

26 April 2012

# SEG International

## Takeover Offer

# REJECT OFFER

**Price: RM1.81**
**Fair Value: RM2.41** ↔

**News**

- SEG has received an **UNCONDITIONAL TAKEOVER OFFER** from Pinnacle Heritage Solutions Sdn Bhd, a 100% subsidiary of a private equity firm – Navis Capital Partner, for a cash offer price of RM1.714 per Offer Share and RM1.214 per Offer Warrant.
- It was reported that Navis Capital Partner had acquired 18m SEG warrants from the major shareholder and managing director, Datuk Seri Clement Hii, for RM21.78m or RM1.21 per warrant, triggering the mandatory takeover.

**Comments**

- The offer price at RM1.714 implies PERs of 10.4x and 9.0x to our estimated FY12 and FY13 EPS.
- This offer price is relatively cheap compared to our targeted FY12 and FY13 PERs of 14.6x and 12.8x respectively.
- As such, the offer price is unattractive in our view, given that it is only 71% of our target price of RM2.41 and 77% of the consensus target price of RM2.23.
- Thus, we recommend shareholders to reject the offer.

**Outlook**

- In terms of price performance, the outlook is fairly uncertain even though we are optimistic over SEG's long term business prospect.
- Based on the reported news, Datuk Seri Clement Hii and Navis Capital Partner could be acting in concert and they may not intend to maintain the listing status of SEG.
- These two major shareholders together owned 57.62% of SEG shareholdings or equivalent to 307.3m shares. Hence, should there be more than 17.38% minority shareholders accepting the offer, the stock could be delisted as the public free float will be lower than the required 25%.

**Forecast**

- No change in our FY12-FY13 earnings forecasts.

**Rating**

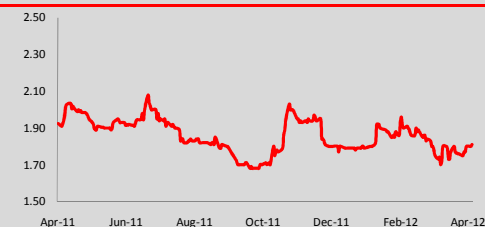
- In view of the takeover offer, we temporary rate the stock as **REJECT OFFER** (from **OUTPERFORM**).
- However, should the acceptance level came in low and the stock remains listed, we will re-rate the stock as **OUTPERFORM**.

**Valuation**

- We reiterate our target price of RM2.41, translating into FY12 and FY13 PERs of 14.6x and 12.8x respectively.

**Risks**

- Major risk to our TP is the high acceptance of the takeover offer.

**Share Price Performance**


KLCI	1,579.35
YTD KLCI chg	3.2%
YTD stock price chg	0.6%

**Stock Information**

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	1,012.4
Issued shares	559.3
52-week range (H)	2.09
52-week range (L)	1.65
3-mth avg daily vol:	762,087
Free Float	39%
Beta	1.0

**Major Shareholders**

HII CHII KOK	28.4%
PINNACLE HERITAGE	26.5%
SEGMEN ENTITI SDN	6.0%

**Summary Earnings Table**

FYE Dec (RM m)	2011A	2012E	2013E
Turnover	278.3	346.5	391.0
EBIT	88.8	144.7	176.4
PBT	88.2	146.2	178.8
<b>Net Profit (NP)</b>	<b>72.2</b>	<b>107.5</b>	<b>131.5</b>
Consensus (NP)	-	97.6	119.1
Earnings Revision	-	-	-
EPS (sen)	14.1	16.5	18.9
EPS growth (%)	65%	17%	14%
GDPS (sen)	19.4	8.3	9.5
NTA/Share (RM)	0.3	0.4	0.5
PER (x)	13x	11x	10x
Price/NTA (x)	5.3	4.4	3.7
Gearing (%)	Net	Net	Net
	Cash	Cash	Cash
Dividend Yield (%)	10.8%	4.6%	5.2%

