# Taaleem Holdings

**CMP: AED 3.60, Target Price: AED 5.20, ESG Rating*: BBB**

GCC Equities
Consumer Goods
Company Initiation


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## UAE Premium Education Play

Established in 2003, Taaleem is the second largest k-12 operator in the UAE, and the first private education company to be listed on the Dubai Financial Market. The group's portfolio comprises of two key segments: **1) The premium segment** which generates 87.5% of the total revenue through 10 owned premium schools as of 9M24 (8 in Dubai and 2 in Abu Dhabi), and **2) The Government Partnership** under which Taaleem manages 22 schools on behalf of the Government, through three different initiatives: Abu Dhabi Charter Schools, the "Dubai Public Private Partnership (PPP) Schools", and "Ajyal Schools" under the Emirates School Establishment (ESE).

We initiate coverage on Taaleem with a **"Buy"** recommendation and a TP of **AED 5.20/share**, implying an upside of 44% from current levels. The stock trades at a PE of 21x for FY25E compared to consensus PE of 35x for Ataa Educational in KSA (one of its closest regional peers). We forecast revenue and earnings to grow at 9% and 10% CAGR respectively from the 2023-24 academic year to the 2032-33 academic year led by addition of 4 schools, expansion of existing school, steady fee increases and further improvement in utilisation of some schools.

### Key themes that support our view on Taaleem:

**Dubai's appeal -** Dubai has become a magnet for white-collar expats and businessmen to make the Emirate their home or even base, due to the unique lifestyle and world class infrastructure that it offers. Governments innovative forms to make this easier through multiple types of visas (Exhibit 2) has been a catalyst for the same. Taaleem's success is dependent on steady inflow of expats with families as is evidenced by 20% of Taaleem's yearly enrolments coming from new expats relocating to the UAE.

**Ramping up utilization** - Taaleem increased their utilization to 88.4% in 3Q24 from 83.7% in 3Q23. The premium segment capacity utilization, where the majority (87.5%) of the revenue is generated increased to 83% in 3Q24 vs 75.2% 3Q23, reaching 14k students from 12.7K in 3Q23, with the British curriculum segment at 100% utilization (excluding Jebel Ali), while the IB and American curriculum having further room for improved utilization.

**Expansion plans** – Given favourable UAE macros along with the strong brand and demand for its schools, Taaleem is adding four more schools in the next three years, in addition to a 500-seat expansion (+35.2% vs. current seats available) at the Greenfield international school. The expansions are poised to increase total seats to 7.8k by 2026, providing a 46% increase from the current capacity of 16.9k seats.

**Well positioned to benefit from growth in high school student base -** The group's student base is more skewed currently towards junior students (c. +50% below G8), given gradual ramp up of some recently opened schools. Considering that fees in high school are higher and generally more profitable for the Group, Taaleem is favourably positioned for both revenue and long-

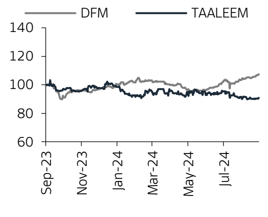
**Ratings**

| | |
|---|---|
| Short-term | Neutral |
| Long-term | Buy |
| Risk Profile | Market |

**Market Data**

| | |
|---|---|
| Sector | Consumer Goods |
| Market Cap | USD 0.99bn |
| Primary Market | DFM |
| Other | |
| Reuters | Taaleem.DU |
| Bloomberg | TAALEEM UH Equity |
| Free Float | 40% |

**Relative Price Performance**




Restated to 100

**Relative Price Performance**

| (%) | 1m | 3m | 12m |
|---|---|---|---|
| Absolute | (0.5) | (4.5) | (9.5) |
| Relative | (4.5) | (16.0) | (16.5) |

**Valuation Ratio**

| | 2024E | 2025E |
|---|---|---|
| P/E x | 26.7 | 21.1 |
| P/BV x | 2.0 | 1.9 |
| EV/EBITDA x | 12.9 | 11.7 |
| Div Yld% | 2.4 | 2.9 |

**Trading Data**

| | |
|---|---|
| Daily Vol (6M Avg) | 0.9 |
| Daily T/o (6M Avg USD) | 0.9 |
| Issued Shares | 1,000.0 |
| 52 wk High/Low | 4.13/3.47 |

Source: SICO Research, Bloomberg

*Please refer to the disclaimer for details of the ESG Rating



term profitability growth as high school student base contribution increases in the coming years.

**Relationship with the government-** The group operates schools in both Abu Dhabi and Dubai under the government partnership. As in any business, a strong working relationship with the government is a positive for Taaleem in their day-to-day operations, and their pursuit of further expansion in the Emirates.

Overall, we believe Taaleem is a safe bet in the GCC education sector. It is a well-run business which has established a strong brand name over the past 2 decades and is expected to benefit from favourable macros in the UAE. We expect the growth in white collar expats with families to remain strong in the Emirates, and education is one sector where generally parents do not usually compromise for their children making the demand inelastic and less sensitive to fee increases.

**Summary Financials**

| AED mn | 2023A | 2024E | 2025E | 2026E | CAGR (%) |
|---|---|---|---|---|---|
| **Sales** | **804** | **945** | **1,068** | **1,161** | **13.0** |
| Gross Income | 336 | 385 | 433 | 470 | 11.8 |
| Gross Margin (%) | 41.7 | 40.7 | 40.6 | 40.5 | |
| Operating Income | 119 | 168 | 184 | 195 | 17.9 |
| | | | | | |
| Operating Margin (%) | 14.7 | 17.7 | 17.3 | 16.8 | |
| Net Income | 117 | 127 | 160 | 163 | 11.7 |
| **Net Margin (%)** | **14.6** | **13.4** | **15.0** | **14.0** | |
| EPS | 0.13 | 0.14 | 0.17 | 0.17 | 9.4 |

Source: SICO Research, Bloomberg

## Taaleem's Portfolio

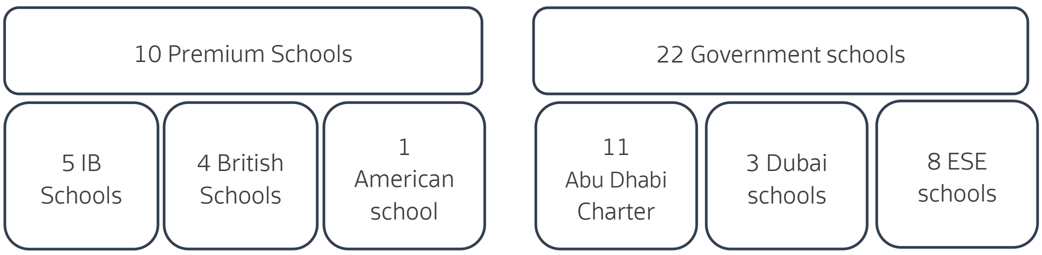



**Exhibit 1. Taaleem 9M24 Revenue by Vertical**


Source: SICO Research, Company Data



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# Investment Thesis

### From all around the world to Dubai: A population surge

Dubai has become an attractive destination for white collar expats as well as businessmen thanks to the city's world class infrastructure, safety, access to good healthcare and education along with tax free lifestyle. According to Dubai Statistics Centre, since the pandemic, Dubai witnessed a growth of 9% in their population reaching 3.65m in 2023 vs 3.35mn in 2019, influenced by the introduction various types of visas attracting high-net-worth individuals, entrepreneurs, and skilled professionals (refer to Exhibit 2).

Additionally, Dubai's Urban Master plan that was launched in 2021 has estimated Dubai population to grow by 59% reaching 5.8mn by 2040 from their current level of 3.65mn. Furthermore, according to the vice president and ruler of Dubai H. H. Sheikh Mohammed bin Rashid Al Maktoum, the number of pupils in Dubai could increase by 50% reaching 550k by 2040, supported by the Urban Master Plan. Given positive macros, Taaleem stands to benefit as demand for top quality international schools remain high in Dubai. While Taaleem has 2 schools in Abu Dhabi as well, the stock's attractiveness hovers around its operations in Dubai where it is also scaling up and adding more schools (discussed later).

**Exhibit 2. Types of residency visa in UAE**

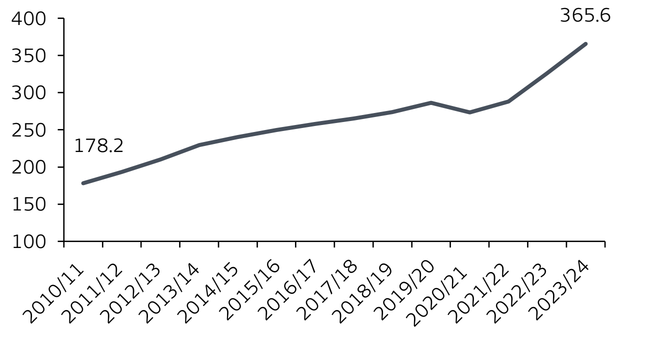
| Visas | Validity |
|---|---|
| Year Golden Visa or Long-Term Investor Visa | 10 Years |
| UAE 5-Year Golden Visa or Property Investor Visa | 5 Years |
| UAE Retirement Visa | 5 Years |
| UAE Employment Visa | 2-3 Years |
| UAE Company Investor Visa | 3 Years |
| UAE Family Visa | 1-3 Years |
| UAE Domestic Workers Visa | 1 Year |
| UAE Specialist Resident Visa | 10 Years |
| UAE Student Visa | 1 Years |
| Remote Working Visa | 1 Years |
| Green Visa | 5-year |

Source: SICO Research

Dubai's education sector witnessed an upward trend in the student's enrolments increased by 12% YoY, reaching 365.5k in 2024, which is more than 2x the number of students that were enrolled in 2007. Additionally, the number of schools has increased from 136 schools in 2007 to 225 schools as of 2024 to support the population growth in the city. Furthermore, Dubai regulator, KHDA, has recently announced the opening of additional 5 UK curriculum schools and 1 French school in 2024-25 academic year which will add 16k new seats to the private sector in Dubai.

