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Curro Holdings Limited

South Africa Corporate Analysis **May 2015**

Rating class	Rating scale	Rating°	Rating outlook	Review date
Long term	National	BBB-$_{(ZA)}$	Positive	May 2016
Short term	National	A3$_{(ZA)}$		

Financial data:
(USD'm Comparative)

	31/12/13	31/12/14
R/USD (avg.)	9.64	10.84
R/USD (close)	10.50	11.61
Total assets	225.0	321.7
Total debt	78.6	122.5
Total capital	123.0	161.3
Cash & equiv.	7.5	16.8
Turnover	68.4	92.3
EBITDA	11.8	17.7
NPAT	4.0	4.6
Op. cash flow	11.0	22.8
Market share	n.a	
Market cap.*	R11,252.6m/USD948.8m	

* As at 15/05/2015 at R11.86/USD.

Rating history:

Initial rating (May 2013)
Long-term: BBB-$_{(ZA)}$
Short-term: A3$_{(ZA)}$
Rating outlook: Stable

Last rating (March 2014)
Long-term: BBB-$_{(ZA)}$
Short-term: A3$_{(ZA)}$
Rating outlook: Stable

Related methodologies/research:

GCR's criteria for rating corporate entities, updated February 2015

Curro Holdings Limited ("Curro") Rating Reports, 2013-2014

Curro Secured Bond New Issuance and Surveillence Reports, 2013-2014

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° *The ratings accorded herein relate to Curro's ability to service its own debt, and exclude an assessment of its ability to service legally ringfenced debt.*

Summary rating rationale

- Curro is a listed independent private school educator operating in South Africa, and is majority owned by PSG Group Limited ("PSG"). Since listing in 2011, the group has attained rapid growth through the development and acquisition of campuses, with it reporting a portfolio of 42 schools and more than 36,000 learners as of January 2015.
- Curro's growth has been strongly facilitated by ongoing financial and technical support from PSG, which also facilitated the group's listing in 2011 and subsequent debt and equity capital raising activities. As such, the ratings accorded herein are premised on PSG's ongoing support.
- Private schools are fixed capital intensive, but report long useful lives and are strongly cash generative when adequately populated. Once constructed/acquired, schools bear large fixed overheads but low variable costs. Profitability is thus determined by school fee structures and capacity utilisation, with breakeven capacities typically 25%-35%. A higher 59% of schools reported capacity utilisation above 50% in F14, from 50% in F13.
- Acquisitions of performing schools and higher utilisation of new-builds have underpinned robust revenue and earnings growth. Together with the addition of six schools to the portfolio in F14, this saw revenue rise 52% to exceed R1bn, while EBITDA rose by 68% to R191m. Accordingly, the EBITDA margin widened to 19.1% in F14 (F13: 17.2%), which saw EBITDA per learner rise to R9,127 (F13: R7,371).
- Curro's growth has been facilitated by periodic equity and debt capital raising, with the group having raised R2.8bn in equity since listing (including the 2015 rights issue) and increased net debt by R1.1bn over the same time. This has served to sustain the group's solvency, with net gearing (excluding goodwill) amounting to 66% at FYE14. More saliently, net debt to EBITDA has moderated from 1,191% at FYE11 to 641% at FYE14, while net interest cover has improved over the same time from 0.2x to 1.6x. Excluding legally ringfenced operations, net gearing and net debt to EBITDA would have been much more comfortable at 37% and 454% respectively at FYE14.
- GCR considers net debt to leading EBITDA of 600% for Curro on a standalone basis (excluding ringfenced operations) to be the gearing limit for a BBB-$_{(ZA)}$ long term rating.
- The domestic private school industry reports robust prospects, with a growing middle class and a strained public education system providing strong impetus to growth. However, persistent depressed domestic economic conditions could impact student uptake at private schools.

Factors that could trigger a rating action may include

Positive change: An upgrade would be premised upon the attainment of budgets, and in particular the achievement of budgeted credit risk metrics, while maintaining the robust revenue and earnings growth that has been attained since listing.

Negative change: Material delays in terms of schools under construction could constrain revenue and earnings, and resultantly impact debt serviceability. In this regard, should net debt to leading EBITDA for Curro on a standalone basis exceed 600%, this could trigger negative rating action. In addition, an adverse change in level of support to Curro from PSG would negatively impact the group's credit risk profile.

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Business profile and recent developments

Curro is private-sector educator offering facilities ranging from play school to high school level, as well as teacher training. Founded in 1997 as a single school, Curro became a subsidiary of PSG in 2009 and listed in 2011. With PSG's financial backing and corporate support, Curro has grown rapidly over recent years, building numerous new campuses and acquiring several schools. In addition, the group has started to acquire vacant land for future development purposes (i.e. landbanking). Curro reported a portfolio of 32 campuses at FYE14 (as a well as a teacher training college), educating approximately 28,737 learners. In this regard, during 2014 the group invested around R1.3bn, as follows:

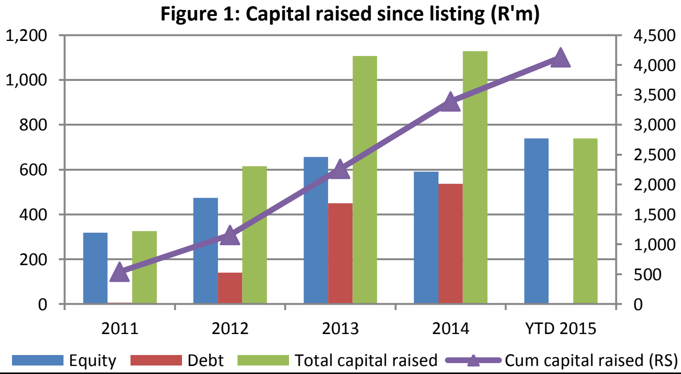
- Four new Curro schools, namely: Brackenfell (Cape Town, Western Cape), Seconda (Mpumalanga), Monaghan Farm (West Rand Gauteng) and Kathu (Northern Cape);
- Two Meridian schools, namely Cosmo City (West Rand Gauteng) and Newcastle (KwaZulu-Natal);
- Two Curro Academy schools, namely Mahikeng (North-West Province) and Soshanguve (Pretoria North, Gauteng);
- The acquisition of Grantleigh (Northern KwaZulu-Natal) for R30m became effective on 1 January 2015, while Curro also acquired Waterstone College (Johannesburg South, Gauteng) effective 1 June 2014 for R130m (including R58m goodwill);
- Landbanking of seven sites for R100m; and
- R650m spent on ongoing improvement and expansion of existing campuses.

