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# IDP Education (IEL)

## O' Canada

**Recommendation**

**Buy** (Hold)

**Price**

**\$21.87**

**Target (12 months)**

**\$27.00** (previously 26.70)

**GICS Sector**

Education Services

**Expected Return**

Capital growth	<b>23.4%</b>
Dividend yield	<b>1.9%</b>
Total expected return	<b>25.3%</b>

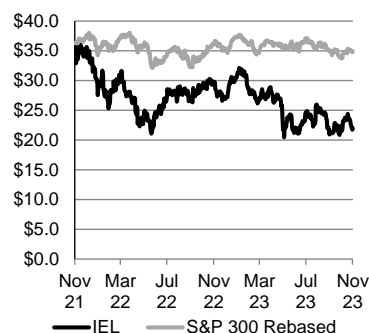
**Company Data & Ratios**

Enterprise value	<b>\$6,129.6m</b>
Market cap	<b>\$6,087.2m</b>
Issued capital	<b>278.3m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$32.8m</b>
12 month price range	<b>\$20.38-32.17</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	21.10	25.50	29.28
Absolute (%)	4.08	-13.88	-25.00
Rel market (%)	1.73	-11.91	-21.78

**Absolute Price**



SOURCE: IRESS

**1Q24 student visa data**

IDP's student placement (SP) volumes typically correlate with student visa data from key source markets: India, China, Vietnam, Australia, Nigeria, and Thailand (77% of enrolments) into key destination countries: Australia, the UK and Canada (93% of enrolments). 1HFY24 is typically seasonally weaker for SP volumes in Australia, which was evident in visas granted across IDP's key source countries in Q1 -12% on the pcp to ~28k and -29% QoQ however, this remains slightly above pre-pandemic levels. Monthly data also continued to portray a normalisation of visa grants with September -32% on the pcp and grant rates declining with record applications lodged and tougher visa policies. Northern hemisphere data on the other hand was encouraging, particularly for Canada. As the seasonally strongest quarter for both Canada and the UK, visa permits/ grants were +33% and -4% on the pcp to 302k holders (both ~60% higher than pre-pandemic levels).

**Changes to forecasts**

We are more conservative on IDP's Australian SP outlook with recent data portraying a normalisation of visas issued along with lower grant rates and the possibility of the Australian Govt. introducing policies to cap international student numbers to lower record migration levels. The modest downgrades to our Australia SP assumptions were more than offset by an increase in our multi-destination forecasts supported by encouraging northern hemisphere data. The net result was revenue upgrades of ~1-2% in FY24-25e. We have also reduced our opex forecasts resulting in more material EBITDA upgrades of 10%, 7% and 2% in FY24-26e.

**Investment view: PT +1.1% to \$27.00, Upgrade to BUY**

We have updated each valuation used in the determination of our PT for the forecast changes and recent market movements. There is no change to our 30x EV/EBIT valuation assumption however, we have increased the RFR in our DCF resulting in a WACC of 8.4%. The net result is a 1.1% increase in our PT to \$27.00 which is a >15% premium to the current share price so we upgrade to a Buy recommendation.

**Earnings Forecast**

June Year End	2023	2024e	2025e	2026e
Sales (A\$m)	981.9	1,100.1	1,250.7	1,422.8
EBITDA (A\$m)	271.2	319.1	375.4	426.8
NPAT (A\$m)	149.1	173.8	211.9	247.6
EPS (cps)	53.4	62.4	76.1	89.0
EPS growth (%)	45%	17%	22%	17%
P/E (x)	41.0x	35.0x	28.7x	24.6x
EV/EBIT	27.8x	23.3x	19.4x	16.7x
EV/EBITDA (x)	22.6x	19.2x	16.3x	14.4x
Dividend (cps)	41.0	45.1	56.4	67.7
Yield (%)	1.9%	2.1%	2.6%	3.1%
ROE (%)	54.9%	64.0%	78.1%	91.2%

