

SEG International (SYS MK)

Education - Education

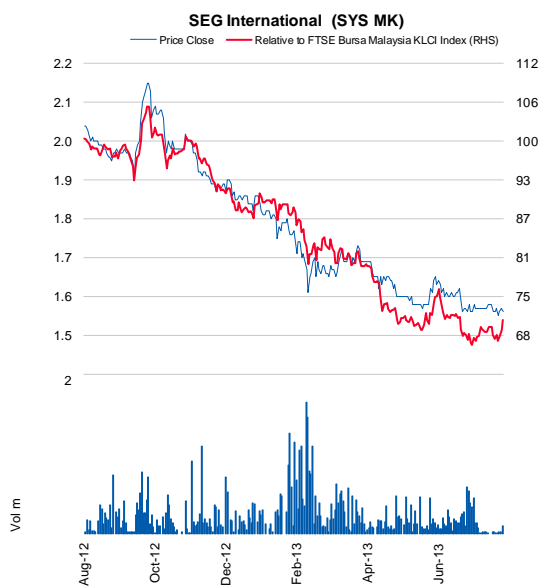
Market Cap: USD317m

Sell (Maintained)

Target Price: MYR0.83

Price: MYR1.56

More Disappointments

 Macro ◆
 Risks ◆◆
 Growth ◆
 Value ◆


Source: Bloomberg

Avg Turnover (MYR/USD)	0.24m/0.08m
Cons. Upside (%)	30.8
Upside (%)	-46.7
52-wk Price low/high (MYR)	1.55 - 2.15
Free float (%)	30

Shareholders (%)	
Pinnacle Heritage	41.7
Dato' Seri Clement Hii	24.9

Shariah compliant

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SEGi's 1HFY13 net profit of MYR18.5m was below expectations reaching only 35.9% of our previous 2013 estimates and 44.8% of consensus forecasts. 2QFY13 earnings were weaker-than-expected, mainly due to a slowdown in student enrolment. Maintain SELL, with our FV revised lower to MYR0.83, pegged to a 14x FY14 P/E.

- ◆ **Below expectations.** SEGi's 1HFY13 revenue dropped 28.3% y-o-y to MYR113.7m while its core earnings plunged 56.0% to MYR18.5m, mainly attributed to lower student enrolment. Meanwhile, its 2QFY13 revenue inched up 3.7% q-o-q but slipped 27.8% y-o-y to MYR57.9m as more students graduated during the quarter. SEGi's 2QFY13 net profit surged more than 100% q-o-q to MYR17.5m helped by a MYR15.8m gain from the land disposal in Kota Damansara, but dipped 13.1% y-o-y due to delays in foreign student visa approval.
- ◆ **Cutting estimates.** In view of the disappointing earnings for the quarter under review, we cut our core earnings estimates further by 30.6% and 14.8% for FY13 and FY14 respectively to incorporate even lower student growth and higher opex assumptions. We are now forecasting for core earnings of MYR35.8m for FY13 and MYR44.6m for FY14.
- ◆ **Foreign student woes.** Recall that the Ministry of Higher Education (MoHE) has established a new agency, Education Malaysia Global Services (EMGS), to streamline the processing of all foreign student visa applications in the country within 14 days after submission. However, our channel checks indicate that student enrolment has slowed down due to delays in foreign student visa approval. As foreign students make up 15%, or 4k of SEGi's 27k student base, we remain cautious in view of the potential downside risks to SEGi's near-term earnings.
- ◆ **Maintain SELL.** All in, we maintain our SELL call, with our FV lowered to MYR0.83 (from MYR0.96), based on a 14x FY14 P/E. This is at a 50% discount to SEGi's average P/E of 30x, noting that its earnings base has shrunk by more than half from FY11 and FY12.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	218	278	285	321	328
Reported net profit (MYRm)	43.1	72.3	60.3	35.7	44.5
Recurring net profit (MYRm)	43.1	72.3	60.3	35.7	44.5
Recurring net profit growth (%)	335.9	67.9	(16.6)	(40.8)	24.5
Core EPS (MYR)	0.25	0.18	0.10	0.05	0.06
DPS (MYR)	0.01	0.02	0.10	0.05	0.02
Dividend Yield (%)	0.7	1.0	6.5	3.1	1.5
Core P/E (x)	6.2	8.7	15.8	29.7	24.8
Return on average equity (%)	23.2	37.4	24.7	11.2	12.6
P/B (x)	1.93	4.74	3.41	3.22	3.02
P/CF (x)	4.1	9.1	12.6	20.7	18.0
EV/EBITDA (x)	3.6	5.9	11.4	16.1	13.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (%)				(52.2)	(42.8)

