

28 January 2011

**TRADING BUY
RM2.78**

Target Price: RM3.40

Stock data

Market cap (RMm):	704.8
Issued shares (m):	253.5
52-week range:	RM0.357-RM2.95
3-mth avg daily volume:	522,069 shrs
Bloomberg code:	SYS MK
YTD price chg:	+25.2%
YTD KLCI chg:	+0.6%
Est. free float:	40.2%
Major shareholders:	
Rexter Capital	25.4%
Cerahsar:	22.6%
Segmen Entiti:	6.2%
Dato' Clement Hii:	5.6%

KLCI	FBM70	FBM100	Syariah	Hijrah
No	No	No	Yes	No

Consensus

FYE 31 Dec	2010E	2011E
Net profit (RMm):	n.a.	n.a.
EPS (sen):	n.a.	n.a.

Forecast revision

FYE 31 Dec	2010E	2011E
Revision (%):	-	-
Net profit (RMm):	41.6	59.7

Share price chart

 Chan Ken Yew Tel: 603-2713 2292
 kychan@kenanga.com.my

SEG International

We have recently visited SEGi and we are convinced that the Group has just entered a new era and is poised to stage a re-rating. The recently declared special dividend of 14.0 sen (gross) signalling better prospect going forward. We value the stock at RM3.40/share on a back of 16.0x PER to its diluted FY11 EPS of 21.0 sen. We believe a premium valuation is justifiable given its superior margins and ROE, yet in net cash position and potential generous dividend payout going forward. Moreover, at RM3.40, the stock is only traded at 14.4x basic FY11 EPS of 23.6 sen. Coupled with a potential net dividend yield of 4.3%, the stock offers potential total returns of in excess of 20%. **TRADING BUY. Results within expectations/above/below**

- A Turnaround Story.** Historically, the profitability of the Group was relatively low. However, we believe the worst is over now for the Group after the Group's re-branding exercise and corporate consolidation between FY06 and FY09. Coupled with the recent upgrade to University College in 2008, the Group is able to take on more students and to roll out higher margin programmes that should translate into better profitability. This can be clearly seen from the **significant jump in revenue and net profit of the Group since 1QFY10**. We believe **FY10 will be the "new norm"** and more to come judging from the Group's growth strategies.
- Growth Strategies.** Apart from building a new campus in Perak, SEGi still has plenty of room to increase its capacity by doubling the shift without any needs for additional capital expenditure. The Group is also actively looking for collaborations with well-regarded foreign universities to offer more choices of courses. We also understand that SEGi will also continue to launch some niche programmes and higher-margin courses. Apart from full-time students, SEGi also plans to capture part-time and adult-learning markets by introducing more part-time programmes and courses. SEGi also not limits itself to local students. The Group is inspired to become an international higher education centre/campus.
- Financial Highlights.** The revenue is expected to growth in excess of 20% in FY11 while the student population is expected to growth at a 4-year CAGR of 18.0% (from FY09 to FY13). Coupled with net margin expansions owing to higher composition of (i) higher margin and (ii) mostly in-house offered products, we believe the net profit of the Group is expected to growth at a 4-year CAGR of 72.1% (from FY09 to FY13). The Group is in net cash position. Hence, it is reasonable to expect better dividend going forward especially with the (i) strong operating cashflow and (ii) less capex going forward. The Group is in net cash position and we estimate that the Group could potentially pay out as high as 90% of its net profit, including the recently announced special dividend, as dividends in FY10. As such, we expect the gross DPS for FY10 to register at 20.0 sen. Looking ahead, we anticipate the Group to pay half of its profits as dividends. This will translate gross DPS, ranging from 16.0 sen to 23.2 sen within the financial years of 2011/2013.

Earnings Estimates

FY 31 Dec (RMm)	2008	2009	2010E	2011F	2012F
Revenue	127.32	176.76	219.89	269.72	316.44
EBIT	6.87	5.05	54.01	78.63	101.61
Pretax profit	9.88	14.61	53.64	78.27	101.47
Net profit	7.27	10.02	41.57	59.67	77.36
EPS1 (sen) (current share cap)	2.9	4.0	16.5	23.6	30.7
EPS1 growth (%)	40.9%	37.9%	310.0%	43.6%	29.6%
EPS2 (sen) (enlarged share cap)	2.9	4.0	16.0	21.0	25.3
EPS2 growth (%)	40.9%	37.9%	299.0%	31.0%	20.5%
DPS (sen) (current share cap)	0.7	0.9	14.8	11.8	15.3
PER (x) (current share cap)	95.4	69.2	16.9	11.8	9.1
Div. yield (%) (current share cap)	0.3	0.3	5.3	4.3	5.5

