

SEG International (SYS MK)

Consumer Non-cyclical - Education

Market Cap: USD298m

Sell (Maintained)

Target Price: MYR0.64

Price: MYR1.49

Earnings Disappoint

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	0.97m/0.30m
Cons. Upside (%)	36.9
Upside (%)	-57.3
52-wk Price low/high (MYR)	1.47 - 1.65
Free float (%)	30
Share outstanding (m)	643
Shareholders (%)	
Pinnacle Heritage	41.7
Dato' Seri Clement Hii	32.3
-	

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.7)	(1.3)	(2.0)	(2.6)	(6.9)
Relative	(1.2)	(2.1)	(4.5)	(7.2)	(11.9)

Shariah compliant

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SEGi reported 1Q14 results that were below our and consensus expectations, comprising only 17% and 18% of the full-year estimates respectively. This was mostly attributed to lower student intake and higher operating expenses. We maintain our cautious view on SEGi's near-term earnings, as the numbers have yet to recover. Maintain SELL, with our FV lowered to MYR0.64 (from MYR0.76).

- ◆ **Below expectations.** SEG International (SEGi) recorded MYR61.5m in 1Q14 revenue and a net profit of MYR7.2m, ie a 10.2% y-o-y and >100% y-o-y increase respectively. This was mainly attributed to higher student enrolments this year, as well as being hit by a high number of graduating students from its nursing programme last year. On a quarterly basis, however, revenue decreased 0.8% as a result of lower student intake. EBIT margin also contracted to 14% (4QFY13: 21.1%), owing to higher operating expenses. Thus, its 1Q14 earnings of MYR7.2m were dragged down by 13.1% q-o-q. This accounted for 17% of our full-year forecasts.
- ◆ **Outlook.** SEGi indicated that its foreign student numbers have recovered slightly, given its "Tier 5" status under Malaysia's institutions of higher education ranking system (SETARA). This has, to some extent, hastened the delays in the visa approval process. Nonetheless, we remain cautious on the positive incremental impact on the company's earnings, as we believe that it should take more time for SEGi's foreign student enrolment numbers to fully recover.
- ◆ **Forecasts and risks.** Given that results came in below expectations, we are revisiting our model and cutting our FY14/FY15 net profit forecasts by 19%/17%, to reflect lower student growth and higher opex assumptions.
- ◆ **Investment case.** Following our earnings downgrade, we adjust our FV lower to MYR0.64 (from MYR0.76), which is based on an existing 14x P/E. This is at a 50% discount to SEGi's average P/E of 30x. Note that its earnings have diminished by more than half compared to their peak in FY11-FY12. Maintain SELL.

Forecasts and Valuations	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover (MYRm)	278	285	237	302	321
Reported net profit (MYRm)	72.3	60.3	32.3	34.0	39.1
Recurring net profit (MYRm)	72.3	60.3	32.3	34.0	39.1
Recurring net profit growth (%)	67.9	(16.6)	(46.4)	5.2	15.1
Recurring EPS (MYR)	0.18	0.10	0.05	0.05	0.05
DPS (MYR)	0.02	0.10	0.05	0.07	0.02
Recurring P/E (x)	8.3	15.1	30.7	30.1	27.7
P/B (x)	4.53	3.26	3.42	3.22	3.03
P/CF (x)	8.7	12.1	29.4	21.7	20.2
Dividend Yield (%)	1.1	6.8	3.3	4.7	1.4
EV/EBITDA (x)	5.6	10.8	21.4	17.0	15.7
Return on average equity (%)	37.4	24.7	10.9	11.0	11.3
Net debt to equity (%)		net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)				(11.7)	(10.4)

Source: Company data, RHB estimates

Figure 1: SEGi's 1Q14 results review

FYE Dec (MYRm)	1QFY13	4QFY13	1QFY14	q-o-q (%)	y-o-y (%)	Comments
Revenue	55.8	62.0	61.5	(0.8)	10.2	Revenue increased on the back of higher student enrolments.
EBITDA	4.1	16.0	11.8	(26.3)	185.6	
<i>EBITDA Margin (%)</i>	7.4	25.8	19.2			
Depreciation	(2.8)	(2.9)	(3.2)	10.3	14.4	
EBIT	1.3	13.1	8.6	(34.4)	545.0	EBIT margins decreased q-o-q.
<i>EBIT Margin (%)</i>	2.4	21.1	14.0			
Interest expense	(0.0)	(1.6)	(0.5)	(66.9)	9,346.4	
Interest income	0.0	0.0	0.0	0.0	0.0	
Associates	0.0	0.0	0.0	0.0	0.0	
El/Others	0.0	0.0	0.0	0.0	0.0	
Pretax profit	1.3	11.5	8.1	(29.9)	507.8	
<i>Pretax Margin (%)</i>	2.4	18.5	13.1			
Tax	(0.3)	(3.2)	(0.9)	(70.9)	177.6	
<i>Effective tax rate (%)</i>	(25.2)	(27.8)	(11.5)			
Minority Interest	0.0	0.0	0.1	0.0	0.0	
Net Profit	1.0	8.3	7.2	(13.1)	626.8	Results came in below expectations due to weaker-than-expected student enrolment during the quarter, coupled with higher operating expenses.
Core Profit	1.0	8.3	7.2	(13.1)	626.8	
<i>Net Margin (%)</i>	1.8	13.4	11.7			