Source: Company data, RHB estimates

Figure 1: Earnings Review

FYE Dec	2Q13	1Q13	% chg	YTD FY13	YTD FY12	% chg	Comments
Revenue	57.9	55.8	3.7%	113.7	158.0	-28.0%	
EBIT	17.9	1.3	1307.5%	19.2	52.0	-63.1%	
Net interest expense	-0.1	-0.1	-5.4%	-0.1	-0.3	-60.6%	
Associates	0.0	0.0	0.0%	0.0	0.0	0.0%	
PBT before EI	17.9	1.2	1367.9%	19.1	51.7	-63.1%	
EI	0.0	0.0	0.0%	0.0	0.0	0.0%	
PBT	17.9	1.2	1367.9%	19.1	51.7	-63.1%	
Tax	-0.8	5.3	0.0%	-1.1	-9.8	-88.5%	
MI	-0.4	-0.1	0.0%	-0.5	-0.2	0.0%	
Reported Net Profit	17.5	1.0	1662.3%	18.5	42.0	-56.0%	
Core Net Profit	17.5	1.0	1662.3%	18.5	42.0	-56.0%	2HFY13 net profit decreased 56% y-o-y due to the weak student enrolment numbers.
Core EPS (sen)	2.34	0.13		2.47	5.62		
Gross DPS (sen)	0.00	5.00		5.00	0.00		
EBIT margin	30.9%	2.3%		16.9%	24.2%		
NTA/share (MYR)	0.30	0.32		0.30	0.33		

Source: RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover	218	278	285	321	328
Cost of sales	(57)	(69)	(80)	(92)	(85)
Gross profit	161	209	205	229	242
Gen & admin expenses	(106)	(115)	(124)	(164)	(171)
Selling expenses	(19)	(28)	(30)	(42)	(36)
Other operating costs	18	23	18	24	24
Operating profit	55	89	69	47	59
Operating EBITDA	63	98	79	62	76
Depreciation of fixed assets	(7)	(9)	(10)	(15)	(17)
Amortisation of intangible assets	(0)	(0)	(0)	-	-
Operating EBIT	55	89	69	47	59
Net income from investments	1	0	-	-	-
Interest expense	(1)	(1)	(0)	(2)	(3)
Pre-tax profit	54	88	68	45	56
Taxation	(11)	(16)	(8)	(9)	(11)
Minority interests	(0)	0	0	(0)	(0)
Profit after tax & minorities	43	72	60	36	44
Reported net profit	43	72	60	36	44
Recurring net profit	43	72	60	36	44

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Operating profit	55	89	69	47	59
Depreciation & amortisation	8	9	10	15	17
Change in working capital	11	(13)	12	0	(0)
Other operating cash flow	2	(1)	-	-	-
Operating cash flow	75	84	92	62	76
Interest paid	(1)	(1)	(0)	(2)	(3)
Tax paid	(8)	(15)	(15)	(9)	(11)
Cash flow from operations	65	69	76	51	61
Capex	(10)	(13)	(72)	(40)	(40)
Other investing cash flow	1	3	0	-	-
Cash flow from investing activities	(9)	(10)	(72)	(40)	(40)
Dividends paid	(2)	(44)	(53)	(18)	(22)
Proceeds from issue of shares	2	28	53	14	14
Increase in debt	(3)	(10)	41	8	8
Other financing cash flow	(11)	(25)	(0)	-	-
Cash flow from financing activities	(15)	(50)	41	4	(0)
Cash at beginning of period	37	79	87	108	123
Total cash generated	42	8	44	15	21
Forex effects	(0)	-	-	-	-
Implied cash at end of period	79	87	131	123	145