Brief Introduction

- **Long establishment.** The history of SEG International Bhd (SEGi) began more than 3 decades ago when it established its first education centre in 1977 in the heart of Kuala Lumpur. Back then, it was known as Systematic Education Group. The Group offered professional qualifications such as LCCI, ACCA, and ABE. Since then, SEGi has grown by leaps and bounds, by organic growth as well as via mergers-and-acquisitions.
- **Currently, SEGi has six campuses throughout Malaysia, offering an extensive range of courses.** SEGi's main campus - SEGi University College Malaysia, which is situated in Kota Damansara, was opened in late 2007. The full-fledged campus boasts of facilities such as on-campus residence halls, sports & recreational complex, and state-of-the-art laboratories and learning facilities. In June 2008, the college attained University College status, which allows SEGi to award degrees for its own degree programmes.
- **Current student capacity.** Currently, SEGi is able to house 32,500 students (SEGi University College: 12,500 students, SEGi Subang Jaya: 6,500, SEGi Kuala Lumpur: 7,000, SEGi Penang: 3,000, SEGi Kuching: 3,500). Note that most of the campuses are operated on a single shift (Monday to Friday: 9am to 3pm).
- Throughout long years of hard works, today, SEGi is well-known for its strength in **(i)** caring for and supporting its people, **(ii)** having a vibrant and energetic attitude, **(iii)** having a vibrant and energetic attitude, and **(iv)** being passionate in servicing.

The Management

- Leading by Dato' Clement Hii, the Group Managing Director, SEGi is currently managed by a team of vast experience and highly qualified professional managers and academicians.

Strong management team

DATO' CLEMENT HII CHII KOK

Group Managing Director

Graduated with a Bachelor of Laws (Hons) degree from the United Kingdom. He was conferred the Honorary Doctorate of Business Administration by the University of Sunderland, United Kingdom, in early 2006. In 2007, he was conferred an Honorary Doctorate of Laws by his alma mater, the University of Wolverhampton, United Kingdom.

He is a former senior journalist holding positions in several newspapers, including as Chief Editor of Borneo's leading English daily, "The Borneo Post". He also served in senior positions with management firms and was appointed a Justice of Peace in 2005.

LEE KOK CHENG

Executive Director/Chief Executive Officer

He obtained the BSc (Hons) Computer Science from Universiti Sains Malaysia in 1985 and thereafter in 1996, he obtained his Masters in Business Administration from the University of Dubuque, Iowa, United States of America. He also holds a Postgraduate Certificate in Business Research from the University of Newcastle, Australia.

He joined the Group as Vice President (Operations) in June 2003 and thereafter was promoted to the position of Chief Operating Officer in January 2005. During that period, he also resumed the position as the Principal of SEGi College Subang Jaya. In 2007, he started the SEGi's flagship campus, Kota Damansara as principal until the campus was upgraded to University College in 2008.

Recently, Mr. Lee was honoured with an Outstanding Entrepreneur Award at the APEA ceremony.

HEW MOI LAN

Executive Director/Chief Operating Officer

Ms. Hew was appointed as the Chief Operating Officer of the Group on 27 February 2009. Prior to which, she was the Vice President of Operations and the Principal of SEGi College Kuala Lumpur, one of the core subsidiary companies of the SEGi Group.

Her tenure with the Group dates back to 1986 when she joined Systematic Business Training Centre, now known as SEGi College Kuala Lumpur. With more than 20 years of experience in the education industry, Ms. Hew has brought an immense wealth of experience and knowledge into the running of the Group.

EMERITUS PROFESSOR DR MUHAMAD AWANG

Vice Chancellor, SEGi University College

Professor Muhamad Awang received his PhD, specialising in air pollution and vegetation from the University of Sheffield, UK in 1979.

He was a Professor of Environmental Sciences at the Faculty of Environmental Studies, University Putra Malaysia and was a Deputy Chancellor of Academic Affairs there from 2000 to 2005. He is best known for his teaching and research on Air Pollution and Tropical Ecosystem Physiology and Environmental Science Management.

PROFESSOR DATO' DR JAMALUDIN MOHAIADIN

Deputy VC (Student Affairs) SEGi University College

Professor Jamaludin was formally a Deputy Vice Chancellor of Student Affairs in University Sains Malaysia. He was also the Director of Center for Instructional Technology and Multimedia in USM. He has many years of experience in the areas of multimedia courseware, graphic design, audio-video productions and the design of audio-video facilities, and he was also a consultant to a number of universities in multimedia curriculum design, establishing instructional technology centers and academic training programmes.

PROFESSOR TAN BENG CHEOK

Senior VP & Deputy VC (Academic) SEGi University College

Professor Tan has a PhD from the University of Wales. He was previously the Professor of Fundamental Physics and Dean of the Institute for Further Advanced Studies in the University of Malaya.

He was also the Managing Director of Hong Leong Engineering and CEO of another education institution.

DR LISA TAN

Principal of SEGi Subang Jaya

Dr. Lisa holds a DBA from University of South Australia and MBA from the University of Bath UK. She also has a diploma in Education from Singapore University and BSc (Hons) from the University of London.

