



29 February 2012

SEG International

Spot on and even better

Segi's full year core net profit of RM72.3m came in slightly higher than our expectations but within street's, and accounted for 106% and 98% of ours and the street's estimates, respectively. Segi's sales grew by 28% YoY while its profit before tax grew by 63% YoY mainly from the increase in both its local and overseas student enrolments due to the launching of new courses from overseas partner universities and the growing base of Segi's homegrown programmes. Due to its business non-cyclical nature, the group's QoQ earnings were rather consistent. Maintain FY12-13E estimates, which already reflect earnings contributions from the MoU with the Vietnamese government. Future earnings growth is strong as we expect another 2 more new campuses to start operating in FY14 onwards. We are maintaining our Outperform call on Segi at our previous TP of RM2.41 pegging it to a PER of 14.5X on its partially diluted FY12 EPS of RM0.166.

Segi's full year core net profit of RM72.3m came in very much in line with our expectations and accounted for 106% and 98% of ours and the street's estimates. The group's sales grew by 28% YoY (RM217.6m in FY10 vs RM278.3m in FY11) while its profit before tax grew by 63% YoY (RM54.3m in FY10 vs RM88.2m in FY11). The fantastic sales performance YoY was mainly attributable to the i) increase in both its local and overseas student enrolments ii) the launching of new courses from overseas partner universities and iii) the growing base of SEGi University College's own homegrown programmes. Based on our understanding, Segi have a total of 26k student currently, which would translate to an increase of 13% since FY10.

Flat QoQ. On a QoQ basis, the group saw rather flat earnings from RM18.3m in 3Q11 to RM17.7m in 4Q11. Even in 2Q11, its earnings were recorded at RM18.1m. There are no seasonal effects in the company's education business as its student enrolments are conducted throughout the whole year with no specific timing.

Maintain FY12-13E estimates. Moving forward into FY12, we are anticipating a student growth rate of about 20%, which would translate to an earnings growth of 48% for FY12. The major contribution would be coming from its MOU with the Vietnamese government to provide for various technical and skill based courses to roughly 10,000 trainees over a period of three years. This alone should generate an additional 8% income to the group. Its Ipoh campus on the other hand should start contributing to its revenue in FY14 onwards. Our estimates have reflected all these factors. On another note, the group recently acquired a piece of leasehold land located in Sepang for RM22m to build another campus. This is an upside surprise to us and we expect the new campus to contribute handsomely to the group's earnings after 2015 onwards.

We are maintaining our Outperform call on the stock with a TP of RM2.41 pegging it at a PER of 14.5x to its partially diluted FY12 EPS of RM0.166. We are maintaining our target price since we have taken into account its MOU with Vietnam and the expected ARPS increase of 5% for the year. On the back of its new dividend policy of a minimum 50% payout, we are expecting a dividend yield of 4.6% for FY12.

OUTPERFORM ↔

Price: RM1.90

Target Price: RM2.41 ↔

STOCK DATA

Bloomberg Ticker	SYS MK Equity	YTD price chg	5.6%
Market Cap	1,062.3	YTD KLCI chg	1.7%
Issued shares	559.1	Beta	1.1
52-week range (H)	2.09		
52-week range (L)	1.57	Major Shareholders	
3-mth avg daily vol.	428,843	HII CHII KOK	28.4
Free Float	45.1%	CERAHSAR SDN BHD	20.5
Altman Z-score	9.9	SEGMEN ENTITI	6.0

AT A GLANCE

Target Price (RM):	2.41	Maintain
Valuation:	14.5X PER to partially diluted FY12 EPS	
Current Price (RM):	1.90	
Report Reason:	4QFY11 results	

Action:	Outperform	Maintain
Reason:	Fundamentals intact	

Basis of call: Continue to like SEGi for its growth story and continuous growth expansion plan

Catalyst:

FYE31Jun RMm	2011A	2012E	2013E
Turnover	278.3	346.5	391.0
Net Profit	72.2	107.5	131.5
Consensus (NP)		102.5	132.7
Earnings Revision:		-	-
Earnings Revision Rationale:			

