

Education, aggregation (and some fasteners)

By Martin Pretty, CFA

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Academies Australasia

AKG

Last close	\$0.55	Net assets	\$13.1m
Market cap	\$26.0m	NTA	\$3.7m
Net debt	-\$0.1m	Price/book	1.98x
EV	\$25.8m	Price/NTA	6.95x
Gearing	-0.5%	Year end	Jun 30

Consensus/ historic	FY10a	FY11a/f	FY12f	FY13f
Revenue	18.2	25.2	0.0	0.0
EBITDA	2.6	3.9	0.0	0.0
EPS (adj)	\$0.034	\$0.050	\$0.000	\$0.000
DPS	\$0.030	\$0.040	\$0.000	\$0.000
EV/revenue	1.42x	1.03x	n/a	n/a
EV/EBITDA	10.02x	6.58x	n/a	n/a
P/E	16.36x	11.09x	n/a	n/a
Yield	5.45%	7.27%	n/a	n/a

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

Source: Capital IQ

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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 being 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).

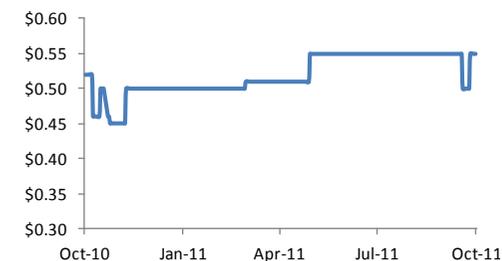
AKG management has indicated that currently it has ~4,500 students enrolled. Its current cohort is sourced from ~70 countries, with the biggest single source being Indonesia, representing 14%-15% of its students. AKG is also one of three Australian educators operating in Singapore (alongside Navitas 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.

Uncovered

Expanded horizons

Share Price



Source: Iress

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,

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QUALITATIVE RESEARCH

Martin Pretty	03 9270 9165	mpretty@investorfirst.com.au
Stewart Oldfield	03 9270 9169	soldfield@investorfirst.com.au
Chris Gibson	03 9270 9166	cgibson@investorfirst.com.au

QUANTITATIVE ANALYSIS

Peter Mavromatis	03 9270 9153	pmavromatis@investorfirst.com.au
------------------	--------------	----------------------------------

SALES & TRADING

Hugh Robertson	03 9270 9162	hrobertson@investorfirst.com.au
Brigid Robertson	03 9270 9161	brobertson@investorfirst.com.au
Charles Richardson	03 9270 9163	crichardson@investorfirst.com.au
Mark Kelly	03 9270 9164	mkelly@investorfirst.com.au

SALES SUPPORT

Shea O'Grady	03 9270 9160	sogrady@investorfirst.com.au
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CORPORATE FINANCE

Matthew Baxter	03 9270 9168	mbaxter@investorfirst.com.au
Andrea Steele	03 9270 9150	asteel@investorfirst.com.au

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

SYDNEY

PO Box R251
Royal Exchange
NSW 1225

Level 45
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Fax: 02 9247 6428

Melbourne

Level 10
30 Collins Street
Melbourne, Victoria
Fax: 03 9270 9155

www.investorfirst.com.au

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