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MALAYSIA EQUITY
Investment Research
Daily

1HFY11 Results Review

SEG International

Well Within Forecasts

SEG International's (SEGi) 1HFY11 core earnings of RM36.3m were in line with both our and consensus forecasts, at 46.5% and 53.9% of the projections respectively. We continue to like SEGi as it introduces more new courses and homegrown programs, which would further enhance margins and spur enrolment in its diversified offerings. Maintain BUY at an unchanged Fair Value of RM2.23 based on 18x FY12 PER.

Within expectations. SEGi's 1HFY11 revenue came in 31.3% higher y-o-y at RM137.7m due to higher student enrolment, which we believe had risen from 20k to 25k. EBIT margin widened correspondingly from 25.9% to 33.5% on improved economies of scale. By the same token, 1HFY11 core earnings surged 78.5% y-o-y to RM36.3m.

Flattish q-o-q on seasonal factors. 2QFY11 revenue inched up by 1.1% q-o-q to RM69.2m. Nonetheless, the marginal sequential growth was reversed at lower levels as EBIT came in 1.7% lower q-o-q at RM22.9m, with the corresponding margin shrinking by 90bps to 33.0% as cost of services climbed 4.5% q-o-q, primarily due to higher distribution expenses. All in, the 2QFY11 core net profit stayed flat at RM18.1m owing to a lower effective tax rate.

Retaining forecasts. No changes to our forecasts at this juncture in anticipation of a seasonally stronger 2HFY11. We expect to see a sequential earnings improvement in 3QFY11 with the rollout of its early childcare education 2-week training program targeted at existing pre-school teachers. Moreover, SEGi could potentially see a bigger intake during the quarter given the announced delay in student intake among public varsities (from July to September).

Maintain BUY. We price SEGi at RM2.23, based on 18x FY12 PER, or a hefty 30% premium to our valuation for its closest peer in HELP, given its larger earnings base and more aggressive growth. We like SEGi's superior margins on rising economies of scale, its diversified course offerings and asset-light model, with the pick-up in news flow on the implementation of its early childcare education center and skilled labor tertiary education program likely to lift sentiment in the near term. Maintain BUY.

BUY ⇄

Fair Value
Previous
Price

RM2.23
RM2.23
RM1.93

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)		546.9
Market Cap		1,055.5
52 week H L Price	2.09	0.95
3mth Avg Vol (000)		871.0
YTD Returns		80.5
Beta (x)		1.23

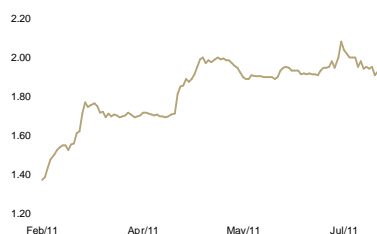
Major Shareholders (%)

Dato' Seri Clement Hii	32.2
Cerahsar	23.2
Segmen Entiti	6.8

Share Performance (%)

Month	Absolute	Relative
1m	0.8	2.6
3m	-1.1	-5.7
6m	41.8	36.7
12m	90.1	61.6

6-month Share Price Performance



FYE Dec	FY08	FY09	FY10	FY11f	FY12f
Revenue	127.4	166.4	217.6	279.8	359.3
Net Profit	7.3	10.0	43.1	78.0	92.6
% chg y-o-y	39.7	37.6	331.0	80.9	18.8
Consensus					
EPS	1.0	1.3	5.8	10.4	12.4
DPS	0.3	0.4	7.2	5.2	6.2
Dividend yield (%)	0.2	0.2	3.7	2.7	3.2
ROE (%)	3.3	5.9	21.3	25.7	26.5
ROA (%)	2.4	4.6	16.4	21.0	21.3
PER (x)	198.7	144.4	33.5	18.5	15.6
BV/share	0.21	0.23	0.27	0.40	0.47
P/BV (x)	9.1	8.5	7.1	4.8	4.1
EV/EBITDA (x)	82.5	65.0	22.1	12.1	10.0

Results Table (RMm)

FYE Dec	2QFY11	1QFY11	Q-o-Q chg	YTD FY11	YTD FY10	Y-o-Y chg	Comments
Revenue	69.2	68.5	1.1%	137.7	104.9	31.3%	YTD improvement on higher student enrolment and hence better utilization of existing infrastructure, which also lifted profit margins
EBIT	22.9	23.2	-1.7%	46.1	27.2	69.8%	
Net interest expense	-0.1	-0.3	-55.7%	-0.4	-0.7	-34.6%	
Associates	0.0	0.2	-100.0%	0.2	0.5	-60.2%	
PBT	22.7	23.1	-1.7%	45.8	26.9	70.2%	
Tax	-4.5	-4.9	-8.2%	-9.3	-6.1	54.1%	
MI	-0.1	-0.1	-10.9%	-0.3	-0.6	-54.7%	
Net profit	18.1	18.1	0.1%	36.3	20.3	78.5%	Flattish q-o-q due to slight uptick in distribution expenses and lack of major intake for the quarter
EPS	2.4	2.4		4.8	2.7		
DPS	0.0	14.0		0.0	0.0		
EBIT margin	33.0%	33.9%		33.5%	25.9%		
NTA/Share	69.2	68.5	1.1%	137.7	104.9	31.3%	

EARNINGS FORECAST

FYE Dec	FY08	FY09	FY10	FY11f	FY12f
Turnover	127.4	166.4	217.6	279.8	359.3
EBITDA	17.3	21.9	62.6	107.9	128.2
PBT	9.9	14.6	53.3	96.3	114.3
Net Profit	7.3	10.0	43.1	78.0	92.6
EPS	1.0	1.3	5.8	10.4	12.4
DPS	0.3	0.4	7.2	5.2	6.2
Margin					
EBITDA (%)	13.6	13.2	28.8	38.6	35.7
PBT (%)	7.8	8.8	24.5	34.4	31.8
Net Profit (%)	5.7	6.0	19.8	27.9	25.8
ROE (%)	3.3	5.9	21.3	25.7	26.5
ROA (%)	2.4	4.6	16.4	21.0	21.3
Balance Sheet					
Fixed Assets	125.7	134.5	140.9	160.8	178.8
Current Assets	88.2	84.5	122.2	210.3	256.1
Total Assets	213.9	219.0	263.1	371.1	434.8
Current Liabilities	45.2	34.7	46.2	47.9	59.3
Net Current Assets	43.0	49.8	76.0	162.4	196.7
LT Liabilities	9.7	14.4	13.3	19.3	25.3
Shareholders Funds	158.3	169.2	202.6	303.0	349.3
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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

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