

# Corporate Highlights

## New Coverage

# Education

Well Poised For Growth



RHB Research Institute Sdn Bhd  
A member of the RHB Banking Group  
Company No: 233327 -M

20 April 2011

Recom : **Overweight**  
(New Coverage)

Table 1 : Education Sector Valuations

	FYE	Price (RM)	Fair value (RM)	Core EPS (sen)		Core EPS GWTH (%)		PER (x)		EV/EBITDA (x)	P/NTA (x)	GDY (%)	Rec
				FY11	FY12	FY11	FY12	FY11	FY12				
Help	Oct	2.68	2.87	17.1	19.2	26.9	12.3	15.7	14.0	8.5	2.9	1.7	MP
SEGi	Dec	3.69	4.54	25.2	34.2	50.6	35.5	14.6	10.8	10.4	4.6	4.6	OP
<b>Sector Average</b>						<b>43.3</b>	<b>29.2</b>	<b>14.9</b>	<b>11.5</b>				

^FY11 & 12 refer to FY12 & FY13

◆ **Human capital is a key asset.** The Malaysian Government recognises the importance of education as a critical asset of the nation. It was identified as one of the services sub-sectors for further growth and development during the 2006-2020 Industrial Master Plan 3 (IMP3). Between 2007-2011, operating expenditure for education grew at a CAGR of 5.6%. In the 2011 Budget, education accounts for 24.5% and 21.1% of the Federal Government's operating and development expenditures respectively. The education sector contributed approximately RM27bn or 4% of Malaysia's gross national income in 2009, with RM23bn from Government-funded education services alone.

◆ **Growth in enrolment at private institutions outpaced public institutions.** Over the years, the enrolment of students in private institutions has outpaced public institutions, with a CAGR of 7% (from 2002-2010) vs. 5.6% for public institutions. In 2010, private tertiary institutions enjoyed a 48% share (vs. 41% in public institutions and 11% in polytechnics, community colleges and KTAR respectively) of student enrolments. Factors that contributed to the growth of private institutions include:

- 1) Quota system - While there is no quota system to enter Form Six, under the matriculation system only 10% of the places are open to non-Bumiputera students;
- 2) Language - Almost all private institutions use English as the principal medium of instructions;
- 3) Foreign students- Foreign students are an important element of total student enrolment. Between 2003-2010, the foreign student population rose at a 42% CAGR. 72% of foreign students are in private institutions;
- 4) Lack of capacity in public institutions; and
- 5) Rising affluence.

◆ **Risks.** These include: 1) Change in regulations set by the governing bodies; and 2) A change in policy by the Government might impact the eligibility criteria for students to obtain the loans/scholarships.

◆ **Investment case.** We believe the education sector is well poised for growth and remains as a critical driver for Malaysia's transformation into a high-income nation due to its impact on productivity and human capital development. Key growth drivers include: 1) increasing in number of students in both public and private institutions; 2) strong partnerships with leading universities from all over the world; and 3) increasing number of foreign students. We initiate coverage on **SEGi** and **Help**.

Relative Performance To FBM KLCI



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Overview On Malaysian Education System

- ◆ **Human capital is a key asset.** The Malaysian Government recognises the importance of education as a critical asset of the nation. It has been identified as one of the services sub-sectors for further growth and development in the Industrial Master Plan 3 (IMP3) period that runs from 2006-2020. Policy measures include enhancing the business environment, the quality and standards of education, promoting the export of education, increasing training capacity, promoting investments in education and training services, and enhancing total factor productivity.
- ◆ **Education accounts for 24.5% and 21.1% of Federal Government’s operating and development expenditures respectively.** Between 2007-2011, operating expenditure for education grew at a CAGR of 5.6%. In the 2011 Budget, education accounts for 24.5% and 21.1% of the Federal Government’s operating and development expenditures respectively. The education sector contributed approximately RM27bn or 4% of Malaysia’s gross national income in 2009, with RM23bn from Government-funded education services alone.

Chart 1. Federal Government’s Operating Expenditure On Education (from 2007-2011)

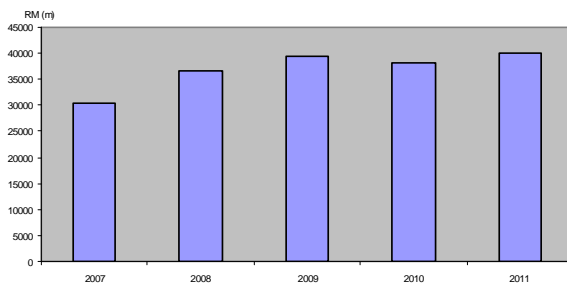
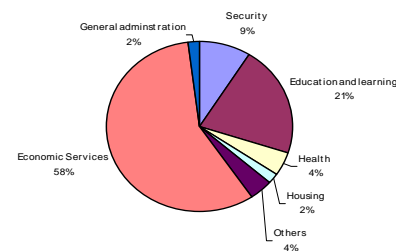


Chart 2. Breakdown Of 2011 Budget on Development Expenditure By Sector



Source: 2011 Economic Report By Ministry Of Finance, RHBRI

Source: 2011 Economic Report By Ministry Of Finance, RHBRI

- ◆ **13 EPPs to deliver RM19.0bn GNI.** Collectively, 13 Entry Point Projects (“EPP”) will contribute RM19bn in additional GNI towards the education sector’s targeted Gross National Income (“GNI”) contribution under the Economic Transformation Programme (“ETP”). Combined with an estimated RM14.3bn of GNI in business and baseline growth, the sector will have an overall target of RM60.7bn in GNI. As public sector growth is expected to be limited, this goal will require the private education sector to grow significantly. Consequently, an additional 535k jobs will be created, with the majority of them in professional and technical fields.

Chart 3. 13 EPPs under ETP

Entry Point Projects will expand education touchpoints by 2020

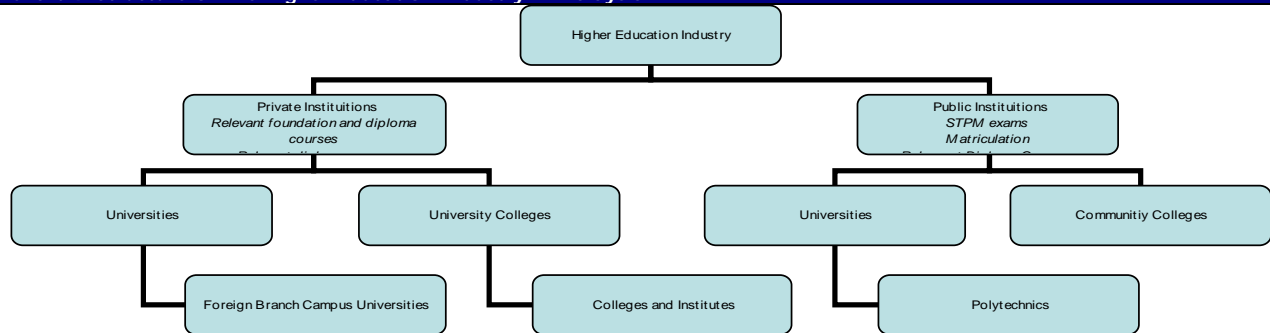
Education NKEA Entry Point Projects		Education Touchpoints (Thousands)		
		2010	Target 2015	Target 2020
Rapid Scale-Up	1. Scaling up early child care and education centres	321	553	857
	2. Improving early child care and education training	1	13	25
	3. Scaling up international schools	19	37	75
	4. Expanding private teacher training	0	3	10
	5. Scaling up private skills training provision	55	96	110
	6. Expanding international distance learning	7	46	161
Concentration	7. Building an Islamic finance and business education DC	2	12	54
	8. Building a health services discipline cluster	55	90	150
	9. Building an advanced engineering discipline cluster	0	12	34
	10. Building a hospitality and tourism discipline cluster	17	35	43
	11. Launching EduCity @ Iskandar	3	16	16
Demand Generation	12. Championing Malaysia’s international education brand	77	124	200
	13. Introducing public private partnerships in basic education	0	8	13

