6 months in arrears, the accounts are handed over to collection agencies with a circa 90-100% provision. This generally occurs once a year but could be more frequent. Commission is only paid on successful collections. Where there is evidence that the account can't be collected it is written off.

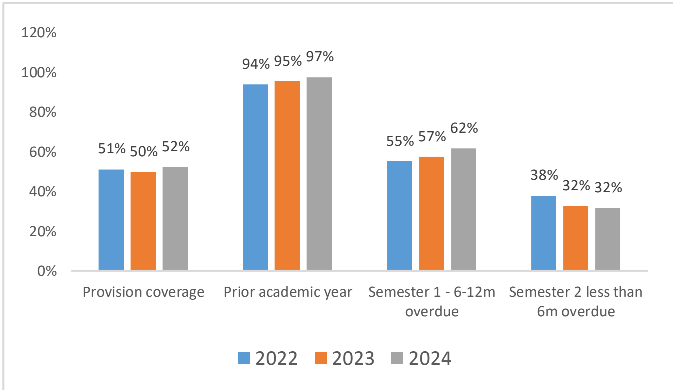
Overall provision coverage is at 52%, a consistent level over the past three years despite the rising debtors as a % of revenue. The make-up of this coverage shows an acceleration in provisions raised in FY23 and FY24, offset by higher bad debt write offs in these years. The write off ratio (write offs as a % of prior year debtors) accelerated from 34% in FY22 to 39% in FY23. Provision coverage is in line with ADvTECH's tertiary debtors book and we are satisfied that the provision coverage is at acceptable levels.

Figure 31 Categories of the debtors book



Source: Company data, ASB Research

Figure 32 Provision coverage by category



Source: Company data, ASB Research

The bad debt ratio (credit charge as a % of revenue post discounts) rose in FY23 from 6.5% to 9%, with some relief in FY24 to 8.7%. Its averaged 8.1% over the past five years. The FY23 increase reflected the past collections experience informing future provisions, with provisions raised increasing considerably in that financial year. With improvements in collections given the refinements made, some relief was seen in FY24. The acceleration in write offs is resulting in higher recoveries, particularly in FY24, up 158%, 12% of the prior year's write offs. This is providing some relief to the bad debt ratio.

An IFRS9 provision methodology is in place and therefore it's both backward and forward looking with management indicating that it is adequately provided on its arrears based on past collection experience.

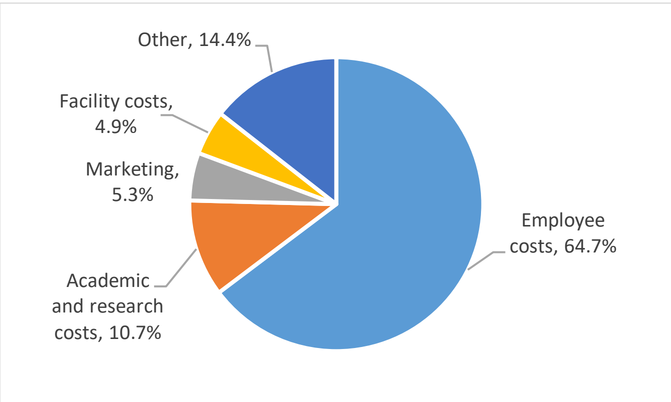
Affordability in SA remains constrained with falling interest rates providing minor relief. We therefore believe that debtors and arrears will remain at these levels. We forecast the bad debt ratio to remain at

8.7% in FY25E and to decline to 8.5% in FY26E due to a modest improvement in affordability and contact students increasing in the mix. We don't see it declining from FY26E levels going forward. The IFRS9 economic overlay provisions may positively surprise on the back of lower interest rates and an uptick in GDP growth.

