

03 January 2017

SEG International Bhd

Reaching out for the stars

By Kenanga Research | research@kenanga.com.my

INVESTMENT MERIT

We are issuing a Not-Rated call on SEG with a FV of RM1.16 with a PER of 26.9x (from RM0.99, previously). SEG has been struggling the past two years as student enrolment rates tumbled c.17.4%. During a recent meeting, management guided us on its upcoming plans. However, we remain cautious with our FY16E/17E forecasts as we believe that improvements will not be seen immediately.

Improvements in 3Q16's results.. 3Q16 revenue increased by c.10% to RM71.0m, leading to a c.308% boost in its PBT to RM14.1m (from RM3.5m in 2Q16), recording the strongest PBT level in the past two years. This could be attributed to opening of new intakes, hence the slight increase in its student base. No dividend was declared this quarter which is in line with its historical trends.

...but, FY16 still a challenging year. 9M16 total revenue of RM200.1m increased marginally by c.3% (vs 9M15 revenue of RM193.8m) and despite recording a strong PBT in 3Q16, 9M16 PBT of RM22.9m tumbled by 15.2% from 9M15's PBT of RM27.0m due to poor enrolment rates. Earlier this year, management had expected its student base to increase from 23k to 26k. However, the results were disappointing as growth rates in the number of local students remain sluggish, possibly due to rise in living costs and competitions. Nevertheless, the increase in enrolment of foreign students cushioned the negative impact from the lack of enrolments from local students.

Gradually widening its international student base. With an aim to increase the numbers of international students from 5k to 10k (+100%) by FY17, SEG intends to recruit more agents worldwide while also leveraging on its close ties with the Chinese embassy to attract more students from China. While we see potential for expansion in its international student base, we remain conservative on the matter and adopt more conservative growth assumptions in our forecasts. At the same time, SEG also intends to raise facility fees on top of the additional administration fees to international students. In the meantime, SEG is also in the midst of applying to enter the "QS World University Ranking" table. Should the plan materialise, it could potentially polish its brand name and provide a competitive advantage against its competitors. However, this undertaking could incur additional expenses, dampening net earnings in the near term.

Going forward, we anticipate a stronger growth in enrolments of international students but lower contributions from local students as we believe that meaningful recovery would only be in sight with the turnaround in market sentiment. For FY16E/FY17E, we project a growth rate of c.-10%/+2.7% for local students and c.+11%/+20% for international students and coupled with the expected c.5% rise in facility fees imposed on international students, we foresee a 5.3%/12% jump in revenue, translating into a revenue of RM266.7m/RM299.4m. Despite the heavier marketing expenses and agent commission, we believe the company will be able to maintain its EBIT margin at c.10.5% for both FY16E/FY17E. Hence, our CNP estimates of RM27.0m/RM30.2m (YoY +13.1%/11.9%).

Not-Rated with a FV of RM1.16 based on a target PER of 26.9x over FY17E EPS of 4.3 sen. We revise our ascribed PER from 22.0x (in line with HELP privatization exercise Fwd. PER of 21.7x) to 26.9x as we believe the previous valuation may be obsolete as the exercise was performed several years ago. Our revised valuation is based on the -1SD over its historical 5-year average Fwd. PER which we believe is fair as we are cautious on the growth prospects of local student's intake following poor market conditions, though slightly mitigated by the growth potential in the international student market.

	Rating	FV
Last Price	-	RM1.15
Kenanga Consensus	Not Rated	RM1.16

Stock Information

Shariah Complaint	Yes
Stock Name	SEG International Bhd
CAT Code	9792
Industry	Education
YTD stock price chg	-16.67%
Market Cap (RM m)	830.0
Issued shares (m)	721.7
52-week range (Hi)	1.40
52-week range Low)	1.10
3-mth avg daily vol:	366.865
Free Float	27%
Beta	0.3

Major Shareholders

PINNACLE HERITAGE SO	37.1%
CHII KOK HII	32.1%
MAYBANK INV BANK BER	4.1%

Financials

FYE Dec (RM'm)	2015A	2016E	2017E
Turnover	253.2	266.7	299.4
PBT	26.8	30.1	33.7
CNP/(CNL)	23.9	27.0	30.2
Core EPS (sen)	3.4	3.9	4.3
BVPS (RM)	0.3	0.4	0.4
PER (x)	33.7	29.9	26.9
PBV (x)	4.4	4.8	5.1
Net Div. Yield (%)	5.1%	5.2%	5.2%

Quarterly Financial Data

	1Q16	2Q16	3Q16
Revenue	64.4	64.7	71.0
Rvn Growth (QoQ)	8.4%	0.5%	9.7%
PBT	5.3	3.5	14.1
PBT Margin	8.2%	5.4%	19.9%
Net Profit (NP)	4.8	3.0	12.7
EPS (sen)	0.7	0.4	1.7
EPS Growth (QoQ)	2133.3%	-34.3%	295.5%

Peers Comparisons	PER (FY17)	Div. Yld (%)	Mkt Cap (RM'm)
SASBADI	21.8	1.2	377.2
Pelangi Publishing	20.4	2.5	49.3
Average	21.1	1.9	213.3
FBMSC	23.0	2.8	-

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MAIN PARTNER UNIVERSITIES



BUSINESS OVERVIEW

Established since 1977, SEGI has been focused on ensuring that quality professional qualifications are provided. It was officially qualified to be a full-fledged university in 2012 and is positioned to design and introduce its own programmes. With nearly 4 decades of maturity, SEGI is poised for exponential and sustainable growth.

BUSINESS SEGMENTS/ACTIVITIES

SEGI currently has 5 full-fledged campuses located in Kota Damansara, Subang Jaya, Kuala Lumpur, Penang and Sarawak.

The group offers programmes in various disciplines such as business management and accountancy, medical sciences, pharmacy, creative design and art, computing and information technology, law and engineering.

SEGI also collaborates with several top notch international universities from UK, US and Australia to offer more choices of courses which provides an alternative channel for students to pursue a foreign degree course locally.

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 2626 Website: www.kenanga.com.my Email: research@kenanga.com.my



Chan Ken Yew
Head of Research

