

JF Apex Securities Berhad Newsletter (Visit Note)

9 February 2011

## Seg International Bhd

# Not Rated

Entering a new era of growth

Target Price: RM3.03

Price (8 Feb 11)	<b>RM2.78</b>
KLCI	1539.55

Stock Data	
Bursa / Bloomberg code	9792 / SYS MK
Market / Sector	Main / Ind
Syariah Compliant status	Yes
Issued shares (m)	254.28
Par Value (RM)	0.50
Market cap.	RM701.81m
Price over NTA	4.91
52-week price Range	RM0.40– 2.84
Beta (against KLCI)	0.78
3-m Average Daily Volume	0.37
3-m Average Daily Value <sup>^</sup>	RM0.95
<sup>^</sup> based on closing price	

### Major Shareholders

1) Cerahsar Sdn Bhd	22.60%
2) Rexter Capital Sdn Bhd	11.99%
3) Segi International	9.25%

### Share Performance (as at 8 Feb 11)

	1m	3m	12m
Absolute (%)	12.8	29.0	568.4
Relative (%-pts)	15.5	41.0	437.3

### Historical PE

FY	FY07	FY08	FY09
Highest	39.24	12.94	11.49
Lowest	10.95	7.30	7.30

### Financial Forecast

FYE dec (RMm)	09A	10F	11F	12F
Revenue	176.76	220.95	276.19	339.71
Operating profit	5.05	54.13	66.29	74.74
Pretax profit	14.61	52.91	64.89	73.17
Core Net profit	10.02	41.69	51.13	56.21
EPS (sen)	4.32	16.71	20.17	22.17
PER (X)	64.35	16.64	13.78	12.54
DPS (sen)	0.94	4.18	10.0	11.0
Div Yield (%)	0.3%	1.5%	3.6%	4.0%

### Important Balance Sheet Items (as at 30 Sept 10)

NA / share (RM)	0.79
Receivables (RM m)	35.3
Payables (RM m)	41.3
Total Assets (RM m)	255.96
Net Cash/(Debt) (RM m)	Net Cash

<sup>^</sup> N.M = not meaningful

*Seg International Berhad is an investment holding company while its subsidiaries are principally involved in the field of education. The group provides professional, commercial and academic educational institution, operates commercial colleges and provides education facilities and training centers. We visited Segi recently and we believe that the group is well-positioned to grow both domestically and internationally. We value Segi at RM3.03 per share by applying a PE of 15x to FY11 EPS of 20.2 sen.*

### Highlights

**Founded in 1977** - Seg International Berhad started operations in 1977 when it established its first education center (known as Systematic Education Group). About 20 years later, Systematic Education Group achieved its listing status as the group was listed on the Second Board of Bursa Malaysia Securities Berhad in 1995. From the date of its listing, the group continues to progress and was finally transferred to the Main Board of Bursa Malaysia Securities Berhad in 2004.

**Upbeat on the education industry** - The Ministry of Higher Education has set a target of 200,000 foreign students by 2020 from the current level of ~80,000 students, a target that we deem achievable as we believe that Malaysia does have the potential to become a regional education hub.

**Student population to grow 15%-20% for FY10-FY12** - Student enrolment grew from ~15000 to ~23000 between FY06-FY10. Going forward, we project student population in Segi to increase by 15%-20% per year for FY10-FY12.

**Leveraging on home-grown programmes** - In 2008, Segi was conferred "University college" status by the Ministry of Higher Education. Thus, Segi is able to confer its homegrown programmes, where margins are better as compared to twinning programmes.

**Net profit leaps in FY2010 on the back of improving profit margins** - Segi's 9MFY10 net profit came in at RM 31.32mil (+314% y-o-y), making up 75% of our full year forecast.

**Expect at least 10 sen dividend(net) in FY2011** - On the back of its robust earnings outlook, we believe that Segi should be able to pay out at least 10 sen dividend(net) in FY2011, which translates into 3.6% dividend yield.