Table 1: Key operating statistics	F10	F11	F12	F13	F14	Jan-F15
Schools (#)	5	12	22	26	32	42
Learners (#)	3,083	5,557	12,473	21,027	28,737	36,472
Avg. Learners per campus (#)	617	463	567	809	898	868
Staff (#)	343	654	1,630	2,387	3,128	3,678
Teachers (#)	247	446	1,151	1,593	1,905	2,214
Educators/total staff (%)	72	68	71	67	61	60
Learner/teacher (x)	12	12	11	13	15	16
Building size (m^2)	44,500	75,000	169,024	261,004	392,314	--
Avg. building size (m^2)	8,900	6,250	7,683	10,039	12,260	--
Land size (ha)	55	107	153	188	298	--
Average land size (ha)	11	9	7	7	9	--
Capital invested (R'm)	*128*	*328*	*782*	*1,076*	*1,306*	*n.a*
- Existing campuses	13	80	223	602	651	n.a
- New campuses	114	175	237	242	482	n.a
- Acquisitions	1	73	322	232	173	n.a

Curro is expected to sustain its strong growth trajectory in 2015, with the group starting the year with 42 schools and more than 36,000 learners; bolstered by the acquisition of St Dominics Academy in KwaZulu Natal effective 1 January 2015 for R10m. This apart, 2015 is expected to see a further three Curro schools developed (Waterfall Estate in Midrand Gauteng, Sitari in Somerset West Western Cape, and Hillcrest in Durban KwaZulu-Natal), as well as three Curro Castle schools. In addition, a new site for Meridian Pretoria will be developed in 2015, while the Meridian Cosmo City campus will be expanded. Moreover, a further R600m is expected to be spent on existing campuses, while R250m will be used for land banking.

Curro's growth has been strongly facilitated by the equity and debt capital that it has been able to raise over the review period. In this regard, since listing in 2011, Curro has raised a cumulative R2.8bn through rights offers and private placements. Over the same period, Curro has increased its net debt by around R1.1bn, inclusive of R279m raised through its listed DMTN programme. This has enabled the group to aggressively pursue acquisitions and landbanking opportunities, while at the same time consistently develop new schools in suitable catchment areas. Acquisitions in particular have been important in balancing the ratio of mature and highly cash-generative schools in Curro's portfolio against newly-developed schools that require several years to reach maturity. This has enabled the group to report high revenue and earnings growth in each year under review, while still maintaining adequate debt serviceability. In May 2015, a rights issue of R740m was concluded, which together with existing cash resources should enable further debt raising without any undue impact on gearing and credit risk metrics.

Figure 1: Capital raised since listing (R'm)



Corporate governance and shareholding

Curro subscribes to the King III Code of Corporate Practices and Conduct, and complies as is practically possible. Where the group is not in compliance with the code, reasons for deviation are clearly explained. Such non-compliance is in respect of the induction and ongoing training of directors (being implemented), the approval of the remuneration policy by shareholders (undertaken by the Remuneration Committee), and regarding sustainability reporting (which is not considered material to Curro due to the group's inherently low environmental impact). Curro is audited by Deloitte & Touché, which issued unqualified audit opinions for Curro's 2010-2014 financial statements.

Table 2: Corporate governance checklist

Description	Findings
Number of Directors	9
Directors - non-executive - independent	5 of 9 4 of 9
Separation of the chairman	Yes, Chairman is separated from CEO and is independent.
Frequency of meetings	Five meetings per year.
Board committees	2; Audit and Risk, and Remuneration.
Internal control & compliance	Yes, outsourced but reports to Audit & Risk committee.
External auditor	Deloitte & Touché

PSG's shareholding in Curro amounted to an unchanged 57.1% at FYE14 (held through PSG Financial Services), while an 8% stake is held by Thembeka Market Holdings (the group's BB-BEE partner). These stakes apart, Curro's shareholding is fairly granular, with directors holding 2.4% of outstanding shares at FYE14.

Operations

Curro's business model is built upon developing and operating schools of a high quality at comparatively low cost, with strong expertise having been gained in terms of the management of this process.[1] School development activity has been supplemented by the acquisition of 12 schools (including a teacher training college), which have added critical mass to the business in terms of learner numbers and profitability. These acquisitions have also been made with a view to extracting efficiencies and boosting capacity.

Curro Holdings - 2015

42 Schools
36.472 Learners

Select Schools

5 Schools
4,715 Learners

- Woodhill (1,310)
- Embury College (750)
- Grantleigh (740)
- Waterstone (1,365)
- St Dominics (550)

Meridian Schools

8 Schools
10,070 learners

- NA I & NA II (5,030)
- Pretoria (480)
- Rustenburg (1,190)
- Pinehurst (1,320)
- Karino (725)
- Newcastle (225)
- Cosmo City (1,100)

Castle Nursery Schools

2 School
540 Learners

- Rosencastle (430)
- George (110)

Curro Schools

24 Schools
19,295 Learners

- Aurora (1,880)
- Bankenveld (1,220)
- Bloemfontein (400)
- Brackenfell (220)
- Century City (735)
- Durbanville (1,470)
- Hazeldean High (375)
- Hazeldean (1,080)
- Helderwyk (1,160)
- Hermanus (550)
- Heuwelkruin (570)
- Hillcrest (950)
- Kathu (330)
- Krugerdorp (810)
- Langebaan (745)
- Monaghan (45)
- Mosselbaai (370)
- Mount Richmore (350)
- Nelspruit (1,240)
- Roodeplaat (965)
- Serengeti (1,430)
- Secunda (180)
- Thatchfield (2,100)
- Westbrook (120)

Curro Academy Schools and other

2 Schools; 1 teaching academy
1,852 Learners

- Sonshanguvue (430)
- Mahikeng (600)
- EITE (822)

Planned Schools 2015/2016

Curro Schools

- Waterfall Estate
- Sitari Fields
- Sandton
- Academy Mamelodi

Curro Castle

- Somerset West
- Bryanston
- Aurora
- Waikiki
- Douglasdale

Curro's model is scalable, as a result of the standalone nature of each school, with its philosophy focused on the quality of its teachers, and especially its principals. However, curricula are standardised and the group operates its Curro Centre for Educational Excellence ("CCEE") to ensure high educational quality across the schools. Furthermore, the acquisition of the Embury Institute of Teacher Education ("EITE") in 2013 is expected to provide a pipeline of educators for Curro going forward. EITE will be renamed as the Curro Institute for Higher Education in 2H 2015, and Curro is also looking to convert the institute into an accredited university. This apart, management also maintains strong oversight over the schools to ensure that financial and educational standards are maintained, while capitalising on synergies across the schools relating to the sourcing and placement of high quality educators, as well as the purchase and sale of educational materials and school clothing. Curro is continuously investing in infrastructure to support its schools network, covering such areas as governance, information systems, mobile device management, and business intelligence (amongst others).

