Malaysia

MARKET DATELINE • PP 7767/09/2011(028730)

Corporate Highlights

Visit Note

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

23 March 2011

SEG International

Leading Education Provider

Share Price	:	RM3.47
Fair Value	:	RM4.44
Recom	:	**Not Rated**

Table 1 : Investment Statistics (SEG; Code: 9792) — **Bloomberg: SYS MK**

FYE Dec	Turnover (RMm)	Net profit (RMm)	EPS (sen)	Core EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	Net Gearing (x)	ROE (%)	GDY (%)
2010a	217.6	43.1	16.8	16.8	>100	20.7	-	3.1	0.0	42.0	2.4
2011f	280.8	64.8	25.2	25.2	50.6	13.8	n.m.	2.7	0.0	29.4	3.7
2012f	364.2	87.9	34.2	34.2	35.5	10.1	n.m.	2.4	0.0	34.0	4.9
2013f	447.9	117.1	45.6	45.6	35.5	7.6	n.m.	2.2	0.0	37.7	6.5

Main Market Listing / Non-Trustee Stock / Syariah-Approved Stock By The SC — ** Consensus Based On IBES Estimates*

- We recently paid management a visit and set out below the key takeaways from the visit

- **Brief history.** SEGi (formerly known as Systematic Education Group), began operations in 1977, offering mainly professional courses for qualifications such as LCCI, ACCA and ABE. 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 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, optomometry 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; 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.

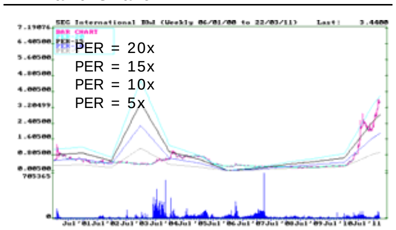
- **Risks.** The risks include: 1) Change in requirements set by the governing bodies; and 2) A change in policy by the Government might impact the eligibility criteria for students to obtain the loans/scholarships.

- **Investment case.** We believe SEGI's current valuations are undemanding at just 13.8x FY11 PER, compared to Help International ("Help"), which is currently trading at 15.6x FY11 PER. Our indicative fair value for the stock is RM4.44, based on target FY11 PER of 17.5x, a 10% premium over Help's FY11 PER of 16x. We believe the premium is fair given SEGI's superior net profit margin, the wider array of courses offered and its larger market capitalisation.

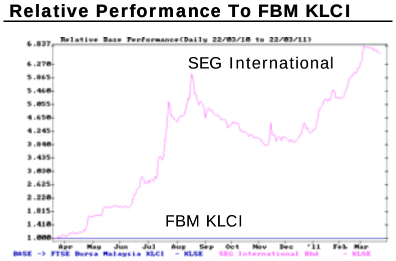
Issued Capital (m shares)	256.9
Market Cap (RMm)	891.6
Daily Trading Vol (m shs)	0.6
52wk Price Range (RM)	0.53-3.60
Major Shareholders:	**(%)**
Dato' Clement Hii	30.9
Cerahsar Sdn Nhd	22.3
Segmen Entiti Sdn Bhd	6.5

FYE Dec	FY10	FY11	FY12
EPS chg (%)	n.m	n.m	n.m
Var to Cons (%)	n.m	n.m	n.m

PE Band Chart



Relative Performance To FBM KLCI



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Key Highlights From Visit

- **Brief history.** 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.

