

# Corporate Highlights

## New Coverage

# Education

Well Poised For Growth



RHB Research Institute Sdn Bhd  
A member of the RHB Banking Group  
Company No: 233327 -M

20 April 2011

Recom : **Overweight**  
(New Coverage)

Table 1 : Education Sector Valuations

	FYE	Price (RM)	Fair value (RM)	Core EPS (sen)		Core EPS GWTH (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	GDY (%)	Rec
				FY11	FY12	FY11	FY12	FY11	FY12				
Help	Oct	2.68	2.87	17.1	19.2	26.9	12.3	15.7	14.0	8.5	2.9	1.7	MP
SEGi	Dec	3.69	4.54	25.2	34.2	50.6	35.5	14.6	10.8	10.4	4.6	4.6	OP
<b>Sector Average</b>						<b>43.3</b>	<b>29.2</b>	<b>14.9</b>	<b>11.5</b>				

^FY11 & 12 refer to FY12 & FY13

◆ **Human capital is a key asset.** The Malaysian Government recognises the importance of education as a critical asset of the nation. It was identified as one of the services sub-sectors for further growth and development during the 2006-2020 Industrial Master Plan 3 (IMP3). Between 2007-2011, operating expenditure for education grew at a CAGR of 5.6%. In the 2011 Budget, education accounts for 24.5% and 21.1% of the Federal Government's operating and development expenditures respectively. The education sector contributed approximately RM27bn or 4% of Malaysia's gross national income in 2009, with RM23bn from Government-funded education services alone.

Relative Performance To FBM KLCI



◆ **Growth in enrolment at private institutions outpaced public institutions.** Over the years, the enrolment of students in private institutions has outpaced public institutions, with a CAGR of 7% (from 2002-2010) vs. 5.6% for public institutions. In 2010, private tertiary institutions enjoyed a 48% share (vs. 41% in public institutions and 11% in polytechnics, community colleges and KTAR respectively) of student enrolments. Factors that contributed to the growth of private institutions include:

- 1) Quota system - While there is no quota system to enter Form Six, under the matriculation system only 10% of the places are open to non-Bumiputera students;
- 2) Language - Almost all private institutions use English as the principal medium of instructions;
- 3) Foreign students- Foreign students are an important element of total student enrolment. Between 2003-2010, the foreign student population rose at a 42% CAGR. 72% of foreign students are in private institutions;
- 4) Lack of capacity in public institutions; and
- 5) Rising affluence.

◆ **Risks.** These include: 1) Change in regulations set by the governing bodies; and 2) A change in policy by the Government might impact the eligibility criteria for students to obtain the loans/scholarships.

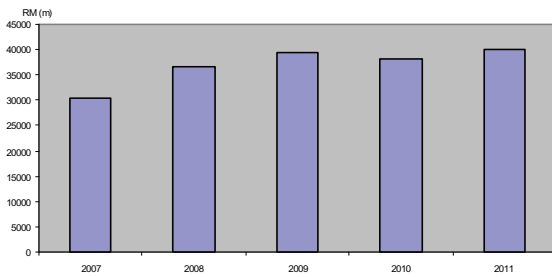
◆ **Investment case.** We believe the education sector is well poised for growth and remains as a critical driver for Malaysia's transformation into a high-income nation due to its impact on productivity and human capital development. Key growth drivers include: 1) increasing in number of students in both public and private institutions; 2) strong partnerships with leading universities from all over the world; and 3) increasing number of foreign students. We initiate coverage on **SEGi** and **Help**.

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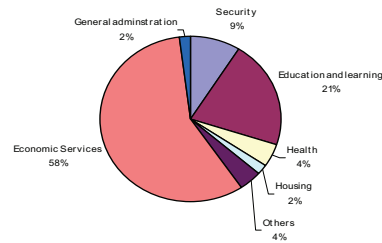
**Overview On Malaysian Education System**

- ◆ **Human capital is a key asset.** The Malaysian Government recognises the importance of education as a critical asset of the nation. It has been identified as one of the services sub-sectors for further growth and development in the Industrial Master Plan 3 (IMP3) period that runs from 2006-2020. Policy measures include enhancing the business environment, the quality and standards of education, promoting the export of education, increasing training capacity, promoting investments in education and training services, and enhancing total factor productivity.
- ◆ **Education accounts for 24.5% and 21.1% of Federal Government’s operating and development expenditures respectively.** Between 2007-2011, operating expenditure for education grew at a CAGR of 5.6%. In the 2011 Budget, education accounts for 24.5% and 21.1% of the Federal Government’s operating and development expenditures respectively. The education sector contributed approximately RM27bn or 4% of Malaysia’s gross national income in 2009, with RM23bn from Government-funded education services alone.

