

Corporate Highlights

Results Note

29 July 2011

SEG International

No Surprises

Share Price : RM1.93
 Fair Value : RM2.40
 Recom : **Outperform**
(Maintained)

Table 1 : Investment Statistics (SEG; Code: 9792)

Bloomberg: SYS MK

FYE	Turnover (RMm)	Net					Net			
		profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	Gearing (x)	ROE (%)	GDY (%)
2010a	217.6	43.1	8.4	-	23.0	-	5.7	Net cash	21.3	2.8
2011f	280.8	72.1	9.6	15.0	20.0	11.0	2.3	Net cash	32.6	4.4
2012f	385.0	100.6	13.4	39.5	14.4	15.0	1.7	Net cash	37.7	5.8
2013f	469.3	126.5	16.9	25.7	11.4	17.0	1.3	Net cash	38.7	7.8

Main Market Listing / Non-Trustee Stock / Syariah-Approved Stock By The SC

* Consensus Based On IBES Estimates

◆ **1HFY11 results within expectations.** SEGi's 2Q11 net profit of RM18.1m (+67.9% yoy, 0.1% qoq) came within our and consensus expectations. 1HFY11 net profit of RM36.3m (+78.5% yoy) reached 50% of our and 48% of consensus estimates. SEGi's 2Q11 revenue of RM69.2m (+31.7% yoy, +1.1 qoq) also came within our and consensus estimates. No dividend was declared during the period, but a final single tier dividend of 7 sen per share for FY10 was paid on 27th May.

◆ **Earnings yoy bolstered by growth in student enrolment.** Although revenue and net profit were flat qoq, the 31.7% yoy increase in revenue was mainly due to the higher number of students enrolled. EBIT also grew 57.4% yoy (RM22.9m in 2Q11 vs. RM14.5 in 2Q10), due to improved operating leverage as most costs are fixed. Effective tax rate declined to 19.7% (from 21.3%), and this led to a net profit increase of 67.9% yoy.

◆ **Further growth ahead.** SEGi's strong 2Q numbers suggest that it was not affected by the recent government policy changes such as the higher entry requirements into nursing programmes that have dragged peer earnings lower. With SEGi having been chosen as the leader for several ETP projects and other expansion plans and high-margin programmes in the pipeline, its growth prospects are solid and we forecast a FY10-13 EPS CAGR of 24.4%.

◆ **Risks.** The risks include: 1) Change in requirements set by the governing bodies; and 2) A change in policy by the Government might impact the eligibility criteria for students to obtain loans/scholarships; and 3) A change in policy by the Government might impact the eligibility criteria for foreign students to obtain student visas.

◆ **Forecasts.** No changes to our forecasts.

◆ **Investment case.** We reiterate our **Outperform** call on the stock, with a fair value of RM 2.40, based on an unchanged FY12 EPS of 13.4 sen and target 18x FY12 PER, which is a 20% premium to the education sector average FY12 PER of 15x. We believe SEGi deserves to trade at a premium to its sector peers due to: 1) its strong 3-year EPS CAGR of 24.4% (vs. Masterskill's 10.3% and HELP's 16.2%); 2) its good risk management with regards to the recent government policy changes; and 3) the positive news flow from the ETP announcements.

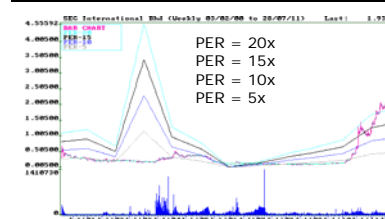
RHBRI	Vs.	Consensus
√	Above In Line Below	√

Issued Capital (m shares)	546.9
Market Cap(RMm)	1,055.5
Daily Trading Vol (m shs)	1.1
52wk Price Range (RM)	0.95-2.09

Major Shareholders:	(%)
Dato' Clement Hii	29.0
Cerahsar Sdn Bhd	21.0
Segmen Entiti Sdn Bhd	6.1

FYE Dec	FY11	FY12	FY13
EPS chg (%)	-	-	-
Var to Cons (%)	(12.4)	(10.4)	(0.6)

PE Band Chart



Relative Performance To FBM KLCI



Please read important disclosures at the end of this report.

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Table 2: Quarterly Earnings

FYE Dec (RMm)	2Q FY10	1Q FY11	2Q FY11	QoQ (%)	YoY (%)	6M FY10	6M FY11	YoY (%)	Comments
Revenue	52.6	68.5	69.2	1.1	31.7	104.9	137.7	31.3	Stronger yoy growth in revenue was mainly due to the increase in student enrolment
Operating profit	14.5	23.2	22.9	(1.7)	57.4	27.2	46.1	69.8	
Net interest expense	(0.3)	(0.3)	(0.1)	(55.7)	(58.2)	(0.7)	(0.4)	(34.6)	
Associates	(0.4)	0.2	0.0	nm	nm	0.5	0.2	(60.2)	
Pre-tax profit	13.8	23.1	22.7	(1.7)	64.9	26.9	45.8	70.2	
Tax	(2.9)	(4.9)	(4.5)	(8.2)	52.6	(6.1)	(9.3)	54.1	
Minority interest	(0.0)	(0.1)	(0.1)	(10.9)	>100	(0.6)	(0.3)	(54.7)	
Net profit	10.8	18.1	18.1	0.1	67.9	20.3	36.3	78.5	
Margins (%)									
Operating profit	27.6	33.9	33.0			25.9	33.5	27.6	Yoy margin expansion is on the back of operating utilisation effect.
Pre-tax	26.2	33.8	32.8			25.7	33.3	26.2	
Effective tax rate	21.3	21.0	19.7			22.5	20.4	21.3	Effective tax rate remains below the statutory tax rate due to reinvestment allowances.
Net profit	20.5	26.5	26.2			19.4	26.3	20.5	

Source: Company, RHBRI

Table 3: Earnings Forecasts

FYE Dec (RMm)	2010	2011f	2012f	2013f
Turnover	217.6	280.8	385.0	469.3
Turnover growth (%)	30.8	29.0	37.1	21.9
EBIT	55.0	91.3	127.0	159.6
Net Interest	(1.2)	(1.2)	(1.2)	(1.2)
Associates	0.5	0.5	0.5	0.5
Exceptionals	-	-	-	-
Pretax Profit	54.3	90.6	126.4	158.9
Tax	(11.1)	(18.1)	(25.3)	(31.8)
Minorities	(0.2)	(0.4)	(0.5)	(0.6)
Net Profit	43.1	72.1	100.6	126.5

Source: Company data, RHBRI estimates

Table 4: Forecasts Assumptions

FYE Dec	2011f	2012f	2013f
Number of students (in '000)	28.0	37.0	44.0
% of student growth	21.7	32.1	18.9
Average revenue per students (in '000)	10.0	10.4	10.7
% of average revenue per student growth	6.0	3.8	2.5

Source: Company data, RHBRI estimates

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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