SEG International

Valuation Still Expensive

UNDERPERFORM ↔

Price: RM1.42
Target Price: RM1.21 ↑

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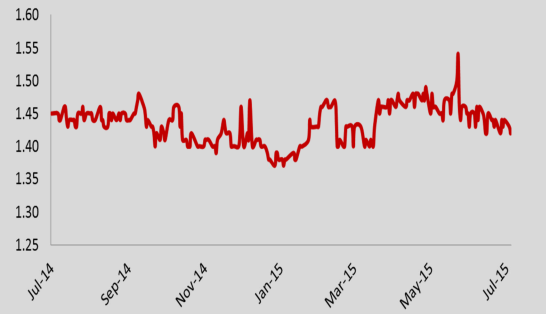
Period	▪ 2Q15/1H15
Actual vs. Expectations	▪ SEG's 1H15 net profit (NP) of RM18.8m came in above expectation, at 58% of our full-year forecast. There is no consensus estimates available for comparison purposes. ▪ Overall, the 2Q15 performance was mainly driven by better product mix and stronger demand for higher margin programmes.
Dividends	▪ It declared a first interim NDPS of 7.0 sen (ex-date: 17 Jun), translating into a payout ratio of 155%. This accounts for 64% of our full-year DPS forecast of 11.0 sen. While there is no indication from management whether they will be declaring a similar quantum (11.0 sen) as for the last financial year, we are maintaining our DPS forecast for now pending further guidance from the management. Moving forward, we expect the Group to declare a 3.0 sen DPS in FY16 based on a conservative 50% dividend payout ratio.
Key Results Highlights	▪ **YoY,** topline was up by 7.4% to RM132.4m mainly due to better student enrolments in higher-end programmes (such as higher level business courses and health sciences programmes). The Group's operating margin, meanwhile, also improved to 16.3% (vs. 12.7% in 1H14) underpinned by: (i) better product mix (which include the higher-margin online programs), and (ii) higher demand for its higher-end programmes. As a result, SEG's net profit surged by 34.6% to RM18.7m. ▪ **QoQ,** the 2Q15 revenue slipped by 3.4% to RM65.1m (vs. RM67.4m in 1Q15), mainly due to the weaker student enrolment given that 1Q traditionally has a stronger intake as opposed to the 2Q. EBIT dipped 30.6% to RM8.7m, no thanks to higher cost incurred as the Group is expanding its workforce. Weighed down by margin compression, the Group's net profit declined by 26.4% to RM8.0m.
Outlook	▪ The Group is expecting its 3Q15 to be stronger, given that the 3Q traditionally enjoys a stronger student intake compared to the 2Q. ▪ SEG continue to see more student enrolments underpinned by aggressive marketing of its online program (PACE program) to cater for the working adults community. The PACE program attracts higher margins (c.50% EBITDA margin) compared to the traditional courses (c.30% EBITDA margin). ▪ Meanwhile, we continue to expect the group earnings to grow in FY15 driven by: (i) stronger demand for its higher end programmes, and (ii) economies of scale from the streamlining of operations and classes.
Change to Forecasts	▪ We have increased our FY15 net profit forecasts to RM35.3m (+9.0%) after imputing improved margin assumptions.
Rating	**Maintain UNDERPERFORM** due to its rich valuation
Valuation	▪ Our TP is raised to RM1.21 (from RM0.97 previously) as we roll over our forecast to FY16E based on targeted PER of 22.0x, which is in line with its peer HELP International's privatization valuation of forward PER of 21.7x.
Risks	▪ Favourable change in higher education policy by MoE. ▪ Higher-than-expected foreign student intake. ▪ Lower operating cost.

Share Price Performance



KLCI	1710.47
YTD KLCI chg	-3.5%
YTD stock price chg	-3.4%

Stock Information

Bloomberg Ticker	SYS MK Equity
Market Cap (RM m)	1,058.6
Issued shares	745.5
52-week range (H)	1.54
52-week range (L)	1.35
3-mth avg daily vol:	132,875
Free Float	32%
Beta	0.4

