

05 July 2013

Education

Stronger headwind ahead

We are downgrading the education sector to **UNDERWEIGHT** in view of the bleak outlook in FY13 given 1) the new visa approval system for foreign students is commanding stringent requirement for successful approval of visas; 2) longer-than-expected time to process foreign students' visas; 3) the escalating competitive landscape fuelled by the growing number of players at the university level; and 4) the persistent high opex cost in the tertiary space, are all unfavourable to the sector thus far. Therefore, we believe the sector may post further risks on earnings dwindles in FY13. We are reiterating **UNDERPERFORM** call on **HELP** and keep our **TP** at **RM1.88** based on unchanged FY14 PER of 16.1x. Similarly, we are keeping **UNDERPERFORM** call on **SEG** with unchanged **TP** of **RM1.33** based on a higher FY14 PER of 24x (vs. 21x previously), which is the 3-year average PER from 2007-2009. We believe the higher PER valuation for **SEG** is to reflect its high PER nature during low earnings period.

Delayed in foreign students' visas approval. The government has recently set up an agency to take over the function of Ministry of Higher Education (MOHE) and Immigration Department with regards to the processing the renewal application for foreign student pass and visa. The reason of setting up the agency - Education Malaysia Global Services S/B (EMGS) is to streamline the intake of foreign students into the country and avoid red-tape of visa applications. However, as a result 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. Although we are applauding the establishment of EMGS to provide positive development to the sector and boost foreign students' intake, we believe the transition period of the new policy may take some time to resolve the issue. On a positive note, the press has recently reported EMGS will have an immigration team stationed at its office by Sep-13 to speed up the visa applications. Hopefully, we will see the issue to be resolved soon.

Potential negative impact on HELP and SEG. Currently, education stocks under our coverage such as **HELP** and **SEG** have approximately 15% of foreign students on their total students' base. For illustration, should we wipe out 5% of those foreign students, we reckon our **HELP** and **SEG**'s FY13 net profit expected to be cut by 13% and 3.5% to RM11.3m and RM29.4m (from RM13.0m and RM30.9m) respectively. Hence, we are anticipating EMGS to resolve the issues in 2H13 while worrying a further delay could dampen the government's vision of achieving 200k of international students by 2020 (from 100k at present).

Recent results roundup. Education companies under our coverage have recently recorded mixed results that were largely weighed down by higher fixed-nature staff costs and softer students' intake. For **SEG**, the 1Q13 result was largely below expectations due to 1) the higher number of graduating students, 2) delayed in foreign students' visa approval; and 3) the higher academic staff cost. Similarly, **HELP**'s 2Q13 earnings were below expectations. The main culprits were the lower number of classes conducted amid holidays and festive periods coupled with weaker enrolment, particularly in the International Student segment. On the other hand, **Masterskill (MEGB, NOT RATED)** 1Q13 results remain in red as operating and distribution expenses swelled coupled with slower intake. On a more positive note, **Prestariang Berhad (PRESBHD, NOT RATED)** has posted a double-digit net profit growth of 12.2% in 1Q13 due mainly to higher contributions from its higher margin ICT training and certification segment.

FY13 outlook turns bleak. We are now cautious on the sector given the delay of processing foreign students' visas by EMGS may potentially frustrate the existing and incoming foreign students to study in the country as they may go somewhere less complicated and cheaper to pursue their higher education. More importantly, given the 1) escalating competitive landscape; 2) persistent high opex costs; and 3) unfavourable regulations in the tertiary space; we believe the sector may post further risks on earnings dwindles in FY13. However, in the long-term view, we continue to like **HELP** for its clean balance sheet and the early foray into a more lucrative private international school segment in early-14.



