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Education stocks shine

Their defensive qualities, growth prospects appreciated in volatile market

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KUALA LUMPUR: Malaysian education stocks are on a roll. The shares of SEG International Bhd (SEGi) and HELP International Corporation Bhd continued to rally, topping the gainers' list yesterday and adding to their already sizeable gains for the year.

Despite the weak broader market conditions, SEGi surged 22 sen or 11.2% to RM2.18 while HELP gained 29 sen or 7.7% to RM4.05.

After a lull over the last few years, investors have started to re-rate the

education sector for its defensive qualities and growth prospects.

The resilience of the private education players lies in the basic demand for quality tertiary education. This is juxtaposed against the increasingly prohibitive cost of overseas education and the limited places (and perceived quality issues) of public universities.

As a result, "twinning degrees" offered by private education players are highly popular — among

locals and foreigners — as they offer a cheaper route to an overseas accredited degree.

Increasingly, institutions with "university college" status like HELP are also producing their own degrees, which can expand to more unusual or specialised courses. These homegrown and higher-margin degrees are becoming increasingly popular and well accepted, not just locally but across the region.

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Malaysia fast becoming regional education hub

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HELP, for instance, has over 1,000 students in Vietnam studying for its homegrown degrees, and is also franchising its education to China and Indonesia. Thus, Malaysia is fast becoming an education hub for the region, a fact only recently appreciated

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by investors.

Masterskill listing a re-rating catalyst

The listing of Masterskill Education Group Bhd, a nursing and health education provider, on May 18 was without doubt a major re-rating catalyst for the sector. Investors were drawn to the size of the initial public offering (IPO), the largest since Maxis' relisting, as well as the presence of foreign investment banks. Goldman Sachs was the joint bookrunner and global coordinator, together with CIMB Investment Bank Bhd, which was the principal IPO adviser and underwriter.

Masterskill is one of just over a dozen IPOs listed this year to be trading above its offer price. The stock closed at RM4 yesterday, a shade lower than its all-time high of RM4.06, and up from its IPO price of RM3.80. Although its gains were better than most IPOs, they pale in comparison with those of SEGi and HELP, due to Masterskill's high initial IPO pricing. Ironically, it was the high IPO valuation that triggered interest in the other education stocks, as they come from a far lower base.

In mid-June, OSK Research initiated coverage on Masterskill and rated the stock neutral as it saw "limited upside from its current price". The research house valued Masterskill at 12 times PER (price-to-earning ratio) on a 12-month forward EPS and arrived at a fair value of RM3.80. However, OSK added that Masterskill benefited from being the hybrid of two defensive sectors.

"With private education deemed a necessity instead of a privilege, the education sector is resilient in that demand is not highly dependent on the general economic outlook. As a dedicated healthcare education provider, Masterskill is sitting pretty in this fast-growing and robust sector," OSK said in its report.

"With the demand for healthcare services expected to rise further in tandem with the growing and ageing population as well as greater awareness of healthcare, we believe the robust outlook for healthcare services will support demand for its courses."

Masterskill has a student population of about 17,000, according to its IPO report.

According to consensus forecasts, Masterskill is expected to earn 29.4 sen for FY10, which prices the stock's PER at 13.6 times.

SEGi surges, but is it overdone?

SEGi is the sector's — and indeed the market's — top-performing stock this year.

Yesterday's 22-sen surge to RM2.18 was a whopping 6.4 times its bonus and stock split adjusted price of just 33.8 sen at the end of last year. The price surge triggered a query from Bursa Malaysia Securities on June 24. Last week alone, the stock gained 22.5%, after it traded ex on July 12 for a 1-into-2 share split and 2-for-5 bonus issue.

Apart from the share split, bonus and warrant issues, which often appeal to retail investors but are not actually material in terms of stock valuation, it isn't clear what sparked the big rally, and whether it is sustainable.

Nonetheless, it is worth noting that the stock started garnering interest after a change in shareholding earlier this year, and a set of strong first-quarter results.

Two parties — Koperasi Pegawai-Pegawai Melayu Malaysia Bhd and EcoFirst Consolidated Bhd — had disposed of their investment stakes in SEGi and ceased to be substantial shareholders from February and April, respectively, just as the share price was starting its upward trend.

In the first quarter (1Q) ended March, SEGi's net profit jumped 42% year-on-year (y-o-y) to RM9.5 million on the back of a 25% y-o-y growth in revenue to RM54.8 million.

Investors should note that education companies' earnings are highly seasonal, depending on classes conducted. Indeed, SEGi posted a net profit of a mere RM54,000 in the final quarter of 2009. Still, the 1Q earnings were equivalent to almost its full-year net profit of RM10 million in 2009.

Sources told *The Edge Financial Daily* at the beginning of last week that there were no new material developments in the company as it had already updated the press after its AGM late last month.

At the AGM, CEO Lee Kok Cheng had told reporters that SEGi aimed to maintain double-digit growth in revenue for 2010, driven by additional courses which the government had just approved. Lee also attributed the company's strong share performance to the possible spillover effects of interest in education service providers since Masterskill's listing which had gained international investor attention.

SEGi has an student enrolment of about 20,000. The group, which attained university college status in 2008, has its main campus in Kota Damansara, and smaller premises nationwide, including in Kuala Lumpur, Subang Jaya, Penang and Sarawak.

SEGi is not on the radar screen of investors and is not covered by

analysts. It is trading on a historical PER of 50 times, based on 2009 earnings, although 2010 is likely to see better earnings, judging by its 1Q performance.

HELP — strong and steady

Tracking its peers, HELP International Corporation Bhd has also seen its share price soar. It was the fourth biggest gainer on Bursa yesterday, adding 29 sen to an all-time high of RM4.05. The share price has more than doubled this year, up 111% from its end-2009 close of RM1.92.

HELP has been expanding its market reach and exporting education to the region. The group, which gained university college status in 2004, is also leveraging on its branding and academic standing to boost its range of homegrown degrees.

It has over 1,000 students studying at the Vietnam National University for HELP-accredited degrees, and has established linkages with colleges in China and Indonesia, where it provides the courses, with no heavy capex outlay and minimal risks on its part.

At home, the education player is also expanding its market reach. It will open the Fraser Business Park campus in Kuala Lumpur and start work on the 20-acre Subang 2 full-fledged integrated campus later this year.

The Fraser Business Park campus, which can accommodate up to 5,000 students, will also offer vocational and other courses, including culinary arts.

HELP has consistently delivered double-digit profit growth in the last few years, unlike most of its peers like SEGi. At present, the education group has a student count of

about 12,000 at its main Damansara Heights campus and Klang campus, under HELP-ICT, which will be amalgamated into the new Fraser Business Park campus later this year. The student figure excludes those studying overseas for its accredited degrees.

OSK maintained its buy call on HELP in its report on July 15, raising its price target to RM4.30. The research house said HELP would be able to quicken its growth momentum as well as achieve its goal of becoming a leading education provider locally and abroad, supported by its strategic expansion plan.

"Based on 14 times price-to-earnings ratio on FY11 earnings per share plus a net cash value per share of 68 sen, we derive a higher target price of RM4.30 from RM3.58 previously," the report said.

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“We believe the potential corporate exercise involving the group could potentially provide short-term upside catalyst for HELP while its growth prospects will sustain its long-term upside catalyst,” it added.

A report by InsiderAsia in May also stated that HELP was a company with strong fundamentals, balance sheet and branding, solid growth prospects and relatively resilient earnings.

According to consensus forecasts, HELP is expected to record an EPS of 22 sen for FY10, which places the stock's PER at 18.4 times.

