



## MALAYSIA

### SYS MK

Not rated

Stock price as of 11/03/2014	RM	1.53
GICS sector	Education Services	
Market cap	US\$m	296.1
Avg Value Traded (3m)	US\$m	0.3
12m high/low	RM	1.49/1.73
PER FY15E	x	25.17
P/BV FY15E	x	3.02

PER and PBV based on Bloomberg consensus. SYS is covered by 2 analysts.

### Historical financials

YE Dec (RMm)	2011A	2012A	2013A
Revenue	278.2	284.9	236.9
% growth	28%	2%	-17%
EBITDA	95.0	78.8	27.7
% growth	58%	-17%	-65%
EPS	12.9	9.0	5.1
% growth	51%	-30%	-43%
EBIT Margin	31%	24%	7%

Source: Company data, FactSet, March 2014

### Share Price Driver

Thematic

**Growth**

Value

Event

Source: Macquarie Research, March 2014

### Share price performance



Source: Bloomberg, March 2014

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Macquarie Capital Securities (Malaysia)  
Sdn. Bhd.

# MacVisit: SEG International

## Malaysia's largest private higher education company

We met with SEG International (SEGI) (SYS MK: mkt cap RM983m) last week and their FY13 results revealed that they are turning around nicely with sharp improvement quarterly suggesting that the worst is over.

- **SEGI has recovered from a low of 4Q2012 pretax loss of RM2.8m to 4Q2013 pretax profit of RM5.2m.** This was a result of: 1) The slowdown in its nursing programme; in 2011 the change in minimum requirements for the nursing programme from 3 credits in SPM to 5 credits in SPM resulted in a fall in enrolment from a peak of 4,000 in 2011 to 500 currently. 2) The delay in approvals of applications for new foreign student visas impacted enrolment for 9MFY2013. The processing of applications for foreign student visas since reverted to normal in 3Q2013. Foreign student enrolment at its peak was 16% of total enrolment of 27,000 in 2012 compared to 10% now with total enrolment of 25,000. Enrolment CAGR for the last 5 years was 7.3%.
- **Towards "Tier One" University.** SEGI management has been working on implementing its business strategy, "Towards Tier One", where it wants to change the perception of the students that SEGI is comparable with Taylors University and Sunway University as well as the Malaysian campuses of foreign universities like Monash University and Nottingham University.
- **Kitchen sinking is done.** SEGI has also undertaken a review of its business processes and invested in systems, people and infrastructure while also implementing cost cutting through streamlining. It has also written off bad debt and obsolete equipment etc. SEGI remains in a net cash position of RM22.5m and has several sales and leaseback arrangements for its campus facilities.
- **Multi-pronged growth strategies.** Adopting an asset light strategy, SEGI can grow its capacity quickly through leasing new lecture space and hiring more teaching staff. It aims to increase its operating leverage through:
  - ⇒ **Targeting foreign students** through appointing more agents throughout the world.
  - ⇒ **Expansion into other educational offerings** (online, adult continuing education, vocational, pre-school teaching diploma, private school).
  - ⇒ **Increasing pricing of programmes.** Some of the programme fees have not been increased for the past several years. In 2013, SEGI increased the fees of some courses by 15%-20%. It will continue to review the fee structure which is almost 30% to 80% cheaper than its competitors
  - ⇒ **Developing centre of excellence** for each campus for different programmes which enables facilities sharing and brand building.
- **Little free float = Less interest?** Navis Capital through an MGO in May 2012 ended up with a 41.72% stake and combined with Tan Sri Clement Hii's (managing director) 32.37% makes up 74.09%. Including other substantial shareholders, free float is only 16.65% resulting in limited investor interest in the company.

