

Feedback from Pravaler: Growing but Remains Very Under Penetrated; Gaining Strong Traction in Medicine

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Last week, we hosted a virtual meeting with Pravaler's CFO Haroldo Carvalho and COO Beto Dantas, and investors. Pravaler is the largest private credit provider for higher education in Brazil, with over 400k students financed since 2001 from over 500 institutions (representing 80% of sector enrollments), and R\$1.4bn in tuition financed of new contracts in the LTM to Sept. 2024 (+21% YoY).

NPV of Pravaler for the school can be ~20% higher (Figure 1). With Pravaler, the student pays 50% of the tuition for twice the duration of the course. The student thus can choose the course and institution he or she wants rather than just afford. The advantages for the school when compared to an out-of-pocket student are: (i) avg. tuition 10% higher due to lower discounts/scholarships, (ii) drop-out rate 70% lower (12% in the first year and 6% in the following years vs. 40% and 20% of out-of-pocket, respectively); (iii) volume 8% higher (based on a joint study with a listed company); (iv) zero bad-debt provision; and (v) positive cash flow (if the school decides to anticipate full payment for the semester upfront). They more than offset the Pravaler's costs (14% of tuition to 29% if receivables are anticipated), resulting in an NPV 18-19% higher for the school.

Pravaler is gaining strong traction in Medicine and already represents ~7% of sector intakes. Given the strong increase in med seats supply in the last years and med high tuition price, Pravaler is becoming an important tool to help schools to fulfill the seats. This is mainly because Pravaler has a sizeable base of 1.3mn prospects for higher education, and a significant part (~75%) has no overlap with schools' leads and therefore incremental for the school. One case that shows the potential of Pravaler was the enrollment of 79 students in two schools of a listed company in São Paulo and Bahia, which represented 100% of seats not fulfilled by the company, or 53% of total seats (the company enrolled 47%). Pravaler had 1.5k prospects interested in the med course in those two brands and was able to fulfill all the seats. Avg. tuition of medicine portfolio of Pravaler is R\$12k, above sector average. In some cases, Pravaler reached 20% of the school intakes.

2025 outlook: sector intake to grow 5-10% and med tuitions to be stable. Based on conversations with market participants, Pravaler believes that OC sector intake will grow 5-10% in 2025, which is an improvement to the about flattish performance in 2024. They added that regulatory change in DL should be positive for the OC segment given likely reduction in price competition. For medicine, Pravaler said that all players pointed to a stable ticket in 2025 intake.

Pravaler's enrollment base expected to grow ~20% per year in the next three years. Pravaler has ~100k active students, or only 3% of the OC market. Among listed companies, ANIM likely has the highest penetration of Pravaler with 7.8% of enrollments in 2Q24 (SEER has 1.5%). Pravaler expects its enrollment base to grow ~20% per year in the next three years, which compares to 21% in 2023 and 11% so far in 2024 (36% and 17% in loans due to new focus on courses with higher tuitions, including medicine). The main barrier to higher penetration is the limitation imposed by schools, as it is difficult to prove whether adopting financing as a tool will lead to additional student intake and a higher NPV compared to offering discounts or scholarships (a short-term solution), which could reduce margins.

Our take: We see the growing penetration of Pravaler in medicine courses and potentially stable tuitions for 2025 (AFYA however already announced 5.1% for its intake) as a negative sign for the med school business (medicine is ~85% of AFYA's EBITDA, ~45% of ANIM's, and ~30% of YDUQ's), given demand of out-of-pocket students seems to be lagging behind the ongoing strong increase in supply (see our [note](#) "Is DL Growth Coming to an End? Med Supply/Demand Moved in Opposite Directions in 2023"). We note that we already incorporated more conservative assumptions for medicine in our models (-5pp in EBITDA margin, ~10% of current level, with ticket growing 1pp below inflation through 2027 to 2031). On the positive side, the potential intake growth in OC in 2025 if confirmed is positive news, not considered in our models. COGN is our top pick in the sector, followed by ANIM.