**Chart 1. Federal Government’s Operating Expenditure On Education (from 2007-2011)**



**Chart 2. Breakdown Of 2011 Budget on Development Expenditure By Sector**



Source: 2011 Economic Report By Ministry Of Finance, RHBRI

Source: 2011 Economic Report By Ministry Of Finance, RHBRI

- ◆ **13 EPPs to deliver RM19.0bn GNI.** Collectively, 13 Entry Point Projects (“EPP”) will contribute RM19bn in additional GNI towards the education sector’s targeted Gross National Income (“GNI”) contribution under the Economic Transformation Programme (“ETP”). Combined with an estimated RM14.3bn of GNI in business and baseline growth, the sector will have an overall target of RM60.7bn in GNI. As public sector growth is expected to be limited, this goal will require the private education sector to grow significantly. Consequently, an additional 535k jobs will be created, with the majority of them in professional and technical fields.

**Chart 3. 13 EPPs under ETP**

**Entry Point Projects will expand education touchpoints by 2020**

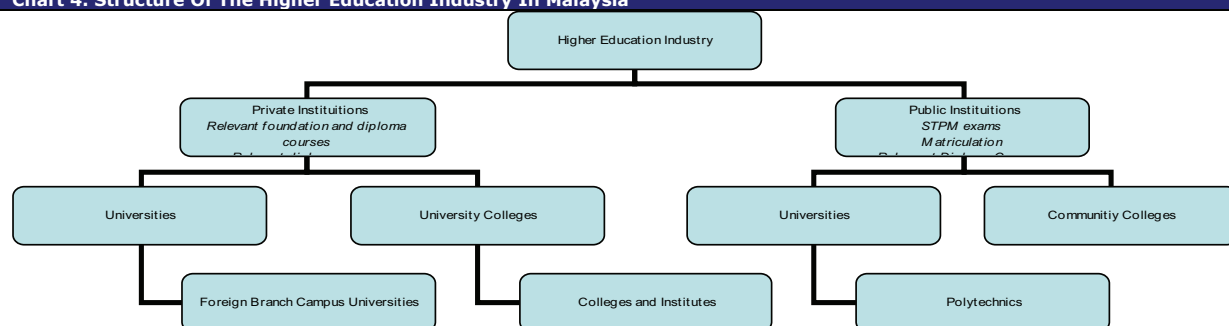
Education NKEA Entry Point Projects		Education Touchpoints (Thousands)		
		2010	Target 2015	Target 2020
Rapid Scale-Up	1. Scaling up early child care and education centres	321	553	857
	2. Improving early child care and education training	1	13	25
	3. Scaling up international schools	19	37	75
	4. Expanding private teacher training	0	3	10
	5. Scaling up private skills training provision	55	96	110
	6. Expanding international distance learning	7	46	161
Concentration	7. Building an Islamic finance and business education DC	2	12	54
	8. Building a health services discipline cluster	55	90	150
	9. Building an advanced engineering discipline cluster	0	12	34
	10. Building a hospitality and tourism discipline cluster	17	35	43
	11. Launching EduCity @ Iskandar	3	16	16
Demand Generation	12. Championing Malaysia’s international education brand	77	124	200
	13. Introducing public private partnerships in basic education	0	8	13

Source: Pemandu

**Tertiary Education In Malaysia**

- ◆ **Tertiary education overview.** At tertiary education level, institutions of higher learning offer courses leading to the awards of certificate, diploma, first degree and higher degree qualifications (at academic and professional fields). Malaysia’s Ministry of Higher Education (“MOHE”) is the governing authority for tertiary education in Malaysia, overseeing higher education institutions including public and private institutions, polytechnics and community colleges. According to MOHE, in 2010, there are over 20 public institutions, 49 private institutions, 27 polytechnics and 59 community colleges across Malaysia. Other government agencies involved in tertiary education under the MOHE include Malaysian Qualifications Agency (“MQA”) and the National Higher Education Fund Corporation (“PTPTN”). MQA is responsible for monitoring and overseeing the quality assurance practices and accreditation of national higher education institutions, while at the same time ensuring these institutions follow many of the procedures and standards established by the Lembaga Akreditasi Negara (“LAN”). LAN was established under the Parliament Act 1996 and is the quality assurance agency for private higher educational institutions.