Major Shareholders

PINNACLE HERITAGE	36.0%
CHII KOK HII	27.9%
MAYBANK INV BANK BHD	4.0%

Summary Earnings Table

FY Dec (RM'm)	2014A	2015E	2016E
Turnover	242.1	289.4	318.1
EBIT	26.6	41.0	47.5
PBT	24.4	39.0	45.5
Net Profit (NP)	**23.4**	**35.3**	**40.5**
Core Net Profit	**23.4**	**35.3**	**40.5**
Consensus (NP)		-	-
Earnings Revision		+9%	-
EPS (sen)	3.3	4.8	5.5
EPS growth (%)	35.2%	47.2%	14.8%
DPS (sen)	11.0	11.0	3.0
BVPS RM)	0.3	0.3	0.3
PER (x)	43.4	29.5	25.7
PBV (x)	4.6	5.2	4.3
P/NTA (x)	5.3	6.0	4.9
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Dividend Yield (%)	7.75%	7.12%	1.95%

Result Highlight

Y/E : Dec (RM'm)	2Q FY15	1Q FY15	QoQ Chg	2Q FY14	YoY Chg	6M FY15	6M FY14	YoY Chg
Turnover	65.1	67.4	**-3.4%**	61.8	**5.3%**	132.4	123.3	**7.4%**
EBIT	8.7	12.6	**-30.6%**	7.6	**14.5%**	21.5	15.7	**37.0%**
PBT	8.7	12.5	**-30.6%**	7.6	**14.5%**	20.6	15.7	**31.5%**
Tax	(0.7)	(1.2)	**-40.3%**	(0.9)	**-21.1%**	(1.9)	(1.8)	**3.9%**
Net Profit (NP)	8.0	10.8	**-26.4%**	6.7	**18.1%**	18.8	14.0	**34.6%**
FD EPS (sen)	1.2	1.5	**-24.3%**	1.0	**21.1%**	2.8	2.0	**39.6%**
EBIT margin	13.4%	18.7%		12.3%		16.3%	12.7%	
PBT margin	13.4%	18.6%		12.3%		15.6%	12.7%	
NP margin	12.2%	16.1%		10.9%		14.2%	11.3%	
Effective tax rate	-8.2%	-9.5%		-11.9%		-9.2%	-11.7%	

Source: Company, Kenanga Research

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Income Statement

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	284.9	236.8	242.1	289.4	318.1
EBITDA	79.1	45.5	40.4	57.5	65.6
Depreciation	10.3	11.7	13.8	16.5	18.1
Operating Profit	68.9	33.8	26.6	41.0	47.5
Other Income	18.0	0.0	18.0	18.0	18.0
Interest Exp	0.5	2.1	2.2	2.0	2.0
Associate	0.0	0.0	0.0	0.0	0.0
Exceptional Items	0.0	0.0	0.0	0.0	1.0
PBT	68.4	31.7	24.4	39.0	45.5
Taxation	8.4	-0.7	1.3	4.2	5.4
Minority Interest	0.3	0.5	0.2	0.5	0.5
Net Profit	**60.3**	**33.0**	**23.4**	**35.3**	**40.5**
Core Net Profit	**60.3**	**17.2**	**23.4**	**35.3**	**40.5**

Balance Sheet

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Fixed Assets	170.9	192.4	132.3	144.8	158.4
Intangible Assets	28.0	28.1	27.9	27.9	27.9
Other FA	7.0	1.0	58.2	58.2	58.2
Inventories	0.0	0.1	0.1	0.1	0.1
Receivables	60.7	38.7	28.5	34.1	37.5
Other CA	11.3	26.7	27.1	51.1	61.2
Cash	108.3	68.1	101.4	64.3	87.2
Total Assets	**386.2**	**355.1**	**375.5**	**380.4**	**430.5**
Payables	36.1	34.6	62.3	75.0	79.8
ST Borrowings	0.0	0.0	0.0	0.0	0.0
Other ST Liability	3.5	1.7	1.7	4.9	5.6
LT Borrowings	45.3	44.2	45.2	44.2	44.2
Other LT Liability	2.0	5.1	4.7	15.4	19.9
Minorities Int.	0.4	-0.1	-0.4	-0.9	-1.4
Net Assets	**267.3**	**253.4**	**221.1**	**200.4**	**240.4**
Share Capital	166.2	167.1	175.0	192.7	212.9
Reserves	138.1	77.4	28.6	-10.2	10.1
Equity	**267.3**	**253.4**	**221.1**	**200.4**	**240.4**