Source: Pemandu

**Tertiary Education In Malaysia**

- ◆ **Tertiary education overview.** At tertiary education level, institutions of higher learning offer courses leading to the awards of certificate, diploma, first degree and higher degree qualifications (at academic and professional fields). Malaysia’s Ministry of Higher Education (“MOHE”) is the governing authority for tertiary education in Malaysia, overseeing higher education institutions including public and private institutions, polytechnics and community colleges. According to MOHE, in 2010, there are over 20 public institutions, 49 private institutions, 27 polytechnics and 59 community colleges across Malaysia. Other government agencies involved in tertiary education under the MOHE include Malaysian Qualifications Agency (“MQA”) and the National Higher Education Fund Corporation (“PTPTN”). MQA is responsible for monitoring and overseeing the quality assurance practices and accreditation of national higher education institutions, while at the same time ensuring these institutions follow many of the procedures and standards established by the Lembaga Akreditasi Negara (“LAN”). LAN was established under the Parliament Act 1996 and is the quality assurance agency for private higher educational institutions.

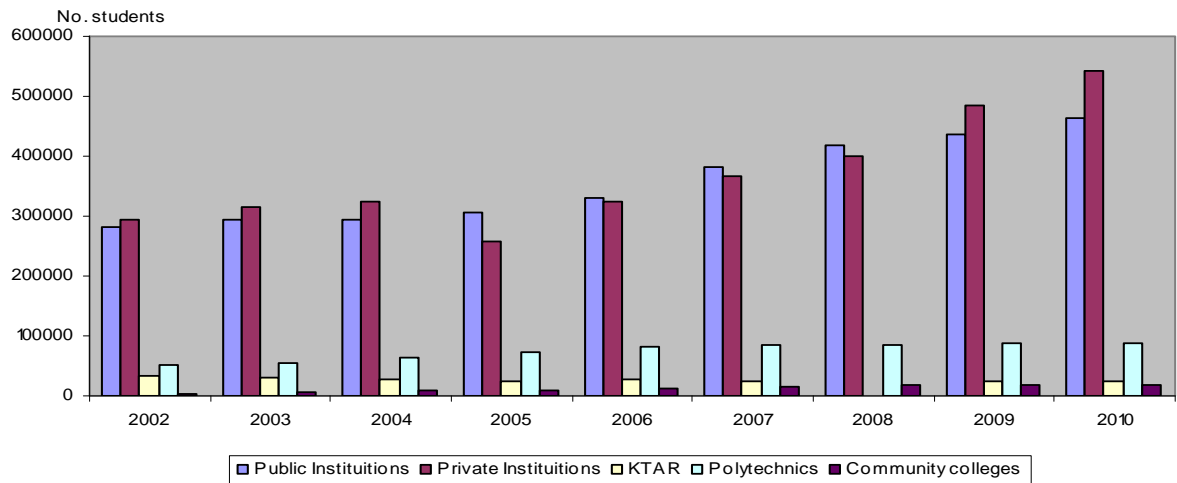
**Chart 4. Structure Of The Higher Education Industry In Malaysia**



Source: Ministry Of Higher Education, RHBRI

- ◆ **Enrolment of students in Malaysia achieved a CAGR of 6.1% (from 2002-2010).** Tertiary students’ enrolment in Malaysia rose at 6% CAGR between 2002-2010. In 2010, a total of 1,134,134 students were enrolled in the tertiary education institutions in Malaysia.

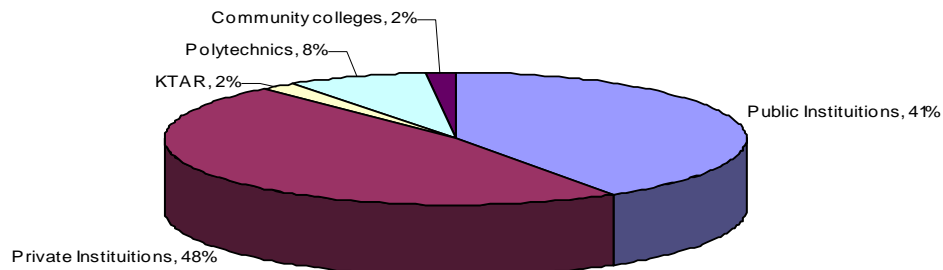
**Chart 5. Number Of Enrolments Of Students In Tertiary Education Institutions In Malaysia (2002-2010)**



Source: Ministry Of Higher Education, RHBRI

- ◆ **Growth in students' enrolment in private institutions has outpaced public institutions.** Following secondary schooling, student has the option to pursue their education in either public or private institutions. Under public institutions, school leavers had to complete either Form Six and sit for the Malaysian Higher School Certificate (STPM) or complete 12-month matriculation programme. While there is no quota system to enter Form Six, under the matriculation system only 10% of the places are open to non-Bumiputera students. As for students undertaking their pre-university studies in private colleges, they may opt for programmes such as the British 'A' Levels programmes, the Canadian matriculation programme or the equivalent of other national systems- namely the Australian NSW of Studies Higher School Certificate and American High School Diploma (SAT) in order to enter into renowned international universities around the world. Over the years, the enrolment of students in private institutions have outpaced the public institutions achieving CAGR of 7% (from 2002-2010) vs. 5.6% for public institutions. In 2010, private institutions commanded approximately 48% of student enrolments in tertiary education institutions.

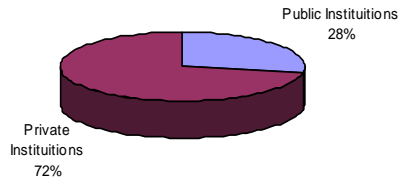
**Chart 6. Breakdown of Students Enrolments According To Tertiary Education Institutions**



*Source: Ministry Of Higher Education, RHBRI*

- ◆ **Language is a key consideration.** Bahasa Malaysia is the main medium of instructions in public institutions for undergraduate courses. This contrasts with the private institutions where almost all of the courses are taught in English for classroom teaching and learning. This has been one of the main drivers for the growth in private institutions. Studies have found that majority of graduates from public institutions fail to communicate effectively and competently in English and this has been a dampener for employers.
- ◆ **Ranks as the 11<sup>th</sup> largest exporter of education globally.** Malaysia is currently the 11<sup>th</sup> largest exporter of education globally thanks to the "value-for-money" proposition that the country offers on account of: 1) the use of English as the medium of instruction; 2) lower costs compared to Singapore; and 3) extensive tie-ups for twinning or credit transfer programmes, which allow a cheaper entry into other universities. Over the years, foreign students in Malaysia have risen at a CAGR of 42% (between 2003-2010). In 2010, private institutions have a 72% market share for foreign students, with the majority from People Republic of China. To encourage more foreign students to Malaysia, the Government has recently loosened certain regulations on foreign students (e.g. to further expedite the application process for foreign students). MOHE aspires to triple the foreign student enrolment to 200k by 2020 from 87k in 2010.