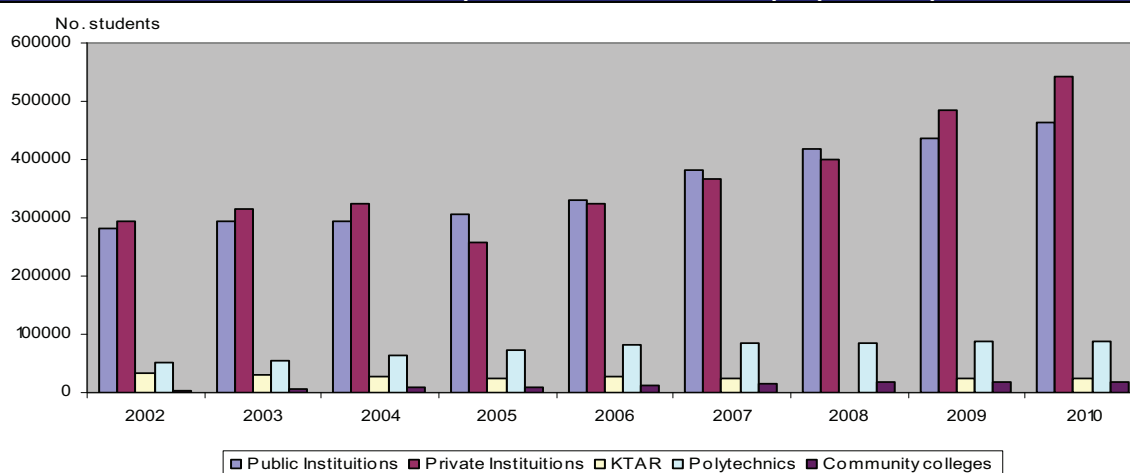
**Chart 4. Structure Of The Higher Education Industry In Malaysia**



Source: Ministry Of Higher Education, RHBRI

- ◆ **Enrolment of students in Malaysia achieved a CAGR of 6.1% (from 2002-2010).** Tertiary students’ enrolment in Malaysia rose at 6% CAGR between 2002-2010. In 2010, a total of 1,134,134 students were enrolled in the tertiary education institutions in Malaysia.

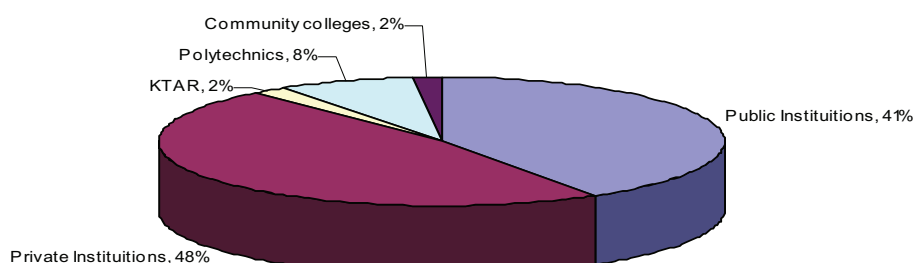
**Chart 5. Number Of Enrolments Of Students In Tertiary Education Institutions In Malaysia (2002-2010)**



Source: Ministry Of Higher Education, RHBRI

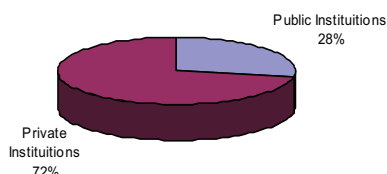
- ◆ **Growth in students' enrolment in private institutions has outpaced public institutions.** Following secondary schooling, student has the option to pursue their education in either public or private institutions. Under public institutions, school leavers had to complete either Form Six and sit for the Malaysian Higher School Certificate (STPM) or complete 12-month matriculation programme. While there is no quota system to enter Form Six, under the matriculation system only 10% of the places are open to non-Bumiputera students. As for students undertaking their pre-university studies in private colleges, they may opt for programmes such as the British 'A' Levels programmes, the Canadian matriculation programme or the equivalent of other national systems- namely the Australian NSW of Studies Higher School Certificate and American High School Diploma (SAT) in order to enter into renowned international universities around the world. Over the years, the enrolment of students in private institutions have outpaced the public institutions achieving CAGR of 7% (from 2002-2010) vs. 5.6% for public institutions. In 2010, private institutions commanded approximately 48% of student enrolments in tertiary education institutions.

