by INSIDER ASIA/ASIA ANALYTICA

Perfect stock for uncertain times

HELP's earnings are recession-proof and its growth is robust and consistent

After last year's strong rally, it pays to be more cautious this year. While the global recovery will continue to unfold in the first half, growth may falter in 2H2010 as stimulus measures are withdrawn. That will put a lid on the global equities rally as more risks and concerns emerge.

With this in mind, stock-picking this year will be very challenging. Investors should not just look at valuations, but also the resilience of a company's underlying business if another slowdown emerges. In other words, investors are likely to gravitate towards defensive stocks — but preferably those with decent growth prospects and valuations, which unfortunately is a rare combination.

Education player HELP International Corp (RM1.85) is an attractive choice for this environment. Its earnings are recession-proof, yet it has robust and consistent double-digit growth, which is very unusual for a defensive stock. The stock trades at a low single-digit price-to-earnings ratio (PER), and below our revised net asset value (RNAV) and is backed by a strong cash-rich balance sheet.

HELP was highlighted in this column last September. Since then, the stock price has risen 20% to RM1.85. Financially, the company has performed much better than expected, which underscores its resilience and branding. Despite the severe recession, it posted a sterling set of final results for its October 2009 year-end, with net earnings surging over 30%.

At RM1.85, HELP's PER valuations remain very low at just 8.9 and 7.3 times for FY Oct 2010/11, well below the market's average of 15 times for 2010 and despite robust annual earnings growth of 20%. These valuations are very attractive for a company with strong fundamentals,

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balance sheet and branding, solid growth prospects and relatively resilient earnings.

The cost of a "twinning" programme at HELP is about a quarter that of a similar accredited degree obtained overseas, excluding expensive living expenses. The increasingly prohibitive cost of overseas education and HELP's strong brand and academic standing will continue to increase its student base, adding to its ability to increase fees in the future. This underscores the resilience of its earnings.

Strong performance in FY2009

For FY Oct 2009 — which captured the worst of the recession — HELP's pre-tax profit rose a better-than-expected 35.7% y-o-y to RM21.8 million on the back of an 11.6% rise in revenue to RM96.6 million. Net profit surged 31.1% to a new record of RM15.5 million, boosted by rising student enrolments, earlier scheduled fee increases and stronger margins.

HELP's pre-tax margins expanded from 18.6% to 22.6%. This was due to better cost-management efforts and a higher proportion of students studying for home-grown degrees — those awarded under the "HELP University College" banner, which reduced payments to external universities. Its profitability would have been higher if not for Klang-based HELP-ICT's continuing losses, although this has narrowed to RM2 million. The institute was acquired in November 2007.

The company's strong balance sheet strengthened further, with net cash of RM87.7 million in October. This is equivalent to a significant 99 sen per share — or 54% of the current share price. Its expansion plans, which include the new Subang 2 campus and the recent purchase of a hostel, can be easily funded from its large cash reserves and strong annual cash flows.

Robust growth ahead

HELP is on track for continued double-digit growth in FY2010/2011, anchored by rising student numbers and fee increases, the addition of its Fraser Park campus and cost savings from the recently announced acquisition of HELP Residence, which will be fully realised in FY2011.

HELP has a strong business model and brand name, which 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. It now has about 12,000 students in Malaysia and more than 1,000 students studying for its accredited courses overseas in Vietnam, Indonesia and China through franchising arrangements.

We expect net profit to rise 20% to RM18.5 million in FY2009 and 21% to RM22.4 million in FY2011, with earnings per share (EPS) of 20.8 sen and 25.2 sen, respectively. This places its PER at a low 8.9 and 7.3 times for FY2010/2011 earnings.

Its latest net tangible asset (NTA) of RM1.09 per share is also severely understated. The company's main fixed asset is Wisma HELP, an 11-storey building in Damansara Heights, Kuala Lumpur. The 29-year-old building has 269,086 sq ft of built-up space sitting 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, the valuation is far too low compared with current market prices of RM520 to RM750 psf in the Damansara Heights, Bangsar and Mont'Kiara areas, as well as current replacement and construction costs.

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 RM181.9 million — or RM2.05 per share, 8% above the current share price. That would be its revised NTA, if the property is eventually revalued upwards.

This also implies that at the current share price and up to RM2.05, investors are getting HELP's other assets, including the underlying business, valuable franchises, intellectual assets and strong branding built up for over 20 years, effectively free.

