PUBLIC INVESTMENT BANK

PublicInvest Research *Non-Rated Note* Tuesday, June 16, 2015

KDN PP17686/03/2013(032117)

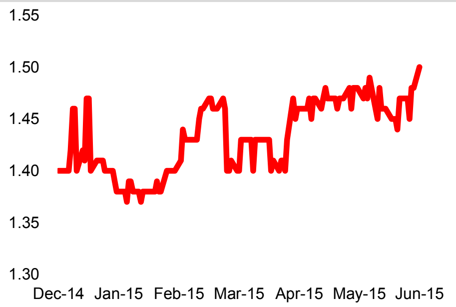
SEG International *Fair Value: RM1.86*

DESCRIPTION

An education provider that has a full University status with 6 campuses serving approximately 25,000 students currently.

Fair Value	RM1.86
Current Price	RM1.50
Market	Main
Sector	Education
Bursa Code	9792
Bloomberg Ticker	SYS MK
Shariah-Compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	RM1.35 – RM1.50
3-Month Average Vol ('000)	231.9

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	1.4	6.4	10.2
Relative Returns	6.6	10.8	4.1

KEY STOCK DATA

Market Capitalisation (RMm)	1,082.6
No. of Shares (m)	721.7

MAJOR SHAREHOLDERS

	%
Navis Capital Partners Limited	39.7
Tan Sri Clement Hii Chi Kok	30.8
Pelaburan Mara Berhad	0.9

Research Team
T 603 2268 3000
F 603 2268 3014
E research@publicinvestbank.com.my

Turning The Corner

Starting off as the Systematic Education Group back in the day and more synonymous with the Institute of Chartered Secretary and Administrators (ICSA) and London Chamber of Commerce and Industry (LCCI) qualifications, the Group has certainly come a long way since then, evolving and morphing over the years into an education sprawling over 6 campuses serving approximately 25,000 students currently. We came away from a recent meeting with management reinforced in our belief that the Group's fortunes are set for a turnaround following recent years' weaknesses, and will continue to thrive for years to come and prove itself an attractive value proposition. Downside is limited by an attractive (and possibly sustainable) dividend yield of 5%-7% while upside is at least RM1.86 per share based on a prospective EV/EBITDA multiple of 30x, the price at which the company was attempted to be privatized at by current controlling shareholders Navis Capital and Tan Sri Clement Hii.

- **Background of the company.** The origins of the company can be traced to its first centre in downtown Kuala Lumpur in 1977, as the Systematic Business Training Centre. 12 years later, the Group expanded into Penang. 18 later in 1995, the Systematic Education Group was listed on the KLSE Second Board. It was in 2001 when the Group moved onto the "next level" by merging with the PRIME Group which comprised the PRIME Colleges, MSC International College, Summit International College, IBMS College and IFPA Resources. The Group quickly rebranded as SEG International or SEGi to reflect its new entity and direction, cutting out the lower-end courses and shifting into the mid-market segment. With its listing transferred to the Main Board of Bursa Malaysia in 2004, signifying its growing financial strength, SEGi's main and largest campus, SEGi College Malaysia was opened in Kota Damansara (KD) in 2007. 2008 and 2012 were particularly momentous milestones for the Group, marking respective upgrades for the KD campus into University College and full University statuses.

