



Masterskill Education Group Berhad

Main Market/ Syariah Compliant

Recommendation : -

Buy. Target Price = RM3.86 per share

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Offer Price:	RM3.50
IPO Closing Date:	3 rd May 2010
Listing Date:	18 th May 2010
Par Value	RM 0.20
Enlarged and paid up capital	RM 81,981,156.00
Authorised Share Capital	RM 200,000,000.00
Market Capitalization (409,905,780 shares x RM3.50)	RM 1,434,670,230.00

Proceeds Utilization	Amount (million)	Time Frame (month)
1. Purchase of land and construction of buildings	RM115.0	n/a
2. Campus expansion	RM20.0	n/a
3. Working capital	RM3.0	n/a
4. Estimated listing expenses	RM5.5	n/a
Total	RM143.5	

Masterskill Education Group Berhad (MEGB) achieved double-digit growth in revenue and after-tax profit with an EPS of RM0.24 (after public issue) and RM0.17 for FYE 2009 and FYE 2008 respectively.

It currently has a total student capacity of 33,500 with 17,165 number of full time students enrolled in at least 3-year nursing and allied health science programmes (as at 31/12/2009).

MEGB is expecting new student intake to increase in FYE 2010 with the establishment of university college branch campuses in Seri Alam, Johor, and Kuching, Sarawak.

In a move to pursue better business growth, it also plans to widen its geographic presence, introducing more degree level and diploma programmes, and increase foreign student intake.

1. HISTORY & BACKGROUND

MEGB was incorporated on 11th September 2006, and was converted into a public limited company on 18th July 2008.

Under MEGB, presently active subsidiary is Masterskill. The others are presently dormant; namely, MCMSB, MUCHSB, MWMSB, MESB, MDSB, etc.

2. PRINCIPAL ACTIVITIES

MEGB is principally involved in provision of higher education and training in nursing and allied health science in the healthcare industry.

MEGB has 5 campuses located at Cheras (KL), Ipoh (Perak), Kota Kinabalu (Sabah), Kota Bharu (Kelantan) and Kuching (Sarawak). Courses offered include 9 Degree programmes, 11 Diploma programmes and 1 Foundation programme.

3. KEY PERSONNEL

Dato' Sri Edmund Santhara a/l Ramanaidu, aged 39, Chief Executive Officer and Executive Director.

He is responsible for formulating and implementing business plans for MEGB.

4. SUBSTANTIAL SHAREHOLDERS

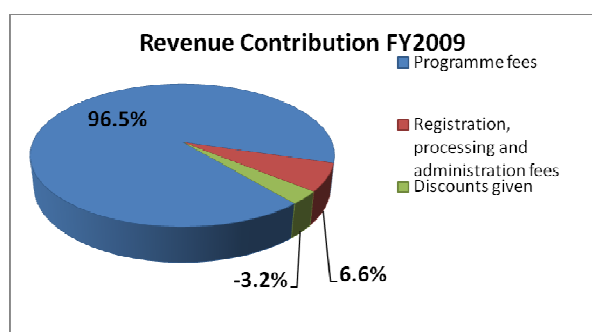
Name	Direct shareholding after IPO
MHL	38.49%
Dato' Sri Edmund Santhara	25.22%
AHHL	3.72%

Source : Prospectus, pg 296

MHL (Masterskill Hldg Ltd) was incorporated in Cayman Islands on 18th September 2006 as an investment holding company. Substantial shareholders are Crescent Point Investment Hldgs Ltd. and Sami Sindi.

AHHL (Asia Healthcare Hldgs I Ltd) was incorporated in Cayman Islands on 25th January 2006 as an investment fund company. Substantial shareholders of AHHL are Crescent Asia Investment Ltd., Crescent Group Investments Ltd., David Hand, Richard Scanlon and Sami Sindi.

5. REVENUE SEGMENTATION BY ACTIVITIES & COURSES



Activities	FYE 2009	FYE 2008
Programme Fees	96.5%	92.1%
Registration, Processing, Admin. Fees, etc (before discount)	6.6%	8.5%

Courses	FYE 2009	FYE 2008
Nursing Education	29.8%	33.2%
Allied Health Education	70.2%	66.8%

*Allied Health Education covers School of Therapeutic Science, Biomedicine & Health, Pharmacy and Foundation.