**TP RM3.03** – Based on peer comparison, we have arrived at average industry PER of 15x. With our forecast EPS 2011 of 20.2 sen, we value Segi at RM3.03, offering an expected total return of 14%.

## Company Background

### *Founded in 1977*

Seg International Berhad is an investment holding company while its subsidiaries are principally involved in the field of education. The group provides professional, commercial and academic educational institution, operates commercial colleges and provides education facilities as well as training centers. Seg International Berhad started operations in 1977 when it established its first education center in the heart of Kuala Lumpur (known as Systematic Education Group). About 20 years later, Systematic Education Group achieved its listing status as the group was listed on the Second Board of Bursa Malaysia Securities Berhad in 1995. From the date of its listing, the group continues to progress and was finally transferred to the Main Board of Bursa Malaysia Securities Berhad in 2004.

### HISTORICAL MILESTONES

YEAR	MILESTONE
1977	The opening of Systematic Business Training Centre, marking the beginning of SEGi's history
1982	The opening of Systematic Institute of I.T
1984	The opening of Systematic College, Johor Bahru
1985	The opening of Systematic College, Petaling Jaya
1989	The opening of Systematic College, Penang
1990	The opening of Systematic College, Kuching, and Systematic College Klang
1993	The opening of Systematic Secretarial Centre
1995	The listing of Systematic Education Group Berhad on the KLSE Second Board
2001	Merger with PRIME Group, which comprises PRIME Colleges, MSC International College, Summit International College, IBMS College & IFPA Resources
2002	Corporate name change to SEG International Berhad or SEGi to reflect the new identity and direction of the Group
2003	SEGi received KLSE Corporate Excellence Award
2004	SEGi was transferred to the Main Board of Bursa Malaysia Securities Berhad
2007	SEGi's main and largest campus, SEGi College Malaysia, opened in Kota Damansara
2008	Official launch of SEGi's flagship campus by Prime Minister. Segi was upgraded to University College status.
2010	Launch of niche and high margin programmes such as MBBS and optometry degrees.

Source: Company

### *Serves ~23,000 students*

At present, the Group has six campuses located in the Klang Valley, Penang and Sarawak, and currently serves more than 23,000 local and international students, including working adults. Its flagship campus - SEGI University College, located within Greater Kuala Lumpur at Kota Damansara, boasting state-of-the-art facilities that provide a complete learning experience for its students. Currently, Segi has a student capacity of ~32,500, offering a variety of courses at the pre-university, undergraduate, postgraduate and professional level.

***Consortium of Global Partners***

Segi has established strong collaborations with various foreign universities, and thus it is able to provide twinning and external programmes offered by its global partners via such tie-ups. Some of Segi's collaborated partners are University of Sheffield(UK), University of Sunderland(UK), University of Greenwich(UK), University of Abertay Dundee(UK), Teesside University(UK), Upper Iowa University(US), University of Southern Queensland(Australia), Wanganui School of Design(New Zealand), Meenakshi University(India) and Yenepoya University(India)

**Earnings Outlook & Financial Review**

***200,000 foreign students by 2020***

On the back of the supportive government policy to focus on high-income economy (in which per capita income of Malaysian is projected to reach RM38,850 in 2015), we believe that private higher education providers such as Segi should benefit from the robust growth in foreign students. The Ministry of Higher Education has set a target of 200,000 foreign students by 2020 from the current level of ~80,000 students, which we deem achievable as we believe that Malaysia does have the potential to become a regional education hub.

***Student population to grow 15%-20% for FY10-FY12***

Student enrolment grew from ~15000 to ~23000 between FY06-FY10. Going forward, we project student population in Segi to increase by 15%-20% per year for FY10-FY12, driven by i) aggressive marketing plans to attract students both domestically and internationally(Segi targets to grow its international student fraction to ~20% of the total student population, mainly from China, Middle Eastern and India), ii) wider range of courses in niche disciplines such as medical sciences, pharmacy, optometry and dentistry, iii)strengthening brandname, iv)plans to tap into adult learning market aggressively, v) availability of large capacities (Currently, the student capacity stands at 32,500 and Segi can increase its capacity by operating on 2 or 3 shifts) and v) government initiatives for education under the FTP and 10MP.