**Chart 7. Breakdown of Foreign Students Enrolments According To Public and Private Institutions.**



**Table 2. Top 10 Countries Of Foreign Students According To Public and Private Institutions.**

	Countries	Public	Private	Total
1	Iran	4,814	7,009	11,823
2	People Republic of China	2,168	8,046	10,214
3	Indonesia	3,769	6,119	9,889
4	Yemen	1,809	4,057	5,866
5	Nigeria	737	5,080	5,817
6	Libya	1,125	2,805	3,930
7	Sudan	596	2,241	2,837
8	Saudi Arabia	668	1,584	2,252
9	Bangladesh	538	1,503	2,041
10	Botswana	2	1,909	1,911

Source: Ministry Of Higher Education, RHBRI

Source: Ministry Of Higher Education, RHBRI

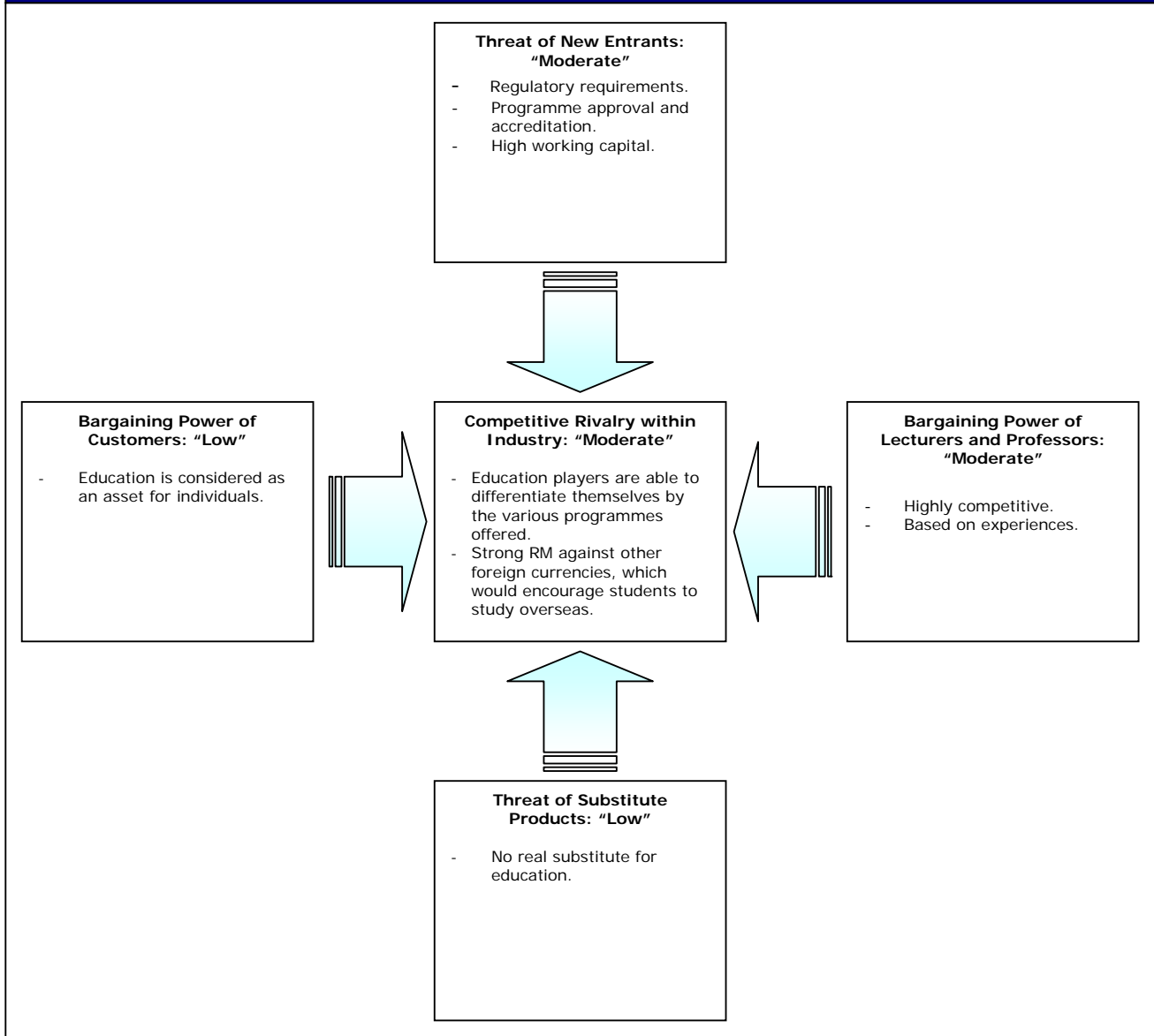
- ◆ **Well poised for growth.** We believe the education sector is well poised for growth and remains as one of the most critical drivers for Malaysia's transformation into a high-income nation due to its impact on productivity and human capital development. Growth drivers include: 1) increasing in number of students in both public and private institutions; 2) strong partnerships with leading universities from all over the world; and 3) increasing number of foreign students. We initiate coverage on **SEGi (Outperform, FV=RM4.54)** and **Help (Market Perform, FV=RM2.87)**.

**Chart 8: SWOT Analysis on SEGi and Help**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• <b>Two of Malaysia's leading education providers.</b> Both SEGi and Help are one the two Malaysia's leading education providers, offering various programmes from various sectors.</li> <li>• <b>Higher margins.</b> With the bulk of its cost remains relatively fixed, any increase in revenue, should flow straight to bottomline.</li> <li>• <b>Strong partnerships with foreign universities and professional bodies.</b> Both SEGi and Help have strong collaborations with foreign universities and professional bodies.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Adverse change in regulatory and government policy.</b> Given that education sector is regulated by government bodies, any adverse change in regulatory and government policies would affect the companies performance moving forward.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• <b>Foreign students.</b> Malaysia is ranked at the top 11<sup>th</sup> exporter globally. Government has been urging private universities to increase the number of foreign students and MOHE is aspiring to triple the amount to 200k from 87k in 2010.</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Stronger RM against other foreign currencies.</b> Strong RM against other foreign currencies, which would encourage local students to study overseas.</li> </ul>

Source: RHBRI

Chart 9: Competitiveness Analysis On The Education Players in Malaysia According To Porter's Five Forces



Source: RHBRI

# SEG International

Set For New Highs

Share Price	:	RM3.69
Fair Value	:	RM4.54
Recom	:	<b>Outperform</b> (New Coverage)

