

# Internationella Engelska Skolan

Sweden | Education Services | MCAP SEK 2.8bn

**Buy**

Target Price  
Current Price  
Up/downside

SEK 82.9  
SEK 71.0  
16.8%

## IES – Going International

Internationella Engelska Skolan (“IES”, “Engelska Skolan”) is a leading independent school operator in Sweden that manages a total of 44 schools. Going forward, the company is expected to expand by opening 6 new schools in Sweden and 4 in Spain between 19/20E and 21/22E. The school expansion and increasing revenues per student are expected to drive total revenues with a CAGR of 13.0% from 18/19 to 21/22E. Future Spanish schools with relatively low wages and a decreasing student-FTE<sup>1</sup> ratio imply a profit margin of 5.0% in 21/22E. Consequently, earnings are estimated to grow with a CAGR of 9.3% between 18/19 and 21/22E, to a total of 201.6 MSEK by 21/22E. Applying a target multiple P/E of 16.5x on 21/22E earnings estimates implies a share price of SEK 82.9 with a potential upside of 16.8%.

### New schools and growth in revenues per student drive sales.

IES owns 37 Swedish schools and has acquired 7 fee-based schools in Spain since mid 2018. Looking forward, the company is scheduled to open 6 new schools in Sweden and is also expected to acquire 4 Spanish schools between 19/20E and 21/22E. Moreover, government grants and fees per student are estimated to grow with a CAGR of 2.4% from 19/20E to 21/22E. In combination with a larger amount of students, revenues are expected to increase with a CAGR of 13.0% 18/19-21/22E and result in total revenues of 4 012.2 MSEK by 21/22E.

### A lower student-FTE ratio leads to a slightly reduced profit margin.

Due to expected future acquisitions of Spanish schools with lower payrolls, salaries per FTE are in total expected to increase with a CAGR of 0.5% from 18/19 to 21/22E. However, due to a negative trend in the student-FTE ratio which entails higher costs per student, the profit margin is estimated to decrease to 5.0% in 21/22E. Altogether, the sales growth and the profit margin will result in an earnings growth CAGR of 9.3% between 18/19 and 21/22E and total earnings of 201.6 MSEK by 21/22E.

### Benchmarking towards Academedia and Atvexa and considering historical valuation justifies a target multiple P/E of 16.5x.

IES currently trades at a forward-looking P/E of 14.1x based on 21/22E earnings. IES and Atvexa are both expected to grow earnings with a CAGR of 9.3% 18/19-21/22E, compared to Academedia’s -13.0%. Engelska Skolan’s ROE of 18.9% and ROA of 4.4% in TTM is the highest compared to both Academedia and Atvexa. The target multiple is derived from IES deserving a slightly higher valuation than Atvexa’s P/E of 16.2x and is further justified by the historical average P/E of 17.1x. Applying a P/E of 16.5x implies a share price of SEK 82.9 with a potential upside of 16.8%.

<sup>1</sup>FTE = Full-time equivalent.

**Marcus Abbestam**  
**Filip Blazevic**  
Equity Research Analysts

#### Market Data

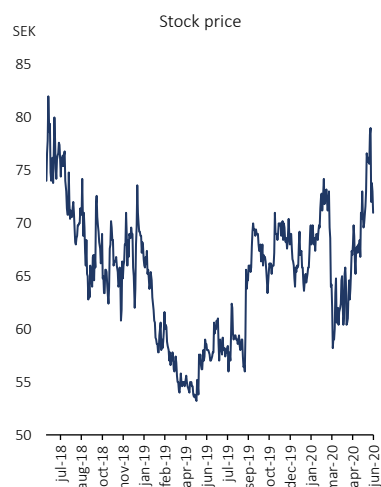
|                               | Nasdaq Mid Cap |
|-------------------------------|----------------|
| Listing Venue                 | Nasdaq Mid Cap |
| Price (SEK)                   | 71.0           |
| No. of outstanding shares (m) | 40.1           |
| Market Cap (m)                | 2 843.5        |
| Cash & Cash Equivalents (m)   | 108.5          |
| Debt (m)                      | 3 680.0        |
| Net Debt (m)                  | 3 571.5        |
| Enterprise Value (m)          | 6 415.0        |

