InsiderAsia
by Asia Analytica

1Q FY Oct 2011 Results

28 March 2011

HELP International Corp Berhad

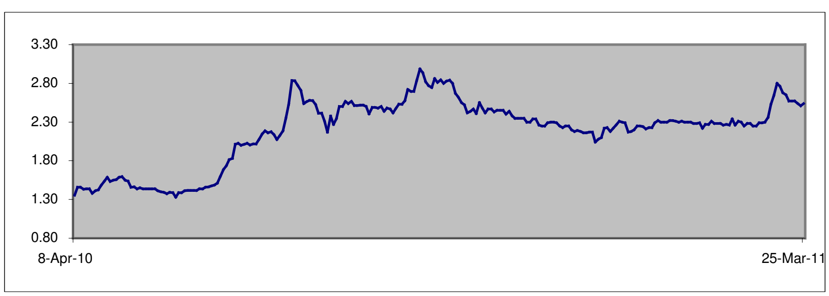
- Within expectations, 1Q is seasonally slowest quarter
- Jan-Feb 2011 net enrolment up 8%, or 1,000 students
- Overseas expansion plans well underway
- Resilient earnings, strong branding, double digit growth

BUY

Key stock statistics	FY Oct10	FY Oct11E
EPS (sen)	13.4	16.0
P/E (x)	18.9	15.8
DPS (sen)	2.0	2.0
NTA/share (RM)	0.80	0.94
Issued capital (mil)	142.0	
52-week price range (RM)	1.18-2.99	

Major shareholders (%)	
Selangor Properties	51.0%
Acacia Partners LP	7.2%

Share Price Chart



Price
RM2.54

Market capitalization
RM361 million

Board
Main

Sector
Trading / Services

Stock code
7236

By
The Research Team

1Q FY Oct 2011 Results Highlights:

Year end Oct (RM mil)	1QFY11	1QFY10	% chg
Turnover	24.3	23.5	3.3
Pre-tax profit	4.1	3.8	10.0
Tax	(1.4)	(1.3)	5.1
Net profit	2.7	2.4	12.7
EPS (sen)	1.9	1.7	
Pre-tax profit margin (%)	17.0	16.0	
Net profit margin (%)	11.2	10.3	

HELP International Corp's results for 1Q FY Oct 2011 were within our expectations. Despite relatively modest top-line revenue growth of 3.3%, higher profit margins boosted pre-tax profit by 10% to RM4.1 million, while net profit increased 12.7% to RM2.7 million.

1QFY11's earnings accounted for 12% of our full year forecast of RM22.8 million, which is within our expectations and the company's historical norm as this is the slowest quarter of the year. Last year, the company's net profit for 1QFY10 accounted for 12.7% of the full year's total.

HELP's earnings are highly seasonal as it recognizes revenue and profits according to the classes conducted for each student enrolled, rather than on a pro-rated basis across the year.

As such, its earnings are traditionally weak for the first and third quarters for its October financial year (Nov-Jan and May-Jul) due to the year-end and mid-year holidays. Earnings are very strong in the second and fourth quarters (Feb-Apr and Aug-Oct) when classes are in full swing.

Despite higher costs as the company prepares for the opening of the Fraser Business Park campus in Kuala Lumpur, pre-tax profit margins for the quarter increased from 16% to 17%. This was mainly due to a higher proportion of students studying for home-grown degrees, awarded under the "HELP University College" banner, as its brand name gained further strength.

HELP's balance sheet remains strong, despite its recent heavy investments into new physical assets, such as the land for the Subang 2 campus (RM20.3 million) and progressive payments for the purchase of the HELP Residence hostel, which cost RM50 million, to be paid over five years.

Net cash stood at RM59.7 million in Jan 2010. This includes RM30.7 million for fees received in advance.

Outlook and recommendation

We maintain our forecasts for FY11-12 and **BUY** recommendation. We expect net profit to rise 19.4% to RM22.8 million in FY11 and 18.2% to RM26.9 million in FY12, with EPS of 16 sen and 19 sen, respectively.

At the current price of RM2.54, its shares are trading at 15.8 times FY11 and 13.4 times FY12 earnings, which are undemanding relative to HELP's strong branding, robust growth prospects and resilient earnings.

HELP is likely to continue chalking up double-digit earnings growth in FY Oct 2011-2012, although there is a risk growth may slow slightly in FY13 when the new Subang 2 campus opens due to one-off costs. Nonetheless, the company's overseas earnings will also be higher by then.

The strong branding has helped to expand its student population base, extend its presence overseas and increase the appeal of its own home-grown degrees. Coupled with the increasingly prohibitive cost of overseas degrees, the ability to increase its student base and fees in the future underscore the resilience of the company's earnings.

