

Corporate Highlights



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

Sector Update

15 September 2011

Education

Recom : **Overweight**
(Maintained)

The Bigger Picture

Table 1 : Education Sector Valuations

FYE	Price (RM)	Fair value (RM)	Core EPS (sen)		Core EPS GWTH (%)		PER (x)		P/NTA (x)	P/CF (x)	NDY (%)	Rec	
			FY11	FY12	FY11	FY12	FY11	FY12					
SEG Intl	Dec	1.79	2.30	9.6	13.4	15.0	39.5	18.6	13.3	4.6	12.9	3.6	OP
HELP Intl	Oct	2.12	2.60	15.8	18.7	17.3	18.8	13.4	11.3	2.4	9.6	1.6	OP
Masterskill	Dec	1.15	1.25	12.5	12.2	(49.7)	(2.5)	9.2	9.4	0.9	7.7	6.5	MP
Sector Avg						(14.0)	27.1	16.0	12.4				

- ◆ **Degree vs. diploma.** More students are choosing to pursue degree programmes vs. diploma programmes as degrees become more affordable and due to the increased employability of degree holders. Hence, around 41.5% of total tertiary students in Malaysia during 2010 were pursuing degrees (vs. 35.1% pursuing diplomas). SEGi and HELP will benefit from the shift in demand from diploma to degree programmes as these two players are already offering established degree programmes. However, we are cautious on Masterskill's performance as it is mainly dependent on its diploma courses, with less than 10% of students enrolled in its degree courses.
- ◆ **Banking on foreign students.** The Government is targeting to increase the foreign students' population in Malaysia to 200k by 2020 from 86.9k currently, implying a more achievable CAGR of 8.7% vs. the 2003-2010 CAGR of 16.2%. This increase is expected to complement the growth in local student population, bolstering the overall demand for education services. We believe the private education service providers will stand to gain more from this as public universities will continue to focus on meeting demand from local students given their limited resources.
- ◆ **Pre-tertiary education.** Although the enrolment in primary and secondary schools has increased, the number of government schools over the past five years has not kept up with students' growth. With a lucrative market and with fees currently ranging from around RM9k to RM50k p.a., SEGi and HELP are currently in the planning stages of setting up their own private schools, and we believe that this venture will also help to build their brands of education at the primary and secondary levels. The increased branding visibility would help to boost their topline growth in the long-term.
- ◆ **Risks.** These include: 1) More intense competition from other private education providers; and 2) Regulatory risks that might impact the intake of new students and/or the eligibility criteria for students to obtain loans/scholarships.
- ◆ **Maintain Overweight.** We reiterate our **Overweight** stance on the sector, as we believe that the sector is poised for further growth, on the back of: 1) positive macro factors driving the industry such as the the growing number of students graduating from secondary level education; 2) industry players' capacity for expansion to meet the market's growing demand; and 3) the expected increase in foreign students in the long-term. We believe the sector will continue to have a high degree of resilience to the heightened global macroeconomic risks. **SEGi** remains our top pick for the sector, due to its strong growth potential in line with the sector's positive growth and decent net dividend yield of 3.5%.

Chart 1: Highest Qualification of Recently Employed Graduates (2010)

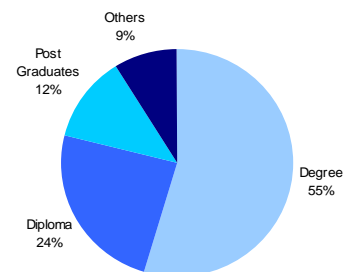
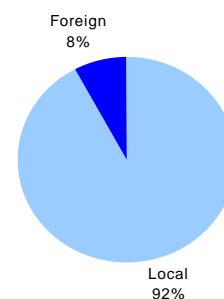


Chart 2: Breakdown of Students in Malaysia Higher Learning Institutes (2010)