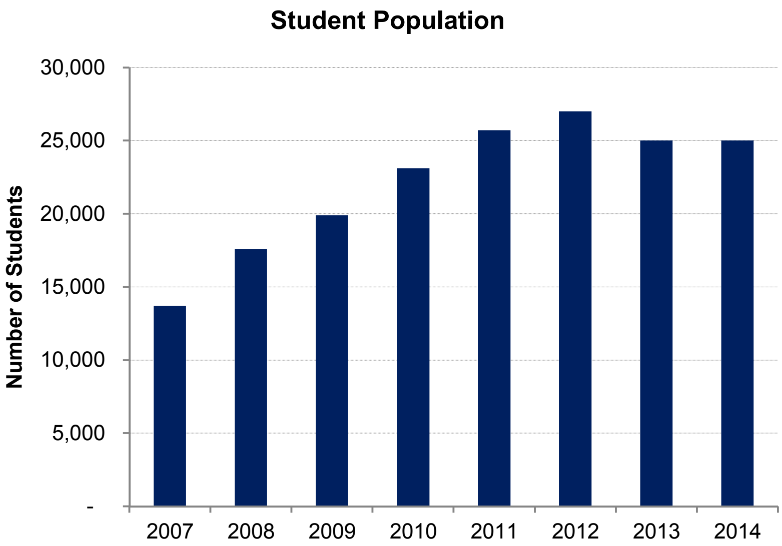
- **Student growth** at a compounded annual growth rate (CAGR) of 9% per annum over the last 7 from 2007 to 2014 is no small feat, particularly in light of ever-present competitive pressures from the steady stalwarts (the likes of HELP and Taylors) and the mushrooming of many other private institutions of higher learning. Offering a myriad of qualifications which include the Bachelor of Medicine, Bachelor of Surgery (MBBS), Bachelor of Dental Surgery and Doctor of Business Administration amongst others, the Group now sees 20% of its student population coming from over 80 countries, with the number expected to rise further to 25% within 3 years.

KEY FORECAST TABLE (RM m)

FY Dec (RM m)	2010A	2011A	2012A	2013A	2014A	CAGR
Revenue	217.6	278.3	284.9	236.8	242.0	2.7%
Pre-tax Profit	54.3	88.2	68.4	31.7	24.4	-18.1%
Net Profit	43.1	72.3	60.3	32.9	23.4	-14.2%
EPS (Sen)	8.7	14.1	10.2	5.4	3.6	-19.8%
P/E (x)	17.2	10.6	14.7	27.8	41.7	
DPS (Sen)	14.0	31.0	5.0	7.5	11.0	
Dividend Yield	9.3%	20.7%	3.3%	5.0%	7.3%	

Source: Company, PublicInvest Research estimates Note: 2010 standardized for 1-for-2 share split

Figure 1: Student Population



Source: Company, PublicInvest Research

Figure 2: University Partners

Source: Company, PublicInvest Research

Table 1: Campus Details

	Campus	Location	Capacity	Key Programmes
1	SEGi University	Kota Damansara	14,000	Health Sciences, Medicine, Optometry, Pharmacy , Dentistry
2	SEGi KL	Kuala Lumpur	7,000	Foundation to Masters degree in business, accounting, marketing
3	SEGi Subang	Subang Jaya	6,000	Childhood education, creative arts design, American Degree Program
4	SEGi Sarawak	Kuching	3,500	Management, accountancy, hospitality, law, information technology
5	SEGi Penang	Green Hall	3,000	Business, accountancy, marketing, human resource, mass communication
			33,500	

Source: Company, PublicInvest Research

Investment Merits

Right market segment. SEGi serves the masses in the low-to-mid market segment, providing a steadier stream of recurring income from its students. Unlike its peers Taylors and Sunway which serves the slightly higher-end market and which invariably sees its students depart for overseas destinations post completion of diploma, pre-university and/or foundation programs, the SEGi Group sees about 90% of its students completing their A-Z of education qualifications domestically, ensuring a steady income stream over 4 years at the very least.

Disproportionate gap in fee structure relative to its peers provide more **earnings upside** should the Group decide to close it. Typically only increasing its fees by 10%-20% every 2-3 years as and when it sees fit, the near-40% “discount” to its peers’ fee structure leaves it plenty of room for upside surprises. Additionally, ancillary income could also be a potential earnings boost. For instance, an RM100 processing/registration fee (a small amount any student wouldn’t mind paying given the fee structure gaps) charged to the 25,000 students could see RM2.5m (c. +10%) flow right through to its bottomline.

Current **weakening of the Ringgit benefits SEGi** in more ways than one. Firstly, it could increase its international student exposure in line with its plans of raising the number to 25% of total student population within 3 years. Foreign students will normally generate higher revenues given other “related” requirements apart from education services, like hostel and other miscellaneous charges. Secondly, the weakening also discourages local students from studying abroad thereby possibly encouraging stronger enrolment numbers in its in-house degree courses.

