

HELP International Corporation

Recommendation: **BUY**

Stock Code: **7236**

Bloomberg: **HELP MK**

Price: **MYR1.53**

12-Month Target Price: **MYR1.93**

Date: **March 3, 2008**

Board: Second

Sector: Trading/Services

GICS: Consumer Discretionary/Education Services

Market Value - Total: MYR135.8 mln

Summary: HELP International, through its subsidiaries, is primarily in the education field. Its HELP University College is one of the leading private colleges in Malaysia offering its own degrees as well as twinning programmes with other leading universities. The Group also provides professional and executive education and training.

Analyst: Alexander Chia, ACA



Highlights

- While HELP International Corporation (HIC) faces intense competition from other mushrooming tertiary education institutions, it remains focused in providing quality education, building brand recognition and adapting to the changing landscape.
- This is evident in its growing revenue and ability to maintain consistent healthy operating margin in excess of 20% when many others are either in the red or posting single-digit operating margin.
- We also like its strategy to remain relatively asset light by minimizing building ownership which could otherwise be a bane on its balance sheet, especially considering the seasonality in its business cycle.
- We project FY08 (Oct.) revenue and net profit at MYR77.2 mln and MYR12.3 mln, respectively, translating into a FY08 EPS of 13.8 sen.
- HIC's growth is underpinned by its efforts to: (i) increase student population including international students; (ii) increase delivery channels via strategic partnerships with other education institutions; (iii) introduce new innovative programmes; and (iv) continuously improve efficiency to battle increased cost pressures.

Investment Risks

- Key risks to our recommendation and target price include unexpected changes in the policies and regulatory framework by the Ministry Of Higher Education (MOHE) that could affect student intake.

Recommendation

- We initiate coverage on HIC with a Buy recommendation and a 12-month price target of MYR1.93.
- We have pegged HIC's FY08 EPS of 13.8 sen against a PER of 13.8x which is a 20% premium to SEG International's PER to reflect its superior financial performance. Our target price includes a projected 3.0 sen dividend for FY08.
- We believe HIC is presently the best choice for exposure in the education sector with its outstanding performance against its peers. We like the experienced management who has charted a clear growth plan for the group, the consistency in profitability level despite intense competition and potential double-digit earnings growth going forward while keeping its balance sheet lean.

Key Stock Statistics

FY Oct.	2007	2008E
Reported EPS (sen)	10.9	13.8
PER (x)	14.0	11.1
Dividend/Share (sen)	3.0	3.0
NTA/Share (MYR)	0.82	0.94
Book Value/Share (MYR)	0.82	0.94
No. of Outstanding Shares (mln)	88.8	
52-week Share Price Range (MYR)	0.81 - 1.95	
Major Shareholders:	%	
Selangor Properties Bhd	51.0	
Hanjaya Sdn Bhd	7.2	
Acacia Partners LP	7.2	

Per Share Data

FY Oct.	2005	2006	2007	2008E
Book Value (MYR)	NA	0.71	0.82	0.94
Cash Flow (sen)	12.7	14.1	15.6	20.8
Reported Earnings (sen)	7.4	9.1	10.9	13.8
Dividend (sen)	0.0	0.0	3.0	3.0
Payout Ratio (%)	0.0	0.0	20.1	16.0
PER (x)	20.7	16.9	14.0	11.1
P/Cash Flow (x)	12.1	10.8	9.8	7.4
P/Book Value (x)	NA	2.1	1.9	1.6
Dividend Yield (%)	0.0	0.0	2.0	2.0
ROE (%)	NA	NA	14.2	15.7
Net Gearing (%)	NA	0.0	0.0	0.0

Note: FY05 to FY07 numbers are on proforma basis

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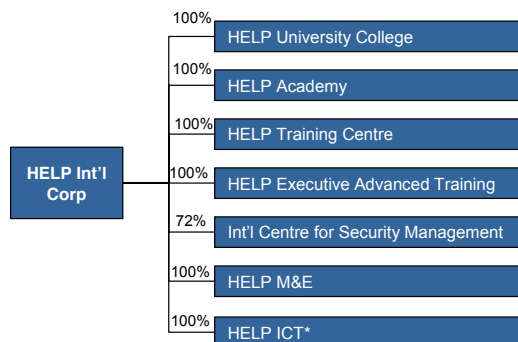
Background

Corporate Profile

HELP International Corporation (HIC) was incorporated in Jun. 2005, and was listed on the Second Board of Bursa Malaysia Securities on May 22 2007. HIC is an investment holding company while its subsidiaries are primarily involved in the field of education. HIC operates the HELP University College (HELP UC), which has been in operation since 1986.