Relative Performance To FBM KLCI



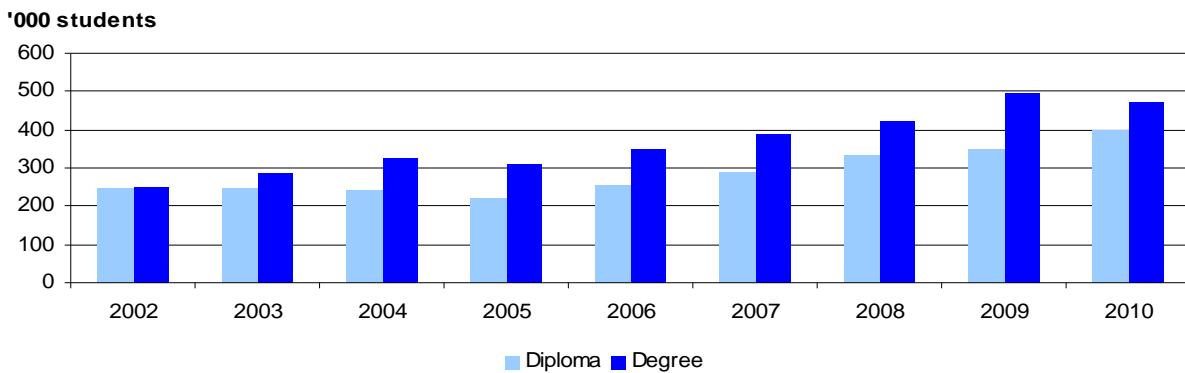
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- ◆ **Degree vs. diploma.** The objectives of pursuing tertiary education are mainly to increase students marketability in the employment market and to improve their quality of life. Previously, more students were inclined to pursue diploma as opposed to degree courses, due to: 1) the lower entry requirements; 2) the cheaper cost of pursuing a diploma; and 3) the shorter time span for completion of the programme, as diploma students enter straight into the programme after graduating from the secondary education, whereas degree students have to complete a pre-university programme prior to entering the degree programme.

However, more and more students are now choosing to pursue degrees. Around 41.5% of the total tertiary students in Malaysia during 2010 were pursuing degrees, which is an improvement from the 37.8% recorded for 2002. The overall enrolment for diploma courses meanwhile dipped slightly to 35.1% in 2010 (from 36.7% in 2002). We believe that more students are now opting for degrees as: 1) the rising household income has led to degrees becoming more affordable; 2) more students are now able to meet the requirements to pursue degrees; and 3) the increased employability of students with degree qualifications over students with diploma qualifications, as around 55% of employed graduates are degree holders, while only 24% are diploma holders.

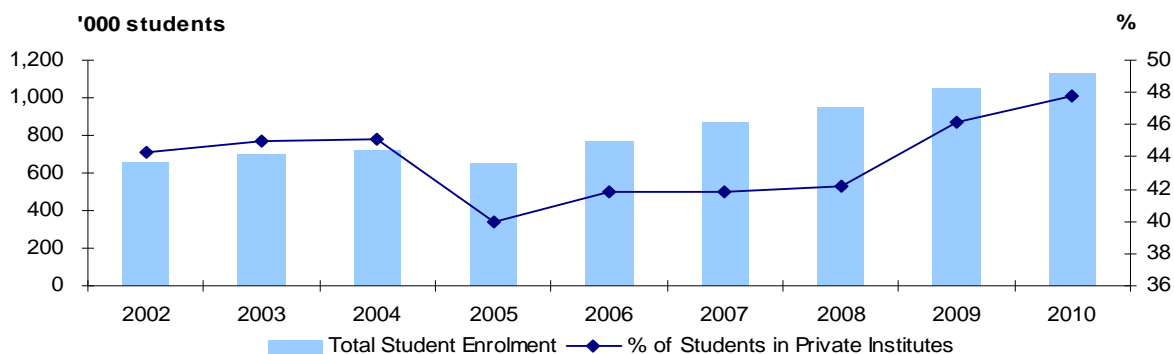
Chart 3: Students Enrolled in Degree and Diploma Programmes (2002 - 2010)



