

CREDIT RATING ANNOUNCEMENT

GCR upgrades Curro Holdings Limited's rating to BBB(ZA); Outlook Stable

Johannesburg, 31 May 2016 -- Global Credit Ratings has today upgraded the national scale issuer long term rating assigned to Curro Holdings Limited to BBB_(ZA), with the short term rating affirmed at A3_(ZA), and the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to Curro Holdings Limited ("Curro") based on the following key criteria:

The upgrade of Curro's rating follows the Positive Outlook assigned to the long term rating during the prior rating exercise. In this regard, Curro sustained its strong performance in F15, with projections over the next 24 months indicating continued robust operating results and cash flows, supporting key credit risk metrics.

Overall, Curro's market strength continues to gain momentum, having grown into the largest listed private school operator in South Africa over a relatively short period. The group reported a portfolio of 47 campuses (110 schools) and more than 41,000 learners as of January 2016. To this end, management has demonstrated an ability to effectively plan for and achieve targets, with progress in this regard significantly supported by ongoing financial backing by its majority shareholder (PSG Financial Services Ltd, "PSG").

Curro continues to register strong student enrolment YoY, thus boosting school capacity utilisation at both new-builds and mature schools, and in turn revenue and earnings growth. Accordingly, revenue rose by 38% to R1.4bn in F15 (5-year CAGR: 70%), whilst the higher 34 campuses reporting increasing capacity utilisation levels above the breakeven inflection point (F14: 29), saw the EBITDA margin strengthen to 21% in F15 (F14: 19%). Curro's low and scalable cost structure has allowed it to respond to market demand and generate strengthening cash flows over the review period. Demand for independent schools as an alternative to the deteriorating public education system is expected to remain strong. This particularly holds true for the low-and mid-fee schools in view of the tough economic environment. Accordingly, maintaining affordable tuition fees may be a challenge in the face of rising competition and exogenous cost pressures.

The group's rapid growth pace has been funded by consecutive capital injections YoY, which would bring the total raised since listing to R3.8bn (including the F16 rights issue), combined with an increase in debt from R135m at FYE11 to R1.6bn at FYE15. Having peaked at 66% at FYE14, net gearing has since moderated to 49% at FYE15, whilst net debt to EBITDA also improved to a review period low of 465% at FYE15 (FYE14: 641%). Curro reflects more moderate gearing on a standalone basis (excluding legally ringfenced operations), with net debt to EBITDA markedly lower at 334%. Furthermore, interest cover measures are much improved when the Meridian entities are excluded. In conjunction with the R1bn raised through the rights issue in May 2016, projections indicate a moderate ramp up in debt to achieve capex targets. While this is likely to see leverage metrics rise somewhat, these are expected to remain comfortable for the current rating level.

As the current ratings upgrade has taken into account the strong projected earnings for F16 and F17, a further upgrade would only likely be achievable if Curro was to exceed targets over the medium term. A rating upgrade could also materialise if Curro's growth were to slow, such that cash generation could be available to redeem a meaningful portion of existing debt. In contrast, negative rating action could be considered if business fundamentals deteriorate abruptly, leading to a weaker operating performance and cash flows, or if the company were to pursue significant additional borrowings beyond the current plan, leading to net debt to EBITDA for Curro on a standalone basis in excess of 400%. An adverse change in level of support to Curro from PSG would also negatively impact the group's credit risk profile.

NATIONAL SCALE RATINGS HISTORY

Initial rating (May 2013)

Long term: BBB_(ZA)

Short term: A3_(ZA)

Outlook: Stable



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Last rating (May 2015)

Long term: BBB_(ZA)

Short term: A3_(ZA)

Outlook: Positive

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Criteria for rating corporate entities, updated February 2016

Curro issuer rating reports, 2013-2015

Curro Secured Bond New Issuance and Surveillance Reports, 2013-2015

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S CORPORATE GLOSSARY

Budget	Financial plan that serves as an estimate of future cost, revenues or both.
CAGR	The compound annual growth rate is the year-on-year percentage growth rate of an investment over a given period of time.
Capital	The sum of money that is invested to generate proceeds.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
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.
EBITDA	EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
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.
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.

Global Credit Rating Co. (Pty) Ltd ("GCR"), Reg. No: 95/05001/07

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Directors: R Wilson (Non-executive Chairman), M Joffe (Chief Executive Officer),
M Ngoasheng (Non-executive), M Fischer (Non-executive), S Bhikha (Non-executive)

Long term rating	A long term rating reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Operating Profit	Profits from a company's ordinary revenue-producing activities, calculated before taxes and interest costs.
Rating Outlook	A Rating outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or "'Evolving' (the rating symbol may be raised or lowered).
Rights Issue	One of the ways that a company can raise additional funds is to issue new shares. These must be first offered to current shareholders and a rights issue allows a shareholder to buy shares in proportion to the number already held.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Turnover	The total value of goods or services sold by a company in a given period. Also known as revenue or sales. Turnover can also refer to the total volume of trades in a market during a given period.

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

Curro Holdings Limited participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to and contested by Curro Holdings Limited and were amended following the provision of further material information by the entity.

The information received from Curro Holdings Limited and other reliable third parties to accord the credit ratings included:

- The 2015 audited annual financial statements (plus prior year of comparative numbers)
- Medium term capex and cash flow projections, plus 2016 revised forecasts
- 2015 audited financial statements for CAPMAC and MOP
- Other public information

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.



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