New campuses to anchor expansion

HELP's new campus at Fraser Business Park on Jalan Sungei Besi, Kuala Lumpur, will open in May this year. The company will lease 220,000 sq ft of space, which can accommodate up to 5,000 students. The campus will cater

EARNINGS FORECAST

YEAR-END OCT	2008	2009	2010E	2011E
Turnover (RM mil)	86.5	96.6	105.8	117.8
Pre-tax profit (RM mil)	16.1	21.8	25.2	29.9
Net profit (RM mil)	11.8	15.5	18.5	22.4
EPS (sen)	13.3	17.4	20.8	25.2
PER (x)	13.9	10.6	8.9	7.3
Dividend (sen)	3.0	3.0	2.0	2.0
Dividend yield (%)	1.6	1.6	1.1	1.1
Book value (RM)	0.93	1.09	1.27	1.51
Price/Book value (x)	2.00	1.70	1.45	1.23

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largely for postgraduate, technical and vocational courses, and will include a wide range of new courses such as culinary, hospitality, performing arts and physiotherapy. It will complement the existing Damansara Heights main campus.

Klang-based HELP-ICT will also move to the Fraser Park campus. This will give the new campus an instant base of about 1,500 students with economies of scale. More importantly, the move will make HELP-ICT's engineering, vocational and medical courses more appealing to Klang Valley students.

Further out, the longer-term expansion plans will centre on the flagship Subang 2 campus near Sungei Buloh. Located on 23.3 acres, the land was acquired for just RM20 psf or RM20.3 million.

The entire campus is expected to cost around RM100 million, including land cost. HELP hopes to receive approvals and start building later this year. The first phase, with 300,000 sq ft of built-up space, will cost RM50 million. This can be easily funded through annual cash flows. We expect the company to remain in a net cash position throughout the construction period.

The full-fledged campus will support HELP's application for full university status. It will also tie in with its regional expansion plans in making Malaysia a major hub for international students studying for its own home-grown and twinning degrees.

Hostel acquisition will boost earnings by 14%

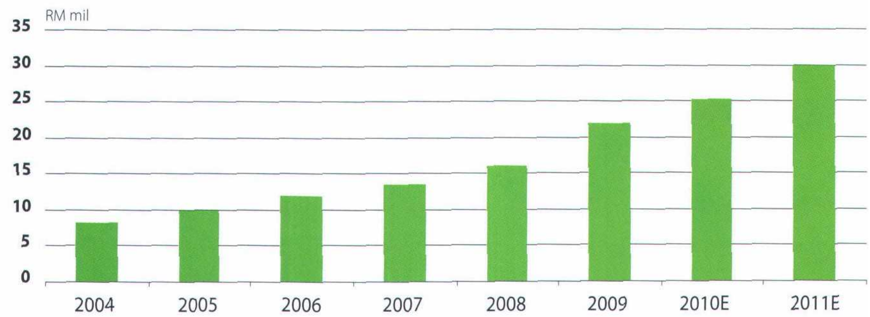
Last December, HELP proposed to buy the HELP Residence building, which is being used as its hostel, for RM50 million cash. The payment is staggered over five years. After the initial payment of RM5 million, the balance will be paid over 10 equal half-yearly instalments of RM4.5 million each, with an annual interest rate of 4% on the unpaid portion of the balance.

The two-year-old building along Jalan Damansara in Damansara Heights comprises a 21-storey hostel building with a four-level basement car-park. It has a gross floor area of 151,956 sq ft with 437 rooms and other facilities. The property is being rented by HELP at RM343,933 a month, or RM4.13 million a year.

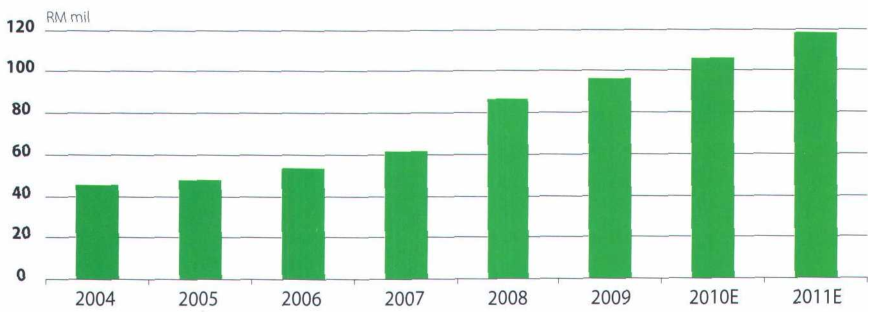
We view the acquisition positively. The purchase price appears fair, at the vendor's book value of RM50 million and RM329 psf, based on the gross area, which is roughly equivalent to current /replacement construction costs. The staggered payment will not place a strain on HELP's cash flow.

Most importantly, the purchase will enhance HELP's earnings significantly, by up to 14% in FY2011, as savings from rental far outweighs interest costs. The current annual rental of RM4.13 million translates into a rental yield of 8.25% for the vendor, as opposed to interest income of just 2% and 4% for the instalment payments. Thus, HELP's pre-tax earnings could increase by up to RM3.13 million a year from FY2011 onwards, which is equivalent to 14% of FY2009's earnings. ■

HELP'S PRE-TAX PROFIT



HELP'S REVENUE



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