

# SEG International

## 2Q14 Below Expectations

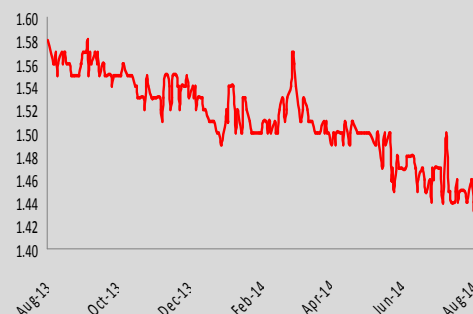
By the Kenanga Research Team | [research@kenanga.com.my](http://research@kenanga.com.my)

# UNDERPERFORM ↔

**Price: RM1.43**  
**Target Price: RM1.21 ↓**

<b>Period</b>	<ul style="list-style-type: none"> <li>2Q14/1H14</li> </ul>
<b>Actual vs. Expectations</b>	<ul style="list-style-type: none"> <li>The reported 1H14 PAT of RM13.9m is below expectations, accounting for only 40.4% and 40.6% of our and consensus full-year estimates, respectively. On our side, the key culprit was mainly higher-than-expected operating costs.</li> </ul>
<b>Dividends</b>	<ul style="list-style-type: none"> <li>An interim single tier dividend of 5.0 sen was declared during the quarter, accounting for 53.7% of our full year forecast.</li> </ul>
<b>Key Results Highlights</b>	<ul style="list-style-type: none"> <li><b>YoY</b>, SEG's 1H14 revenue of RM123.3m rose 8.4% due to the better student enrolments recorded and low base effect. Core net profit registered an increase of 375.8% to RM13.8m YoY after stripping-off the one-off RM15.8m gains from the disposal of a piece of land at Kota Damansara in 2Q13.</li> <li><b>QoQ</b>, 2Q14 PBT was slightly down by 5.8% to RM7.6m. The decrease was mainly driven by higher operating cost as a result of new programs expansion and workforce.</li> </ul>
<b>Outlook</b>	<ul style="list-style-type: none"> <li>We believe that SEG's business would be back on a steady track moving forward as we believe it has been liberalised from the EMGS ruling which had earlier hampered the Group's effort to bring in foreign students.</li> <li>The Group is working on expanding its higher-margin programmes, particularly their new online programs segment. Besides, SEG is also increasing its presence in overseas market by working with several education agencies to increase its foreign student's intake.</li> </ul>
<b>Change to Forecasts</b>	<ul style="list-style-type: none"> <li>We have lowered our FY14 and FY15 net profit forecasts to RM30.9m (-10.4%) and RM41.5 (-8.2%), respectively, after imputing higher operating cost assumption.</li> </ul>
<b>Rating</b>	<b>Maintain UNDERPERFORM</b>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>We have lowered our SEG TP to RM1.21 from RM1.29 previously, based on an unchanged FY15 PER target of 22.0x. This is in line with its peer HELP International's forward PER of 21.7x based on its privatization exercise.</li> </ul>
<b>Risks to Our Call</b>	<ul style="list-style-type: none"> <li>Better-than-expected student enrolment.</li> <li>Higher operating cost implied.</li> </ul>

### Share Price Performance



KLCI	1858.04
YTD KLCI chg	-0.5%
YTD stock price chg	-4.7%

### Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	920.4
Issued shares	643.7
52-week range (H)	1.59
52-week range (L)	1.42
3-mth avg daily vol:	101,367
Free Float	21%
Beta	0.4

### Major Shareholders

PINNACLE HERITAGE SO	41.7%
CHII KOK HII	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	37.9	47.1
PBT	31.7	35.9	46.1
<b>Net Profit (NP)</b>	<b>32.4</b>	<b>30.9</b>	<b>41.5</b>
<b>Core Net Profit</b>	<b>16.6</b>	<b>30.9</b>	<b>41.5</b>
Consensus (NP)		34.0	39.1
Earnings Revision (%)		-10.4	-8.2
EPS (sen)	4.6	4.2	5.5
EPS growth (%)	-49.6	-8.5	31.1
DPS (sen)	2.3	1.3	1.6
BVPS (RM)	35.8	39.4	39.4
PER (x)	31.3	34.2	26.1
PBV (x)	4.0	3.6	3.6
P/NTA (x)	4.5	4.0	4.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	3.24	1.80	2.35



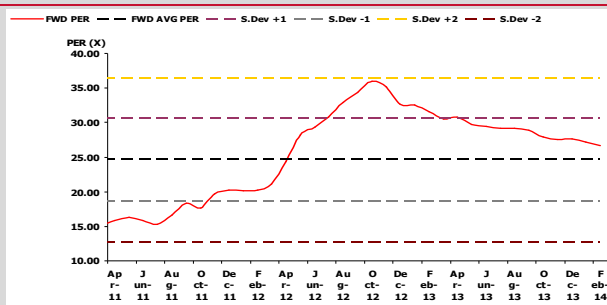
14 August 2014

## Result Highlight

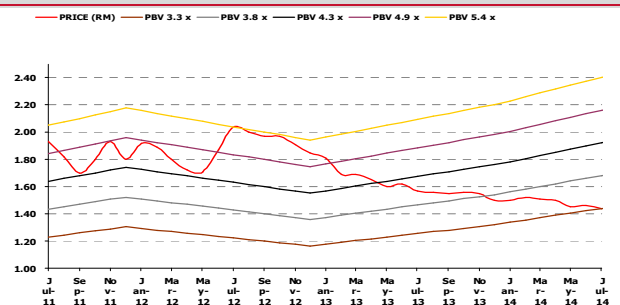
	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
Y/E : Dec (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	61.8	61.5	0%	57.9	6.7%	123.3	113.7	8.4%
EBIT	8.1	8.6	-5%	17.9	-54.7%	16.7	19.2	-12.9%
PBT	7.6	8.1	-6%	17.9	-57.4%	15.7	19.1	-17.9%
Tax	(0.9)	(0.9)	-3%	(0.8)	13.3%	(1.8)	(1.1)	62.0%
<b>Net Profit (NP)</b>	<b>6.7</b>	<b>7.1</b>	<b>-6%</b>	<b>17.5</b>	<b>-61.4%</b>	<b>14.0</b>	<b>18.5</b>	<b>-24.5%</b>
FD EPS (sen)	1.0	1.0	-7%	2.5	-61.5%	2.0	2.6	-24.2%
EBIT margin	13.1%	14.0%		30.9%		13.6%	16.9%	
PBT margin	12.3%	13.1%		30.9%		12.7%	16.8%	
NP margin	10.9%	11.6%		30.2%		11.3%	16.2%	
Effective tax rate	-11.9%	-11.5%		-4.5%		-11.7%	-5.9%	

Source: Company, Kenanga Research

## Fwd PER Band



## Fwd PBV Band



Source: Bloomberg, Kenanga Research

14 August 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.**

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