



## SEG International Berhad

Becoming an Integrated Education Player

TP: RM2.52 (+23%)

Last Traded: RM2.05

BUY

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY\*

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We met up with the management of SEG yesterday. Highlights of the meeting includes: 1) upcoming international school will be targeted at higher end market and 2) stronger 2H results expected.

The international school, which is scheduled for opening towards the 4Q of 2014 or early 2015, will follow the British curriculum. According to the management, the school will be targeting the higher end market. We benchmark the expected tuition fee with that Garden International School which follows the same system. The tuition fees charged ranges from RM30k to RM55k per student per year (See Figure 1). The school is expected to be able to house approximately 3k to 4k of students. Assuming a median fee of RM40k per year, revenue per year could range from RM120mn to RM160mn. This could provide a great boost to SEG's topline. The management guided that PBT margin would be more than 50% which translate to PBT of RM60mn to RM80mn annually.

Figure 1: Garden International School Tuition Fee Schedule

Tuition fee per academic year	RM
Nursery	30,864
Reception	31,665
Year 1 & 2	36,030
Year 3 & 4	41,130
Year 5 & 6	41,190
Year 7, 8, 9	49,620
Year 10 & 11	54,810
Year 12 & 13	55,710
EAL Year 1 - 2	43,200
EAL Year 3 - 6	49,335
EAL year 7 - 9	54,540

\*Note: EAL – English as an Additional Language

Source: Garden's website

From our checks, there is an existing international school in the vicinity – Tenby International School. The fees charged per year would be in the range of RM12k to 30k (See Figure 2). This evidently showed there is difference in tuition fee, which will translate to a different market segment of students. Thus, despite the proximity, we think cannibalisation is not an issue since both schools will be targeting a different market segment.

Figure 2: Tenby International School's tuition fee

Tuition fee per academic year	RM
Nursery	30,864
Reception	31,665
Year 1 & 2	12,000 & 14,400
Year 3 & 4	16,800 & 18,300
Year 5 & 6	19,650 & 20,700
Year 7 & 8	23,850
Year 9	27,600
Year 10 & 11	29,700
Year 12	NA

Source: Tenby's website

### SHARE INFO

Bloomberg Code	SYS MK
Bursa Name	SEG
Stock Code	9792
Listing	Main Market
Share Cap (mn)	663.4
Market Cap (RMm)	1359.9
Par Value (RM)	0.25
52-wk Hi/Lo (RM)	2.16/1.65
12-mth Avg Daily Vol (000' shrs)	807.1
Estimated Free Float (%)	31.1
Beta	0.73
Major Shareholders (%)	

Hii Chii Kok (39.89)

Pinnacle Heritage Solutions S/B (23.94)

Rexter Capital Sdn Bhd (5.03)

### FORECAST REVISION

	FY12	FY13
Forecast Revision (%)	-	-8
Net profit (RMm)	100.2	119.6
Consensus	97.7	119.3
TA/Consensus (%)	102.5	100.3
Previous Rating	BUY (Upgraded)	

### FINANCIAL INDICATORS

	FY12	FY13
Net debt/equity (%)	Net Cash	Net Cash
CFPS (sen)	17.6	21.2
P/CFPS (x)	11.7	9.7
ROA (%)	29.4	29.5
NTA/Share (RM)	0.4	0.5
Price/ NTA (x)	5.3	4.3

### SHARE PERFORMANCE

Price chg (%)	SYS MK	FBM KLCI
1 mths	11.4	2.6
3 mths	19.2	3.5
6 mths	13.9	7.3
12 mths	5.1	4.7

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



Source: Bloomberg

We are still kept in the dark as to the cost of investment to build up the schools as discussion is still on-going. It could range from RM50mn to RM100mn depending on the build capacity and the type of facilities to be made available. However, management hinted that a major proportion of the RM52.3mn land cost would be funded by way of borrowings due to the low interest rate currently. Assuming 90% borrowings, the group's borrowing would balloon to RM55mn from RM8mn as at 31 March 2012. Its cash position would also reduce slightly to RM36.5mn from RM41.8mn. All in, the company will be in a net gearing position of 0.09x from a net cash position previously.

### Higher Student Count to Boost 2H12 Results

We expect a flat 2Q12 earnings of between RM22mn and RM23mn. In comparison, the group made a net profit of RM22mn in the preceding quarter. The result is due for release early next week. While the near term earnings outlook appears modest, the group is set to outperform in the 2H of FY12. Management guided that it expects student growth of about 10% to 15% for FY12 which is within our forecast of 13.4%. For 2H12, management expects higher influx of student especially foreign students (mainly from Vietnam) following the implementation of 'SkillsMalaysia Invite' initiative. This would translate into higher 2H12 results.

### Impact

We maintain our earnings estimate for FY12. However, we tweaked downward our earnings estimate for FY13 and FY14 by 8% and 13% respectively as we assume modest annual student growth rate of 13% (previously 19%). Also, we did not take into consideration the impact of the school expansion pending further details.

### Upgrade to Buy

We roll forward our valuation based year to FY13 and derived a revised target price of RM2.52/share based on new target PER of 14x. This will be in par with that of Help International Corporation (HELP). We believe this is undemanding given that HELP consensus ROE estimate for FY13 (14.1%) is less than half of SEG.

Since the takeover did not materialised, share price of SEG has steadily rebounded to above RM2.00. In the past 1 month, the stock price has gained 11% vs. a mere 3% gain in FBM KLCI. With a potential capital upside of 23%, we upgrade our recommendation to Buy. Key risk factors include: 1) increased competition from other local educational players and 2) surge of inflow of foreign universities.

### Earnings Summary (RM'mn)

FYE Dec 31	FY10	FY11	FY12E	FY13F	FY14F
Revenue	217.6	278.3	347.4	412.2	479.8
EBITDA	63.1	98.0	132.0	156.7	177.5
EBITDA margin (%)	29.0	35.2	38.0	38.0	37.0
Pretax profit	54.3	88.2	122.2	146.1	166.2
Net profit	43.0	72.3	100.2	119.6	136.3
EPS (sen)	8.7	14.1	15.1	18.0	20.5
EPS growth (%)	187.8	62.2	7.0	19.3	14.0
PER (x)	23.6	14.5	13.6	11.4	10.0
Adj GDPS (sen)	3.5	7.0	7.6	9.0	10.3
Div yield (%)	1.7	3.4	3.7	4.4	5.0
ROE (%)	21.2	30.5	34.9	34.5	32.8

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