Curro's core business is conducted through several brands, aimed at different sub-segments of the domestic private school market, with the group having launched the *Curro Academy* brand as of 2015.

The *Curro* brand forms the largest component of the portfolio, offering moderately priced fees (R1,800–R5,800/month), adequate sport & cultural offerings and IEB examinations at a matric level. The Curro brand now consists of 24 schools (F14: 20 schools) catering to some 19,295 learners (F14: 15,262), with current capacity of 43,186.

The *Select* brand is the group's premium offering, and consists of established campuses in convenient locations for high-income parents. Fees at these schools range between R4,000-R7,500/month, with a wide variety of academic, sport and cultural offerings.

The *Meridian* brand schools represent a more affordable offering, reporting larger class sizes (35-70 per class versus a maximum of 25 for Curro schools) and lower fees (R1,000-R1,800 per month). Meridian schools have been built to meet a mandate from the PIC to develop/acquire 11 low fee schools catering for around 20,000 students, with Old Mutual managing the R530m provided by the PIC to date. As such, Meridian operations (although consolidated into Curro's results) have been ringfenced from the rest of group through two companies, namely Campus and Property Management Company (Pty) Limited ("CAPMAC") and Meridian Operations Company NPC (RF) ("MoP"), with their funders having no recourse to other Curro operations.

Private schools are inherently capital intensive, requiring a significant upfront investment to acquire or develop a school and sizeable fixed operating costs. As such, barriers to entry exist in terms of the cost of acquiring or developing a school, and attaining adequate capacity utilisation. However, schools require a minimum level of utilisation to cover their fixed costs, whereafter each additional student is almost fully profit accretive (adding limited variable costs). As such, once enrolments have occurred and the school year has begun, revenue and earnings are highly predictable, as limited student attrition tends to occur during a year (with private schooling tending to be demand inelastic).

Curro reports a portfolio of established, maturing and newly developed schools, as a result of its high growth over recent years. As indicated in table 3, the group has achieved strong growth in EBITDA in F14, underpinned by improved capacity utilisation at developed schools and the continued acquisition of strongly performing schools. The statistics in table 3 also attest to the correlation between capacity utilisation and profitability, as well to Curro's success in improving capacity utilisation and

[1] This process is extensive. First land must be identified, and a feasibility study done to gauge demand in the catchment area. Thereafter, the land must be acquired, zoned and serviced. Construction is undertaken in phases (mostly through construction partner, MNK Construction Projects CC), with the initial phase allowing for classes to begin within 6 months of breaking ground. Marketing is undertaken over this period to ensure sufficient uptake of students. It is an imperative that the initial phase be complete in time for the start of the coming academic year, and incomplete facilities tend to impact on student uptake levels. Managing this process through inclement weather and regulatory hurdles forms an important part of Curro's substantial intellectual property.

profitability from schools over time. One anomaly was the strong profitability reported by schools first operated in 2013, mostly due to the strong student intake reported by several of the new developed schools for F13 (Curro Thatchfield and Curro Century City in particular). Nonetheless, the overall utilisation trend in F14 was positive, with a higher 19 schools/59% reporting capacity utilisation above 50% (F13: 13 schools/50%) and the average EBITDA per learner increasing markedly to R9,127 (F13: R7,371).

Table 3: Capacity utilisation	Schools (#)		Learners (#)		EBITDA (R'm)*		EBITDA margin (%)*		EBITDA/ learner
	F13	F14	F13	F14	F13	F14	F13	F14	F14
0% - 25%	7	7	2,668	1,780	(2.7)	(5.0)	(20.0)	(9.0)	(R 2,819)
25% - 50%	6	6	4,017	4,444	24.1	20.2	12.0	18.0	R 4,550
50% - 75%	8	10	6,119	9,096	43.6	92.5	27.0	27.0	R 10,165
75% - 100%	5	9	8,223	13,417	90.0	154.6	35.0	32.0	R 11,525
Total	**26**	**32**	**21,027**	**28,737**	**155.0**	**262.3**	**22.0**	**26.0**	**R 9,127**
First year	**Schools (#)**		**Learners (#)**		**EBITDA (R'm)***		**EBITDA mgn. (%)***		**EBITDA/ learner**
	F13	**F14**	**F13**	**F14**	**F13**	**F14**	**F13**	**F14**	**F14**
2014	0	4	0	823	0	(6.6)	0.0	(32.0)	(R7,977)
2013	4	4	2,016	3,645	10.9	37.0	19.0	32.0	R10,144
2012	2	2	1,002	1,362	2.0	8.3	7.0	17.0	R6,115
2011	6	6	2,962	3,721	6.8	24.6	8.0	19.0	R6,601
2010	2	2	1,636	1,994	8.2	16.9	17.0	25.0	R8,451
<=2009	12	14	13,411	17,192	127.0	182.1	32.0	30.0	R10,595
Total	**26**	**32**	**21,027**	**28,737**	**155.0**	**262.3**	**25.0**	**26.0**	**R 9,127**

** EBITDA is stated on a per school level and prior to head office charges*

Operating and regulatory environment

Table 4: Select economic indicators	2010	2011	2012	2013	2014
GDP growth (%)	3.0	3.2	2.2	2.2	1.9
CPI Inflation (%)	4.6	4.0	4.9	5.4	5.7
Official unemploy. rate (%)	24.9	24.8	24.9	24.7	25.1
Currrent account surplus/(deficit) : GDP (%)	(1.5)	(2.2)	(5.0)	(5.8)	(5.4)
Household debt: disposable income (%)	81.9	79.8	79.8	79.5	78.2
Gross government debt : GDP (%)	34.7	38.2	40.9	44.2	47.1
Net government debt : GDP (%)	29.4	32.0	35.1	38.3	40.9
Gov. surplus/(deficit) : GDP (%)	(4.6)	(4.0)	(5.1)	(4.6)	(4.7)
Gov spend- pre-primary & primary education (R'bn)	59.8	64.6	70.3	76.0	n.a
Gov spend- secondary education (R'bn)	44.8	49.8	54.7	58.2	n.a

Source: South African Reserve Bank.

