

# SEG International

## Admission Uncertainty

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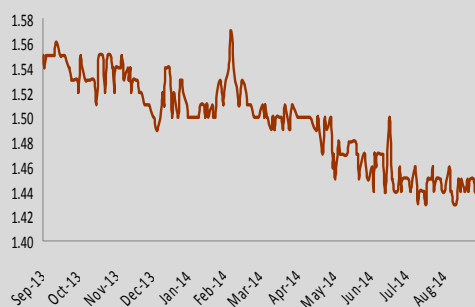
- News**
- Recent press recently highlighted that the Education Ministry announced that high school leavers are no longer able to use their forecast Sijil Pelajaran Malaysia (SPM) results as admission qualification for pre-university or foundation programmes from January 2015 onwards.
- Comments**
- We are neutral on this news as the issue is not new which has been highlighted previously. According to the management's understanding on the circular, there is no clear clarification on whether the forecast results are prohibited from being used for confirmed admission or conditional admission as well.
  - Management does not expect any impact to its earnings for now in view of the nebulous policy, which takes time for the authority to iron out. For the time being, SEG will continue to allow students to use SPM forecast results as a medium of admission on a conditional basis with the SPM certification used for final assessment.
  - Having said that, should the rule is enforced at the later stage, we believe the earnings impact to SEG is likely to be minimal, as its core classes generally begin after the confirmation of admission following the actual SPM results release.
- Outlook**
- We believe that SEG's outlook remains intact, as the Group is in the midst of expanding its higher-margin programmes, particularly their new online programs segment. Beside, SEG is also increasing its foreign student base by working with several overseas education agencies.
- Forecast**
- We are keeping our FY14-FY15 earnings forecast unchanged for now, pending management's further clarification of the circular with the higher authorities.
- Rating**                    **Maintain UNDERPERFORM**
- Valuation**
- Maintain TP at RM1.21 based on an unchanged targeted FY15E PER of 22.0x, to align with its peer, HELP International's privatisation forward PER of 21.7x.
- Risks to Our Call**
- Ruling does prohibit students from using forecast results for conditional admission.

# UNDERPERFORM ↔

Price: **RM1.45**

Target Price: **RM1.21** ↔

### Share Price Performance



KLCI	1846.34
YTD KLCI chg	-1.1%
YTD stock price chg	-3.3%

### Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	933.4
Issued shares	643.7
52-week range (H)	1.58
52-week range (L)	1.42
3-mth avg daily vol:	77,506
Free Float	21%
Beta	0.4

### Major Shareholders

PINNACLE HERITAGE SO	41.7%
CHII KOK HII	32.3%
AMBANK (M) BERHAD	4.6%

### Summary Earnings Table

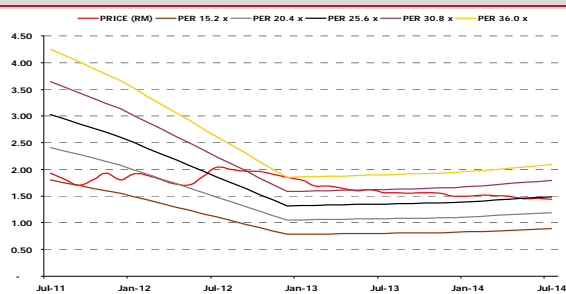
FY Dec (RM'm)	2013A	2014E	2015E
Turnover	236.8	262.3	276.5
EBIT	33.8	37.9	47.1
PBT	31.7	35.9	46.1
<b>Net Profit (NP)</b>	<b>33.0</b>	<b>30.9</b>	<b>41.5</b>
<b>Core NP</b>	<b>17.2</b>	<b>30.9</b>	<b>41.5</b>
Consensus (NP)			
Earnings Revision			
EPS (sen)	2.4	4.2	5.5
EPS growth (%)	-73.3	72.8	31.1
DPS (sen)	2.3	1.3	1.6
BVPS (RM)	0.4	0.4	0.4
PER (x)	59.8	34.6	26.4
PBV (x)	4.1	3.7	3.7
P/NTA (x)	4.6	4.1	4.1
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	3.2	1.8	2.3