Operating expenses

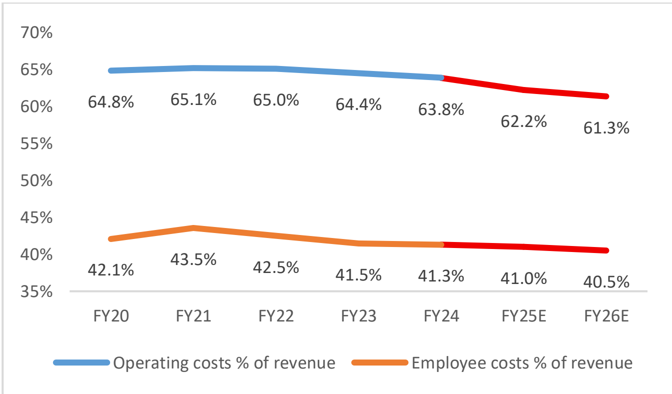
The biggest expense is employees at 65% of total operating costs in FY24. This is followed by academic and research costs at 11%, the two combined account for 76%. This excludes nonrecurring expenses. Facility costs in FY24 are up only 10% from FY20 as there has been consolidation in the number of campuses, it was up 7% in FY24. Employee costs rise broadly in line with revenue as indicated in the chart below showing a relatively stable % of employee costs to revenue. It has, however, improved modestly each year from the high of 43.5% in FY21 to 41.3% in FY24 and this trend is likely to continue as capacity utilisation improves. It must be noted that there are regulatory requirements that need to be adhered to when it comes to staff:student ratios and therefore as student numbers rise, so too do staff numbers. In addition, as programmes are introduced, there are also additional staffing costs upfront. Overall total costs as a % of revenue has also improved from a high of 65.1% in FY21 to 63.8% in FY24, a trend we believe will continue.

Figure 33 Categories of operating expenses – FY24



Source: Company data, ASB Research

Figure 34 Operating & employee costs % of revenue



Source: Company data, ASB Research

Staff costs rose 13.5% in FY24, a function of circa 6% salary increases, a 2.2% increase in the permanent staff complement to 1 219 and new programmes rolled out requiring additional industry experts to contribute as lecturers, assist with assessments and provide input into programme and content development. Contract staff (included in staff costs) are hired throughout the year to assist in teaching modules, but their numbers rise towards the end of each semester to assist with examinations. For example, total staff numbers including contract staff in FY24 was 2 013, compared to permanent staff of 1 219. A 6% salary increase was negotiated in FY25E. Staff investment continues in FY25E with 11 new programmes launched and staff hired in anticipation of the Durbanville opening in January 2026. We therefore anticipate staff costs to increase 14.5% in FY25E with 13.4% growth in FY26E.

Academic and research costs increased 12.4% in FY24 due to ongoing expansion in the number of programmes and an increase in the number of research outputs. 11 new programmes were offered in 2025 and already 10 are accredited for 2026. We would anticipate some reprieve with the accreditation of Engineering finalised in 2024; however, the group is having to invest to ensure it is well placed to achieve university status when the regulations allow. We assume 10% growth in FY25E.

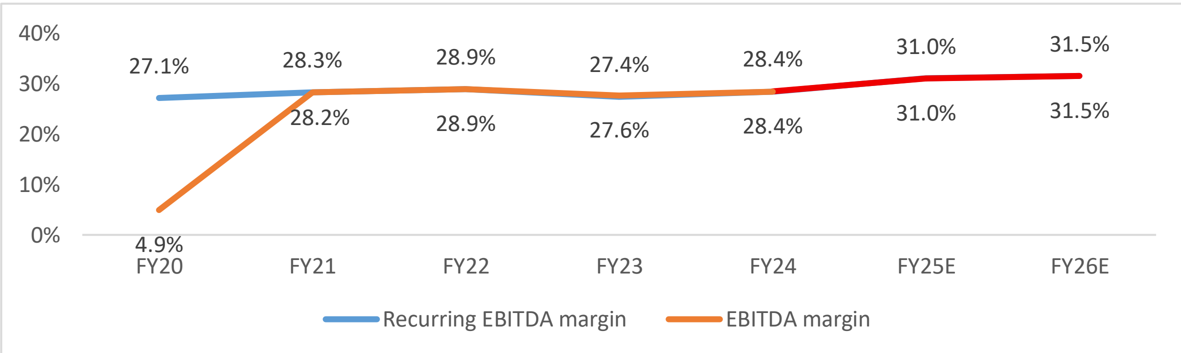
Facility costs are a further 5% of costs. Facility costs are likely to grow between 11-13% in FY25E and FY26E given above inflation increases in rates and taxes and utilities. The opening of Durbanville campus will add marginally to these costs as the Bellville campus will migrate to Durbanville offsetting some of its additional facility costs.

