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Eduspec to venture into Asean

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ONE of the more unique education stocks listed on Bursa Malaysia is Eduspec Holdings Bhd.

While it is serving the education sector, it is classified as a technology counter on the ACE Market.

On the one hand, investors seem attracted to the stock, chasing it up by 65% to 40.5 sen from 24.5 sen year to date.

On the other hand, it clearly has the highest valuation compared with other education

stocks. At its current share price of 40.5 sen, it is trading at more than 60 times price-to-earnings ratio (P/E). Its market cap stands at RM345.6mil.

Chief executive officer Lim Een Hong sums up the company as an integrated services provider that caters specifically to the K-12 curriculum in the region. K-12 is kindergarten through secondary education. On top of that, it also provides programmes for vocational schools and polytechnic institutions.

Eduspec made a loss of RM3.38mil for its first quarter ended Dec 31, 2014 but that's because it does not receive fees from schools as they enter the year-end break.

It made RM6.85mil for its financial year ended Sept 30, 2014 (FY14), which is about eight times of the RM850,000 it made in FY13.

Asked if there are ways to mitigate the cyclical nature of its business, Lim says: "We notice that most schools in the world have holidays in November and December so there's really not much we can do. If investors believe in us, they'll have to look beyond the quarterly results."

He also attributes the numbers to some of the expenses incurred for research projects to develop its projects. These are being amortised over the years.

The stock has some institutional holdings, including, Asia Unit Trusts, TA Unit Trust Management Bhd and Areca Capital Sdn Bhd.

Eduspec focuses on creating customised solutions for schools based on their needs.

From there, it provides IT hardware, educational solutions, programmes and training for schools and teachers.

Fuelling growth

Its growth prospects stem from the decentralisation of schools, a global trend that will hit South-East Asian shores eventually, Lim says.

When decentralisation happens, schools will have more say in what they want to spend on and the direction they are getting into. This is seen in the education systems in advanced countries like Sweden and Australia.

“When schools are accountable for what they spend on, they will make sure it works,” Lim says.

Another way is through the voucher or coupon system whereby the government funds the students instead of schools. Students can then choose the schools they want to attend and in turn, schools will have to be more competitive and efficient to sustain its operations. When the schools are “forced” to be competitive to attract students, they will have to ensure that their facilities and performance are top-notch.

He gives the example of Indonesia, which has seen a shift in its education policy.

“Our operations there will grow very quickly because the Indonesian government is in the process of decentralising its education system.”

There are more than 230,000 schools in Indonesia compared with some 10,000 in Malaysia. It works closely with about 100 schools in Indonesia and more than 300 schools in Malaysia. Due to the huge market in Indonesia, he sees a huge upside in the number of schools that it can serve. It ventured into Indonesia in 2010 and formed a company there two years ago.

Another trend is the public-private partnership model in the education sector.

Traditionally, the education sector has been seen as one that is taken care of by the government but with the participation of private players, parents and students will have more options. On top of that, private education service providers will be able to support the growth of the entire system.

“The sector is so fragmented. We want to institutionalise it,” he says.

It started by outsourcing and providing e-learning products for schools.

Then, it started tailor-made educational technology for schools. Under this segment, helps schools to install IT systems, software solutions, e-content and manage the schools’ IT labs.

He explains that most players in the market provide single solutions for schools.

It differentiates itself from that by putting itself in the school’s shoes to provide plans and solutions that suit them most.

“We work like a consultancy whereby we build roadmaps of two to three years with the

schools," he says, adding that it will hand-hold the teachers to implement the solutions that they identified.

Because of that, there will be recurring income from the schools that they work with.

Many vendors in the market do not pay enough attention to after-sale services and the schools ended up buying things they under use, he explains.

Lim says that thanks to Malaysia being advanced in the education space compared to regional countries such as Philippines, Vietnam and Indonesia, they tend to look up to Malaysian-based education offerings.

And because of that, he says Eduspec is able to command better pricing in overseas markets.

For now, overseas markets contribute 30% to 40% to its total revenue.

It enters foreign markets through joint ventures for localisation purposes.

In the overseas markets, it focuses on the "low hanging fruits" by providing programmes such as English learning.

While it is penetrating new markets like Thailand and Myanmar progressively, he expects the Malaysian market to grow rapidly as well.

Ideally, he hopes to capture 10% of the Asean market in five years.

The majority of the Malaysian schools Eduspec works with are Chinese type national schools.

Looking ahead, it will tap into local high-performance, international and private schools for growth.

Lim says the company has conducted numerous pilot experiments and researches before it is able to roll out or scale up its programmes.

Every year, the company will spend about 10% of its revenue on research and development. It has a sizeable headcount of about 600 due to the hand-holding approach it provides to clients.

“When we come out with a plan for the schools, we want to make sure that they are well-implemented, which is why we need people to work closely with the teachers,” he says.

Tags: Eduspec Holdings Bhd, education, technology



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