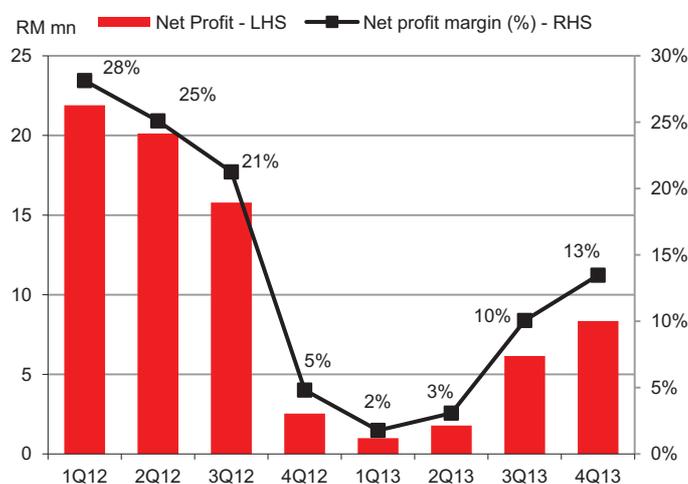
## Ownership

- Outstanding ordinary shares (10 March 2014) 642.4m
- As a % of ordinary shares:
- Insider/stake ownership
- ⇒ Navis Capital 41.73%
  - ⇒ Tan Sri Clement Hii 32.37%
  - ⇒ SEG International Bhd (Treasury Shares) 4.05%
  - ⇒ Rexter Capital Sdn Bhd 5.20%
- Free Float 16.65%

## History and corporate governance

- SEGI started its first education centre in Kuala Lumpur in 1977 providing professional qualification courses at an affordable price under the brand name Systematic Education Group.
- From there it branched out to offering twinning programmes with overseas universities such as University of Sunderland, University of South Queensland, and Upper Iowa University to name a few.
- It has since grown to secure full university college status in 2008, which allows it to offer its own degree programmes, and full university status in 2012 (for Kota Damansara campus only). With the full university status, it can offer its own post graduate programmes.
- There have been no incidences of poor corporate governance. Tan Sri Megat Najmuddin (69), who was appointed the chairman of SEGI since 2008, has been president of Malaysian Institute of Corporate Governance since 1998.
- In May 2012, Navis Capital, a private equity fund in Malaysia, launched an unconditional take-over of SEGI and ended up with a 41.73% stake in the company.

## SEGI historical net profit and net profit margin



Source: Company annual reports, Macquarie Research, March 2014

## Latest results highlights (4QFY31 December 2013)

- FY13 net profit of RM32.9m was boosted by a one-off gain on the disposal of land of RM15.7m.
- Stripping out the one off gain the net margin for FY13 was 7%.
- However, 4Q13 net margin improved sharply to 13% from 2% in 1Q13. At its peak, net margin was 26% in FY11.

## Management and Directors background

- Tan Sri Clement Hii (54) is group managing director of SEGI and the second largest shareholder. He has been with the group since 2001 as CEO. He was Executive Vice Chairman of the Star Publication group for 2 years (Dec 2008- Dec 2010).
- Miss Hew Moi Lan is group CEO (51) and was appointed in January 2012. Prior to that, she was COO since 2009 and joined the group in 1986 and has more than 20 years of experience as an educator.
- Miss Stella Lau Kah Wai has been group COO since 2012. She joined the group in 2003 and rose through the ranks within the academia staff to become the principal in 2008.

## Balance sheet data and refinancing (31 December 2013)

- SEGI is in a net cash position of RM22.49m. Total debt is RM45.2m
- It recently acquired 12 acres of land in Bandar Setia Alam for RM52m from SP Setia using cash and bank borrowings
- Days Receivables are 60 days and bad debt written off is RM330,000 while provision for doubtful debt is RM2.9m.

### The growth proposition

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- Private higher education institutions in Malaysia are perceived to be better than public universities.
- There is a small quota of places for non-bumiputera in public universities in each year's enrolment. As such, many students seek to study in private institutions locally and abroad.
- It offers twinning programmes with universities in the UK, USA and Australia in addition to its own programmes

### The business model

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- SEGI offers many of its own degree programmes in various field of study including medicine, dentistry, pharmacy, engineering, finance etc. It also offers vocational training courses and post graduate programmes
- SEGI has 6 campuses throughout Malaysia and 6 vocational training centres
- SEGI has a private school license but has not started the school yet
- Strong network of agents abroad to market its programmes

### Strengths

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- Largest by student enrolment and capacity enabling high operational leverage
- Offers many different programmes from various disciplines of study including medicine, dentistry, pharmacy, engineering which are capital intensive
- Has full university status to offer postgraduate programmes
- More competitive fee structure

### Opportunities

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- Penetrating East Malaysia market with its Sarawak campus in Kuching
- Room to increase its highly competitive fee structure
- Foreign student population at 10% of total enrolment is still low

### The value proposition

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- Overall living costs are much lower in Malaysia compared with other popular education destinations namely the UK, USA and Australia.
- Language of instruction is English
- Both Malaysian and foreign students are attracted to the similar quality of education at a much lower cost especially for the undergraduate programmes and subsequently finish their postgraduate programmes in the countries mentioned above.