Source: Ministry of Higher Education, RHBRI

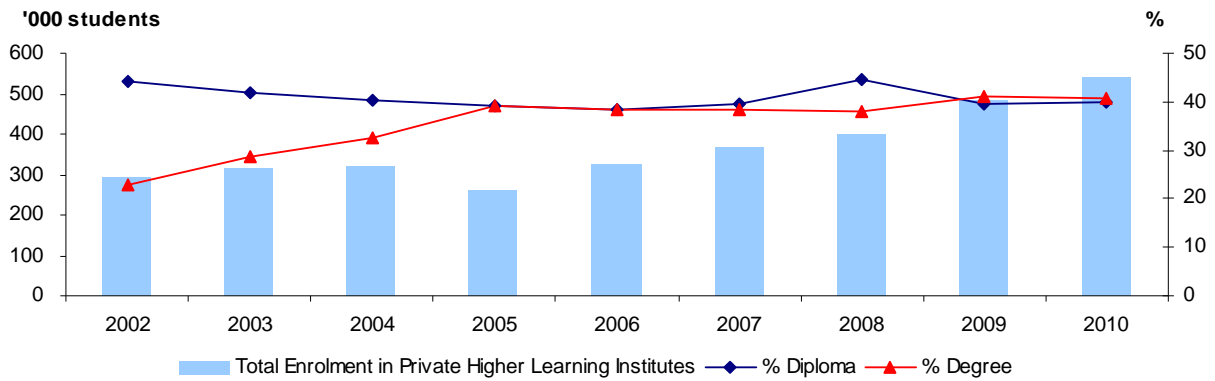
The private sector has a 48% share of the total students enrolled in Malaysian higher learning institutes from the 2005 low of 40%. It can also be seen that the increase in enrolment for degree programmes is more pronounced for the sector, growing at a CAGR of 16% between 2002 and 2010, while the diploma programmes only grew at a CAGR of 6.61% in the same period. Furthermore, some private education players are now allowing diploma students to join a “top-up” programme, which is shorter than the conventional three-year degree programme, as a way to allow students to obtain a degree qualification, and this has contributed to the overall increase in the enrolment for degrees.

Chart 4: Percentage of Students Enrolled in Private Higher Institutes (2002 - 2010)



Source: Ministry of Higher Education, RHBRI

Chart 5: Percentage of Students Enrolled in Degree and Diploma Programmes in Private Universities (2002 - 2010)



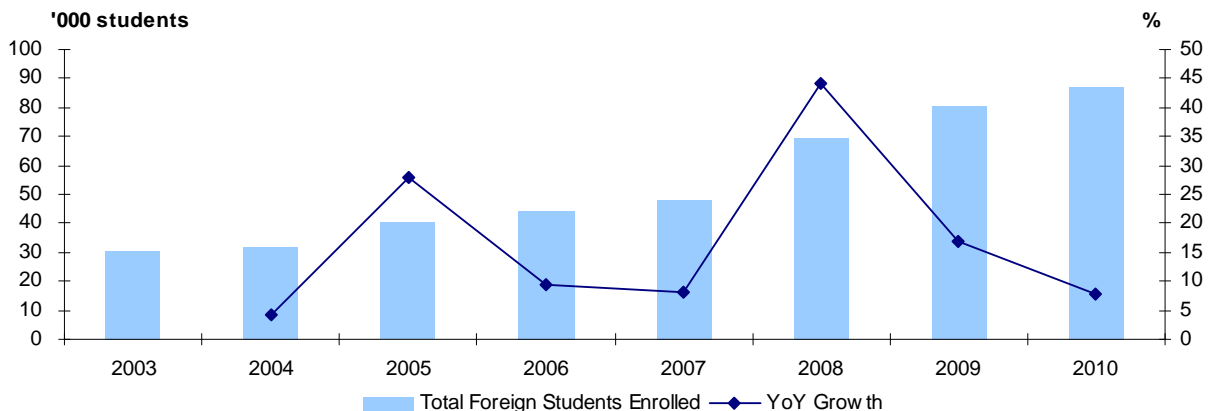
Source: Ministry of Higher Education, RHBRI

The three listed education players (SEGi, HELP and Masterskill) all offer diploma and degree programmes, with fees for diploma programmes ranging from RM25k to RM53k, while degree programmes range from RM35k to RM285k. The growth in the number of students pursuing degrees will benefit the industry, as revenue from degree programmes is significantly higher than those of diploma programmes. We are positive that SEGi and HELP will benefit from the shift in demand from diploma to degree programmes as these two players are already offering established home-grown and twinning degree programmes.