Notwithstanding its defensive/inelastic service offering, Curro is broadly exposed to developments in the domestic economy, including levels of employment, wealth levels, household indebtedness and disposable income, all of which have a bearing on affordability and uptake of private schooling. In this regard, the weak economy (characterised by high unemployment, a highly indebted consumer base and inflationary pressures) is likely to have a negative bearing on the conversion of learners from public schools to private schools. Conversely, Curro's more affordable range of private schools (through the Curro Academy and Meridian brands) could see the group benefit from a deterioration in the economy, with private learners potentially migrating from more expensive schools to more affordable ones. Other elements of the macro-economy impacting Curro are the weak Rand, rising interest rates and inflationary pressures, which impact its development costs. In addition to these macro-economic factors, the financial health of central government and its capacity to rollout schooling services also has a strong bearing on demand for private schools. In this regard, the poor conditions within the public schooling sector have underpinned growing demand for affordable private education, while the government's large ongoing budget deficits and elevated indebtedness are likely to constrain its ability to improve the standards of public education in South Africa; providing further impetus to demand for private schools.

Table 5: Select census statistics	2001	2011
Population < 16 (# in millions)	32.1	29.2
Dependency ratio (per 100)	58.7	52.7
Average household size (#)	3.8	3.4
Population with no education (%)	18.2	8.6
Population with higher education (%)	8.6	12.1
Population with matric (%)	20.7	28.4

Source: Statistics South Africa, Municipal 2011 Fact Sheet.

In terms of the broad socio-economic landscape, South Africa continues to report large mismatches in wealth and education levels. Together with the economy's increasing conversion into a service & skills driven one (as opposed to the historical resources dependency), this has constrained employment and economic growth. Primary and secondary education through the public sector continue to reflect strained infrastructure, with poor facilities compounded by rising learner numbers and a poorly paid, unionised teacher network. In this context, demand for affordable private schooling is on the rise, and Curro is one of few private educators to provide such services (albeit with competitive forces beginning to manifest in this sub-segment).

Table 6: Education statistics 2013	Number	%
Primary schools	14,558	56.6
Secondary schools	6,098	23.7
Combined & intermediate schools	5,064	19.7
Total schools	**25,720**	**100.0**
Private schools	*1,584*	*6.2*
Learners - preschool & found. phase (millions)	4.2	33.6
Learners - intermediate phase (millions)	2.8	22.4
Learners - senior phase (millions)	2.9	23.4
Learners - FET band (millions)	2.6	20.7
Total learners	**12.5**	**100.0**
Private school learners	*0.5*	*4.1*
Total educators (000s)	**391.8**	**100.0**
Private school educators	33.2	8.5
Learners per school - public	495.8	--
Learners per school - private	324.4	--
Learners per educator - public	33.4	--
Learners per educator - private	15.5	--

Source: Department of Basic Education, Education Statistics in South Africa 2013.

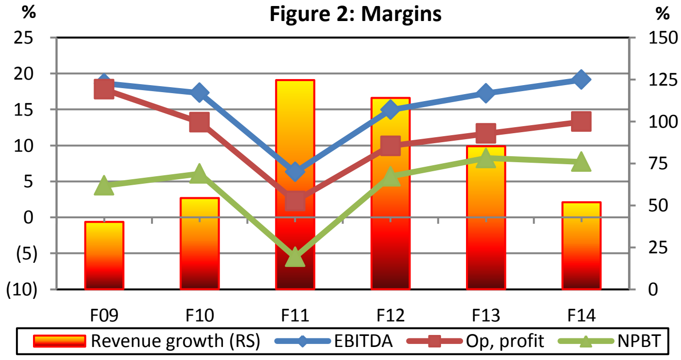
Although independent privates schools have historically been fairly loosely regulated, indications are that the Department of Education ("DoE") will increase the level of oversight in the future. Nonetheless, Curro maintains strong relations with the DoE, and in many respects represents a positive force for latter in that each school built and populated by Curro reduces the burden on the state. Moreover, given its comparative small base of schools and the training of teachers through EITE, Curro is not significantly draining resources from the public sector. However, GCR has noted the high level of educator turnover reported by Curro in 2014 (almost 13%), attributed to maternity leave, the replacement of teachers at acquired schools and natural staff attrition.

Financial performance

A five-year financial synopsis appears at the end of this report, while brief commentary follows below.

Curro has sustained strong revenue over the review period, being a function of continuous addition of newly built campuses and acquisitions, as well as through the sustained increase in utilisation levels. Nonetheless, revenue growth has begun to taper off somewhat as a result of the larger revenue base now reported. In this regard, revenue rose by 52% to R1bn in F14, as compared to growth rates of 125%, 114% and 85% in F11, F12 and F13. Accordingly, the five-year CAGR amounted to a lower 84%, albeit that revenue increased in absolute terms by a record R342m (F12: R190m; F13: R303m). Curro's revenue is largely comprised of registration and tuition fees, but also includes revenues from hostels/boarding (F14: R48m), aftercare (F14: R30m) and other income relating to uniform and stationery sales amongst others (F14: R57m). Furthermore, revenue is stated net of discounts, which amounted to R61m in F14 (F13: R47m).

Figure 2: Margins



The group reported especially rapid revenue growth in F11 following its listing, which saw the EBITDA and operating margins fall to review period lows of 6.3% and 2.3% respectively. Since then, successive increases in margins have been reported, with the EBITDA and operating margins peaking at 19.1% and 13.3% respectively in F14 (F13: 17.2% and 11.6%). Further to this, EBITDA rose 68% to reach R191m in F14, while operating income rose 73% to R133m.

