

Company Update

1 March 2011

HELP International Corp Berhad

- Aggressive international expansion plans
- Two new domestic campuses to spur local growth
- Double digit growth, decent P/E of 11.9 times FY2012
- Recession-proof earnings, strong branding

BUY

Price
RM2.26

Market capitalization
RM321 million

Board
Main

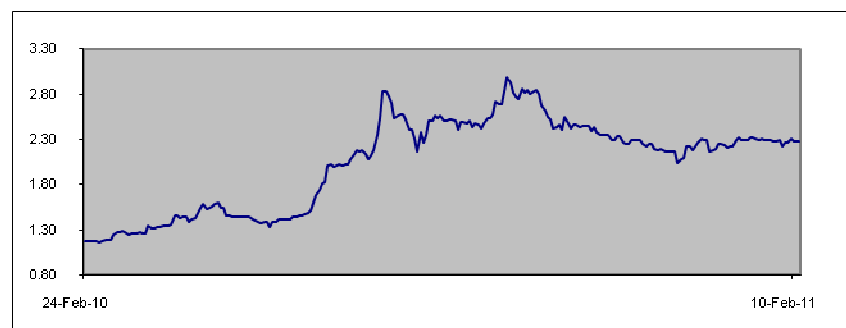
Sector
Trading / Services

Stock code
7236

By
The Research Team

Key stock statistics	FY Oct10	FY Oct11E
EPS (sen)	13.4	16.0
P/E (x)	16.8	14.1
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



Investment summary & recommendation

HELP International Corp Bhd has a strong business model and brand name. 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 awarded under "HELP University College" banner.

The increasingly prohibitive cost of overseas degrees, and HELP's strong branding and academic standing will continue to increase its student base and ability to increase fees in the future, especially for twinning degrees.

This underscores the resilience of the company's earnings, which have grown over 20% annually in the past five years.

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.

The domestic strategy will culminate in the setting up of its new flagship 23.3 acre Subang 2 campus. The campus will elevate HELP into a full-fledged University, from its present status as a University College granted since 2004, and help serve as HELP's regional centre for its increasing overseas student population.

In the medium term, growth will be anchored by growing student numbers (both locally and abroad), the staggered impact of fee increases and the addition of its Fraser Business Park campus.

In addition to its student population of about 12,000 in Malaysia, HELP has about 1,600 students studying for its accredited courses overseas, in Vietnam, China and Indonesia.

HELP is expanding its overseas base further. It is in the process of setting up new affiliations in Indonesia, China, Cambodia, India, the Maldives, UK and Singapore, apart from establishing an education arm in Australia. It is also venturing into on-line learning via the acquisition of a stake in a Swiss e-learning company.

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 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.

HELP's earnings have grown at a double-digit clip since FY2004, with net profit rising from RM5.7 million that year to RM19.1 million in FY10. In FY10, net profit rose 23.6% to RM19.1 million, or 13.4 sen per share, on the back of an 8.9% growth in revenue to RM105.2 million.

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.

Its earnings are highly seasonal as the company 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.

HELP's shares have performed well in 2010 but remain very reasonably priced for a company with strong fundamentals, balance sheet and branding; solid growth prospects and relatively resilient earnings.

At the current price of RM2.26, they are trading at 14.1 times FY11 and 11.9 times FY12 earnings. We maintain our **BUY** recommendation.

Recent developments

New campuses to anchor domestic expansion

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

Due to delays in construction and handover, the new campus at Fraser Business Park on Jalan Sungei Besi, in downtown Kuala Lumpur, will now open in 1Q2011, delayed from an original target of mid-2010 and a later revised date of 4Q2010.

HELP is leasing about 220,000 sq ft of space at a preferential rate for the city campus, 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.

HELP-ICT (the former Sepang Institute of Technology which was acquired in Nov 2007) will also move from its present location in Klang to the Fraser Business Park campus.

This will give the new campus an instant base of about 1,500 students with economies of scale. It will also widen the appeal of HELP-ICT's engineering, vocational and medical courses to Klang Valley students, as they were previously limited by its less desirable location in Klang.

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.

It is understood land prices in the area have since appreciated to about RM100 psf, due to its location next to prime township of Kota Damansara and expectations of the development of the nearby 3,300 acre Rubber Research Institute land, as well as improving access with the upcoming MRT system extending into Kota Damansara and Sungei Buloh.

The entire campus is expected to cost around RM150 million, including land cost, with total built-up space of one million sq ft. However, construction will be staggered in phases to cater for demand, with preliminary plans for a first phase of 300,000 sq ft of built-up space. Construction will begin this year with ground breaking expected in March 2011.

HELP is also expanding its market base beyond just focusing primarily on tertiary and A-level courses.

