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HELP — grossly undervalued and expanding aggressively

LAST week, we took a look at HELP International Corp's (RM1.50) recent third-quarter (3Q)FY October 2009 (3Q09) results, which saw growth momentum accelerating further. Today, we take a look at the education company's expansion plans and underlying asset valuations.

HELP has consistently delivered double-digit earnings growth over the last few years, even during the recession. Indeed, its earnings have grown over 20% per year since 2006, and remain on track this year.

For FY October 2009, we expect net profit to rise 21.1% to RM14.3 million, or 16.1 sen per share. At RM1.50, the stock is trading at only 9.3 times FY09 earnings, and 8.5 times FY2010.

These valuations are very attractive for a company with strong and yet defensive, recession-proof earnings — and a solid brand name. Its underlying price-to-earnings (P/E) is much lower if we subtract the sizeable cash reserves, although much will be invested in the new campus.

HELP has a very strong balance sheet. Net cash stood at RM72.4 million in July 2009, as compared with a market capitalisation of RM133.2 million. This translates into a significant 82 sen per share — or 55% of the current share price of RM1.50.

Strong, understated balance sheet

HELP's present net trading asset (NTA) of RM1.02 per share is also severely understated.

The company's main property asset is Wisma HELP, an 11-storey building in the prime Damansara Heights suburb of Kuala Lumpur. The 29-year old building has 269,086 sq ft of built-up space on 43,292 sq ft of freehold land. This property is carried in its books at only RM32 million — or just RM119 psf for the built-up space.

Although the building is relatively old at 29 years, the valuation is far too low compared with current market prices of RM520-750 psf in the wider Damansara Heights, Bangsar and Mont' Kiara areas, as well as cur-

rent replacement costs.

As a comparison, an even older nearby building, the 37-year old Wisma Damansara was sold last year by HELP's parent, Selangor Properties, to a joint venture between Selangor Properties and E&O Property Devt for RM371 psf (the venture was later unwound due to the financial crisis).

If we place a conservative value of RM350 psf for Wisma HELP, we would arrive at a value of RM94.2 million for the building. Thus, the value of the building and cash alone would total RM168.8 million — or RM1.90 per share, or 27% above the current share price.

This implies — at the current share price — investors are getting HELP's other assets, including the underlying business, valuable franchises and strong branding built up for over 20 years, for effectively free.

Solid branding

HELP's strong branding has helped to expand its student population base, extend its presence overseas and increase the appeal of its own home-grown degrees awarded under the "HELP University College" banner.

From just 8,600 students in October 2007, HELP now has about 11,500 students, including 1,500 from HELP-ICT. This excludes over 1,000 students studying for HELP accredited courses overseas in Vietnam, Indonesia and China through franchising arrangements.

The company has been growing its student base through acquisitions and new branch campuses; organic growth and overseas tie-ups that are now featuring more strongly.

Fraser KL campus to open in early 2010

In November 2007, HELP acquired the loss-making HELP-ICT (the former Sepang Institute of Technology), giving it various new courses and a student base of about 1,500 students.

We understand the institute will be relocated to the new Fraser Business Park campus in downtown Kuala Lumpur, in line with branding the new

campus as a hub for vocational courses. This will also increase economies of scale at the new city campus.

The campus at Fraser Business Park will open in January 2010. HELP will lease space in the business centre, which can accommodate up to 5,000 students. It will cater largely for post-graduate, technical and vocational courses, including a wide range of new courses such as culinary, hospitality, performing arts, physiotherapy and others.

Subang campus to anchor longer-term growth

Further out, the longer-term expansion plans will centre on the Subang 2 campus in Sungei Buloh. Located on 23.3 acres, the land was acquired for just RM20 psf, or RM20.3 million, which is being finalised. The entire campus is expected to cost around RM100 million, including land cost. HELP hopes to start building next year.

The first phase, with 300,000 sq ft of built-up space will cost RM50 million, excluding land cost. This can be easily funded through annual cash flows, although it will take advantage of the current low interest rate regime. The full-fledged campus will support its application for full university status.

HELP's home-grown degrees, granted under the HELP University College brandname are also gaining popularity — not just locally but abroad as well. The company was awarded "University College" status in 2004, enabling it to design and award its own degrees. The shift towards more home-grown degrees has helped improve overall margins.

Overseas ventures faring well

HELP's overseas ventures in Vietnam, Indonesia, China and Saudi Arabia are also taking off well. Its ability to penetrate the international market is a strong testimony to its brand.

The overseas ventures involve a "franchise" or "twinning" like ar-

rangements with low risks and entry costs, but high international visibility and earnings potential. HELP provides software, syllabus, training,

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technical and academic support, without heavy investment in buildings or physical assets.

There are currently over 1,000 students studying overseas for HELP's degrees, most of them in Vietnam and some in Indonesia and China. It is also exploring opportunities in other parts of Indochina.

The Vietnam venture is the largest and involves twinning programmes with Vietnam National University in Hanoi. Under these arrangements, students will transfer to Malaysia after a year or two in Vietnam to obtain HELP or other accredited degrees.

Similar "twinning" arrangements are being done with several Indonesian and Chinese colleges, but on a smaller scale. We understand the company has also been invited to explore similar ventures in other parts of Indochina.

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Earnings forecast

YE Oct (RM m)	2007	2008	2009E	2010E
Turnover	61.7	86.5	91.1	102.0
Pre-tax profit	13.4	16.1	19.3	21.1
Net profit	9.7	11.8	14.3	15.6
EPS (sen)	10.9	13.3	16.1	17.6
P/E (x)	13.8	11.3	9.3	8.5
Dividend (sen)	3.0	3.0	3.0	3.0
Dividend yield (%)	2.0	2.0	2.0	2.0
Book value (RM)	0.82	0.93	1.06	1.20
Price/Book value (x)	1.82	1.62	1.42	1.25

HELP International Corp Bhd



Source: Bloomberg