

27 June 2012

SEG International

Buying land for new school

OUTPERFORM ↔

Price: RM1.84
Target Price: RM2.19 ↔

- News**
- SEG has proposed to acquire 12 acres or 522,720 sq ft of vacant freehold commercial development land located within Mukim of Bukit Raja, Selangor from Bandar Setia Alam S/B, a wholly-owned subsidiary of S P Setia Bhd, for a total purchase consideration of RM52.2m or RM100.0 per square foot. The amount represents a 4.77% discount to the current market value as appraised by HB Malaysia, an independent valuer.
 - The rationale for the land acquisition is to build an international school given its strategic geographical location.
 - The acquisition will be funded through internally generated funds and/or bank borrowings, but the final financing structure has yet to be finalised at this juncture.
 - The Proposed Acquisition is expected to be completed within the fourth quarter of 2012 and the school is expected to commence operation at the end of 2015 upon completion.
 - Management is targeting the new facilities to be able to accommodate at least 3,000 students.

- Comments**
- We are positive on the group's future plan here which is targeted to penetrate into the international school category. This, in our view, could further enhance the group's reputation as well as getting it a new income source in the future.
 - We have yet to factor in the proposed land acquisition and any potential new revenue above from the proposed international school into our financial model at this juncture.
 - As of end-March 2012, SEG net cash position stood at RM33.7m.

- Outlook**
- The outlook for SEG remains positive supported by more new programmes to be introduced within this year (20-30 programmes) particularly from an increasing number of SEG University College's own homegrown programmes, which enjoy higher margins compared to its other programmes.
 - We believe SEG is still able to maintain its 50% dividend payout policy with this land acquisition.

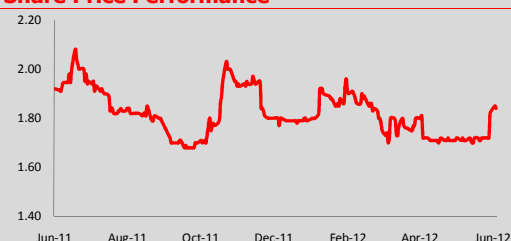
- Forecast**
- Our FY12 and FY13 forecasts remain unchanged at RM104.7m and RM127.0m respectively.

Rating **Maintain OUTPERFORM pending further information from the management regarding the land acquisition.**

- Valuation**
- Maintaining our SEG's fair value of RM2.19 based on a targeted FY12 PER of 12.5x (+1SD).

- Risks**
- A slowdown in student enrolments.

Share Price Performance



KLCI	1,594.10
YTD KLCI chg	4.1%
YTD stock price chg	2.2%

Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM'm)	1,220.5
Issued shares	663.3
52-week range (H)	2.09
52-week range (L)	1.65
3-mth avg daily vol:	1,085,719
Free Float	31%
Beta	0.8

Major Shareholders

PINNACLE HERITAGE SO	39.9%
HII CHII KOK	24.0%
REXTER CAPITAL SDN B	5.0%

Summary Earnings Table

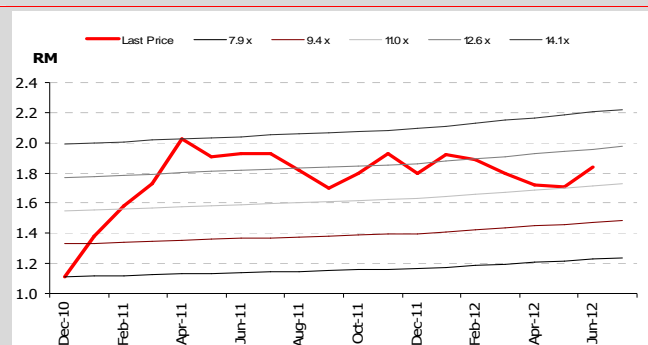
FYE Dec (RM'm)	2011A	2012E	2013E
Turnover	278.3	333.0	373.8
EBIT	66.2	100.0	120.0
PBT	88.2	129.3	156.8
Net Profit (NP)	72.2	104.7	127.0
Consensus (NP)	-	97.0	119.5
Earnings Revision	-	-	-
EPS (sen)	13.6	17.6	19.3
EPS growth (%)	53%	30%	10%
DPS (sen)	8.2	8.8	9.6
PER	13.6	10.5	9.5
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	4.5%	4.8%	5.2%