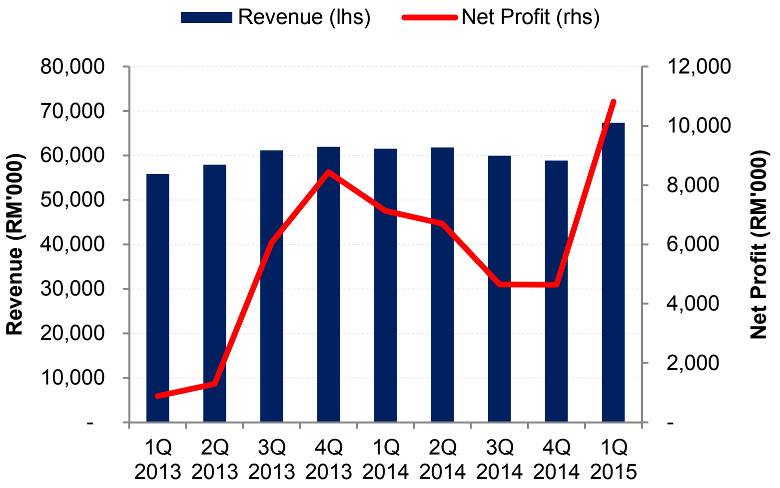
Scalability and profitability. With a 25,000 student enrolment (and room for more), fixed operational expenses like staff and advertising costs would be more than sufficiently covered, evidenced by its attractive pretax margins of 15%. Part of the 25,000 includes healthy numbers in the health sciences program, a pleasant surprise given that these degrees enjoy slightly more lucrative margins and are expected to improve overall profitability. Medicine’s 120 student quota, Dentistry’s 50, Pharmacy’s 50 and Optometry’s 60 have been filed.

Financials

Excluding the one-off RM15.8m land sale gain registered in 2013, net profits grew an admirable 53%, a pace at which it plans to maintain over the next 2 years. If its recent 1QF15 numbers are anything to go by, such a feat may not be impossible, underpinned by its sustainable student growth, higher margins from its growing international student population and lower effective tax rates.

With a cash pile of RM77m as at March 2015 (with another net RM50m expected post the sale of its land in Setia Alam) in addition to having an almost-negligible debt level, financial strength is in no question.

Figure 3: Summary Of Key Financials (Quarterly)



Source: Company, PublicInvest Research

What's obvious is that the Group has not stinged in paying out dividends, in some years even going up to >300% payout ratio. With earnings expected to strengthen in the years ahead, there certainly is scope for higher payments.

Table 2: **Dividend Payout (RM'000) and Payout Ratio (%)**

	2010	2011	2012	2013	2014
Payout for the year	17,587	173,195	33,244	50,127	72,620
Net Profit for the year	43,059	72,314	60,343	32,978	23,363
Payout Ratio (%)	40.8%	239.5%	55.1%	152.0%	329.6%

Source: Company, PublicInvest Research

Valuation

Benchmarks – Interesting to note that recent merger and acquisition activities have been in this particular education sector, demonstrating its appeal to investors. HELP International was privatized in 2014 at 30x its price-earnings multiple, an institution with 8,000 students at a value of RM359m. Inti Universal, on the other hand, was taken over by the Laureate Group at 20x its price-earnings multiple back in 2008 when it had just expended a huge amount constructing its new flagship campus in Nilai, a transaction valuing the company at RM239m. Fast forward to 2012, SEGi was attempted to be privatized at RM1.714 per share and RM1.214 per warrant by private equity group Navis Capital Partners, together with controlling shareholder Tan Sri Clement Hii, which failed incidentally.

What now? With the general offer then implying a price-to-book and EV/EBITDA multiple of 4.2x and 30x respectively, similar parameters would see SEGi valued at a conservative **RM1.86** per share today (and that only assumes Navis not making any gains other than dividend income over the recent 3 years, which is not a likely scenario).

PUBLIC INVESTMENT BANK BERHAD

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

DISCLAIMER

Published and printed by:
PUBLIC INVESTMENT BANK BERHAD (20027-W)
9th Floor, Bangunan Public Bank
6, Jalan Sultan Sulaiman
50000 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014
Dealing Line 603 2268 3129