#### Key Financials (SEK)

|                      | 18/19A | 19/20E | 20/21E | 21/22E |
|----------------------|--------|--------|--------|--------|
| Sales (m)            | 2781.1 | 3059.6 | 3523.4 | 4012.2 |
| Sales Growth y/y (%) | 18.5   | 10.0   | 15.2   | 13.9   |
| Gross Profit (m)     | 2477.9 | 2744.7 | 3152.6 | 3597.4 |
| Gross Margin (%)     | 89.1   | 89.7   | 89.5   | 89.7   |
| EBITDA (m)           | 292.8  | 783.3  | 814.8  | 937.3  |
| EBITDA – Margin (%)  | 10.5   | 25.6   | 23.1   | 23.4   |
| EBIT (m)             | 208.6  | 381.7  | 352.2  | 410.6  |
| EBIT – Margin (%)    | 7.5    | 12.5   | 10.0   | 10.2   |
| Net Income (m)       | 154.6  | 228.9  | 170.7  | 201.6  |
| Profit Margin (%)    | 5.6    | 7.5    | 4.8    | 5.0    |

#### Key Ratios (SEK)

|           | 18/19A | 19/20E | 20/21E | 21/22E |
|-----------|--------|--------|--------|--------|
| EV/EBITDA | 20.1   | 8.2    | 7.9    | 6.8    |
| EV/EBIT   | 28.3   | 16.8   | 18.2   | 15.6   |
| P/E       | 17.4   | 12.4   | 16.7   | 14.1   |
| EPS       | 3.9    | 5.7    | 4.3    | 5.0    |



#### Major shareholders

|                     |       |
|---------------------|-------|
| Bock Capital        | 31.9% |
| Paradigm Capital AG | 20.6% |
| Barbara Bergström   | 19.1% |
| Swedbank AB         | 2.8%  |
| State of Kuwait     | 1.9%  |
| Total               | 76.3% |

## Investment thesis

### Rental contracts for 6 new schools in Sweden until 22/23E already signed.

By owning 37 schools in Sweden, IES is the leading independent school operator on this market. Since mid-2018, the company has expanded internationally by acquiring 7 fee-paying schools in Spain besides providing management services for 1 school in the UK. IES grows by opening or acquiring new schools, and 6 new Swedish schools are scheduled to open between 19/20E and 21/22E. The Swedish Schools Inspectorate has approved all the committed applications for IES schools until 21/22E, and the rental contracts are signed. Furthermore, the forecast also includes a restrictive assumption of 2 acquired Spanish schools per year during the same period, compared to the historical average of 4 between Q1 18/19 and Q3 19/20.

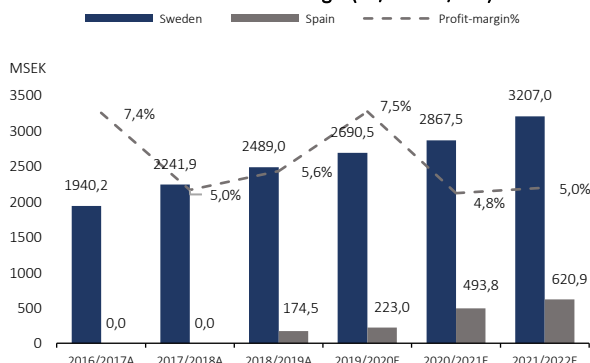
### Increasing government grants and fees enhances sales growth further.

Another factor that drives sales is the revenue per student. The ratio is, mainly due to increasing government grants and fees, expected to grow with a CAGR of 2.4% between 19/20E and 21/22E and amount to 105.3 TSEK in 21/22E<sup>2</sup>. Consequently, above-mentioned factors will jointly drive revenues with a CAGR of 13.0% between 18/19 and 21/22E, resulting in a total revenue of 4 012.2 MSEK by 21/22E.