***Leveraging on home-grown programmes***

In 2008, Segi was conferred "University college" status by the Ministry of Higher Education. Thus, Segi is able to confer its home-grown programmes, where margins are better as compared to twinning programmes. Going forward, Segi will continue to introduce more new high margin courses by leveraging on its home-grown programmes. We view this move positively as it will allow the group to garner better margins.

***Impressive revenue growth in the past three years***

Segi's revenue has been growing steadily in the past three years with a CAGR of 34.45%. For FY2011 and FY2012, we have projected revenue growth of 25% and 23%, respectively, on the back of Segi's plans to i) introduce more new high margin courses by leveraging on its home-grown programmes, ii) attract more international students, iii) tap into adult learning market aggressively and iv) increase operational efficiency by operating on 2 or 3 shifts rather than a single shift, which is expected to maximize revenue at minimal cost.

***Net profit leaps in FY2010 on the back of improving profit margins***

Segi's 9MFY10 net profit came in at RM 31.32mil (+314% y-o-y), making up 75% of our full year forecast. The huge improvement was mainly driven by: i) the increase of student enrolments at the Group's institutions, particularly for high margin programmes and ii) better margins achieved during the period under review as 9MFY10 net profit margin stood at 19.4% vs 7.9% a year ago. For FY2011, we have assumed operating costs to be stable and thus arriving at net profit forecast of RM 51.13mil.

***Stronger revenue and net income in 3QFY10***

In 3QFY10, Segi posted stronger revenue of RM 56.37mil (up 8.7% y-o-y, 7.2% q-o-q). Meanwhile, the group recorded higher net profit of RM11.01m (up 271% y-o-y), mainly due to the increase of student enrolments at the Group's institutions, particularly for high margin programmes and better control of operating expenses as net profit margin has increased to 19.5% from 5.7% in 3QFY09.

***Strong balance sheet with net cash position***

The group's balance sheet remains healthy, with shareholders fund grew by 14.5% y-o-y to RM 193.79mil as at 30 Sept 2010. As at 30 Sept 2010, Segi has a zero gearing ratio with a net cash position. Meanwhile, we also noticed that its current ratio has improved to 2.47x from 2.44x in FY2009.

***Expect at least 10 sen dividend in FY2011***

On 13 Jan 2011, the group declared a special gross dividend of 14 sen per share for FY2011. On the back of its robust earnings outlook, we believe that Segi should be able to pay out at least 10 sen dividend in FY2011 (implying a payout ratio of 50%), which translates into 3.6% dividend yield.

### Investment Risks

***Foreign Exchange***

Given that the current international student population is quite sizable (approximately 10%) and the group's plan to grow its international student population, Segi could be adversely affected by a stronger Ringgit due to a possible slowdown in demand for education from international students as they may opt to study in their home countries.

***Adverse changes in regulatory and government policy***

The group's revenue is sensitive to growth in student enrolment. Although we are positive on the education industry given the government's plan to develop Malaysia into a regional education hub under 10MP, there is no guarantee that this aim will be achieved. The group's performance will be affected if there are any adverse changes in regulatory and government policy concerning the education industry such as accreditation requirements, international student intake requirements as well as PTPTN loans eligibility.

### Valuation

***Target Price at RM3.03 with an expected total return of 14%***

We have chosen Help International Corp Bhd to perform our peer comparison with Seg International as we view Masterskill Education group's current valuation is irrelevant, mainly due to the PTPTN concern. As a result, we have arrived at average PER of 15x. With our forecast EPS 2011 of 20.2 sen, we value Segi at RM3.03, which provides an expected total return of 14%.