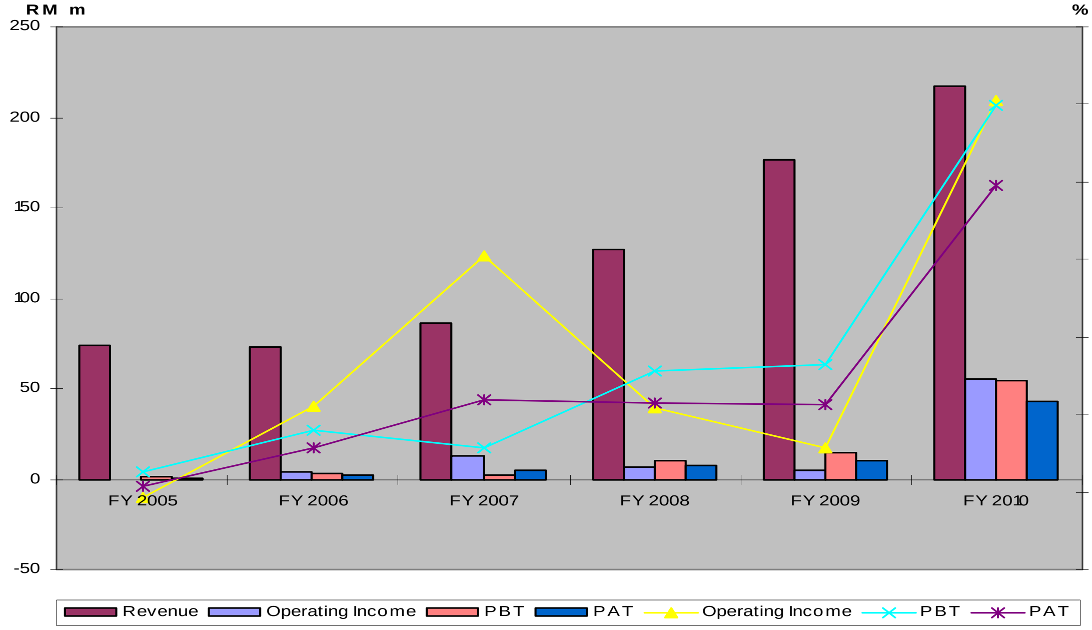
- **Strong collaborations various foreign universities.** Over the years, SEGi has established strong links with various foreign universities, providing twinning and external programmes. SEGi's partners are situated in the United Kingdom, United States of America, Australia, New Zealand and India.

Chart 1. Some Of SEGi's Collaborations With Foreign Universities

Source: Company

- **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 2. SEGi's Historical Data (from FY05-FY10)



Source: Company

- **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, optomometry and dentistry as well as more post-graduate courses that will help to improve its margins moving forward;

Table 2. Number Of New Courses In Plan

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
Total	**21**	**28**	**21**

Source: Company

- **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:

- **Adverse change in regulatory and government policy.** Given that the education industry is fairly regulated by the Government, any adverse change in regulatory and government policy concerning the education industry 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 FY11-13 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, FY11-13 net profit CAGR is expected to grow by 39.6%. While there is no official dividend payout policy, on average, SEGi has been paying approximately 23-60% of its earnings as dividends. As such, we have assumed FY11-13 annual gross dividends of 17-30 sen/share, which translate to gross yields of 3.7-6.5% and net payout ratios of 49.6-51.0%.

Valuations and Recommendation.

♦ **Investment case**. We believe SEGI's current valuations are attractive as it is only trading at 13.8x FY11 PER, as compared to its most related peer, Help International ("Help"), which is currently trading at 15.6x FY11 PER. Our indicative fair value for the stock is RM4.44, based on target FY11 PER of 17.5x, a 10% premium over Help's FY11 PER of 16x. We believe the premium is fair given SEGI's superior net profit margin, the wider array of courses offered and its larger market capitalisation.

Table 3: Comparative valuations

Company	Bloomberg ticker	Market cap (RMm)	FY10 revenue (RMm)	CY11 PER (x)	CY12 PER (x)	FY10 Operating Margin (%)
Help	HELP MK	365.0	105.2	15.6	13.2	23.9
Seg International	SYS MK	891.0	217.62	13.8	10.1	25.3

Source: Bloomberg, RHBRI

Table 4. Earnings forecast

FYE Dec (RMm)	2010a	2011f	2012f	2012f
Revenue	**217.6**	**280.8**	**364.2**	**447.9**
Revenue growth (%)	*30.8*	*29.0*	*29.7*	*23.0*
EBIT	**55.0**	**82.1**	**111.1**	**147.8**
EBIT margin (%)	*25.3*	*29.3*	*30.5*	*33.0*
Net interest expense	(1.2)	(1.2)	(1.2)	(1.2)
Associates	0.5	0.5	0.5	0.5
PBT	**54.3**	**81.5**	**110.4**	**147.1**
Tax	(11.1)	(16.3)	(22.1)	(29.4)
Minorities	(0.2)	(0.3)	(0.4)	(0.6)
PAT	**43.1**	**64.8**	**87.9**	**117.1**

Source: Company and RHBRI estimates

IMPORTANT DISCLOSURES

The recommendation framework for stocks and sectors are as follows : -

Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.