MR LAWRENCE NGU

Principal of SEGi Kuala Lumpur

Lawrence holds a Master in Business from the University of Newcastle and ICSA professional qualification.

His tenure with SEGi stretches back to 1993, when he joined the then Systematic Collega, Kuala Lumpur after serving a period as the chief executive of another institution. He then rose in the ranks within SEGi until assuming his current position three years ago.

Source: Company

Growth Strategies

- **New campus.** Of late, SEGi has announced its plan to build a new campus in Perak to accommodate the expansion of its education business. The campus will be built on a 60 acre land at Hulu Kinta. With this new facility, it is expected that the Group to increase its single shift capacity from 32,500 students to 38,500.
- **Running on higher shifts per day.** Before the completion of new campus, SEGi still has plenty of room to increase its capacity by doubling the shift (2nd shift – 3.30pm to 7.30pm, Mondays to Fridays; and 9am to 1pm on Saturdays) without any needs for additional capital expenditure. Currently, the Group is mostly operating on a single shift (9am to 3pm, Mondays to Fridays). If need be, the Group can operate an additional shift on weekends for adult learners (3rd shift: Saturdays - 2pm to 5pm and Sundays - 9am to 5pm).
- **Collaborations with foreign universities.** The Group is also actively looking for collaborations with well-regarded foreign universities to offer more choices of courses. This is to offer an alternative channel for students to complete their foreign degree course completely in Malaysia. For instance, the Group has just introduced a few well-recognised foreign courses such as (i) Degree of Accounting and Finance as well as Degree of Business Management from University of Sunderland; and (ii) Degree of Law from University of London. Note that these courses have been approved by Ministry of Higher Education.
- **High margin new courses** In the quest of searching for business growth and having achieved the status of University College, we understand that SEGi will also continue to launch some niche programmes, such as medical sciences, pharmacy, optometry and dentistry; as well as some other higher margin post-graduate courses to increase its revenue sources and profitability. For instance, the Group had allocated over RM3.5m for FY10 and FY11 to equip its medical labs for its Bachelor of Medicine and Bachelor of Surgery degree programmes. Tables in the following page have shown some new courses and programmes that are in the pipeline.
- **Expansion in adult-learning.** Apart from full-time students, SEGi also plans to capture part-time and adult-learning markets by introducing some part-time Executive Diploma programmes as well as Bachelor and Master Degrees. We see good potentials in this segment, as this will allow working adults to gain academic qualifications without scarifying their careers. Moreover, we understand that these courses are highly affordable and can be completed in a relatively short-time period. For instance, the fees of Executive Diploma programmes are ranging from RM9,600 to RM12,200. The University of Sunderland's Master of Business Administration (MBA) programme is among the programmes that adult learners can choose from and can be completed within 18 months. Besides, it is also interesting to note that these working adults (i) are allowed to withdraw and (ii) are eligible to opt for a 0%-interest easy installments plan to finance the programme.
- **Growing international student base.** SEGi also not limits itself to local students. In fact, the Group is inspired to become an international higher education centre/campus. The Group plans to double its foreign student intake from 2,300 presently to 4,600 by the end of FY11. At the moment, foreign students made up 10% of the group's total 23,000 students. Countries such as China, India, Middle Eastern will be the main target and the company will have partnerships with the local institutions in these countries. Management also sees potential in former USSR country such as Kazakhstan, Uzbekistan and that region because of their growing economic, which is expected to increase the demand for higher education.

Number of new courses in plan

	Faculty	2010	2011	2012
1	Business, Accountancy & Management	1	3	5
2	Medicine	1	-	-
3	Pharmacy	3	2	-
4	Poptometry & Vision Sciences	2	3	-
5	Dentistry	1	1	-
6	Nursing & Allied Health Sciences	8	8	6
7	Engineering & Built Environment	-	4	2
8	Creative Design & Technology	1	2	3
9	Hotel & Tourism	3	2	3
10	Post Graduate Programmes	1	3	2
	Total	21	28	21

