



05 December 2011

SEG International

Progressing Well

BUY ↔

Price: RM1.94
Target Price: RM2.35 ↔

SEG International (SEGI) recorded a respectable set of 9MFY11 results. After a quick check with management, we are confident that SEGI's strong financial performance is real and sustainable. We also believe that its operation risk is low as education is an evergreen and also a growing industry. Further, SEGI has a pool of diversified students and products. With its net cash position, its dividend-paying ability is strong. We have fine-tuned our FY11 and FY12 earnings estimates to RM70.0m and RM104.8m from RM66.8m and RM85.0 respectively. However, we are maintaining our target price of RM2.35 by lowering our targeted FY12 PER to 14.4x, which is in line with the current market PER. Note that we have applied a partially diluted FY12 EPS in deriving our target price to factor in a dilution of 20% conversion from its long-dated warrants each year as these warrants are currently deep in the money.

Results review and outlook. The 9M11 revenue and normalised net profit came in at RM207.7m and RM52.3m, accounting for approximately 74% and 78% respectively of our estimates. We understand that the improvement in the results was generally due to the increase in student enrolments at the group's institutions as well as better profit margins achieved. As at end-August 2011, the student population of SEGI was at 27,000 students (end-December 2010: 23,000). We believe the group is on track to achieve our estimated number of students of 28,000 with the commencement of the new semester in September.

The 9M11 normalised net profit margin of 26% suggests a significant improvement in performance as compared to the previous corresponding period of 19% and our estimate of 25%. We understand that the strong margin was driven by higher value-added courses such as medical, pharmacy, engineering, etc. Going forward, we believe this superb net profit margin is not only sustainable but should even improve further with the introduction of more in-house courses offered and additional high value-added courses such as dentistry. In addition, SEGI has been able to increase its courses fees for the new September intake by 10%-15%.

Nonetheless, the normalised net profit was eroded by some fair value losses of RM2.3m in their investments in quoted securities, of RM2.1m were recorded in the recent 3Q11. We believe this non-operation losses should narrow in line with the improved market condition.

Another round of dividends in the offering. SEGI has declared a second interim single tier dividend of RM0.10 per ordinary share of RM0.25 each. The ex-date for the entitlement of this dividend is on 13 December 2011. Together with the special dividend of RM0.14 per ordinary share of RM0.50 each (or RM0.07 per ordinary share of RM0.25 each) that was paid on 18 February 2011, the dividend payout ratio has exceeded its policy of 50% (9M11 NDPS: 12.5sen vs. 9M11 EPS: 10.2sen).

STOCK DATA

Bloomberg Ticker	SYS MK Equity	YTD price chg	81.4%
Market Cap	1,074.1	YTD KLCI chg	-2.0%
Issued shares	553.6	Beta	1.1
52-week range (H)	2.09	Major Shareholders	
52-week range (L)	0.98	HII CHII KOK	28.7%
3-mth avg daily	808,916	CERAHSAR SDN	20.7%
Free Float	44.5%	SEGMEN ENTITI	6.1%
Altman Z-score	9.9		

AT A GLANCE

Target Price:
Valuation:
Current Price:

SEG INTERNATIONAL

RM2.35 **Maintain**
 14.4x to its FY12 partially diluted EPS
 RM1.94

Report Reason:

Company update on recent announced results and corporate developments.

Action:**BUY****Maintain****Reason:**

Fundamental remains unchanged with bright earnings prospect.

Basis of call:

We continue to like SEGI for its strong turnaround in operation and profitability. We also believe the potential operation risk is minimal as education is an evergreen industry and SEGI has a pool of diversified students and products. Coupled with its net cash position, this should further reduce its financial risk.

Catalyst:

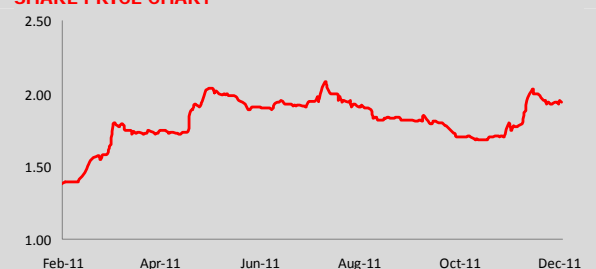
Higher than expected dividend payout in FY12. Thus far, we have only factor in 50% dividend payout ratio as per its dividend policy.

FYE31Dec RMm

	2010A	2011F	2012F
Turnover	217.52	276.88	341.52
Net Profit (NP)	43.06	70.02	104.78
Consensus (NP)		75.2	103.8
<i>Earnings Revision:</i>	N.M.	4.8%	23.3%

Earnings Revision Rationale:

We have revised up our profit margins assumptions.

SHARE PRICE CHART

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Recent corporate developments. SEGI has also just completed a 1-into-2 share split involving the subdivision of every existing share of RM0.50 each into shares of RM0.25 each.