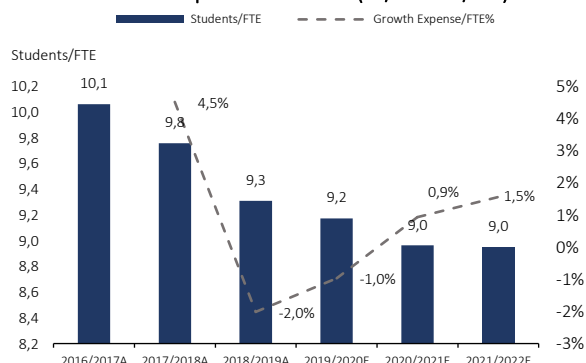
### Flatter total salary increases due to the Spanish expansion.

Teaching and meal expenses per student, which have decreased by 1.1% CAGR 15/16-18/19, are expected to reduce by 1.0% in 19/20E and thereafter remain roughly the same at 10.9 TSEK per year. The estimated growth in the average salary per FTE for 19/20E to 21/22E relies on historical increases for FTEs (2.9% CAGR 15/16-18/19) and inflation expectations from Riksbanken and OECD<sup>3</sup>. Acquisitions of Spanish schools with relatively low wages will moderate the aggregated growth in salaries. Consequently, total salaries per FTE are expected to increase with a CAGR of 0.5% between 18/19 and 21/22E. As the number of students per FTE is expected to decrease from 9.3 in 18/19 to 9.0 by 21/22E due to an ongoing negative trend in the pupil-teacher ratio, the otherwise expected profitability improvements from the advantageous salary increases will be counteracted.

Revenues YoY & Profit margin (16/17A-21/22E)



Personnel expenses breakdown (16/17A - 21/22E)



### The robust sales growth and a profit margin of 5.0% will drive earnings with a CAGR of 9.3% between 18/19 and 21/22E.

Revenues per student are expected to grow faster (1.4% CAGR) than the salaries per FTE (0.5% CAGR). As the declining student-FTE ratio is estimated to entail higher total personnel expenses, the profit margin is expected to reduce from 5.6% in 18/19 to 5.0% by 21/22E. Hence, earnings are estimated to grow with a CAGR of 9.3% from 18/19 to 21/22E and amount to 201.6 MSEK by the end of 21/22E.

<sup>2</sup>Regeringen, "4,9 miljarder för att öka jämlikheten i skolan – så fördelas pengarna".

<sup>3</sup>Riksbanken, "Penningpolitisk rapport April 2020"; OECD, "Inflation forecast".

## Valuation

The valuation stems from peer valuation, complemented with historical trading multiples.

IES is currently trading at a forward-looking P/E of 14.1x given 21/22E estimates for earnings. Academedia and Atvexa are selected key peers as they are the two listed Nordic independent school operators. A target multiple P/E of 16.5x is justified based on a comparable company analysis and historical valuations, implying a share price of SEK 82.9 with a potential upside of 16.8%.

