

OVERWEIGHT 

EDUCATION

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2011 a tale of two cities. 2011 was a year of mixed fortunes for the education counters under our coverage, as HELP and Masterskill reported disappointing earnings on slowing enrolment due to growing competition. On the other hand, the stocks that just came under our coverage, SEG International and Prestariang, outperformed the benchmark FBM KLCI by 9% and 38% respectively since our initiation reports, with the former leveraging on its diversified course offerings and rolling out healthcare and medical science programs, while the latter increased its stranglehold on the provision of IT certification programmes to students in local public universities. That said, the sector as a whole continued to thrive on growing take-up of tertiary education among local school-goers, while the inflow of foreign students is expected to break the 100k threshold by 2012.

Continued push from the Government. Recognized as a critical driver in propelling Malaysia towards becoming a high-income nation, the Government's National Key Economic Areas (NKEA) also regards the education sector as one that will receive Government priority, including funding and human capital, in terms of policy reforms involving the removal of barriers to competition and liberalizing the market. The NKEA has identified 14 Entry Point Projects involving early childcare to tertiary education. Going into 2012, we believe the Government will add impetus to the implementation of the said projects, with Iskandar Malaysia in particular being in the limelight.

Ironing out funding woes. To address concerns of the ballooning deficit in the National Higher Education Fund (PTPTN), the Ministry of Higher Education is looking to bump up its loan recovery rate from 40% in 2009 to 90% by 2020 by appointing the Inland Revenue Board as its recovery agency. Although this plan has been delayed from Sept 2011 to 1H2012, we believe such a move is inevitable to enforce timely repayments, as PTPTN is the primary source of funding for 82% of students studying in public institutions and also a significant 55% of those studying in private institutions. Of late, concerns over a potential cap on PTPTN's loans by excluding allowance for living expenses have emerged, although the details are vague at this juncture. We see the move as an effort to encourage the repayment of existing loans and send a message to the public that drastic measures will indeed be taken to address non-repayment.

Iskandar Malaysia a pull factor. The Government plans to more than double foreign student enrolment in local private institutions from 95k currently to 200k by 2020. We believe the target is reasonable given Malaysia's edge over its regional peers with the use of English as the medium of instruction, its cheaper tuition fees, extensive collaboration with foreign education institutions as well as the presence of campuses of renowned foreign universities. Some 18 education institutions have announced plans to establish a local presence in the widely promoted Iskandar Malaysia, in tandem with the Government's efforts to turn it into an Asian education hub.

OVERWEIGHT. We maintain OVERWEIGHT on the sector, as we see local education providers gaining strength going into 2012, driven by Government initiatives to spur the private education sector. Meanwhile, as the PTPTN works towards sorting out its collection woes, there appears to be a growing trend among local institutions to tie up with more reputable foreign institutions, which will further enhance Malaysia's appeal as an education hub and an alternative destination for foreign students. **SEG International (BUY; FV: RM2.23)** is our top buy for its diversified course offerings, asset-light operating model and decent dividend yield. Within the small-cap space, we like **Prestariang (BUY; FV: RM0.96)**'s sturdy orderbook of over RM200m and niche focus on the provision of IT-related certification for final year students in public varsities.

Stock	Price RM	Target RM	Mkt Cap RMm	Volume '000	PER (x)		FY0 ROE %	FY1 DY %	Rel. Performance %			P/NTA (x)	Rating
					FY1	FY2			1-mth	3-mth	12mth		
HELP	1.72	1.99	244.3	20.6	13.7	12.8	18.2	1.1	0.1	-16.4	-22.6	2.0	NEUTRAL
Masterskill	1.20	0.99	491.9	2649.6	10.5	9.7	25.1	4.8	3.2	-28.4	-41.4	1.0	SELL
Prestariang	0.80	0.96	176.0	439.1	5.2	5.0	52.1	10.0	20.8	17.4	-	2.3	BUY
SEG International	1.99	2.16	1093.9	877.9	20.3	16.8	21.3	8.9	15.8	11.0	98.9	8.5	BUY

Share price as at 18 Nov 2011