**Chart 6. Breakdown of Students Enrolments According To Tertiary Education Institutions**



Source: Ministry Of Higher Education, RHBRI

- ◆ **Language is a key consideration.** Bahasa Malaysia is the main medium of instructions in public institutions for undergraduate courses. This contrasts with the private institutions where almost all of the courses are taught in English for classroom teaching and learning. This has been one of the main drivers for the growth in private institutions. Studies have found that majority of graduates from public institutions fail to communicate effectively and competently in English and this has been a dampener for employers.
- ◆ **Ranks as the 11<sup>th</sup> largest exporter of education globally.** Malaysia is currently the 11<sup>th</sup> largest exporter of education globally thanks to the "value-for-money" proposition that the country offers on account of: 1) the use of English as the medium of instruction; 2) lower costs compared to Singapore; and 3) extensive tie-ups for twinning or credit transfer programmes, which allow a cheaper entry into other universities. Over the years, foreign students in Malaysia have risen at a CAGR of 42% (between 2003-2010). In 2010, private institutions have a 72% market share for foreign students, with the majority from People Republic of China. To encourage more foreign students to Malaysia, the Government has recently loosened certain regulations on foreign students (e.g. to further expedite the application process for foreign students). MOHE aspires to triple the foreign student enrolment to 200k by 2020 from 87k in 2010.

**Chart 7. Breakdown of Foreign Students Enrolments According To Public and Private Institutions.**


Source: Ministry Of Higher Education, RHBRI

**Table 2. Top 10 Countries Of Foreign Students According To Public and Private Institutions.**

	Countries	Public	Private	Total
1	Iran	4,814	7,009	11,823
2	People Republic of China	2,168	8,046	10,214
3	Indonesia	3,769	6,119	9,889
4	Yemen	1,809	4,057	5,866
5	Nigeria	737	5,080	5,817
6	Libya	1,125	2,805	3,930
7	Sudan	596	2,241	2,837
8	Saudi Arabia	668	1,584	2,252
9	Bangladesh	538	1,503	2,041
10	Botswana	2	1,909	1,911

Source: Ministry Of Higher Education, RHBRI

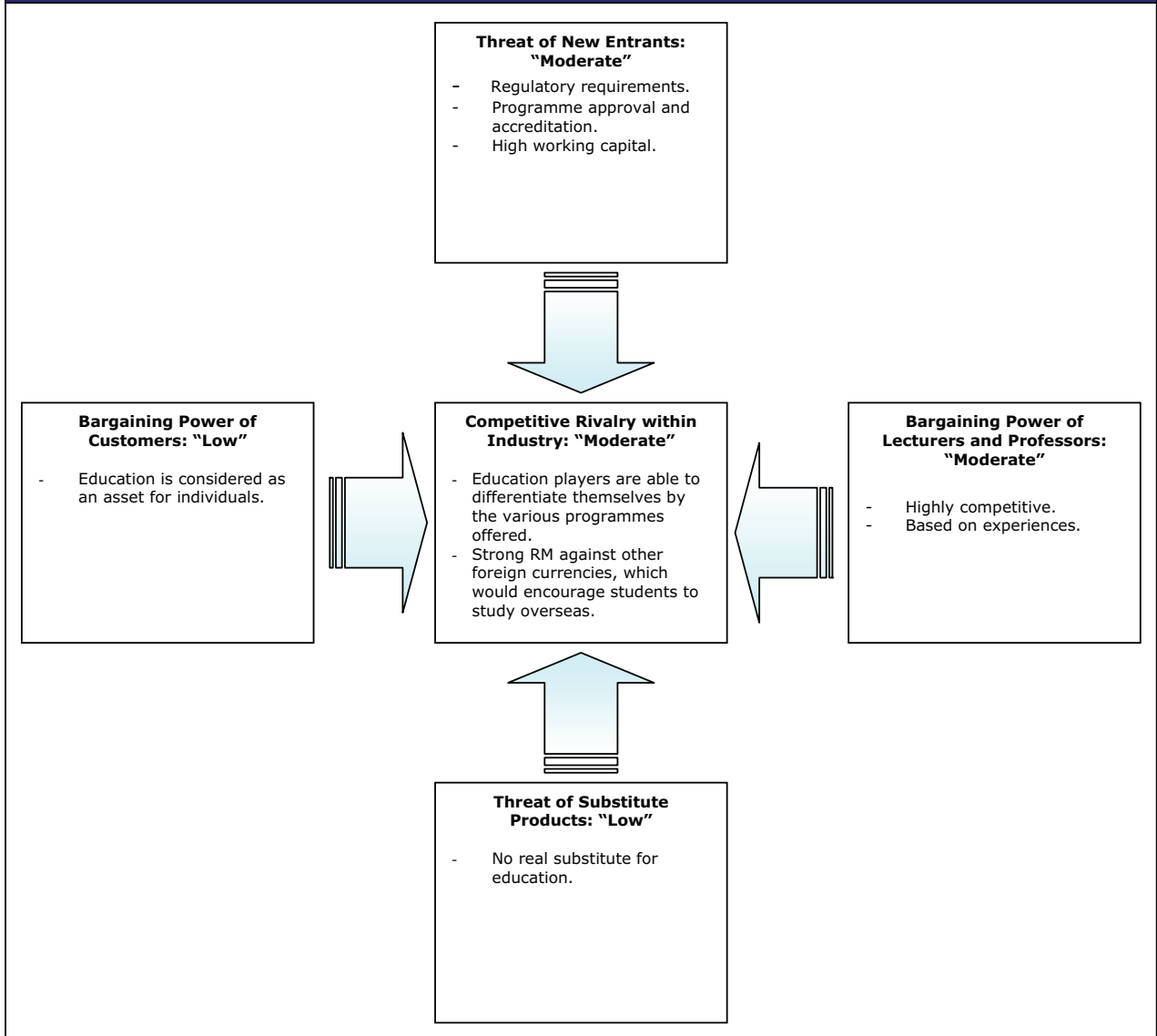
- ◆ **Well poised for growth.** We believe the education sector is well poised for growth and remains as one of the most critical drivers for Malaysia's transformation into a high-income nation due to its impact on productivity and human capital development. Growth drivers include: 1) increasing in number of students in both public and private institutions; 2) strong partnerships with leading universities from all over the world; and 3) increasing number of foreign students. We initiate coverage on **SEGi (Outperform, FV=RM4.54)** and **Help (Market Perform, FV=RM2.87)**.