## Highlights

- ◆ **Leaving the past behind.** Following a record of low profits from 2005-2009, SEGi's FY10 net profit jumped to RM43.1m from RM10.0m in FY09 as the group undergoes several kitchen sinking exercises. In addition, following the achievement of its University College status in 2008, SEGi has been able to offer and award its own courses and programmes without paying hefty royalties to third parties. As such, SEGi's balance sheet has remained healthy and group's net cash pile has grown to RM60.8m in RM18.3m in FY09. SEGi operates from six campuses located in the Klang Valley, Penang and Sarawak boasting an enrollment of more than 23,000 local and international students. SEGi offers a variety of courses at the pre-university, undergraduate, postgraduate and professional level respectively.
- ◆ **Strong earnings growth drivers.** SEGi's growth in the next few years will be propelled by:
  - **Ongoing introduction of new high margin programmes.** SEGi plans to introduce more niche programmes, such as medical sciences, pharmacy, optometry and dentistry as well as more post-graduate courses that will help to improve its margins moving forward;
  - **Growing its international student base.** Currently, approximately 10% of SEGi's student populations are foreigners and management is keen to boost the ratio to 20% by end-FY11 from 10% currently; and
  - **Further penetrating into adult learning market.** The group is also keen to further penetrate the adult learning market to leverage off its strategic locations within the city, while benefiting from flexibility in terms of class scheduling and fee payments.
- ◆ **Risks.** The risks include: 1) Change in requirements set by the governing bodies; and 2) A change in policy by the Government might impact the eligibility criteria for students to obtain the loans/scholarships.
- ◆ **Forecasts.** We project SEGi to post FY10-13 revenue CAGR of 27.2%, driven primarily by the increase in student enrollments in the group's institutions. However, we have projected a 4%-pt expansion in SEGi's FY11 EBIT margin to reflect the introduction of new higher margin programmes and operating utilisation effects as most of its costs are fixed. Therefore any increase in topline, should flow straight to bottomline. Consequently, FY10-13 net profit CAGR is forecasts at 39.6%.
- ◆ **Initiate with a Buy.** We believe SEGi's current valuations are attractive as it is only trading at 14.6x FY11 PER, as compared to its most related peer, Help, which is currently trading at 15.7x FY11 PER. Our indicative fair value for the stock is RM4.54, based on target FY11 PER of 18x, a 10% premium over the consumer sector average FY11 PER of 16.5x. Our implied 18x target PER for SEGi suggests a premium to Help's target PER of 16.5x. We believe the premium is justifiable given the: 1) SEGi's superior net profit margin; 2) the wider array of courses offered as well as the number of students; and 3) larger market capitalisation. The stock offers strong earnings prospects and decent dividend yield of 4.9%. We initiate coverage on SEGi with an **Outperform** recommendation.

Table 3: Investment Statistics ( SEG; 9792 )								Bloomberg Ticker: SYS MK		
FYE Dec	Revenue (RMm)	Net Profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/NTA (x)	Net gearing (x)	ROE (%)	GDY (%)
2010a	217.6	43.1	16.8	+>100	22.0	-	5.4	0.0	21.3	3.2
2011f	280.8	64.8	25.2	50.6	14.6	25.0	4.6	0.0	27.6	4.9
2012f	364.2	87.9	34.2	35.5	10.8	34.0	3.8	0.0	34.2	6.5
2013f	447.9	117.1	45.6	33.3	8.1	46.0	3.1	0.0	37.9	8.6
<b>Issued Capital (m units)</b>				260.5		<b>Major Shareholders</b>				<b>(%)</b>
<b>Market Capitalisation (RMm)</b>				961.3		Dato' Clement Hii				30.5
<b>Daily Trading Volume (m units)</b>				0.7		Cerahsar Sdn Bhd				22.0
<b>52-week Price Range (RM / unit)</b>				0.643-3.69		Segmen Entiti Sdn Bhd				6.4
<i>Main Market Listing /Trustee Stock/Syariah Approved Stock By The SC</i>						<i>* Consensus based on IBES Estimates</i>				

SEGi

- ◆ **Brief history.** SEGi International (“SEGi”) (formerly known as Systematic Education Group), began operations in 1977, offering mainly professional courses for qualifications such as LCCI, ACCA and ABE. In 1995, the company was listed on the Second Board of Bursa Malaysia Securities and undertook numerous acquisitions to establish its position as an education provider. Subsequently, the group changed its name to SEGi in 2002 to reflect the new identity and direction of the group. Following the official launch of its main and largest campus in Kota Damansara, the group subsequently achieved University College status in 2008 that enables it to award its own degrees. SEGi operates from six campuses located in the Klang Valley, Penang and Sarawak boasting an enrollment of more than 23,000 local and international students. SEGi offers a variety of courses at the pre-university, undergraduate, postgraduate and professional level respectively.
- ◆ **Strong collaborations various foreign universities.** Over the years, SEGi has established strong links with various foreign universities, providing twinning and external programmes. SEGi’s partners are situated in the United Kingdom, United States of America, Australia, New Zealand and India.