**Figure1: Segi International Price To Earnings Valuation**

Security	Mkt Cap (RM 'm)	Price (RM)	EPS11F (RM)	PER11F(x)
Help International Corp	316.8	2.27	0.17	15.0
Seg International	699.3	2.78	EPS 11F (sen)	0.20
			<b>Target Price (RM)</b>	<b>3.03</b>

## Segi's Financial Performance

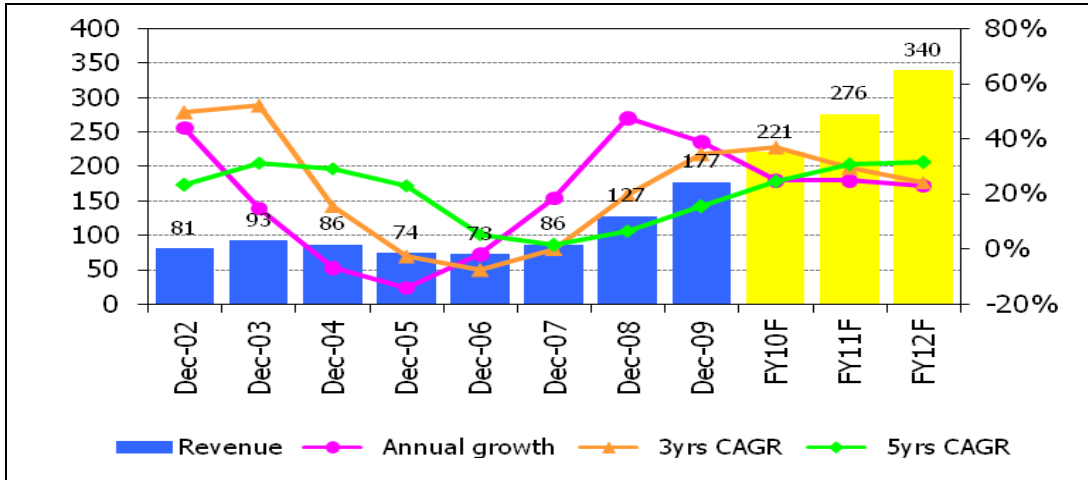
Figure2 : Financial Statement Forecast

FYE Dec (RM m)	FY09	FY10F	FY11F	FY12F
Revenue	176.76	220.95	276.19	339.71
Gross profit	125.15	159.08	198.86	244.59
Operating profit	5.05	54.13	66.29	74.74
Finance cost	1.69	1.22	1.40	1.57
Profit before tax	14.61	52.91	64.89	73.17
Taxes	4.37	10.58	12.98	16.10
Profit for the year	10.24	42.33	51.91	57.07
Net Income (to shareholders)	10.02	41.69	51.13	56.21
EPS (sen)	4.32	16.71	20.17	22.17
PER	64.35	16.64	13.78	12.54
Net Dividend (sen)	0.94	4.18	10.0	11.0
Dividend Yield (%)	0.3%	1.5%	3.6%	4.0%
Net Gearing	Net Cash	Net Cash	Net Cash	Net Cash
Operating profit margin	2.9%	24.5%	24.0%	22.0%
PBT margin	8.3%	23.9%	23.5%	21.5%
Net Profit margin	5.7%	18.9%	18.5%	16.5%
Revenue growth	38.8%	25.0%	25.0%	23.0%
PBT growth	47.8%	262.3%	22.6%	12.8%
Net profit growth	37.9%	316.0%	22.6%	9.9%

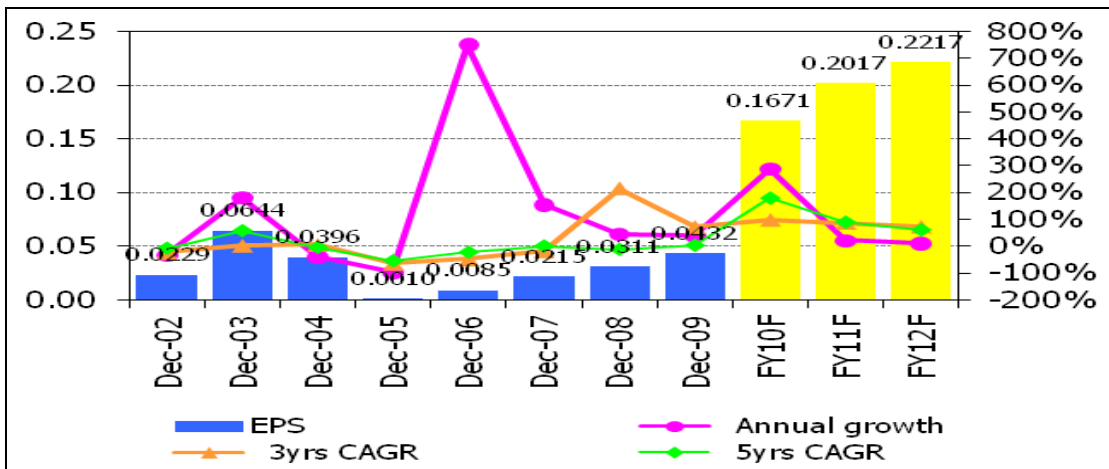
Figure3 : Seg International's 3Q2010 results

