

Kong Heng Siong
+60 (3) 9207 7666
hengsiong.kong@my.oskgroup.com

Corporate News Flash

SEG International

Navis Capital Steps in

THE BUZZ

SEG International (SEGi) announced that Navis Capital is now one of its major shareholders with 148.5m shares, or an effective 26.5% stake, following the disposals by previous shareholders Cerahsar SB, Segmen Entiti SB and Datuk Chee Hong Leong of their entire stakes in SEGi. As a result, Navis Capital is now SEGi's 2nd largest shareholder after Datuk Seri Clement Hii with 28.4% equity interest, or 158.8m shares, based on the number of outstanding shares issued of 559.3m.

OUR TAKE

An upside surprise. Earlier, we had speculated that the Malaysian Chinese Association (MCA) could be taking up a stake in SEGi and possibly injecting Universiti Tunku Abdul Rahman into the listed entity after a huge block of the company's shares changed hands off-market last Friday. Nonetheless, this Bursa announcement puts to rest our speculation. Having said that, we are positively surprised by the emergence of Navis Capital as the second single largest shareholder in SEGi as this marks the maiden entry of a private equity fund as a substantial shareholder into SEGi.

Background on Navis Capital. Navis Capital was founded in 1998 with its core focus on investments in growth-oriented buyouts in South and Southeast Asia. Having grown tremendously since its inception, the fund has today the largest professional private equity team in Asia of about 100 people in 7 offices across the region. It now manages some USD3bn in capital commitments, with its sole investment in the education sector previously being India's ITM Group of Institutions, which is an unlisted entity in which it invested USD30m in 2009.

Figure 1: SEGi's previous shareholders and their respective stakes

Shareholders	No. of shares (m)
Cerahsar SB	114.8
Segmen Entiti SB	33.5
Datuk Chee Hong Leong	0.2
Navis Capital	148.5

Source: OSK Research, Bursa

Transactions averaged RM1.71/share. According to the Bursa announcement, Navis Capital bought Cerahsar SB's and Segmen Entiti's entire holdings of 114.8m and 33.5m shares respectively at RM1.71/share in off-market deals that concluded yesterday. Datuk Chee Hong Leong, who is a shareholder in Segmen Entiti as well as SEGi's existing Non-executive Director, also sold off his direct stake of 0.2m shares in the company to the private equity fund at the same price.

EDUCATION

BUY ↔

Fair Value **RM2.17**

Previous **RM2.17**

Price **RM1.80**

Shariah Compliant **YES**

General Offer unlikely for now. In a separate announcement, SEGi introduced 2 new non-executive directors, being Nicholas Rupert Heylett Bloy (one of the three founders of Navis Capital) and Tan Chow Yin, a partner and investment committee member of Navis Capital's subsidiary, Navis Asia VI Management Co Ltd, replacing Datu Haji Putit bin Matzen, who is a shareholder in Cerahsar, and Foo San Kan. As there are no changes to the company's senior management for now, we expect the daily operations to continue to be led by current major-shareholder-cum MD Datuk Seri Clement Hii. The inclusion of Navis' representatives as non-executive directors also prompt us to believe that Navis Capital's stake acquisition in SEGi is purely a strategic investment and unlikely to involve a takeover offer at this juncture.

Acquisition PER of 14.2x appealing. At RM1.71/share, Navis Capital's entry cost translates into a FY12 PER of 14.2x or FY13 PER of 12.9x, at a total cost of some RM253.9m. We deem the valuation rather appealing given that SEGi's estimated earnings CAGR will be attractive 17.3% over the next 2 years while the potential dividend yield is 2.9% for FY12 and 3.6% for FY13. On top of these, SEGi remains the largest listed tertiary education provider in Malaysia offering some 100 programs and an existing student base of about 26k as of end-2011. We see huge potential for further growth as Malaysia progress towards becoming a high-income nation by 2020 given the country's subpar tertiary education rate of 30%. The average cost of RM1.71/share represents a slight discount of 2.8% over SEGi's last 5-day volume-weighted average price of RM1.76/share, which we deem fair.

Figure 2: SEGi's existing major shareholders and their respective stakes

Shareholders	No. of shares (m)
Datuk Sri Clement Hii	158.8
Navis Capital	148.5
Others (at <5% each)	252.0
Total outstanding shares	559.3

Source: OSK Research, Bursa

Figure 3: SEGi's existing warrant holders and their respective stakes

Shareholders	No. of warrants (m)
Datuk Sri Clement Hii	76.2
Navis Capital	61.1
Others	52.0
Total outstanding warrants	189.2

Source: OSK Research, Bursa

Duo to control 54.7% of SEGi upon full conversion of warrants. Although it was not mentioned in the Bursa filing, we understand that Navis Capital has most likely acquired about 61.1m outstanding warrants in SEGi at an average of RM1.21/warrant from Cerahsar and Datuk Chee Hong Leong in a separate off-market transactions. With Datuk Seri Clement Hii being the single largest warrant holder with about 76.2m warrants as of end-March, the two largest shareholders in SEGi would hold a combined 54.7% in SEGi upon full conversion of the company's warrants.

BUY. The emergence of a prominent name as SEGi's major shareholder should bolster trading interest in the company's shares. More importantly, the entry of Navis Capital signifies the underlying growth potential in SEGi, although we believe that a general offer is unlikely to be made at this juncture. Maintain BUY, at an unchanged FV of RM2.17, based on an unchanged 18x FY12 PER and a fully enlarged share base of 748.4m shares upon conversion of all the outstanding warrants.

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OSK RESEARCH SDN. BHD. (206591-V)*(A wholly-owned subsidiary of OSK Investment Bank Berhad)*

Kuala Lumpur	Hong Kong	Singapore
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	DMG & Partners Securities Pte. Ltd. 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Phnom Penh
PT OSK Nusadana Securities Indonesia Plaza CIMB Niaga, 14 th Floor, Jl. Jend. Sudirman Kav. 25, Jakarta Selatan 12920 Indonesia Tel : (6221) 2598 6888 Fax : (6221) 2598 6777	OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	OSK Indochina Securities Limited No. 1-3, Street 271, Sangkat Toeuk Thla, Khan Sen Sok, Phnom Penh, Cambodia Tel: (855) 23 969 161 Fax: (855) 23 969 171
Bangkok		
OSK Securities (Thailand) PCL 10 th Floor, Sathorn Square Office Tower, 98, North Sathorn Road, Silom, Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999		