Due to the extensive use of debt funding, Curro has reported rising interest charges in each year under review. Gross finance charges rose from R12m in F10 to R97m in F14 (F13: R55m), matching the pace of operating income growth over the past two years. As such, gross interest cover amounted to a stable 1.4x in F14, from a low of 0.2x in F11. Finance charges have been tempered by interest income of R12m in F14 (F13: R4m), while a significant R30m of gross finance charges was capitalised in F14 at 10.8% (F13: R29m). Accordingly, net interest cover amounted to 1.6x in F14 (F13: 1.5x), and was stronger yet (at 2.4x in F14) when excluding capitalised interest charges. Although interest rate swaps have been used to some extent, at FYE14 it was estimated that a 100 basis point increase in interest rates would decrease profits by R7.1m (FYE12: R5.9m). To address this, management will hedge 50% of Curro's standalone interest rate exposure for the next five years (excluding Meridian), with this exposure mainly relating to the R150m bond.

Table 7: Financing costs (R'm)	F09	F10	F11	F12	F13	F14
Gross finance costs	7.9	11.8	23.8	33.7	55.0	96.7
Finance income	(0.1)	(0.1)	(1.4)	(1.5)	(3.8)	(11.9)
Net finance charges	7.8	11.7	22.4	32.2	51.2	84.8
Finance charges capitalised	*1.4*	*6.4*	*9.4*	*17.0*	*28.8*	*29.8*
Gross interest cover (x)	1.1	0.8	0.2	1.1	1.4	1.4
Net interest cover (x)	1.1	0.8	0.2	1.1	1.5	1.6
Adj. gross interest cover (x)*	1.3	1.8	0.3	2.1	2.9	2.0
Adj. net interest cover (x)*	1.3	1.9	0.3	2.3	3.4	2.4
EBITDA : net interest (x)	1.1	1.1	0.5	1.7	2.2	2.3
EBITDA : adj net interest (x)*	1.4	2.4	0.8	3.5	5.1	3.5

** After deducting capitalised interest.*

Following an R0.8m impairment of subsidiaries, relating to the divisionalisation of the Woodhill School, Curro attained 42% higher NPBT of R77m in F14. This moderated to retained income of R55m in F14 (F13: R37m), after deducting taxation of R28m and including contributions from minorities of R4m and equity accounted earnings of R1m.

Cash flow

Cash generated by operations rose by 68% to R199m in F14, and was strongly supplemented by R111m working capital release. This was driven by a R124m increase in trade and other payables that related to a R56m increase in prepaid school fees, a R44m increase in trade payables, a R25m increase in accruals and R24m rise in other payables. As a result of this sharp increase in cash generation, and despite 145% higher net interest charges of R55m, Curro reported a cash flow from operations of R247m in F14 (F14: R106m), from just R11.5m in F11.

Notwithstanding the rise in operating cash flows, Curro continues to report investing cash flows that considerably exceed operating cash flows. Such investing activity has largely related to the acquisition of land and construction of new schools, and amounted to a R1.1bn outflow in F14 (F3: R837m); bringing cumulative capex to R2.8bn over the past five years. Capex has also been compounded by other investing activities, mainly pertaining to the acquisition of schools. In this regard, other investing activity consumed cash of R135m in F14 (F13: R218m), of which R92m related to business combinations and acquisitions (F13: R201m).

Given these large investment outflows, Curro has raised new capital in each year under review. In F14, R590m was raised through a rights issue (F13: R657m), while gross debt increased by R536m (F13: R380m). As such, with a R116m increase in cash holdings, net debt rose by R420m in F14 (F13: R329.5m), translating to a cumulative R1.05bn increase over the review period.

Funding and liquidity profile

Curro's asset base is dominated by the fixed assets associated with its schools, mainly being land and buildings. These fixed assets rose by a further 57% to R3.3bn at FYE14, from just R225m at FYE10, and accounted for a slightly reduced 89% of total assets (FYE13: 90%).

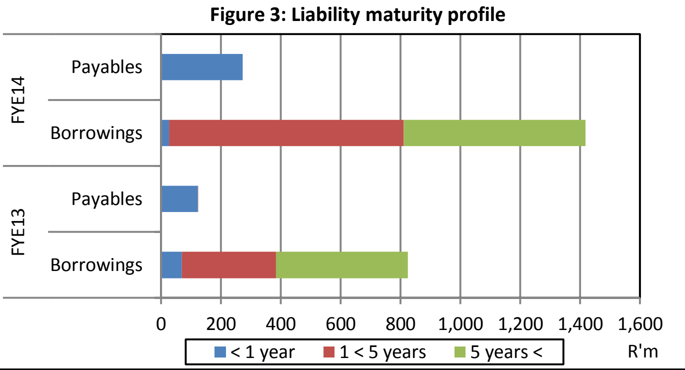
Table 8: Fixed capital (R'm) – 2014	FYE13	Add.	Acquis.	Deprec.	FYE14
Land and buildings	1,970.3	967.9	128.5	(1.0)	3,065.7
Other	161.5	152.7	10.0	(51.8)	272.5
Total	**2,131.8**	**1,120.6**	**138.5**	**(52.8)**	**3,338.2**
– 2013	**FYE12**	**Add.**	**Acquis.**	**Deprec.**	**FYE13**
Land and buildings	1,114.6	778.2	78.6	(1.0)	1,970.3
Other	95.2	96.2	0.2	(30.1)	161.5
Total	**1,209.8**	**874.4**	**78.8**	**(31.1)**	**2,131.8**
– 2012	**FYE11**	**Add.**	**Acquis.**	**Deprec.**	**FYE12**
Land and buildings	492.4	386.1	236.1	0.0	1,114.6
Other	37.5	65.5	6.6	(14.3)	95.3
Total	**529.9**	**451.5**	**242.7**	**(14.3)**	**1,209.8**

The remainder of the asset base at FYE14 consisted mostly of cash holdings, which contributed 5% of assets at R195m, and revenue-generating intangible assets (trademarks, curriculum development and enrolments), which contributed 3% of assets at R121m.