### The main risks

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- Changes in education policies which may impact the new intake of students. When the government increased the minimum entry requirement for the nursing programme from 3 credits at "O" level to 5 credits at "O" level, the number of students that qualified and wanted to do nursing dropped dramatically.
- Changes in immigration policies. The delays in processing applications of foreign student visas in 2012-2013 caused the enrolment of foreign students to drop sharply as they chose to go to other countries.

### Weaknesses

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- Perceived branding in "Tier Two" of private higher learning institutions.
- High concentration of local students
- 50% of students on Malaysian government study loan. A change in policy could affect the enrolment temporarily

### Threats

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- Other private higher learning institutions increasing their programme offerings
- More Malaysian campuses being setting up by foreign universities
- Public universities increasing their student intake
- Study loans becoming more difficult to obtain

Fig 1 SEG International Berhad

Year Ending 31 Dec	2010A	2011A	2012A	2013A	Quarter Ending	31-Mar-13	30-Jun-13	30-Sep-13	31-Dec-13
Revenue	217.5	278.2	284.9	236.9	Revenue	55.8	57.9	61.2	62.0
Cost of Goods Sold	56.5	69.0	79.5	76.8	Cost of Goods Sold	19.9	20.2	17.5	19.2
Gross Profit	161.0	209.2	205.3	160.1	Gross Profit	35.9	37.7	43.7	42.8
SG&A	126.6	145.8	154.8	170.9	SG&A	37.6	54.8	38.9	39.5
Interest/Investment Income	-2.3	-2.8	-0.4	-17.7	Associates	0.0	0.0	0.0	0.0
Other Optg (Exp)/Income	28.2	34.4	28.6	56.1	Other Optg Exp/(Income)	-1.4	0.0	-6.1	-3.7
EBITDA	60.3	95.0	78.8	27.7	EBITDA	3.6	4.7	10.1	9.3
Depreciation	7.4	8.8	10.2	11.6	Depreciation	2.8	3.0	2.9	2.9
EBIT	52.7	86.0	68.5	16.1	EBIT	0.8	1.7	7.2	6.4
Forex Gains / Losses	0.0	0.0	0.0	0.0	Forex Gains / Losses	0.0	0.0	0.0	0.0
Other Pre-Tax Income	0.0	0.0	0.0	0.0	Other Pre-Tax Income	0.0	0.0	0.0	0.0
Net Interest Income/(Exp)	-1.2	-0.7	-0.5	-2.1	Net Interest Income/(Exp)	-0.1	-0.1	-0.4	-1.6
Unusual gain(expenses)	2.9	2.9	0.3	17.7	Unusual gain(expenses)	0.5	16.2	0.6	0.4
Pre Tax Profit	54.3	88.2	68.4	31.7	Pre Tax Profit	1.2	17.9	7.4	5.2
Tax Expenses	11.1	16.0	8.4	-0.7	Tax Expenses	0.3	0.8	1.3	-3.2
Eff. Tax Rate	20.4%	18.1%	12.2%	-2.3%	Eff. Tax rate	27.5%	4.5%	18.2%	-61.1%
Net Profit (Reported)	43.2	72.2	60.0	32.4	Net Profit (Reported)	0.9	17.1	6.0	8.4
Minority Interests	0.2	-0.1	-0.3	-0.5	Minority Interests	0.0	0.0	0.0	0.0
Adjusted Net Profit	43.1	72.3	60.3	33.0	Adjusted Net Profit	0.9	17.1	6.0	8.4
Basic EPS (sen)	8.6	12.9	9.0	5.1	Basic EPS (adj) (sen)	0	3	1	1
Basic EPS (adj) (sen)	8.6	12.9	9.1	5.1	EPS (post Min) YoY%	-96%	-12%	-60%	246%
Wtd EPS (adj) (sen)	8.6	13.6	9.9	5.0	Wtd EPS (adj) (sen)	0	3	1	1
Total Shares Out (per end)	502.5	558.7	664.9	642.3	EBIT Margin	1%	3%	12%	10%
Weighted Shares Out	500.7	530.6	611.8	653.6	Net Margin	2%	29%	10%	14%