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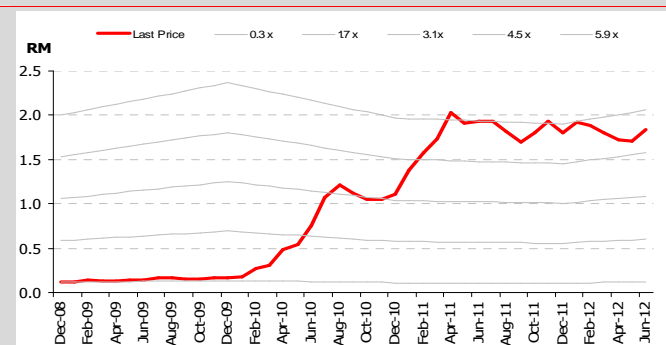
Income Statement						Financial Data & Ratios					
FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E	FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E
Revenue	166.4	217.6	278.3	333.0	373.8	Growth					
EBITDA	10.6	44.0	75.0	110.5	131.8	Turnover (%)	30.6%	30.8%	27.9%	19.6%	12.3%
Depreciation	6.1	7.4	8.8	10.5	11.8	EBITDA (%)	90.2%	316.4%	70.3%	47.4%	19.3%
Operating Profit	4.4	36.7	66.2	100.0	120.0	Operating Profit (%)	1386.9%	727.9%	80.4%	51.1%	20.0%
Other Income	11.9	18.9	22.8	29.6	37.0	PBT (%)	47.8%	271.9%	62.4%	46.5%	21.3%
Interest Exp	1.7	1.2	0.7	0.3	0.2	Net Profit (%)	39.9%	322.3%	67.0%	45.0%	21.3%
Associate	0.0	0.0	0.0	0.0	0.0	Profitability (%)					
Exceptional Items	0.0	0.0	0.0	0.0	0.0	EBITDA Margin	6.4%	20.2%	26.9%	33.2%	35.3%
PBT	14.6	54.3	88.2	129.3	156.8	Operating Margin	2.7%	16.9%	23.8%	30.0%	32.1%
Taxation	4.4	11.1	16.0	24.6	29.8	PBT Margin	8.8%	25.0%	31.7%	38.8%	41.9%
Minority Interest	0.0	0.0	0.0	0.0	0.0	Core Net Margin	6.2%	19.9%	25.9%	31.4%	34.0%
Net Profit	10.2	43.2	72.2	104.7	127.0	Effective Tax Rate	29.9%	20.4%	18.1%	19.0%	19.0%
Core Net Profit	10.2	43.2	72.2	104.7	127.0	ROA	4.7%	16.4%	24.9%	30.4%	30.8%
						ROE	6.0%	21.2%	39.1%	44.2%	42.3%
Balance Sheet						DuPont Analysis					
FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E	Net Margin (%)	6.2%	19.9%	25.9%	31.4%	34.0%
Fixed Assets	91.4	100.1	111.6	134.4	159.9	Assets Turnover (x)	0.8x	0.8x	1.0x	1.0x	0.9x
Intangible Assets	27.8	27.7	28.0	28.0	28.0	Leverage Factor (x)	1.3x	1.3x	1.6x	1.5x	1.4x
Other FA	15.3	13.1	8.6	8.6	8.6	ROE (%)	6.0%	21.2%	39.1%	44.2%	42.3%
Inventories	0.0	0.0	0.0	0.0	0.0	Leverage					
Receivables	40.1	37.6	47.1	56.4	63.3	Debt/Asset (x)	0.1	0.1	0.0	0.0	0.0
Other CA	7.6	5.8	7.6	11.6	14.1	Debt/Equity (x)	0.8	0.8	0.6	0.7	0.7
Cash	36.9	78.8	87.2	105.5	138.7	Net Cash/(Debt)	-12.2	19.3	-18.4	-2.1	26.4
Total Assets	219.1	263.0	290.1	344.5	412.6	Net Debt/Equity (x)	-0.1	0.1	-0.1	0.0	0.1
Payables	28.0	38.6	37.9	40.6	43.3	Valuations					
ST Borrowings	6.1	7.2	3.7	0.0	0.0	EPS (sen)	2.1	8.9	13.6	17.6	19.3
Other ST Liability	0.6	0.5	54.7	55.4	55.9	GDPS (sen)	0.4	0.5	8.2	8.8	9.6
LT Borrowings	12.5	10.8	5.0	5.0	5.0	NTA (RM)	1.6	1.4	1.1	1.5	1.9
Other LT Liability	1.9	2.5	4.3	6.6	8.0	PER (x)	43.3	20.8	13.6	10.5	9.5
Minorities Int.	0.8	0.9	0.8	0.8	0.8	Gross Div. Yield (%)	0.2%	0.3%	4.5%	4.8%	5.2%
Net Assets	170.0	203.5	184.5	236.9	300.4	P/NTA (x)	1.2	1.3	1.6	1.2	0.9
Share Capital	89.1	125.6	139.7	139.7	139.7	EV/EBITDA (x)	82.2	19.0	12.0	9.0	8.2
Reserves	80.1	77.0	44.1	96.4	159.9						
Equity	170.0	203.5	184.5	236.9	300.4						
						Cashflow Statement					
FY Dec (RM'm)	2009A	2010A	2011A	2012E	2013E	Operating CF	36.9	75.1	84.5	107.7	134.0
Operating CF	36.9	75.1	84.5	107.7	134.0	Investing CF	(11.5)	(8.7)	(10.4)	(33.3)	(37.4)
Investing CF	(11.5)	(8.7)	(10.4)	(33.3)	(37.4)	Financing CF	(27.9)	(14.9)	(50.4)	(56.1)	(63.5)
Financing CF	(27.9)	(14.9)	(50.4)	(56.1)	(63.5)	Change In Cash	(2.6)	51.6	23.7	18.4	33.1
Change In Cash	(2.6)	51.6	23.7	18.4	33.1	Free CF	25.4	66.5	74.1	74.5	96.6
Free CF	25.4	66.5	74.1	74.5	96.6						

Source: Company, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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 stock'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 stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : 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 are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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