Source: Company data, RHB estimates

Financial Exhibits

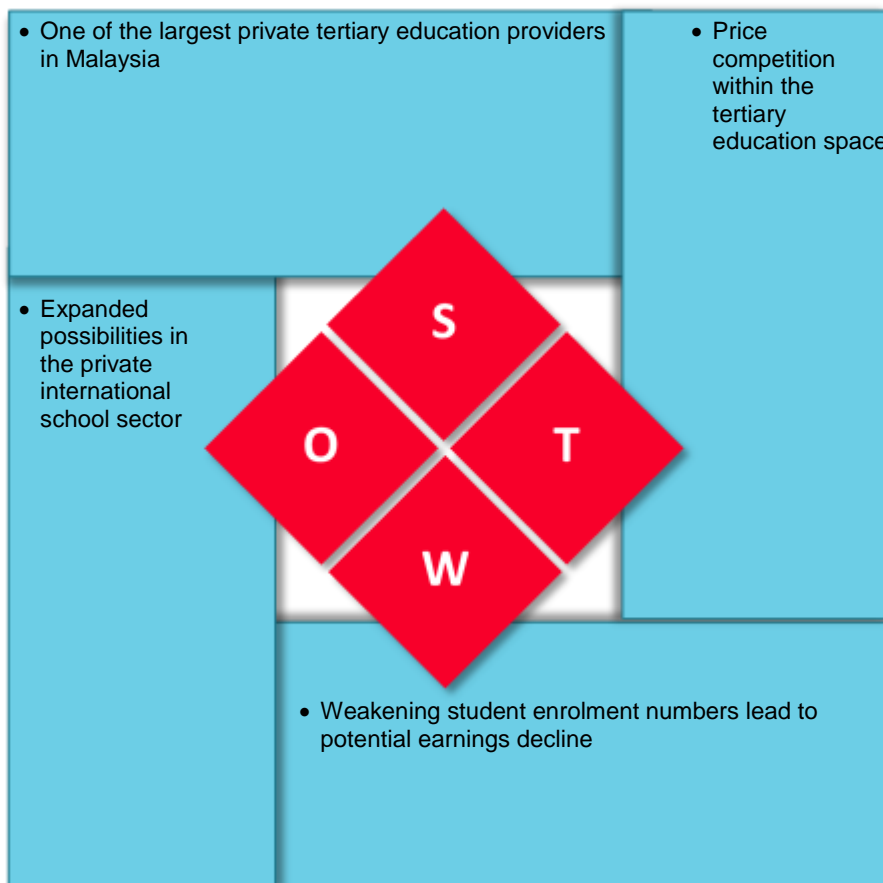
Balance Sheet (MYRm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total cash and equivalents	79	87	108	123	145
Accounts receivable	38	47	61	60	61
Other current assets	6	8	11	11	11
Total current assets	122	142	180	194	217
Tangible fixed assets	100	112	171	196	219
Intangible assets	28	28	28	28	28
Total other assets	13	9	7	7	7
Total non-current assets	141	148	206	231	254
Total assets	263	290	386	425	470
Short-term debt	7	4	3	3	3
Accounts payable	39	38	36	35	36
Other current liabilities	0	55	33	33	33
Total current liabilities	46	96	72	71	72
Total long-term debt	11	5	45	53	61
Other liabilities	2	4	2	2	2
Total non-current liabilities	13	9	47	55	63
Total liabilities	60	106	119	126	135
Share capital	126	140	166	173	180
Retained earnings reserve	77	44	138	163	192
Shareholders' equity	203	184	304	336	372
Minority interests	1	1	0	0	1
Other equity	0	-	(37)	(37)	(37)
Total equity	203	185	267	299	335
Total liabilities & equity	263	290	386	425	470