We forecast total operating expenditure to grow by 12.4% and 13.1% in FY25E and FY26E.

Depreciation has averaged 3.8% of fixed assets and we see this trend continuing. There are some leases being exited (like the Bellville lease) but the benefits will be offset by new leases for further expansion. We forecast 3.9% of fixed assets in FY25E and FY26E.

Over the past five years there are some minor adjustments made to reported EBITDA, apart from FY20 that accounted for a fair value adjustment for the purchase contingent consideration for CA Connect that performed considerably ahead of expectations. Recurring EBITDA margins are up over five years but off the FY22 peak which saw a low bad debt ratio. Recurring EBITDA margins have averaged 28% over this period. We anticipate margins to expand from current levels, forecasting 30% in FY25E and rising towards 31.5% in FY27E. As capacity utilisation rises at its campuses and operating leverage within the distance learning space improves, margins should continue to widen further to achieve management's long-term target of 33-35%.

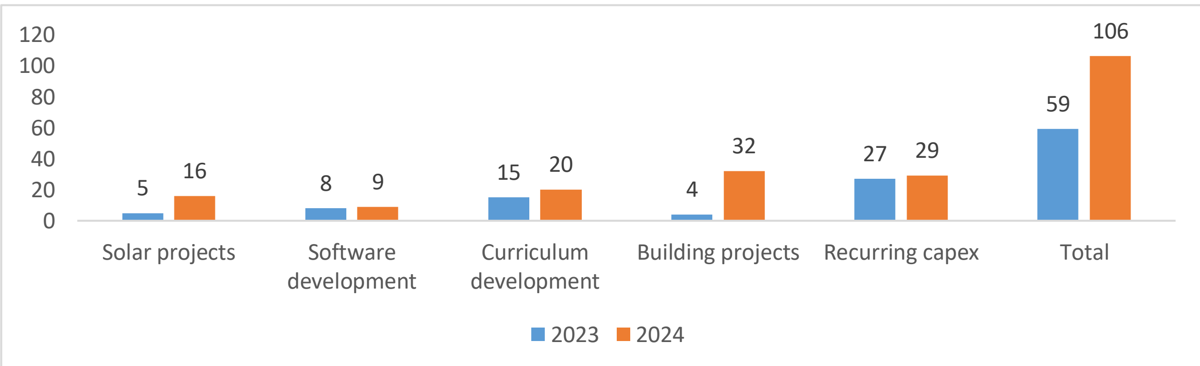
Figure 35 Group reported EBITDA and recurring EBITDA margins