Source: RHB estimates

Financial Exhibits

Profit & Loss (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total turnover	278	285	237	302	321
Cost of sales	(69)	(80)	(77)	(85)	(96)
Gross profit	209	205	160	217	225
Gen & admin expenses	(115)	(124)	(120)	(160)	(162)
Selling expenses	(28)	(30)	(33)	(33)	(35)
Other operating costs	23	18	27	22	23
Operating profit	89	69	34	45	51
Operating EBITDA	98	79	45	58	66
Depreciation of fixed assets	(9)	(10)	(12)	(13)	(15)
Amortisation of intangible assets	(0)	(0)	-	-	-
Operating EBIT	89	69	34	45	51
Net income from investments	0	-	-	-	-
Interest expense	(1)	(0)	(2)	(3)	(3)
Pre-tax profit	88	68	32	42	48
Taxation	(16)	(8)	1	(7)	(9)
Minority interests	0	0	(0)	(0)	(0)
Profit after tax & minorities	72	60	32	34	39
Reported net profit	72	60	32	34	39
Recurring net profit	72	60	32	34	39

Source: Company data, RHB estimates

Cash flow (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Operating profit	89	69	34	45	51
Depreciation & amortisation	9	10	12	13	15
Change in working capital	(13)	12	(1)	0	(0)
Other operating cash flow	(1)	-	-	-	-
Operating cash flow	84	92	44	58	65
Interest paid	(1)	(0)	(2)	(3)	(3)
Tax paid	(15)	(15)	(8)	(7)	(9)
Cash flow from operations	69	76	34	47	54
Capex	(13)	(72)	(13)	(30)	(40)
Other investing cash flow	3	0	0	-	-
Cash flow from investing activities	(10)	(72)	(13)	(30)	(40)
Dividends paid	(44)	(53)	(64)	(17)	(20)
Proceeds from issue of shares	28	53	2	20	20
Increase in debt	(10)	41	(3)	6	8
Other financing cash flow	(25)	(0)	0	-	-
Cash flow from financing activities	(50)	41	(65)	9	8
Cash at beginning of period	79	87	108	68	94
Total cash generated	8	44	(44)	26	22
Implied cash at end of period	87	131	64	94	116

Source: Company data, RHB estimates

Financial Exhibits

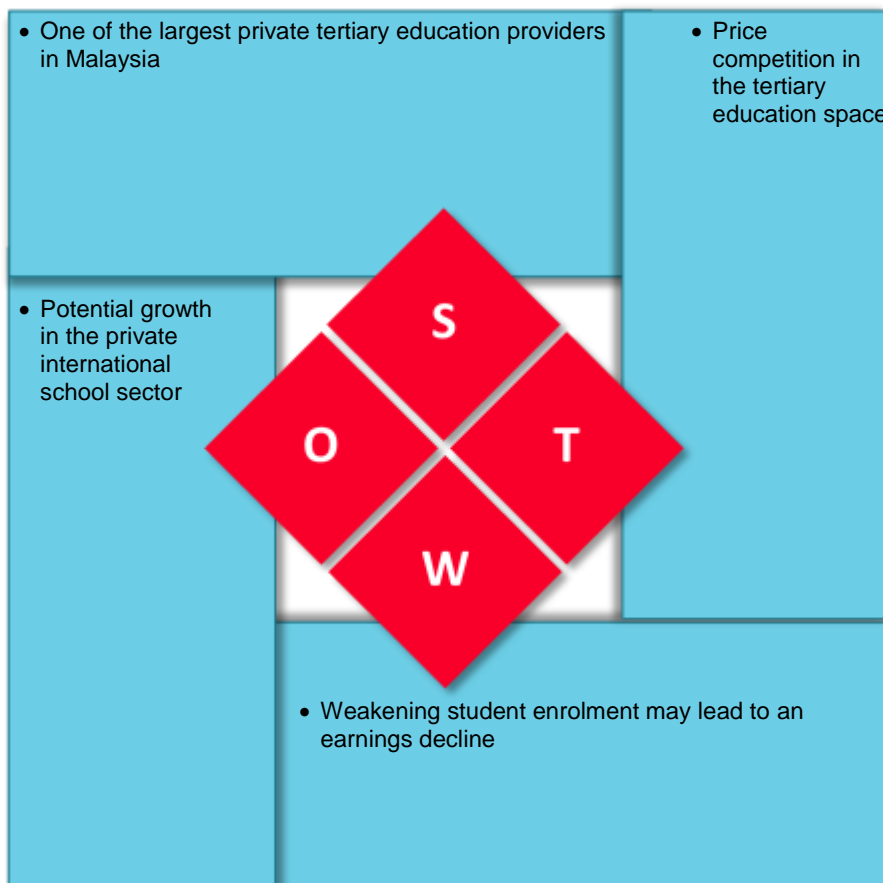
Balance Sheet (MYRm)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Total cash and equivalents	87	108	68	94	116
Accounts receivable	47	61	39	37	40
Other current assets	8	11	16	16	16
Total current assets	142	180	123	148	173
Tangible fixed assets	112	171	192	209	234
Intangible assets	28	28	28	28	28
Total other assets	9	7	8	8	8
Total non-current assets	148	206	228	245	270
Total assets	290	386	351	393	443
Short-term debt	4	3	1	1	1
Accounts payable	38	36	34	33	35
Other current liabilities	55	33	17	17	17
Total current liabilities	96	72	52	51	53
Total long-term debt	5	45	44	50	58
Other liabilities	4	2	2	2	2
Total non-current liabilities	9	47	46	52	60
Total liabilities	106	119	98	103	113
Share capital	140	166	167	177	187
Retained earnings reserve	44	138	124	151	181
Shareholders' equity	184	304	291	328	368
Minority interests	1	0	(0)	(0)	0
Other equity	-	(37)	(37)	(37)	(37)
Total equity	185	267	253	291	330
Total liabilities & equity	290	386	351	393	443