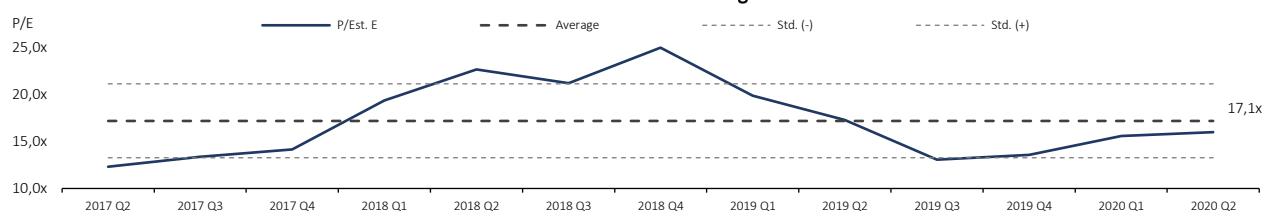
### Key Peers

| SEKm | Market data |               |                  | Financial data |                             |              |             |                |
|------|-------------|---------------|------------------|----------------|-----------------------------|--------------|-------------|----------------|
|      | Company     | Market Cap    | Enterprise Value | P/E (21/22E)   | Earnings CAGR 18/19A-21/22E | ROE (TTM)    | ROA (TTM)   | Leverage (TTM) |
|      | Academedia  | 6396.2        | 15907.2          | 12.8x          | -13.0%                      | 8.6%         | 2.4%        | 3.6x           |
|      | Atvexa      | 970.4         | 2209.4           | 16.2x          | 9.3%                        | 12.8%        | 2.2%        | 5.7x           |
|      | Average     | 3683.3        | 9058.3           | 14.5x          | -1.9%                       | 10.7%        | 2.3%        | 4.6x           |
|      | <b>IES</b>  | <b>2843.5</b> | <b>6415.0</b>    | <b>14.1x</b>   | <b>9.3%</b>                 | <b>18.9%</b> | <b>4.4%</b> | <b>4.3x</b>    |

IES trades to a forward-looking multiple P/E of 14.1x, which is slightly lower than the peer average of 14.5x. A target multiple P/E of 16.5x is justified because of the following reasons:

- **Benching towards closest peers Academedia and Atvexa support the chosen target multiple.** Engelska Skolan has an expected earnings CAGR of 9.3% between 18/19A and 21/22E. Comparing that to Atvexa's identical CAGR of 9.3% and Academedia's significantly lower CAGR of -13.0% during the same period indicates a valuation analogous to Atvexa. Besides, IES has the highest Return on Equity (ROE) of 18.9% in TTM due to a Return on Assets (ROA) of 4.4% and a close to average leverage ratio of 4.3x<sup>4</sup> and therefore deserves a higher valuation than both Academedia and Atvexa from this aspect. Also, IES deserves a valuation premium towards Atvexa due to its 2.9 times larger market cap. Consequently, considering present and expected future performance of peers, IES deserves a valuation slightly higher than Atvexa, justifying a target multiple P/E of 16.5x.

Price to estimated Earnings



- **IES has been trading to a historical average P/E of 17.1x between 2017 and 2019.** Observing the historical valuation on estimated earnings implies a 17.1x P/E, further justifying a smaller premium towards key peers and the target multiple of 16.5x. Applying the target multiple P/E of 16.5x on earnings estimates for 21/22E implies a price per share of SEK 82.9, indicating a potential upside of 16.8%.

### Dependency on political and operative stability

Since IES is an independent school operator with a profit-making purpose, a risk for the company is potential future restrictions of the ability to manage schools for profit. IES is highly dependent on the school voucher funding, and risk lies in an eventual limitation of compensations that could affect the income per student and hence the earnings outcome. Also, the teacher shortage may confine the school expansion and increase the wage inflation, which depresses the profitability.

<sup>4</sup>Leverage = Total assets/Equity.

