

03 July 2012

SEG International

Foray into international schools

OUTPERFORM ↔

Price: RM1.95
Target Price: RM2.45 ↑

SEG International ("SEG") remains one of the solid picks in the defensive yet growing education sector underpinned by the increase popularity of its home-grown programmes and healthy rise in its student base. We are positive on SEG's strategy into the downstream education segment by its venture into international schools as this could potentially provide a new income source to the group in the future. Despite venturing into a new segment, management intends to maintain its dividend policy, which is set at a 50% payout ratio. While we are maintaining our FY12 earnings forecast, we have lowered our FY13 net profit by 0.8% to RM126.0m after raising our debt assumption by RM52.3m, hence our interest expense increase by RM1.3m. We estimate SEG will pay a good 4.1% and 4.7% dividend yields in FY12 and FY13 respectively. Coupled with the strong 25.6% potential capital upside for the stock to our fair value, SEG offers a possible total return of a strong 30.3% in FY13 from its current level. We maintain our OUTPERFORM call and have revised up our target price to RM2.45 after rolling-over our valuation based year to FY13. We have raised our forward PER, marginally, to 13.4x (with unchanged +1SD) on our FY13E EPS of 18.3 sen based on share base of 689.4m, assuming 27.6m conversion of the company's outstanding warrants in FY13.

Listing status remains status quo for now. The recent completion of the GO has not resulted in any material changes in SEG's shareholding structure. Recall that the GO price was RM1.714/share. Post-GO, both Navis Capital ("NC") and Dato' Sri Clement Hii now jointly controlled 66.5% and 69.0% of SEG's ordinary shares and warrants respectively, up from 57.6% and 70.6% previously. While NC's intention in privatising SEG remains unchanged, we do not discount that the group may propose another plan in the future. Nevertheless, this can only be done after a 6-month lock-out period based on Bursa's M&A guidelines. For now, SEG's listing status remains unchanged.

Expecting high teens growth in students enrolment. The group has 28k students as of May 2012 and is aiming to grow the number to approximately 30k (+17% YoY) by year-end. The expected high teens growth in its students' enrolment is mainly driven by its aggressive promotion and advertising campaigns as well as from new programmes (20-30 programmes) being introduced in FY12.

Foray into the international school segment. While the details of its recently proposed RM52.3m land acquisition financing structure have yet to be unveiled, management is likely to fund the majority of the amount through loans to ride on the current low interest rate environment rather than utilise its cash. We understand that the rationale for the proposed land acquisition is to build an international school. We have raised our long term loan amount assumption by RM52.3m with a 5% interest rate and a 3-year tenure. Management is expecting to spend RM60m for constructing an international school with a student capacity of 3k. SEG is targeting to open the student intake for its international school as early as end-2013. Assuming a first year intake of 500 students with an average tuition fee of RM30k/year, the group's international school segment could contribute RM15m or 4% to the group's top line in FY14. However, we have yet to impute the above potential financial impact into our financial model.

50% payout maintained. Although management has ambitious expansion plans on hand, SEG still intend to maintain its dividend policy at a 50% payout ratio. We expect the group to declare DPS of 7.9 sen and 9.1 sen in FY12 and FY13 respectively, translating into 4.1% and 4.7% dividend yields.

Share Price Performance


KLCI	1,600.85
YTD KLCI chg	4.6%
YTD stock price chg	8.3%

Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	1,293.4
Issued shares	663.3
52-week range (H)	2.09
52-week range (L)	1.65
3-mth avg daily vol:	1,019,597
Free Float	31%
Beta	0.8

