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BUY ⇄

Fair Value **RM2.52**
Previous **RM2.19**
Price **RM2.02**

EDUCATION

SEGi is one of the largest private tertiary education providers in Malaysia by enrolment with 23k students onboard as of end-FY10.

Stock Statistics

Bloomberg Ticker	SYS MK
Share Capital (m)	663.4
Market Cap	1,340.0
52 week H L Price	2.16 1.65
3mth Avg Vol (000)	965.9
YTD Returns	12.2
Beta (x)	0.75

Shariah Compliant **YES**

Major Shareholders (%)

Pinnacle Heritage	41.5
Dato' Seri Clement Hii	24.9

Share Performance (%)

Month	Absolute	Relative
1m	8.0	5.8
3m	17.4	13.0
6m	11.0	-1.9
12m	10.4	-0.7

6-month Share Price Performance

1HFY12 Results Review
SEG International
Margins Down a Tick

SEG International's (SEGi) 1HFY12 core earnings of RM36.3m were in line our expectations but below consensus estimates at 46.1% and 37.3% of the full-year projections respectively. We continue to like SEGi as the group looks to venture into pre-school, primary as well as secondary private education to propel earnings growth going forward. Maintain BUY, at a revised FV of RM2.52, as we roll forward our valuation to FY13, based on an unchanged 18x PER.

Within expectations. SEGi's 1HFY12 revenue came in 15.8% higher y-o-y at RM158.0m due to higher student enrolment, which we estimate at 29k as of June 2012. EBIT margin, however, dipped 60bps to 32.9% owing to higher distribution expenses, which jumped 17.5% y-o-y to RM16.0m during the period under review. All in, the group's 1HFY12 core earnings improved 15.9% y-o-y to RM42.0m.

Flattish q-o-q on seasonality. On a quarterly basis, 2QFY12 revenue inched up by 3.0% q-o-q to RM80.2m. However, the marginal sequential growth went on reverse gear as EBIT fell 8.2% q-o-q to RM24.9m, with the corresponding margin shrinking by 200bps to 31.0% as cost of services climbed 14.1% q-o-q, primarily due to higher distribution expenses. All in, the 2QFY11 core net profit dropped 8.1% q-o-q at RM20.1m.

Retaining forecasts. No changes to our forecasts at this juncture in anticipation of a seasonally stronger 2HFY12. We continue to forecast core earnings of RM91.1m for FY12 and RM104.9m for FY13. We are also introducing our FY14 projected net profit of RM114.2m, which implies a decent growth of 8.9% y-o-y over our FY13 estimate, as well as a dividend yield of 3.8% p.a.

New earnings stream by 2015. Over the medium term, the group's venture into international schools following the proposed acquisition of a 12-acre land in Bandar Setia Alam from SP Setia for RM52.3m would help the group to penetrate into the fast-growing and better-yielding private pre-school, primary and secondary education segment. We understand that the tuition fee at the proposed international school would range from RM40k-RM50k p.a, and is likely to welcome its first intake of students sometime early 2015. The capex allocated has yet to be determined, but we believe it would likely be to the tune of RM50m-RM70m, to accommodate 4k-5k students.

BUY. Rolling forward our valuation to FY13, our FV is now RM2.52, based on an unchanged 18x PER. SEGi continues to be our top education pick for its large enrolment base, diversified course offerings and asset-light model. Maintain BUY.

FYE Dec (RMm)	FY10	FY11	FY12f	FY13f	FY14f
Revenue	217.6	278.3	334.0	375.7	405.5
Net Profit	43.1	72.3	91.1	104.9	114.2
% chg y-o-y	330.6	67.9	26.0	15.1	8.9
Consensus			97.2	116.8	132.5
EPS (sen)	5.8	9.7	12.2	14.0	15.3
DPS (sen)	1.2	12.0	5.1	6.4	7.6
Dividend yield (%)	0.6	5.9	2.5	3.2	3.8
ROE (%)	23.2	37.4	41.0	34.6	29.3
ROA (%)	17.9	26.1	29.8	28.6	24.9
PER (x)	35.1	20.9	16.6	14.4	13.2
BV/share (RM)	0.27	0.25	0.35	0.46	0.58
P/BV (x)	7.5	8.2	5.8	4.4	3.5
EV/EBITDA (x)	23.2	14.7	11.3	9.3	8.0

Results Table (RMm)

FYE Dec (RMm)	2Q12	1Q12	Q-o-Q chg	YTD FY12	YTD FY11	Y-o-Y chg	Comments
Revenue	80.2	77.8	3.0%	158.0	137.7	14.7%	1HFY12 marked a decent improvement y-o-y, largely due to a larger enrolment base, but margins dipped due to higher distribution expenses
EBIT	24.9	27.1	-8.2%	52.0	46.1	12.7%	
Net interest expense	-0.1	-0.1	-6.3%	-0.3	-0.4	-37.5%	
Associates	0.0	0.0	-	0.0	0.2	-100.0%	
PBT	24.7	26.9	-8.2%	51.7	45.8	12.7%	The 2QFY12 numbers, however, were weaker q-o-q on higher opex; 2HFY12 will be seasonally stronger
Tax	-4.7	-5.2	-10.0%	-9.8	-9.3	5.3%	
MI	0.0	-0.1	-62.3%	-0.2	0.3	-168.6%	
Net profit	20.1	21.9	-8.1%	42.0	36.3	15.9%	
EPS (sen)	2.7	2.9		5.6	4.8		
DPS (sen)	0.0	0.0		0.0	4.7		Although the company has yet to declare FY12's DPS, we continue to forecast for a 3.2% yield in FY12. This implies a decent payout ratio of over 40%
EBIT margin	31.0%	34.8%		33.5%	25.9%		
NTA/Share (RM)	0.33	0.24		0.33	0.23		

EARNINGS FORECAST

FYE Dec (RMm)	FY10	FY11	FY12f	FY13f	FY14f
Turnover	217.6	278.3	334.0	375.7	405.5
EBITDA	62.6	97.8	125.2	144.7	158.6
PBT	54.3	88.2	114.2	131.4	143.1
Net Profit	43.1	72.3	91.1	104.9	114.2
EPS (sen)	5.8	9.7	12.2	14.0	15.3
DPS (sen)	1.2	12.0	5.1	6.4	7.6
Margin					
EBITDA (%)	28.8	35.1	37.5	38.5	39.1
PBT (%)	25.0	31.7	34.2	35.0	35.3
Net Profit (%)	19.8	26.0	27.3	27.9	28.2
ROE (%)	23.2	37.4	41.0	34.6	29.3
ROA (%)	17.9	26.1	29.8	28.6	24.9
Balance Sheet					
Fixed Assets	140.9	148.2	158.2	166.9	174.3
Current Assets	122.2	141.9	163.6	244.9	330.4
Total Assets	263.0	290.1	321.8	411.7	504.7
Current Liabilities	46.2	96.3	50.6	56.3	60.3
Net Current Assets	75.9	45.6	113.1	188.6	270.1
LT Liabilities	13.3	9.3	9.3	9.3	9.3
Shareholders Funds	202.6	183.8	260.9	345.0	433.7
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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Published by OSK Research Sdn. Bhd., 6th Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur
Printed by Xpress Print (KL) Sdn. Bhd., No. 17, Jalan Lima, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur

OSK RESEARCH SDN. BHD. (206591-V)

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