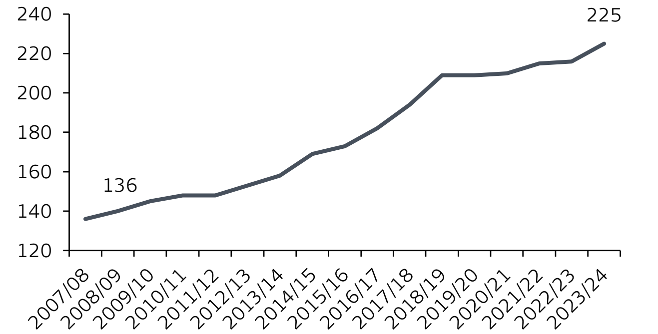


**Exhibit 3. Dubai Students surge to a new high in 2024 supported by long-term residency opportunities "000"**




Source: SICO Research, KHDA Open Data

**Exhibit 4. The number of schools in Dubai grew by more than 1.5x**

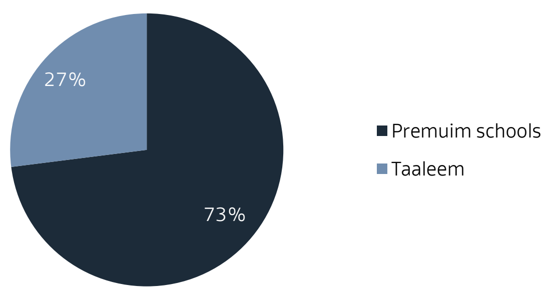



Source: SICO Research, KHDA Open Data

Capitalizing on strong reputation to pursue expansion Taaleem's premium segment schools has built a strong reputation in the UAE, attracting not only current UAE residents, but also new families moving into the Emirates. With 10 premium schools across the UAE, Taaleem is the 2nd largest operator in the country and the only private education company in the listed space in the Emirates for investors to capitalize on this theme.

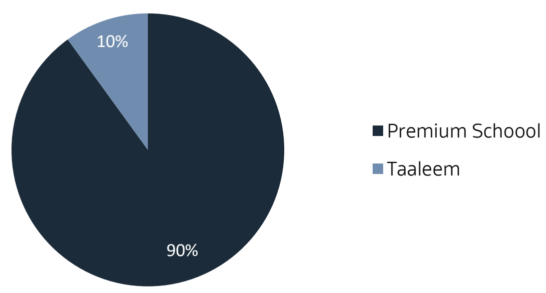
A significant portion (42%) of Taaleem Premium school enrolments was sourced from competitor schools in the UAE. Another 20% of enrolments came from students who recently moved to the Emirates, while the remaining 38% were from new students reaching schooling age. As of 9M24, Taaleem has captured 27% market share of the **Very Good** and **Good** rated schools, and 10% of the 21 **Outstanding** schools in Dubai which are currently operating at 100% capacity utilization.

**Exhibit 5. 2023/24 Market Share* of schools rated "Very Good & Good"**




Source: SICO Research, Company Data

**Exhibit 6. 2023/24 Market Share* of schools rated "Outstanding"**




Source: SICO Research, Company Data

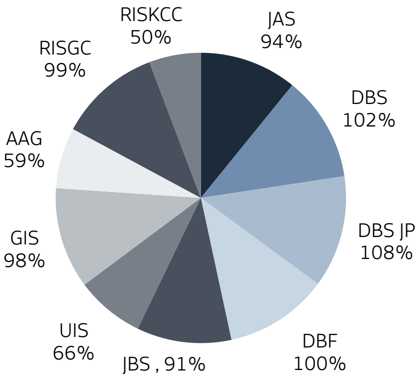


## Improving utilization in existing schools

'Premium' school segment accounts for 87.5% of the group's total revenue as of 3Q24 and it continues to grow reaching AED 735.5mn in the 9M24 vs AED 653.6mn YoY. Higher enrolment rates +10% YoY and increasing fees have driven the revenue growth. Premium segment capacity utilization rate has improved to 83% in 3Q24 vs. 75% in 3Q23 with British curriculum school operating at full capacity (excluding Jebel Ali), while the IB and American curriculum still having reasonable headroom to improve its utilization (refer to exhibit 7).

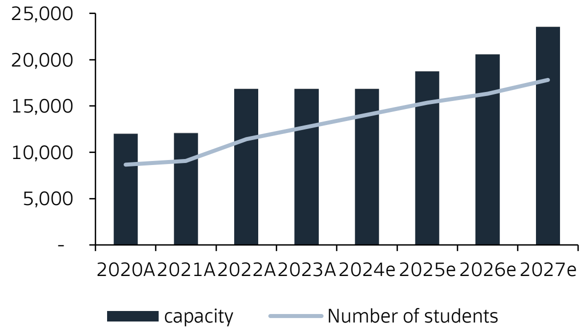
We anticipate successful ramp up Raha International School "RISKCC" and Uptown International School "UIS" schools in the coming years due to the opening of new grades in "RISKCC", and the recent appointment of new management in "UIS". Furthermore, Taaleem has been able to decrease their student leavers by 0.3% YoY to 13.3% in FY23. Note that nearly half of Taaleem leavers are moving out due to their families leaving the Emirates.

**Exhibit 7. Premium School Capacity Utilization expected in FY24**



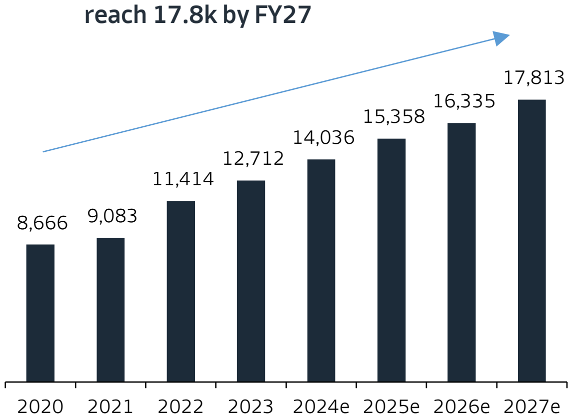

Source: SICO Research, Company Data

**Exhibit 8. The premium segment utilization rate is expected to remain above 70% despite new schools opening**



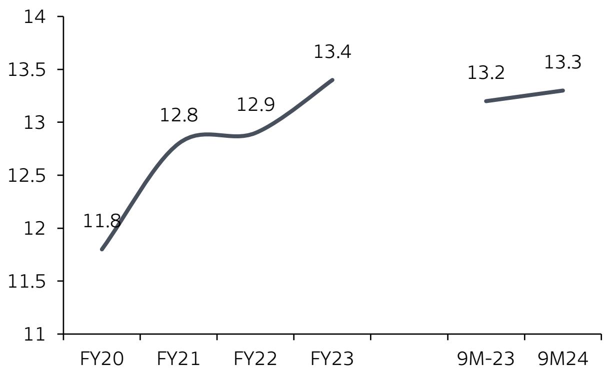

Source: SICO Research, Company Data
*Note that the utilization rate is expected to decrease due to opening of new schools

**Exhibit 9. Enrolment in the Premium segment to reach 17.8k by FY27**




Source: SICO Research, Company Data

**Exhibit 10. Boosting classroom profitability through optimal student-teacher ratio (%)**




Source: SICO Research, Company Data



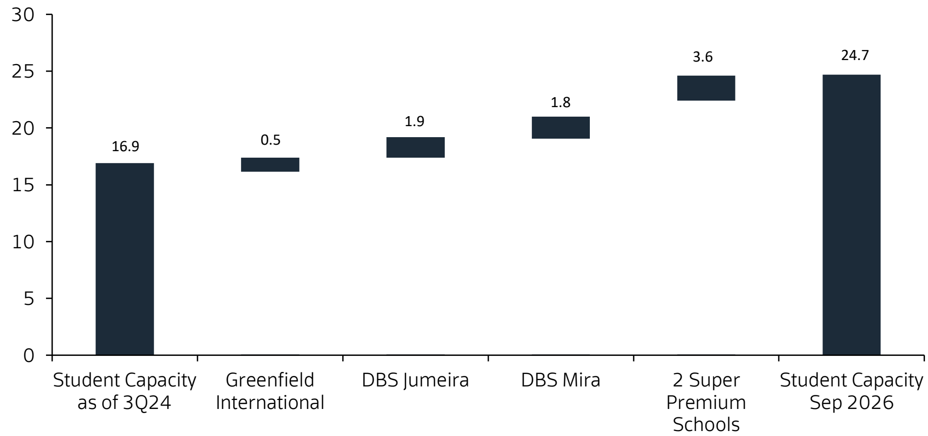
## Premium segment greenfield projects driven by high demand

Given the favourable macros and 100% utilization within the British curriculum schools (excluding Jebel Ali), the group unveiled plans to introduce four additional British schools, comprising of three schools in Dubai and one in Abu Dhabi to be launched in Sept'24, Sept'25, and Sept'26, increasing the student capacity by 43.2% from the current level (Refer to exhibit 11 & 40). Note that British curriculum schools are considered the top choice for families in Dubai, with more than one-third of students (36 per cent) enrolled in it.

Additionally, Greenfield School which operates at appx. 100% capacity utilization is expected to add 20 more classrooms, increasing its capacity by 500 students, to 2.1k student's starting from the 2024/25 academic year. According to management, due to the high demand of Greenfield school, the Group expects the expansion to be profitable from the first year itself.

Going forward we expect the number of students in the Premium segment to grow by CAGR of 8.8% from academic year 2022-23 to 2026-27, reaching 17.8k, due to the opening of the 4 new premiums schools - "DBS Mira", "DBS Jumeriah", and 2 Premium Plus schools which will add 7.8k seats - as well as ramp up of Raha "RIS", Uptown International "UIS", and American Academy for Girls "AAG", which are currently operating at a capacity utilization of 47%, 66%, and 59% respectively.

### Exhibit 11. Taaleem Greenfield project is expected to increase capacity by 46%




Source: SICO Research, Company Data

### Exhibit 12. Taaleem greenfield projects priced at a higher range

| Upcoming Projects | School | Curriculum | Capacity | Price | Completion Date |
|---|---|---|---|---|---|
| 1 | DBS Jumeirah | British | 1.9K | Upper range premium | Sep-24 |
| 2 | DBS Mira | British | 1.8K | Lower range premium | Sep-25 |
| 3 | School 1 – Dubai | British | 1.5-2K | Super premium | Sep-26 |
| 4 | School 2 – Abu Dhabi | British | 1.5-2K | Super premium | Sep-26 |
| **Expansion** | | | | | |
| 1 | Greenfield International School (GIS) | IB | 0.5K | N/A | Sep-24 |

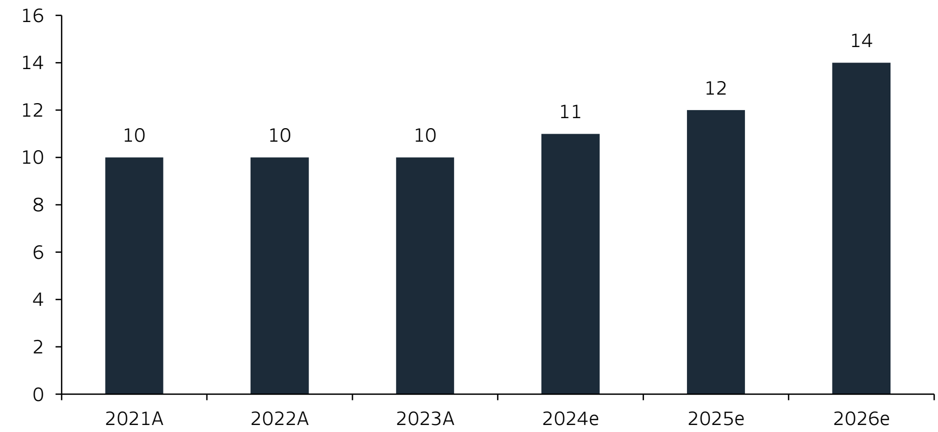
Source: SICO Research, Company Data



## Positive track record of school acquisition – Case study of "JAS"

Taaleem acquired Jebel Ali school "JAS" in May 2022 for AED 233.6mn, converting it from a not-for-profit to a for-profit school. Post acquisition, Taaleem has successfully ramped up school enrolments by an CAGR of 16% from FY22-24, reaching 94.4% capacity utilization vs 68% at the time of acquisition. Management has stated that the group is open to acquisitions in the future following their recent successful acquisition. However, we have not incorporated or assumed any M&A's in our forecast and only incorporate the execution of the ongoing greenfield projects as discussed earlier.