Major Shareholders

PINNACLE HERITAGE	39.9%
HII CHII KOK	24.0%
REXTER CAPITAL S/B	5.0%

Summary Earnings Table

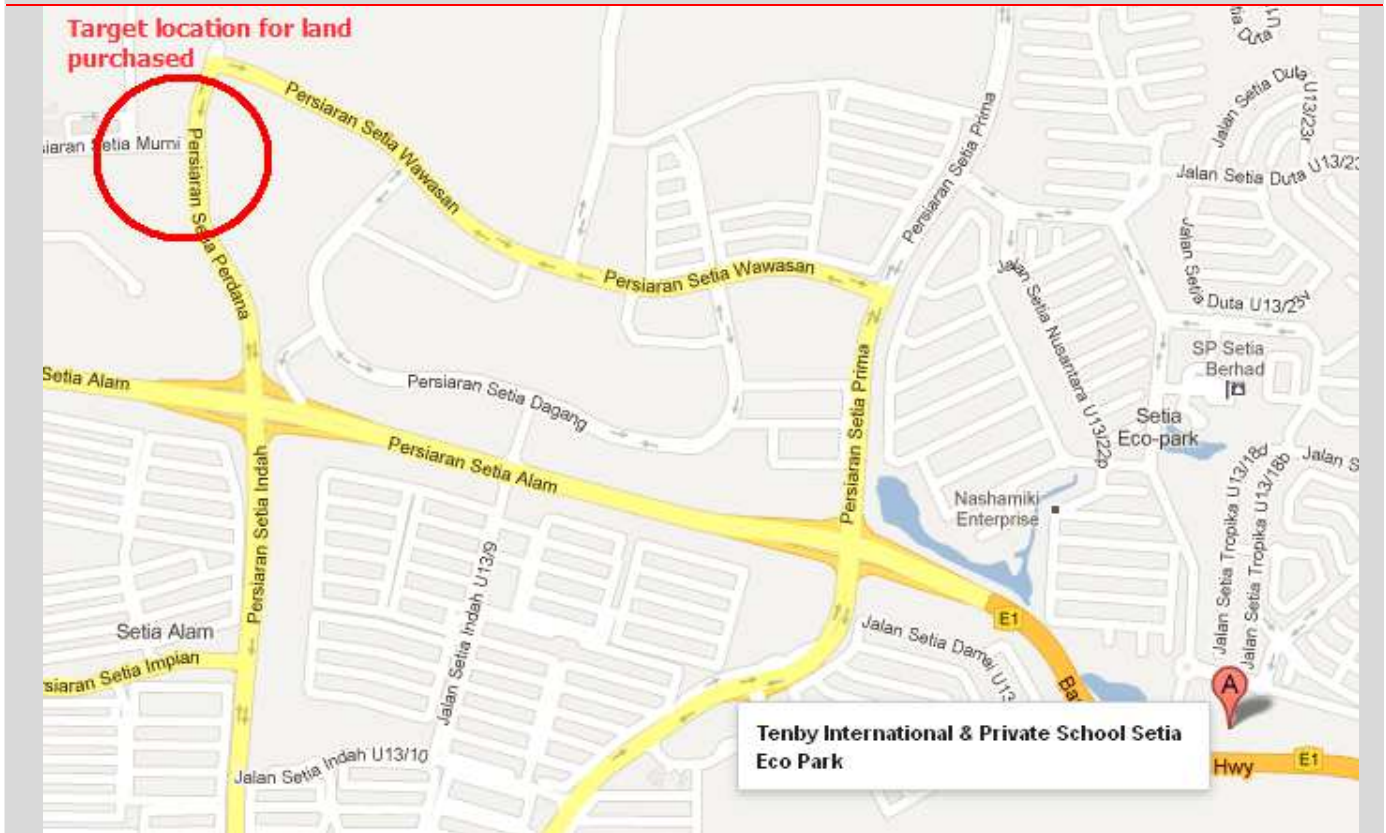
FYE Dec (RM'm)	2011A	2012E	2013E
Turnover	278.3	333.0	373.8
EBIT	66.2	100.0	120.0
PBT	88.2	129.3	155.5
Net Profit (NP)	72.3	104.8	126.0
Consensus (NP)	-	97.0	119.5
Earnings Revision	-	-	-
EPS (sen)	11.2	15.8	18.3
EPS growth (%)	65%	42%	15%
DPS (sen)	6.8	7.9	9.1
PER	17.5	12.3	10.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	3.5%	4.1%	4.7%

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Others points

Location of the land. SEG has recently proposed to acquire 12 acres or 522,720 sq ft of vacant freehold commercial development land located within Mukim of Bukit Raja, Selangor for a total cost of RM52.3m. Based on our ground search, we notice that there is one international school nearby, namely Tenby International & Private School, located in Setia Eco Park, which is about 4.0km away from SEG’s upcoming international school. We understand that Tenby International & Private School is offering pre-school for secondary level education.

Location of the proposed acquires land.

