



SEG International Berhad

A Disappointing Quarter

TP: RM1.72 (-14%)

Last Traded: RM2.00

Ceased Coverage

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Review

- SEG's 3Q12 net profit came in at RM15.8mn, a decrease of 21.6% QoQ. This is on the back of lower revenue of RM74.3mn (-7.4%QoQ) stemming from higher number of graduate in the quarter which could have outpaced that of incoming new students during the same period. Profit margin also reduced by approximately 4p.p which we suspect may be due to the higher operating expenses such as wages as well as marketing expenses to attract higher student headcounts.
- On a Ytd basis, earnings for 9M12 amounted to only RM57.8mn which translates into an increase of 5.9% compared with the previous year (RM54.6mn). This was below ours and consensus estimates, accounting for only 58% and 61% of FY12 earnings respectively. Revenue for the said period amounted to RM232.3mn (+12.1%) as there is increase in both local and overseas students' enrolments as well as combination of new courses from both overseas universities as well as home-grown programme.

Impact

- In view of the weak 3Q12, we have cut our earnings estimate for FY12/13/14 by 23.2%/31.9%/37.7%. This is achieved by assuming lower growth rate of student enrollment which is more reflective of the 9MFY results.

Outlook

- Looking at the group's 9M12 results, we view that the company topline and bottomline growth rate in the near term to soften considerably as compare to the previous year, in addition to the high base effect. While we view SEGi as one of the dominant player which offer competitive pricing as well as range of courses, its dominance could become less apparent as other local education players stepped up offerings at a more competitive rates. In addition, we do not discount the possibility that a population of students would also opts for established foreign tertiary education provider which has set foot in Malaysia following the liberalisation of the sector.
- The proposed international school is expected to open its door to the public as early as 2015. By then, we view that competition would have intensified further as there could more new international school emerged within these years. This could have a negative impact on the enrollment of students which would inadvertently affect the earnings contribution.

SHARE INFO

Bloomberg Code	SYS MK
Bursa Name	SEG
Stock Code	9792
Listing	Main Market
Share Cap (mn)	664.7
Market Cap (RMm)	1329.3
Par Value (RM)	0.25
52-wk Hi/Lo (RM)	2.16/1.69
12-mth Avg Daily Vol (000' shrs)	596.4
Estimated Free Float (%)	31.18
Beta	0.76
Major Shareholders (%)	

Hii Chii Kok (39.90)
Pinnacle Heritage Solutions S/B (23.90)
Rexter Capital Sdn Bhd (5.02)

FORECAST REVISION

	FY12	FY13
Forecast Revision (%)	-23.2	-31.9
Net profit (RMm)	76.9	81.4
Consensus	95.1	115.8
TA/Consensus (%)	80.9	70.3
Previous Rating	BUY (Downgraded)	

FINANCIAL INDICATORS

	FY12	FY13
Net debt/equity (%)	Net Cash	Net Cash
CFPS (sen)	13.9	15.8
P/CFPS (x)	14.4	12.6
ROA (%)	24.2	23.7
NTA/Share (RM)	0.4	0.4
Price/ NTA (x)	5.4	4.6

Scorecard

	% of FY	
vs TA	57.7	Below
vs Consensus	60.8	Below

SHARE PERFORMANCE

Price chg (%)	SYS MK	FBMKLCI
1 mths	2.6	1.5
3 mths	(3.8)	2.6
6 mths	17.0	5.9
12 mths	13.0	13.9

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Valuation

- Following their earnings downgrade, we revise downward target price for SEG to RM1.72/share while maintaining FY13 PER of 14x. This translates to a potential capital downside of 5%. As such, we downgrade the stock to Sell from Buy previously. As part of review of our research coverage portfolio, we are ceasing coverage on SEG. We view that rising competition and margin risk as they key near term hurdle to share price.

3Q12 Results Highlight (RMmn)

FYE Dec 31	3Q11	2Q12	3Q12	QoQ(%)	YoY(%)	FY11	FY12	YoY(%)
Revenue	70.0	80.2	74.3	(7.4)	6.2	207.3	232.3	12.1
EBIT	22.7	24.9	19.6	(21.3)	(13.7)	68.8	71.5	4.0
Finance cost	(0.2)	(0.1)	(0.1)	nm	nm	(0.6)	(0.4)	nm
Associates	-	-	-	nm	nm	0.2	-	nm
PBT	22.5	24.7	19.5	(21.2)	(13.5)	68.4	71.2	4.1
Tax	(4.3)	(4.7)	(3.8)	(17.8)	(10.8)	(13.6)	(13.7)	0.3
MI	(0.1)	(0.0)	0.1	nm	nm	(0.2)	0.3	nm
Net profit	18.3	20.1	15.8	(21.6)	(13.8)	54.6	57.8	5.9
Reported EPS (sen)	3.5	3.6	2.5	(31.2)	(29.4)	8.4	8.9	6.2
Dividend (sen)	-	-	5.0	nm	nm	14.0	5.0	nm
EBIT margin (%)	32.4	31.0	26.4			33.2	30.8	
PBT margin (%)	32.2	30.8	26.2			33.0	30.6	
Net margin (%)	26.2	25.1	21.3			26.3	24.9	

Earnings Summary (RMmn)

FYE Dec 31		FY10	FY11	FY12E	FY13F	FY14F
Revenue		217.6	278.3	306.6	332.2	356.3
EBITDA		63.1	98.0	103.6	110.1	115.8
EBITDA margin (%)	(%)	29.0	35.2	33.8	33.2	32.5
Pretax profit		54.3	88.2	93.8	99.6	104.5
Net profit		43.0	72.3	76.9	81.4	85.7
EPS (sen)	(sen)	8.7	14.1	11.6	12.3	12.9
EPS growth (%)	(%)	187.8	62.2	-17.8	5.9	5.2
PER (x)	(x)	23.0	14.2	17.3	16.3	15.5
GDPS (sen)	(sen)	3.5	7.0	5.8	6.1	6.5
Div yield (%)	(%)	1.8	3.5	2.9	3.1	3.2
ROE (%)	(%)	21.2	30.5	27.9	25.8	23.9

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