

20 May 2014

## SEG International Disposal of a Subsidiary

By the Kenanga Research Team | [research@kenanga.com.my](mailto:research@kenanga.com.my)

## UNDERPERFORM ↔

Price: **RM1.50**  
Target Price: **RM1.29** ↔

- News**
- In a Bursa announcement, SEGi's wholly owned subsidiary, SEG International Group Sdn Bhd, has proposed to dispose off 100.0% of SEGi International Learning Alliance Sdn Bhd (SILA), for a cash consideration of RM14.0m.
  - The principal activities of SILA are investment holding and provision of training and education services. It is also the owner of a parcel of vacant freehold commercial land (12 acres), identified as HS (D) 280409, PT 29532 located within Negeri Selangor Darul Ehsan.
  - This land carries a net book value of RM54.73m, and it is valued 5.0% higher at RM57.5m (as appraised by the independent valuer), of which RM44.0m would be assumed by the Purchaser as term loan.
  - The proposed deal is expected to be completed within the first quarter of 2015.

- Comments**
- We are **MILDLY POSITIVE** on the deal as the proceeds from the land disposal will only bring minimal interest savings to the Group, of which interest expense only accounts for RM1.9m to net profit. In addition, the draw-down of debt will only strengthen the Group's current net cash position, where the proceeds could be used to finance SEG's working capital requirement.

- Outlook**
- The outlook appear promising underpinned by: (i) higher number of students intake due to the liberalisation of the EMGS ruling, (ii) more higher margin programmes to be introduced, particularly an increasing number of its online programs and Early Education Programs, and (iii) better cost efficiency.

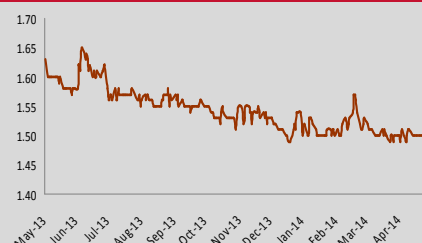
- Forecast**
- There is no impact towards our FY14E NP forecast as the proposed disposal is expected to be completed during 1Q15. Meanwhile, we raised our FY15E net profit (NP) by 1.8% to reflect potential saving in interest expense.

**Rating** **Maintain UNDERPERFORM**

- Valuation**
- Our TP of RM1.29 based on targeted FY15 PER of 22.0x remain unchanged due to minimal impact.

- Risks to Our Call**
- Better-than-expected student enrolment.

### Share Price Performance



KLCI	1887.07
YTD KLCI chg	1.1%
YTD stock price chg	0.0%

### Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	965.1
Issued shares	643.4
52-week range (H)	1.66
52-week range (L)	1.46
3-mth avg daily vol:	654,176
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

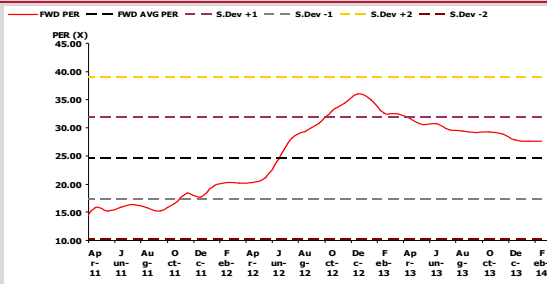
FY Dec (RM'm)	2013A	2014E	2015E
Turnover	236.8	262.3	276.5
EBIT	33.8	28.3	33.2
PBT	31.7	44.3	50.2
<b>Net Profit (NP)</b>	<b>32.4</b>	<b>38.1</b>	<b>45.2</b>
<b>Core Net Profit</b>	<b>16.6</b>	<b>38.1</b>	<b>45.2</b>
Consensus (NP)		38.3	40.5
Earnings Revision		-	1.8%
EPS (sen)	4.58	5.17	5.98
EPS growth (%)	-50%	13%	16%
DPS (sen)	2.3	1.6	1.8
BVPS RM)	0.4	0.4	0.4
PER (x)	33.2	29.4	25.4
PBV (x)	4.3	3.7	3.7
P/NTA (x)	4.8	4.1	4.1
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	3.4%	2.4%	2.7%



Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2011A	2012A	2013E	2014E	2014E	FY Dec (RM m)	2011A	2012A	2013E	2014E	2014E
<b>Revenue</b>	278.3	284.9	236.8	262.3	276.5	<b>Growth</b>					
EBITDA	75.2	61.1	45.5	41.3	46.9	Turnover (%)	26.4%	2.4%	-16.9%	10.8%	5.4%
Depreciation	9.0	10.3	11.7	13.0	13.7	EBITDA (%)	60.7%	-18.7%	-25.6%	-9.2%	13.6%
Operating Profit	66.2	50.9	33.8	28.3	33.2	Operating Profit (%)	68.9%	-23.2%	-33.6%	-16.2%	17.4%
Other Income	22.8	18.0	0.0	18.0	18.0	PBT (%)	55.2%	-22.5%	-53.6%	39.7%	13.3%
Interest Exp	0.7	0.5	2.1	2.0	1.0	Core Net Profit (%)	58.6%	-16.6%	-46.2%	17.6%	18.6%
Associate	0.0	0.0	0.0	0.0	0.0	<b>Profitability</b>					
Exceptional Items	0.0	0.0	0.0	0.0	0.0	EBITDA Margin	27.0%	21.5%	19.2%	15.7%	17.0%
PBT	88.2	68.4	31.7	44.3	50.2	Operating Margin	23.8%	17.8%	14.3%	10.8%	12.0%
Taxation	16.0	8.4	-0.7	6.2	5.0	PBT Margin	31.7%	24.0%	13.4%	16.9%	18.1%
Minority Interest	0.1	0.3	0.5	0.0	0.1	Core Net Margin	26.0%	21.2%	13.7%	14.5%	16.4%
<b>Net Profit</b>	<b>72.3</b>	<b>60.3</b>	<b>32.4</b>	<b>38.1</b>	<b>45.2</b>	Effective Tax Rate	18.1%	12.2%	-2.3%	14.0%	10.0%
<b>Core Net Profit</b>	<b>72.3</b>	<b>60.3</b>	<b>32.4</b>	<b>38.1</b>	<b>45.2</b>	ROA	24.9%	15.6%	9.1%	10.9%	13.7%
						ROE	39.2%	22.6%	12.8%	12.7%	14.5%
<b>Balance Sheet</b>											
<b>FY Dec (RM m)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2014E</b>	<b>DuPont Analysis</b>					
Fixed Assets	111.6	170.9	192.4	218.8	189.1	Net Margin (%)	26.0%	21.2%	13.7%	14.5%	16.4%
Intangible Assets	28.0	28.0	28.1	28.1	28.1	Assets Turnover (x)	1.0x	0.7x	0.7x	0.7x	0.8x
Other FA	8.6	7.0	1.0	1.0	1.0	Leverage Factor (x)	1.6x	1.4x	1.4x	1.2x	1.1x
Inventories	0.0	0.0	0.1	0.1	0.1	ROE (%)	39.2%	22.6%	12.8%	12.7%	14.5%
Receivables	47.1	60.7	38.7	42.9	45.2	<b>Leverage</b>					
Other CA	7.6	11.3	26.7	-70.8	-54.2	Debt/Asset (x)	0.0	0.1	0.1	0.1	0.0
Cash	87.2	108.3	68.1	130.8	121.0	Debt/Equity (x)	0.0	0.2	0.2	0.2	0.0
Total Assets	290.1	386.2	355.1	350.8	330.3	Net Cash/(Debt)	-78.4	-60.3	-22.8	-83.9	-117.6
						Net Debt/Equity (x)	-0.4	-0.2	-0.1	-0.3	-0.4
Payables	37.9	36.1	34.6	37.2	39.2	<b>Valuations</b>					
ST Borrowings	0.0	0.0	1.1	0.0	0.0	EPS (sen)	11.2	9.1	4.6	5.2	6.0
Other ST Liability	5.2	3.5	0.6	-2.2	-1.3	NDPS (sen)	6.8	4.8	2.3	1.6	1.8
LT Borrowings	5.0	45.3	44.2	44.2	0.7	BVPS (sen)	28.4	40.1	35.8	40.6	41.1
Other LT Liability	4.3	2.0	5.1	-43.7	-35.4	PER (x)	13.6	16.8	33.2	29.4	25.4
Minorities Int.	0.8	0.4	-0.1	-0.2	-0.2	Net Div. Yield (%)	10.3	7.3	3.4	2.4	2.7
<b>Net Assets</b>	<b>184.5</b>	<b>267.3</b>	<b>253.4</b>	<b>299.1</b>	<b>310.9</b>	PBV (x)	5.4	3.8	4.3	3.7	3.7
						EV/EBITDA (x)	12.1	15.5	23.2	25.1	22.0
Share Capital	139.7	166.2	167.1	186.2	208.8						
Reserves	81.6	138.1	77.4	104.1	92.2						
<b>Equity</b>	<b>184.5</b>	<b>267.3</b>	<b>253.4</b>	<b>299.1</b>	<b>310.9</b>						
<b>Cashflow Statement</b>											
<b>FY Dec (RM m)</b>	<b>2011A</b>	<b>2012A</b>	<b>2013E</b>	<b>2014E</b>	<b>2014E</b>						
Operating CF	84.5	68.5	36.2	92.8	51.2						
Investing CF	-10.4	-71.6	6.0	-39.3	-41.5						
Financing CF	-50.4	40.1	28.7	9.3	-33.5						
Change In Cash	23.7	37.1	70.9	62.7	-23.8						
Free CF	74.1	-3.1	36.2	53.4	9.7						

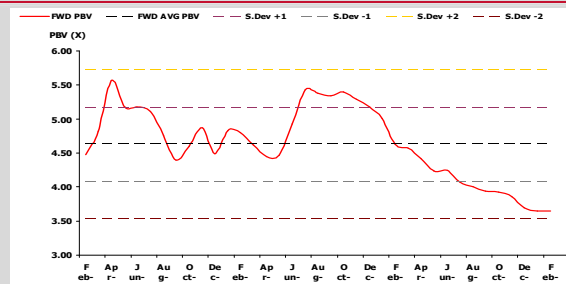
Source: Kenanga Research

Fwd PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



20 May 2014

**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.**

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**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 Website: [www.kenanga.com.my](http://www.kenanga.com.my)



Chan Ken Yew  
Head of Research