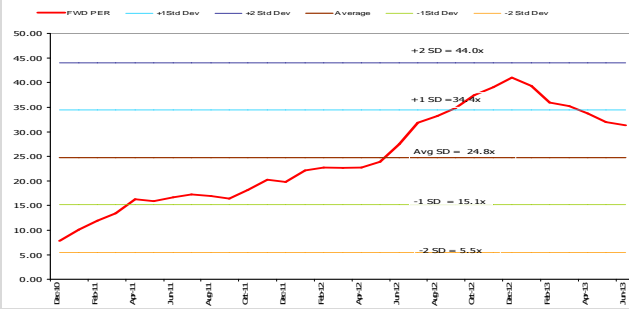
Underweight

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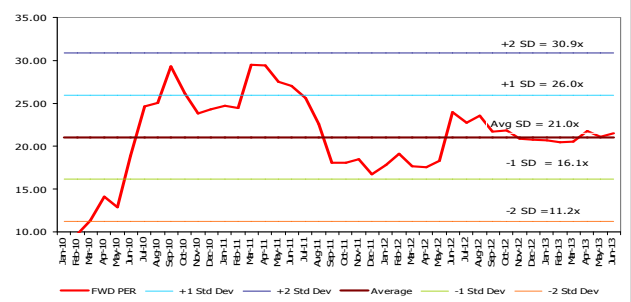
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SEG forward PER band Standard Deviation



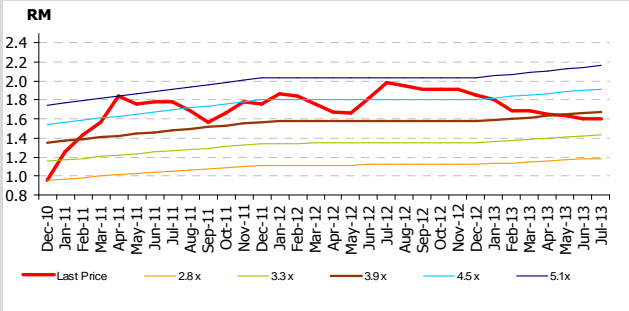
Source: Bloomberg, Kenanga Research

HELP forward PER band Standard Deviation



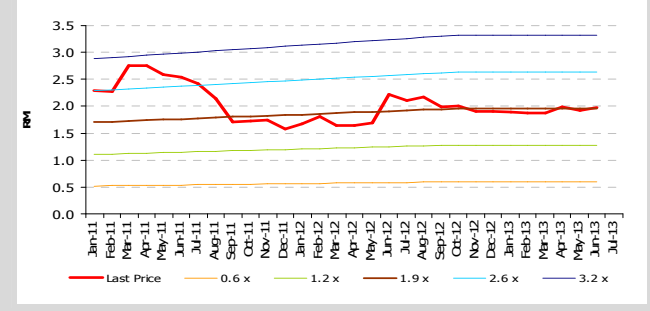
Source: Bloomberg, Kenanga Research

SEG PBV band



Source: Bloomberg, Kenanga Research

HELP PBV band



Source: Bloomberg, Kenanga Research

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NAME	Price (04/07/13)	Mkt Cap (RMm)	PER (x)			Est. Div. Yld.	Hist. ROE	Hist. PBV (x)	Core Net Profit (RM'm)			FY13 NP Growth	FY14 NP Growth	Target Price	Rating
	(RM)		FY12A	FY13E	FY14E	(%)	(%)		FY12A	FY13E	FY14E	(%)	(%)	(RM)	
<u>CORE COVERAGE</u>															
HELP INTERNATIONAL	1.90	269.88	20.0	16.1	13.9	1.0%	10.0%	2.1	13.5	13.0	16.6	-3.80%	27.7%	1.88	UP
SEG INTERNATIONAL	1.60	1,026.26	17.6	15.0	14.5	2.0%	22.6%	4.1	60.3	30.9	39.6	-51.7%	27.9%	1.33	UP
<u>NON COVERAGE</u>															
MASTERSKILL EDUCATION	0.49	200.85	N.A.	N.A.	N.A.	N.A.	N.M.	0.5	-28.3	-23.4	-6.8	N.M.	N.M.	0.55	SELL
PRESTARIANG BERHAD	1.92	420.58	6.6	9.3	8.5	5.6%	50.9%	3.1	37.3	45.1	49.8	20.9%	10.4%	2.42	BUY

Source: Bloomberg, Kenanga Research

NAME	Price (04/07/13)	Target Price	Potential Capital Upside	Valuation Methodology
	(RM)	(RM)		
HELP	1.90	1.88	-1.1%	Targeted FY13 Forward PER of 16.1x
SEG	1.60	1.33	-16.9%	3-year average PER from FY07-FY09.

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 sector'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 sector's Expected Total Return is WITHIN the range of 3% to 10%
UNDERWEIGHT : A particular sector'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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