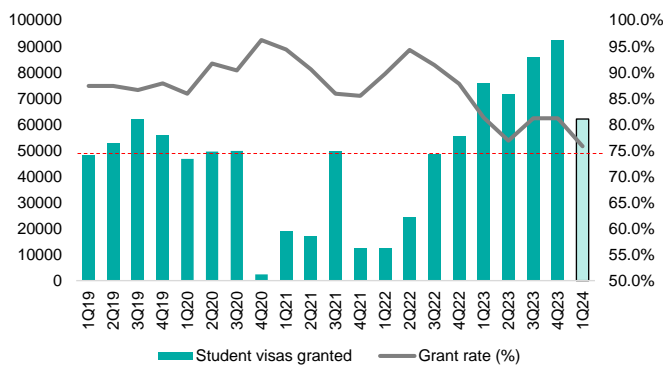
SOURCE: BELL POTTER SECURITIES ESTIMATES

# 1QFY24 Student Visa Data

## Australia (42% of course enrolments)

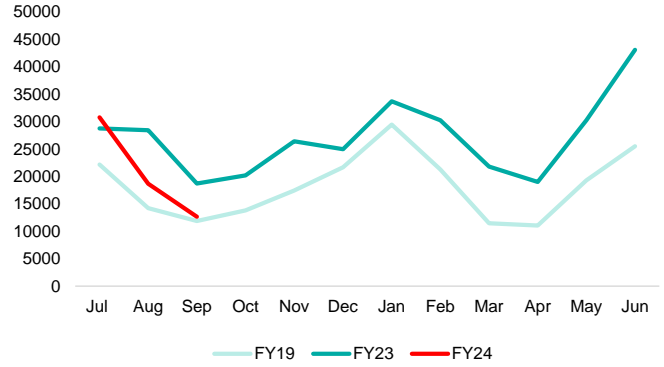
Q1/1H is typically seasonally weaker for IDP’s Australia SP volumes with the FY23 skew being 43%/ 57% 1H/ 2H. Whilst Australia’s 1Q24 offshore primary student visa grants were -18% on the pcp at 62k it remained ~29% above pre-pandemic levels. Visa grants continued to decline MoM in Q1 to ~13k in September which was -32% on the pcp but slightly above (+6%) FY19. There was also a further decline in primary visa grant rates to ~76% in 1Q24 (81% in 1Q23) which we expect was due to the considerably higher number of visa applications lodged, +57% on FY19 and +17% on the pcp as well as tougher visa policies. This data further supports what looks to be a normalisation of Australian student visa grants towards pre-pandemic levels.

Figure 1 – Total offshore student visas granted QoQ



SOURCE: DEPARTMENT OF HOME AFFAIRS

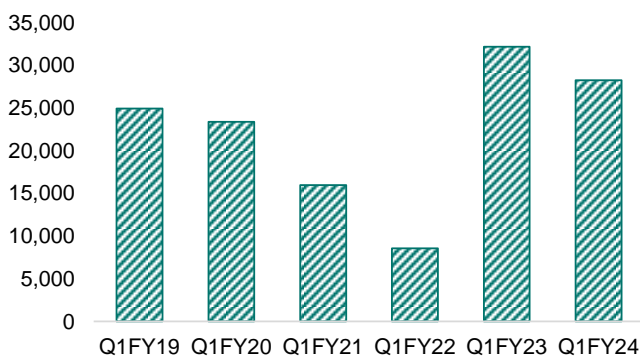
Figure 2 – Total offshore student visas granted MoM



SOURCE: DEPARTMENT OF HOME AFFAIRS

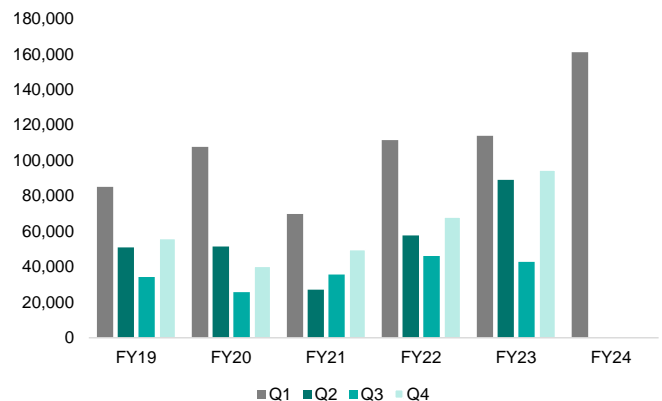
The combined total of IDP’s key source country grants in Q1 was -12% on the pcp however, +13% on FY19 to 28k. India and China made up ~40% (24% and 15%) of student visas granted in Q1 although India volumes were -16% on the pcp at 9k while China’s remained flat at 15k. The strongest growth across IDP’s key source countries was Vietnam +57% on the pcp to 3k grants and remains well above pre-COVID levels along with Nigeria and India.