**Chart 8: SWOT Analysis on SEGi and Help**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• <b>Two of Malaysia's leading education providers.</b> Both SEGi and Help are one the two Malaysia's leading education providers, offering various programmes from various sectors.</li> <li>• <b>Higher margins.</b> With the bulk of its cost remains relatively fixed, any increase in revenue, should flow straight to bottomline.</li> <li>• <b>Strong partnerships with foreign universities and professional bodies.</b> Both SEGi and Help have strong collaborations with foreign universities and professional bodies.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Adverse change in regulatory and government policy.</b> Given that education sector is regulated by government bodies, any adverse change in regulatory and government policies would affect the companies performance moving forward.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• <b>Foreign students.</b> Malaysia is ranked at the top 11<sup>th</sup> exporter globally. Government has been urging private universities to increase the number of foreign students and MOHE is aspiring to triple the amount to 200k from 87k in 2010.</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Stronger RM against other foreign currencies.</b> Strong RM against other foreign currencies, which would encourage local students to study overseas.</li> </ul>

Source: RHBRI

Chart 9: Competitiveness Analysis On The Education Players in Malaysia According To Porter's Five Forces



Source: RHBRI

# SEG International

Set For New Highs

Share Price	:	RM3.69
Fair Value	:	RM4.54
Recom	:	<b>Outperform</b> (New Coverage)

## Highlights

- ◆ **Leaving the past behind.** Following a record of low profits from 2005-2009, SEGi's FY10 net profit jumped to RM43.1m from RM10.0m in FY09 as the group undergoes several kitchen sinking exercises. In addition, following the achievement of its University College status in 2008, SEGi has been able to offer and award its own courses and programmes without paying hefty royalties to third parties. As such, SEGi's balance sheet has remained healthy and group's net cash pile has grown to RM60.8m in RM18.3m in FY09. SEGi operates from six campuses located in the Klang Valley, Penang and Sarawak boasting an enrollment of more than 23,000 local and international students. SEGi offers a variety of courses at the pre-university, undergraduate, postgraduate and professional level respectively.
- ◆ **Strong earnings growth drivers.** SEGi's growth in the next few years will be propelled by:
  - **Ongoing introduction of new high margin programmes.** SEGi plans to introduce more niche programmes, such as medical sciences, pharmacy, optometry and dentistry as well as more post-graduate courses that will help to improve its margins moving forward;
  - **Growing its international student base.** Currently, approximately 10% of SEGi's student populations are foreigners and management is keen to boost the ratio to 20% by end-FY11 from 10% currently; and
  - **Further penetrating into adult learning market.** The group is also keen to further penetrate the adult learning market to leverage off its strategic locations within the city, while benefiting from flexibility in terms of class scheduling and fee payments.
- ◆ **Risks.** The risks include: 1) Change in requirements set by the governing bodies; and 2) A change in policy by the Government might impact the eligibility criteria for students to obtain the loans/scholarships.
- ◆ **Forecasts.** We project SEGi to post FY10-13 revenue CAGR of 27.2%, driven primarily by the increase in student enrollments in the group's institutions. However, we have projected a 4%-pt expansion in SEGi's FY11 EBIT margin to reflect the introduction of new higher margin programmes and operating utilisation effects as most of its costs are fixed. Therefore any increase in topline, should flow straight to bottomline. Consequently, FY10-13 net profit CAGR is forecasts at 39.6%.
- ◆ **Initiate with a Buy.** We believe SEGi's current valuations are attractive as it is only trading at 14.6x FY11 PER, as compared to its most related peer, Help, which is currently trading at 15.7x FY11 PER. Our indicative fair value for the stock is RM4.54, based on target FY11 PER of 18x, a 10% premium over the consumer sector average FY11 PER of 16.5x. Our implied 18x target PER for SEGi suggests a premium to Help's target PER of 16.5x. We believe the premium is justifiable given the: 1) SEGi's superior net profit margin; 2) the wider array of courses offered as well as the number of students; and 3) larger market capitalisation. The stock offers strong earnings prospects and decent dividend yield of 4.9%. We initiate coverage on SEGi with an **Outperform** recommendation.