Chart 10. Some Of SEGi’s Collaborations With Foreign Universities



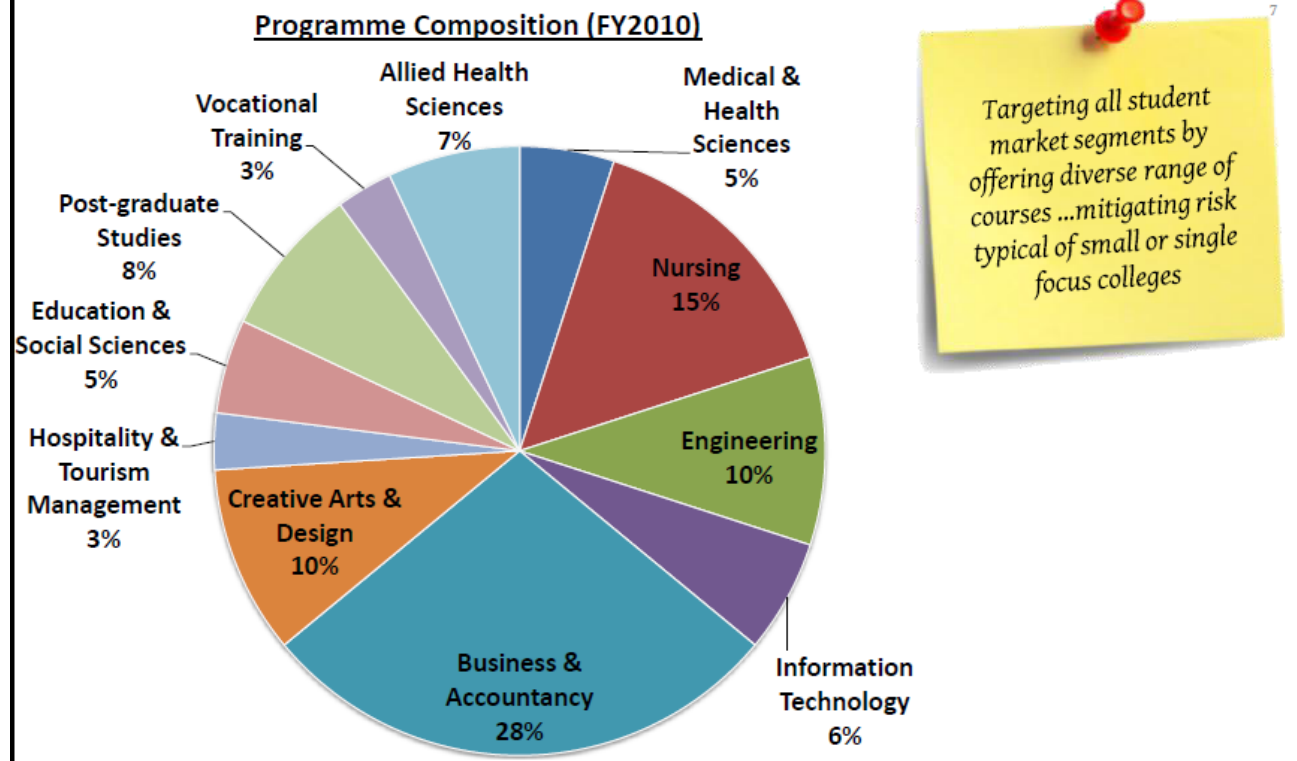
Source: Company data

Photo 1. Photos Of SEGi’s Main Campuses



Source: Company data

Chart 11. SEGi's Programme Composition For FY2010

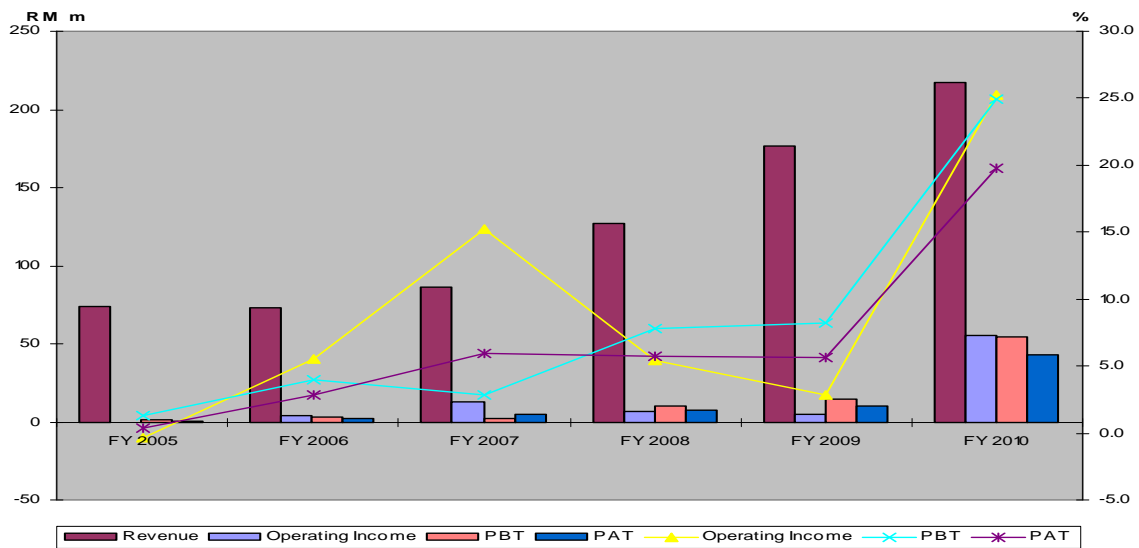


Targeting all student market segments by offering diverse range of courses ...mitigating risk typical of small or single focus colleges

Source: Company data

◆ **Healthy balance sheet.** SEGi's revenues have risen steadily since 2007 with a 3-year CAGR of 36.1% driven by the increase in student enrollment. Its earnings, however, have seen tremendous 3-year CAGR of 102.9%. This is due to the introduction of higher margin academic programmes and professional courses after the group achieving its University College status in 2008, therefore able to offer its own courses and programmes without paying hefty royalties to third parties. In addition, the group also went through several kitchen sinking exercises in order to unlock some of the value of its assets in FY05-FY09. As such, SEGi's balance sheet has remained healthy and the group's net cash pile has grown to RM60.8m in FY10 from RM18.3m in FY09.

Chart 12. SEGi's Historical Data (from FY05-FY10)



Source: Company data

- ◆ **Strong earnings growth drivers.** SEGi's growth in the next few years will be propelled by:
  - **Ongoing introduction of new high margin programmes.** SEGi plans to introduce more niche programmes, such as medical sciences, pharmacy, optometry and dentistry as well as more post-graduate courses that will help to improve its margins moving forward;

Chart 13. Number Of New Courses In Planned

Faculty	2010	2011	2012
Business, Accountancy & Mgt	1	3	5
Medicine	1	-	-
Pharmacy	3	2	-
Optometry & Vision Sciences	2	3	-
Dentistry	1	1	-
Nursing & Allied Health Sciences	8	8	6
Engineering & Built Environment	-	4	2
Creative Design & Technology	1	2	3
Hotel & Tourism	3	2	3
Post Graduate Programmes	1	3	2
<b>Total</b>	<b>21</b>	<b>28</b>	<b>21</b>

Source: Company data

- **Growing its international student base.** Currently, approximately 10% of SEGi's student populations are foreigners and management is keen to boost the ratio to 20% by end-FY11. While the fees for the international students are the same as compared to local students, the group enjoys tax benefits given that 50% of the total international students fees are tax exempt; and
- **Further penetrating into adult learning market.** The group is also keen to further penetrate into adult learning market as it offers strategic locations within the city, while offering the flexibility in terms of the class scheduling and fee payments.

## Risks

- ◆ **Risks to our view.** The risks include:
  - **Changes in regulatory and government policy.** Given that the education industry is highly regulated by the Government, any adverse change in regulatory and government policies such as accreditation requirements and international student intake requirements, will affect the group's performance; and
  - **PTPTN financial aid.** Approximately 27% of SEGi's students are financed through loans or scholarships from PTPTN (National Higher Education Fund Corporation). A change in policy by the Government might impact the eligibility criteria for students to obtain the loans/scholarships.

## Earnings forecasts

- ◆ **Forecasts.** We project SEGi to post FY10-13 revenue CAGR of 27.2%, driven primarily by the increase in student enrollments in the group's institutions. However, we have projected a 4%-pt expansion in SEGi's FY11 EBIT margin to reflect the introduction new higher margin programmes and operating utilisation effects as most of its costs are fixed. Therefore any increase in topline, should flow straight to bottomline. Consequently, FY10-13 net profit CAGR is forecasts at 39.6%. We project SEGi to spend capex of RM10m p.a. for FY11-13 respectively.

SEGi has recently announced a dividend policy to distribute a minimum 50% of the group's net profits. Accordingly this translates to gross yields of 4.6-8.1%.

### Valuations and Recommendation.

- ◆ **Investment case.** We believe SEGi's current valuations are attractive as it is only trading at 14.6x FY11 PER, as compared to its most related peer, Help, which is currently trading at 15.7x FY11 PER. Our indicative fair value for the stock is RM4.54, based on target FY11 PER of 18x, a 10% premium over the consumer sector average FY11 PER 16.5x. Our implied 18x target PER for SEGi suggests a premium to Help's target PER of 16.5x. We believe the premium is justifiable given the: 1) SEGi's superior net profit margin; 2) the wider array of courses offered as well as the number of students; and 3) larger market capitalisation. The stock offers strong earnings prospects and decent dividend yield of 4.9%. We initiate coverage on SEGi with an **Outperform** recommendation.