**Exhibit 13. Premium Schools set to reach 14 schools by 2026**




Source: SICO Research, Company Data

## Potential tuition fee increases to boost topline

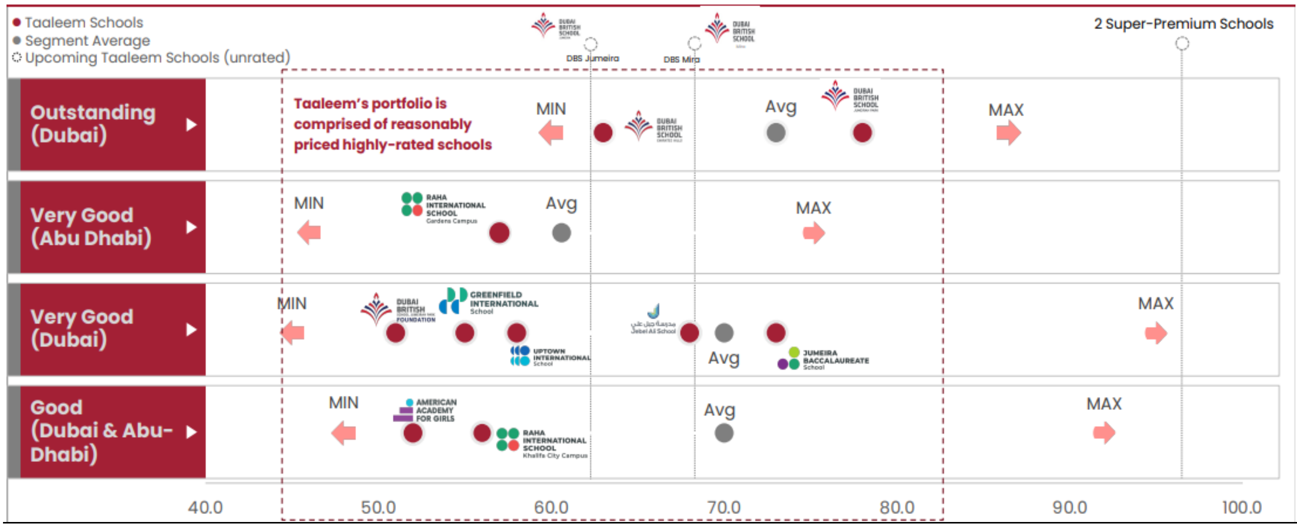
Tuition fees in the UAE K-12 sector are regulated by Knowledge and Human Development Authority "KHDA" and Department of Education and Knowledge "ADEK", which restricts the school operators from increasing their fees freely. During the last three years Taaleem has faced tuition fees freeze due to the negative economic conditions arising from the pandemic. However, following the recent announcement, the UAE regulators have approved the optional increase in tuition fees for 2023-24. Allowing Taaleem to increase their tuition fees by 2.6% in Abu Dhabi and 2.5% in Dubai for the academic year 2023-24

Consequently, Taaleem's 3Q24 average tuition fees increased 3.7% YoY reaching AED 59.5k, a combination of higher fees and greater utilization in higher grades. As a result, 3Q24 EBITDA grew by 21.7% YoY, reaching AED 314mn, with EBITDA margin improving by 3.2% YoY, reaching 42.7%. We expect Taaleem to further increase their fees in 2024-25, generating higher profitability per school, which has been factored into our valuation, assuming that the average will increase by 3% annually.

Note that the regulators allow schools to increase their fees by a higher than 3% range if they move to a higher category (Example from **Good** to **Very Good**). Accordingly, 6 of Taaleem schools that are rated below outstanding have the potential to receive a higher rating and be eligible to higher fee increase. However, this isn't factored into our valuation given that schools are rated on multiple factors considered by the regulators.



**Exhibit 14. Taaleem pricing allows them to be more accessible through Dubai's competitive market**

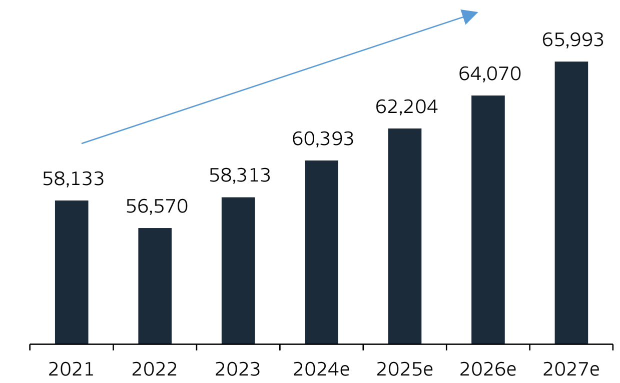



Source: SICO Research, Company Data

## Capitalizing on improving utilization in high school

According to management, Taaleem premium school's 8th grade and below are currently at optimal utilization, whereas the higher grades are yet to be filled by students advancing to higher levels. As utilization at higher levels improve, Taaleem margins also are likely to see an increase. Note that the average fee increase is a component of annual fee increase per school and higher utilization of high school capacity, and according to management profitability is better in high school classes.

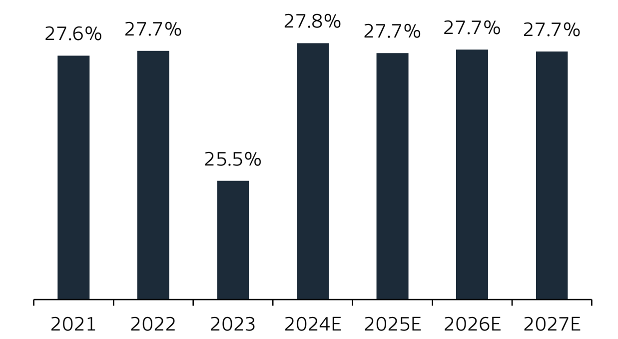
**Exhibit 15. Average fees per student expected to increase steadily supported by annual fee increase and student's upgrade (AED)**




Source: Company Data, SICO Research

*FY22 decrease was due to the consolidation of Jebel Ali School.

**Exhibit 16. EBITDA Margin is expected to remain above 27% despite new school additions**

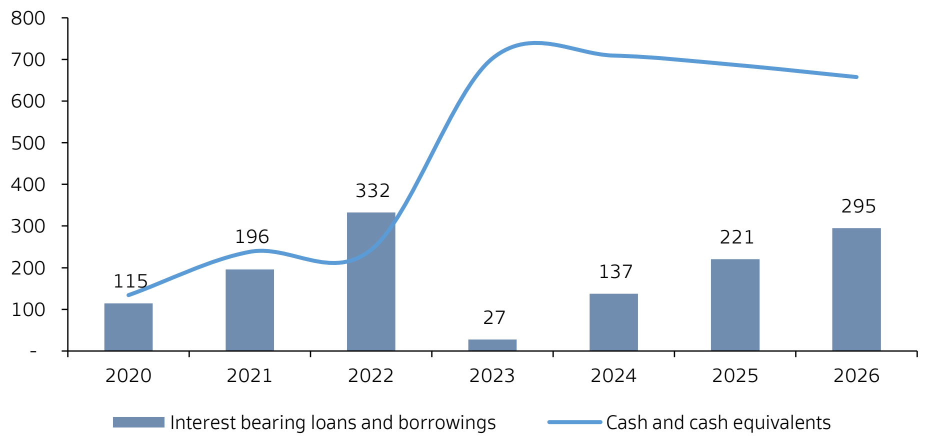



Source: Company Data, SICO Research

## Healthy Balance sheet to support Taaleem's expansion plan

Taaleem has a strong cash base contributing c.94% of the current assets and c.26% if its total assets. Additionally, Taaleem has recently deleveraged their balance sheet in FY23, allowing them to re-leverage to fund its the expansion plan. According to management, the group will spend on average around AED 450mn annually for the next 3 years to finance their greenfield projects using a mix of debt and equity. As of 9M24 their current net debt/EBITDA stands at 1.5x due to the recent loan that the company took of AED 77mn but remains considerably below the management upper limit of 4x. We estimate leverage to remain below 2x and its EBITDA to increase on their capex plan supported by their strong balance sheet.

**Exhibit 17. Net Debt remains negative despite massive Capex Plans (AED mn)**




Source: SICO Research, Company Data

*Cash and Cash equivalent includes Wakala Deposits

## Growing government partnership

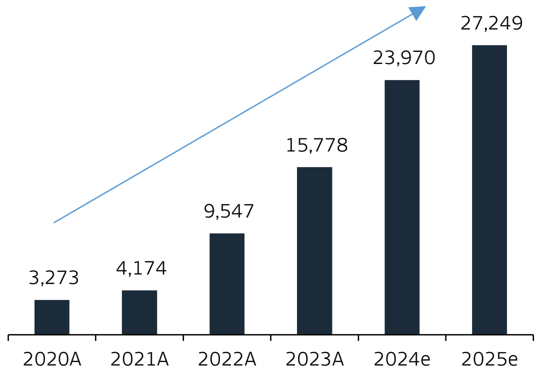
The Government partnership has been a key segment for Taaleem, despite having a low revenue contribution of 11.5% as of 9M24. The group increased the number of schools it manages from 1 in 2020 to 22 schools through three different partnerships: Abu Dhabi Charter Schools, the "Dubai Public Private Partnership Schools", and "Ajyal Schools" under the Emirates School Establishment (ESE).

