

Kong Heng Siong
+60 (3) 9207 7666
hengsiong.kong@my.oskgroup.com

Corporate News Flash

SEG International

Venturing Into Private Schools

THE BUZZ

SEG International (SEGi) announced that it has entered into a conditional Sale and Purchase Agreement (SPA) with Bandar Setia Alam SB, a wholly-owned subsidiary of SP Setia, for the proposed acquisition of a parcel of land measuring about 12 acres in Bandar Setia Alam for a total purchase consideration of RM52.3m.

EDUCATION

BUY ↔

Fair Value **RM2.19**

Previous **RM2.19**

Price **RM1.84**

Shariah Compliant **YES**

OUR TAKE

Briefly on the land. The target plot is a parcel of vacant freehold commercial land located at the intersection of Persiaran Setia Perdana and Persiaran Setia Murni in Setia Alam, Seksyen U13 in Shah Alam. It is approximately 15km northwest of Shah Alam city centre and some 8km north of Klang town centre. The land encompasses a total area of about 12 acres, translating into a purchase price of RM100 per sq ft, which we deem fair.

Figure 1: Target plot circled in red



Source: OSK Research, Google Maps

Proposed international school. Under the terms of the SPA, the land would be used solely and strictly for the setting up of an international school. Construction of the building should commence within 2 years from the date of delivery of vacant possession of the said land. SEGi expects construction works to be completed within the next 3 years, with the new facilities targeted to accommodate at least 3,000 students.

Earnings contribution at RM15m-RM20m p.a. While it is too preliminary to ascertain the total development costs involved, we estimate that the international school could contribute some RM15m-RM20m p.a. to SEGi's bottom-line, assuming an average tuition fee of RM30k for a total number of 3,000 students. From our quick checks, only Tenby Schools is present in the said area at the moment. Tenby charges approximately RM25k p.a. for its international school students and RM12k p.a. for its private school students. The Tenby group is also set to open its 3rd campus, called Setia Eco Gardens International School, by Jan 2013.

Financing from cash pile plus borrowings. As of March 2012, SEGi's net cash balance stood at RM33.7m. We believe this acquisition would not strain its books significantly, with a debt drawdown likely. Management confirmed that the development blueprint, including the capital expenditure required to develop the international school, is still being finalized. We estimate that the capital expenditure will likely range from RM50m-RM80m.

BUY. We applaud the move as it represents part of SEGi's strategy to diversify from its stronghold in the tertiary education segment and to penetrate into the fast-growing private education sector. Following the Ministry of Education's decision to remove the quota on Malaysian students in international schools in May this year, we expect the demand for private education to accelerate. No changes to our forecasts at this juncture. Maintain BUY, with our FV retained at RM2.19, based on 18x FY12 PER and a fully enlarged share base of 748.4m.

OSK Research Guide to Investment Ratings**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

All research is based on material compiled from data considered to be reliable at the time of writing. However, information and opinions expressed will be subject to change at short notice, and no part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. We do not accept any liability directly or indirectly that may arise from investment decision-making based on this report. The company, its directors, officers, employees and/or connected persons may periodically hold an interest and/or underwriting commitments in the securities mentioned.

Distribution in Singapore

This research report produced by OSK Research Sdn Bhd is distributed in Singapore only to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, CAP. 289 of Singapore. If you are not an "Institutional Investor", "Expert Investor" or "Accredited Investor", this research report is not intended for you and you should disregard this research report in its entirety. In respect of any matters arising from, or in connection with, this research report, you are to contact our Singapore Office, DMG & Partners Securities Pte Ltd ("DMG").

All Rights Reserved. No part of this publication may be used or re-produced without expressed permission from OSK Research.

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)*(A wholly-owned subsidiary of OSK Investment Bank Berhad)*

Kuala Lumpur	Hong Kong	Singapore
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Phnom Penh
PT OSK Nusadana Securities Indonesia Plaza CIMB Niaga, 14 th Floor, Jl. Jend. Sudirman Kav. 25, Jakarta Selatan 12920 Indonesia Tel : (6221) 2598 6888 Fax : (6221) 2598 6777	OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	OSK Indochina Securities Limited No. 1-3, Street 271, Sangkat Toeuk Thla, Khan Sen Sok, Phnom Penh, Cambodia Tel: (855) 23 969 161 Fax: (855) 23 969 171
Bangkok		
OSK Securities (Thailand) PCL 10 th Floor, Sathorn Square Office Tower, 98, North Sathorn Road, Silom, Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999		