However, we are cautious on Masterskill's performance as it is mainly dependent on its diploma courses, with less than 10% of students enrolled in its degree courses. With the higher Government requirement for nursing diploma courses of 5 SPM credits (from 3 credits previously), Masterskill's student intake will be negatively affected as students with less than 5 credits do not qualify, whereas students with 5 credits might choose to enter a degree programme instead. Nonetheless, the three education players currently only account for less than 10% of the 541k students enrolled in the private education sector, and with many competitors in the market, it is difficult to accurately gauge the impact of shifting demand on their student enrolment.

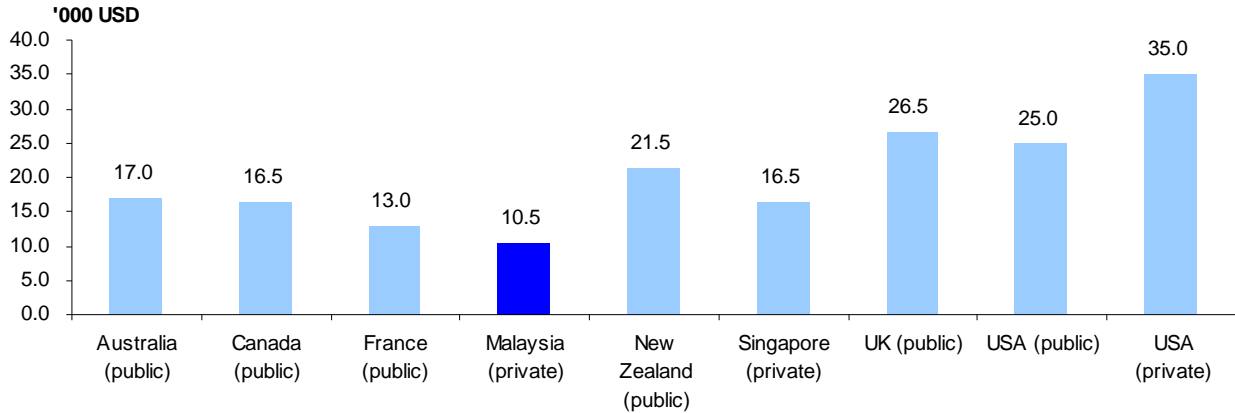
◆ **Banking on foreign students.** Malaysia is increasingly becoming one of the preferred destinations for higher education by foreign students. The foreign student population has grown at a CAGR of 16.2% between 2003 and 2010, with the foreign student population currently standing at 86.9k, up from 30.4k in 2003. This has led to the proportion of foreign students enrolled in higher learning institutes to increase to around 7.7% in 2010 from 4.4% in 2003. We believe that the factors contributing to this increase include: 1) the cheaper tuition fees and living costs in Malaysia as compared to other countries in the region such as Singapore and Australia; 2) the use of the English language as the medium of communication and teachings; and 3) Malaysia's relatively stable living environment.

Chart 6: Total Foreign Students Enrolled in Malaysia (2003 – 2010)



Source: Study Malaysia, Ministry of Higher Education, RHBRI

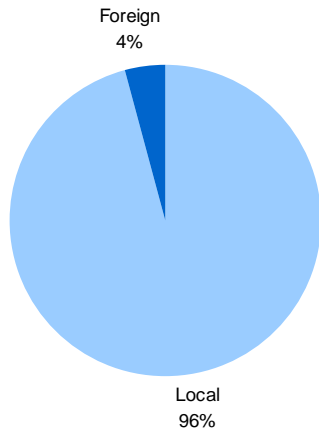
Chart 7: Comparison of the Estimated Cost for a Bachelor's Degree Programme in Arts and Business for Selected Countries



Source: Study Malaysia, Ministry of Higher Education, RHBRI

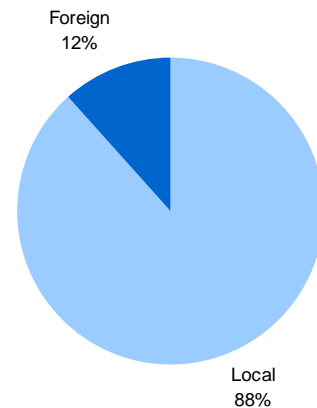
The Education Minister, Tan Sri Muhyiddin Yassin recently stated that the foreign student population in Malaysia is expected to increase to around 200k by 2020, implying a CAGR of 8.7% from the current population of 86.9k. This increase is expected to complement the growth in local students' population, bolstering the overall growth of the Malaysian education sector. In our opinion, the private education providers stand to gain more from this increase as the public universities will continue to focus on providing education for local students given their limited resources, while the private sector's capacity and expansion will allow them to cater to the foreign students' needs.