Cashflow Statement

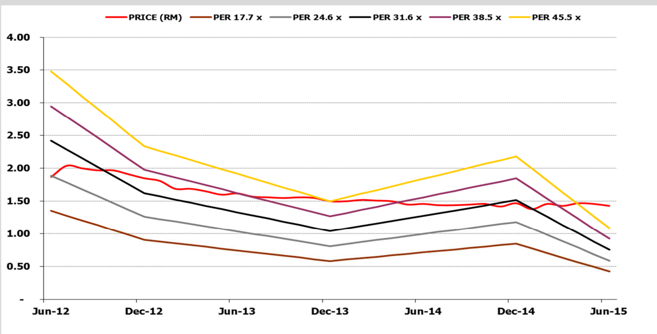
FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Operating CF	52.6	37.8	98.7	46.7	54.7
Investing CF	(112.5)	26.4	0.2	(28.9)	(31.8)
Financing CF	40.1	(65.0)	(55.0)	(54.8)	0.0
Change In Cash	(19.8)	(0.7)	43.9	(37.1)	22.9
Free CF	(21.4)	64.3	98.9	17.8	22.9

Source: Kenanga Research

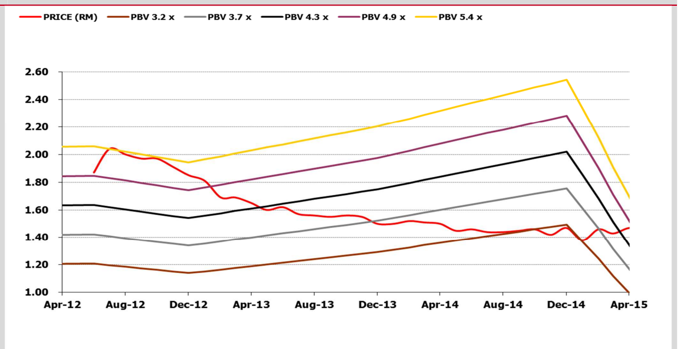
Financial Data & Ratios

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Growth					
Turnover (%)	2.4%	-16.9%	2.3%	19.5%	9.9%
EBITDA (%)	-19.2%	-42.5%	-11.1%	42.3%	14.1%
Operating Profit (%)	-22.6%	-51.0%	-21.1%	54.1%	15.7%
PBT (%)	-22.5%	-53.6%	-23.0%	59.9%	16.5%
Core Net Profit (%)	-16.6%	-71.5%	36.0%	51.1%	14.8%
Profitability (%)					
EBITDA Margin	27.8%	19.2%	16.7%	19.9%	20.6%
Operating Margin	24.2%	14.3%	11.0%	14.2%	14.9%
PBT Margin	24.0%	13.4%	10.1%	13.5%	14.3%
Core Net Margin	21.2%	7.3%	9.6%	12.2%	12.7%
Effective Tax Rate	12.2%	-2.3%	5.3%	10.8%	12.0%
ROA	15.6%	15.6%	4.8%	6.2%	9.3%
ROE	20.8%	7.2%	9.8%	18.5%	16.0%
DuPont Analysis					
Net Margin (%)	21.2%	7.3%	9.6%	12.2%	12.7%
Assets Turnover (x)	0.7x	0.7x	0.6x	0.8x	0.7x
Leverage Factor (x)	1.4x	1.4x	1.7x	1.9x	1.8x
ROE (%)	20.8%	7.2%	9.8%	18.5%	16.0%
Leverage					
Debt/Asset (x)	0.1	0.1	0.1	0.1	0.1
Debt/Equity (x)	0.2	0.2	0.2	0.2	0.2
Net Cash/(Debt)	60.3	22.8	55.1	17.4	40.2
Net Debt/Equity (x)	0.2	0.1	0.2	0.1	0.2
Valuations					
EPS (sen)	9.1	2.4	3.3	4.8	5.5
NDPS (sen)	4.8	6.8	10.2	10.1	2.8
BVPS	0.4	0.4	0.3	0.3	0.3
PER (x)	16.5	62.0	45.9	31.2	27.1
Net Div. Yield (%)	3.2%	4.5%	6.8%	6.7%	1.8%
PBV (x)	3.7	4.2	4.8	5.5	4.5
EV/EBITDA (x)	11.8	22.9	25.1	18.8	0.0

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 sector'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 sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector'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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