Source: Company data, ASB Research

Capex, debt, cash and dividends

Figure 36 Capex – R'm



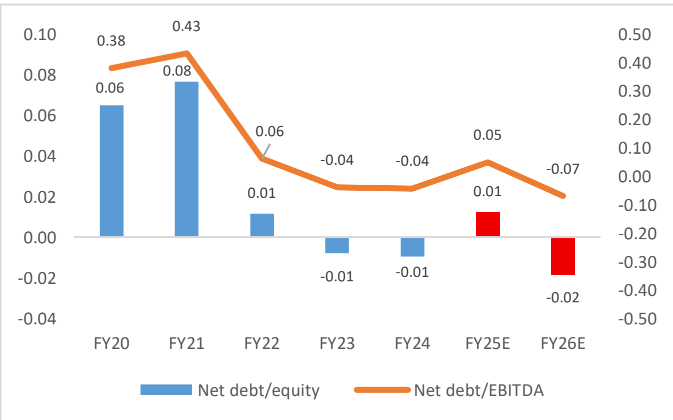
Source: Company data, ASB Research

Capex as a % of revenue has averaged 8% over the past five years. In years when campus development has not occurred its averaged 3.7%, a more sustainable longer-term level. The Centurion (FY21 and FY22) and more recently the Durbanville campuses have elevated capex spend. Durbanville is set for opening in January 2026, with phase 2 to follow immediately. Phase 1 is estimated at R220m and will be incurred in FY25E with phase 2 at R105m impacting FY25E and FY26E. As a consequence, FY25E capex will remain elevated with a drop off in FY26E and normalising thereafter. Maintenance capex in the past two years has averaged 1.9% (circa R28m), with management guiding to R40-50m going forward, slightly elevated at 2% of revenue. Management has guided to FY25E capital capex of R297m, largely impacted by Durbanville as well as ongoing investment in faculty expansion. We forecast capex of R335m in FY25E and R213m in FY26E, declining to R90m in FY27E.

Capex has largely been funded by internal cash generation with the balance sheet showing negligible levels of borrowings in the past three financial years. The Durbanville expansion is to be funded part debt and part cash and therefore we forecast debt of R100m in FY25E and R150m in FY26E, declining thereafter. The group has access to a R100m revolving credit facility with an option to increase it by a further R100m, subject to meeting certain requirements. The facility was not utilised at 31 December 2024, however, it was accessed during the year as reflected by a R3.5m finance cost. In terms of the facilities the group is to ensure a debt/EBITDA of less than 2.5x (debt cover ratio) and EBITDA/net finance costs greater than 3.5x (interest cover ratio). IFRS 16 interest is not included in the interest cover ratio. Interest is charged at Jibar +2%. We believe the balance sheet could benefit from some debt but not at the cost of hoarding cash.

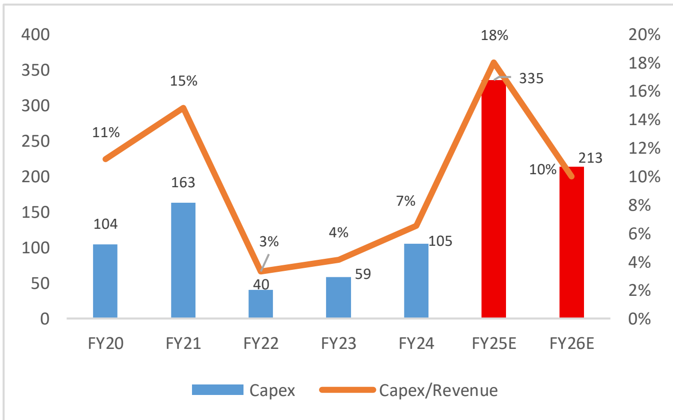
The group has invested heavily in its campuses and programme development and by FY27E when spend normalises its free cash flow will rise considerably. We don't anticipate material changes to working capital - debtors and income received in advance are both closely linked to revenue growth. We therefore anticipate that the dividend payout will increase from the current 48% to 65% in FY26E with scope to rise further thereafter. The group has embarked on a share buyback programme, albeit mainly for shares to fund the long-term share incentive scheme to prevent dilution to shareholders. In FY24 it purchased 3.09m shares for circa R15m and these were immediately cancelled to partially offset the 5.3m shares issued to settle its incentive scheme obligations.

Figure 37 Net debt (incl. lease liabilities)