At the helm of HIC is a husband and wife team who jointly founded the group – Dr Chan Tuck Hoong (President/Executive Director) and Madam Low Kam Yoke (Group CEO/Executive Director). HIC's major shareholders include Selangor Properties Berhad (SPR MK, MYR3.20, Not Ranked), which holds a 51% stake, Hanajaya Sdn. Bhd. for Dato' Dr. Zakaria Ahmad (7.2%) and Acacia Partners (7.2%). Dr Chan and Madam Low each hold a 1.9% and 2.3%-stake in HIC, respectively.

Corporate Structure



* formerly known as Sepang Education Centre

Source: Company data

Business

HIC's primary focus is in the provision of private tertiary education through HELP UC and HELP International College of Technology (HELP ICT). In addition, the group also provides professional and executive education and training.

HELP UC started in 1986 and was one of the first few private colleges to offer foreign "twinning" and external programmes in Malaysia. Other accomplishments include being the first private institution outside the UK to be recognized by the London School of Economics to conduct UOL Diploma in Economics; one of the first 10 colleges in Malaysia approved to manage the "3+0" degree programmes in 1998; among the first to be conferred the "University College" (UC) status by the Ministry of Higher Education in 2004.

Currently boasting a sizeable student population of approximately 8,500, HELP UC's campuses are strategically located in Damansara which is in the city centre area, adopting a city campus concept.

HELP ICT was recently added to the group after HIC acquired HELP ICT Sdn. Bhd. in Nov. 2007. HELP ICT was formerly known as the S.I.T International College. With a student population of 1,500, it is one of the largest private colleges in Klang, Selangor.

Both HELP UC and HELP ICT have a combined student population in excess of 10,500, of which close to 20% are international students mainly from China, Indonesia, Vietnam and Africa. The net student population

(adjusted for students who graduated) registered a compounded annual growth in excess of 7% over the last seven years. Management takes great pride in the fact that 60% to 65% of new students are on referral basis by the current or old students, which is a testament to HIC's quality education.

HIC currently offers a variety of programmes covering pre-university, undergraduate, postgraduate, professional and languages courses. HIC prides itself as being very strong in the field of accountancy, business, law, psychology and A-levels. For instance, its A-level programme is delivered by the renowned Edexcel International (Edexcel), which is the UK's largest awarding body. In recognition of HIC's successful delivery of the programme, Edexcel even accorded the Centre of Excellence award to HUC.

Meanwhile, HIC has well-known and reputable universities as its education programme partners, including University of Queensland, Charles Sturt University, University of New South Wales, University of Melbourne, London School of Economic, University of East London and Purdue University. In total, its university partners number more than 60 across the UK, US, Canada, Australia, New Zealand, France, Germany, China, Denmark, India and Indonesia.

In addition, with its "University College" status, HIC is also able to confer its own degree programmes at the HELP UC. Presently, over 5,000 students are enrolled in approximately 40 HELP UC diploma/degree programmes, where margins are better as compared to the twinning or external programmes.

To cope with the increasing number of students and programmes, HIC is supported by a faculty that number in excess of 200. 19% of them are PhD holders, with plans to increase the percentage to 30% by 2013. Management pointed out that staff turnover is low at 3%, hence providing consistency in teaching quality with minimal disruption that could arise from frequent change in lecturers.

The private education landscape has evolved immensely from the group's earlier days in the late 1980's/early 1990's. Before, there were only a handful of public universities and several private colleges. However, as at Jan. 2007, there are 18 public universities and UCs, 27 private universities and UCs, four foreign university branch campuses, 20 polytechnics and more than 300 private colleges. The latest addition to the pack is the Wawasan Open University of Malaysia which opened its doors to students in Jan. 2008.