Allied Health and Nursing Education Programmes were the source of revenue income to MEGB. And, about 98.3% of total students in MEGB was pursuing Diploma course.

MEGB should duplicate the business approach signing in high intake in its Diploma course into Degree course. Also, instead of focusing local students alone, it should also be looking at ways to attract students from foreign countries.

6. MARKET TARGET

There are about 70 tertiary education institutions offering programmes in nursing and allied health in Malaysia.

As at February 2010, MEGB was ranked 1st in Malaysia among providers of nursing and allied health education in terms of students enrolled in these 2 programmes at public and private higher education institutions, and colleges under the Ministry of Health.

More than 99% of student population enrolled in MEGB are Malaysian with 94.9% of students relied on PTPTN (National Higher Education Fund Corporation), and 4.0% of students under sponsorships and scholarships.

7. INDUSTRY MARKET SIZE

Year	Students Enrolment at Private higher Educational Institutions	% Growth
2008	399,852	2.1%
2007	391,553	11.9%
2006	349,937	23.4%
2005	283,671	- 18.7%
2004	348,989	

Source : Prospectus, pg 67

A look at the table above showed that the % positive growth of student enrolment at private higher educational institutions had been falling in 2007 and 2008 in spite of an increase in absolute number. Given this trend pattern, it is expected to see a single-digit % of positive growth in coming year(s).

MEGB's Total and Net Student Intake From 2005 to 2009

Year	Total Students	Net Student intake
2009	17,165	6,588
2008	13,500	6,326
2007	8,718	4,309
2006	4,699	3,085
2005	1,446	1,324

Source : Prospectus, pg 10

Based on the survey conducted by Vital Factor, MEGB was estimated to have captured a 22% market share in private high education institutions that provided nursing education in Malaysia based on student enrolment as at February 2010.

From the table above, we saw a progressive increase in number of students along with net student intake since 2005. However, if a ratio analysis is carried out between new intake and total students enrolled, the % increase had actually fallen from 65% in 2006 to 49% in 2007, down to 46% in 2008, and decline further to 38% in 2009.

On the other hand, according to WHO, the estimated deficit size of nurses and midwives in South-East Asian region alone was expected to reach 1.4 million by 2015 with shortfall of registered nurses in Malaysia approximately 84,000 in 2008.

And, Ministry of Health in Malaysia forecasted a shortfall of 8,752 allied health professionals in 2010.

8. BUSINESS MODEL

MEGB derived its revenues from new intake of students enrolling in Allied Health and nursing Education, and also recurring income from existing students.

9. UTILIZATION OF PROCEEDS

The public issue is expected to raise gross proceeds of RM143.5 million.

As part of future business expansion plan, MEGB will utilise RM115 million of the IPO proceeds for purchase of land and construction of buildings.

MEGB was said in the midst of identifying a suitable plot of land with a land size of 50 acres in Klang Valley for construction of main campus. Estimated land cost and campus building cost are RM30 million and RM250 million respectively (financing will consist of partial IPO proceeds and internal generated funds and/or borrowings)

It will also be using RM20 million of IPO proceeds for campus expansion.

In addition to the above, RM3 million is to be employed as working capital. And, the balance RM5.5 million will be used for listing expenses.

10. FUTURE PLAN

MEGB will expand its geographic presence and open new campuses in untapped markets where there is potential demand.

It will be looking at launching a university college campus offering Degree level programmes and introducing new Diploma programmes.

Apart from the above, MEGB also plans to establish alliances with overseas institutions (including hospitals in Gulf Cooperative Council region and North America) within the next 2 years, and this is aimed at broadening student job placement options upon their graduation.