Source: Company data, ASB Research

Figure 38 Net capex



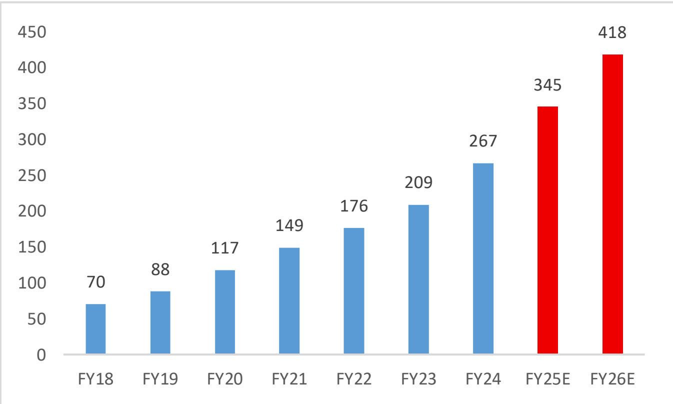
Source: Company data, ASB Research

Tax

The effective tax rate of 27.8% in FY24 is broadly in line with the SA corporate tax rate of 27%, a trend that's unlikely to change. Its operations in Namibia attract a higher tax rate of 32%. There is estimated tax losses of R64m available but are only expected to be utilised from FY31E.

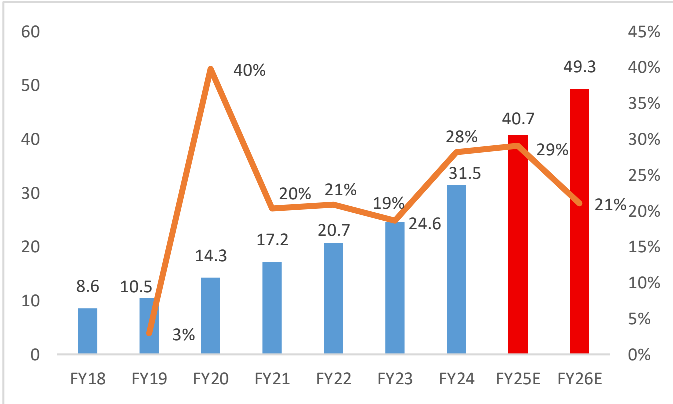
Headline earnings

Figure 39 Normalised headline earnings – R'm



Source: Company data, ASB Research

Figure 40 Normalised HEPS (ZAc) – reported and growth



Source: Company data, ASB Research

The group has achieved positive headline earnings since FY18, apart from FY20 when it reported a R207m fair value adjustment for the contingent consideration payable for CA Connect after the business achieved a significantly better financial performance. The group also reports core headline earnings, which we subscribe to and refer to as normalised, that have been positive and shown consistent growth, achieving a 25% CAGR since FY18.

Management's core headline earnings adjust for the following: once-off acquisition related costs, amortisation costs associated with client lists acquired (i.e., a non-cash charge arising as a result of the consolidation of the subsidiaries acquired), costs relating to consideration payable in respect of acquisitions, tax penalties and interest, and once-off costs related to onerous contract expenses.

Core headline headlines in FY24 benefited from the purchase of an additional stake in Milpark. A further 15.4% was acquired for R139m (12.8% from Brimstone Investment Corporation for R117.5m), with part of the acquisition funded by debt which was subsequently repaid. The net positive impact to its core headline earnings was 5%.

The outlook for headline earnings is very positive as we see the rewards from ongoing investment in programmes and campuses materialise. Whilst capacity utilisation is not disclosed, we see it improving given strong student growth and the expected growing class sizes of recently launched programmes, like Engineering. We forecast normalised HEPS of 40.7c (+29%) in FY25E and 49.3c (+21%) in FY26E, a 3-year CAGR of 24%.

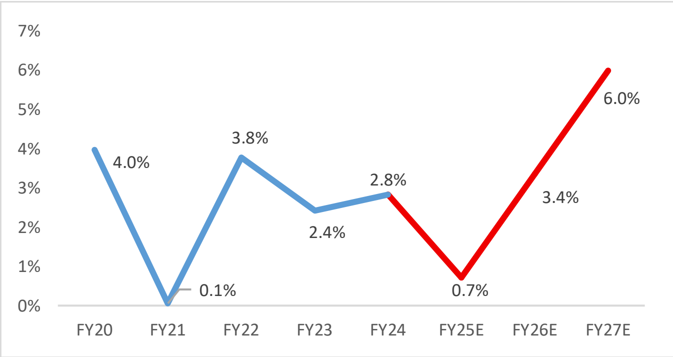
Figure 41 Headline earnings composition – R'm

