

SEG International

A strong 1QFY11

BUY
Price: RM3.97
Target Price: RM4.70
STOCK DATA

Bloomberg Ticker	SYS MK	YTD price chg	87.0%
Market Cap	1,043.9	YTD KLCI chg	1.0%
Issued shares	261.0	Beta	1.0
52-week range (H)	4.08	Major Shareholders	
52-week range (L)	0.88	Dato' Clement Hii	30.4%
3-mth avg daily volume	675,654	Cerahsar Sdn Bhd	22.0%
Free Float	41.2%	Segment Entiti SB	6.4%

Consensus	2011	2012
Net Profit	65.1	83.7
EPS (sen)	24.0	29.7

FINANCIAL HIGHLIGHTS

FYE 31 Dec	2008	2009	2010	2011E	2012E
Turnover	127.3	166.4	217.6	280.8	351.0
EBIT	11.1	15.8	55.5	97.4	117.3
Pretax profit	9.9	14.6	54.3	97.7	117.4
Net Profit	7.3	10.0	43.1	72.9	87.7

EBIT margin	8.7%	9.5%	25.5%	34.7%	33.4%
Pretax margin	7.8%	8.8%	25.0%	34.8%	33.4%
Effective tax rate	25.9%	29.9%	20.4%	25.0%	25.0%
ROE	4.7%	6.1%	23.2%	31.8%	31.6%
ROA	2.8%	4.6%	17.9%	24.7%	24.7%
Net Gearing (x)	net cash	net cash	net cash	net cash	net cash

Growth ratios

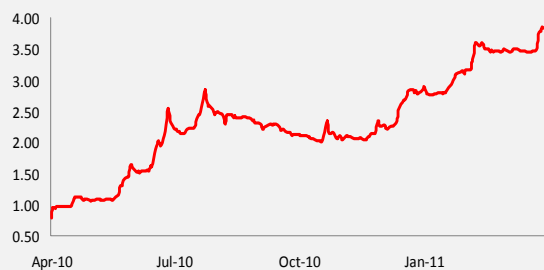
Turnover	47.6%	30.7%	30.8%	29.0%	25.0%
EBIT	24.2%	42.7%	251.5%	75.4%	20.4%
Pretax profit	298.7%	47.8%	271.9%	79.8%	20.2%
Core Net profit	40.9%	37.9%	329.6%	69.3%	20.2%

Per share data

FD EPS (sen)	2.6	3.5	15.2	26.1	28.9
FD EPS growth	40.9%	37.9%	329.6%	71.3%	11.1%
PER (x)	154.7	112.2	26.1	15.2	13.7
Gross DPS (sen)	0.7	3.0	7.0	18.0	21.0
Div. Yield (%)	0.2%	0.8%	1.8%	4.5%	5.3%
NTA/share (RM)	0.49	0.54	0.67	0.88	1.04

Historical price ratio

(X)	2006	2007	2008	2009	2010
Price /Earnings	186.0	20.5	9.3	17.4	72.5
Price /Book	0.5	0.4	0.4	0.5	2.5

SHARE PRICE CHART


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SEGi registered a strong 1QFY11 earnings of RM18.1m, close to 10% above our expectation on an annualised basis. The increase in number of students coupled with new high margin courses were the major contributors of the strong set of numbers. We have raised our FY11's earnings forecast by 9.1%. The company has proposed a 1-into-2 share split and we believe this may spur higher buying interest on the stock. Target price has revised upwards to RM4.70. Maintain BUY.

Strong earnings growth. 1QFY11 earnings grew by a huge 90.6% YoY mainly due to increase in students' enrolment. For the same reason QoQ earnings also surged 54.4%.

Margin expansion. EBIT margin has expanded to 33.4% from 24% in previous year (27.6% QoQ) due to greater economies of scale and new high margin courses introduced earlier of the year.

Positive outlook. 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 further increase its revenue sources and profitability. Furthermore, the recent collaboration with Chung Cheong University and tie-up with Xinjiang Language Centre and Linyi Normal University will further expand SEGi's income base.