### Results Summary

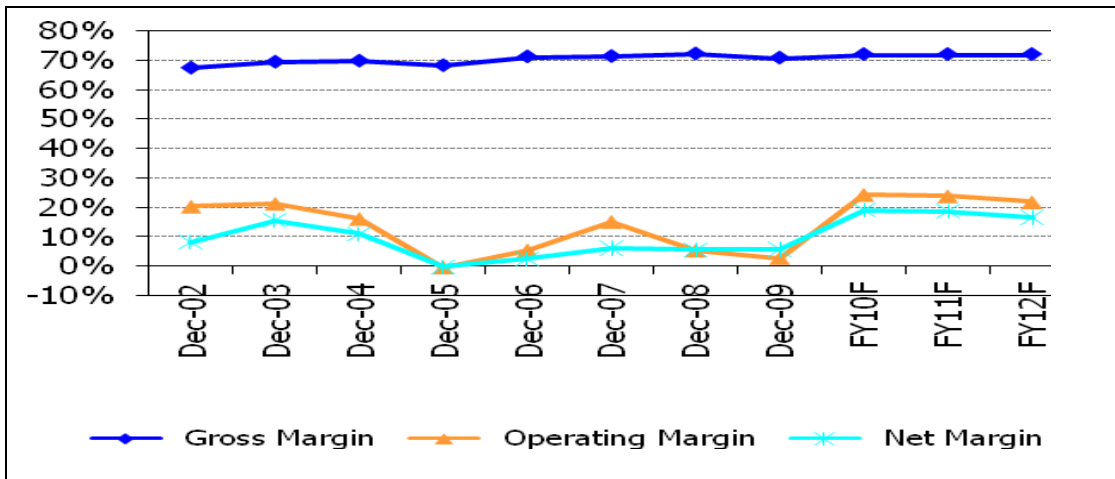
Year Ending Dec	3Q10	2Q10	3Q09	QoQ	YoY	9MFY10	9MFY09	YoY
Revenue (RM m)	56.37	52.57	51.84	7.2%	8.7%	161.24	126.57	27.4%
PBT(RM m)	13.26	13.78	3.83	-3.8%	246.2%	40.21	13.7	193.5%
Net Profit (RM m)	11.01	10.80	2.97	1.9%	270.7%	31.32	9.97	214.1%
EPS (sen)	4.43	4.35	1.25	1.8%	254.4%	12.61	4.21	199.5%
Net Profit Margin(%)	19.5%	20.5%	5.7%	-1.0%	13.8%	19.4%	7.9%	11.5%