## High enrolment rates amongst the PPP schools

Taaleem increased the enrolment rate across their government partnership schools by a CAGR of 65% FY20-24 reaching 24k students. Despite the addition of 6 new schools in 3Q24, the government partnership segment utilization rate remained above 90% (refer to exhibit 19). Going forward we expect the enrolment rate to reach 27k by FY25 driven by new school partnerships and higher utilization rate across existing schools.

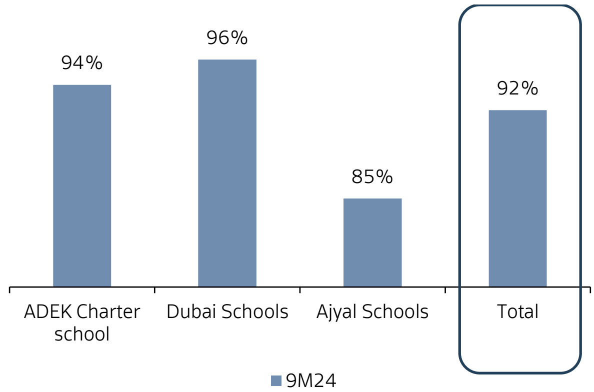


**Exhibit 18. Government Schools enrolments growth supported by quality education**




Source: SICO Research, Company Data

**Exhibit 19. Utilization rate remained above 90% despite 6 new school additions in 9M24**



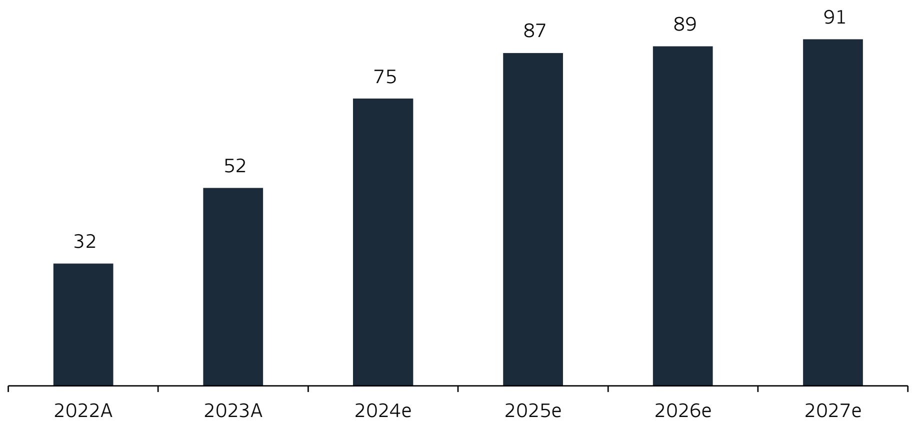

Source: SICO Research, Company Data

## Robust expansion to support the Dubai PPP

Under the Dubai Partnership Program, the school expansionary capex, and land and building lease expenses are covered by the Government, while Taaleem is responsible for the operational expenses and maintenance Capex.

During 2022, Taaleem was awarded three schools under the PPP program, which are currently operating at 96% capacity. As a result of the high demand, the group has announced the expansion of two existing campuses which are expected to operate at a higher capacity starting from Sept'24, leading to an increase in the Dubai PPP school capacity by 4k students in each school. In addition, the group has agreed to expand the third campus from Sept'24 onwards to accommodate an additional 4k students. Management have not guided to a completion date on this expansion.

**Exhibit 20. Dubai PP schools' revenue is expected to increase by a 23% CAGR "AED mn"**




Source: SICO Research, Company Data

SICO Research

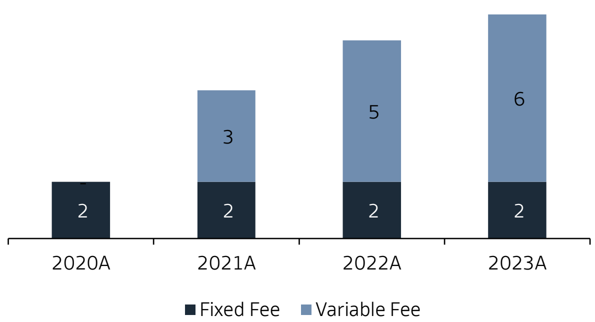


### Abu Dhabi Charter School and ESE "Ajyal": A high margin segment.

The group's Abu Dhabi Charter School portfolio has grown over the last few years, starting with their first operation and management mandate for four Abu Dhabi Charter Schools in 2019, and subsequently grew to encompass 11 schools as of 3Q24. Furthermore, the group has announced the opening of four public Nurseries to operate from Sept'24. Additionally, Taaleem operates eight Ajyal schools on behalf of the Federal Ministry of Education combining the national curricula of the UAE and the US. We believe that Taaleem will be able to secure additional Ajyal contracts following the announcement of the Federal Ministry of Education to roll out 18 additional schools in the next three years.

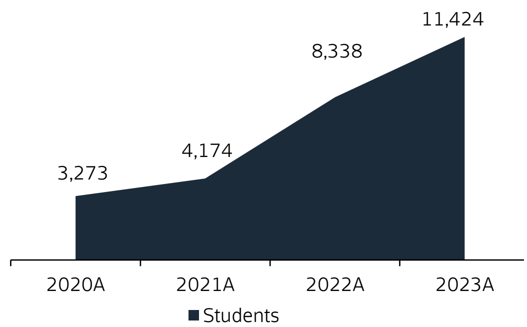
Note that the government partnership allows Taaleem to generate a steady flow of management fees which is 6.8% of its bottom-line as of FY23.

**Exhibit 21. Abu Dhabi variable fees grow as schools successfully achieve positive KPI's "AED mn"**




Source: SICO Research, Company Data

**Exhibit 22. Enrolments in ADCS significantly increased by 3.5x since 2020**




Source: SICO Research, Company Data

### Strong support and ownership by the Dubai Government

Taaleem receives support from strategic partners including the Knowledge Fund which owns 14% in Taaleem. The Knowledge Fund is an establishment made by the orders of H.H Sheikh Mohammed Al Maktoum with aim to contribute to the creation of an ideal educational and knowledge environment in Dubai through Educational Land Allocation, and Dubai School PPP school.

We believe that Taaleem can capitalize on this relationship when it comes to securing long-term leases and attractive operating arrangements, and to be part of Dubai future urban growth plans.



# Key Risks

### **Risk of increasing competition in the UAE education sector**:

Attractiveness of UAE's premium education sector is attracting higher competition from both national and international players. Dubai regulator, KHDA, has recently announced the opening of additional 5 UK curriculum schools and 1 French school in 2024-25 academic year which will add 16k new seats to the private sector in Dubai. Such addition of supply without corresponding demand growth can be a risk to Taaleem's own school and future expansion. We have not expected a major competitive pressure on Taaleem into our forecast and accordingly this is a potential downside risk.

### **Pricing restrictions on the education sector:**

In the case of an inflationary environment and rising costs, the school need to consistently raise their fees to maintain its profit margins. However, tuition fees in Dubai are regulated by the KHDA and the fees were stagnant for 3 years during Covid period. Our valuation assumes that Taaleem will successfully increase their fees by 3% annually.

### **A lower inspection rating could affect the school's reputation**:

Failure to meet regulatory requirements in the annual inspection may lead to a rating downgrade, which could negatively impact the school's reputation, and in turn, enrolments. Note that our valuation is based on an enrolment growth of 8% CAGR from FY24 to FY2027, any lower enrolment number could negatively impact our numbers.

### **Higher staff wages result in a threat to the company's margins:**

Staff costs account for 58% of the total revenue and is the main component in the company's expenses. Failure to control rising staff wages may result in lower profitability for the company. However, under the Emiratization initiative, Taaleem will have to comply with ADEK by hiring Emiratis, to reach a total of 5% of staff, whose salaries are significantly higher than employing foreign workers. Any further Emiratization pressure or salary hikes to retain expat staff without any offset fee increase remains a risk.

### **Risk of Government revoking the PPP Partnership:**

The PPP Partnership accounts for 11.5% of the total revenue as of 9M24. Although there is a risk that the government may rescind the contract at any time, impacting margins, we believe that it is unlikely, as Taaleem has had a positive record of managing government schools and is considered an attractive choice for locals. Two of the Dubai PPP schools will be inspected and rated in 2023-24, and the third school is to be rated in the following year. Failure to meet the standard may have an adverse effect on Taaleem's valuation.

### **Risk of Emirati students shifting towards government schools:**

The Public Private partnership has enabled the government schools to benefit from private education standards within public schools. This may drive the Emirati students to join the Government schools due to the same level of education provided for lower fees or no fees, posing a downside risk on Taaleem's premium segment revenue.



## Risk of economic stress affecting the ability to pay tuition fees:

The increasing cost of education has been a concern among families in the UAE. Given higher cost of living due to inflation, esp rentals and EMIs for home ownership, increasing fees for education could become an unsustainable burden on some families. According to some expert reports, about 80% of families in the UAE are setting aside more than a third of their income to pay for tuition fees. Conversely, with the increasing cost of education and market uncertainty, an economic recession poses a risk on the family's ability to enrol their kids in premium schools which will have a negative impact on Taaleem enrolment. Our conversation with Taaleem's management on this risk suggests that compromising on School's education due to high fees is one of the last sacrifices parents undertake and the demand is usually inelastic.

## Risk of expats relocating to Saudi:

Since January 2024, Saudi Arabia has mandated companies to move their regional headquarters to the Kingdom in order to win and retain government business. This is pressuring companies to move their white collared expats that are based in other parts of the GCC, especially UAE, to relocate to the Kingdom. With a significant percentage of these expats relocate with their families, it could pose a downside risk on UAE education sector including Taaleem, given that more than 70% of Taaleem premium schools students are expats.



# Valuation and Recommendation

We value the company using the **discounted cash flow (DCF)** method. Wherein we forecasted the company's free cash flow and discounted it with the WACC (Weighted Average Cost of Capital). WACC is effectively the average cost of capital at a firm level weighted on the share of debt and equity funding cost.

**Cost of Equity:** To derive the Cost of Equity (CoE), we applied CAPM methodology. That assumes CoE as the risk-free rate + Equity risk premium x Beta.

**Risk-free rate:** To calculate UAE's risk-free rate, we started with US risk-free rate, owing to easier data availability, and applied country risk premium of UAE. For US risk free rate, we assign 80% weight to its long-term 10 yr bond yield, that is over 15 years and 20% weight to shorter-term that is preceding year's average 10-yr bond rate.

**UAE country risk premium** was derived from the country's sovereign rating (S&P "AA & Moody's "Aa2") indicating a debt default spread of 0.54%, adjusted by the global average of equity to bond market volatility of 1.5x, leading to a risk premium of 0.81%. We therefore have a long-term UAE risk free rate of 2.74%.