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**Earnings Estimates**

<b>FYE 31 Dec (RMm)</b>	<b>2009A</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
Turnover	166.3	217.5	278.3	346.5	391.0
EBIT	15.6	52.7	88.8	144.7	176.4
Pretax profit	14.6	54.3	88.2	146.2	178.8
<b>Net Profit</b>	<b>10.0</b>	<b>43.1</b>	<b>72.2</b>	<b>107.5</b>	<b>131.5</b>
EBIT margin	9%	24%	32%	42%	45%
Pretax margin	9%	25%	32%	42%	46%
Net profit margin	6%	20%	26%	31%	34%
Effective tax rate %	30%	20%	18%	25%	25%
ROE %	6%	23%	36%	52%	50%
ROA %	5%	18%	25%	33%	32%
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
<b>Growth ratios</b>					
Turnover	31%	31%	28%	25%	13%
EBIT	126%	239%	69%	63%	22%
Pretax profit	48%	272%	62%	66%	22%
Net profit	38%	330%	68%	49%	22%
<b>Per share data</b>					
EPS (sen)	2.0	8.6	14.1	16.5	18.9
EPS growth (%)	38%	327%	65%	17%	14%
PER (x)	90	21	13	11	10
Gross DPS (sen)	0.5	3.4	19.4	8.3	9.5
Div. Yield (%)	0.3%	1.9%	10.8%	4.6%	5.2%
<b>Historical Price Ratio</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
PER (x) – High	39.2	12.9	22.6	192.0	24.0
PER (x) – Last	11.2	7.6	22.5	12.8	12.8
PER (x) – Low	10.9	7.3	7.3	22.0	12.8
PBV (x) – High	0.5	0.4	0.5	4.1	5.0
PBV (x) – Last	0.4	0.3	0.5	2.7	4.0
PBV (x) – Low	0.4	0.3	0.3	0.5	2.7

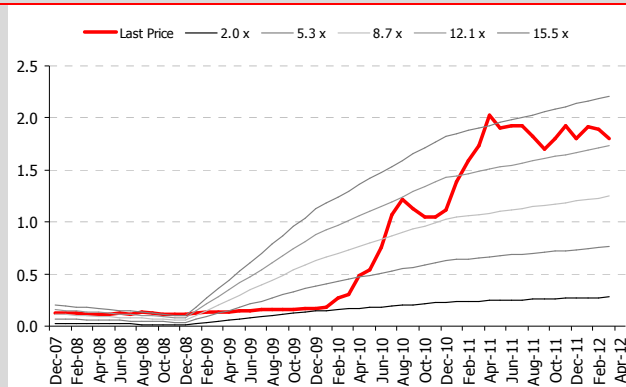
Source: Kenanga Research

**Balance Sheet**

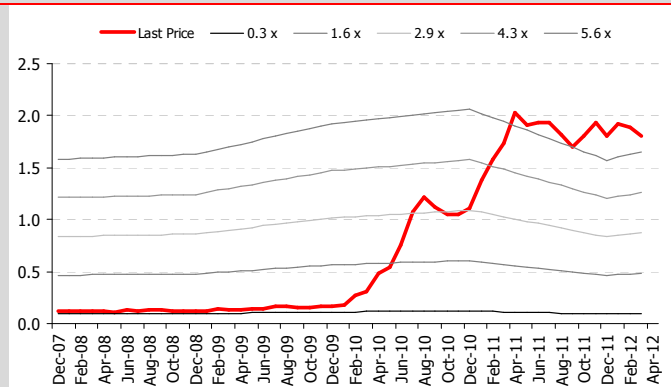
<b>FYE 31 Dec (RMm)</b>	<b>2009A</b>	<b>2010A</b>	<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
Non Current Assets	134.5	140.9	148.2	171.2	177.6
Current Assets	84.5	122.2	141.9	150.0	220.9
<b>Total Assets</b>	<b>219.1</b>	<b>263.0</b>	<b>290.1</b>	<b>321.1</b>	<b>398.5</b>
Current Liabilities	34.7	46.2	43.0	78.4	87.6
Non Current Liabilities	14.4	13.3	9.3	6.4	6.4
Shareholders' Fund	169.2	202.6	237.0	231.9	297.4
Minority Interests	0.8	0.9	0.8	4.4	7.1
<b>Equity &amp; Liabilities</b>	<b>219.1</b>	<b>263.0</b>	<b>290.1</b>	<b>321.1</b>	<b>398.5</b>

Source: Kenanga Research

**Fwd PER Band**



**Fwd PBV Band**



Source: Bloomberg, Kenanga Research

**Stock Ratings are defined as follows:**

**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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