

22 May 2014

SEG International

1Q14 below expectation

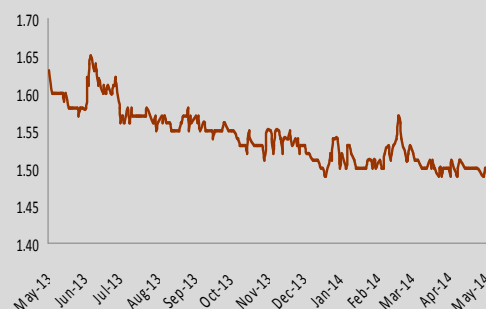
By the Kenanga Research Team | research@kenanga.com.my

UNDERPERFORM ↔

Price: RM1.49
Target Price: RM1.29 ↔

- Period** ■ 1Q14/FY14
- Actual vs. Expectations** ■ The reported 1Q14 net profit of RM7.2m (-14.5% QoQ; +619.3% YoY) came in below expectation and accounted for 18.9% of our and 18.3% of the street full-year estimate. On our side, the key culprits were mainly due to lower revenue recognition as a result of timing differentiation on students' intake and higher than expected operating costs. Note that SEG's 1Q NP generally accounted for 25%-36% of the full-year earnings, based on the past three-year financial performance, except 1Q13 that merely accounted for about 3% as a result of the higher number of graduating students and negative impact from the new EMGS ruling.
- Dividends** ■ No dividend was declared during the quarter as expected.
- Key Results Highlights** ■ **YoY**, SEG registered a +10.2% YoY jump in its revenue to RM61.5m while its net profit surged by 619.3% to RM7.1m. The strong improvement was mainly led by better student enrolments and low base effect. Note that, the weak financial performance in 1Q13 was mainly due to the dismal number of foreign students from its nursing programme and high number of graduating students from the Group's nursing programme.
- **On a QoQ basis**, 1Q14 PBT rose by 54.0% (4Q13:RM5.2m), thanks to the higher margin from newly introduced online programmes and cost efficiency from consolidation of local operations. Despite recorded higher PBT, the group's net profit lowered by 15% to RM7.1m, no thanks to the higher tax expenses recorded in the current quarter.
- Outlook** ■ The group's outlook appears promising as we believe SEGI has been liberalised from the EMGS ruling which had hampered the Group's effort to bring in foreign students. We believe SEGI's business would be back to normal from FY14 onwards.
- We understand that SEGI intends to add more higher-margin programmes to its portfolio in FY14, particularly increasing the number of its online programs. Besides, the Group had already consolidated its less-profitable operations to improve its cost efficiency to provide sustainable growth moving forward.
- Change to Forecasts** ■ We have lowered our FY14 net profit to RM34.5m (-10.5%), after imputing higher operating costs assumption. Our FY15 earnings estimate, however, remains unchanged.
- Rating** **Maintain UNDERPERFORM**
The low base effect could lead the group to record a strong earning's jump; however, its capital upside could be limited due to the current rich valuation.
- Valuation** ■ We maintained our SEG TP at RM1.29 based on unchanged targeted FY15 PER of 22.0x. This in line with its peer HELP International's privatization targeted forward PER of 21.7x.
- Risks to Our Call** ■ Better-than-expected student enrolment.
■ Higher operation cost implied.

Share Price Performance



KLCI	1877.03
YTD KLCI chg	0.5%
YTD stock price chg	-0.7%

Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	958.7
Issued shares	643.4
52-week range (H)	1.66
52-week range (L)	1.46
3-mth avg daily vol:	650,669
Free Float	21%
Beta	0.5

Major Shareholders

PINNACLE HERITAGE SO	41.7%
KOK HII CHII	32.3%
REXTER CAPITAL SDN B	5.2%

Summary Earnings Table

FY Dec (RM'm)	2013A	2014E	2015E
Turnover	236.8	262.3	276.5
EBIT	33.8	24.0	33.2
PBT	31.7	40.0	50.2
Net Profit (NP)	32.4	34.5	45.2
Core Net Profit	16.6	34.5	45.2
Consensus (NP)	-	39.3	45.5
Earnings Revision	-	-10.4%	-
EPS (sen)	4.58	4.67	5.98
EPS growth (%)	-50%	2%	28%
DPS (sen)	2.3	1.4	1.8
BVPS RM)	35.8	40.0	40.5
PER (x)	32.6	31.9	24.9
PBV (x)	4.2	3.7	3.7
P/NTA (x)	4.7	4.1	4.1
Net Gearing (x)	N.Cash	N.Cash	N.Cash

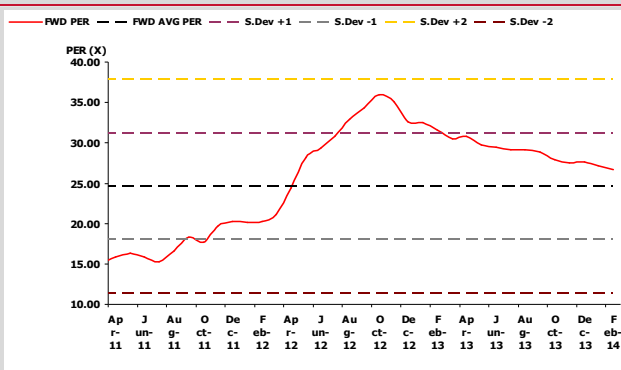
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Result Highlight

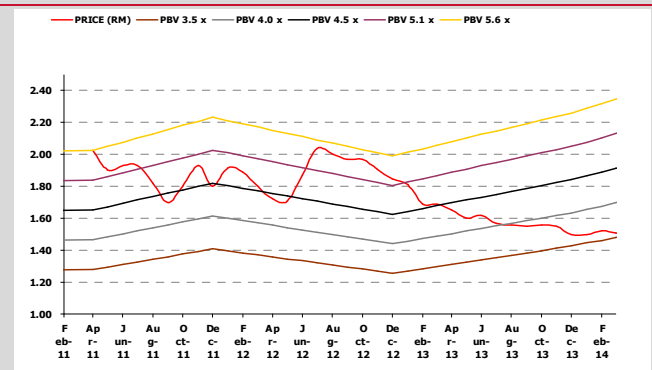
	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
Y/E : Dec (RM'm)	FY14	FY13	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	61.5	62.0	-1%	55.8	10.2%	61.5	55.8	10.2%
Gross Profit	44.4	42.8	4%	35.9	23.7%	44.4	35.9	23.7%
PBT	8.1	5.2	54%	1.2	562.8%	8.1	1.2	562.8%
Tax	(0.9)	3.2	-129%	0.3	-377.6%	(0.9)	0.3	-377.6%
Net Profit (NP)	7.1	8.3	-15%	1.0	619.3%	7.1	1.0	619.3%
FD EPS (sen)	1.0	1.2	-14%	0.1	628.6%	1.0	0.1	628.6%
GP margin	72.1%	69.1%		64.3%		72.1%	64.3%	
PBT margin	13.1%	8.4%		2.2%		13.1%	2.2%	
NP margin	11.6%	13.5%		1.8%		11.6%	1.8%	
Effective tax rate	-11.5%	61.1%		27.5%		-11.5%	27.5%	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research



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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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