Education sector consolidates
Private equity funds are buying stakes in education players as issuance of new licences is tightened.

Sharon Tan

Last year was tough for companies in the education sector. The competitive environment, coupled with additional restrictions by Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) in its loan offerings to students, crimped profits in many of these education providers.

However, since last year, the government has tightened the issuance of new licences, especially for colleges offering medical and nursing courses. It has also made it tough for education providers to get accreditation for their courses.

“New players cannot come in, so existing licences will become more valuable. The industry is a volume game and it will take big names with strong balance sheets to take the companies in the sector to another level,” an industry observer says, adding that in a matter of months, a premium will crop up for a licence.

This is probably one reason why last week, two private equity firms — Ekuiti Nasional Bhd (Ekuinas) and Navis Capital Partners Ltd — acquired companies in the education sector. Navis emerged as a substantial shareholder in SEG International Bhd (SEGI) while Ekuinas acquired 90% of Cosmopoint Sdn Bhd (Cosmopoint Group) for RM246 million.

OSK Research analyst Kong Heng Siong says, in the future, consolidation in the industry is most likely as competition picks up. “Size really matters. There are a few big boys out there but there are many small boys. Consolidation is good. We cannot have so many colleges out there. The colleges must be sizeable and have a broad student base,” says Kong in a phone interview with The Edge.

Presently, names such as Taylor’s University, SEGI University College, HELP University, Sunway University College, KDU University College, Limkokwing University and Universiti Tunku Abdul Rahman are the big players in town. Most started as colleges and had in recent years been granted the university status.

Kong also says overcapacity may be an issue in the future as many of the education players are expanding aggressively. “In three to five years’ time, we will have huge campuses across Malaysia. Everyone wants to have a landmark campus. How do you fill them up?” he asks, adding that these planned campuses would have capacity for about 10,000 students at any one time.

On the issue of PTPTN, Kong is not too concerned since the government has appointed the Internal Revenue Board to collect student loans. He thinks collection of the loans would improve going forward.

PTPTN has been facing collection issues, with as many as 104,083 students having defaulted in payment since 2007, according to a news report last September.

Valuations
The entry of Ekuinas and Navis into the education sector has set new benchmarks in the valuations of education companies.

Ekuinas’ acquisition of a 90% stake in Cosmopoint Group for RM246 million represents a price to earnings ratio (PER) of 8.3 times its earnings for FY2010 ended Dec 31. The Cosmopoint Group owns and operates the KL Metropolitan University College, with more than 11,000 students across its seven faculties.

The Cosmopoint Group acquisition marks Ekuinas’ second investment in an education company, following its purchase of a 51%
interest in APIIT Education Group from Sapura Resources Bhd in 2010 for RM102 million.

On the price tag attached to Cosmopoint Group, Ekuinas CEO Datuk Abdul Rahman Ahmad told The Edge that the valuation is comparable with the current average Malaysian and regional trading multiples of similar companies within the education industry.

However, the transaction values Cosmopoint Group at about 1.87 times book value considering the net tangible asset (NTA) of the college as at Dec 31, 2010, is RM131.1 million. To this, Abdul Rahman says: “Education companies — being in a service industry — are rarely valued based on NTA but more on their earnings and cash generating ability.”

As for Navis, it has emerged as the biggest shareholder in SEGI, with a 27.84% stake at the time of reporting. The shares were acquired at various prices but the highest was RM1.71 each. Based on this price, the block is valued at RM253.9 million.

SEGI’s current net asset per share is 44 sen and its net profit is also on the rise. In 2010, SEGI recorded RM43.06 million in net profit, and last year, its unaudited net profit was RM72.31 million. Based on its 2011 unaudited earnings, the RM1.71 price tag values the transaction at close to 12 times its earnings multiple.

Other education players listed on Bursa Malaysia are Help International Corporation Bhd (HELP) and Masterskill Education Group Bhd (Masterskill).

According to a report by Insider Asia, HELP is on track for a recovery in earnings this year after a decline in its net profit to RM13.06 million last year from RM19.1 million in 2010. The decline was attributed to higher relocation and operation costs and also problems with its venture in Vietnam.

HELP closed at RM1.74 last Friday and based on its earnings for the period ended Oct 31, 2011, it is trading at a PER of about 19 times.

As for Masterskill, its net profit for FY2011 ended Dec 31 is RM38.14 million. Based on its 2011 earnings, it is trading at about 12 times PER based on its current share price of RM1.12.

Among all the education groups, Masterskill is the only one trading below its book value of RM1.26. But that is because the education provider recorded a loss in its latest quarter and its business is said to be under pressure.

Based on the valuations, Ekuinas’ price for Cosmopoint appears to be the cheapest while Navis paid a higher valuation for SEGI. However SEGI’s growth seems bigger while Cosmopoint’s performance is not known. Also, Cosmopoint is known for its short courses while SEGI has several degree programmes. But with Ekuinas on board, Cosmopoint would probably change the pace and structure of its business.

As for Masterskill, based on market speculation, it is a merger and acquisition target. However, it is asset rich, which makes it expensive. But assuming its education business alone is valued based on 2011 earnings and applying a PER of eight times, Masterskill is worth about RM240 million, which amounts to almost 59 sen per share. If the SEGI valuation is applied, the business is worth about 88 sen each.

Either way, Masterskill appears the cheapest education stock at the moment. However, that is provided its business does not continue to slide.