Table 3: Investment Statistics ( SEG; 9792 )								Bloomberg Ticker: SYS MK		
FYE Dec	Revenue (RMm)	Net Profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	Net gearing (x)	ROE (%)	GDY (%)
2010a	217.6	43.1	16.8	+>100	22.0	-	5.4	0.0	21.3	3.2
2011f	280.8	64.8	25.2	50.6	14.6	25.0	4.6	0.0	27.6	4.9
2012f	364.2	87.9	34.2	35.5	10.8	34.0	3.8	0.0	34.2	6.5
2013f	447.9	117.1	45.6	33.3	8.1	46.0	3.1	0.0	37.9	8.6
<b>Issued Capital (m units)</b>				260.5			<b>Major Shareholders</b>		<b>(%)</b>	
<b>Market Capitalisation (RMm)</b>				961.3			Dato' Clement Hii		30.5	
<b>Daily Trading Volume (m units)</b>				0.7			Cerahsar Sdn Bhd		22.0	
<b>52-week Price Range (RM / unit)</b>				0.643-3.69			Segmen Entiti Sdn Bhd		6.4	
<i>Main Market Listing /Trustee Stock/Syariah Approved Stock By The SC</i>							<i>* Consensus based on IBES Estimates</i>			

SEGi

- ◆ **Brief history.** SEGi International ("SEGi") (formerly known as Systematic Education Group), began operations in 1977, offering mainly professional courses for qualifications such as LCCI, ACCA and ABE. In 1995, the company was listed on the Second Board of Bursa Malaysia Securities and undertook numerous acquisitions to establish its position as an education provider. Subsequently, the group changed its name to SEGi in 2002 to reflect the new identity and direction of the group. Following the official launch of its main and largest campus in Kota Damansara, the group subsequently achieved University College status in 2008 that enables it to award its own degrees. SEGi operates from six campuses located in the Klang Valley, Penang and Sarawak boasting an enrollment of more than 23,000 local and international students. SEGi offers a variety of courses at the pre-university, undergraduate, postgraduate and professional level respectively.
- ◆ **Strong collaborations various foreign universities.** Over the years, SEGi has established strong links with various foreign universities, providing twinning and external programmes. SEGi's partners are situated in the United Kingdom, United States of America, Australia, New Zealand and India.