Figure 3 – 1QFY student visa grants in IDP’s key source countries



SOURCE: DEPARTMENT OF HOME AFFAIRS

Figure 4 – Canada study permit holders QoQ of key IDP source countries



SOURCE: GOVERNMENT OF CANADA

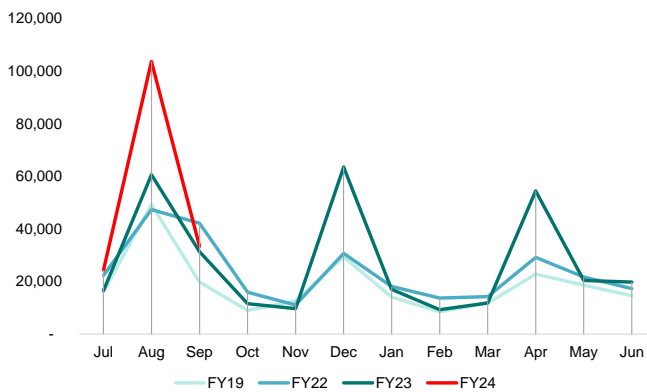
Note: We refer to primary/ main applicant student visa data throughout this report (ex. Canada) and offshore applicants.

### Canada (24% of course enrolments)

1QFY is typically the strongest quarter for SP into Canada and the UK (vs. Q3 in Australia), however, IDP typically recognises ~55-60% of it's Canada SP volumes in 2H as it includes 2x intakes (Winter and Spring/Summer trimesters). Canada's student permit holders were particularly strong in Q1 +33% on the pcp to 302k holders and ~60% above pre-pandemic levels. IDP's key source countries also saw strong growth +41% on the pcp and +50% on 1Q20 to 161k. Nigeria and India were the two strongest regions +142% on the pcp to 16k and +41% to 109k and remain well above pre-COVID levels. Strength in July and August data was partially offset by a weaker September however, this remained slightly above the pcp and FY19 at ~33k permit holders as shown in Figure 5.

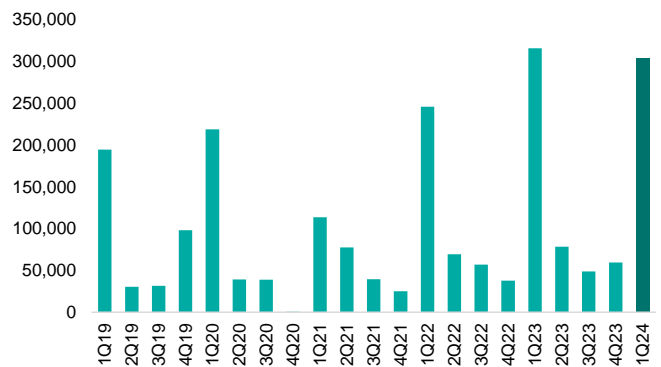
At the FY23 result IDP called out an improvement in visa processing times in Canada, however noted these were yet to flow through to a pickup in volumes. We expect this along with strong permit numbers in Q1 to contribute to stronger than anticipated multi-destination volumes in FY24e, particularly across IDP's key growth markets such as Vietnam, Pakistan, and Nigeria (which all delivered SP volume growth of 40%+ in FY23).

**Figure 5 – Canada MoM study permit holders of key IDP source countries**



SOURCE: GOVERNMENT OF CANADA

**Figure 6 – Total UK sponsored study visas issued QoQ**



SOURCE: UK GOVERNMENT

### UK (27% of course enrolments)

IDP recognises ~80% of total UK volumes in 1H. For the year ending September 2023, there were 486k sponsored study visas granted to main applicants which was slightly below the pcp but +86% on the year ending September 2019. Figure 6 shows 1Q24 visas issued slightly below the pcp (-4%), however ~60% above pre-pandemic levels at 302k. This was similar to the combined total of IDP's key source countries -8% on the pcp to ~184k however ~64% above 1Q20.