Chart 8: Breakdown of Students Enrolled in Public Institutes for 2010



Source: Ministry of Higher Education, RHBRI

Chart 9: Breakdown of Students Enrolled in Private Institutes for 2010



Source: Ministry of Higher Education, RHBRI

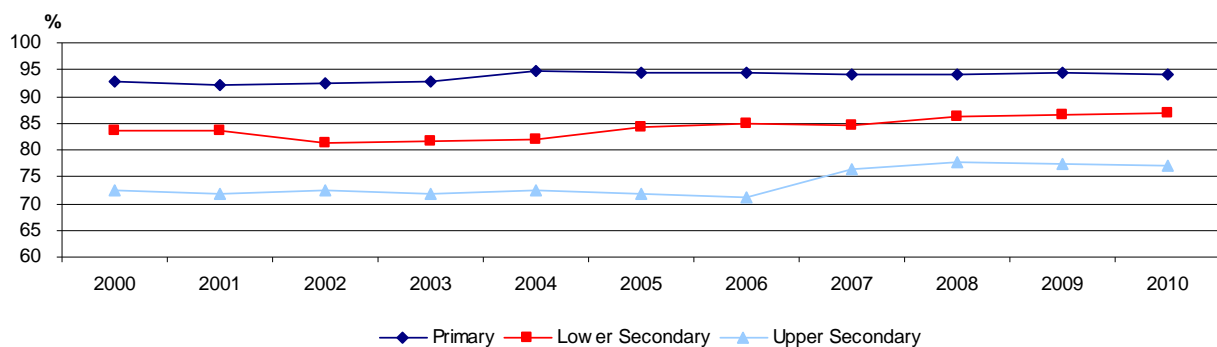
Table 2: Top 10 Countries by Number of Foreign Students Enrolled in Malaysia's Higher Learning Institutes for 2010

Country	No. of Students	As % of Total Foreign Students Population
Iran	11,823	13.60
China	10,214	11.75
Indonesia	9,889	11.38
Yemen	5,866	6.75
Nigeria	5,817	6.69
Libya	3,930	4.52
Sudan	2,837	3.26
Saudi Arabia	2,252	2.59
Bangladesh	2,041	2.35
Botswana	1,911	2.20
Total Top 10 Countries	56,580	65.09
Total Foreign Students Population	86,923	

Source: Ministry of Higher Education, RHBRI

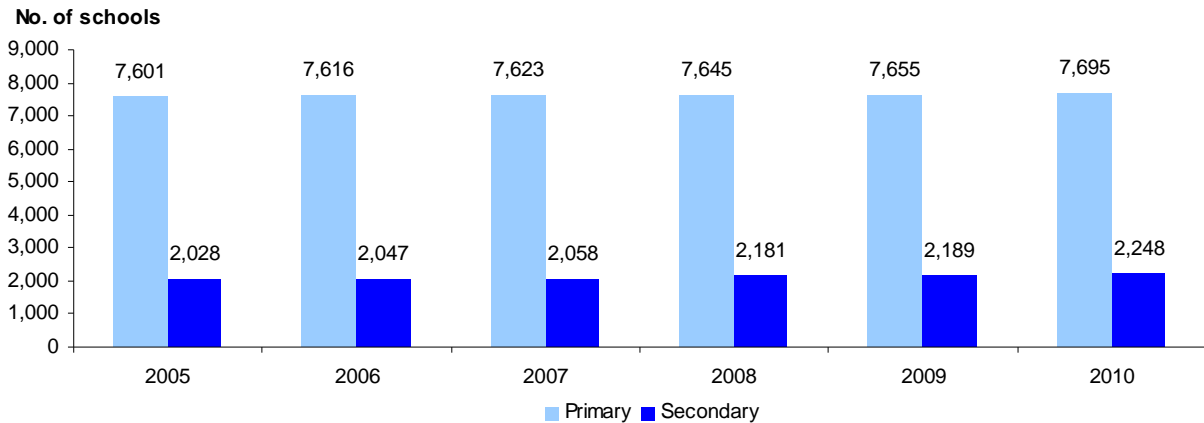
10% of HELP's student population comprise of foreign students. Going forward, we expect the number of foreign students to increase on the back of HELP's recent elevation to a full-fledged university and the commencement of its Frasers' Business Park campus. The new Subang 2 campus will also double its current capacity. SEGi is also actively developing initiatives to attract more foreign students, and among the initiatives in place is the ETP project, SkillsMalaysia INVITE, where SEGi and other education providers will be offering vocational and soft-skills courses that will be certified by the Malaysian Government as well as the United Kingdom and Australia, with the objective of the courses being to improve the employability of the students upon completion of the course. SEGi is expecting around 2-3k foreign students per year upon commencement of this programme.