Source: Company data, RHB estimates

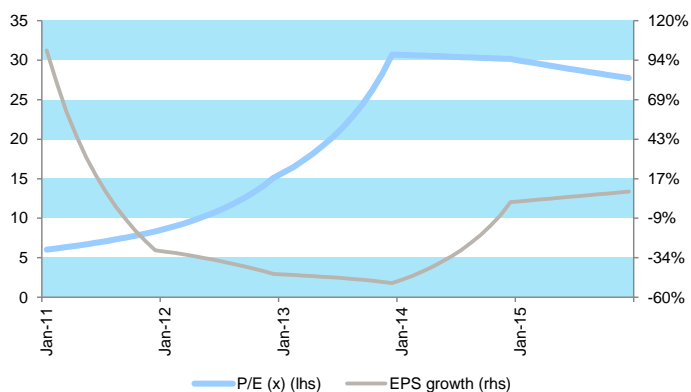
Key Ratios (MYR)	Dec-11	Dec-12	Dec-13	Dec-14F	Dec-15F
Revenue growth (%)	27.9	2.4	(16.9)	27.5	6.3
Operating profit growth (%)	61.4	(22.4)	(51.0)	32.2	14.0
Net profit growth (%)	67.9	(16.6)	(46.4)	5.2	15.1
EPS growth (%)	(29.4)	(44.8)	(50.8)	1.9	8.7
Bv per share growth (%)	(59.2)	39.2	(4.9)	6.4	6.1
Operating margin (%)	31.9	24.2	14.3	14.8	15.8
Net profit margin (%)	26.0	21.2	13.6	11.3	12.2
Return on average assets (%)	26.1	17.8	8.8	9.1	9.4
Return on average equity (%)	37.4	24.7	10.9	11.0	11.3
Net debt to equity (%)	(42.5)	(22.6)	(8.9)	(14.8)	(17.3)
DPS	0.02	0.10	0.05	0.07	0.02
Recurrent cash flow per share	0.17	0.12	0.05	0.07	0.07

Source: Company data, RHB estimates

SWOT Analysis

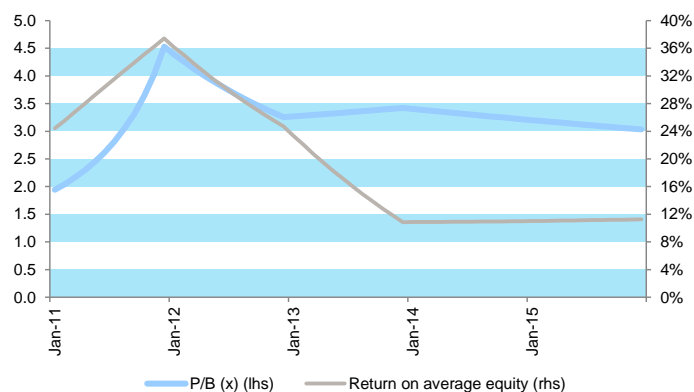


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE



Source: Company data, RHB estimates

Company Profile

SEG International is one of the largest private tertiary education providers in Malaysia by enrolment, with 28k students onboard as of June 2012.

Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2014-02-28	Sell	0.76	1.53
2013-11-19	Sell	0.76	1.54
2013-08-21	Sell	0.83	1.57
2013-05-20	Sell	0.96	1.60
2013-02-28	Sell	1.20	1.69
2013-01-16	Neutral	1.75	1.86
2012-07-31	Buy	2.52	2.04
2012-05-18	Buy	2.19	1.71
2012-02-29	Buy	2.17	1.89
2011-11-10	Buy	2.16	1.89

Source : RHB estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months
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