Source: Company

Upcoming new Programmes

Centres of Continuing Education	<ul style="list-style-type: none"> ● Master in Retail Management ● Master in Entrepreneurship & Innovation ● Master in Corporate Communication ● MBA (UOS)
Creative Arts & Design	<ul style="list-style-type: none"> ● Certificate in Creative Arts ● Certificate in Music ● BA (Hons) Mass Communication
Centre for Pre-university studies	<ul style="list-style-type: none"> ● Foundation in Communication ● Foundation in Information Technology & Engineering
Education & Social Sciences	<ul style="list-style-type: none"> ● BA (Hons) early Childhood studies ● BSc (Hons) Psychology with Counselling ● BA (Hons) Health & Social Care ● Post Grad Certificate in Teaching
Hotel & Tourism	<ul style="list-style-type: none"> ● Diploma in Culinary Arts ● Diploma in Hospitality Management
Nursing & Allied Health Sciences	<ul style="list-style-type: none"> ● Diploma in Physiotherapy ● Diploma in Healthcare ● Diploma in Food Technology ● Diploma in Nutrition and Dietetics ● BSc (Hons) Professional Practice in Nursing ● BSc (Hons) BioMedical Sciences ● BSc (Hons) Healthcare Management
Engineering & IT	<ul style="list-style-type: none"> ● Diploma in Telecommunication Engineering ● Diploma in Internet Computing ● B.Eng in Telecommunication Engineering ● BSc (Hons) in Internet Computing ● Bachelor in Automotive Engineering
Business & Accountancy	<ul style="list-style-type: none"> ● Diploma in Event Management ● BA (Hons) in Event Management ● BA (Hons) in Economics

Source: Company

- **Leveraging on its strength.** Apart from offering and introducing new courses, we understand that the Group will implement 5 distinct strategies to strengthen its market position and to gain more market shares. These strategies are shown in the following table.

Realising the Five Strategic Outcome from SEGI's Strength

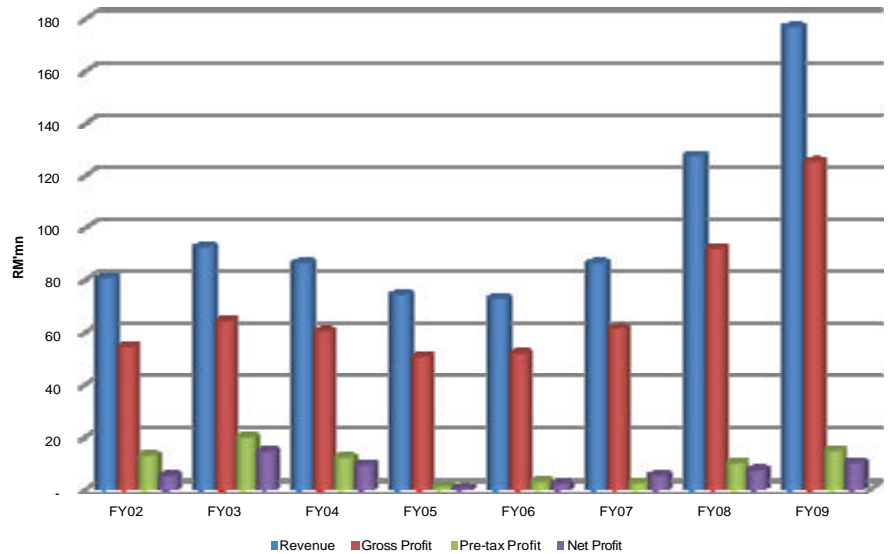
Highly Sought After Graduates	<ul style="list-style-type: none">• Produce highly employable graduates, attracting headhunters before graduation• Produce award-winners and captains of industry• Produce graduates suited for post-graduate research, R&D
Holistic Student Experience	<ul style="list-style-type: none">• Enrich students by instilling a culture of lifelong independent learning• Create a rich and diverse student/campus life• Ensure students feel a sense of "SEGI pride" and school spirit• Create students who are self-sufficient and exposed to the outside world
Academic Strength	<ul style="list-style-type: none">• Create and disperse quality courses/ programmes• Have excellent teaching and learning methods• Increase eminence of research and development programmes
Best Place to Work	<ul style="list-style-type: none">• Attract and retain notable and award-winning academicians• Cultivate a "sense of belonging", a "family culture", creating happy and satisfied faculty and staff, which ensures brand loyalty and a culture of high-achievement
Global Brand Recognition	<ul style="list-style-type: none">• Become known as the "Ivy League of Malaysia"• Become globally known and accepted• To have a brand name that is "the talk of the town" and is instantly being recognised

Source: Company

Financial Highlights

- **Historically speaking**, the revenue of SEGI has been in an up-trending mode since FY2006 with a 3-year CAGR (from FY06 to FY09) of 34.5%. However, the profitability of the Group was relatively low with an average net profit margin of 5.8% in the last 3 financial years (FY06-FY09). We understand that the low profitability was due mainly to (i) higher contribution from low margin academic programmes and professional courses, (ii) high provisions for some non-trade doubtful debts during the recent in-house kitchen sinking exercise, as well as (iii) higher capex for building and facilities in pursuing the status of University College and in preparation for higher margin programmes (i.e. engineering, medical, etc.).
- **You reap what you sow.** However, we believe the worst is over now for the Group after the Group's re-branding exercise and corporate consolidation between FY06 and FY09. Coupled with the recent upgrade to University College in 2008, **the Group is able to take on more students and to roll out higher margin programmes** that should translate into better profitability. Besides, with the status of University College, **the Group is able to offer its own courses and programmes without paying main bulk of its profits as loyalty to third parties.** As such, we strongly believe that the Group is poised to stage for aggressive harvesting from FY10 onwards. This can be **clearly seen from the significant jump in revenue and net profit of the Group since 1QFY10. We believe FY10 will be the "new norm"** and more to come judging from the Group's growth strategies.