◆ **Pre-tertiary education.** The pre-tertiary education segment remains a big part of the Malaysian education system as more students are enrolled at this level. Malaysian students' enrolment rate for primary school students has been generally stable over the past decade, hovering at around the 92-95% level. The enrolment for students at the lower and upper secondary level has also steadily increased in 2010 to 86.8% and 77.2% respectively (from 84.8% and 71.0% in 2006 respectively).

Chart 10: Total Student Enrolment % over Population According to Education Level (2000 - 2010)


Source: Ministry of Education, Economic Planning Unit, RHBRI

Although the enrolment in school has increased in line with the increase in the population, the number of government schools over the past five years has not kept up with demand with only an average of 19 new primary schools and 44 new secondary schools being set up annually.

Chart 11: Total Primary and Secondary Schools in Malaysia (2005 - 2010)


Source: Ministry of Education, Economic Planning Unit, RHBRI

This capacity problem, coupled with the population's rising standard of living as well as the scepticism in the public education system, has led to an increase in the enrolment and demand for private and international schools at the primary and secondary levels. As such, some tertiary education providers have entered into this market, and more are expected to follow suit as the market is perceived to be lucrative and low-risk, with current market fees ranging from RM9k to RM50k p.a.. SEGi and HELP are currently in the planning stages of setting up their own private schools, and we believe that this venture will have a positive impact on the stocks as attaching SEGi and HELP's brands of education to the private schools will give parents the confidence of enrolling their children in the schools, and this in our view will boost SEGi and HELP's topline growth over the long-term.

Table 3: Tertiary Education Providers With Exposure at Pre-Tertiary Levels

Company	Tertiary Education	Pre-Tertiary Education	Tuition fees range per year (RMk)
Paramount Bhd	KDU University College	Sri KDU	N/A
	KDU College		
Sunway Bhd	Sunway University College	Sunway International School	11.5 - 15.7
	Monash University Sunway		
Taylor's Education Group	Taylor's University College	Garden International School	29.1 - 51.5
		Sri Garden	9.1 - 28.3
		Australia International School Malaysia	14.2 - 50.6
		Nexus International School	27.3 - 49.0

- ◆ **Risks.** These include: 1) Competition from other private education providers; 2) Regulatory risks that might impact the intake of new students and/or the eligibility criteria for students to obtain loans/scholarships.
- ◆ **Maintain Overweight.** We reiterate our **Overweight** stance on the sector, as we believe that the sector is poised for further growth, on the back of: 1) positive macro factors driving the industry such as the the growing number of students graduating from secondary level education; 2) industry players' capacity for expansion to meet the market's growing demand; and 3) the expected increase in foreign students in the long-term. We believe the sector will continue to have a high degree of resilience to the heightened global macroeconomic risks.

SEGi remains our top pick for the sector, due to its strong growth potential in line with the sector's positive growth and decent net dividend yield of 3.5%. We also believe that HELP will continue to have a decent growth going forward as it has recently been elevated to a full-fledged university status, which will bring further recognition to its degree programmes. However, we remain cautious on Masterskill as it might be losing more students over the immediate term due to the increasing demand for degrees vs. diplomas, as well as the higher requirements for nursing programmes. We believe that Masterskill's performance will only be corrected over the medium-term.

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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.

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