

19 November 2014

# SEG International

## 3Q14 Below Expectation

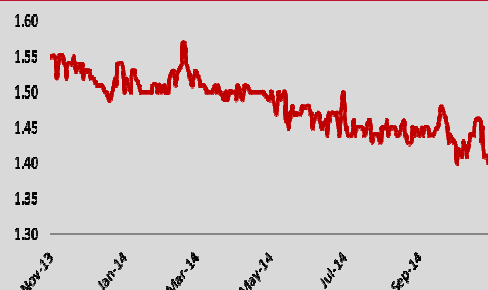
By the Kenanga Research Team | [research@kenanga.com.my](mailto:research@kenanga.com.my)

<b>Period</b>	▪ 3Q14/9M14
<b>Actual vs. Expectations</b>	▪ Below expectation. The group reported a net profit (NP) of RM4.7m (-24% YoY; -30% QoQ) in 3Q14, bringing its 9M14 NP to RM18.7m (-24% YoY) which made up only 61% of our full-year NP forecast. The key culprits were mainly due to: (i) the lower revenue recorded as there was only one intake in this quarter compared to two intakes in the previous quarter, and (ii) higher-than-expected fixed cost and administrative expenses.
<b>Dividends</b>	▪ No dividend was declared during the quarter as expected.
<b>Key Results Highlights</b>	<ul style="list-style-type: none"> <li>▪ <b>YoY</b>, the group's 9M14 revenue of RM183.3m improved by 5% due to the higher number of student enrolments. Its core PBT, meanwhile, rose by 98% (after stripping-off a one-off RM15.8m gain from the disposal of a piece of land at Kota Damansara in 9M13), mainly driven by: (i) lower distribution cost (where the group spent more in advertising to recoup higher number of graduating nursing students in 9M13) and (ii) higher other income (which we believe was mainly driven by higher hostel rental amid higher number of student enrolments).</li> <li>▪ <b>QoQ</b>, SEG's revenue dipped by 3% to RM59.9m, while EBIT declined to RM6.1m (-25%). The drop was mainly due to: (i) lower enrolment numbers as there was only one intake during the quarter as compared to two intakes last quarter, as well as (ii) the higher fixed cost incurred for the ongoing operations. The lower EBIT coupled with higher taxation rate led the group's core NP to weaken 30% to RM4.7m (2Q14: RM6.7m).</li> </ul>
<b>Outlook</b>	<ul style="list-style-type: none"> <li>▪ Moving into FY15, management intends to attract more foreign students through increasing its presence in the international scene by partnering with overseas education agencies. Meanwhile, we also understand that SEG intends to expand their courses offered in their online programs (PACE program) to widen its revenue stream.</li> <li>▪ The management is also planning to raise tuition fees in selective programmes, of c.10% (first time since 2012) to mitigate the upcoming GST impact. The hike is expected to more than offset the GST impact based on our preliminary analysis. Having said that, the actual GST impact is still vague at this juncture, given that detailed guidelines (to the education sector) have yet to be unveiled.</li> </ul>
<b>Change to Forecasts</b>	▪ Post-results, we have lowered our FY14-FY15E NPs by 19%-30% to RM24.9m and RM29.1m respectively, after: (i) lowering the average revenue per student to RM18.0k (from RM18.4k previously) and (ii) raising the administrative and marketing expenses in view of the group's aggressive market strategies.
<b>Rating</b>	<b>Maintain UNDERPERFORM</b>
<b>Valuation</b>	▪ We have lowered our SEG TP to RM0.85 from RM1.21 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.
<b>Risks</b>	<ul style="list-style-type: none"> <li>▪ Lower-than-expected foreign student enrolment.</li> <li>▪ Higher operating cost.</li> </ul>

# UNDERPERFORM ↔

**Price:** RM1.42  
**Target Price:** RM0.85 ↓

### Share Price Performance



KLCI	1818.38
YTD KLCI chg	-2.6%
YTD stock price chg	-5.3%

### Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	914.2
Issued shares	643.8
52-week range (H)	1.58
52-week range (L)	1.38
3-mth avg daily vol:	74,435
Free Float	21%
Beta	0.5