Increasing our earnings projection. With the strong set of 1QFY11's results, we are revising our full year earnings upwards by 9.1% to RM72.9m. FY12 projection is also increased slightly by 2.9% to RM87.7m.

Proposed share split. SEGi proposed a 1-into-2 share split involving the subdivision of every existing share of RM0.50 each into shares of RM0.25 each.

Maintain BUY. We believe the proposed share will bring the stock into a more attractive level and likely to generate higher buying interest, thus we value SEGi at its upper PER band of 18x (previously 16x) over FY11 FD EPS of 26.1 sen, arriving to a higher target price of RM4.70 (previously RM3.83). With such an attractive potential upside of 18.4%, we maintain our BUY recommendation on SEGi.

Results Highlights

FYE 31 Dec (RMm)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	QoQ Chg	YoY Chg
Revenue	52.3	55.6	53.4	56.4	68.5	21.4%	30.9%
EBIT	12.5	14.4	13.1	15.5	22.9	47.2%	82.6%
Pretax profit	13.2	13.8	13.3	14.1	23.1	63.9%	75.7%
Taxation	(3.1)	(2.9)	(2.4)	(2.6)	(4.9)	88.6%	55.5%
Minority Interest	(0.5)	(0.0)	0.2	0.2	(0.1)	n.a.	n.a.
Net Profit	9.5	10.8	11.0	11.7	18.1	54.4%	90.6%
EPS (sen)	3.7	4.1	4.2	4.5	7.0	54.4%	90.6%
Net gearing (x)	net cash	net cash	net cash	net cash	net cash	n.a.	n.a.
EBIT margin (%)	24.0%	25.9%	24.5%	27.6%	33.4%	21.2%	39.5%
PBT margin (%)	25.2%	24.8%	24.9%	25.0%	33.8%	35.0%	34.2%
Net profit margin (%)	18.2%	19.4%	20.6%	20.8%	26.5%	27.2%	45.6%
Effective tax rate (%)	23.8%	21.3%	18.4%	18.3%	21.0%	15.1%	-11.5%

Earnings Estimates

FYE 31 Dec (RMm)	2008	2009	2010	2011E	2012E
Revenue	127.3	166.4	217.6	280.8	351.0
EBIT	11.1	15.8	55.5	97.4	117.3
Pretax profit	9.9	14.6	54.3	97.7	117.4
Core Net profit	7.3	10.0	43.1	72.9	87.7
Core FD EPS (sen)	2.6	3.5	15.2	26.1	28.9
FD EPS growth (%)	40.9%	37.9%	329.6%	71.3%	11.1%
DPS (sen)	0.7	3.0	7.0	18.0	21.0
NTA/ share (RM)	0.49	0.54	0.67	0.88	1.04
Net gearing (x)	net cash	net cash	net cash	net cash	net cash
PER (x)	154.7	112.2	26.1	15.2	13.7
P/NTA (x)	8.1	7.3	5.9	4.5	3.8
Net div. yield (%)	0.1%	0.6%	1.3%	3.4%	4.0%
EV/ EBITDA (x)	61.8	45.9	15.4	8.8	7.1
ROE (%)	4.7%	6.1%	23.2%	31.8%	31.6%

Balance Sheet

FYE 31 Dec (RMm)	2008	2009	2010	2011E	2012E
Non Current Assets	125.7	134.8	140.9	154.3	165.4
Current Assets	88.2	84.5	122.2	172.7	217.2
Total Assets	213.9	219.3	263.0	327.0	382.6
Current Liabilities	45.2	34.7	46.2	57.4	69.9
Non Current Liabilities	9.7	14.6	13.3	13.3	13.3
Shareholders' Fund	158.3	169.2	202.6	256.3	299.3
Minority Interests	0.6	0.8	0.9	0.0	0.0
Equity & Liabilities	213.9	219.3	263.0	327.0	382.6

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