

05 July 2013

SEG International

Stronger Headwinds To Persist

We are maintaining our cautious view on the group in view of the persisting delay in the issuance of foreign student visas, which subsequently hinder the incoming foreign students to enroll in the local colleges. Going forward, management continues to foresee slower intakes of foreign students in 2Q as the visa woes have yet to be resolved. Thus, we believe, the group's FY13-FY14 margins are likely to be under pressure judging from the recent regulations hiccup in the sector. As a result, we have slashed our SEG's FY13E-14E net profit numbers by 27% and 19% to RM30.9m and RM39.8m, respectively, after factoring in the potential weaker intakes coupled with its high level of fixed costs going forward. Hence, our SEG target price has been cut to RM1.33 (vs. RM1.45 previously). Meanwhile, we have raised our targeted FY14 PER level to 24x (vs. 21x previously). Despite lowering our earnings estimates, we have adopted a higher target PER. This is because we notice that SEGI went through a period of high PER during 2007-2009 when its earnings only fluctuated between RM5m to RM10m before surging to >RM40m in 2010 that boosted by higher enrolment for its nursing programme. We reiterate our UNDERPERFORM call on the stock.

Stringent vetting process has reduced its foreign student intake. To recap, the Ministry of Higher Education (MOHE) established *Education Malaysia Global Services (EMGS)* as the sole agency to serve as a one-stop centre to market Malaysian education and also for the processing of all foreign student visa applications throughout the country. EMGS has been conducting a more stringent vetting process to foreign students since Feb-13. The strict vetting process has somewhat delayed and slowed down the number of foreign students enrolment in the local colleges based on our channel check. As a result, management has started to take a more prudent stand to lower its original foreign student enrolments target to 1k (from 2k previously) for FY13. At present, SEG has about 4k (or 15%) of foreign students in its 27k total student base.

Change of foreign student fee recognition method. To avoid a large fluctuation at its top line, SEG has started to take a more prudent measure recently to encourage its new foreign students to pay their respective tuition fees based on a semester basis instead of a lump-sum payment previously. The new revenue approach, in our view, may provide stabilities to its revenue over the long-term but may likely to have an adverse impact to its earnings during the short term.

Potential slower intakes in 2Q13. We understand that management is still struggling to replace the shortfall of its nursing graduates thus far as a result of the softer intakes. More importantly, management is expecting another large batch of about 2k of nursing students to graduate in 2H13, which could add more woes on the current slowing number of foreign student intakes. Thus, we have reduced our student base assumption to 25k (from 26k previously) as we expect SEG may not be able to fill up completely for the nursing graduation shortfall with the new intakes in FY13.

Expecting a weaker 1H13. Management is expecting a low double-digit weaker net profit in 1H13 that mainly led by 1) lower number of foreign student enrolment; and 2) potential GP margin compression in the short-term due to poorer revenue coupled with escalating cost on academic staff recruitment for "high ticket" programmes such as medicine and optometry. Despite management is still positive on the 3Q13 and 4Q13, we are taking a more cautious view now due to intensifying competitions and regulations hiccup in the sector. Thus, we have slightly lowered our GP margin assumptions to 69.0% and 70.5% (from 70.5% and 71.0% previously) in FY13E-FY14E.

UNDERPERFORM ↔

Price: **RM1.60**
 Target Price: **RM1.33** ↓

Share Price Performance



KLCI	1,769.21
YTD KLCI chg	4.8%
YTD stock price chg	-13.5%

Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	1,026.3
Issued shares	641.4
52-week range (H)	2.16
52-week range (L)	1.56
3-mth avg daily vol:	168,981
Free Float	28%
Beta	0.5

Major Shareholders

PINNACLE HERITAGE	41.8%
HII CHII KOK	24.8%
REXTER CAPITAL S/B	5.2%

Summary Earnings Table

FYE Dec (RM'm)	2012A	2013E	2014E
Turnover	284.9	237.3	241.5
EBIT	50.9	24.3	36.4
PBT	68.4	38.6	49.4
Net Profit (NP)	60.3	30.9	39.6
Consensus (NP)	-	46.9	50.8
Earnings Revision (%)	-	-27	-19
EPS (sen)	9.07	4.51	5.53
EPS growth (%)	-19	-50	23
DPS (sen)	5.0	5.0	1.7
BVPS RM)	0.4	0.4	0.4
PER (x)	17.6	35.5	28.9
PBV (x)	4.0	4.0	3.6
P/NTA (x)	4.4	4.4	3.9
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	3.1	3.1	1.0

The Research Team
research@kenanga.com.my
 +603 2713 2292

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 WeBangsar South Cityite: www.kenangaresearch.com



Chan Ken Yew
Head of Research