

31 July 2012

SEG International ("SEG")

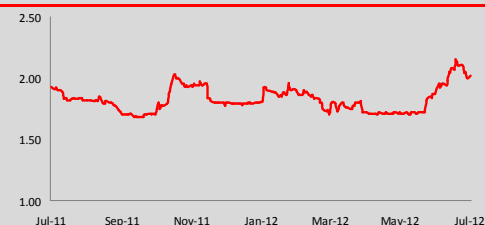
1H12 results in line

OUTPERFORM ↔

Price: RM2.02
Target Price: RM2.45 ↔

- | | |
|--------------------------------|---|
| Period | ▪ 1H12 |
| Actual vs. Expectations | ▪ 1H12 net profit of RM42.0m was deemed in line with expectations and accounted for 40.1% and 43.2% of ours and the street's full year earnings estimates respectively. This is because SEG usually records stronger 2H results as opposed to the 1H due to its higher students enrolment in its third quarter intake. |
| Dividends | ▪ No dividend was announced for the quarter. |
| Key Result Highlights | <ul style="list-style-type: none"> ▪ YoY, the 1H12 revenue of RM158.0m increased by 15% YoY mainly driven by 1) an increase in the number of local and overseas student enrolments, 2) more new courses launched by its overseas partner universities and 3) an increase in SEG's home-grown programmes. The group's net profit was up by 16% YoY to RM42.0m thanks to additional higher margin home-grown programmes being launched coupled with a lower effective tax rate (18.8% vs. 19.7%). ▪ QoQ, the revenue increased marginally by 3%, nonetheless, net profit dipped by 8% due mainly to higher distribution cost (10.8% vs. 9.4%) incurred from advertising in bid to attract school leavers during the quarter, which caused the EBIT margin to be squeezed by 1.2%. |
| Outlook | <ul style="list-style-type: none"> ▪ Remains bright underpinned by more new programmes to be introduced within this year, particularly from an increasing number of its own home-grown programmes. ▪ Recently, SEG has acquired Bumi Intuisi S/B, which is primary engaged in the provision of total online training solutions. We view this positively as this could further expand its classroom learning model to distant learning, which allows SEG to operate its training programmes in a greater geographical reach. |
| Forecasts | <ul style="list-style-type: none"> ▪ Post result, we retain our FY12 revenue forecast but have fine-tuned our net profit estimate slightly by -2.7% to RM102.0m after lowering our GP margin assumption to 76.9% from 77.8% previously. ▪ No dividend has been declared in 1H12, however, we expect the group to declare a DPS of 7.7 sen and 9.1 sen in FY12 and FY13 respectively, translating into 3.8% and 4.5% of dividend yields. |
| Rating | Maintain OUTPERFORM |
| Valuation | ▪ Maintaining TP of RM2.45 based on an unchanged targeted FY13 PER of 13.4x (+1SD above 2-year PER band) |
| Risks | ▪ A reduction in its student enrolments. |

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,632.35 |
| YTD KLCI chg | 6.6% |
| YTD stock price chg | 12.2% |

Stock Information

| | |
|----------------------|---------------|
| Bloomberg Ticker | SYS MK Equity |
| Market Cap (RM m) | 1,340.0 |
| Issued shares | 663.4 |
| 52-week range (H) | 2.16 |
| 52-week range (L) | 1.65 |
| 3-mth avg daily vol: | 974,254 |
| Free Float | 31% |
| Beta | 0.8 |

Major Shareholders

| | |
|--------------------|-------|
| PINNACLE HERITAGE | 39.9% |
| HII CHII KOK | 23.9% |
| REXTER CAPITAL S/B | 5.0% |