India accounted for the most grants at ~133k (~27% of total grants) in the year ending September 2023 which was +5% on the pcp and ~5x the year ending September 2019. China was second at 109k grants (~22% of total grants) however this was -7% on the pcp. Nigeria accounted for 51k grants during the same period, similar to the pcp but ~8x the number in the year ending September 2019. However, both India and Nigeria's grants looked to moderate in 1Q24 -13% and -26% on the pcp to 68k and 22k.

Note: We refer to primary/ main applicant student visa data throughout this report (ex. Canada) and offshore applicants.

# Earnings and Valuation Changes

## Changes to forecasts

We are now more conservative on the growth outlook for Australia SP with recent data implying a normalisation of visa grants as well as lower grant rates. We also note the possibility of the Australian Government capping international student numbers in an attempt to lower record migration levels. However, the modest downgrades to our Australia SP growth assumptions were more than offset by an increase in our multi-destination forecasts supported by encouraging Canada and also UK data.

The net result is modest revenue upgrades of ~1-2% in FY24-25e however, we have also reduced our opex assumptions in FY24-26e resulting in more material EBITDA upgrades of 10%, 7% and 2% in FY24-26e. The changes to our key forecasts are shown below.

**Figure 7 – Changes to forecasts**

Year end 30 June	2024e			2025e			2026e		
	Old	New	Change	Old	New	Change	Old	New	Change
<b>Total revenue (A\$m)</b>	<b>1,084.0</b>	<b>1,100.1</b>	<b>1.5%</b>	<b>1,232.9</b>	<b>1,250.7</b>	<b>1.4%</b>	<b>1,423.4</b>	<b>1,422.8</b>	<b>0.0%</b>
Reported EBITDA	289.9	319.1	10.1%	351.4	375.4	6.8%	419.9	426.8	1.6%
Reported NPAT	157.5	173.8	10.3%	197.4	211.9	7.3%	242.7	247.6	2.0%
EPS (c)	56.6	62.4	10.3%	70.9	76.1	7.3%	87.2	89.0	2.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

## PT +1.1% to \$27.00, Upgrade to Buy

We have updated each valuation used in the determination of our price target for the forecast changes as well as recent market movements and time creep. There are no changes to the multiple we apply in our EV/EBIT valuation of 30x however, we have increased the risk free rate in our DCF valuation resulting in a higher WACC of 8.4%. The net result is a 1.1% increase in our PT to \$27.00 which is a >15% premium to the current share price so we upgrade to a BUY recommendation.

**Figure 8 – Change in valuations and impact on PT**

Methodology	Old (as at 23-August-23)			New (as at 28-November-23)		
	Valuation	Weighting (%)	Target Price	Valuation	Weighting (%)	Target Price
EV/EBIT	\$25.10	50%	\$12.55	\$28.26	50%	\$14.13
DCF	\$28.30	50%	\$14.15	\$25.74	50%	\$12.87
<b>Total</b>			<b>\$26.70</b>			<b>\$27.00</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

# IDP Education

## Company description

Founded in 1969, IDP Education (IDP) (ASX:IEL) is one of the largest education services providers globally. The Company facilitates the placement of international students into education institutions across six English-speaking destination countries and co-owns and distributes one of the most well-renowned and accepted English language proficiency tests, 'IELTS'. IDP also own and operate English language schools in South East Asia and provide digital marketing and event services.

## Investment thesis

We upgrade to a Buy recommendation on IDP. Our investment thesis is based on:

- **Valuation:** Our valuation for IDP is \$27.00 which is a >15% premium to the current share price. The valuation is generated from a blend of two methodologies we apply to the company: EV/ EBIT and DCF.
- **Structural growth tailwinds:** Improving global mobility supported by the reopening of international borders, supportive government policies as well as the rising middle class in emerging economies and the increasing demand for an international education in English speaking countries remain key structural drivers of the Company's growth.
- **Brand and scale benefits:** As an industry leader IDP reaps the benefits of having significant scale and brand recognition globally across digital and physical platforms. With regard to SP, this allows for a lower cost of student acquisition and has contributed to the credibility of IELTS amongst organisations and Governments.
- **Proven cash generation ability:** The Company has historically experienced strong levels of cash conversion (~100% in FY22), as the business model requires relatively low capital expenditure and working capital intensity.
- **Trading at a premium to education services peers:** IDP is trading at a premium to the average EV/EBIT of education services peers in FY24e at 23.7x. However, we believe this is justified due to the Company's significantly larger scale and maturity.