### Major Shareholders

PINNACLE HERITAGE SO	41.6%
CHII KOK HII	32.3%
AMBANK (M) BERHAD	4.6%

### Summary Earnings Table

FY Dec (RM'm)	2013A	2014E	2015E
Turnover	236.8	255.7	287.8
EBIT	33.8	30.4	35.0
PBT	31.7	28.4	33.0
<b>Net Profit (NP)</b>	<b>33.0</b>	<b>24.9</b>	<b>29.1</b>
<b>Core Net Profit</b>	<b>17.2</b>	<b>24.9</b>	<b>29.1</b>
Consensus (NP)			
Earnings Revision		-19.4%	-29.8%
EPS (sen)	2.4	3.4	3.8
EPS growth (%)	-73.3%	39.4%	13.7%
DPS (sen)	2.3	1.0	1.2
BVPS RM)	0.4	0.4	0.4
PER (x)	58.6	42.1	37.0
PBV (x)	4.0	3.7	3.9
P/NTA (x)	4.5	4.1	4.3
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	3.22%	1.44%	1.64%

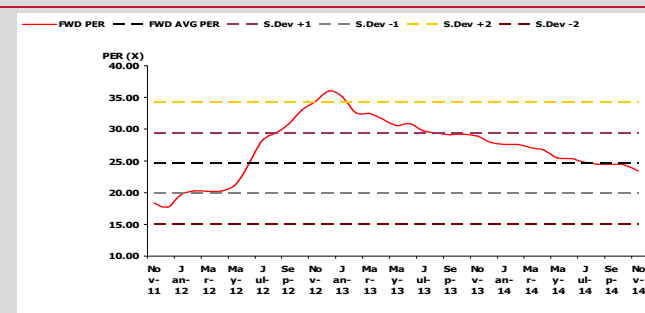
19 November 2014

## Result Highlight

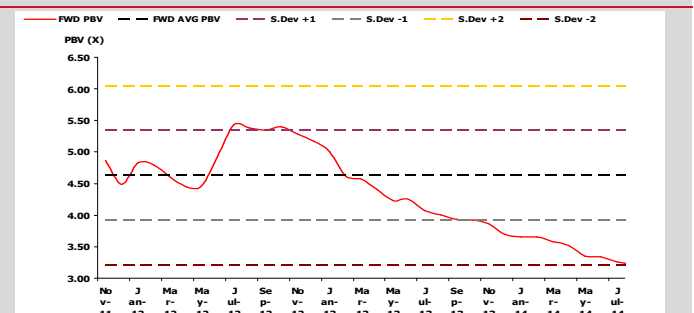
	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
Y/E : Dec (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	59.9	61.8	-3.1%	61.2	-2.1%	183.2	174.9	4.8%
EBIT	6.1	8.1	-25.2%	7.8	-22.1%	22.8	26.9	-15.4%
PBT	5.5	7.6	-27.8%	7.4	-25.8%	21.2	26.5	-20.1%
Tax	(0.8)	(0.9)	-6.8%	1.3	-164.6%	(2.7)	(2.5)	8.0%
<b>Net Profit (NP)</b>	<b>4.7</b>	<b>6.7</b>	<b>-29.7%</b>	<b>6.2</b>	<b>-23.6%</b>	<b>18.7</b>	<b>24.6</b>	<b>-24.1%</b>
FD EPS (sen)	0.7	1.0	-29.5%	0.9	-25.6%	2.6	3.5	-23.9%
EBIT margin	10.1%	13.1%		12.7%		12.4%	15.4%	
PBT margin	9.2%	12.3%		12.1%		11.5%	15.1%	
NP margin	7.9%	10.9%		10.1%		10.2%	14.1%	
Effective tax rate	-15.3%	-11.9%		17.6%		-12.6%	-9.3%	

Source: Company, Kenanga Research

## Fwd PER Band



## Fwd PBV Band



Source: Bloomberg, Kenanga Research

This section is intentionally left blank.

19 November 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

