

Corporate Highlights

Results Note

31 July 2012

SEG International

1H12 Net Profit Slightly Below Expectations

Share Price : RM2.02
 Fair Value : RM2.20
 Recom : **Outperform (Maintained)**

Table 1 : Investment Statistics (SEG; Code: 9792)

Bloomberg: SYS MK

FYE	Turnover	Net profit	FD EPS	Growth	PER	C.EPS*	P/NTA	Net Gearing	ROE	NDY
Dec	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)
2011a	278.3	72.3	9.7	15.3	21.2	-	5.8	0.0	33.7	6.2
2012f	333.0	87.3	11.7	20.7	17.6	13.0	4.6	0.0	34.9	3.4
2013f	409.8	111.5	14.9	27.8	13.8	16.0	3.7	0.0	36.6	4.4
2014f	485.5	124.3	16.6	11.5	12.3	19.0	3.0	0.0	33.6	4.9

Main Market Listing / Non-Trustee Stock / Syariah-Approved Stock By The SC

* Consensus Based On IBES Estimates

- ◆ **Below expectations.** SEGi's 2Q12 revenue of RM80.2m (+15.8% yoy; +3.0% qoq) and net profit of RM20.1m (+11.0% yoy, -8.1% qoq) brought 1H12 revenue and net profit to RM158m and RM42m respectively, that was slightly below expectations reaching only 44-45% of our and consensus full-year estimates. No dividend was declared during the period.
- ◆ **Hit by higher expenses during the quarter.** SEGi recorded higher revenue of RM80.2m during 2Q12, boosted by the growth in student enrolment and the introduction of new homegrown and partner programmes. However, cost of sales was higher during the quarter, and with other costs (i.e. administrative) being fixed in nature, EBIT margin was dragged lower to 31% (from 34.8% in 1Q12 and 33% in 2Q11). Net margin also declined to 25.1% during the quarter, from 28.1% in 1Q12 and 26.2% in 2Q11.
- ◆ **Acquiring an unquoted company.** In a separate announcement, SEGi announced that its wholly-owned subsidiary, SEG International Group S/B, had acquired the entire issued and paid-up capital of Bumi Intuisi S/B for RM2.00. The intended activity of the company is software development where its core business activity is to provide total online training solutions. We are positive on this news, as we believe that the acquisition is in line with SEGi's long-term expansion plans.
- ◆ **Risks.** These include: 1) Change in requirements set by the governing bodies; and 2) A change in policy by the Government might impact the eligibility criteria for students to obtain loans/scholarships; and 3) A change in policy by the Government might impact the eligibility criteria for foreign students to obtain student visas.
- ◆ **Forecasts.** We have revised our FY12-14 earnings downwards by 3.9-5.9% p.a after revising our student growth and cost assumptions.
- ◆ **Investment case.** We reiterate our **Outperform** call on SEGi, although we have reduced our fair value slightly to RM2.20 (from RM2.25), in line with our earnings revision. We value SEGi at 14.6x FY13 fully-diluted EPS, which is in line with RHBRI's target market PE of 14.6x one-year forward earnings. We believe that SEGi remains an attractive investment due to its long-term growth prospects.

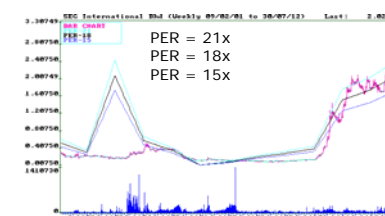
RHBRI	Vs. Consensus
√	Above In Line Below

Issued Capital (m shares)	559.1
Market Cap(RMm)	1,340.1
Daily Trading Vol (m shs)	0.8
52wk Price Range (RM)	1.65-2.16

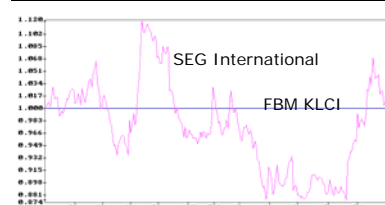
Major Shareholders:	(%)
Pinnacle Heritage Solutions	41.5
Dato' Clement Hii	24.9
Rexter Capital Sdn Bhd	5.0

FYE Dec	FY12	FY13	FY14
EPS chg (%)	(5.9)	(3.9)	(3.9)
Var to Cons (%)	(10.3)	(7.3)	(12.9)

PE Band Chart



Relative Performance To FBM KLCI



Please read important disclosures at the end of this report.

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Table 2: Quarterly Earnings

FYE Dec (RMm)	2Q FY11	1Q FY12	2Q FY12	QoQ (%)	YoY (%)	6M FY11	6M FY12	YoY (%)	Comments
Revenue	69.2	77.8	80.2	3.0	15.8	137.7	158.0	14.7	Stronger yoy growth in revenue was mainly due to the increase in student enrolment and introduction of new high-margin programmes.
Operating profit	22.9	27.1	24.9	(8.2)	8.8	46.1	52.0	12.7	
Net interest expense	(0.1)	(0.1)	(0.1)	(6.3)	(1.5)	(0.4)	(0.3)	(37.5)	
Associates	0.0	0.0	0.0	nm	nm	0.2	0.0	(100.0)	
Pre-tax profit	22.7	26.9	24.7	(8.2)	8.9	45.8	51.7	12.7	
Tax	(4.5)	(5.2)	(4.7)	(10.0)	4.2	(9.3)	(9.8)	5.3	Yoy income tax expense rose in tandem with the higher pre-tax profit.
Minority interest	(0.1)	0.1	0.0	(62.3)	>100	(0.3)	0.2	>100	
Net profit	18.1	21.9	20.1	(8.1)	11.0	36.3	42.0	15.9	Below expectations.
Margins (%)									
Operating profit	33.0	34.8	31.0			33.5	32.9		Yoy margin expansion is on the back of operating utilisation effect.
Pre-tax	32.8	34.6	30.8			33.3	32.7		
Effective tax rate	19.7	19.2	18.8			20.4	19.0		Effective tax rate remains below the statutory tax rate due to reinvestment allowances.
Net profit	26.2	28.1	25.1			26.3	26.6		

Source: Company, RHBRI

Table 3: Earnings Forecasts

FYE Dec (RMm)	2011	2012f	2013f	2014f
Turnover	278.3	333.0	409.8	485.5
Turnover growth (%)	27.9	19.6	23.1	18.5
EBIT	88.8	109.9	139.3	155.3
Net Interest	(0.7)	(0.8)	(0.8)	(0.9)
Associates	0.2	0.5	0.5	0.5
Exceptionals	0.0	0.0	0.0	0.0
Pretax Profit	88.2	109.6	139.1	155.0
Tax	(16.0)	(21.9)	(26.4)	(29.5)
Minorities	0.1	(0.4)	(1.1)	(1.3)
Net Profit	72.3	87.3	111.5	124.3

Source: Company, RHBRI estimates

Table 4: Forecasts Assumptions

FYE Dec	2012f	2013f	2014f
Number of students (in '000)	32.0	38.1	43.8
% of student growth	16.4	19.0	15.0
Average revenue per students (in '000)	10.4	10.7	11.0
% of average revenue per student growth	3.8	3.0	3.0

Source: Company, RHBRI estimates

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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