

Corporate Highlights



RHB Research
Institute Sdn Bhd
A member of the
RHB Banking Group
Company No: 233327 -M

Results Note

10 November 2011

SEG International

No Surprises

Share Price : RM1.86
Fair Value : RM2.15
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 (%)
Dec										
2010a	217.6	43.1	8.4	-	22.2	-	5.5	Net cash	21.3	2.2
2011f	280.8	72.1	9.6	15.0	19.3	11.0	4.8	Net cash	32.6	3.4
2012f	385.0	100.6	13.4	39.5	13.8	15.0	3.8	Net cash	37.7	4.5
2013f	469.3	126.5	16.9	25.7	11.0	17.0	3.1	Net cash	38.7	6.0

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

* Consensus Based On IBES Estimates

◆ **1HFY11 results within expectations.** SEGi's 3Q11 net profit of RM18.3m (+66.3% yoy, +1.0% qoq) and 9MFY11 net profit of RM54.6m (+74.2% yoy) were within our and consensus expectations. SEGi's 3Q11 revenue of RM70m (+24.1% yoy, +1.0 qoq) was also in line. A dividend of 10 sen per share was declared.

◆ **Student enrolment still going strong.** Although sequential revenue and net profit growth were flat, yoy revenue grew by 24.1% due to the higher student enrolment that we estimated to have grown about 19-20% yoy. As most of the operating costs are fixed, the improved top line had resulted in EBIT growing 70.3% yoy (RM22.7m in 3Q11 vs. RM13.3 in 3Q10). Effective tax rate increased to 21% in 3Q11 (vs. 19.7% in 2Q11 and 18.4% in 3Q10), but the stronger EBIT led to an overall increase in the net profit margin to 26.5% (from 26.2% in 2Q11 and 19.5% in 3Q10).

◆ **Business updates.** SEGi has entered into a Memorandum of Agreement (MoA) with the Vietnamese Government to finalise the MoUs that were signed by the two parties back in Aug with regards to the possible cooperation in the vocational training areas to meet the Vietnamese human capital development needs. These collaborations will fall under the SEGi-led ETP project, SkillsMalaysia INVITE, and SEGi will be responsible for providing skill-based training to the vocational instructors and students. An initial batch of 600 Vietnamese students will commence training in 2011 under the programme, with the programme to be conducted in both Vietnam and Malaysia. With average revenue of about RM20k per student, we believe that the SkillsMalaysia INVITE programme will contribute about 8% to the top line in the longer term.

◆ **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 SEGi, with a fair value of RM 2.15, based on an unchanged FY12 EPS of 13.4 sen and target 17x FY12 PER. SEGi remains our top pick for the Education sector due to: 1) its strong 3-year EPS CAGR of 26.3% (vs. Masterskill's -19.6% and HELP's 6.8%); 2) its good risk management; and 3) its resilience in riding out the market uncertainties. We note that recent concerns with regards to the possible PTPTN loan reduction will have a minimal impact on SEGi as only about 27% of its students are under the PTPTN loans.

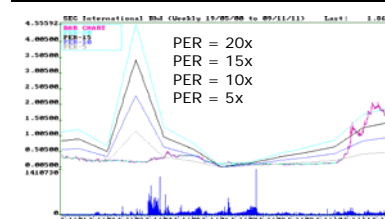
RHBRI	Vs.	Consensus
√	Above In Line Below	√

Issued Capital (m shares)	548.5
Market Cap(RMm)	1,020.24
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	20.9
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



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Table 2: Quarterly Earnings

FYE Dec (RMm)	3Q FY10	2Q FY11	3Q FY11	QoQ (%)	YoY (%)	9M FY10	9M FY11	YoY (%)	Comments
Revenue	56.4	69.2	70.0	1.0	24.1	161.2	207.7	28.8	Stronger yoy growth in revenue was mainly due to the increase in student enrolment.
Operating profit	13.3	22.9	22.7	(0.8)	70.8	40.4	68.8	70.1	
Net interest expense	(0.3)	(0.1)	(0.2)	12.5	(51.9)	(1.0)	(0.6)	(40.1)	
Associates	0.3	0.0	0.0	nm	(100.0)	0.8	0.2	(75.8)	
Pre-tax profit	13.3	22.7	22.5	(0.9)	69.8	40.2	68.4	70.1	
Tax	(2.4)	(4.5)	(4.3)	(3.9)	76.0	(8.5)	(13.6)	60.4	Income tax expense rose in tandem with the higher pre-tax profit.
Minority interest	0.2	(0.1)	0.1	>100	(53.4)	(0.4)	(0.2)	(55.3)	
Net profit	11.0	18.1	18.3	1.0	66.3	31.3	54.6	74.2	Within expectations.
Margins (%)									
Operating profit	23.6	33.0	33.9			23.6	33.0		Yoy margin expansion is on the back of operating utilisation effect.
Pre-tax	23.5	32.8	33.8			23.5	32.8		
Effective tax rate	18.4	19.7	21.0			18.4	19.7		Effective tax rate remains below the statutory tax rate due to reinvestment allowances.
Net profit	19.5	26.2	26.5			19.5	26.2		

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, 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, 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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