Also, following its recently announced (i) partnership with South Korea's Chung Cheong University to set up a nursing faculty at its Kota Damansara campus, (ii) tie-up with Xinjiang Language Centre and Linyi Normal University where SEGI will provide expertise and syllabus in Intensive English Programme and Foundation courses and (iii) the appointment by the Malaysian Government to lead the initiative in training and developing high quality early childhood and childcare practitioners as well as coordinating the establishment of teacher training centres that provide pre-service and in-service ECCE courses recognised by the Malaysian Qualifications Agency, SEGI has also signed a Memorandum of Agreement (MOA) with the Ministry of Labour, War Invalids and Social Affairs (MOLISA) through the General Department of Vocational Training (GDVT) of the Government of Vietnam to explore areas of cooperation such as vocational training.

Thus far, we understand that international students only accounted for approximately 11% of the student population of SEGI. As such, with all these initiatives, we believe SEGI should continue to support the growth of its student populations as well as its earnings prospect.

Quarterly Results Review								
FYE 31 Dec (RMm)	3Q11	2Q11	QoQ Chg	3Q10	YoY Chg	9M11	9M10	YoY Chg2
Revenue	70.0	69.2	1%	56.4	24%	207.7	161.2	29%
Cost of services	(18.3)	(16.6)	10%	(15.2)	21%	(50.8)	(41.4)	23%
Gross profit	51.6	52.6	-2%	41.2	25%	156.9	119.8	31%
Other income	4.7	5.4	-13%	4.0	19%	15.9	10.9	47%
Distribution expenses	(7.2)	(8.0)	-11%	(4.6)	56%	(20.8)	(13.5)	54%
Administrative expenses	(12.0)	(12.2)	-2%	(12.4)	-3%	(38.7)	(34.9)	11%
Other expenses	(15.1)	(15.2)	-1%	(15.1)	0%	(45.5)	(42.2)	8%
EBIT	22.1	22.5	-2%	13.1	69%	67.8	40.0	70%
Gross interest expense	(0.2)	(0.1)	13%	(0.3)	-52%	(0.6)	(1.0)	-40%
Gross interest income	0.6	0.3	81%	0.2	216%	1.0	0.4	120%
Share of profit of associate	-	-	N.A.	0.3	N.A.	0.2	0.8	-76%
Profit before taxation	22.5	22.7	-1%	13.3	70%	68.4	40.2	70%
Income tax expense	(4.3)	(4.5)	-4%	(2.4)	76%	(13.6)	(8.5)	60%
Minority interests	0.1	(0.1)	-172%	0.2	-53%	(0.2)	(0.4)	-55%
Normalised Net Profit	18.3	18.1	1%	11.0	66%	54.6	31.3	74%
Non Operation Items - Net Tax	(2.0)	(0.2)	939%	(0.4)	384%	(2.3)	(0.3)	711%
Comprehensive Net Profit	16.3	17.9	-9%	10.6	54%	52.3	31.0	68%
Outstanding/Average # of Shares	548.0	535.5	2%	499.4	10%	534.6	404.1	32%
Normalised EPS (sen)	3.3	3.4	-1%	2.2	52%	10.2	7.8	32%
Comprehensive EPS (sen)	3.0	3.3	-11%	2.1	40%	9.8	7.7	27%
Gross DPS (sen)	10.0	-	N.A.	-	N.A.	17.0	-	N.A.
GP margin (%)	74%	76%	-3%	73%	1%	76%	74%	2%
EBIT margin (%)	32%	33%	-3%	23%	36%	33%	25%	32%
PBT margin (%)	32%	33%	-2%	24%	37%	33%	25%	32%
Effective tax rate (%)	19%	20%	-3%	18%	4%	20%	21%	-6%
Normalised NP margin (%)	26%	26%	0%	20%	34%	26%	19%	35%
Book Value/share (RM)	0.39	0.37	6%	0.39	1%	0.39	0.39	1%
NTA/share (RM)	0.34	0.32	7%	0.33	3%	0.34	0.33	3%
Net gearing (x)	Net Cash	Net Cash	N.A.	Net Cash	N.A.	Net Cash	Net Cash	N.A.