## Appendix 1, Income Statement

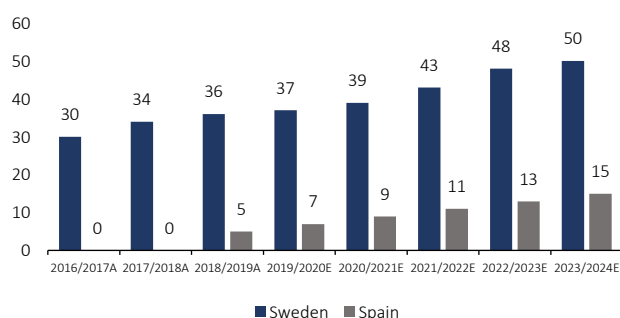
| Internationella Engelska Skolan<br>SEKm | 2016/2017A | 2017/2018A | 2018/2019A | 2019/2020E | 2020/2021E | 2021/2022E | 2022/2023E | 2023/2024E |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| Sales                                   | 2 043.3    | 2 347.9    | 2 781.1    | 3 059.6    | 3 523.4    | 4 012.2    | 4 598.6    | 5 051.7    |
| Cost of Goods Sold                      | -258.9     | -293.3     | -303.2     | -314.9     | -370.8     | -414.9     | -466.6     | -503.4     |
| Gross Profit                            | 1 784.4    | 2 054.6    | 2 477.9    | 2 744.7    | 3 152.6    | 3 597.4    | 4 132.0    | 4 548.3    |
| Operating expenses                      | -1 531.3   | -1 837.1   | -2 185.1   | -1 961.4   | -2 337.8   | -2 660.1   | -3 046.0   | -3 342.7   |
| EBITDA                                  | 253.1      | 217.5      | 292.8      | 783.3      | 814.8      | 937.3      | 1 086.0    | 1 205.6    |
| Depreciation & Amortization             | -55.1      | -65.2      | -84.2      | -324.0     | -462.6     | -526.8     | -603.7     | -663.2     |
| EBIT                                    | 198.0      | 152.3      | 208.6      | 381.7      | 352.2      | 410.6      | 482.3      | 542.4      |
| Net financials                          | -1.9       | 1.2        | -6.2       | -112.7     | -129.8     | -147.8     | -169.5     | -186.2     |
| EBT                                     | 196.1      | 153.5      | 202.4      | 269.0      | 222.4      | 262.7      | 312.8      | 356.3      |
| Income tax                              | -44.1      | -37.1      | -47.8      | -40.0      | -51.7      | -61.1      | -72.7      | -82.8      |
| Earnings                                | 152.0      | 116.4      | 154.6      | 228.9      | 170.7      | 201.6      | 240.1      | 273.4      |

## Appendix 2, Implied Share Price

| Implied Share Price 2021E/2022E (Key Peers) |             |
|---|-------------|
| Target Multiple P/E                         | 16.5x       |
| Earnings 2021/2022E                         | 201.6       |
| Market Cap 2021/2022E                       | 3326.8      |
| Outstanding shares (m)                      | 40.1        |
| <b>Implied Shareprice</b>                   | <b>82.9</b> |
| Up-/downside%                               | 16.8%       |

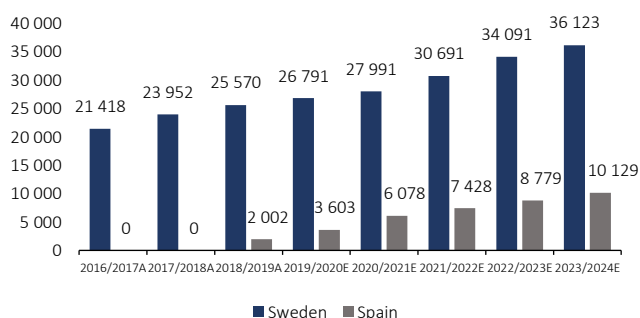
## Appendix 3, School estimates

Schools by country



## Appendix 4, Student estimates

Students by country



## Appendix 5, Reference list

Ministry of Education. 2019. "4,9 miljarder för att öka jämlikheten i skolan – så fördelas pengarna".  
[URL:https://www.regeringen.se/pressmeddelanden/2019/09/49-miljarder-for-att-oka-jamlikheten-i-skolan--sa-fordelas-pengarna/](https://www.regeringen.se/pressmeddelanden/2019/09/49-miljarder-for-att-oka-jamlikheten-i-skolan--sa-fordelas-pengarna/) (Accessed 2020-05-04)

OECD. 2020. "Inflation forecast (indicator)".  
[URL:https://www.oecd-ilibrary.org/economics/inflation-forecast/indicator/english\\_598f4aa4-en](https://www.oecd-ilibrary.org/economics/inflation-forecast/indicator/english_598f4aa4-en) (Accessed 2020-05-04)

Sveriges Riksbank. 2020. "Penningpolitisk rapport April 2020".  
[URL:https://www.riksbank.se/globalassets/media/rapporter/ppr/svenska/2020/200428/penningpolitisk-rapport-april-2020.pdf](https://www.riksbank.se/globalassets/media/rapporter/ppr/svenska/2020/200428/penningpolitisk-rapport-april-2020.pdf) (Accessed 2020-05-04)