

Private educators moving in on TAFE amid skills shortage

Sydney Morning Herald: Stewart Oldfield, 22 July 2014 - 3:54PM

Total government funding of the vocational training sector has increased over the past five years by more than 8 per cent a year to about \$7 billion, and the industry is hoping this funding will continue to grow, driven by industry and political concern regarding skills shortages across the country.

Vocational training includes practical skills that stockbrokers can only dream of possessing: welding, cooking, car repair and proficiency in written and spoken English.

Vocational training courses are typically shorter than higher education courses, are practical and have an industry and trade focus.

It's been a highly lucrative sector for investors of late. Shares in the John Dawkins-chaired Vocation Ltd have risen 60 per cent since listing last December.

Shares in the smaller Academies Australasia Group have more than doubled in the past 18 months as it has moved to focus exclusively on its vocational training activities.

New Zealand-based Intuери Education Group completed a dual listing in April and its shares have since risen 6 per cent.

Further related plays could be heading to market, including training and labour hire services outfit Ashley Services Group and Queensland-based Evocca College. In other words, the vocational education sector hasn't missed a beat despite the travails of tertiary education sector player Navitas.

Driving some of the market enthusiasm for the sector is the rollout of the so called demand-driven funding model across the country which allows funding to vocational education providers to be allocated according to an individual's choice of provider, whether it be a public or private provider.

Victoria was early to adopt the funding model and this has seen a dramatic shift in funding away from the once dominant government-run TAFE institutes to private providers. Funding to private VET providers increased from \$136 million in 2009 to \$804 million in 2012.

Further enthusiasm for the sector comes from some forecasts that the national skills shortage will climb above 2 million by 2025.

Then there is the introduction of income contingent loans to students of vocational education, in line with what is on offer with tertiary education.

Like the financial services sector, education businesses can require low working capital and low capital expenditure while generating attractive margins.

But the forecast for the sector is not all plain sailing. Governments have warned that they want to ultimately reduce the cost of vocational training, which means that the increases in government funding hoped by providers may prove illusory.

The National Centre for Vocational Education Research said recently that the total number of students enrolled in publicly funded training for 2013 fell 3.4 per cent to 1.9 million students.

According to the Australian Skills Quality Authority, less than 9 per cent of vocation education providers engage in misleading marketing, while more than 20 per cent of aged care providers were not compliant with standards.

International students drove considerable growth in the vocational education sector over recent decades, however changes to immigration legislation reduced enrolments and further legislative changes are always possible.

A recent visit to a vocational training outlet showed it provided welding classes, is open on Saturday and Sunday and after hours on weekdays. It is an offering that government-owned TAFEs are unlikely to be willing or able to match.

Students said the government was paying at least \$16,000 on their behalf to complete a 12-month course that could see their hourly wage rate double.

There were about 40 students enrolled in the course, which operated out of what appeared to be a converted panel-beating, or related industrial, site.

Across the country, there are about 5000 vocational education organisations operating, ranging from niche providers, such as the one we visited, to large TAFEs.

Through the consolidation of three businesses, Vocation is now one of the country's biggest private providers of vocational training.

Part of the strategy of Vocation is to lead consolidation in the highly fragmented sector in which niche players lack sufficient resources and systems to cope with the new regulatory environment.

However, some market participants have questioned the multiples that Vocation has been willing to pay for acquisitions since its listing.

Since listing, Vocation has extended its debt facility to \$120 million allowing it to pay 6.5 times forecasted FY2015 earnings before interest, tax and non-cash charges (EBITDA) for Endeavour Learning and around five times pre-tax EBITDA for Real Institute.

Stewart Oldfield is a research analyst for Wilson HTM. Any views expressed should not be considered personal advice. stewart.oldfield@wilsonhtm.com.au