Listed education providers locally include INTI Universal Holdings Bhd (IUH MK, MYR1.10, Not Ranked), SEG International Bhd (SYS MK, MYR0.69, Not Ranked) and Stamford College Bhd (STAM MK, MYR0.25, Not Ranked).

With the intense competition in the education sector, HIC's competitive edge lies in its proven education quality (judging from the students' high performance in the A-level programmes and in its partnering universities) supported by the qualified experienced lecturers and superb facilities; brand recognition; as well as portfolio of intellectual property in the form degree programmes differentiated from competitors. In embracing the learning culture and to attract students, HIC also provides financial assistance to the deserving students.

HELP International Corporation

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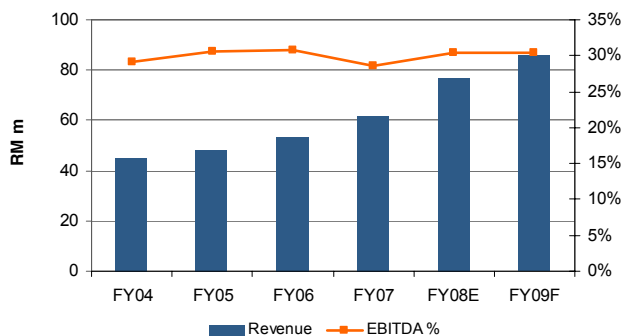
It is estimated that there are over 300,000 students enrolled in private institutions. Over the years, a major growth market has developed in the form of international student enrollments. At present, there are approximately 36,000 international students studying in private institutions in Malaysia and the government has set a target to increase the number to 100,000 by 2010.

As an operator of private colleges in Malaysia, HIC comes under the purview of the MOHE. Any changes in the policies, requirements or practices by MOHE or its agencies may affect HIC's business, including programmes offered, programme fees and student intake to name a few.

Earnings Outlook

We understand the average increase in tuition fees is 10% per annum and according to management, there is no clear drop in student enrollment immediately following the increase in the past. Fee increment coupled with higher student enrollment over the years has pushed HIC's revenue to MYR61.7 mln in FY07 (Oct.) from MYR 44.9 mln in FY04 (on proforma basis). Management has been successful in maintaining EBITDA at circa 30%-level. Net margin has been hovering between 15% and 16%.

HIC's pro-forma historical & projected future financial performance



Source: Company data, S&P Equity Research

We project revenue to hit MYR77.2 mln in FY08 and MYR87.5 mln in FY09, while net profit at MYR12.3 mln and MYR 14.2 mln, respectively. Our key assumptions in deriving our forecast include a net addition of 1,500 students in FY08 and 600 students in FY09. The higher figure in FY08 is mainly due to consolidation of students at the HELP ICT post completion of acquisition in Nov. 2007. On tuition fees, we assume a more conservative 6.5% average fee increase per annum.

Going forward, we believe HIC's growth is underpinned by the group's efforts to: (i) increase its student population including international students; (ii) increase delivery channels via strategic partnership with other education institutions either locally or in overseas; (iii) introduce new innovative programmes; and (iv) continuously improve efficiency to battle cost increase pressure.

HIC has two major enrollments in a calendar year, ie Dec./Jan. period and Mar./Apr. period. We understand that in the most recent major enrollment (Dec./Jan.) exercise, response has been encouraging and student intake exceeded management expectation. Meanwhile, HIC will also continue its efforts to attract international students until it reaches the management's optimal ratio of 65% local vs. 35% international students.

HIC has developed franchising and licensing models to sell its programmes, thus increasing its delivery channels and reach. This could

be done either through other education institution locally or in overseas, with potential markets being countries in the Asia region such as Indonesia and China.

In view of the current development in the business world, HIC seized the opportunity to introduce innovative niche programmes such as Masters of Economic Crime and Bachelors in Asian Business Studies to capture the rising demand in these specialized areas.

The management is mindful of the cost pressure increase in tandem with the tougher operating environment, and responded with the introduction of several cost-cutting measures as well key performance indicators to better manage cost and increase efficiency.

Note that HIC experiences seasonality factor in its financial performance, in that the first and third quarter of each financial year usually record lower revenue and profit due to the summer period (shorter teaching week) for courses from institution in the UK, USA and Australia. HIC recognizes tuition fees based on number of teaching weeks over the course period.