**Equity risk premium**: We have assumed an equity risk premium of 5.47% that is long-term S&P 500 return over the US 10-year bond yield for the period of 1974- 2023.

**Cost of equity and WACC calculation**

The assumptions for our DCF are presented below:

**Exhibit 23. DCF Valuation Assumptions**

| Valuation assumptions | |
|---|---|
| Beta | 1.0 |
| Risk free rate | 2.74% |
| Country risk premium | 0.8% |
| Equity risk premium | 6.0% |
| Cost of equity | 9.5% |
| Terminal growth rate | 2.0% |
| **WACC** | **9.2%** |

Source: SICO Research, Company Data

**Exhibit 24. DCF Valuation**

| Valuation assumptions | |
|---|---|
| Equity Value (UAE mn) | 4,455 |
| No of shares (mn) | 1,000 |
| Fair Value (FV) - UAE | 4,718 |
| Price per share (UAE) | 4.72 |
| Target price (UAE) | 5.20 |
| Current price (SAR) | 3.60 |
| Upside % | 44% |

Source: SICO Research, Company Data

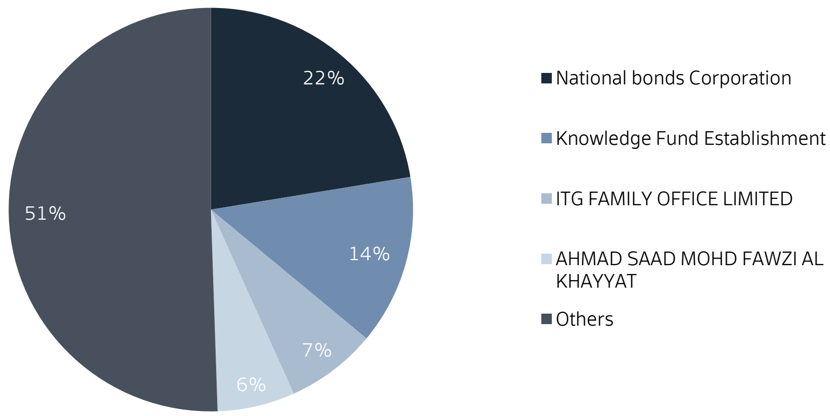


# Overview

## Taaleem

Founded in 2003 as Beacon Education, the company underwent a shareholder restructuring in 2007, whereby it acquired 100% of Taaleem LLC and Taaleem Management LLC. The transaction included six schools: American Academy for Girls, Uptown Primary School (now known as Uptown International School), The Children's Garden-Green Community, Greenfield Community School (now known as Greenfield International School) in Dubai, and Raha International School-Gardens Campus ("RIS- Gardens Campus") in Abu Dhabi.

**Exhibit 25. Taaleem shareholder structure**




Source: SICO Research, Company Data

Currently, Taaleem Holding Company is a prominent provider of K-12 premium education in the UAE. With a robust portfolio of 32 schools, the company operates 10 premium private schools alongside 22 government-partnership schools on behalf of the Government. As of 3Q24, Taaleem's student body exceeded 38K supported by a faculty comprising over 4,152 staff.

## A snapshot of the premium segment

Among the ten premium schools, five offer the IB curriculum, four schools follow the British Curriculum including the recently acquired Jebel Ali School, and one school follows American Curriculum.

| Enrolment | Capacity utilization | Revenue contribution |
|---|---|---|
| #14,000<br>+9.9% VS 9M24 | #83%<br>+7.5% VS 9M24 | 88.5% 9M24 |



1. **IB Curriculum:**

   The group owns and operate five primum IB Schools since 2005, namely Uptown International School, Greenfield International School, Jumeirah Baccalaureate School, Raha International School Khalifa City Campus and Raha International School Gardens Campus (RIS Gardens). Taaleem has managed to build a strong track record of their IB Schools, with RIS Gardens Campus being the first school to achieve accreditation across the full IB curriculum, as well as receiving an excellent rating by ADEK, reflecting the school's position as an exceptional education provider, which places it as the highest ranked three program IB school in Abu Dhabi.

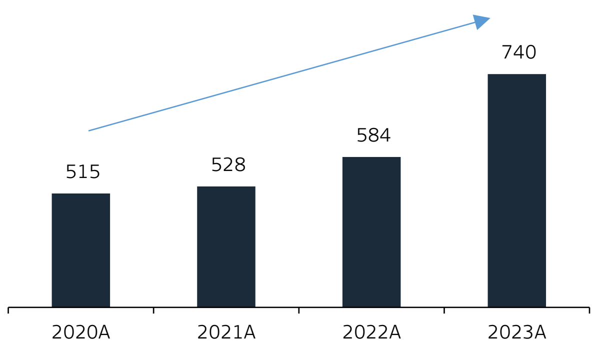
2. **British Curriculum:**

   The group's British curriculum schools which have 100% utilization rate consists of three schools under the Dubai British School "DBS" brand and the recently acquired Jebel Ali School (94% utilization). As of 2023, the DBS - Emirates Hills and DBS Jumeirah Park has been awarded Outstanding, while Jumeirah Park foundation and Jabal Ali has been awarded Very Good by KHDA. Taaleem's British curriculum schools are in high demand with a large waitlist.

3. **American Curriculum:**

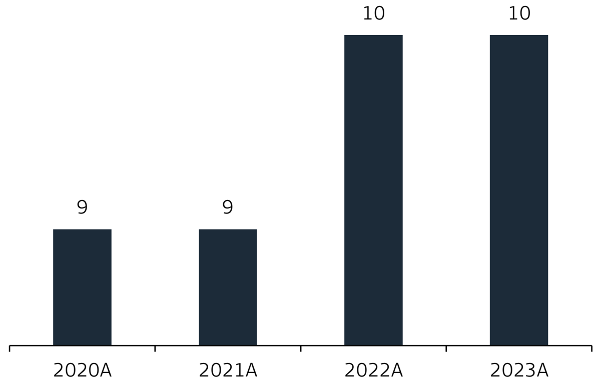
   Founded in 2005, the Group owns and operates one American curriculum school called "American Academy for girls or "AAG", which is the only American school for girls in Dubai offering Pre-K to Grade 12. As of 2023, AAG has received a rating of "Good" by KHDA and is the highest rated Taaleem school in terms of Arabic and Islamic education.

**Exhibit 26. Premium segment revenue grew by a CAGR of 13% FY20-FY23 "AED mn"**




Source: SICO Research, Company Data

**Exhibit 27. Taaleem premium schools' portfolio**




Source: SICO Research, Company Data



## Taaleem's partnership with Harrow International School

Taaleem signed an agreement with Harrow international School in 3Q24, giving it exclusive right to own and operate Harrow International Schools "HISL" across the GCC. Established in 1572 under a Royal Charter granted by Queen Elizabeth, Harrow International schools limited is one of the oldest schools in the United Kingdom with a strong reputation. HISL is expected to open two super-premium school's under Taaleem portfolio by 2026 in Dubai and Abu Dhabi.

## Government Partnership

The UAE launched several initiatives to develop their education sector, including the three public private partnership "PPP" models: "Abu Dhabi Charter Schools", "Ajyal Schools", and the "Dubai PPP Schools", offering international curricula to Emirati students.

Since the launch of the initiative in 2020, Taaleem currently operates 22 schools under partnership within Dubai and Abu Dhabi. The Abu Dhabi Charter and Ajyal model generate revenue through both fixed management fee and also a variable component, which directly adds to Taaleem's bottom line. On the other hand, Dubai PPP schools generate revenue through collecting tuition fees, and accordingly both revenue and expenses are consolidated throughout the P&L. As a result, the majority of revenue from the Government-partnership segment is generated from the Dubai School under partnership (refer to exhibit 26).

| Enrolment | Capacity utilization | Revenue contribution |
|---|---|---|
| #24,000 (+51.4% 9M24) | #91% (-1.6% VS 9M24) | 11.5% 9M24 |

## Dubai School Public Private Partnership

The Dubai PPP is a project supported by HH Sheikh Hamdan Al Maktoum which offers American curriculum education guided by Arabic principles and Islamic values to Emirates. Taaleem was awarded 2 schools in Mirdif and Al Barsha in 2021, and Nad al Sheba in 2022.

Under the Dubai PPP model, the Capex, land, and building leases are covered in full by the government, while Taaleem is responsible for the operational expenses. As of FY23, the Dubai PPP generated 83% of the Government Partnership revenue, given that Taaleem retains the full tuition fees unlike the Abu Dhabi and Ajyal partnership.



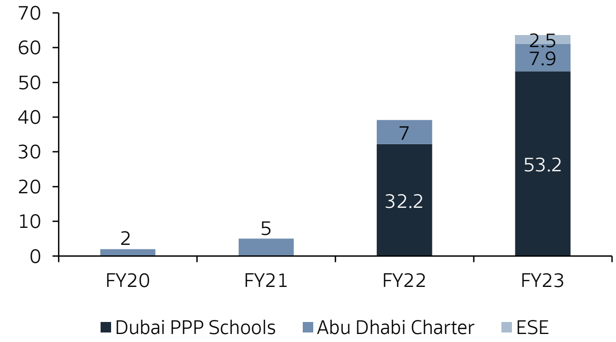
### Abu Dhabi Charter School "ADCS" & Ajyal Schools "ESE"

The group operates 11 Abu Dhabi charter schools on behalf of ADEK. The Abu Dhabi charter schools offer American curriculum for UAE nationals only, with the exception for a few Arab students from other Arab countries. Additionally, in June 2022 Taaleem entered into an agreement with federal Government to operate and manage four schools through the Ajyal Initiative for Student in Grade 1 to Grade 4.

The government partnership agreement provides a fixed management fee in addition to a variable fee based on the KPI agreed between both parties including (i) assessment results and progress of students; (ii) inspection rating; (iii) student attendance; and (iv) parent satisfaction. Additionally, the government covers all capital expenditure and operational expenditure generated from the schools. As a result, due to their low capital investment and fee generating operation, Taaleem benefits by diversifying its revenue stream through management fees and generate attractive margins by booking their revenue from the government partnerships, which runs directly to their bottom line. As of FY23, the fees generated from the Partnerships accounted for 6.8% of Taaleem's net profit.

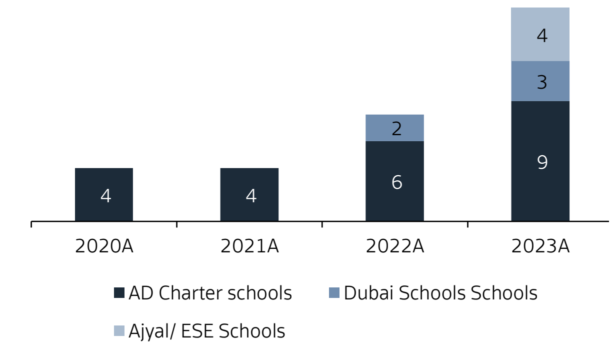
We believe such strong working partnership with both Dubai and Abu Dhabi government in the education space provides Taaleem an edge to pursue further expansion in the UAE when it comes to getting land on lease or necessary regulatory approvals.

