SMRT confident of MEGB deal approval

Company upbeat on getting shareholders’ nod on Masterskill acquisition and meeting timelines

### MASTERSKILL EDUCATION GROUP BHD

**Key board members and management**

Siva Kumar M Jeyapalan (executive director)

**Major shareholders**

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Arenga Pinnasa Sdn Bhd</td>
<td>27.02%</td>
</tr>
<tr>
<td>Siva Kumar M Jeyapalan</td>
<td>23%</td>
</tr>
<tr>
<td>Fidelity Management and Research</td>
<td>5.47%</td>
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</tbody>
</table>

**Market cap**

(31 Dec 2014) RM244.5m

**Share price**

(1 Jan 14) 65 sen

52-week high (Nov 24, 2014) 85.5 sen

52-week low (March 3, 2014) 28.5 sen

**Financial results**

<table>
<thead>
<tr>
<th>Financials</th>
<th>Result</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>RM8.68m</td>
<td>Sept 30, 2014</td>
</tr>
<tr>
<td>Net profit</td>
<td>RM6.42m</td>
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SMRT Holdings Bhd is confident of getting approval from its shareholders on its partnership with local private equity fund Creator Funds to acquire a stake in loss-making Masterskill Education Group Bhd (MEGB).

"We are fairly confident we will be able to meet the timelines and persuade shareholders on the benefits of this acquisition," SMRT chairman Datuk R. Palan tells FocusM. He was referring to the extraordinary general meeting (EGM) expected in March to get shareholders’ approval for the deal.

Under the share sale agreement, Arenga Pinnasa Sdn Bhd (APS), a subsidiary of Creator, will acquire a 27.02% stake from Siva Kumar M Jeyapalan, the major shareholder and executive director of MEGB, while the remaining 23% will be taken up by SMRT. The deal is worth about RM69.42 mil.

However, Siva has also given an undertaking to tender to Creator the 23% stake in the event Strategic Ambience Sdn Bhd (SASB), a subsidiary of SMRT, is unable to complete the acquisition of the stake by the close of the offer.

"The guidelines were provided in the share sale agreement so that Siva could tender his stake in the takeover offer to Creator but not anywhere else in case the EGM is delayed," Palan explains.

On the two extensions for SMRT to conduct due diligence, Creator founder and CEO Brahmal Vasudevan tells FocusM "it is quite hard for the company to do the due diligence in 30 days considering the amount of work needed to analyse the financial, business and other matters."

"So we requested for an extension to make sure we have the full understanding of the deal. This is also to ensure a lower possibility of any issues emerging in the future," he adds.

SMRT had announced to conduct the due diligence of not more than 30 days from the date of announcement of the proposed acquisition last Nov 30. It then proposed its first extension of 15 days from Dec 16-24 and the second extension of 18 days till Jan 9 to complete the due diligence.

Commenting on the positives that Creator sees in SMRT and MEGB, Brahmal explains that SMRT has a proven track record in the education business and has turned around Cyberjaya University College of Medical Sciences (CUCMS) into the respectable and reputable university it is today. Currently, CUCMS has presence in Kota Bharu, Kota Kinabalu and Johor Bahru while its network in Middle East is very strong and the company will continue to capitalise on that to grow its overseas student base.

"We believe that this partnership will best leverage SMRT’s experience and management expertise, and Creator’s strategic and financial expertise to turn the group around and take it to greater heights," says Brahmal. Creator and SMRT plan to rename MEGB as AsiaLink Education Group Bhd (AMU) on completion of the deal.

"It is clear that SMRT has the experience in the education sector. On the other hand, student recruitment from overseas could be expensive. So if we could establish synergies on that, we could generate cost savings from 20-30% incurred in this which could boost the bottomline," says Palan.

To recap, in March last year, Siva entered a call and put option agreement whereby Gary How Seong Khong, who was then the MEGB executive director and CEO, is entitled to require Siva to sell his shares to him for the consideration of RM1.10 per share.

"Why would anyone not exercise a put option to sell one's shares for RM1.10 per share, and then less than four months later accept an offer for 60 sen per share, a whopping 45% lower? For Siva the difference between the two offers is close to RM60 mil cash," a market observer says.

On this matter, Siva says though the deal was very attractive, he decided to sell his stake to Creator and SMRT considering the uncertainty of the buyer being able to exercise the option on time. As such, he felt that selling his stake to Creator, which was already accumulating MEGB shares then, would be the best choice.

"If I waited for the option to be exercised, we could end up in a few scenarios and things could get ugly such as a court case which will bring a huge impact on the company and students as well," Siva states.

Creator’s Brahmal insists that providing an education system of quality will be the main focus for SMRT and MEGB to cater to the increasing demand from domestic and overseas students.

Datuk Palan expects to see a new management team in MEGB to move the organisation forward and quickly.

"We position ourselves to be a provider of affordable education with good quality to middle-class population. Just because we position ourselves in the middle-class market, it does not mean we provide middle-class quality. Over three to five years, our target is to become a university of choices," he says.

Research firm ZJ notes that SMRT believes it can turn around Masterskill’s performance. "As it is, its CUCMS campus does not have sufficient place to take in all the students for the MBBS and Pharmacy courses. With the acquisition of Masterskill, it could leverage on Masterskill as the latter also offers similar programmes," it adds.

The firm is also positive that the exercise would strengthen SMRT’s presence in the tertiary education sector and provide a steady income for the group.

Time to move on

Siva Kumar M Jeyapalan, the major shareholder and executive director of Masterskill Education Group Bhd (MEGB), reveals that his task in the education provider was to "clean up, restructure and exit". He adds, "Siva is not an education person. I am a numbers person as I basically came from a financial background. The main reason I went into MEGB again was because it was started by me and some of my friends in 2004," says Siva in sharing his rationale to sell his 30.79% stake to Creator and SMRT. Siva had sold off his stake in the company to one of the company’s executive directors in 2006. However, he made a return a few years later with a substantial stake of around 12%. He subsequently embarked on restructuring the company as MEGB, which was listed in 2010, had been making losses for a few years. "Basically, my job in MEGB was to clean up, restructure and exit," he adds.

Thus, when Creator and SMRT came into the picture and revealed their interest to run the company, Siva knew it was the time for him to pass on the obligations to the right parties interested in reviving the company. “I tend to be practical. Since I am not into this sector and obviously they have shown their interest to be part of the gameplan in MEGB, so I decided to accept their offer," Siva explains.