Chart 10. Some Of SEGi's Collaborations With Foreign Universities



Source: Company data

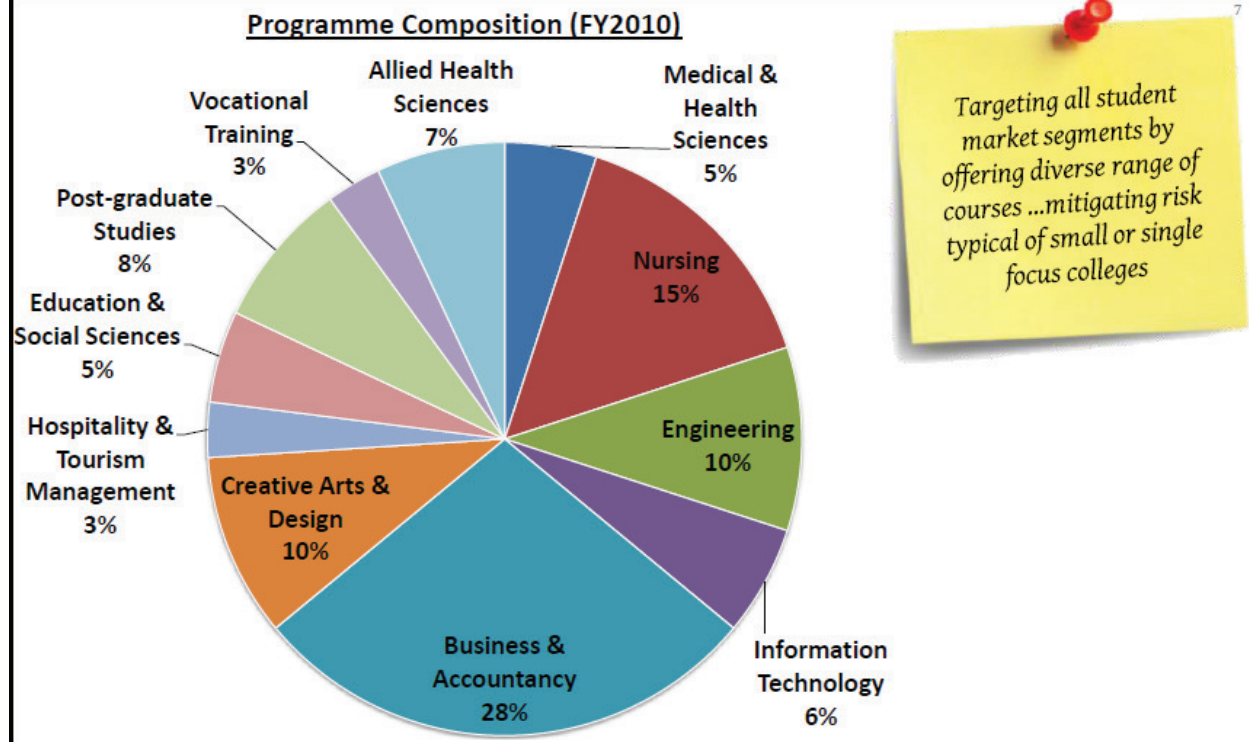
Photo 1. Photos Of SEGi's Main Campuses



Source: Company data



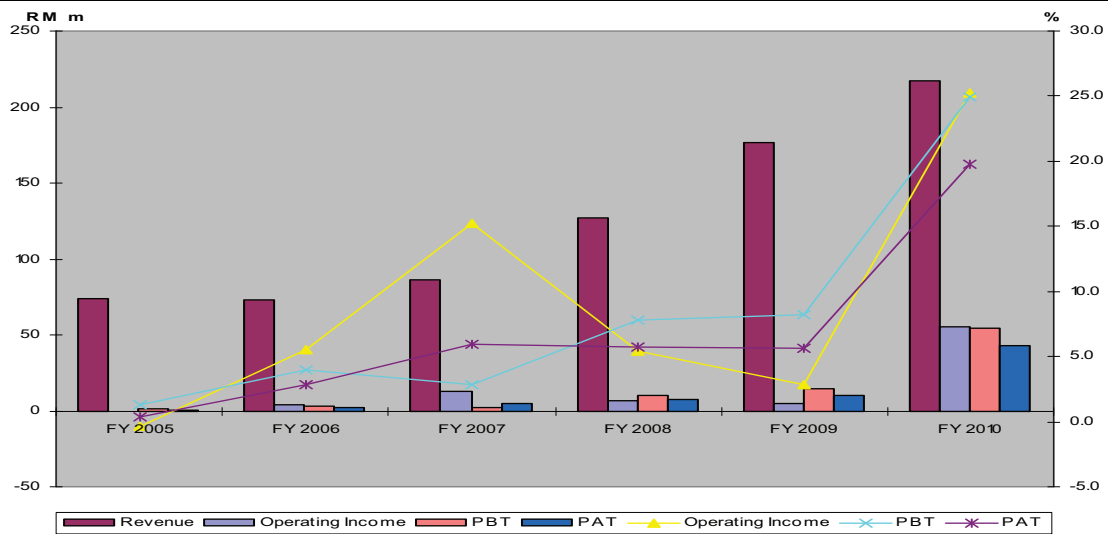
Chart 11. SEGi's Programme Composition For FY2010



Source: Company data

- ◆ **Healthy balance sheet.** SEGi's revenues have risen steadily since 2007 with a 3-year CAGR of 36.1% driven by the increase in student enrollment. Its earnings, however, have seen tremendous 3-year CAGR of 102.9%. This is due to the introduction of higher margin academic programmes and professional courses after the group achieving its University College status in 2008, therefore able to offer its own courses and programmes without paying hefty royalties to third parties. In addition, the group also went through several kitchen sinking exercises in order to unlock some of the value of its assets in FY05-FY09. As such, SEGi's balance sheet has remained healthy and the group's net cash pile has grown to RM60.8m in FY10 from RM18.3m in FY09.