**Exhibit 28. Most of the revenue from the government partnership segment comes from Dubai PPP schools "AED mn"**




Source: SICO Research, Company Data

**Exhibit 29. The number of schools managed increased by 4x in 3 years**



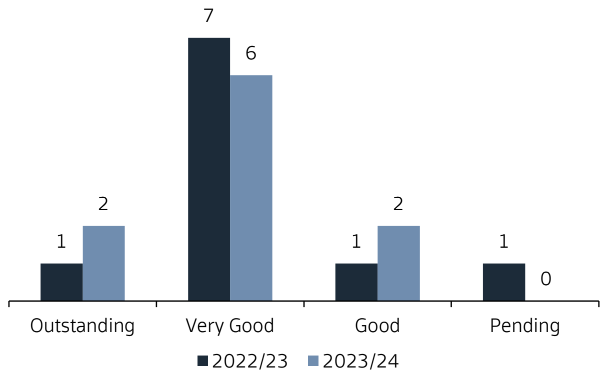

Source: SICO Research, Company Data

### Positive schools rating

Due to the high quality of education in Dubai, 81% of Dubai students attend private schools that are rated "Good" or higher vs 77% last year. Note that Taaleem has been able to maintain a positive rating of "Outstanding" and "Very good" across 8 premium schools in 2023-24, which has been a catalyst to high enrolments of students across the premium segment. The group's majority schools are currently at a "Very Good" rating and two schools are rated "Outstanding" giving a testament to strong brand that Taaleem's school have built in UAE over the years and enables it to not just maintain high occupancy levels but also to launch more schools successfully.

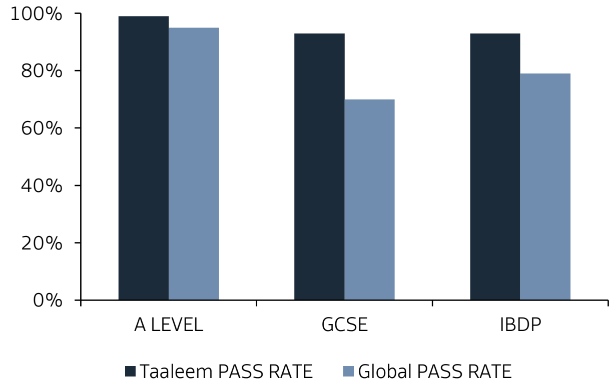


**Exhibit 30. Two of Taaleem schools have achieved an Outstanding rating in 2023-24 Academic year.**




Source: SICO Research, Company Data

**Exhibit 31. All Taaleem schools has exceeded UAE and Global Pass Rate**




Source: SICO Research, Company Data

# Dubai & Abu Dhabi Education Sector

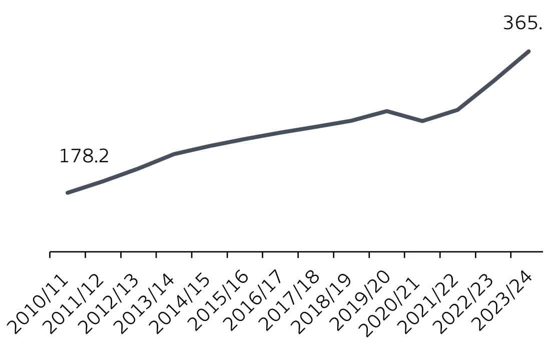
## Dubai economic growth supported by D33 initiative.

Dubai's economic recovery has been robust since the Pandemic proving their resilience in challenging times, with 2022-27 forecasts predicting a stable GDP growth in Dubai of 3%. This comes in line with the "D33" plan that was unveiled in January 2023 by UAE PM HH Sheikh Mohammed bin Rashid Al Maktoum, aiming to double the size of the economy and make Dubai one of the top four global financial centers within a decade. This initiative is expected to stimulate growth across key sectors, including the education sector and real estate. As discussed previously, the reforms and appeal of Dubai in attracting families from across the globe to move base to Dubai and how this is benefiting multiple sectors such as real estate and education and we expect this momentum to continue.

## Booming education sector in Dubai

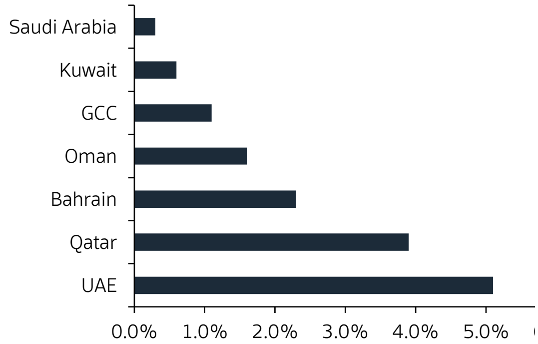
The Private K-12 sector in Dubai has continued to show robust growth with the number of students reaching 365k in 2024, marking the first ever double-digit growth of 12% YoY. The growth has been driven by the continuous influx of families relocating to the city, and the strong demand for top-tier schools for their children. Additionally, the number of schools in the Emirate has increased to 220 schools to support the high demand, offering seventeen different curricula to students from more than 180 nationalities.

**Exhibit 32. Enrolments in Dubai more than double since KHDA establishment in 2007**




Source: Company Data, SICO Research,KHDA

**Exhibit 33. Student Enrolment Growth (CAGR: 2016-2021**




Source: Company Data, SICO Research

## Abu Dhabi education sector scaling up.

The education sector is a key component of Abu Dhabi's Economic vision 2030 which aims to build a globally competitive knowledge-based economy for the post-oil era. The economic vision prioritized enhancing the quality of education in Abu Dhabi and increasing the educational attainment rates. As a result, the K-12 enrolment in Abu Dhabi stood at c.250-255k in 2021, which has grown at c. 3% CAGR between 2017 and 2020 academic years.



## Education enrolment positive outlook:

The ongoing investments and initiatives by the UAE governments such as the Dubai Economic Agenda “D33” and Abu Dhabi economic vison 2030 to transform the UAE into a knowledge-based economy, along with measures like compulsory schooling for children between the ages of six and eighteen, had a positive effect on the country’s enrolment rate. Recent figures published by an industry report show that as of 2022, gross enrolment rates in primary and secondary education reached 100% and is expected to remain at that level going forward. Note that the UAE government has made it compulsory for children to enrol into a school schooling for children between the ages of six and eighteen has been a primary reason for the high enrolments.

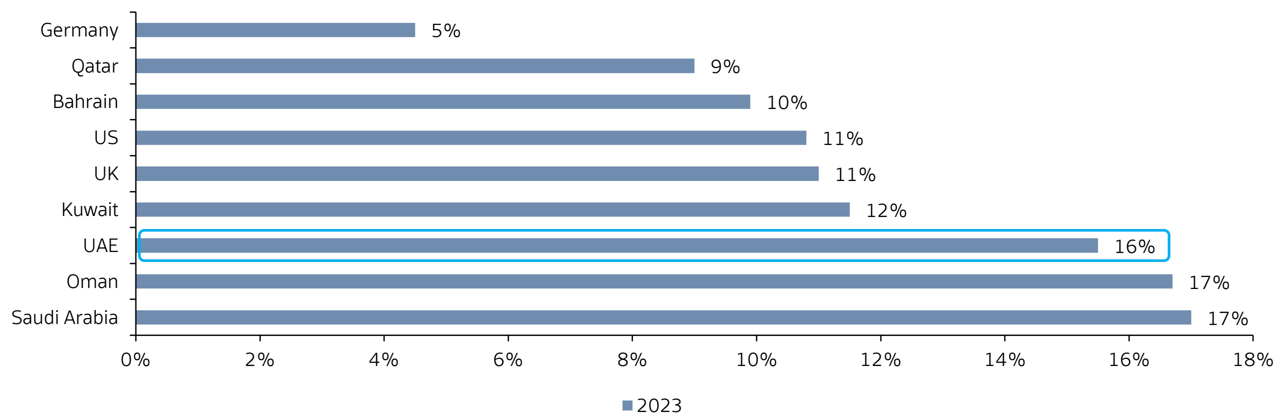
| Gross Enrolment Rate in the UAE | 2022 | 2025F | 2027F | CAGR (2022-27) |
|---|---|---|---|---|
| Pre-primary | 108% | 108% | 101% | 102% |
| Primary and Secondary | 98% | 98% | 98% | 99% |
| Tertiary | 55% | 55% | 56% | 57% |

Source: Industry report, SICO Research

## UAE education expenditure:

Supported by the UAE’s long-term plan which includes “education excellence” as one of the main four pillars, the government has allocated 15.5% of their total budget to the education sector. However, given the rising level of private schools, it is anticipated that there will be a decline in government spending on the educational sector in the long run.