**Table 4: Comparative Valuations**

Company	Bloomberg ticker	Market cap (RMm)	FY10 revenue (RMm)	FY11 PER (x)	FY12 PER (x)	P/NTA (x) FY11	GDY (%) FY11	FY10 Operating Margin (%)
Help	HELP MK	380.7	105.2	15.3	15.7	2.9	1.7	23.9
SEGi	SYS MK	961.3	217.6	14.6	10.8	4.6	4.6	25.3

Source: Bloomberg, RHBRI

**Table 5. Earnings Forecasts**

FYE Dec (RMm)	FY10a	FY11F	FY12F	FY13F
<b>Turnover</b>	<b>217.6</b>	<b>280.8</b>	<b>364.2</b>	<b>447.9</b>
<i>Turnover growth (%)</i>	<i>30.8</i>	<i>29.0</i>	<i>29.7</i>	<i>23.0</i>
<b>EBIT</b>	<b>55.0</b>	<b>82.1</b>	<b>111.1</b>	<b>147.8</b>
Net Interest	(1.2)	(1.2)	(1.2)	(1.2)
Associates	0.5	0.5	0.5	0.5
Exceptionals	0.0	0.0	0.0	0.0
<b>Pretax Profit</b>	<b>54.3</b>	<b>81.5</b>	<b>110.4</b>	<b>147.1</b>
Tax	(11.1)	(16.3)	(22.1)	(29.4)
Minorities	(0.2)	(0.3)	(0.4)	(0.6)
<b>Net Profit</b>	<b>43.1</b>	<b>64.8</b>	<b>87.9</b>	<b>117.1</b>

*Source: Company data, RHBRI estimates*

**Table 6. Forecast Assumptions**

FYE Dec	FY10F	FY11F	FY12F
Number of students (in '000)	28.0	35.0	42.0
% of student growth	21.7	25.0	20.0
Average revenue per students (in '000)	10.0	10.4	10.7
% of average revenue per student growth	6.0	3.8	2.5

*Source: Company data, RHBRI estimates*

**Table 7: Balance Sheet**

FYE Dec (RMm)	FY08a	FY09F	FY10F	FY11F
<b>Current assets</b>				
Inventories	0.0	0.1	0.2	0.2
Trade receivables	37.6	48.5	62.9	77.3
Tax assets	5.7	5.7	5.7	5.7
Cash and cash equivalents	78.8	81.0	111.0	155.8
	<b>122.1</b>	<b>135.314</b>	<b>179.8</b>	<b>239.1</b>
<b>Non-current assets</b>				
Property, plant and equipment	100.1	107.7	115.1	122.3
Associates	4.8	5.3	5.9	6.4
Other investments	5.6	5.6	5.6	5.6
Intangible assets	27.7	27.7	27.7	27.7
Available-for-sale	2.7	2.7	2.7	2.7
	<b>140.9</b>	<b>149.0</b>	<b>156.9</b>	<b>164.7</b>
<b>Total assets</b>	<b>263.0</b>	<b>284.3</b>	<b>336.7</b>	<b>403.8</b>
<b>Current Liabilities</b>				
Trade payables	38.6	27.5	34.9	42.1
Short term borrowings	7.2	7.2	7.2	7.2
Tax Payable	0.5	0.5	0.5	0.5
	<b>46.2</b>	<b>35.1</b>	<b>42.6</b>	<b>49.7</b>
Long term debt	10.8	10.8	10.8	10.8
Deferred Tax	2.5	2.5	2.5	2.5
Minority Interest	0.9	1.2	1.7	2.3
	<b>14.2</b>	<b>14.5</b>	<b>15.0</b>	<b>15.6</b>
<b>Total liabilities</b>	<b>60.5</b>	<b>49.6</b>	<b>57.5</b>	<b>65.3</b>
<b>Net assets</b>	<b>202.6</b>	<b>234.7</b>	<b>279.2</b>	<b>338.5</b>
Share capital	125.6	125.6	125.6	125.6
Reserves	77.0	109.0	153.6	212.9
<b>Shareholders funds</b>	<b>202.6</b>	<b>234.7</b>	<b>279.2</b>	<b>338.5</b>

*Source: Company data, RHBRI estimates*

**Table 8: Cash Flow Statement**

FYE Dec (RMm)	FY11F	FY12F	FY13F
Cash flow from operating activities	44.9	83.4	112.6
Cash flow from Investing activities	(10.0)	(10.0)	(10.0)
Cash flow from financing activities	(32.8)	(43.4)	(57.8)
Increase in cash	2.1	30.0	44.8
Cash b/f	78.8	81.0	111.0
Cash c/f	<b>81.0</b>	<b>111.0</b>	<b>155.8</b>

# HELP International Corporation

*HELP-ing Students Realising Their Dreams*

Share Price : RM2.68  
 Fair Value : RM2.87  
 Recom : **Market Perform**  
 (New Coverage)

## Highlights

- ◆ **Trailblazer in private education.** Help was one of the pioneers in private education that offered foreign “twinning” and external programmes in Malaysia. The group was awarded the University College status in 2004 and currently, Help operates from two campuses situated in Klang Valley area (e.g. Damansara and Cheras) with over 11,000 enrollments of local and international students. At the same time, the company offers franchise programmes to its partners in the Asean regions namely in Vietnam, China and Indonesia boasting over 1,600 students there. This has enabled them to increase its delivery channels and reach. The group has achieved 3-year CAGR of 18.6%, thanks to the growth in its students enrolment and introduction of higher margin programmes and professional courses.
- ◆ **Earnings drivers.** Help’s growth in the next few years will be propelled by:
  - **Increase in student numbers.** Moving forward, Help plans to continuously increase its student numbers and targets to achieve at least 20,000 students by 2017 from 11,000 currently;
  - **Higher tuition fees.** We understand the average increase in tuition fees is approximately 10% p.a.; and
  - **Diversification in programmes.** Over the years, Help has continuously developed its programmes in order to fully diversify its position as an education provider in Malaysia. With the opening of its second campus in Cheras, the group is able to introduce more vocational courses.
- ◆ **Risks.** The risks include: 1) Change in requirements set by the governing bodies; and 2) A change in policy by the Government might impact the eligibility criteria for students to obtain the loans/scholarships.
- ◆ **Forecasts.** We project Help to post FY10-13 revenue CAGR of 18.5%, driven primarily by the increase in student enrollments in the group’s institutions but project a lower CAGR of 17.1% for its earnings as we have projected a slight margin contraction in Help’s FY11 EBIT margin to reflect the operating utilisation effect following the opening of its second campus in Cheras. In terms of capex, we project Help to spend RM60.0 p.a. respectively.
- ◆ **Investment case.** Currently, Help is trading at 15.7x FY11 PER, about 1x above its most related peer, SEGi, which is currently trading at 14.6x FY11 PER. Our indicative fair value for the stock is RM2.87, based on target FY11 PER of 16.5x, which is in line with the consumer sector average FY11 PER. The positives for Help, however, in our view, are: 1) strong position as one of the leaders in private institutions in Malaysia; and 2) decent 3-year net profit CAGR of 15.9%. Nevertheless, we believe much of these positives have already been reflected in Help’s share price strength. Hence, given the limited upside potential for the stock in the near term, we initiate coverage on Help with a **Market Perform** recommendation.

