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MALAYSIA EQUITY
Investment Research
Daily

9MFY11 Results Review

SEG International

A Dividend Boost

SEG International's (SEGi) 9MFY11 core earnings of RM36.3m were in line with both our and consensus forecasts at 71% and 72% of the projections respectively. A second interim gross DPS of 10.0sen was declared, bringing FY11 YTD payout to 13.5sen (excluding special DPS of 7.3sen paid in 1Q) which implies payout of >100%. We continue to like its diversified course offering as well as established balance sheet operating on an asset-light model. Hence, maintain BUY at revised FV of RM2.16 based on an unchanged 18x FY12 PER.

Within expectations. SEGi's 9MFY11 revenue came in 29% higher y-o-y at RM207.7m due to higher student enrolment, which we believe has risen from 21k to 26k. EBIT margin widened correspondingly from 25% to 33% on improved economies of scale as enrolment growth outpaced marginal increase in opex. Lower financing costs and a more favorable effective tax rate helped to further lift 9MFY11 core earnings to RM54.6m, surging over 74% y-o-y. On a quarterly basis, 3QFY11 numbers were generally flattish q-o-q while on a y-o-y basis, 3QFY11 topline rose 25% to RM70.0m while core earnings surged 66% to RM18.3m on improved utilization of its existing campuses as the group rolled out healthcare and medical courses.

Cash pile of RM106.8m. Although we previously incorporated a FY11 dividend payout of only 50%, YTD gross DPS amounted to 13.5sen (implying a payout ratio of >100%) following its second interim gross DPS of 10.0sen. This high payout ratio does not entirely catch us by surprise as we have highlighted previously such a possibility given its robust balance sheet operating on an asset-light model. Given its sturdy cash pile of RM106.8m as of 3QFY11, we believe further upside is not unlikely as capex remains largely manageable at RM15m-RM20m p.a. and hence we bump up our DPS forecast to 17.7sen for FY11 and 9.5sen for FY12 at payout ratio of 180% and 80% respectively.

Fine-tuned forecasts. No major changes to our core assumptions for now. Nonetheless, our FY11 and FY12 EPS estimates are lowered by 3% and 1% respectively as we tweak our opex structure to account for higher overhead expenses under the belief that the group would likely recruit more lecturers for the commencement of its vocational courses catering for foreign students. In a separate announcement, SEGi mentioned that courses for an initial batch of 600 Vietnamese students will commence in late-4Q11.

BUY ⇄

Fair Value
Previous
Price

RM2.16
RM2.23
RM1.86

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)	548.5
Market Cap	1,020.2
52 week H L Price	2.09 0.96
3mth Avg Vol (000)	956.0
YTD Returns	73.9
Beta (x)	1.15

Major Shareholders (%)

Dato' Seri Clement Hii	32.2
Cerahsar	23.2
Segmen Entiti	6.8

Share Performance (%)

Month	Absolute	Relative
1m	8.8	3.8
3m	1.6	0.5
6m	-6.5	-4.9
12m	96.8	96.0

6-month Share Price Performance



FYE Dec (RMm)	FY08	FY09	FY10	FY11f	FY12f
Revenue	127.4	166.4	217.6	279.8	320.5
Net Profit	7.3	10.0	43.1	75.9	91.5
% chg y-o-y	39.7	37.6	331.0	76.1	20.5
Consensus				75.9	104.2
EPS	0.9	1.3	5.6	9.8	11.8
DPS	0.3	0.4	7.0	17.7	9.5
Dividend yield (%)	0.2	0.2	3.7	9.5	5.1
ROE (%)	3.3	5.9	21.3	36.2	40.2
ROA (%)	2.4	4.6	16.4	27.4	30.2
PER (x)	197.9	143.8	33.4	18.9	15.7
BV/share	0.20	0.22	0.26	0.27	0.29
P/BV (x)	9.1	8.5	7.1	6.9	6.3
EV/EBITDA (x)	82.1	64.7	22.0	13.3	11.1

Results Table (RMm)