SHARE PRICE CHART



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Result Review

FYE 31 Dec (RM'm)	4QFY11	3QFY11	QoQ Chg	4QFY10	YoY Chg	FY11	FY10	YoY Chg
Revenue	70.6	70.0	1%	56.4	25%	278.3	217.6	28%
EBIT	20.0	22.7	-12%	14.6	37%	88.8	55.0	61%
Pretax profit	19.8	22.5	-12%	14.1	40%	88.2	54.3	62%
Taxation	(2.4)	(4.3)	-79%	(2.6)	-8%	(16.0)	(11.1)	45%
Minority Interest	(0.3)	(0.1)	208%	(0.2)	32%	(0.1)	0.2	-154%
Net Profit	17.7	18.3	-3%	11.7	51%	72.3	43.1	68%
Core Net profit	17.5	18.2	-4%	11.5	52%	72.2	43.2	67%
EPS (sen)	3.4	3.5	-4%	2.4	40%	14.1	8.7	62%
Core EPS (sen)	2.7	2.7	-2%	1.9	42%	11.2	6.8	65%
EBIT margin (%)	28%	32%	-13%	26%	26%	32%	25%	28%
PBT margin (%)	28%	32%	-13%	25%	25%	32%	25%	28%
Net profit margin (%)	25%	26%	-4%	21%	21%	26%	20%	30%
Effective tax rate (%)	12%	19%	-37%	18%	18%	18%	20%	10%

Source: Kenanga Research

Earnings Estimates					
FYE 31 Dec (RMm)	2009A	2010A	2011A	2012E	2013E
Turnover	166.3	217.5	278.3	346.5	391.0
EBIT	15.6	52.7	88.8	144.7	176.4
Pretax profit	14.6	54.3	88.2	146.2	178.8
Net Profit	10.0	43.1	72.2	107.5	131.5
EBIT margin	9%	24%	32%	42%	45%
Pretax margin	9%	25%	32%	42%	46%
Net profit margin	6%	20%	26%	31%	34%
Effective tax rate %	30%	20%	18%	25%	25%
ROE %	6%	23%	36%	52%	50%
ROA %	5%	18%	25%	33%	32%
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Growth ratios					
Turnover	31%	31%	28%	25%	13%
EBIT	126%	239%	69%	63%	22%
Pretax profit	48%	272%	62%	66%	22%
Net profit	38%	330%	68%	49%	22%
Per share data					
EPS (sen)	2.0	8.6	14.1	16.5	18.9
EPS growth (%)	38%	327%	65%	17%	14%
PER (x)	90	21	13	11	10
Gross DPS (sen)	0.5	3.4	19.4	8.3	9.5
Div. Yield (%)	0.3%	1.9%	10.8%	4.6%	5.3%
Historical Price Ratio					
PER (x) – High	39.2	12.9	22.6	192.0	24.0
PER (x) – Last	11.2	7.6	22.5	12.8	12.8
PER (x) – Low	10.9	7.3	7.3	22.0	12.8
PBV (x) – High	0.5	0.4	0.5	4.1	5.0
PBV (x) – Last	0.4	0.3	0.5	2.7	N.A.
PBV (x) – Low	0.4	0.3	0.3	0.5	2.7

Source: Kenanga Research

Balance Sheet					
FYE 31 Dec (RMm)	2009A	2010A	2011A	2012E	2013E
Non Current Assets	134.5	140.9	148.2	171.2	177.6
Current Assets	84.5	122.2	141.9	150.0	220.9
Total Assets	219.1	263.0	290.1	321.1	398.5
Current Liabilities	34.7	46.2	43.0	78.4	87.6
Non Current Liabilities	14.4	13.3	9.3	6.4	6.4
Shareholders' Fund	169.2	202.6	237.0	231.9	297.4
Minority Interests	0.8	0.9	0.8	4.4	7.1
Equity & Liabilities	219.1	263.0	290.1	321.1	398.5

Source: Kenanga Research

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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Published and printed by:

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