Yearly Profit Track Records of SEGi (from FY02 to FY09)



Source: Bloomberg

Stages of SEGi's growth

2001-2005

The learning years

- Total of 14 colleges & 6 training centres
- Different brand under the PRIME and Systematic Group
- Professional Courses & lower ticket programmes

2006-2009

Foundation for sustainable growth

- Consolidation into 6 main campuses
- Groundwork for recruitment of overseas students
- Rebranding to strengthen its position
- Upgrade to University College Status
- Introduction of new high margin programmes

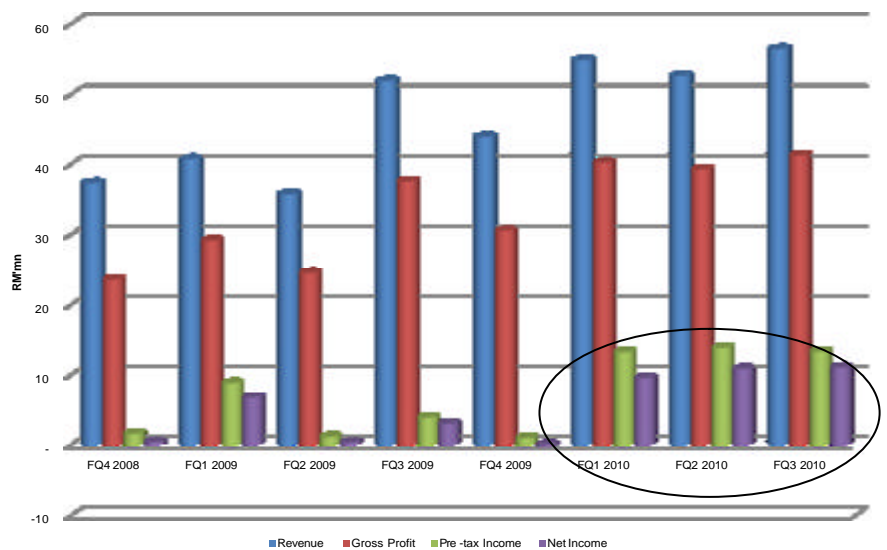
2010-2015

Aggressive harvest

- Continues launching of new niche programmes in Medical sciences, pharmacy, optometry and dentistry.
- Penetration into the adult-learning market
- Transfer of foreign students from overseas collaborative institutions
- Strengthening of brand-name

Source: Company

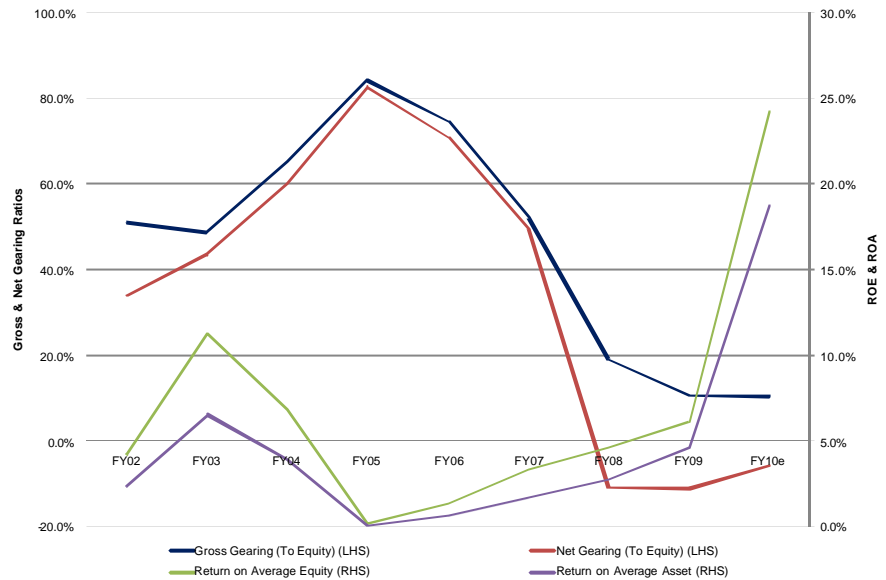
Quarterly Profit Track Records of SEGi (from 4QFY08 to 3QFY10)



Source: Bloomberg

- **In pink health.** Recall that the Group had been consolidating their operations as well as financials between FY06 and FY09. This can also be seen from the reduction in both gross and net gearing ratios from above 80% in FY05 to the current low level of approximately 11% at the gross level and in net cash position at the net level since FY09. **Going forward, we believe the Group should be able to maintain this healthy financial position due to improving profitability, as per the surge in both ROE and ROA, and lesser capex is expected.**