**Exhibit 34. UAE government boosted the education budget allocation to 15.5%, which equates to USD 2.7bn**

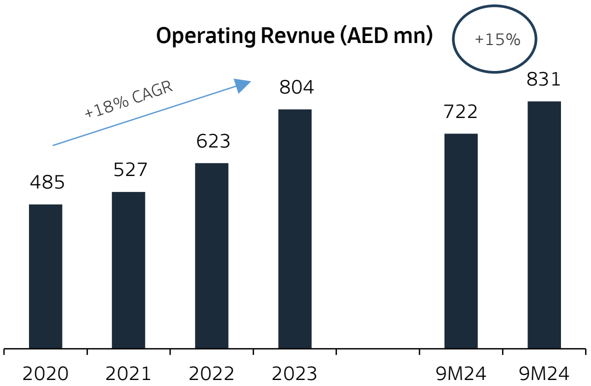



Source: SICO Research, Industry report



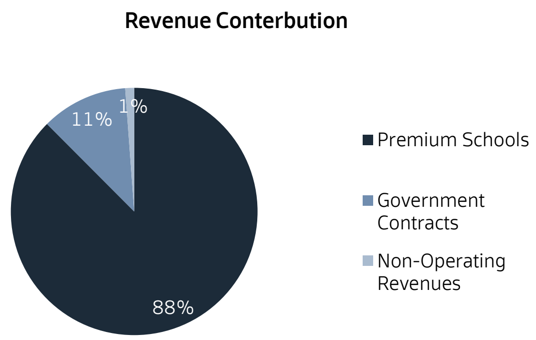
# Taaleem in charts

**Exhibit 35. Taaleem Operating Revenue continues grows by 15% YoY in 9M24**



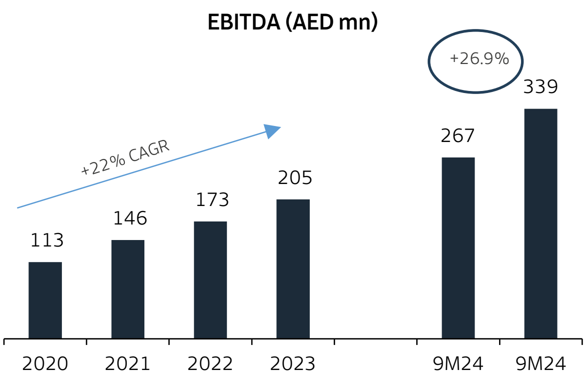

Source: SICO Research, Company Data

**Exhibit 36. Taaleem majority of revenue in 3Q24 is derived from the premium segment.**



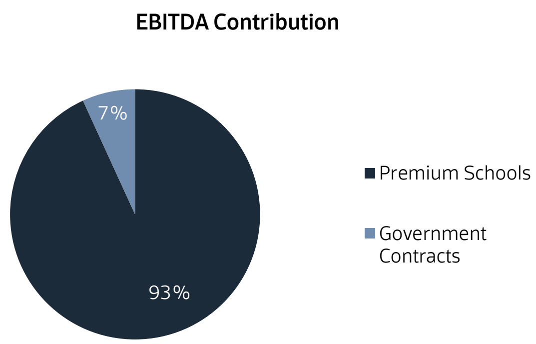

Source: SICO Research, Company Data

**Exhibit 37. EBITDA grew by 26.9% YoY, with a margin of 40.8 % (+3.8% YoY)**




Source: Company Data

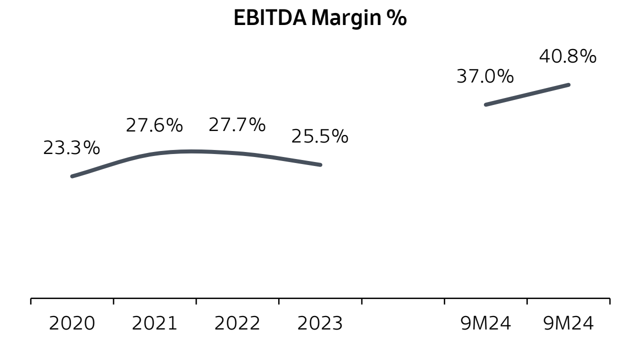
**Exhibit 38. The premium segment represents the majority Taaleem EBITDA**




Source: Company Data

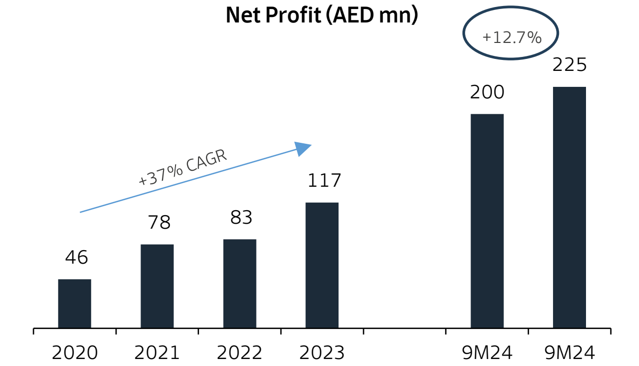


### Exhibit 39. EBITDA Margins growth driven by benefiting from growing economies of scale.



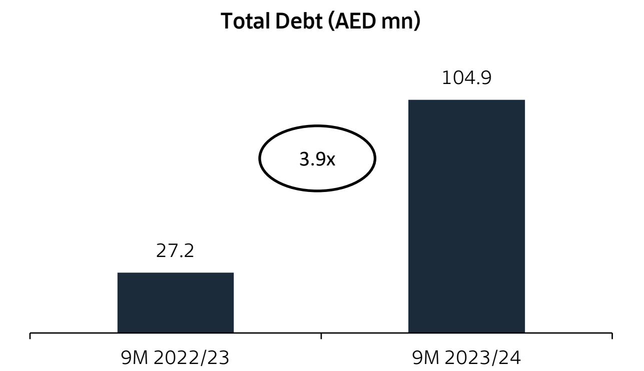

Source: Company Data

### Exhibit 40. Net Profit surge by 12.7% YoY,



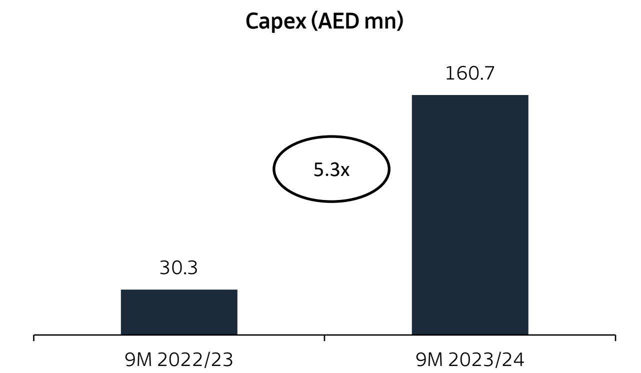

Source: Company Data

### Exhibit 41. New debt secured to finance the greenfield projects.




Source: SICO Research, Company Data

### Exhibit 42. Capex attributed to DBS Jumeirah and expansion of GIS.



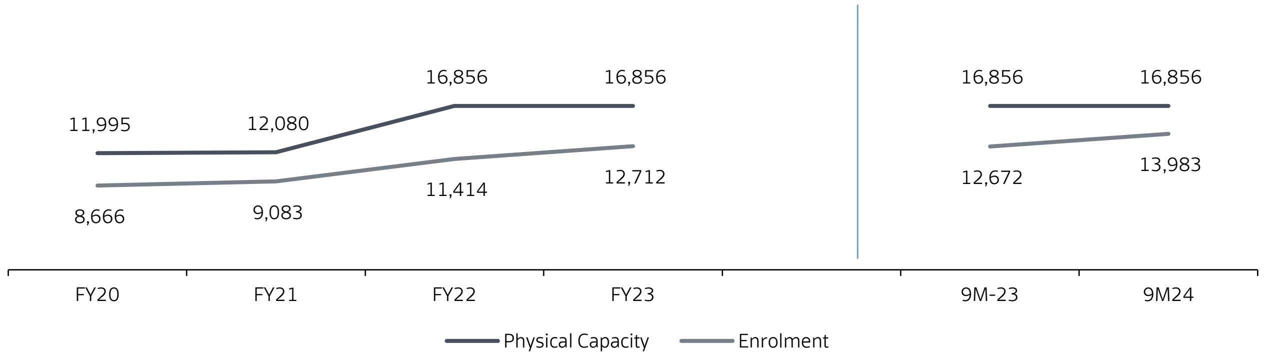

Source: SICO Research, Company Data

### Exhibit 43. Taaleem Greenfield projects

| Upcoming Projects | School | Curriculum | Capacity | Price | Completion Date |
|---|---|---|---|---|---|
| 1 | DBS Jumeirah | British | 1.9K | Upper range premium | Sep-24 |
| 2 | DBS Mira | British | 1.8K | Lower range premium | Sep-25 |
| 3 | School 1 – Dubai | British | 1.5-2K | Super premium | Sep-26 |
| 4 | School 2 – Abu Dhabi | British | 1.5-2K | Super premium | Sep-26 |
| **Expansion** | | | | | |
| 1 | Greenfield International School (GIS) | IB | 0.5K | N/A | Sep-24 |