	FY23	FY24	%	FY25E	%	FY26E	%
Revenue	1,429	1,627	14%	1,878	15%	2,152	15%
Contact learning	456	512	12%	600	17%	701	17%
Tuition fees	444	499	12%	585	17%	684	17%
Ancillary revenue	13	13	-1%	15	17%	17	17%
Distance learning	945	1,092	16%	1,252	15%	1,423	14%
Tuition fees	868	1,001	15%	1,148	15%	1,304	14%
Ancillary revenue	77	91	18%	104	15%	119	14%
Sale of goods	12	8	-33%	9	16%	11	15%
Other income	15	15	2%	16	6%	17	6%
Operating costs	-911	-1028	13%	-1158	13%	-1309	13%
Staff Costs	-586	-666	14%	-763	15%	-865	13%
Other costs	-325	-363	12%	-394	9%	-444	13%
Pre loss allowance profit	518	599	16%	721	20%	843	17%
Debtors loss allowance	-127	-141	11%	-162	15%	-181	12%
EBITDA	391	458	17%	559	22%	662	18%
Depreciation & amortisation	-71	-71	1%	-73	3%	-82	13%
EBIT	320	387	21%	486	25%	579	19%
Net Finance costs	4	2	-54%	6	246%	12	93%
PBT	324	389	20%	492	26%	591	20%
Tax	-88	-106	21%	-137	29%	-164	20%
PAT	236	283	20%	355	26%	428	20%
Minorities	-28	-14	-50%	-10	-29%	-10	0%
Earnings	208	269	29%	345	28%	418	21%
Adjustments	0	-3	2828%	0	-100%	0	
Headline earnings	208	266	28%	345	30%	418	21%
Adjustments	1	1	11%	0	-100%	0	
Normalised headline earnings	209	267	28%	345	29%	418	21%
Weighted shares in issue	849	847	0%	848	0%	848	0%
HEPS	24.5	31.4	28%	40.7	30%	49.3	21%
Normalised HEPS	24.6	31.5	28%	40.7	29%	49.3	21%

Source: Company data, ASB Research

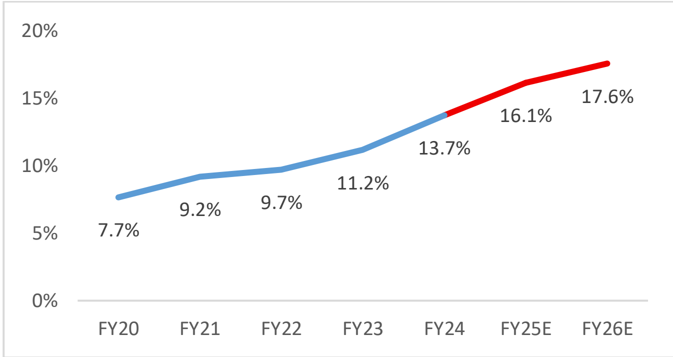
The group generated an improved ROE of 13.7% in FY24, accelerating considerably to 19.3% in FY27E as capacity utilisation improves, capex declines and the dividend policy is more progressive. Its current ROE compares favourably to Curro at 6.5% but trails ADvTECH at 19%, which receives the benefit of higher gearing and margins. Management targets 20% in five years. Its reported EBIT margin of 24% in FY24 is below the 26.6% EBIT margin for ADvTECH's tertiary operation but we anticipate a greater widening in the medium term to 27.9% in FY27E.

Figure 42 Free Cash Flow Yield



Source: Company data, ASB Research

Figure 43 ROE



Source: Company data, ASB Research

Valuation

As per figure 42 above, the group has consistently delivered a positive free cash flow yield despite significant investment in infrastructure. The completion of phase 1 and 2 at Durbanville will have a negative impact on the FY25E and FY26E FCF yield. Thereafter, we anticipate it to rise considerably, reaching 6% in FY27E.