Source: Kenanga Research, Bursa Malaysia

Earnings Estimates

FYE 31 Dec (RMm)	2008A	2009A	2010A	2011F	2012F	2013F
Turnover	127.32	166.26	217.52	276.88	341.52	390.26
EBIT	6.87	15.55	52.67	94.54	141.07	175.93
Pretax profit	9.88	14.61	54.31	95.23	142.51	178.58
Net Profit	7.27	10.02	43.06	70.02	104.78	131.29
EBIT margin	5.4%	9.4%	24.2%	34.1%	41.3%	45.1%
Pretax margin	7.8%	8.8%	25.0%	34.4%	41.7%	45.8%
Effective tax rate	25.9%	29.9%	20.4%	25.0%	25.0%	25.0%
Net margin	5.7%	6.0%	19.8%	25.3%	30.7%	33.6%
Turnover	47.6%	30.6%	30.8%	27.3%	23.3%	14.3%
EBIT	-47.7%	126.2%	238.7%	79.5%	49.2%	24.7%
Pretax profit	298.7%	47.8%	271.9%	75.3%	49.6%	25.3%
Net profit	40.9%	37.9%	329.6%	62.6%	49.6%	25.3%
ROE	4.7%	6.1%	23.2%	36.6%	50.9%	49.6%
ROA	2.8%	4.6%	17.9%	27.2%	36.7%	36.6%
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Per share data (based on partially diluted share base)						
EPS (sen)	1.46	2.01	8.57	11.71	16.29	19.07
EPS growth	40.9%	37.9%	326.5%	36.6%	39.1%	17.1%
PER (x)	115.4	83.6	19.6	14.4	10.3	8.8
Net DPS (sen)	0.37	0.47	3.44	19.41	8.14	9.53
Net Div. Yield	0.2%	0.3%	2.0%	11.6%	4.8%	5.7%
Book Value/share (RM)	0.33	0.35	0.41	0.32	0.40	0.48
P/BV (x)	5.0	4.8	4.1	5.3	4.2	3.5
NTA/share (RM)	0.27	0.29	0.36	0.27	0.35	0.44
P/NTA (x)	6.1	5.7	4.7	6.1	4.8	3.8

Source: Kenanga Research, Bloomberg

Historical Price Ratio

FYE 31 Dec	2006A	2007A	2008A	2009A	2010A	3Q11A
PER (x) – High	496.3	39.2	12.9	22.6	192.0	17.6
PER (x) – Last	31.0	11.2	7.6	22.5	12.8	12.9
PER (x) – Low	31.0	11.0	7.3	7.3	12.8	12.7
PBV (x) – High	0.8	0.6	0.4	0.5	4.1	5.4
PBV (x) – Last	0.4	0.4	0.4	0.5	2.7	4.1
PBV (x) - Low	0.4	0.4	0.3	0.3	0.5	4.1

Source: Kenanga Research, Bloomberg

Balance Sheet

FYE 31 Dec (RMm)	2008A	2009A	2010A	2011F	2012F	2013F
Non Current Assets	125.67	134.53	140.89	153.07	167.89	175.78
Current Assets	88.24	84.52	122.15	98.44	151.35	221.72
Total Assets	213.91	219.06	263.04	251.51	319.24	397.50
Current Liabilities	45.23	34.70	46.24	63.13	76.36	86.34
Non Current Liabilities	9.73	14.37	13.32	6.44	6.44	6.44
Shareholders' Fund	158.32	169.16	202.58	179.63	232.02	297.66
Minority Interest	0.62	0.84	0.90	2.31	4.41	7.06
Equity & Liabilities	213.91	219.06	263.04	251.51	319.24	397.50

Source: Kenanga Research, Bloomberg

Cash Flow

FYE 31 Dec (RMm)	2008A	2009A	2010A	2011F	2012F	2013F
Cash From Operating Activities	27.43	29.64	66.56	113.64	120.53	146.28
Less: Capital Expenditures	(11.09)	(19.19)	(9.99)	(21.66)	(24.71)	(18.97)
Free Operating Cash Flow	16.33	10.45	56.57	91.98	95.82	127.31
Cash From Investing Activities	68.14	(12.12)	(9.75)	(20.81)	(24.71)	(18.97)
Cash From Financing Activities	(45.06)	(28.00)	(14.88)	(111.66)	(50.95)	(62.99)
Net Changes in Cash	50.51	(10.48)	41.93	(18.84)	44.88	64.31

Source: Kenanga Research, Bloomberg

Stock Rating are defined as follows

Stock Recommendations

Core Coverage*

- OUTPERFORM : The stock's expected total return is expected to outperform the FBMKLCI benchmark by 2.5% or more over the next 12 months.
- MARKET PERFORM : The stock's expected total return is expected to perform in line with the FBMKLCI benchmark by +/-2.5% over the next 12 months.
- UNDERPERFORM : The stock's expected total return is expected to underperform the FBMKLCI benchmark by 2.5% or more over the next 12 months.

**Core coverage is for our coverage on the Top 100 market capitalisation stocks and selective industry proxies/leaders.*

Non-Core Coverage**

- BUY : The stock's absolute expected total return is +10% or more over the next 12 months.
- NEUTRAL : The stock's absolute expected total return is +/- 10% over the next 12 months.
- SELL : The stock's absolute expected total return is -10% or more over the next 12 months.

***Non-core coverage is for our coverage on stocks other than our core coverage.*

Sector Recommendations***

- OVERWEIGHT : The industry is expected to outperform the FBMKLCI benchmark over the next 12 months.
- NEUTRAL : The industry is expected to perform in line with the FBMKLCI benchmark over the next 12 months.
- UNDERWEIGHT : The industry is expected to underperform the FBMKLCI benchmark over the next 12 months.

****Sector recommendations / ratings are defined based on market capitalisation weighted average expected total return for stocks under our coverage.*

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