Table 9: Investment Statistics ( HELP; 7236 )							Bloomberg Ticker: HELP MK			
FYE Oct	Revenue	Net Profit	EPS	Growth	PER	C.EPS*	P/NTA	Net gearing	ROE	GDY
(RMm)	(RMm)	(RMm)	(sen)	(%)	(x)	(sen)	(x)	(x)	(%)	(%)
2010a	105.2	19.1	21.5	23.6	19.9	n.a.	3.5	0.0	16.8	1.5
2011f	134.5	24.2	17.1	26.9	15.7	16.0	2.9	0.0	18.2	1.7
2012f	153.7	27.2	19.2	12.3	14.0	18.0	2.5	0.1	18.9	1.9
2013f	174.9	30.7	21.6	12.7	12.4	-	2.2	0.2	18.4	2.1
<b>Issued Capital (m units)</b>				142.0	<b>Major Shareholders</b>			<b>(%)</b>		
<b>Market Capitalisation (RMm)</b>				380.7	Selangor Properties			51.0		
<b>Daily Trading Volume (m units)</b>				0.07	Acacia Partners LP			7.2		
<b>52-week Price Range (RM / unit)</b>				1.331-2.99	Dato' Chan and Family			6.7		

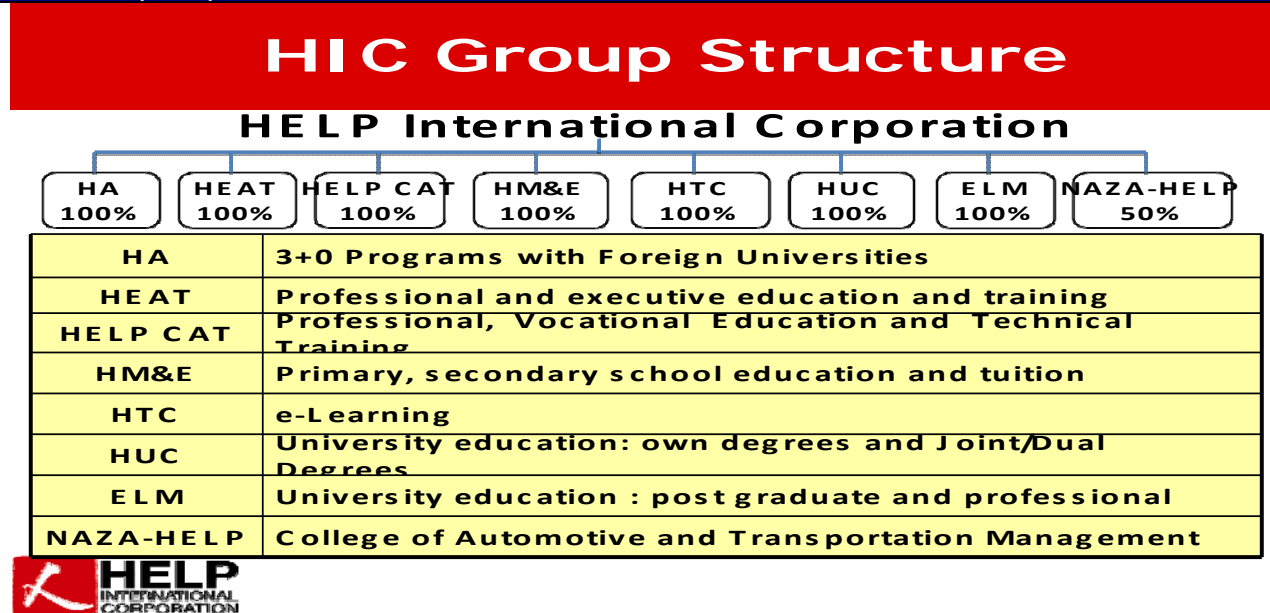
Main Market Listing /Non-Trustee Stock/Syariah Approved Stock By The SC

\* Consensus based on IBES Estimates

Help

- ◆ **Background of company.** HELP International Corporation (“Help”) was founded in 1986 by a husband and wife team Datuk Dr. Paul Chan and Datin Chan-Low Kam Yoke and the company was listed on Bursa Malaysia in May '07. Help offers a wide and diverse range of programmes covering business, law, management, economics, IT, social sciences and humanities at undergraduate and graduate levels. Help was one of the first few private colleges to offer foreign “twinning” and external programmes in Malaysia. The group subsequently achieved University College status in 2004 that enables it to award its own degrees. Currently, Help operates from two campuses situated in Klang Valley area (i.e. Damansara and Cheras) with over 11,000 enrollments of local and international students. At the same time, the company offers franchise programmes to its partners in the Asean region namely in Vietnam, China and Indonesia boasting over 1,600 students there. This has enabled them to increase its delivery channels and reach.

Chart 14. Help’s Corporate Structure



Source: Company

- ◆ **Strong collaborations various international partners.** Over the years, Help has established strong links with various foreign universities, providing twinning and external programmes. The company also developed strong alliance with professional bodies.

Chart 15. Some Of Help’s Collaborations With International Partners



Source: Company data

Photo 2. Photos Of Help's Damansara Campus



Source: Company data

Photo 3. Photo of Help's New Cheras Campus



Source: Company data

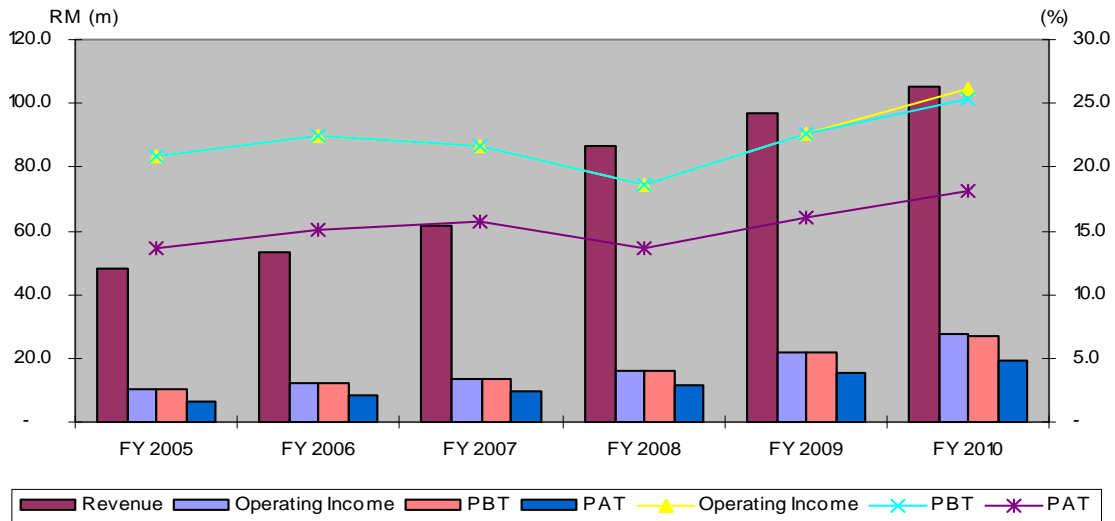
Photo 4. Layout Plans For Help's Third Campus



Source: Company data

- ◆ **Steady growth for both topline and bottomline.** Help's revenues have risen steadily since 2007 with a 3-year CAGR of 14.3% driven by the increase in student enrollment. As such, its earnings grew at a faster pace with 3-year CAGR of 18.6% thanks to the introduction of higher margin academic programmes and professional courses. On the balance sheet strength, the group currently has a net cash of RM59.7m in 1Q11 from RM67.4m in FY10.