Chart 12. SEGi's Historical Data (from FY05-FY10)



Source: Company data

- ◆ **Strong earnings growth drivers.** SEGi's growth in the next few years will be propelled by:
  - **Ongoing introduction of new high margin programmes.** SEGi plans to introduce more niche programmes, such as medical sciences, pharmacy, optometry and dentistry as well as more post-graduate courses that will help to improve its margins moving forward;

**Chart 13. Number Of New Courses In Planned**

Faculty	2010	2011	2012
Business, Accountancy & Mgt	1	3	5
Medicine	1	-	-
Pharmacy	3	2	-
Optometry & Vision Sciences	2	3	-
Dentistry	1	1	-
Nursing & Allied Health Sciences	8	8	6
Engineering & Built Environment	-	4	2
Creative Design & Technology	1	2	3
Hotel & Tourism	3	2	3
Post Graduate Programmes	1	3	2
<b>Total</b>	<b>21</b>	<b>28</b>	<b>21</b>

Source: Company data

- **Growing its international student base.** Currently, approximately 10% of SEGi's student populations are foreigners and management is keen to boost the ratio to 20% by end-FY11. While the fees for the international students are the same as compared to local students, the group enjoys tax benefits given that 50% of the total international students fees are tax exempt; and
- **Further penetrating into adult learning market.** The group is also keen to further penetrate into adult learning market as it offers strategic locations within the city, while offering the flexibility in terms of the class scheduling and fee payments.

## Risks

- ◆ **Risks to our view.** The risks include:
  - **Changes in regulatory and government policy.** Given that the education industry is highly regulated by the Government, any adverse change in regulatory and government policies such as accreditation requirements and international student intake requirements, will affect the group's performance; and
  - **PTPTN financial aid.** Approximately 27% of SEGi's students are financed through loans or scholarships from PTPTN (National Higher Education Fund Corporation). A change in policy by the Government might impact the eligibility criteria for students to obtain the loans/scholarships.

## Earnings forecasts

- ◆ **Forecasts.** We project SEGi to post FY10-13 revenue CAGR of 27.2%, driven primarily by the increase in student enrollments in the group's institutions. However, we have projected a 4%-pt expansion in SEGi's FY11 EBIT margin to reflect the introduction new higher margin programmes and operating utilisation effects as most of its costs are fixed. Therefore any increase in topline, should flow straight to bottomline. Consequently, FY10-13 net profit CAGR is forecasts at 39.6%. We project SEGi to spend capex of RM10m p.a. for FY11-13 respectively.

SEGi has recently announced a dividend policy to distribute a minimum 50% of the group's net profits. Accordingly this translates to gross yields of 4.6-8.1%.

### Valuations and Recommendation.

- ◆ **Investment case.** We believe SEGi's current valuations are attractive as it is only trading at 14.6x FY11 PER, as compared to its most related peer, Help, which is currently trading at 15.7x FY11 PER. Our indicative fair value for the stock is RM4.54, based on target FY11 PER of 18x, a 10% premium over the consumer sector average FY11 PER 16.5x. Our implied 18x target PER for SEGi suggests a premium to Help's target PER of 16.5x. We believe the premium is justifiable given the: 1) SEGi's superior net profit margin; 2) the wider array of courses offered as well as the number of students; and 3) larger market capitalisation. The stock offers strong earnings prospects and decent dividend yield of 4.9%. We initiate coverage on SEGi with an **Outperform** recommendation.

**Table 4: Comparative Valuations**

Company	Bloomberg ticker	Market cap (RMm)	FY10 revenue (RMm)	FY11 PER (x)	FY12 PER (x)	P/NTA (x) FY11	GDY (%) FY11	FY10 Operating Margin (%)
Help	HELP MK	380.7	105.2	15.3	15.7	2.9	1.7	23.9
SEGi	SYS MK	961.3	217.6	14.6	10.8	4.6	4.6	25.3

Source: Bloomberg, RHBRI