SEG International ("SEG")

9M12 lower due to higher expenses

OUTPERFORM ↔

Price: RM2.00

Target Price: RM2.32 ↓

Period

- 3Q12/9M12

Actual vs. Expectations

- The 9M12 net profit of RM57.8m was below the street and our expectations and accounted for 56.8% and 60.8% of ours and the street's full year earnings estimates respectively. The group's 9M12 revenue meanwhile accounted for 70.4% and 69.1% of ours and the street's FY12 revenue estimates.

Dividends

- Declared a single tier interim dividend of 5 sen/share which will be paid on 8 January 2013.
- In line with SEG's future expansion plans, the group has revised its current dividend policy of a 50% payout to a discretionary policy, which will depend on the group's future cash flow ability.

Key Result Highlights

- **YoY,** the 9M12 revenue of RM232.3m increased by 12% mainly driven by 1) an increase in the number of local and overseas student enrolment, 2) more new courses launched by its overseas partner universities and 3) an increase in SEG's home-grown programmes. Nonetheless, the group's net profit only grew by a mere 6% YoY to RM57.8m due to certain maintenance works on the campus buildings, an increase in lease rental and also higher administrative expenses (+10.2%) e.g. salaries as a result of the faculties expansion after its flagship campus in Kota Damansara was upgraded to a full university status by MOHE in September.
- **QoQ**, the revenue was down by 7% to RM74.3m during the quarter due mainly to the higher number of graduating students in the quarter. The group's net profit, however, dipped by 22% to RM15.8m as a result of a lower EBIT margin of 26.4% (2Q12: 31.0%) from higher administrative and other expenses and a higher effective tax rate of 19.6% (2Q12: 18.8%).
- We are not surprise in the change of the group's dividend policy judging from its ambition to become an integrated education player (pre-school, high school and university education provider). It is planning to build an international school in Setia Alam in 2013, which could mean a higher capex will be needed by the group going forward.

Outlook

- Remains bright underpinned by more new programmes to be introduced within this year, particularly from an increasing number of its own home-grown programmes.

Forecasts

- Post-result, we have reduced our FY12 and FY13 revenue forecasts by 2.7% and 4.8% after lowering our student growth assumptions to 8% and 10% (from the previous 10% and 12%) respectively, similar to that of Malaysia's Private HEI student enrolments of 9-year CAGR of 8.0% (2001-2010).
- In addition, we also trimmed our FY12-FY13 net profit forecasts by 7.9% and 7.2% to RM93.8m and RM116.9m respectively after inputting a higher SG&A cost assumption in view of the growing administrative expenses.

Rating

Maintain OUTPERFORM

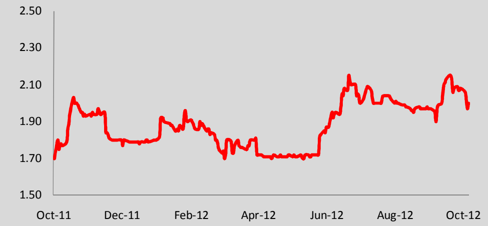
Valuation

- Lowered TP to RM2.32 (from RM2.45 previously) based on an unchanged +1SD Forward PER level of 13.7x (vs. 13.4x previously) over our FY13 EPS estimate of 17.0 sen.

Risks

- A reduction in its student enrolments.

Share Price Performance



KLCI	1,675.69
YTD KLCI chg	9.5%
YTD stock price chg	11.1%

Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	1,329.3
Issued shares	664.7
52-week range (H)	2.16
52-week range (L)	1.69
3-mth avg daily vol:	197,577
Free Float	31%
Beta	0.8

Major Shareholders

PINNACLE HERITAGE	39.9%
HII CHII KOK	23.9%
REXTER CAPITAL S/B	5.0%

Summary Earnings Table

FYE Dec (RM m)	2011A	2012E	2013E
Turnover	278.3	321.2	355.8
EBIT	66.2	88.7	112.9
PBT	88.2	115.7	144.2
Net Profit (NP)	**72.3**	**93.8**	**116.9**
Consensus (NP)		95.1	115.8
Earnings Revision		-7.9%	-7.2%
EPS (sen)	11.2	14.2	17.0
EPS growth (%)	65%	27%	20%
DPS (sen)	6.8	7.1	8.5
PER	17.9	14.1	11.8
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	3.4%	3.5%	4.2%

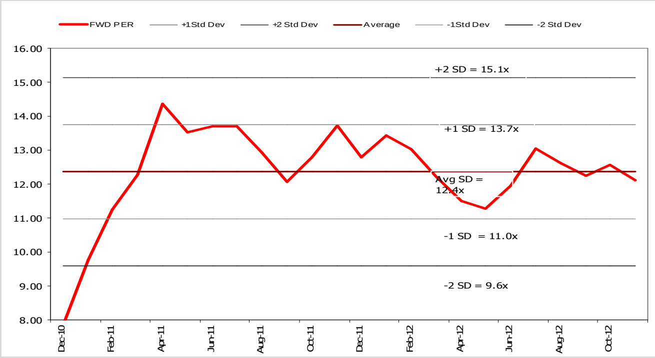
The Research Team
research@kenanga.com.my
+603 2713 2292

Result Highlight

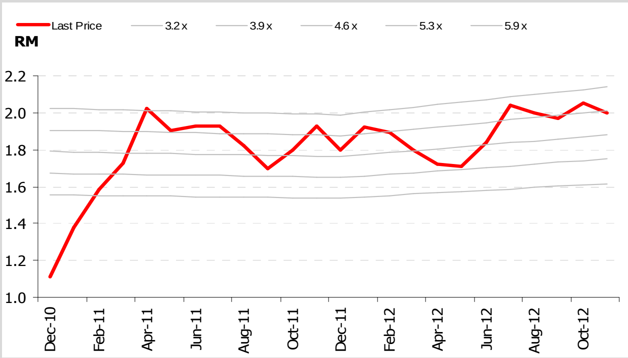
Y/E : Dec (RM'm)	3Q FY12	2Q FY12	QoQ Chg	3Q FY11	YoY Chg	9M FY12	9M FY11	YoY Chg
Turnover	74.3	80.2	-7%	70.0	6%	232.3	207.7	12%
EBIT	19.6	24.9	-21%	22.7	-14%	71.5	68.8	4%
PBT	19.5	24.7	-21%	22.5	-14%	71.2	68.4	4%
Tax	3.8	4.7	-18%	4.3	-11%	13.7	13.6	0%
Net Profit (NP)	15.8	20.1	-22%	18.3	-14%	57.8	54.6	6%
FD EPS (sen)	2.2	3.2	-30%	2.7	-19%	8.9	8.4	6%
EBIT margin	26.4%	31.0%		32.4%		30.8%	33.1%	
PBT margin	26.2%	30.8%		32.2%		30.6%	32.9%	
NP margin	21.3%	25.1%		26.2%		24.9%	26.3%	
Effective tax rate	19.6%	18.8%		19.1%		19.2%	19.9%	

Source: Company, Kenanga Research

Standard deviation forward PER



Forward PBV



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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KENANGA INVESTMENT BANK BERHAD (15678-H)
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com

Chan Ken Yew
Head of Research