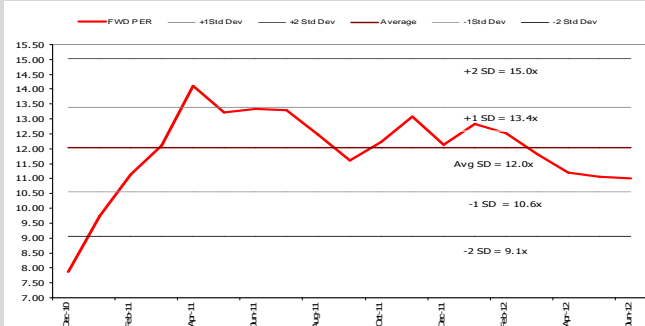


Source: Kenanga Research, Google Map

Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E	FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E
Revenue	166.4	217.6	278.3	333.0	373.8	Growth					
EBITDA	10.6	44.0	75.0	110.5	131.8	Turnover (%)	30.6%	30.8%	27.9%	19.6%	12.3%
Depreciation	6.1	7.4	8.8	10.5	11.8	EBITDA (%)	90.2%	316.4%	70.3%	47.4%	19.3%
Operating Profit	4.4	36.7	66.2	100.0	120.0	Operating Profit (%)	1386.9%	727.9%	80.4%	51.1%	20.0%
Other Income	11.9	18.9	22.8	29.6	37.0	PBT (%)	47.8%	271.9%	62.4%	46.5%	20.3%
Interest Exp	1.7	1.2	0.7	0.3	1.6	Net Profit (%)	39.9%	320.5%	67.9%	44.9%	20.3%
Associate	0.0	0.0	0.0	0.0	0.0	Profitability (%)					
Exceptional Items	0.0	0.0	0.0	0.0	0.0	EBITDA Margin	6.4%	20.2%	26.9%	33.2%	35.3%
PBT	14.6	54.3	88.2	129.3	155.5	Operating Margin	2.7%	16.9%	23.8%	30.0%	32.1%
Taxation	4.4	11.1	16.0	24.6	29.5	PBT Margin	8.8%	25.0%	31.7%	38.8%	41.6%
Minority Interest	0.0	-0.2	0.1	0.1	0.1	Core Net Margin	6.2%	19.8%	26.0%	31.5%	33.7%
Net Profit	10.2	43.1	72.3	104.8	126.0	Effective Tax Rate	29.9%	20.4%	18.1%	19.0%	19.0%
Core Net Profit	10.2	43.1	72.3	104.8	126.0	ROA	4.7%	16.4%	24.9%	29.8%	26.0%
Balance Sheet						ROE	6.0%	6.0%	21.2%	39.2%	43.0%
FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E	DuPont Analysis					
Fixed Assets	91.4	100.1	111.6	111.1	166.5	Net Margin (%)	6.2%	19.8%	26.0%	31.5%	33.7%
Intangible Assets	27.8	27.7	28.0	28.0	28.0	Assets Turnover (x)	0.8x	0.8x	1.0x	0.9x	0.8x
Other FA	15.3	13.1	8.6	8.6	8.6	Leverage Factor (x)	1.3x	1.3x	1.6x	1.4x	1.5x
Inventories	0.0	0.0	0.0	0.0	0.0	ROE (%)	6.0%	21.2%	39.2%	43.0%	39.3%
Receivables	40.1	37.6	47.1	56.4	63.3	Leverage					
Other CA	7.6	5.8	7.6	11.6	14.0	Debt/Asset (x)	0.1	0.1	0.0	0.0	0.1
Cash	36.9	78.8	87.2	135.7	204.5	Debt/Equity (x)	0.8	0.8	0.6	0.7	0.7
Total Assets	219.1	263.0	290.1	351.4	484.9	Net Cash/(Debt)	-12.2	19.3	-18.4	28.0	40.0
Payables	28.0	38.6	37.9	40.6	43.3	Net Debt/Equity (x)	-0.1	0.1	-0.1	0.1	0.1
ST Borrowings	6.1	7.2	3.7	0.0	0.0	Valuations					
Other ST Liability	0.6	0.5	54.7	55.4	55.9	EPS (sen)	2.1	6.8	11.2	15.8	18.3
LT Borrowings	12.5	10.8	5.0	5.0	57.3	GDPS (sen)	0.4	0.4	6.8	7.9	9.1
Other LT Liability	1.9	2.5	4.3	6.6	8.0	NTA (RM)	1.6	1.4	1.1	1.5	1.8
Minorities Int.	0.8	0.9	0.8	0.7	0.6	PER (x)	45.9	28.9	17.5	12.3	10.7
Net Assets	170.0	203.5	184.5	243.7	320.4	Gross Div. Yield (%)	0.2%	0.2%	3.5%	4.1%	4.7%
Share Capital	89.1	125.6	139.7	146.6	160.4	P/NTA (x)	1.2	1.4	1.7	1.3	1.1
Reserves	80.1	77.0	44.1	96.5	159.5	EV/EBITDA (x)	87.2	26.9	15.8	10.5	9.1
Equity	170.0	203.5	184.5	243.7	320.4	Cashflow Statement					
FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E	Operating CF	36.9	75.1	84.5	107.7	133.0
Operating CF	36.9	75.1	84.5	107.7	133.0	Investing CF	(11.5)	(8.7)	(10.4)	(10.0)	(67.3)
Investing CF	(11.5)	(8.7)	(10.4)	(10.0)	(67.3)	Financing CF	(27.9)	(14.9)	(50.4)	(49.2)	3.1
Financing CF	(27.9)	(14.9)	(50.4)	(49.2)	3.1	Change In Cash	(2.6)	51.6	23.7	48.5	68.8
Change In Cash	(2.6)	51.6	23.7	48.5	68.8	Free CF	25.4	66.5	74.1	97.8	65.7
Free CF	25.4	66.5	74.1	97.8	65.7						

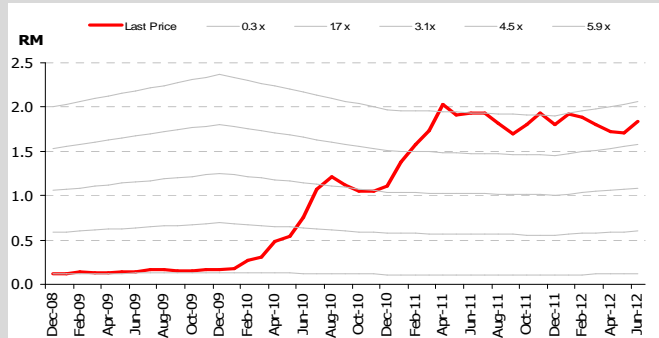
Source: Company, Kenanga Research

Fwd PER Standard Deviation



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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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