

Corporate Highlights



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

Results Note

2 November 2012

SEG International

Below Expectations Again

Share Price : RM2.00
Fair Value : RM2.00
Recom : **Market Perform (Downgraded)**

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

Bloomberg: SYS MK

FYE	Turnover	Net profit	FD EPS	Growth	PER	C.EPS*	P/NTA	Net Gearing	ROE	NDY
Dec	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)
2011a	278.3	72.3	9.7	15.3	20.7	-	5.6	Net cash	33.7	6.4
2012f	301.8	79.1	10.6	9.4	18.9	13.0	4.6	Net cash	31.9	3.2
2013f	364.4	99.1	13.2	25.3	15.1	16.0	3.8	Net cash	33.4	4.0
2014f	440.0	112.6	15.1	13.6	13.3	17.0	3.1	Net cash	31.7	4.5

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

* Consensus Based On IBES Estimates

- ◆ **Below expectations again.** SEGi's 3Q12 revenue of RM74.3m (+6.2% yoy; -7.4% qoq) and net profit of RM15.8m (-13.8% yoy, -21.6% qoq) brought 9M12 revenue and net profit to RM232.3m and RM57.8m respectively. This was again below expectations, reaching only 62-66% of our and consensus full-year estimates. A single-tier dividend of 5 sen per share was announced during the quarter, translating into a gross yield of about 2.5%.
- ◆ **Earnings hit by high number of graduating students.** SEGi earnings were hit by the high number of students graduating during the quarter. With most of its costs (i.e. personnel, administrative) being fixed in nature, EBIT margin was dragged lower to 26.4% (from 31% in 2Q12 and 32.4% in 3Q11). Net margin also declined to 21.3% during the quarter, from 25.1% in 2Q12 and 26.2% in 3Q11.
- ◆ **Expecting a recovery in FY13.** SEGi expects its 4Q12 numbers to show some slight recovery in earnings as it is actively recruiting new students to make up for its student numbers. However, management anticipates full-year earnings to come in lower than its previous guidance. Management expects better earnings in FY13, as it will be increasing its average fees per student and this, coupled with the expected double-digit student growth, could lead to higher revenue for the company.
- ◆ **Risks.** These 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.** We cut our FY12-14 EPS forecasts by 12.6-14.7% after revising our student growth assumptions, which we believe were too aggressive previously.
- ◆ **Investment case.** We are downgrading our call on SEGi to **Market Perform** (from Outperform) as we believe that all short- to medium-term plans have now been priced in. Our fair value has now been revised to RM2.00 (from RM2.20) after our earnings revision. We value SEGi at 15x FY13 fully-diluted EPS, which is in line with RHBRI's target market PE of 15x one-year forward earnings. We do note, however, that SEGi's venture into the international school segment (expected commencement in FY14/FY15) could be a potential re-rating catalyst for the stock in the future.

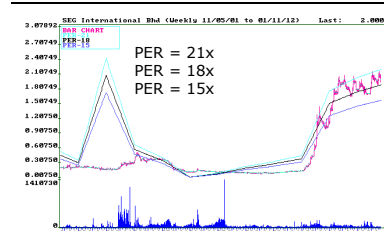
RHBRI	Vs.	Consensus
√	Above In Line Below	√

Issued Capital (m shares)	664.7
Market Cap(RMm)	1,329.3
Daily Trading Vol (m shs)	0.6
52wk Price Range (RM)	1.69-2.16

Major Shareholders:	(%)
Pinnacle Heritage Solutions	41.5
Dato' Clement Hii	24.9
Rexter Capital Sdn Bhd	5.0

FYE Dec	FY12	FY13	FY14
EPS chg (%)	(14.7)	(14.2)	(12.6)
Var to Cons (%)	(18.7)	(17.2)	(11.5)

PE Band Chart



Relative Performance To FBM KLCI



Alia Arwina Izyani Azani
(603) 9280 2162
alia.arwina@rhb.com.my

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Table 2: Quarterly Earnings

FYE Dec (RMm)	3Q FY11	2Q FY12	3Q FY12	QoQ (%)	YoY (%)	9M FY11	9M FY12	YoY (%)	Comments
Revenue	70.0	80.2	74.3	(7.4)	6.2	207.7	232.3	11.8	Lower qoq due to the high number of graduating students in this quarter.
Operating profit	22.7	24.9	19.6	(21.3)	(13.7)	68.8	71.5	4.0	
Net interest expense	(0.2)	(0.1)	(0.1)	(29.9)	(38.6)	(0.6)	(0.4)	(37.8)	
Associates	0.0	0.0	0.0	nm	nm	0.2	0.0	(100.0)	
Pre-tax profit	22.5	24.7	19.5	(21.2)	(13.5)	68.4	71.2	4.1	
Tax	(4.3)	(4.7)	(3.8)	(17.8)	(10.8)	(13.6)	(13.7)	0.3	Income tax expense lower in 3Q12 in tandem with the lower pre-tax profit.
Minority interest	0.1	0.0	0.1	>100	53.4	(0.2)	0.3	>100	
Net profit	18.3	20.1	15.8	(21.6)	(13.8)	54.6	57.8	5.9	Below expectations.
Margins (%)									
Operating profit	32.4	31.0	26.4			33.1	30.8	32.4	Yoy margin expansion is on the back of operating utilisation effect.
Pre-tax	32.2	30.8	26.2			32.9	30.6	32.2	
Effective tax rate	19.1	18.8	19.7			19.9	19.2	19.1	Effective tax rate remains below the statutory tax rate due to reinvestment allowances.
Net profit	26.2	25.1	21.3			26.3	24.9	26.2	

Source: Company, RHBRI

Table 3: Earnings Forecasts

FYE Dec (RMm)	2011	2012f	2013f	2014f
Turnover	278.3	301.8	364.4	440.0
Turnover growth (%)	27.9	8.4	20.8	20.8
EBIT	88.8	99.6	123.9	140.8
Net Interest	(0.7)	(0.8)	(0.8)	(0.9)
Associates	0.2	0.5	0.5	0.5
Exceptionals	0.0	0.0	0.0	0.0
Pretax Profit	88.2	99.3	123.6	140.5
Tax	(16.0)	(19.9)	(23.5)	(26.7)
Minorities	0.1	(0.4)	(1.0)	(1.1)
Net Profit	72.3	79.1	99.1	112.6

Source: Company, RHBRI estimates

Table 4: Forecasts Assumptions

FYE Dec	2012f	2013f	2014f
Number of students (in '000)	29.0	33.6	38.7
% of student growth	5.5	16.0	15.0
Average revenue per students (in '000)	10.4	10.9	11.3
% of average revenue per student growth	0.0	0.1	0.0

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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