Gearing & Profitability Ratios of SEGi (from FY02a to FY10e)



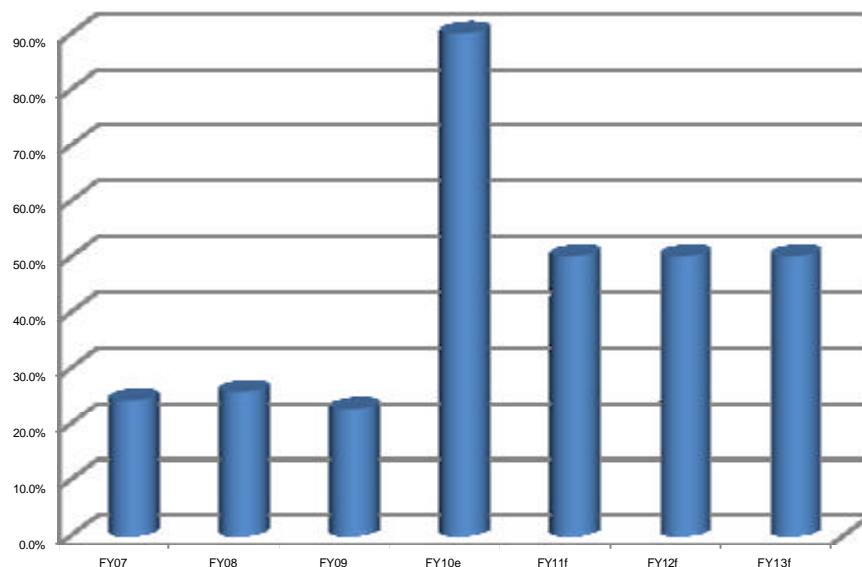
Source: Bloomberg, Kenanga Research Estimates

- **Trend of dividend payout.** While there is no official dividend payout policy, SEGi had been paying approximately 24% of its profits as net dividends. However, we believe this trend is about to break judging from the recent declaration of 14 sen/share gross (or 10.5 sen/share net of tax, accounting for almost 64% of FY10's EPS estimate of 16.5 sen) special dividend. To recap, the special dividend has gone "ex" on 27 January 2011 and is payable on 31 January 2011.
- **Better dividend going forward.** Due to the (i) strong operating cashflow, (ii) less capex going forward and (iii) low financial gearing position, we believe the Group is able to pay out much higher dividends going forward. We estimate the Group could **pay out as high as 90% of its net profit, including the recently announced special dividend, as dividends in FY10.** As such, we expect the gross DPS for FY10 to register at 20.0 sen. **Looking ahead, we anticipate the Group to pay half of its profits as dividends.** This will translate gross DPS, ranging from 16.0 sen to 23.2 sen within the financial years of 2011/2013.

Recent Corporate Exercises

- **Completion of rights issue of warrants.** On 19 August 2010, the Group has completed a renounceable rights issue of 124.7m 5-year 2010/2015 warrants on the basis of 1-to-2 at an issue price of RM0.05 cash per warrant.
- **Completion of share split and bonus issue.** On 15 July 2010, the Group has completed its 1-into-2 share split exercise. On the same date, the Group has also completed its 2-to-5 bonus issue after the subdivision.

Historical & Estimated Dividend Payout Ratio (from FY07a to FY13f)