11. SELECTED FINANCIAL STATE. ANALYSIS

Selected Bal Sheet (RM 000)		FYE2009		
Current Assets		200,883		
Cash in Hand		56,495		
Inventory		0		
Trade Receivable		139,741		
LT Assets		346,640		
Total Assets		547,523		
Current Liabilities		81,640		
ST Debt		5,488		
Trade Payable		76,152		
LT Liabilities		22,374		
LT Debt		17,774		
Total Liabilities		104,014		
S/holders Equity		443,509		
Selected Income State(RM 000)		FYE2009	FYE2008	FPE2007
Revenue		273,385	202,884	126,492
PBT		112,289	80,058	56,485
EBITDA		123,678	89,992	64,182
PAT		97,382	72,070	51,413
# o/s shares		409,905		
BV per share		0.71		
EPS		0.24		
Ratio Analysis		FYE 2009		
Table 1.1 Profitability Ratio				
1. ROA		23.7%		
2. ROE		33.2%		
Table 1.2 Liquidity Ratio				
1. Current Ratio		2.09 x		
2. Quick Ratio		2.09 x		
Table 1.3 Management Efficiency Ratio				
1. ITO		n/a		
Table 1.4 Leverage Ratio				
1. Total Debt/Equity		0.08 x		

ITO = Inventory turnover (CSG/Inventory).

ROA = Return on asset; ROE = Return on equity

PBT=Profit before tax; PAT=Profit after tax.

Profitability Ratio (Table 1.1)

MEGB registered a ROA and ROE of 23.7% and 33.2% respectively for FYE 2009. And, the group

has seen its' after-tax profit growing over the past 3 years with a CAGR of 37.6%.

Liquidity Ratio (Table 1.2)

The current ratio of 2.09 x (times) indicated that MEGB has the ability to pay its current liability with current asset. In other words, it has RM2.09 in current asset for every RM1.00 of current liability.

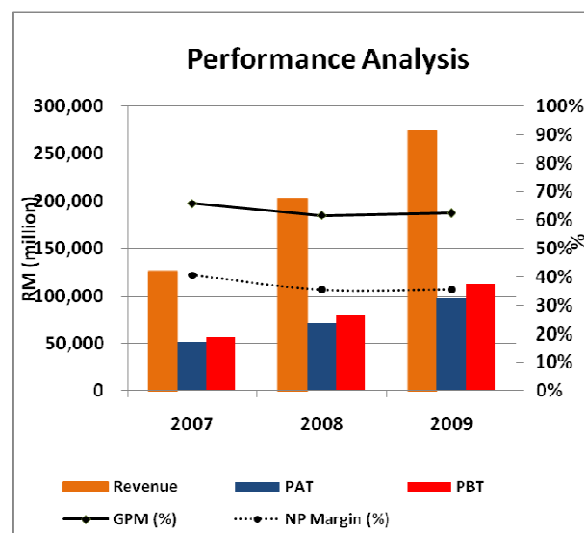
Leverage Ratio (Table 1.4)

MEGB kept a low gearing ratio of 0.08 x (times) for FYE 2009. It will thus have a flexible option to raise debts should financing need to expand business arise in future.

12. MARGIN ANALYSIS

	FYE 2009	FYE 2008	FPE 2007
GPM (%)	62.6%	61.7%	65.8%
NPM (%)	35.6%	35.5%	40.6%
Revenue	273.3mil	202.8mil	126.4mil
PAT	97.3mil	72.0mil	51.4mil
PBT	112.2mil	80.0mil	56.4mil

GPM = Gross profit margin NPM = Net profit margin
 PAT = Profit after Tax PBT = Profit before Tax



MEGB kept its gross profit margin consistently above 60% with net profit margin also maintained above 30% from 2007 to 2009, this was believed to be owing to stable cost of services in these periods with better control of operating expenses in 2009.

13. VALUATION (PER SHARE BASIS)

3 rd May2010	MEGB	SEGI	HELP
IPO/Market Price	RM3.50	RM2.70	RM2.48
P/E	14.7 x	22.5x	14.5x
P/S	5.25 x	1.27x	2.28x
P/CF	12.96 x	14.52x	10.78x
Net Asset	RM0.71	RM1.91	RM1.09
Cash Flow	RM0.26	RM0.19	RM0.23

E=Earnings, S=Sales, CF=Cash Flow, Net cash and Net Asset are based on per share basis for FYE 2009.

Based on the information provided in the prospectus, MEGB is considered a stock with low risk rating in terms of financial and operational.

Financial – MEGB attained double-digit revenue growth and earnings over 2 years with an above average working capital solvency.

Operational – MEGB has a leading market position in a stable industry with a business model consistent with current state of industry.

A valuation analysis with reference to its peers in determining expected share price of MEGB indicated a level of RM3.86.