We understand from management student enrolment numbers in January and February for the 2011 academic year programmes have been robust. Some 1,000 net new students (after deducting those who graduated) were added to the 12,000 student base, or a net growth of 8%.

This augers well for the rest of the financial year and the next 2-3 years, as these students provide a steady source of income. The company is targeting to grow its enrolment base by 8-10% annually.

HELP has a clearly mapped out growth strategy over the next few years – both domestically and internationally. The international strategy involves expanding HELP's footprint and branding throughout the region. The domestic strategy involves widening its student base and target market by increasing the levels of education and courses – from mainly tertiary to post-graduate, secondary schooling, certificate and vocational courses.

HELP's domestic expansion will be anchored by two new campuses – Fraser Business Park in downtown Kuala Lumpur and the flagship Subang 2 campus in Sungei Buloh. The company aims to grow its domestic student base from around 12,000 at present to 16,000 by 2016.

The Subang 2 campus will elevate HELP into a full-fledged University (from University College status) and serve as the regional centre for its increasing overseas student population. The 23.3 acres Subang 2 land was acquired for just RM20 psf or RM20.3 million. The entire campus is expected to cost around RM150 million, including land cost, with total built-up space of one million sq ft, with a first phase of 300,000 sq ft.

The Fraser Business Park campus on Jalan Sungei Besi, in downtown Kuala Lumpur, will open 2 April 2011. HELP is leasing about 220,000 sq ft of space, which can accommodate up to 5,000 students.

The campus will cater largely for post-graduate, technical and vocational courses, and will host a wide range of new courses such as culinary, hospitality, performing arts and physiotherapy, among others.

Klang-based HELP-ICT will also relocate to this campus, giving it an instant base of about 1,500 students and widening its engineering, vocational and medical courses to Klang Valley students.

We understand HELP is also considering venturing into private secondary schooling education, which is very lucrative due to the rise in demand for private schools as opposed to national schools.

On the overseas front, HELP currently has about 1,600 students studying for its accredited courses abroad, in Vietnam, China and Indonesia and is expanding its footprint further.

It is in the process of setting up new affiliations in several countries, and has recently ventured into on-line learning via the acquisition of a stake in a Swiss e-learning company.

In China, HELP is actively working on several new projects and hopes to expand to major cities including Shanghai and Nanjing. We understand negotiations for tie-ups are also being made with partners to expand into Sri Lanka, Mauritius, India and Cambodia.

HELP hopes to set up base in London via the acquisition of a training school and in Sydney, Australia, where it aims to start a new college called ELM (Entrepreneur Learning Management) in mid-2011, which will offer tertiary degrees and on-line learning courses.

The company is also targeting to expand to Singapore and Hong Kong – likely by acquiring stakes in existing small colleges to offer twinning courses. As the overseas ventures mainly involve “franchise” or “twinning” like arrangements with low risks and entry costs, we do not expect substantial capital expenditure.

With these new tie-ups, the company should see significant overseas income from FY2011 onwards, and expects overseas revenue to grow from 10% at present to 50% by 2016.

HELP’s strong balance sheet should easily support its expansion exercise. Our forecast assumes total capex of about RM160 million over FY2011-2013. Nonetheless, we would not discount the possibility of a fund raising exercise at a later stage, as we believe management has a prudent philosophy and would prefer not to gear up too much.

Profit & Loss Analysis

Year end Oct (RM mil)	2009	2010	2011E	2012E
Turnover	96.6	105.2	117.9	131.3
EBITDA	24.8	30.6	35.4	42.5
Depreciation	(4.6)	(5.0)	(5.5)	(6.5)
Interest income/(exp)	1.6	1.0	0.9	0.4
Pre-tax profit	21.8	26.7	30.8	36.4
Tax	(6.4)	(7.6)	(8.0)	(9.5)
Minorities	-	-	-	-
Net profit	15.5	19.1	22.8	26.9
Operating margin (%)	25.7	29.1	30.0	32.4
Pre-tax margin (%)	22.6	25.4	26.1	27.7
Net margin (%)	16.0	18.2	19.3	20.5
Effective tax rate (%)	29.2	28.4	26.0	26.0

Per Share Data

Year end Oct	2009	2010	2011E	2012E
EPS (sen)	10.9	13.4	16.0	19.0
P/E (x)	23.4	18.9	15.8	13.4
Dividend (sen)	1.9	2.0	2.0	2.0
Dividend yield (%)	0.7	0.8	0.8	0.8
Payout ratio (%)	17	15	12	11
Book value (RM)	0.68	0.80	0.94	1.11
Price/Book value (x)	3.74	3.18	2.71	2.29
Cashflow/share (sen)	14.1	17.0	19.9	23.5
Price/Cashflow (x)	18.0	15.0	12.8	10.8
Gearing %	Net cash	Net cash	Net cash	Net cash
ROE (%)	16.0	16.8	17.1	17.1

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