

16 May 2012

SEG International

Below our expectations

OUTPERFORM ↔

Price: RM1.71
Target Price: RM2.19 ↓

- | | |
|--------------------------------|---|
| Period | <ul style="list-style-type: none"> 1Q12 |
| Actual vs. Expectations | <ul style="list-style-type: none"> The 1Q12 revenue and net profit of RM77.8m and RM21.9m were 10.0% and 19.0% below our expectations on an annualized basis and accounted for 22.7% and 22.4% of the street's estimates respectively. However, this could be due to seasonal factors in our view which 1Q usually is the weakest. |
| Dividends | <ul style="list-style-type: none"> No dividend was announced for the quarter. |
| Key Result Highlights | <ul style="list-style-type: none"> YoY, the 1Q12 revenue of RM77.8m increased by 14% boosted by a higher number of student enrolment from local and overseas coupled with more new courses launches from its overseas partner universities as well as SEG home-grown programmes. Net profit was up 21% YoY to RM21.9m due mainly to higher margins driven by more home-grown programmes launched during the quarter and a lower effective tax rate (19.2% vs 21.0%). QoQ, the revenue and net profit improved by 10% and 23% respectively, driven mainly by higher GP margin (76.9% vs. 74.2%) and lower operating costs. Note that 4Q11 had incurred additional expenses of about RM1.0m for the upgrade of the campus building. |
| Outlook | <ul style="list-style-type: none"> Remains bright underpinned by more new programmes to be introduced within this year (20-30 programmes) particularly from an increasing number of SEG University College's own home-grown programmes (e.g. medical sciences), which enjoy higher margins compared to other programmes. |
| Forecasts | <ul style="list-style-type: none"> Post-results we have trimmed our FY12-FY13 revenue forecasts by 4.2%-4.4% to RM332.0-373.8m respectively after lowering the targeted students enrolment growth to a more conservative 10% YoY in FY12 and 12% YoY in FY13 (from 13% and 12% previously). In tandem with the lower revenue forecast, our SEG FY12-FY13E net profits have also been cut marginally by 3.1%-3.4% to RM104.0m and RM127.0m respectively. |
| Rating | <p>Maintained OUTPERFORM but we recommend minority shareholders to reject the GO of RM1.714.</p> |
| Valuation | <ul style="list-style-type: none"> Reducing TP to RM2.19 (from RM2.41 previously) based on a lower targeted FY12 PER of 12.5x (+1SD). The lower targeted PER is to reflect the uncertainty over the ongoing GO. We will review our TP should the GO lapse and SEG's listing status remain unchanged. |
| Risks | <ul style="list-style-type: none"> High acceptance of the takeover offer would trigger a successful delisting. |

Share Price Performance



KLCI	1,561.07
YTD KLCI chg	2.0%
YTD stock price chg	-5.0%

Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	956.5
Issued shares	559.4
52-week range (H)	2.09
52-week range (L)	1.65
3-mth avg daily vol:	956,459
Free Float	-38%
Beta	0.9

Major Shareholders

HII CHII KOK	28.4%
PINNACLE HERITAGE	26.5%
SEGMEN ENTITI SDN	6%

Summary Earnings Table

FYE Dec (RM m)	2011A	2012E	2013E
Turnover	278.3	332.0	373.8
EBIT	66.2	99.3	120.0
PBT	88.2	128.6	156.8
Net Profit (NP)	72.2	104.2	127.0
Consensus (NP)	-	97.7	119.4
Earnings Revision	-	-3.1%	3.4%
EPS (sen)	13.6	17.5	21.3
EPS growth (%)	65%	29%	22%
DPS (sen)	8.2	10.6	12.9
PER	13x	10x	8x
Net Gearing (x)	Net	Net	Net
	cash	cash	cash
Dividend Yield (%)	4.8%	6.2%	7.5%

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Others Update:

No intention to review its offer price. Navis, together with SEG largest shareholder, Dato’ Seri Clement Hii (who is a party acting in concert with Navis) made a mandatory general offer (MGO) to privatize SEG at RM1.714/share and RM1.214 per outstanding warrant on April. We understand from our recent visit that the MGO is just a technical GO, which triggered by a collaboration agreement signed between both parties. Despite Dato’ Seri Hii is a party acting in concert with Navis, he has no strong intention to privatize SEG at this juncture, based on our understanding. Thus, the offer price that proposed by both parties is unlikely to be review.

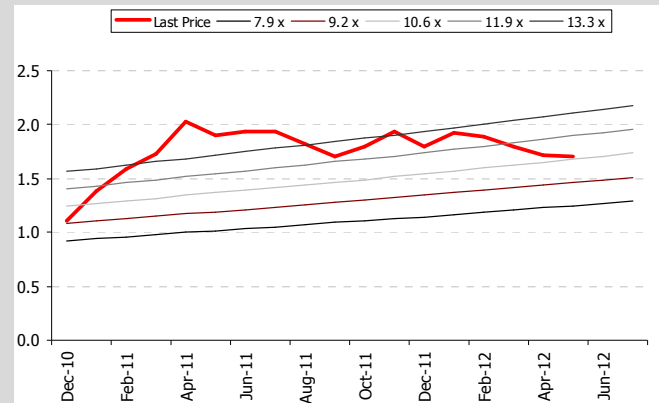
Potential review on the current dividend policy. Apart of launching more homegrown programmers in FY12, the group is also plan to open international schools which would see the setting up of more infrastructure and training hubs in the country. With the bigger plans in the pipeline, we understand that SEG may potentially review its current dividend policy, which set at 50% payout ratio.

Result Highlight

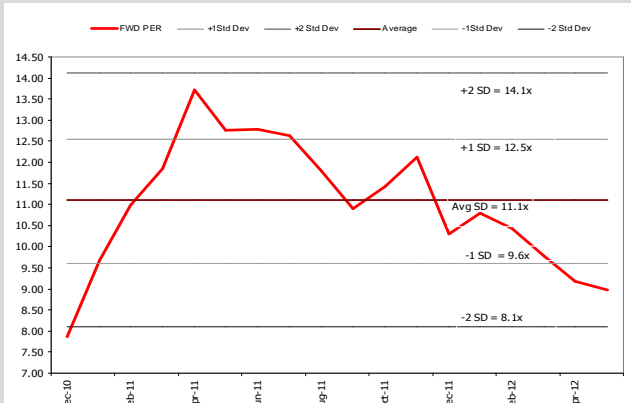
	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
Y/E : Dec (RM m)	FY12	FY11	Chg	FY11	Chg	FY12	FY11	Chg
Turnover	77.8	70.6	10%	68.5	14%	77.8	68.5	14%
EBIT	27.1	20.0	35%	23.2	17%	27.1	23.2	17%
PBT	26.9	19.8	36%	23.1	17%	26.9	23.1	17%
Net Profit (NP)	21.9	17.7	23%	18.1	21%	21.9	18.1	21%
EPS (sen)	3.3	2.7	22%	2.8	17%	3.3	2.8	17%
EBIT margin	34.8%	28.3%		33.9%		34.8%	33.9%	
PBT margin	34.6%	28.1%		33.8%		34.6%	33.8%	
NP margin	28.1%	25.1%		26.5%		28.1%	26.5%	

Source: Company, Kenanga Research

Forward PER



Standard deviation forward PER



Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

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

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