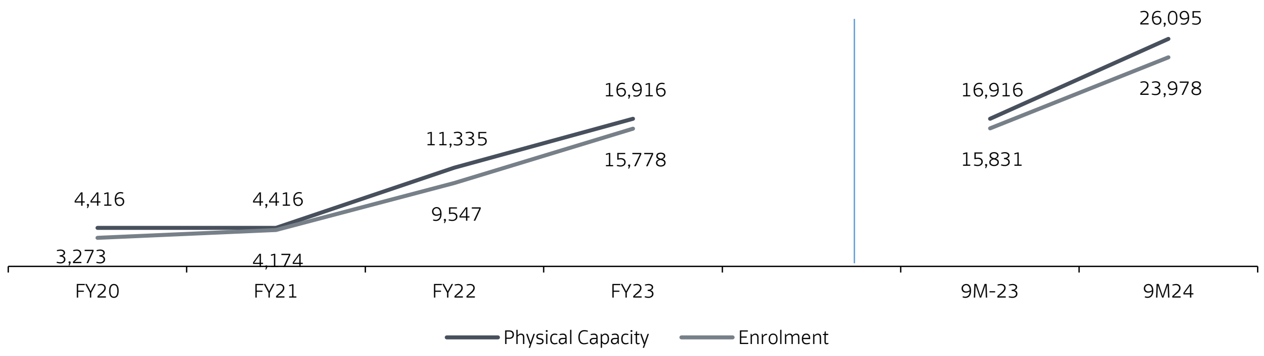
Source: SICO Research, Company Data

**Exhibit 44. Premium segment use of Physical capacity increased to 83% in 9M24 vs 75.2% 9M23.**




Source: Company Data, SICO Research

**Exhibit 45. +8K new student capacity added (following the award of +6 new PPPs)**




Source: SICO Research, Company Data



# Taaleem Schools

| No | School | Year added to Taaleem Portfolio | Curriculum | Owned/Leased |
|---|---|---|---|---|
| 1 | Dubai British School (DBS) - Emirates Hills | 2005 | British | Land owned- Building owned |
| 2 | Uptown International School (UIS) | 2005 | IB | Land is granted- Building owned |
| 3 | American Academy for Girls (AAG) | 2005 | American | Land leased - Building owned |
| 4 | Raha International School (RIS) – Gardens Campus | 2006 | IB | Land leased - Building owned |
| 5 | Greenfield International School (GIS) | 2007 | IB | Land leased - Building owned |
| 6 | Jumeirah Baccalaureate School (JBS) | 2010 | IB | Land leased - Building owned |
| 7 | Dubai British School (DBS) Jumeirah Park Foundation | 2014 | British | Land owned- Building owned |
| 8 | Dubai British School (DBS) -Jumeirah Park | 2015 | British | Land owned- Building owned |
| 9 | Abu Dhabi Charter School – Al Watan School | 2019 | American | Land and Building owned by Government |
| 10 | Abu Dhabi Charter School - Al Salam School | 2019 | American | Land and Building owned by Government |
| 11 | Abu Dhabi Charter School – Al Nayfa School KG | 2019 | American | Land and Building owned by Government |
| 12 | Abu Dhabi Charter School – Al Walaa KG | 2019 | American | Land and Building owned by Government |
| 13 | Raha International School (RIS)– Khalifa City | 2020 | IB | Land leased - Building owned |
| 14 | Dubai Schools Al Barsha – Dubai PPP | 2021 | American | Land and Building owned by Government |
| 15 | Dubai Schools Mirdif- Dubai PPP | 2021 | American | Land and Building owned by Government |
| 16 | Abu Dhabi Charter School – Al Wafaa KG | 2021 | American | Land and Building owned by Government |
| 17 | Abu Dhabi Charter School – Al Riyadh | 2021 | American | Land and Building owned by Government |
| 18 | Dubai Schools Nad Al Sheba – Dubai PPP | 2022 | American | Land and Building owned by Government |
| 19 | Abu Dhabi Charter School – Al Ahad | 2022 | American | Land and Building owned by Government |
| 20 | Abu Dhabi Charter School – Al Azm | 2022 | American | Land and Building owned by Government |
| 21 | Abu Dhabi Charter School – Al Forsan KG | 2022 | American | Land and Building owned by Government |
| 22 | Ajyal School - Al Furqan | 2022 | American | Land and Building owned by Government |
| 23 | Ajyal School -Al Maktoum | 2022 | American | Land and Building owned by Government |
| 24 | Ajyal School -Al Qarayen | 2022 | American | Land and Building owned by Government |
| 25 | Ajyal School -Al Mataf | 2022 | American | Land and Building owned by Government |
| 26 | Jebel Ali School (JAS) | 1977 (acquired in 2022) | British | Land owned- Building owned |
| 27 | Abu Dhabi Charter School - Al Majd School | 2024 | American | Land and Building owned by Government |
| 28 | Ajyal School-Sheikha Mariam School | 2024 | American | Land and Building owned by Government |
| 29 | Ajyal- School-Wadi Al Helo School | 2024 | American | Land and Building owned by Government |
| 30 | Ajyal School -Omar Abdul Aziz School | 2024 | American | Land and Building owned by Government |
| 31 | Ajyal School -Lubna Bent Hubab School | 2024 | American | Land and Building owned by Government |
| 32 | Abu Dhabi Charter - Al Qayum School | 2024 | American | Land and Building owned by Government |



# Financials

## Income Statement (Consolidated)

| Year ending 31 Aug (AED mn) | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|
| Revenue | 804 | 945 | 1,068 | 1,161 |
| Cost of Goods Sold | (468) | (560) | (634) | (691) |
| **Gross Profit** | **336** | **385** | **433** | **470** |
| Selling, General and Admin. Expenses | (134) | (131) | (149) | (160) |
| **EBITDA** | **205** | **263** | **295** | **322** |
| Operating Profit | 119 | 168 | 184 | 195 |
| Other Income | 4 | 9 | 11 | 12 |
| Net Interest Income | (1) | 4 | (7) | (14) |
| Tax | 0 | (16) | (17) | (18) |
| Minority Interest | 0 | 0 | 0 | 0 |
| **Net Profit** | **117** | **127** | **160** | **163** |

## Balance Sheet (Consolidated)

| Year ending 31 Aug (AED mn) | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|
| Cash & Short Term Deposits | 228 | 331 | 373 | 409 |
| Other Current Assets | 559 | 426 | 360 | 302 |
| Investments | 14 | 14 | 14 | 14 |
| Net Fixed Assets | 1,169 | 1,415 | 1,648 | 1,867 |
| Net Intangible Assets | 38 | 36 | 33 | 30 |
| Total Non-Current Assets | 1,692 | 1,961 | 2,221 | 2,470 |
| **Total Assets** | **2,443** | **2,717** | **2,960** | **3,185** |
| Current Liabilities | 430 | 523 | 591 | 644 |
| Total Debt | 27 | 137 | 221 | 295 |
| Other Liabilities | 314 | 341 | 373 | 408 |
| Total Liabilities | 771 | 1,002 | 1,184 | 1,347 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Share Capital | 1,000 | 1,000 | 1,000 | 1,000 |
| Reserves & Surplus | 671 | 716 | 777 | 838 |
| Shareholders Funds | 1,671 | 1,716 | 1,777 | 1,838 |
| **Total Equity & Liabilities** | **2,443** | **2,717** | **2,960** | **3,185** |



## Cash Flow Statement (Consolidated)

| Year ending 31 Aug (AED mn) | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|
| Net profit before minority | 117 | 127 | 160 | 163 |
| Depreciation | 70 | 77 | 90 | 104 |
| Other Adjustments | 17 | 19 | 21 | 23 |
| Working Capital Changes | 62 | 94 | 62 | 48 |
| **Cashflow from Operations** | **284** | **310** | **337** | **349** |
| Capital Expenditure | (75) | (323) | (323) | (323) |
| Other Investing Activities | (502) | 118 | 80 | 77 |
| **Cashflow from Investing** | **(578)** | **(205)** | **(243)** | **(246)** |
| Debt Raised/Repaid | 54 | 113 | 97 | 97 |
| Dividend | (67) | (82) | (99) | (101) |
| Other Financing Activities | (450) | (33) | (50) | (64) |
| **Cashflow from Financing** | **266** | **(2)** | **(53)** | **(68)** |
| Net Chg in Cash | (28) | 103 | 42 | 35 |

## Key Ratios (Consolidated)

| Year ending 31 Aug (AED mn) | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|
| EPS | 0.13 | 0.14 | 0.17 | 0.17 |
| EPS Growth (%) | 13.8 | 7.9 | 26.5 | 1.6 |
| Gross Margin (%) | 41.7 | 40.7 | 40.6 | 40.5 |
| EBITDA Margin (%) | 25.5 | 27.8 | 27.7 | 27.7 |
| EBITDA Growth (%) | 18.8 | 28.3 | 12.3 | 9.0 |
| Net Margin (%) | 14.6 | 13.4 | 15.0 | 14.0 |
| ROAE (%) | 9.0 | 7.5 | 9.2 | 9.0 |
| ROAA (%) | 5.3 | 4.9 | 5.6 | 5.3 |
| Debt/Equity (%) | 19.5 | 27.6 | 33.8 | 39.3 |
| **Valuation Ratios** | | | | |
| PER (x) | 28.8 | 26.7 | 21.1 | 20.7 |
| PBV (x) | 2.0 | 2.0 | 1.9 | 1.8 |
| Dividend Yield (%) | 2.0 | 2.4 | 2.9 | 3.0 |
| EV/EBITDA (x) | 16.6 | 12.9 | 11.7 | 10.8 |

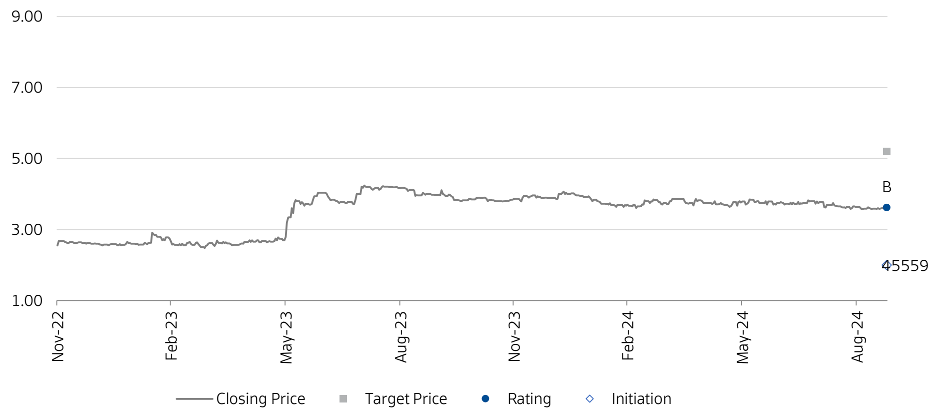
Source: SICO Research, Company Data



## Price, Target Price* and Rating Change History Chart of (TAALEEM UH)

| Date | Closing Price | Target Price | Rating | Initiation |
|---|---|---|---|---|
| 24-Sep-24 | 3.62 | 5.20 | B | X |

B=Buy, A=Add, N=Neutral, R=Reduce, S=Sell, U/R= Under Review




B=Buy, A=Add, N=Neutral, R=Reduce, S=Sell, U/R = Under Review

## ESG Rating

| Rating | Total Score | Environment | Social | Governance |
|---|---|---|---|---|
| BBB | 180.5 | 63.5 | 57 | 60 |

Each pillar (E,S,G) has a maximum score of 100, and the weight each KPI contributes to a company's overall pillar score is based on IdealRatings' industry materiality assessment. Idealratings ESG Rating Scale CC – 0-89.99, CCC – 90-119.99, B – 120-149.99, BB – 150-179.99, BBB – 180-209.99, A – 210-239.99, AA – 240-269.99, AAA – 270-300.

* Please note that historical Stock price and target price is adjusted for all corporate actions including cash dividends and accordingly may have some differences than what has been published previously.

**Analyst Stock Rating Definitions on next page**



## Time Horizon

| | |
|---|---|
| Short term | • SICO Research issues a short-term outlook if the analyst feels that there are factors which might affect the<br>• short-term performance of the stock during the immediate six months after issuing a rating.<br>• This might be due to both quantitative and qualitative factors which the analyst think can affect the stock price. |
| Long term | • SICO Research's Long-term rating is based on the Target Price calculated by the analyst.<br>• The Target Price is arrived at using both fundamental and/or comparative valuation methods based on the detailed financial models developed by analysts incorporating current expectations and analyst's assumptions.<br>• Target price for a stock is calculated one year forward from the valuation date |

## Recommendation (Short term)

| | |
|---|---|
| Positive | • Analysts expect positive triggers in the short term which might affect current price positively (> 10%) |
| Neutral | • Analyst does not expect any short-term triggers/events (+/- 10%) |
| Negative | • Analysts expect negative triggers in the short term which might affect current price adversely (< 10%) |

## Recommendation (Long term)

| | |
|---|---|
| Buy | • If Risk profile is "High" Target price estimate offers 20%+ return from the current share price.<br>• If Risk profile is "Normal" Target price estimate offers 15%+ return from the current share price. |
| Neutral | • If Risk profile is "High" Target Price estimate offers 0% to 20% return from the current share price.<br>• If Risk profile is "Normal" Target Price estimate offers 5% to 15% return from the current share price |
| Sell | • If Risk profile is "High" Target price estimate offers less than 0% return from the current share price.<br>• If Risk profile is "Normal" Target price estimate offers less than 5% return from the current share price. |

## Risk

| | |
|---|---|
| High | • Stock volatility (360 days standard deviation) exceeds 2x of S&P GCC market volatility |
| Market | • Stock volatility (360 days standard deviation) lower than 2x of S&P GCC market volatility |



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