Revenue(mil) and Growth

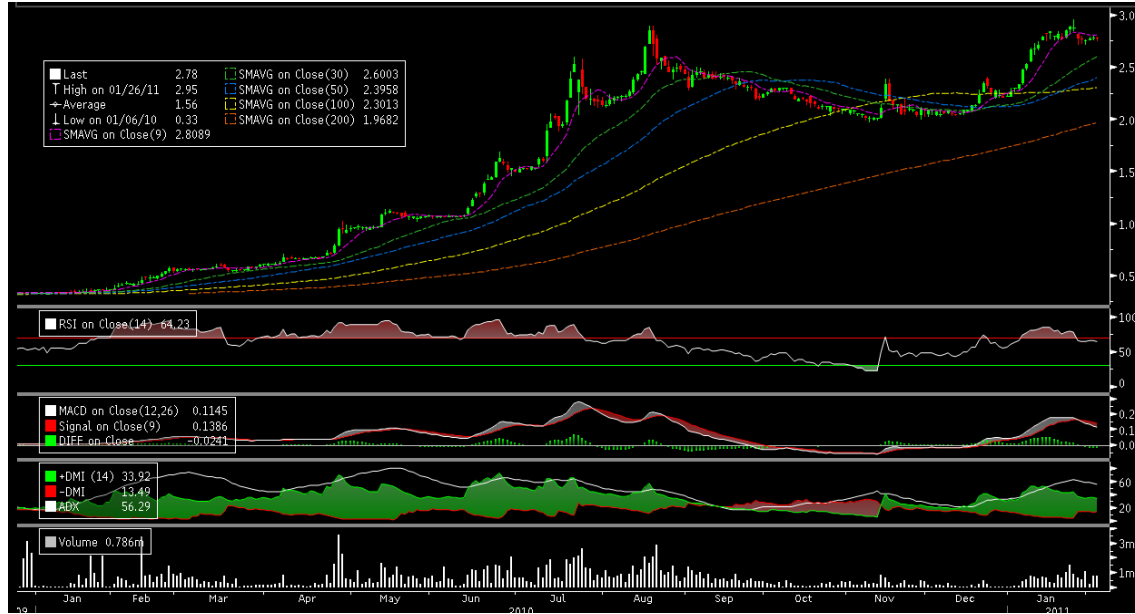


Earnings per Share and Growth



Margins

### Historical Price Movement 8/2/2010 – 8/2/2011



**JF APEX SECURITIES BERHAD – CONTACT LIST**
**JF APEX SECURITIES BHD**
**Head Office:**

6<sup>th</sup> Floor, Menara Apex  
Off Jalan Semenyih  
Bukit Mewah  
43000 Kajang  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 8736 1118  
Facsimile : (603) 8737 4532

**PJ Office:**

15<sup>th</sup> Floor, Menara Choy Fook On  
No. 1B, Jalan Yong Shook Lin  
46050 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 7620 1118  
Facsimile : (603) 7620 6388

**DEALING TEAM**
**Head Office:**

Kong Ming Ming (ext 3237)  
Shirley Chang (ext 3211)  
Norisam Bojo (ext 3233)  
Derrick Ng Wei Yee (ext 3239)  
Edwin Loh Ming Hon (ext 3236)  
Wong Wing Haur, Alvin (ext 3226)  
Gan Huai Hsia (ext 3214)  
Yap Maow Jun, David (ext 3228)  
Lim Soo Yee, Chloe (ext 3235)

**Institutional Dealing Team:**

Lim Teck Seng  
Sanusi Manso (ext 740)  
Edy Sukasma (ext 745)  
Fathul Rahman Buyong (ext 741)  
Ramlee Sulaiman (ext 742)  
Ahmad Mansor (ext 744)  
Lum Meng Chan (ext 743)

**PJ Office:**

Mervyn Wong (ext 363)  
Mohd Hanif Wan Said (ext 111)

**RESEARCH TEAM**
**Head Office:**

Ng Keat Yung (ext 753)  
Lee Cherng Wee (ext 756)  
Wong Miu Kee (ext 752)

**JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK**
**STOCK RECOMMENDATIONS**

**BUY** : The stock's total returns\* are expected to exceed 10% within the next 12 months.

**HOLD** : The stock's total returns\* are expected to be within +10% to – 10% within the next 12 months.

**SELL** : The stock's total returns\* are expected to be below -10% within the next 12 months.

**TRADING BUY** : The stock's total returns\* are expected to exceed 10% within the next 3 months.

**TRADING SELL** : The stock's total returns\* are expected to be below -10% within the next 3 months.

**SECTOR RECOMMENDATIONS**

**OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.

**MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

**UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

\*capital gain + dividend yield

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