## Key risks

Key downside risks to our estimates and valuation include (but are not limited to):

- **Regulatory risk:** To the extent that any IDP destination country alters immigration policies, regulation or visa requirements that reduce the number of student or migration visas that they grant, this will have a direct impact on IDP's student placement and/or IELTS test volumes.
- **Competition risk** IDP operates in highly competitive markets across all of its geographies and products. In particular, IELTS competes with a number of alternative high-stakes English language tests. The acceptance of alternative tests in key IELTS markets would pose a threat to IDP's market share.
- **Geopolitical risk:** Political events and tension, unfavourable press and negative international relations may reduce the attractiveness of destination countries and/or ability of students and migrants to pursue international study or immigration.
- **Foreign currency risk:** IDP earns revenues and incurs expenses in ~45 currencies and as a result is exposed to movements in foreign exchange rates.

Note: We refer to primary/ main applicant student visa data throughout this report (ex. Canada) and offshore applicants.

Table 1 - Financial summary

Profit & Loss (A\$m)						IDP Education (IEL)							
Year end 30 June	2022	2023	2024e	2025e	2026e	Share price:	\$21.87	Target price:	\$27.00	No. of issued shares:	278.3m	Market cap:	\$6,087.2m
Revenue	793.3	981.9	1100.1	1250.7	1422.8								
Growth (%)	50%	24%	12%	14%	14%								
Cost of sales	-333.9	-368.0	-392.3	-436.5	-489.7								
Gross profit	459.5	613.9	707.7	814.2	933.1								
Gross margin (%)	58%	63%	64%	65%	66%								
Total costs	-595.1	-710.6	-780.9	-875.3	-996.0								
EBITDA	197.1	271.2	319.1	375.4	426.8								
Depreciation and amortisation	-38.2	-50.5	-55.5	-58.9	-60.6								
EBIT	158.9	220.7	263.6	316.6	366.2								
Net interest	-6.7	-13.4	-15.4	-13.8	-12.5								
Pre-tax profit	152.1	207.3	248.2	302.7	353.8								
Net tax	-49.3	-58.2	-74.5	-90.8	-106.1								
NPAT	102.8	149.1	173.8	211.9	247.6								
Cash Flow (A\$m)						Valuation data							
Year end 30 June	2022	2023	2024e	2025e	2026e	Year end 30 June	2022	2023	2024e	2025e	2026e		
Gross cash flow	193.1	231.4	322.8	373.3	424.4	NPAT (A\$m)	102.8	149.1	173.8	211.9	247.6		
Net interest expense	-5.3	-10.6	-15.4	-13.8	-12.5	EPS (cps)	36.9	53.4	62.4	76.1	89.0		
Tax paid	-47.2	-50.5	-74.5	-90.8	-106.1	Change %	159%	45%	17%	22%	17%		
Operating cash flow	140.6	170.3	232.9	268.6	305.8	P/E ratio (x)	59.3x	41.0x	35.0x	28.7x	24.6x		
Net payments for acquisitions	-260.4	-80.9	-24.6	-	-	OCFPS (cps)	50.4	61.1	83.7	96.5	109.9		
Investment in associates	-0.2	-4.3	-	-	-	Price/OCF (x)	43.4x	35.8x	26.1x	22.7x	19.9x		
Maintenance capex	-29.6	-38.9	-40.9	-42.9	-45.1	DPS (cps)	27.0	41.0	45.1	56.4	67.7		
Investing cash flow	-290.3	-124.1	-65.5	-42.9	-45.1	Yield	1.2%	1.9%	2.1%	2.6%	3.1%		
Proceeds from borrowings	100.0	52.4	-	-	-	Franking	11.5%	21.1%	20.0%	20.0%	20.0%		
Proceeds from treasury shares	-5.6	-8.9	-	-	-	EV/Revenue (x)	7.7x	6.2x	5.6x	4.9x	4.3x		