Cash Flow	2010A	2011A	2012A	2013A	Balance Sheet	2010A	2011A	2012A	2013A
EBITDA	60.3	95.0	78.8	27.7	Cash & ST Investment	79	87	108	68
Tax Paid	-11.1	-16.0	-8.4	0.7	Receivables	13	24	39	39
Chgs in Working Capital	-11.5	11.7	12.3	-12.0	Inventories	0	0	0	0
Net Interest Paid	-1.2	-0.7	-0.5	-2.1	LT Investment	5	6	4	1
Other	30.1	-19.1	-27.8	22.0	PP&E, Net	100	112	171	192
Operating Cashflow	66.6	70.9	54.4	36.4	Intangibles	28	28	28	28
Acquisitions	0.0	0.0	0.0	0.0	Other Assets	38	34	37	23
Capex	-10.0	-13.4	-74.0	-13.2	Total Assets	263	290	386	351
Asset Sales	0.4	0.1	0.2	0.3	Payables	1	1	1	34
Other	-0.2	1.1	0.5	1.0	Short Term Debt	7	4	3	1
Investing Cashflow	-9.8	-12.2	-73.4	-11.9	Long Term Debt	11	5	45	44
Dividend	-2.3	-43.8	-53.3	-64.0	Other Liabilities	41	96	70	18
Equity Raises	4.8	28.1	53.1	1.7	Total Liabilities	60	106	119	98
Debt Movements	0.0	0.0	0.0	0.0	Shareholder's Funds	203	184	267	254
Other	-17.3	-34.8	40.3	-2.7	Minority Interest	0	0	0	0
Financing Cashflow	-14.9	-50.4	40.1	-65.0	Other	0	0	1	2
Net Change in Cash/Debt	41.9	8.3	21.1	-40.5	Total S/H Equity	203	185	267	253
Free Cash Flow	56.6	57.6	-19.6	23.1	Total Liability & S/H Funds	263	290	386	351

	2010A	2011A	2012A	2013A		2010A	2011A	2012A	2013A
Revenue Growth %	31%	28%	2%	-17%	ROA	18%	26%	18%	9%
EBITDA Growth	175%	58%	-17%	-65%	ROE	23%	37%	27%	12%
EBIT Growth	239%	63%	-20%	-77%	ROIC	19%	15%	2%	-11%
Net Profit (adj) Growth	330%	68%	-17%	-45%	Net Debt/Equity	-30%	-43%	-23%	-9%
EPS (adj) Growth	327%	51%	-30%	-43%	Interest Cover	54.0	95.1	116.2	17.8
EBITDA Margin	28%	34%	28%	12%	Payout Ratio	5%	61%	89%	197%
EBIT Margin	24%	31%	24%	7%					
Net Profit Margin	5%	26%	21%	14%					

Valuation	2010A	2011A	2012A	2013A	
Share Price (RM)	1.1	1.8	1.9	1.5	
PER (x)	12.3	13.9	20.5	29.7	
EV/EBITDA (x)	8.0	9.3	14.2	34.0	
P/Bk Ratio (x)	2.6	5.5	4.6	3.8	
Div Yield (%)	2.4	7.5	5.4	5.0	Fiscal year ends 31 Dec

All figures in RM mn unless noted

Source: Company data, Macquarie Research, March 2014

## Important disclosures:

**Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie First South - South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Asia/Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 31 December 2013**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.89%	60.13%	37.97%	39.49%	59.64%	48.65%	(for US coverage by MCUSA, 6.52% of stocks followed are investment banking clients)
Neutral	35.56%	22.65%	46.84%	54.50%	35.54%	32.43%	(for US coverage by MCUSA, 4.35% of stocks followed are investment banking clients)
Underperform	16.55%	17.22%	15.19%	6.01%	4.82%	18.92%	(for US coverage by MCUSA, 0.00% of stocks followed are investment banking clients)

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