Source: Company data, RHB estimates

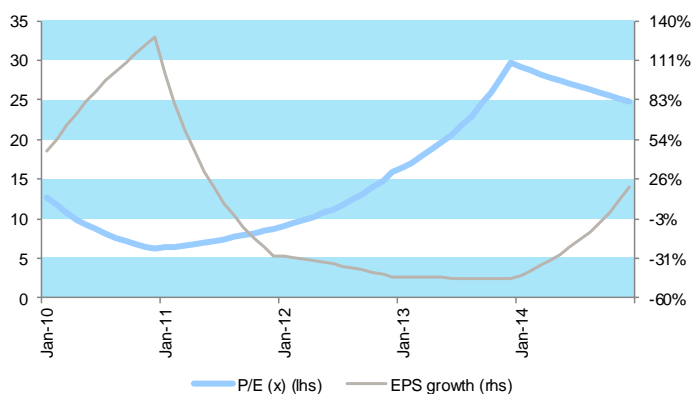
Key Ratios (MYR)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Revenue growth (%)	30.8	27.9	2.4	12.8	2.0
Operating profit growth (%)	252.6	61.4	(22.4)	(32.1)	25.5
Net profit growth (%)	335.9	67.9	(16.6)	(40.8)	24.5
EPS growth (%)	128.2	(29.4)	(44.8)	(46.6)	19.6
Bv per share growth (%)	(57.5)	(59.2)	39.2	6.0	6.5
Operating margin (%)	25.3	31.9	24.2	14.6	17.9
Net profit margin (%)	19.8	26.0	21.2	11.1	13.6
Return on average assets (%)	17.9	26.1	17.8	8.8	9.9
Return on average equity (%)	23.2	37.4	24.7	11.2	12.6
Net debt to equity (%)	(29.9)	(42.5)	(22.6)	(22.6)	(24.0)
DPS	0.01	0.02	0.10	0.05	0.02
Recurrent cash flow per share	0.38	0.17	0.12	0.08	0.09

Source: Company data, RHB estimates

SWOT Analysis

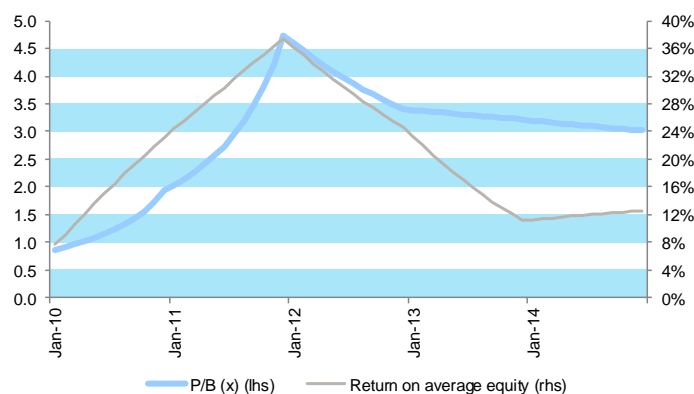


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

SEGi is one of the largest private tertiary education providers in Malaysia by enrolment with 28k students on board as of June 2012.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-05-20	Sell	0.96	1.60
2013-02-28	Sell	1.20	1.69
2013-01-16	Neutral	1.75	1.86
2012-07-31	Buy	2.52	2.04
2012-05-18	Buy	2.19	1.71
2012-02-29	Buy	2.17	1.89
2011-11-10	Buy	2.16	1.89
2011-07-08	Buy	2.23	2.00

Source : RHB estimates, Bloomberg

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