Chart 16. Help's Historical Data (from FY05-FY10)



Source: Company

- ◆ **Earnings drivers.** Help's growth in the next few years will be propelled by:
  - **Increase in student numbers.** Moving forward, Help plans to continuously increase its student numbers and targets to achieve at least 20,000 students by 2017. With its current campus in Damansara, the group is currently operating at full capacity. Recently, the group launched its second campus in Cheras, which enables the group to ease the congestion of students in Damansara campus. In addition, the company plans to build its third campus on a 24 acre land in Subang 2, which will accommodate approximately 13,000 students. The campus will be built in three phases, with the first one slated to be completed in 2012. The campus will be Help's first fully integrated campus which will include Learning Resource Centre, Chancellery, auditoriums, exhibition halls, student accommodation and recreational facilities (e.g. a football field, swimming pool, a gym and a facilities room). As such, with the third campus, the group is hopeful to achieve its university status by 2012. Total capex for the third campus is approximately RM150-180m, which management intends to finance it with internally generated funds, borrowings and possibly, equity.
  - **Higher tuition fees.** We understand the average increase in tuition fees is approximately 10% p.a. and according to management, there is no clear drop in student enrollment immediately following the increase in the past. The increase in tuition fees, however, does not apply to existing students (those who signed up for a three-year course, therefore the existing fee applies), but to new enrollments; and
  - **Diversification in programmes.** Over the years, Help has continuously developed its programmes in order to fully diversify its position as an education provider in Malaysia. With the opening of its second campus in Cheras, the group is able to introduce more vocational courses. For example, Help recently signed a collaboration with Naza Group to jointly set up a college of automotive and transportation management, which offers a full range of courses in automotive education.

## Risks

- ◆ **Risks to our view.** The risks include:
  - **Adverse change in regulatory and government policy.** Given that the education industry is fairly regulated by the Government, any adverse change in regulatory and government policy concerning the education industry such as accreditation requirements and international student intake requirements, will affect the group's performance; and
  - **Fairly low exposure to PTPTN loans.** Help's exposure to PTPTN loans is approximately 7%. Nevertheless, any change in policy by the Government might impact the eligibility criteria for students to obtain the loans/scholarships.

## Earnings forecasts

- ◆ **Forecasts.** We project Help to post FY10-13 revenue CAGR of 18.5%, driven primarily by the increase in student enrollments in the group's institutions but project a lower CAGR of 17.1% for its earnings as we projected a slight margin contraction in Help's FY11 EBIT margin to reflect the operating utilisation effect following the opening of its second campus in Cheras. In terms of capex, we project Help to spend RM60.0 p.a. respectively.

While there is no formal dividend policy, historically, Help has been paying approximately 10-20% of its earnings as dividends. As such, we have assumed FY11-13 annual gross dividends of 4.5-5.5 sen/share, which translate to gross yields of 1.7-2.1% and net payout ratios of 19.2-19.7%.

## Valuations and Recommendation.

- ◆ **Fair value of RM2.87. Initiate with Market Perform** Currently, Help is trading at 15.7x FY11 PER, about 1x above its most related peer, SEGi, which is currently trading at 14.6x FY11 PER. Our indicative fair value for the stock is RM2.87, based on target FY11 PER of 16.5x, which is in line with the consumer sector average FY11 PER. The positives for Help, however, in our view, are: 1) strong position as one of the leaders in private institutions in Malaysia; and 2) decent 3-year net profit CAGR of 15.9%. Nevertheless, we believe much of these positives have already been reflected in Help's share price strength. Hence, given the limited upside potential for the stock in the near term, we initiate coverage on Help with a **Market Perform** recommendation.

Table 10: Comparative Valuations								
Company	Bloomberg ticker	Market cap (RMm)	FY10 revenue (RMm)	FY11 PER (x)	FY12 PER (x)	P/NTA (x) FY11	GDY (%) FY11	FY10 Operating Margin (%)
Help	HELP MK	380.7	105.2	15.3	15.7	2.9	1.7	23.9
SEGi	SYS MK	961.3	217.6	14.6	10.8	4.6	4.6	25.3

Source: Bloomberg, RHBRI

**Table 11. Earnings Forecasts**

FYE Oct (RMm)	FY10a	FY11F	FY12F	FY13F
<b>Turnover</b>	<b>105.2</b>	<b>134.5</b>	<b>153.7</b>	<b>174.9</b>
Turnover growth (%)	70.5	27.9	14.3	13.8
<b>EBIT</b>	<b>27.5</b>	<b>35.2</b>	<b>39.4</b>	<b>44.3</b>
Net Interest	(0.8)	(1.1)	(1.1)	(1.1)
Associates	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
<b>Pretax Profit</b>	<b>26.7</b>	<b>34.1</b>	<b>38.3</b>	<b>43.2</b>
Tax	(7.6)	(9.9)	(11.1)	(12.5)
Minorities	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>19.1</b>	<b>24.2</b>	<b>27.2</b>	<b>30.7</b>

Source: Company data, RHBRI estimates

**Table 12. Forecast Assumptions**

FYE Oct	FY10F	FY11F	FY12F
Number of students (in '000)	11.5	12.0	12.5
% of student growth	13.1	4.3	4.2
Average revenue per students (in '000)	11.7	12.8	14.0
% of average revenue per student growth	13.0	9.5	9.3

Source: Company data, RHBRI estimates

**Table 13: Balance Sheet**

FYE Oct (RMm)	FY08a	FY09F	FY10F	FY11F
<b>Current assets</b>				
Other receivables	5.7	5.7	5.7	5.7
Trade receivables	4.0	5.2	5.9	6.7
Tax assets	1.7	1.7	1.7	1.7
Cash and cash equivalents	67.4	87.1	59.7	37.1
	<b>78.9</b>	<b>99.7</b>	<b>73.0</b>	<b>51.3</b>
<b>Non-current assets</b>				
Property, plant and equipment	123.0	175.2	225.5	273.9
Associates	-	-	-	-
Investment in joint venture	0.0	0.0	0.0	0.0
Intangible assets	3.6	3.6	3.6	3.6
Deferred tax assets	0.0	0.0	0.0	0.0
	<b>126.6</b>	<b>178.8</b>	<b>229.1</b>	<b>277.5</b>
<b>Total assets</b>	<b>205.</b>	<b>278.5</b>	<b>302.1</b>	<b>328.7</b>
<b>Current Liabilities</b>				
Fees received in advanced	21.5	14.1	15.8	17.6
Other payables	39.0	39.0	39.0	39.0
Short term borrowings	-	20.0	20.0	20.0
Tax Payable	0.8	0.8	0.8	0.8
	<b>61.3</b>	<b>73.9</b>	<b>75.6</b>	<b>77.4</b>
Long term debt	-	50.0	50.0	50.0
Other payable	27.0	18.0	18.0	18.0
Deferred tax	3.8	3.8	3.8	3.8
	<b>30.8</b>	<b>71.8</b>	<b>71.8</b>	<b>71.8</b>
<b>Total liabilities</b>	<b>92.1</b>	<b>145.7</b>	<b>147.4</b>	<b>149.2</b>
<b>Net assets</b>	<b>113.4</b>	<b>132.8</b>	<b>154.7</b>	<b>179.5</b>
Share capital	71.0	71.0	71.0	71.0
Reserves	42.4	61.8	83.7	108.5
<b>Shareholders funds</b>	<b>113.4</b>	<b>132.8</b>	<b>154.7</b>	<b>179.5</b>

Source: Company data, RHBRI estimates

**Table 14: Cash Flow Statement**

FYE Oct (RMm)	FY11F	FY12F	FY13F
Cash flow from operating activities	23.5	37.9	43.3
Cash flow from Investing activities	(69.0)	(60.0)	(60.0)
Cash flow from financing activities	65.2	(5.3)	(5.9)
Increase in cash	19.7	(27.4)	(22.6)
Cash b/f	67.4	87.1	59.7
Cash c/f	87.1	59.7	37.1

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The recommendation framework for stocks and sectors are as follows : -

### Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

### Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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