

27 February 2015

SEG International

FY14 Below Expectation

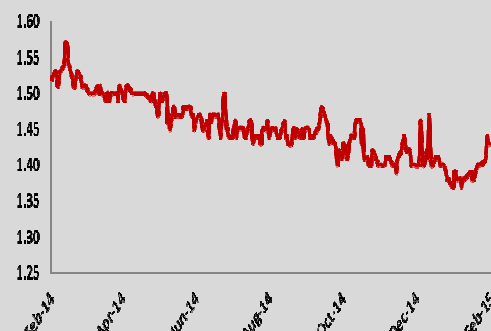
By the Kenanga Research Team | research@kenanga.com.my

Period	<ul style="list-style-type: none"> 4Q14/FY14
Actual vs. Expectations	<ul style="list-style-type: none"> SEG's FY14 core Net Profit (NP) of RM23.4m (+36.0% YoY) came in below expectation and accounted for 94% of our full-year estimate. The key negative deviation was mainly due to: (i) lower-than-expected student intake, and (ii) higher-than-expected administrative expenses and fixed cost.
Dividends	<ul style="list-style-type: none"> Above expectation. A 2nd interim dividend of 6.0 sen was declared, bringing its full-year DPS to 11.0 sen (vs 7.5 sen in FY13) which implied a payout ratio of c.323.5%.
Key Results Highlights	<ul style="list-style-type: none"> YoY, the FY14 turnover improved marginally by 2.2% to RM242.1m (vs RM236.9m in FY13), mainly due to: (i) higher foreign student intake in FY14 (Group experienced slowdown in international students intake in FY13 as a result of the new visa ruling implementation). Meanwhile, Group's core EBIT level rose by 48.3% to RM26.6m (after stripping-off a one-off RM15.8m gain from the disposal of land at Kota Damansara in 9M13), mainly driven by lower distribution cost (where the group were more aggressive in advertising to recoup its higher number of graduating nursing students in FY13). QoQ, SEG's revenue was marginally lower by 1.7% to RM58.9m as the 3Q traditionally has a stronger intake compared to 4Q. EBIT, meanwhile, declined to RM3.8m (-37%) due to the higher rental cost for its hostel. The lower EBIT coupled with tax rebate from foreign student revenue led the group's NP to stay flat at RM4.7m (3Q14: RM4.7m)
Outlook	<ul style="list-style-type: none"> The group is expecting to attract more students in FY15 through its marketing initiatives via partnering with overseas education agencies. Besides, SEG is looking to expand its courses offered via its online program (PACE program), which attracts higher margin (c.50% EBITDA margin) compared to traditional courses (c.30% EBITDA margin) to cater for the working class. Meanwhile, we expect the group's earnings to grow in FY15 driven by: (i) higher demand for its medical courses, and (ii) economies of scale from the streamlining of its operations and classes.
Change to Forecasts	<ul style="list-style-type: none"> Post-results, we have increased our FY15E earnings by 11.3% to RM32.4m after imputing: (i) higher revenue growth from the PACE program and medical courses, (ii) higher student intake, and (iii) lower fixed cost and administrative expenses assumptions in view of its recent streamlining exercise. Meanwhile, we also introduced our FY16E numbers.
Rating	Maintain UNDERPERFORM
Valuation	<ul style="list-style-type: none"> We have increased our SEG TP to RM0.97 (from RM0.85 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.
Risks to Our Call	<ul style="list-style-type: none"> Higher-than-expected foreign student intake. Lower operating cost.

UNDERPERFORM ↔

Price: RM1.46
Target Price: RM0.97 ↑

Share Price Performance



KLCI	1820.87
YTD KLCI chg	3.4%
YTD stock price chg	-0.7%

Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	984.4
Issued shares	674.2
52-week range (H)	1.58
52-week range (L)	1.35
3-mth avg daily vol:	119,072
Free Float	25%
Beta	0.4

Major Shareholders

PINNACLE HERITAGE	39.8%
CHII KOK HII	30.8%
AMBANK (M) BERHAD	4.4%

Summary Earnings Table

FY Dec (RM'm)	2014A	2015E	2016E
Turnover	242.1	289.4	318.0
EBIT	26.6	38.3	47.5
PBT	24.4	36.3	45.4
Net Profit (NP)	23.4	32.4	40.5
Core Net Profit	23.4	32.4	40.5
Consensus (NP)			
Earnings Revision		11.3%	
EPS (sen)	3.3	4.4	5.5
EPS growth (%)	35.2%	35.0%	25.0%
DPS (sen)	10.2	2.2	2.8
BVPS RM)	0.3	0.3	0.3
PER (x)	44.6	33.1	26.4
PBV (x)	4.7	5.1	4.3
P/NTA (x)	5.4	5.9	0.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	14.84%	3.22%	4.03%

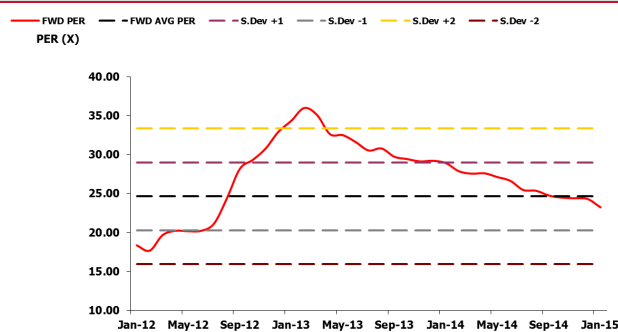
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Result Highlight

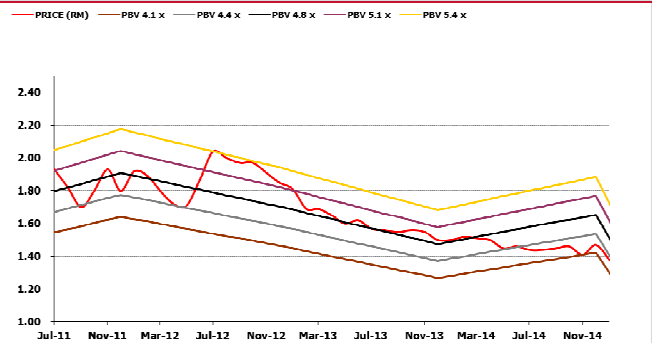
	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
Y/E : Dec (RM'm)	FY14	FY14	Chg	FY13	Chg	FY14	FY13	Chg
Turnover	58.9	59.9	-1.7%	62.0	-5.0%	242.1	236.9	2.2%
EBIT	3.8	6.1	-36.9%	6.8	-43.7%	26.6	33.8	-21.1%
PBT	3.3	5.5	-40.8%	5.2	-37.9%	24.4	31.7	-23.0%
Tax	1.4	(0.8)	-265.2%	3.2	-56.6%	(1.3)	0.7	-276.6%
Net Profit (NP)	4.7	4.7	-1.3%	8.4	-44.4%	23.4	33.0	-29.2%
FD EPS (sen)	0.7	0.7	1.5%	1.2	-42.4%	3.4	4.7	-26.7%
EBIT margin	6.5%	10.1%		11.0%		11.0%	14.3%	
PBT margin	5.5%	9.2%		8.4%		10.1%	13.4%	
NP margin	7.9%	7.9%		13.6%		9.6%	13.9%	
Effective tax rate	42.7%	-15.3%		61.1%		-5.3%	2.3%	

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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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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