Curro is predominantly funded by equity and debt, with interest-free liabilities comprising the bulk of the remainder. Further to this, equity has risen from R50m at FYE10 to R1.9bn at FYE14 (FYE13: R1.3bn), and accounted for a lower 50% of total funding at FYE14 (FYE13: 55%). Of this equity, the bulk relates to issued share capital, with retained income reported at just R111m at FYE14. Akin to equity, debt has risen sharply over the review period, rising from R114m at FYE10 to R1.4bn at FYE14 (FYE13: R825m), and accounting for 38% of funding (FYE13: 35%). Curro's interest-bearing debt at FYE14 included:

- Instalment sales agreements with Absa Bank, secured by fixed assets and totalling R31.3m (FYE13: R33.5m);
- A secured, amortising loan from the DBSA totalling R150m and bearing fixed interest at 12.11% per annum. Repayments on this loan begin in August 2015;
- Interest-free development bonds of R18.2m (refunded on the later of when a learner leaves school or three years since payment), as well as debentures of R8.5m (FYE13: R11.2m) that are set off against school fees;
- A R110.4m loan from Old Mutual, bearing interest of between 4% and 10% per annum, with a 15-year tenor (FYE13: R30.6m);
- The DMTN programme, being the R151.4m senior secured notes issued in F13 at 3m Jibar plus 2.75% (COH001) and the similar R127.3m notes issued in F14 at 3m Jibar plus 2.60%;
- Instalment sales agreements totalling R40m from Standard Bank of South Africa, with these secured by fixed assets and bearing interest linked to the Prime rate; and
- A 15 year facility from SEIIFSA bearing interest at 4%-10% (linked to the 3m Jibar), with R412.9m drawn down at FYE14 (FYE13: R297m).

Regarding the above debt, it is noted that the funding from both Old Mutual and SEIIFSA relates to Meridian schools only, and has no recourse to Curro Holdings or any of its subsidiaries barring for CAPMAC. As indicated below, Curro's debt reflects a fairly short-dated maturity profile compared to the long-term nature of its assets, albeit with a significantly larger portion maturing beyond five years as at FYE14.



In addition to the abovementioned debt, Curro reported a contingent liability for a R10m guarantee provided by RMB at FYE14, as well as contracted & authorised capex of R764m (FYE13: R546m). Operating lease liabilities of R85m were also reported at FYE14 (FYE13: R59m).

Table 9: Gearing and liquidity	FYE10	FYE11	FYE12	FYE13	FYE14
Net debt: equity (%)*	221.7	37.8	57.2	57.8	65.5
Net debt : EBITDA (%)	856.9	1191.4	765.9	656.4	640.9
Op. cash flow: total debt (%)	8.8	8.5	12.9	12.8	17.4
Cash : short term debt (x)	0.3	0.8	0.1	1.1	7.4
Net interest cover (x)	0.8	0.2	1.1	1.5	1.6
Adj Net interest cover (x)**	1.9	0.3	2.3	3.4	2.4
EBITDA : net interest (x)	1.1	0.5	1.1	2.2	2.3
Adj. EBITDA : net interest (x)	2.4	0.8	3.5	5.1	3.5

* *GCR excludes goodwill from equity as per the corporate ratings methodology.*
** *After deducting the capitalised portion of interest.*

Curro continues to report high levels of gearing, as a function of the sustained rise in debt and the fact that newly built schools usually take several years to reach capacity. Further to this, and exacerbated by the higher goodwill of R338m at FYE14 (FYE13: R272m), gross and net gearing have risen from lows of 41% and 38% respectively at FYE11 to 76% and 66% respectively at FYE14 (FYE13: 64% and 58%). In contrast, strong earnings growth has seen net debt to EBITDA moderate from 1,191% at FY11 to 641% at FYE14 (FYE13: 656%); albeit with this measure still remaining high relative to other investment-grade rated entities. Furthermore, operating cash flows to total debt has continued to improve, and amounted to 17.4% at FYE14 (FYE13: 12.8%).

Curro reported undrawn debt facilities of R249m at FYE14 (FYE13: R230m), which together with the higher cash balances serves to bolster the group's liquidity. In this regard, Curro reported cash coverage of short term debt of 7.4x at FYE14 (FYE13: 1.1x), being much improved from the 0.1x reported at FYE12.

Ringfenced financial profile

Curro Holdings (and the balance of its subsidiaries) is risk remote from the Meridian operations conducted through CAPMAC and MoP. Given the moderate earnings and significant debt contained in these entities, the net result of their exclusion is positive for Curro. In this regard, net gearing on a *pro forma* basis registers lower at 38% at FYE14, while net debt to EBITDA is markedly lower at 454%. Similarly, interest cover measures are much improved when the Meridian entities are excluded.

Table 10: Gearing and liquidity (R'm)	**FYE13**		**FYE14**	
	Meridian	**Curro#**	**Meridian**	**Curro #**
Total debt	**326.1**	**499.0**	**521.8**	**899.9**
Equity*	(101.0)	1,290.7	(113.0)	1,923.2
Cash	**19.1**	**59.8**	**15.7**	**179.6**
EBITDA	27.2	86.5	32.7	158.6
Net interest income/(charge)	(14.2)	(37.0)	(36.5)	(48.3)
Net debt: equity (%)	(303.9)	34.0	(447.8)	37.5
Net debt : EBITDA (%)	1,128.3	507.9	1,547.9	454.0
EBITDA : net interest (x)	1.9	2.3	0.9	3.3
EBITDA : adj net interest (x)*	2.8	3.6	1.0	6.1
Net interest cover (x)	1.7	1.4	0.6	2.3
Adj net interest cover (x)**	2.4	4.2	0.7	4.9

Pro forma Curro profile, excluding CAPMAC and MoP.

* *Equity has been adjusted to exclude that of CAPMAC and MoP, as well as intercompany loans of R62.5m at FYE14 (FYE13: R102m).*

** *After deducting the capitalised portion of interest.*

Outlook

Curro is expected to continue its strong growth trajectory in 2015 and beyond. Apart from the six campuses being developed, as well as the ongoing investment in existing campuses, Curro has several other opportunities that might manifest in 2015 or 2016. In this regard, potential acquisitions are being explored both in South Africa, as well as in Namibia and Botswana. In addition, the group is also exploring additional funding opportunities through the IFC, which would be specifically allocated to the development of Curro Academy schools.