FYE Dec	3Q11	2Q11	Q-o-Q chg	YTD FY11	YTD FY10	Y-o-Y chg	Comments
Revenue	70.0	69.2	1.0%	207.7	161.2	28.8%	3QFY11 numbers are generally flattish q-o-q lacking any major intake during the quarter
EBIT	22.7	22.9	-0.8%	68.8	40.4	70.1%	
Net interest expense	-0.2	-0.1	12.5%	-0.6	-1.0	-40.1%	
Associates	0.0	0.0	-	0.2	0.8	-75.8%	
PBT	22.7	22.7	0.0%	68.6	40.2	70.5%	9MFY11 numbers marked some sharp improvement y-o-y on higher enrolment and hence better utilization of its existing facilities
Tax	-4.3	-4.5	-3.9%	-13.6	-8.5	60.4%	
MI	0.1	0.1	-11.4%	0.4	0.4	-4.4%	
Net profit	18.3	18.1	1.0%	54.6	31.3	74.2%	
EPS	2.4	2.3		7.1	4.1		
DPS	10.0	3.5		13.5	0.0		YTD payout of >100% as cash piles closed at >RM100m given its strong cash generating nature and further dividend surprises are not unlikely. This figures exclude a one-off special dividend announced in 1Q of 7.3 sen
EBIT margin	32.4%	33.0%		33.5%	25.9%		
NTA/Share	0.24	0.22		0.24	0.21		

PTPTN not too much of a concern for now. Over the last weekend, the National Higher Education Fund Corporation (PTPTN) mentioned that they will review the proposal to disburse only tuition fees starting 2013 and living allowances will no longer be provided. We believe the proposal is unlikely to be approved as the Government has recognized education as a key propeller to domestic economic growth while improving lives of the poor was made a national agenda. Should it happen, we believe it is likely to be in the form of a loan cap on new applications for degree courses and above, similar to the cap imposed on diploma courses implemented in 2Q11. Although 25% of SEGi's students are currently funded by PTPTN, we believe impact is likely muted even if the proposal materializes given its focus on mid-income households, which could likely afford to fork out more to bear with the potential reduction in allowances. Note that when PTPTN imposed a cap on all new loans provided for diploma courses at RM45k from RM60k, SEGi came out relatively unscathed as its students are typically from mid-income households which managed to make up that buffer.

BUY. We continue to like SEGi's superior margins on rising economies of scale, its diversified course offerings and asset-light model. The pick-up in news flow on the implementation of its early childcare education center and skilled labor tertiary education program is likely to lift sentiment in the near term. Hence, we maintain our BUY call at a revised FV of RM2.16 based on an unchanged 18x FY12 PER.

EARNINGS FORECAST

FYE Dec	FY08	FY09	FY10	FY11f	FY12f
Turnover	127.4	166.4	217.6	279.8	320.5
EBITDA	17.3	21.9	62.6	104.7	124.5
PBT	9.9	14.6	53.3	94.0	111.8
Net Profit	7.3	10.0	43.1	75.9	91.5
EPS	0.9	1.3	5.6	9.8	11.8
DPS	0.3	0.4	7.0	17.7	9.5
Margin					
EBITDA (%)	13.6	13.2	28.8	37.4	38.9
PBT (%)	7.8	8.8	24.5	33.6	34.9
Net Profit (%)	5.7	6.0	19.8	27.1	28.5
ROE (%)	3.3	5.9	21.3	36.2	40.2
ROA (%)	2.4	4.6	16.4	27.4	30.2
Balance Sheet					
Fixed Assets	125.7	134.5	140.9	162.0	180.8
Current Assets	88.2	84.5	122.2	115.5	121.9
Total Assets	213.9	219.0	263.1	277.4	302.6
Current Liabilities	45.2	34.7	46.2	53.6	60.3
Net Current Assets	43.0	49.8	76.0	61.9	61.6
LT Liabilities	9.7	14.4	13.3	13.3	13.3
Shareholders Funds	158.3	169.2	202.6	209.5	227.8
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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