

Advtech's tertiary education growth pays off

Protests at public universities push private growth

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● Advtech's aggressive expansion of its tertiary institutions is paying off as the unit has outperformed its schools division. And analysts are optimistic that the good times are not over yet, despite the tough economic environment.

This week Advtech's tertiary division reported a 56% increase in operating profit to R157-million for the six months ended June 2017, compared to the school division, which showed a 5% increase in operating profit to R172-million.

The private education group started bulk-ing up its assets after Curro came knocking on its door. Advtech turned down the offer but Vestact portfolio manager Bright Khumalo said management got a wake-up call when Curro wanted a piece of the action, nudging Advtech to do more with what it had.

Premium purchases

Since then the group has raised capital through rights offers and taken on more debt to purchase businesses in the same premium environment that Curro plays in, including a 51% stake in the University of Africa. And it stepped into new territory when it bought the Private Hotel School and Capsicum Culinary Studio, which have given the group traction in tourism education.

Group CEO Roy Douglas said on Thursday that rapid expansion had not been easy given the low growth in the economy – it required careful thought about value for consumers and needed to take cognisance of the tough economic climate.

But bargains could be found in an unstable economic environment, Khumalo said,



Rosebank College in Braamfontein, Johannesburg. Advtech Group CEO Roy Douglas says expansion has not been easy given low growth. Picture: Rosebank College

which was what Advtech was able to spot and capitalise on.

Yet grabbing opportunities to expand has also come with accumulating debt. Interim results for the six months show total liabilities to the value of R2.2-billion.

"While we do have debt, it is well within serviceable limits," Douglas said. "Our balance sheet is well structured at the moment, with adequate levels and capacity to make further acquisitions."

He emphasised that the critical mass of the business coupled with strong cash flow



Cheaper than traditional universities

Nolwandle Mthombeni

Equity analyst at Mergence Investment Managers

gave the company headroom should it need access to further borrowing facilities.

Not alarming

Nolwandle Mthombeni, an equity analyst at Mergence Investment Managers, said the debt levels were not alarming because this type of business had a lot of cash coming through.

She said the tertiary division outperformed the schools division because Advtech's marketing initiatives, which leveraged off the strong brand names it had developed

over the years, were paying off.

"The brand has become more appealing and they are focusing on the right segments," Mthombeni said, "while it also has some affordable qualifications that are cheaper than traditional universities."

The group's somewhat cheaper and alternative degrees are an attractive offering in an environment where people's budgets are under pressure.

However, Khumalo cautioned that it took hard work to achieve results in the tertiary division, which previously had contributed

just 12%-15% to earnings.

"It trotted along and wasn't really doing much," said Khumalo, "The schools division was the father bringing home the bacon."

Student protests at public universities may have contributed significantly to the growth of private institutions that offer a more stable environment.

Specialised degrees

Another factor was that the group's specialised degrees, which were not typically found at public universities, were attractive to millennials.

Brands like Vega and Varsity College offer niche courses in areas such as advertising, digital design and strategic management and communications.

"Millennials don't care about traditional degrees such as accounting but prefer alternative qualifications," Khumalo said.

Valter Adão, the chief digital and innovation officer for Deloitte Africa, said jobs of the future needed students who could embrace exponential technologies in education to keep abreast with international trends.

"Jobs of the future are tech- and solutions-driven. Coding and programming are going to be the basics required for people in their jobs."

About 80% of Advtech students find employment within six months of graduating, according to Douglas.

Mthombeni said increasing the number of campuses and putting investment into the segment had brought balance between Advtech's tertiary and schools divisions.

Douglas indicated that the group would continue in its search for new markets as the rest of Africa had similar dynamics to the South African market that it could tap into: a young and growing population, high levels of urbanisation and an emerging middle class, as well as a high demand for quality education.

"We think that represents good opportunity for us," he said. "Our established processes, strong academic commitment and capabilities can be leveraged for expansion onto the rest of the continent."