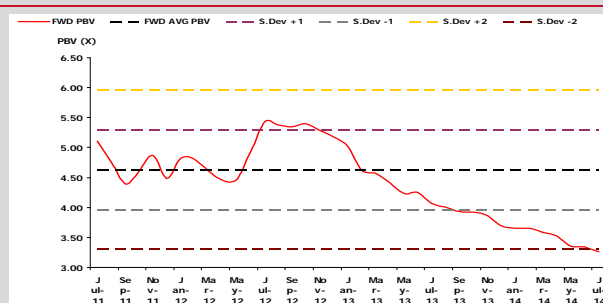
Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E	FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E
<b>Revenue</b>	278.3	284.9	236.8	262.3	276.5	<b>Growth (%)</b>					
EBITDA	98.0	79.1	45.5	50.9	60.8	Turnover	26.4%	2.4%	-16.9%	10.8%	5.4%
Depreciation	9.0	10.3	11.7	13.0	13.7	EBITDA	49.3%	-19.2%	-42.5%	11.8%	19.6%
Operating Profit	89.0	68.9	33.8	37.9	47.1	Operating Profit	53.3%	-22.6%	-51.0%	12.2%	24.4%
Other Income	22.8	18.0	0.0	18.0	18.0	PBT	55.2%	-22.5%	-53.6%	13.1%	28.4%
Interest Exp	0.7	0.5	2.1	2.0	1.0	Core Net Profit	58.6%	-16.6%	-71.5%	79.8%	34.5%
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	35.2%	27.8%	19.2%	19.4%	22.0%
PBT	88.2	68.4	31.7	35.9	46.1	Operating Margin	32.0%	24.2%	14.3%	14.4%	17.0%
Taxation	16.0	8.4	-0.7	5.0	4.6	PBT Margin	31.7%	24.0%	13.4%	13.7%	16.7%
Minority Interest	0.1	0.3	0.5	0.0	0.1	Core Net Margin	26.0%	21.2%	7.3%	11.8%	15.0%
<b>Net Profit</b>	<b>72.3</b>	<b>60.3</b>	<b>33.0</b>	<b>30.9</b>	<b>41.5</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>17.2</b>	<b>30.9</b>	<b>41.5</b>	ROE	24.9%	15.6%	9.1%	8.8%	13.0%
						ROA	39.2%	22.6%	12.8%	10.6%	13.9%
<b>Balance Sheet</b>						<b>DuPont Analysis</b>					
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E	Net Margin (%)	26.0%	21.2%	7.3%	11.8%	15.0%
Fixed Assets	111.6	170.9	192.4	218.8	189.1	Assets Turnover (x)	1.0x	0.7x	0.7x	0.7x	0.9x
Intangible Assets	28.0	28.0	28.1	28.1	28.1	Leverage Factor (x)	1.6x	1.4x	1.4x	1.2x	1.1x
Other FA	8.6	7.0	1.0	1.0	1.0	ROE (%)	39.2%	22.6%	6.8%	10.6%	13.9%
Inventories	0.0	0.0	0.1	0.1	0.1	<b>Leverage</b>					
Receivables	47.1	60.7	38.7	42.9	45.2	Debt/Asset (x)	0.0	0.1	0.1	0.1	0.0
Other CA	7.6	11.3	26.7	-54.2	-48.4	Debt/Equity (x)	0.0	0.2	0.2	0.2	0.0
Cash	87.2	108.3	68.1	114.7	105.3	Net Cash/(Debt)	-78.4	-60.3	-22.8	-67.8	-101.9
Total Assets	290.1	386.2	355.1	351.4	320.4	Net Debt/Equity (x)	-0.4	-0.2	-0.1	-0.2	-0.3
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	2.4	4.2	5.5
Other ST Liability	5.2	3.5	0.6	-1.3	-0.9	NDPS (sen)	6.8	4.8	2.3	1.3	1.6
LT Borrowings	5.0	45.3	44.2	44.2	0.7	BVPS (RM)	0.3	0.4	0.4	0.4	0.4
Other LT Liability	4.3	2.0	5.1	-35.4	-32.5	PER (x)	13.0	16.0	59.8	34.6	26.4
Minorities Int.	0.8	0.4	-0.1	-0.2	-0.2	Net Div. Yield (%)	9.8%	7.0%	3.3%	1.8%	2.4%
<b>Net Assets</b>	<b>184.5</b>	<b>267.3</b>	<b>253.4</b>	<b>290.4</b>	<b>297.7</b>	PBV (x)	5.1	3.6	4.1	3.7	3.7
Share Capital	139.7	166.2	167.1	182.5	203.3	EV/EBITDA (x)	8.8	11.4	22.1	19.7	16.4
Reserves	81.6	138.1	77.4	99.0	84.6						
<b>Equity</b>	<b>184.5</b>	<b>267.3</b>	<b>253.4</b>	<b>290.4</b>	<b>297.7</b>						
<b>Cashflow Statement</b>											
FY Dec (RM m)	2011A	2012A	2013A	2014E	2015E						
Operating CF	84.5	52.6	37.8	78.1	52.3						
Investing CF	(10.4)	(112.5)	26.4	(39.3)	(41.5)						
Financing CF	(50.4)	40.1	(65.0)	7.8	(34.2)						
Change In Cash	23.7	(19.8)	(0.7)	46.6	(23.4)						
Free CF	74.1	(21.4)	19.7	38.8	10.8						

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

30 September 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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