Opportunities and developments notwithstanding, 2015 forecasts based on existing schools and student numbers indicate that very robust revenue and earnings growth is expected for the year, while gearing and other credit risk metrics are expected to moderate slightly. In this regard, Curro is shifting into a more mature phase of operations, as its relative rate of growth slows and the schools within the portfolio continue to mature and increase occupancy. Nonetheless, management remains committed to its target of 80 schools by 2020, which would represent the addition of around six schools per annum inclusive of acquisitions. Given that this level of growth has been comfortably achieved since listing, such targets are not considered unduly aggressive. However, some concern does exist with regards to the state of the economy, which is expected to somewhat constrain the uptake of private education over the medium term. Coupled with increased competition in the industry and increased regulatory scrutiny thereof, these somewhat dampen the otherwise positive prospects for the group.

Upward rating movement would be predicated on a substantial improvement in earnings-based gearing and debt serviceability metrics, albeit that these measures have improved over the past three years. In this regard, above break-even utilisation levels, each incremental increase in utilisation at a school has a direct flow through to operating cash generation. Accordingly, when mature, Curro is expected to be highly cash generative, with much reduced debt funding requirements. However, and regarding negative ratings movement, should Curro over-extend itself in terms of debt utilisation and/or several of its schools fail, this could have negative ratings ramifications. Nonetheless, this risk continues to reduce as the portfolio grows and the level of development slows relative to the size of the performing portfolio.

Curro Holdings Limited

(R in Millions except as Noted)

Income statement : Year ended : 31 December	2010	2011	2012	2013	2014
Turnover	74.0	166.3	355.9	659.1	1,000.7
EBITDA	**12.8**	**10.5**	**53.2**	**113.7**	**191.3**
Depreciation and amortisation	(3.0)	(6.7)	(17.8)	(37.0)	(58.3)
Operating income	**9.8**	**3.8**	**35.4**	**76.7**	**133.0**
Net finance charges	(11.7)	(22.4)	(32.2)	(51.2)	(84.8)
Finance costs capitalised	6.4	9.4	17.0	28.8	29.8
Discontinued operations and profit on disposals	0.0	0.0	0.0	0.0	(0.8)
Foreign exchange and fair value movements	0.0	0.0	0.0	0.0	0.0
NPBT	**4.5**	**(9.2)**	**20.3**	**54.3**	**77.3**
Taxation charge	0.5	1.8	(5.6)	(15.6)	(27.7)
NPAT	**5.0**	**(7.4)**	**14.7**	**38.7**	**49.6**
Equity accounted earnings and dividends	*0.0*	*0.0*	*0.0*	*1.0*	*1.1*
Attributable earnings	**5.0**	**(7.4)**	**15.1**	**37.0**	**55.0**
Cash Flow Statement					
Cash generated by operations	**12.8**	**11.1**	**56.4**	**118.6**	**199.1**
Utilised to increase working capital	3.0	14.0	20.6	17.5	110.6
Net interest paid/(received)	(5.1)	(12.9)	(15.1)	(22.4)	(54.9)
Taxation paid	(0.6)	(0.7)	(5.7)	(8.2)	(8.1)
Cash flow from operations	**10.1**	**11.5**	**56.2**	**105.6**	**246.7**
Maintenance capex*	(3.0)	(6.7)	(17.8)	(37.0)	(58.3)
Discretionary cash flow from operations	**7.1**	**4.8**	**38.3**	**68.6**	**188.4**
Dividends paid	0.0	0.0	0.0	0.0	0.0
Retained cash flow	**7.1**	**4.8**	**38.3**	**68.6**	**188.4**
Net expansionary capex	(117.6)	(244.1)	(433.7)	(837.4)	(1,063.3)
Investments and other	53.8	(92.8)	(309.2)	(222.0)	(136.0)
Proceeds on sale of assets/investments	0.1	0.1	0.1	4.4	1.0
Shares issued	0.0	318.8	473.9	657.0	590.0
Cash movement: (increase)/decrease	6.4	(5.7)	(18.7)	(50.4)	(116.4)
Borrowings: increase/(decrease)	50.3	18.9	249.1	379.9	536.3
Net increase/(decrease) in debt	**56.7**	**13.2**	**230.5**	**329.5**	**419.9**
Balance Sheet					
Ordinary shareholders interest	49.5	330.5	712.4	1,288.5	1,873.7
Outside shareholders interest	0.0	0.0	0.5	3.2	(1.0)
Total shareholders' interest[!]	**49.5**	**330.5**	**712.9**	**1,291.6**	**1,872.7**
Short term debt	14.1	12.3	199.8	69.9	26.3
Long term debt	99.8	122.4	236.2	755.1	1,395.4
Total interest-bearing debt	**113.8**	**134.7**	**436.1**	**825.0**	**1,421.7**
Interest-free liabilities	71.8	92.9	185.9	245.3	440.8
Total liabilities	**235.1**	**558.1**	**1,334.8**	**2,362.0**	**3,735.1**
Fixed assets	225.3	529.9	1,209.8	2,131.8	3,338.2
Trademarks, curriculum development & learner enrollments	1.8	5.4	67.6	97.6	121.3
Investments and advances	1.6	0.0	0.0	15.0	22.0
Cash and cash equivalent	4.1	9.8	28.5	78.9	195.3
Other current assets	2.3	12.9	29.0	38.6	58.3
Total assets	**235.1**	**558.1**	**1,334.8**	**2,362.0**	**3,735.1**
Ratios					
Cash flow:					
Operating cash flow : total debt (%)	8.8	8.5	12.9	12.8	17.4
Discretionary cash flow : net debt (%)	6.4	3.8	9.4	9.2	15.4
Profitability:					
Turnover growth (%)	54.3	124.6	114.0	85.2	51.8
EBITDA : revenues (%)	17.3	6.3	15.0	17.2	19.1
Operating profit margin (%)	13.2	2.3	9.9	11.6	13.3
EBITDA : average total assets (%)	7.8	2.7	5.7	6.3	6.6
Return on equity (%)	10.6	(3.9)	2.9	3.7	3.5
Coverage:					
Operating income : gross interest (x)	0.8	0.2	1.1	1.4	1.4
Operating income : net interest (x)	0.8	0.2	1.1	1.5	1.6
EBITDA : gross interest (x)	1.1	0.4	1.6	1.4	2.0
EBITDA : net interest (x)	1.1	0.5	1.1	2.2	2.3
Activity and liquidity:					
Trading assets turnover (x)	(7.3)	(7.3)	(7.3)	(8.5)	(8.1)
Days receivable outstanding (days)	10.4	16.6	28.4	16.0	9.3
Current ratio (:1)	0.1	0.2	0.2	0.6	0.8
Capitalisation:					
Total debt : equity (%)	230.1	40.8	61.2	63.9	75.9
Net debt : equity (%)	221.7	37.8	57.2	57.8	65.5
Total debt : EBITDA (%)	889.2	1,285.2	819.4	725.8	743.0
Net debt : EBITDA (%)	856.9	1,191.4	765.9	656.4	640.9

* Depreciation used as a proxy for maintenance capex.