Repayments of lease liabilities	-19.4	-22.7	-23.3	-23.9	-24.5	EV/EBITDA (x)	31.1x	22.6x	19.2x	16.3x	14.4x		
Dividends paid	-37.6	-96.0	-120.0	-141.6	-173.0	EV/EBIT (x)	38.6x	27.8x	23.3x	19.4x	16.7x		
Financing cash flow	37.5	-75.2	-143.3	-165.6	-197.5	Performance ratios							
Net change in cash	-112.1	-29.0	24.2	60.1	63.2	Year end 30 June	2022	2023	2024e	2025e	2026e		
Cash at start of period	306.9	196.6	166.6	190.8	250.9	EBITDA margin	25%	28%	29%	30%	30%		
Effect of exchange rate changes	1.8	-0.9	-	-	-	EBIT margin	20%	22%	24%	25%	26%		
Cash at end of period	196.6	166.6	190.8	250.9	314.1	NPAT margin	13%	15%	16%	17%	17%		
						ROA	11%	12%	14%	16%	17%		
Balance Sheet (A\$m)						ROE	37%	55%	64%	78%	91%		
Year end 30 June	2022	2023	2024e	2025e	2026e	Payout ratio	73.2%	76.8%	72.2%	74.1%	76.0%		
Cash	196.6	166.6	190.8	250.9	314.1	Effective tax rate	-32.4%	-28.1%	-30.0%	-30.0%	-30.0%		
Trade and other receivables	93.2	160.9	163.3	184.7	209.4	Leverage ratios							
Contract assets	52.4	108.7	120.8	136.7	154.9	Year end 30 June	2022	2023	2024e	2025e	2026e		
Investment in associates	3.9	8.7	8.7	8.7	8.7	Net debt/(cash) (A\$m)	-40.2	42.4	18.2	-41.9	-105.1		
PPE	26.4	33.5	48.4	63.9	80.4	Net debt/equity	NM	0.1x	0.0x	NM	NM		
ROU assets	90.8	109.4	103.9	98.0	91.9	Gearing	NM	8%	3%	NM	NM		
Intangible assets	437.3	550.3	550.9	525.3	499.4	Net debt/EBITDA (x)	NM	0.2x	0.1x	NM	NM		
Deferred tax assets	18.2	26.3	26.3	26.3	26.3	Segmentals (A\$m)							
Other assets	56.0	69.0	69.0	69.0	69.0	Year end 30 June	2022	2023	2024e	2025e	2026e		
Total Assets	974.8	1233.5	1282.1	1363.6	1454.1	Student placement	215.4	351.2	459.5	546.5	639.3		
Trade and other payables	125.0	191.7	206.9	234.0	265.2	English language testing (IELTS)	511.4	545.5	543.8	596.7	664.0		
Lease liabilities	100.0	120.6	97.3	73.3	48.8	English language teaching	20.6	33.4	40.0	45.3	51.3		
Contract liabilities	51.9	57.9	61.0	69.0	78.2	Digital marketing and events	43.3	47.8	52.6	57.8	63.6		
Provisions	25.0	30.0	30.0	30.0	30.0	Other	2.7	4.1	4.3	4.4	4.6		
Borrowings	156.5	209.0	209.0	209.0	209.0	Total Revenue	793.3	981.9	1100.1	1250.7	1422.8		
Other liabilities	12.9	56.3	56.3	56.3	56.3	Interims (A\$m)							
Deferred tax liabilities	48.2	50.6	50.6	50.6	50.6	Year end 30 June	1H23	2H23	1H24e	2H24e			
Total liabilities	519.4	716.0	710.9	722.1	737.9	Revenue	501.8	480.1	555.7	544.4			
Net Assets	455.4	517.4	571.2	641.5	716.2	Growth %	26%	21%	11%	13%			
Issued capital	276.9	271.5	271.5	271.5	271.5	Cost of sales	-190.7	-177.3	-197.4	-194.9			
Reserves	-9.5	4.9	4.9	4.9	4.9	Gross profit	311.1	302.8	358.3	349.5			
Retained earnings/(losses)	188.3	240.8	294.6	364.9	439.5	Gross margin	62%	63%	64%	64%			
Shareholders equity (ex. NCI)	455.7	517.2	571.0	641.3	715.9	Operating expenses	-357.8	-352.8	-389.0	-391.9			
						EBITDA	144.0	127.2	166.7	152.4			

SOURCE: BELL POTTER SECURITIES ESTIMATES

Note: We refer to primary/ main applicant student visa data throughout this report (ex. Canada) and offshore applicants.



**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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