Source: Bloomberg, Kenanga Research Estimates

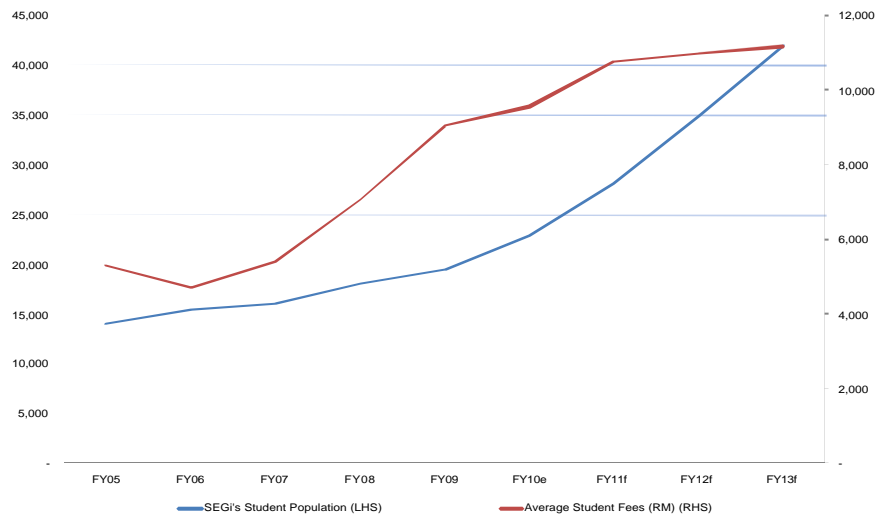
Going Forward

- **Top-line growth.** Together with additional courses and new campuses, SEGi is targeting to **double its current 23,000 students within the next three years**. The company has significantly beefed up its academic and sales team and setting up collaborations with new university partners and JV with overseas institutions in the past one year.
- **Moving up the value chain.** Recall that one of the major drivers for better profitability is via **introducing higher fee and margin programmes and courses**. We understand that some higher margin products, such as (i) post graduate studies, (ii) medical and health sciences, (iii) nursing and (iv) engineering; shall collectively account for approximately **35% of the number of students** from the new batch of intake. Besides, apart from having better profit margins, these “technical” courses are normally higher in fees. As such, **we have factored in additional RM2,000 average student fees for the new recruited students into our revenue estimates from FY11 onwards.**
- **A whole new world.** As a result, the revenue is expected to growth in excess of 20% in FY11 while the student population is expected to growth at a 4-year CAGR of 18.0% (from FY09 to FY13). Coupled with net margin expansions owing to higher composition of (i) higher margin and (ii) mostly in-house offered products, we believe the net profit of the Group is expected to growth at a 4-year CAGR of 72.1% (from FY09 to FY13).

- A realistic estimate.** Some sceptics may reckon that our earnings estimates and margin forecast could be overly optimistic. However, a quick check with the other listed industry players such as Help International Corporation and Masterskill Education Group, we believe our margin assumptions are fairly reasonable. Based on Bloomberg data, Masterskill Education Group, which offers high margin “technical” courses and programmes, has been enjoying awesome net profit margin of in excess of 30% while Help International Corporation, which that offers more “conventional” third party and in-house developed courses and programmes has been enjoying mid-to-high teen net profit margin.

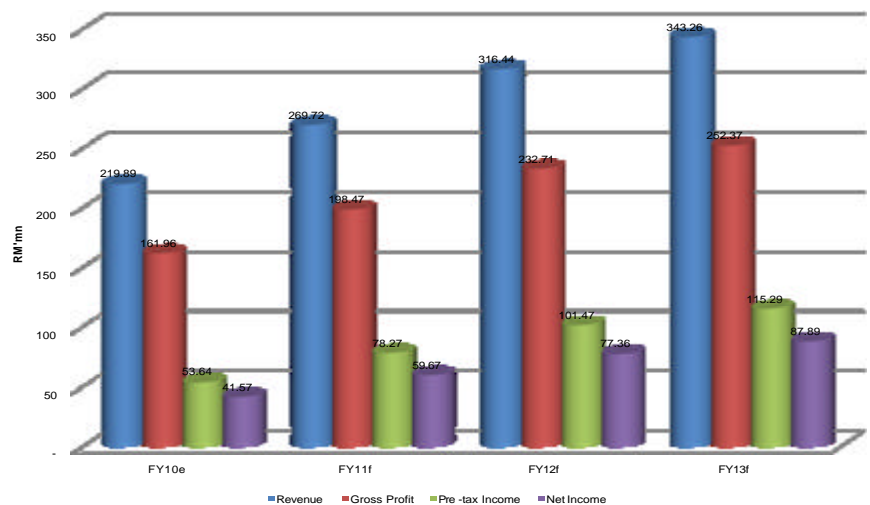
Recall that the Group plans to offer higher fees and margins products that could probably account for approximately 35% of its student intakes going forward. Should we apply a 35:65 weighting to both peers’ net margins, the weighted average net profit would be registered at approximately 23.0%, which is in-line with our forecasted net profit margin for the next 3 years.

Student Population and Average Student Fees of SEGi



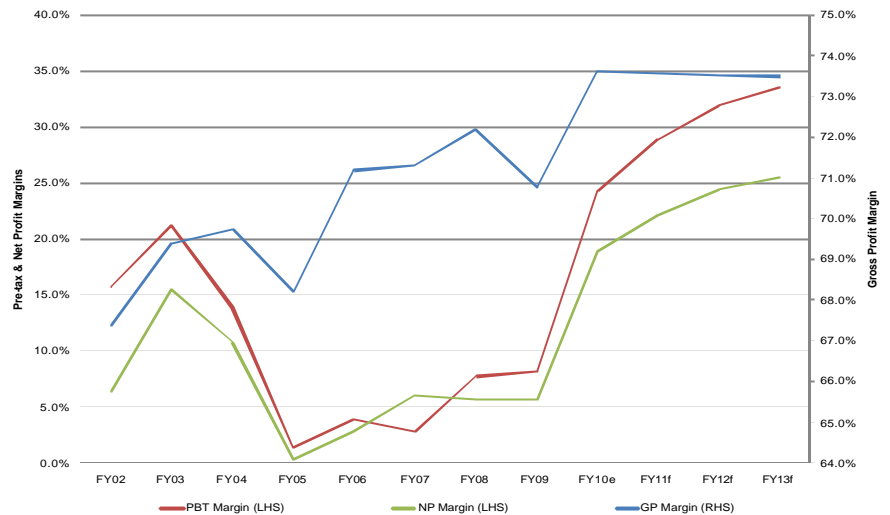
Source: Bloomberg, Kenanga Research Estimates