! Shareholders interest is stated net of goodwill in all years under review.

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

Amortisation	From a liability perspective, the paying off of debt in a series of instalments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
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.
Capital Intensive	A project, a business or a production process is said to be capital intensive if it uses large amounts of assets to produce goods or services. Examples are oil refineries, and airlines. Projects/businesses can be either fixed capital intensive or working capital intensive or a combination.
Cash Equivalent	An asset that is easily and quickly convertible to cash such that holding it is equivalent to holding cash. A Treasury Bill is considered cash equivalent.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash Flow Statement	The cash flow statement shows the cash flows associated with the operating, investing and financing activities of a company, combining to explain the net movement in cash holdings.
Corporate Governance	Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Correlation	A term that describes the degree to which two variables move together. A correlation of 1 means that they move together exactly, while a correlation of minus 1 means that they move in exactly the opposite direction from each other.
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.
Credit Rating Agency	An entity that provides credit rating services.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Current Ratio	A measure of a company's ability to meet its short-term liabilities and is calculated by dividing current assets by current liabilities. Current assets are made up of cash and cash equivalents ('near cash'), accounts receivable and inventory, while current liabilities are the sum of short-term loans and accounts payable.
Debentures	Debenture is also referred to as a Bond or Note. A bond is a legal contract in which a borrower such as a government, company or institution issues a certificate by which it promises to pay a lender a specific rate of interest for a fixed duration and then redeem the contract at face value on maturity..
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.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
EBITDA	EBITDA is useful for comparing the income of companies with different asset structures. EBITDA is usually closely aligned to cash generated by operations.
Economic Indicators	Statistical data about country's economy, such as unemployment figures, the Consumer Price Index (CPI), Gross Domestic Product (GDP), money supply and housing statistics. This data gives information about the future direction of output and demand in an economy.
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.
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.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Fix	The setting of a currency or commodity price for trade at a future date.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information technology or a company's logo and brand.
Fixed Capital	Fixed capital is the part of a company's total capital that is invested in fixed assets such as land, buildings and equipment that remains on the balance sheet, usually for years, but for at least one accounting period.
Fixed Costs	Company costs such as rent, administrative overheads and depreciation, which do not vary with the level of production or sales.
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.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity's reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
hedge	A form of insurance against financial loss or other adverse circumstances.
IFC	The IFC is an affiliate of the World Bank, which finances private sector investment in developing countries and provides advisory services to businesses and governments.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Intangible Assets	The non-physical assets of a company such as trademarks, patents, copyright, information systems and goodwill.
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.
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 Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.

Interest Rate Swap	An interest rate swap is an agreement in which two parties make interest payments to each other for a set period based upon a notional principal.
JIBAR	The Johannesburg Interbank Agreed Rate, or JIBAR, is the annualised interest rate at which banks obtain unsecured loans from each other. It is often used as the basis for pricing floating interest rate instruments, and is the main reference rate used in South Africa.
LC	An LC is a guarantee by a bank on behalf of a corporate customer that payment will be made if that entity cannot to meet its obligations.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
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.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
LME	The London Metal Exchange is one of the world's most important non-ferrous metals markets. It offers futures and options contracts in aluminium, copper, nickel, tin, zinc and lead. Producers and consumers use LME prices for long-term contacts.
London Metal Exchange	The London Metal Exchange is one of the world's most important non-ferrous metals markets. It offers futures and options contracts in aluminium, copper, nickel, tin, zinc and lead. Producers and consumers use LME prices for long-term contacts.
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.
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
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.
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.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Prime Rate	The benchmark interest rate that banks charge their customers.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Private Placement	The sale of securities to a small number of institutional investors such as large banks, insurance companies and pension funds. Such issuances do not require a formal prospectus and are often not listed on an exchange.
Prospectus	A document produced by a company issuing new equity or debt, which provides detailed information about the offering and the company.
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).
Redemption	The repurchase of a bond at maturity by the issuer.
REPO	In a REPO one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
Return On Equity	Return on equity, or ROE, is the ratio of a company's profit to its shareholders' equity, expressed as a percentage. It is the most widely used measure of how well management uses shareholders' funds. Its main advantage is that it is a benchmark that allows investors to compare the profitability of companies in different industries.
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.
Risk	The possibility that an investment or venture will make a loss or not make the returns expected. There are many different types of risk including basis risk, country risk, credit risk, currency risk, economic risk, inflation risk, liquidity risk, market or systemic risk, political risk, settlement risk and translation risk.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Swap	An exchange of payment streams between two parties for their mutual benefit. Swaps can involve an exchange of debt obligations, interest payments or currencies, with a commitment to re-exchange them at a specified time.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.
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.
Under Review	Failure to carry out a full review of a rated entity within the designated timeframe, either through lack of information or delays in finalisation, i.e. review is ongoing.
Variable Costs	A cost that varies with the volume of production or sales, such as the cost of raw materials or packaging. In contrast with fixed costs, such as rent, which stay the same regardless of the volume of production or sales.
Working Capital	Working capital usually refers to the resources that a company uses to finance day-to-day operations. Changes in working capital are assessed to explain movements in debt and cash balances.

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SALIENT POINTS 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 rating/s has been disclosed to and contested by Curro Holdings Limited and was not 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 rating included:
- 2014 audited financial statements, and four years of audited financial statements;
- Budgets for 2015, and ten year budget plan;
- Details of debt facilities and utilisation; and
- 2014 audited financial statements for CAPMAC and MOP.

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.