Figure 1 - NPV of Pravaler

	Out of Pocket	No Receivables Discounting	Receivables Discounting
# of enrollments	1,000	1,080	1,080
% of scholarship	40%	34%	34%
Dropout in 1st year	40%	12%	12%
Dropout in next years	20%	6%	6%
Default rate	7%	-	-
PRAVALER commission cost	-	14%	8%
PRAVALER financing cost	-	-	21%
Net revenue (R\$mn)	25.3	39.3	28.9
Cost of capital	15%	15%	15%
NPV (R\$mn)	20.4	24.2	24.1
		↑ +19%	↑ +18%

Benefits of PRAVALER for the school

- Increase in average ticket

10%+
- Increase in enrollments

8%+
- Reduction in dropout rate

70%-
- No default

100%-

Based on monthly tuition of R\$1,000
 Source: Pravaler and Bradesco BBI

Figure 2 - Trading Multiples and Estimates (R\$mn)

		AFYA	ANIM	COGN	VTRU	YDUQ
Rating		N	OP	OP	OP	OP
Current Price		17.9	2.7	1.5	9.5	10.9
TP (YE25)		17.0	5.0	2.4	19.0	14.0
Total Return		-5%	93%	58%	100%	31%
# of Shares (mn)		90	377	1,875	141	290
Market Cap		9,161	1,008	2,868	1,341	3,163
3-Month ADTV		13	24	56	1	54
P/E (ex. IFRS 16)	24	12.0	6.6	8.0	5.2	9.7
	25	10.6	7.2	7.5	4.2	9.1
	26	9.6	5.1	5.4	3.6	6.4
EPS CAGR (24-26)		12%	14%	22%	21%	23%
PEG 24		1.02	0.49	0.36	0.25	0.42
EV/EBITDA (ex. IFRS 16)	24	8.6	3.2	3.5	4.2	4.2
	25	7.3	3.1	3.4	3.7	3.9
	26	6.7	2.9	3.0	3.3	3.5
FCFE Yield	24	7%	22%	8%	-31%	5%
	25	8%	18%	12%	19%	11%
	26	9%	21%	15%	23%	14%
Div. Yield	24	0%	25%	1%	0%	5%
	25	0%	6%	1%	0%	3%
	26	8%	8%	2%	5%	4%
Revenue	23	2,876	3,733	5,895	1,963	5,148
	24	3,301	3,803	6,276	2,166	5,335
	25	3,667	3,908	6,733	2,239	5,538
EBITDA	23	1,166	1,208	1,736	719	1,714
	24	1,450	1,344	2,090	804	1,816
	25	1,613	1,364	2,118	832	1,873
EBITDA Mg.	23	40.5%	32.4%	29.4%	36.7%	33.3%
	24	43.9%	35.3%	33.3%	37.1%	34.0%
	25	44.0%	34.9%	31.5%	37.2%	33.8%
EBITDA (ex. IFRS 16)	23	1,030	929	1,277	664	1,341
	24	1,296	1,065	1,631	739	1,424
	25	1,443	1,077	1,625	762	1,466
EBITDA Mg. (ex. IFRS 16)	23	35.8%	24.9%	21.7%	33.8%	26.0%
	24	39.2%	28.0%	26.0%	34.1%	26.7%
	25	39.3%	27.6%	24.1%	34.0%	26.5%
Net Income	23	496	-165	-441	217	118
	24	741	136	298	251	298
	25	840	118	353	311	328
Net Income (ex. IFRS 16)	23	525	-132	-375	222	162
	24	765	153	357	257	327
	25	866	140	382	316	348
Net Debt (ex. IFRS 16)	23	1,815	2,998	3,291	1,940	2,834
	24	1,933	3,021	3,088	1,731	2,826
	25	1,209	2,911	2,787	1,478	2,559
ND/EBITDA (ex. IFRS 16)	23	1.8	3.2	2.6	2.9	2.1
	24	1.5	2.8	1.9	2.3	2.0
	25	0.8	2.7	1.7	1.9	1.7
ROE	23	11%	-6%	-3%	11%	4%
	24	16%	6%	2%	11%	9%
	25	17%	6%	3%	14%	10%
ROIC (ex. IFRS 16)	23	15%	10%	4%	13%	20%
	24	17%	14%	6%	12%	16%
	25	18%	14%	6%	12%	17%

Source: Bloomberg and Bradesco BBI

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