Figure 44 DFCF valuation assumptions

WACC Assumptions	
Risk free rate	9.6%
Beta	0.4
Market risk premium	6.5%
Marginal tax rate	27.0%
Pre-tax cost of debt	9%
Cost of equity	12.2%
Target debt/value ratio	10%
Target equity/value ratio	90%
WACC	11.6%
Growth Rate assumption	
Sustainable long term growth rate	5.5%

Source: ASB Research, FactSet

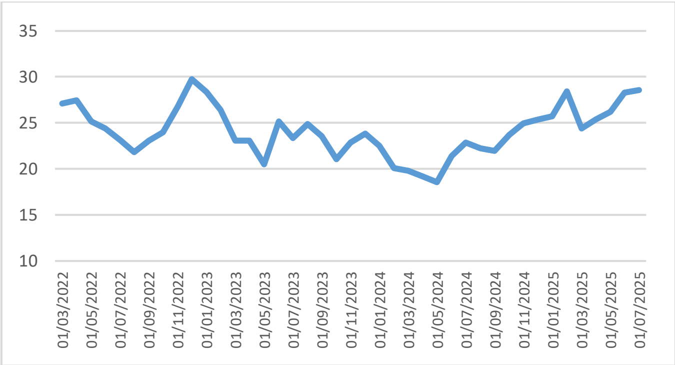
Figure 45 DFCF sensitivity to WACC and growth rate

		WACC				
		-1%	-0.50%	0%	0.5%	1.0%
Terminal Growth	4.5%	1155	1056	971	897	833
	5.0%	1227	1114	1019	938	867
	5.5%	1312	1183	1075	984	906
	6.0%	1416	1265	1141	1038	950
	7%	1545	1365	1220	1101	1002

Source: ASB Research

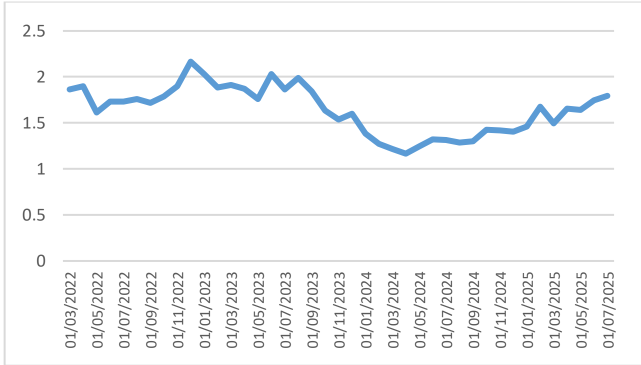
We value the group on a DFCF basis. We apply the prevailing risk-free rate of 9.6%, a long-term growth rate of 5.5% (due to high long term structural demand in tertiary education and STADIO's capacity to meet the demand), a Beta of 0.4 (as per FactSet over a 1 and 3-year period) and a debt/equity of 10:90 including lease liabilities. This results in a WACC of 11.6%. Our valuation range equates to R9.38-R12.65/share, a mid-point valuation of R10.75/share. At the mid-point it implies a 12m forward 24.6x P/E, broadly in line with its historic 3-year average P/E of 24x.

Figure 46 STADIO historic P/E (average of 24x)



Source: FactSet, ASB Research

Figure 47 STADIO historic P/E relative to ADvTECH



Source: FactSet, ASB Research

Based on our HEPS forecasts, the stock trades on a 12m forward P/E of 19.6x, below its three-year historic average P/E of 24x. The P/E unwinds fairly quickly given our robust earnings growth outlook, with a 14.7x in FY27. It trades at a considerable premium to its closest listed peer, ADvTECH – a current 80% P/E premium compared to a three-year historic premium average of 64%. We believe a premium is justified for the following reasons:

- It's a pure tertiary education play compared to ADvTECH that has schooling as well as a small component of Resourcing (predominantly recruitment). Tertiary attracts the highest margins.
- It's a less mature business with a solid foundation to grow. We have higher student growth forecasts for STADIO.
- Distance learning is cheaper and addresses the affordability constraints in the market. ADvTECH is predominantly a contact student offering.
- Distance learning is scalable with considerably lower capex.
- Its ROE rises considerably from its current level of 13.7%, to achieve circa 20% by FY28E. ADvTECH currently achieves a 19% ROE, widening to 20.8% in FY27E on our estimates. STADIO, however, has no gearing apart from right of use assets.

