Investorfirst Securities
ACN 135 332 240

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Uncovered
Expanded horizons

Academies Australasia

AKG

Last close $0.55
Market cap $26.0m
Net debt $-0.1m
EV $25.8m
Gearing -0.5%

Net assets $13.1m
NTA $3.7m
Price/book 1.98x
Price/NTA 6.95x

Year end Jun 30

Consensus/ historic

<table>
<thead>
<tr>
<th>FY10a</th>
<th>FY11a/f</th>
<th>FY12f</th>
<th>FY13f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>18.2</td>
<td>25.2</td>
<td>0.0</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2.6</td>
<td>3.9</td>
<td>0.0</td>
</tr>
<tr>
<td>EPS (adj)</td>
<td>$0.034</td>
<td>$0.050</td>
<td>$0.000</td>
</tr>
<tr>
<td>DPS</td>
<td>$0.030</td>
<td>$0.040</td>
<td>$0.000</td>
</tr>
<tr>
<td>EV/revenue</td>
<td>1.42x</td>
<td>1.03x</td>
<td>n/a</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>10.02x</td>
<td>6.58x</td>
<td>n/a</td>
</tr>
<tr>
<td>P/E</td>
<td>16.36x</td>
<td>11.09x</td>
<td>n/a</td>
</tr>
<tr>
<td>Yield</td>
<td>5.45%</td>
<td>7.27%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Capital IQ

Description: provides training and education services under the Academies Australasia brand name in Australia and Singapore. It operates seven colleges offering a range of courses at various levels, including certificates, diplomas, and advanced diplomas. The company offers Singapore government school preparatory programs; various English courses, such as elementary to upper intermediate general English; English for academic purposes; TOEIC, TOEFL, and IELTS preparation courses; and Cambridge First certificate in English preparation, as well as teaches English to speakers of other languages. It also provides senior high school courses; various vocational courses in accounting and financial services, business administration, business management, information technology, marketing, telecommunications, and travel and tourism; and bachelor degree in business administration. In addition, the company designs, manufactures, imports, and sells fasteners (screws) to merchants and manufacturers. The company was formerly known as Garratt’s Limited and changed its name to Academies Australasia Group Limited on November 10, 2010 to better reflect company’s principal business.

Academies Australasia (ASX code: AKG) has built an education business via acquisition over 12 years. AKG was previously known as Garratt’s and has owned businesses in a number of different industries over the decades but made a strategic decision to move into education and sell a previous operation, call recording device maker Electrodata, which it felt would struggle against international competitors, back in 2000.

AKG’s first education acquisition in 1999 (for $1.075m) was Clarendon Business College, an operation that had over 40 years of history and offered diploma courses with a focus on business, IT, management and tourism. Several acquisitions followed that initial move before a period of consolidation. Over the past 12 months AKG has been active, buying 51% of Melbourne-based AMI Education, which offers tourism and hospitality qualifications as well as English courses and delivery of University of Ballarat programs, including MBAs. AKG moved to a 75% stake in AMI, then bought 51% of Sydney-based vocational training operator Benchmark College for $5.5m in cash and scrip. AKG has also built an 8.2% stake in struggling group Redhill Education (ASX code: RDH).

AKG management has indicated that currently it has ~4,500 students enrolled. Its current cohort is sourced from ~70 countries, with the biggest single source being Indonesia, representing 14%-15% of its students. AKG is also one of three Australian educators operating in Singapore (alongside Navitas and James Cook University). With Benchmark having being consolidated just 10 days before the end of FY11, and having being bought on 4x EBITDA, AKG should deliver strong earnings growth

Finally, it must be noted that $0.9m of FY11 PBT was generated by a legacy fasteners business that designs, makes & imports screws. This is a non-core business but would only be sold for a reasonable price.

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Key Thoughts

Tertiary education is likely to remain in high demand, even if consumer sentiment softens. In fact, a more competitive work environment can even stimulate demand for education. We like the education sector, although it requires great management, with the success of Navitas (ASX code: NVT) being a great contrast with the failure of Redhill Education (ASX code: RDH), which lost $3m before tax in FY11.

For comparison with AKG, NVT has a market cap of $1.4 billion and a trailing P/E of 18x,

Source: Iress

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Research Ratings Methodology

Sell: Valuation < (Share Price X 0.9)
Hold: Valuation > (Share Price X 0.9) < Share Price
Buy: Valuation > Share Price

Speculative (in addition to Buy/Hold/Sell): no history of positive earnings or cash flow; or highly geared; or highly volatile & inherently uncertain earnings

Financial Risk Metrics

General Z-Score: indicator of risk of bankruptcy
- Below 1.1: indicates company could be in financial distress
- Between 1.1 and 2.6: potential warning of financial distress
- Above 2.6: The company may be in good financial shape

Beneish M-Score: indicator of potential earnings manipulation
- A result below −2.22 indicates no apparent manipulation of financial results

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