Meanwhile, the group's effective tax rate has historically been higher than the statutory level due to certain undeductible expenses. We understand that management is looking to be more tax efficient.

On balance sheet strength, the group currently has zero borrowings and intends to remain so in the near future. We like HIC's strategy in staying asset light by minimizing building ownership, which otherwise could be a burden to its balance sheet. This allows the group to remain focused on its core business and generates higher return on assets.

NTA per share stood at 82 sen as at Dec. 2007. FY07 ROA and ROE were 8.7% and 13.2%, respectively. Based on the group's historical performance and our profit projection, we believe HIC may seek transfer to Main Board upon meeting the profit track record.

Valuation

Our FY08 net profit forecast of MYR12.3 mln translates into a FY08 EPS of 13.8 sen. HIC's profitability track record is far superior to the other 3 local listed education providers, while its listed peers in Singapore are either in different education segments (not tertiary education) or have not been performing well financially.

Comparative Valuations

	HELP Int'l	INTI Universal	SEG Int'l	Stamford College
Bloomberg code	HELP MK	IUH MK	SYS MK	STAM MK
Share Price@ Feb. 29, 2008	1.53	1.10	0.68	0.25
Currency	MYR	MYR	MYR	MYR
Mkt. Cap (mln)	135.8	232.0	60.6	10.0
Ave. Daily Vol. ('000)	277	736	250	18
PER FY07 (x)	14.0	116.0	11.5	NM
P/BV	1.9	1.0	0.4	0.5
Yield (%)	1.9	2.3	2.9	0.0

Source: Bloomberg, Company data

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Help International Corporation

Recommendation: **BUY**Stock Code: **7236**Bloomberg: **HELP MK**Price: **MYR1.54**12-Month Target Price: **MYR1.90**Date: **March 3, 2008**

INTI's share price surged from circa 60 sen in Sep. 2007 to the current level mainly due to a takeover bid on the group by an international education company, Laureate Education Inc., and hence we believe neither its share price nor its trading PER is reflective of its current financial performance.

We therefore peg HIC's FY08 EPS of 13.8 sen against a PER of 13.8x which is a 20% premium to SEG's PER to reflect its superior financial track record, and arrive at a 12-month target price of MYR1.93. Our target price includes a projected 3.0 sen dividend in FY08. We initiate our coverage with a Buy call.

Recent Development

Nov. 6, 2007: HIC completed the acquisition of HELP ICT Sdn. Bhd. (formerly known as Sepang Education Centre Sdn. Bhd.) for a cash consideration of MYR2.0 mln. HELP ICT operates HICT (formerly known as S.I.T International College), which is one of the largest private colleges in Klang, Selangor.

Jan. 25, 2008: HIC announced that it had been granted three months extension until Mar. 31, 2008 to comply with the public shareholding spread. As at the announcement date, its public shareholding was 26.7% in the hands of 836 public shareholders (less than the required 1,000 public shareholders holding not less than 100 shares each).

Profit & Loss

FY Oct. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	53.5	61.7	77.2	87.5
Reported Operating Profit	12.0	13.4	17.1	19.7
Depreciation & Amortization	-4.5	-4.2	-6.2	-7.0
Net Interest Income / (Expense)	0.0	0.0	0.0	0.0
Reported Pre-tax Profit	12.0	13.4	17.1	19.7
Effective Tax Rate (%)	32.9	27.9	28.0	28.0
Reported Net Profit	8.1	9.7	12.3	14.2
Reported Operating Margin (%)	22.4	21.7	22.1	22.5
Reported Pre-tax Margin (%)	22.4	21.7	22.1	22.5
Reported Net Margin (%)	15.1	15.7	15.9	16.2

Source: Company data, S&P Equity Research

Balance Sheet

FY Oct. / MYR mln	2006	2007
Total Assets	95.4	111.4
Fixed Assets	44.6	43.9
Current Assets	50.7	67.4
Other LT Assets	0.1	0.1
Current Liabilities	31.3	36.3
LT Liabilities	64.2	73.2
Share Capital	44.4	44.4
Shareholders' Funds	63.4	73.2

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	1.93