We note that we have research coverage of ADvTECH Limited with a mid-point fair value range of R46/share (applying the prevailing 9.6% risk free rate), which equates to a 12m forward 18.1x P/E. On this basis the premium we apply to STADIO is 36%. We are positive on the education sector given the capacity constraints in the public sector and the defensive growth qualities in an environment of weak GDP growth. Affordability is a headwind for student growth but both STADIO and ADvTECH offer programmes at rates below those offered at public universities, either via contact studying at Rosebank College or distance learning at STADIO. We anticipate some affordability relief from falling interest rates.

Risks

- Affordability pressure on students from an economy that remains weak with elevated levels of unemployment. Declining interest rates should provide some comfort going forward.
- Regulatory changes – while none are envisaged in the short term, any additional requirements enforced on private educators could be harmful. Granting university status to private universities would be a positive development, however, ongoing delays in its implementation will be negatively perceived by investors.

- Private institutions are reliant on the CHE, SAQA and DHET (the same regulatory bodies as the public universities) to accredit new products and existing products to new sites of delivery. Programmes can take up to 24 months to be registered and this uncertainty could impact the group's growth strategy and make planning difficult. Delays beyond the 24 months would be a disruption to the roll out of programmes. The strong pipeline of programmes in development does assist the group in managing this risk.
- Academic staff availability – while STADIO offers market related remuneration, salaries that differ significantly from those paid to public academic staff may impact staff retention or recruitment, particularly given that the public sector offers additional perks (e.g. the ability to do research and greater time off).
- Any significant deterioration in academic pass rates would be negative. We see little risk of this occurring.
- Reputational risk – brands are important in the education sector and anything that tarnishes them can have a negative impact on enrolments – for example negative social media coverage from students arising from poor experiences on campus, issues with enrolments, exam result delays, social issues etc.
- Loadshedding or water outages – all campuses have solar power as an alternative and water tanks have been installed. Boreholes are being considered as an alternative water supply.
- Competition – competition in distance learning is increasing given its lower barriers to entry than contact learning. Key for STADIO is to remain affordable, deliver excellent results, provide a wide range of choice and grow its international alliances, all of which it is focused on.

Appendix 1: Executive Committee

CEO – Chris Vorster BA (Social Science), BA Hons (HR Development), MA (Management and Development)

Appointed as CEO on 1 April 2020. Previously Chris was the founder and CEO of SBS, which he founded in 1996. SBS became part of the Group in November 2017 and in August 2019, Mr Vorster was appointed as co-COO of STADIO Holdings. He has vast expertise in distance learning.

CFO – Ishak Kula CA(SA)

Appointed 1 January 2024. Ishak has more than 15 years of financial experience with strong knowledge of business assurance and risk management

Chief Academic Officer – Divya Singh BA (Law), LL B (Cum Laude), LL M, LL D, Masters in Tertiary Education Management (with Honours)

Appointed in 2017. Dr Singh is an admitted advocate of the High Court of South Africa, having practiced privately for seven years and is a Certified Ethics Officer by The Ethics Institute. Previously she was the Vice-Principal Advisory and Assurance Services (UNISA) and served in the capacity of Registrar Governance as well as the Deputy Registrar, taking responsibility for institutional student administration. Dr Singh has received awards domestically and internationally for academic contribution and community service and engagement, as well as stakeholder recognition

Chief Operating Officer – Johan Human BCom, BEd (Honours), Higher Ed Diploma (Postgrad), MEd (Didactics)

Appointed in 2020. Previously he was CEO of Embury which he co-founded in 2000. Johan has almost 30 years of combined public and private higher education experience

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