Summary Earnings Table

| FYE Dec (RM m) | 2011A | 2012E | 2013E |
|------------------------|-------------|--------------|--------------|
| Turnover | 278.3 | 330.0 | 373.8 |
| EBIT | 66.2 | 96.2 | 120.0 |
| PBT | 88.2 | 125.5 | 155.5 |
| Net Profit (NP) | 72.3 | 101.8 | 126.0 |
| Consensus (NP) | - | 97.2 | 116.8 |
| Earnings Revision | - | -2.7% | - |
| EPS (sen) | 11.2 | 15.4 | 18.3 |
| EPS growth (%) | 65% | 38% | 19% |
| DPS (sen) | 6.8 | 7.7 | 9.1 |
| PER | 18.1 | 13.1 | 11.1 |
| Net Gearing (x) | N.Cash | N.Cash | N.Cash |
| Dividend Yield (%) | 3.3% | 3.8% | 4.5% |

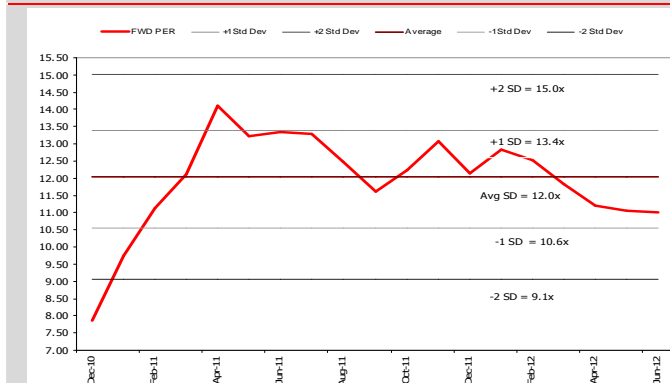
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Result Highlight

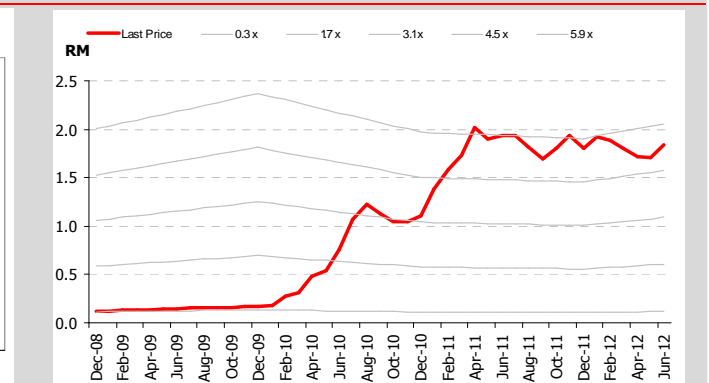
| | 2Q | 1Q | QoQ | 2Q | YoY | 1H | 1H | YoY |
|------------------------|-------|-------|-----|-------|-----|-------|-------|-----|
| Y/E : Dec (RM'm) | FY12 | FY12 | Chg | FY11 | Chg | FY12 | FY11 | Chg |
| Turnover | 80.2 | 77.8 | 3% | 69.2 | 16% | 158.0 | 137.7 | 15% |
| EBIT | 27.2 | 27.1 | 0% | 22.9 | 19% | 52.0 | 46.1 | 13% |
| PBT | 24.7 | 26.9 | -8% | 22.7 | 9% | 51.7 | 45.8 | 13% |
| Net Profit (NP) | 20.1 | 21.9 | -8% | 18.1 | 11% | 42.0 | 36.3 | 16% |
| FD EPS (sen) | 3.2 | 3.3 | -3% | 2.8 | 16% | 6.8 | 5.6 | 22% |
| | | - | | | | | | |
| EBIT margin | 33.9% | 34.8% | | 33.0% | | 32.9% | 33.5% | |
| PBT margin | 30.8% | 34.6% | | 32.8% | | 32.7% | 33.3% | |
| NP margin | 25.1% | 28.1% | | 26.2% | | 26.6% | 26.3% | |

Source: Company, Kenanga Research

Standard deviation forward PER



Forward PBV



Source: Bloomberg, 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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