Earnings Estimates of SEGi (from FY10e to FY13f)



Source: Kenanga Research Estimates

Historical and Estimated Profit Margins – In A Rising Mode



Source: Bloomberg, Kenanga Research Estimates

Historical and Estimated Earnings of Masterskill Education Group and Help International Corporation (from FY07a to FY11f)

Masterskill Education Group

FYE: 31-December (RM'm)

	FY07A	FY08A	FY09A	FY10F	FY11F
Revenue	126.49	202.88	273.39	318.71	373.43
Pretax Income	56.49	80.06	112.29	127.29	148.43
Net Income	51.41	72.07	97.38	105.02	125.67
PBT Margin	44.7%	39.5%	41.1%	39.9%	39.7%
NP Margin	40.6%	35.5%	35.6%	33.0%	33.7%

Help International Corp.

FYE: 31-October (RM'm)

	FY07A	FY08A	FY09A	FY10F	FY11F
Revenue	61.70	86.55	96.58	105.20	133.50
Pretax Income	13.40	16.08	21.83	26.68	33.40
Net Income	9.67	11.80	15.45	19.10	23.00
PBT Margin	21.7%	18.6%	22.6%	25.4%	25.0%
NP Margin	15.7%	13.6%	16.0%	18.2%	17.2%

Source: Bloomberg

- Will PTPTN a concern to SEGi?** Of late, the share prices of Masterskill Education Group have been hammered down fiercely due to the uncertainties over the PTPTN (Perbadanan Tabung Pendidikan Tinggi Nasional) issue, as the Group's students are heavily relied, approximately 90%, on education loans given by PTPTN. However, **this is not a major concern for SEGi, as PTPTN loans only accounted <30% of the financing composition of the Group** and most of the students, say >70%, including international students, are self-funded.

View & Valuation

- **The low-price-multiple era is over.** For the last 3 years, the stock had been traded at high-single digit PER or low-teen PER. We believe this could be due to low profitability and less impressive growth in its earnings. However, we believe this low valuations era is over for now as the Group, has successfully proven a quantum leap in its earnings for the last 3 quarters and we believe the Group is right on track to meet our FY10 full year net profit of RM41.6mn, a whopping >300% jump in net profit.
- **Peers comparisons.** As such, we believe the stock is due for a re-rating and we believe the stock should be benchmarked against Help International Corporation, at least, as we reckon that the current valuation of Masterskill Education Group has been distorted by the PTPTN-concern.
- **Premium valuations are justifiable.** The stock is currently traded at 11.8x FY11 PER (based on current share cap) vis-a-vis Help International Corporation's FY11 PER of 14.1x. We believe the stock is under-valued due to the more superior net profit margin and ROE as well as dividend of SEGi over Help International Corporation, going forward.
- This argument is also valid even when we take into account the 124.7m in-the-money (as strike price is at RM1.00) 5-year 2010/2015 warrants (expiring on 16 August 2015) into consideration. Assuming a 20% conversion p.a., as we believe these warrants will not be substantially converted in the near term (owing to their newly listed status), the FY11 ROE of SEGi is still 40% higher than Help International Corporation's FY11 ROE.
- **View and recommendation.** All said, **we value the stock at RM3.40/share on a back of 16.0x PER to its diluted FY11 EPS of 21.0 sen.** Again, we believe a premium valuation is justifiable given its superior margins, ROE and dividend payout going forward. Besides, at RM3.40, the stock is only traded at 14.4x basic FY11 EPS of 23.6 sen. Coupled with a potential net dividend yield of 4.3%, the stock offers potential total returns of in excess of 20%. **TRADING BUY.**

Peers Comparisons

Name	Price (RM)	Mkt Cap (RM'mn)	Trailing 12-M PER (x)	Est. FY11 PER (x)	Est. Div. Yld. (%)	Est. ROE (%)	Hist. PBV (x)
HELP International	2.28	323.9	17.0	14.1	0.9%	20.3	2.9
Masterskill Education Group	2.08	852.6	8.5	6.8	0.0%	0.0	2.9
TOTAL / AVERAGE	N.M	1,176.5	10.8	8.8	0.2%	5.6	2.9
SEG International - Outstanding share cap	2.78	704.8	22.7	11.8	4.3%	31.7	3.4
SEG International - Enlarged share cap after 20% warrants conversion	2.78	704.8	22.7	13.2	3.8%	28.4	3.4

Source: Bloomberg

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
 8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
 Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com


 Chan Ken Yew
 Associate Director