The Fraser Business Park campus will expand its product offering to include post-graduate, vocational and specialized courses. We understand the company 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 Feb 23, 2010, HELP signed an MOU with the Naza group of companies to establish an automotive college in Malaysia. The plans are to have three campuses in the country, in Kedah, Klang Valley, and in Iskandar, Johor

Aggressive overseas expansion

HELP's overseas ventures in Vietnam, Indonesia and China are running smoothly and the company is making further inroads in its overseas expansion drive. The ability to penetrate the international market is a strong testimony to its strong brand name.

The overseas ventures mainly involve "franchise" or "twinning" like arrangements with low risks and entry costs, but high international visibility and earnings potential.

HELP typically provides software, syllabus, training, technical and academic support, without heavy investment in buildings or physical assets, which are provided by its overseas partners. Thus, despite an aggressively pipeline of projects going forward, it does not expect substantial capital expenditure.

HELP currently has over 1,600 students studying overseas for its degrees, comprising about 1,200 students at Vietnam National University and 400 at several affiliated private colleges in Indonesia and China. This is an increase from about 1,000 a year ago and a zero base just three years ago. Under these arrangements, most students will transfer to Malaysia after a year or two in their home countries, to obtain HELP or other accredited degrees.

International operations now contribute about 10% of revenue, from zero just 2-3 years ago, and the company hopes to increase this to 50% by 2016.

In China, where HELP started its presence last year via a joint venture in Suzhou, the company is actively working on several new projects and hopes to expand to several major cities including Shanghai and Nanjing.

We understand negotiations for tie-ups are also being made with partners to expand into Sri Lanka, Mauritius and Chennai, India. In Cambodia, we understand management is negotiating to partner a private institution to offer vocational learning and degrees.

While HELP's overseas expansions have previously focused on developing countries, it will also start to look at several developed nations this year.

The company is targeting to expand to Singapore and Hong Kong - likely by acquiring stakes in existing small colleges to provide a base to offer twinning courses as there is a large captive market in these two countries.

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

HELP is also expanding into e-learning through the recently announced acquisition of a 20% stake in a Swiss company, Bride2think AG for RM1.36 million. This will give it access to about one million e-learning users worldwide, and the ability to add its own courses to the Swiss company's portfolio of e-learning courses.

Strong balance sheet, but fund raising possible

HELP has a very strong balance sheet, which should be able to easily support its expansion exercise. Nonetheless, we would not discount the possibility of a fund raising exercise at a later stage, as we believe management has a prudent philosophy, preferring not to gear up too much, and to keep a war chest for future expansion.

As at Oct 30, 2010, HELP had RM67.41 million in cash and no borrowings, although this includes RM21.48 million for fees received in advance.

Its cash position had dipped from RM87.72 million a year earlier due to the purchase of the Subang 2 land and part payment for HELP Residence, a campus hostel in Damansara Heights, which costs RM50 million, to be paid over five years.

Our forecast assumes total capex of about RM160 million over FY2011-2013, which should see the company still remaining debt-free, but only marginally, due to strong cash flows. However, the actual amount to be spent will depend on the needs of the new campus and its overseas expansion plans.

Apart from the newly acquired Subang 2 campus and HELP Residence, the company's other main property asset is Wisma HELP, an 11-storey building in the prime Damansara Heights suburb of Kuala Lumpur. The building has 269,086 sq ft of built-up space on 43,292 sq ft of freehold land. This property is carried in its books at only RM31.55 million – or just RM117 psf for the built-up space.

Although the building is relatively old at about 30 years, the valuation is far too low compared with current market prices of about RM550-850 psf for strata offices in the wider Damansara Heights, Bangsar and Mont'Kiara areas, as well as replacement costs.

HELP Residence, which the company acquired for RM50 million last year, is presently used as its hostel. The building, along Jalan Damansara in Damansara Heights, comprises a 21-storey hostel building with 4 levels of basement car-park on 11,970 sq ft of freehold land. The building is 3 years old and has gross floor area of 151,956 sq ft with 432 rooms, 5 executive rooms, a library, a multi-purpose hall and a cafeteria.

The purchase price of RM50 million is equivalent to about RM329 psf on a gross built-up space basis, and will be satisfied in cash over 5 years, with interest accrued at 4% annually for the remaining balance.

The acquisition is earnings-accretive for HELP as the property was previously rented at a monthly rental of RM343,933, or RM4.127 million per year, or a rental yield of 8.25%, as opposed to interest income of 2% and 4% for the staggered installment payments.

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)	20.8	16.8	14.1	11.9
Dividend (sen)	1.9	2.0	2.0	2.0
Dividend yield (%)	0.8	0.9	0.9	0.9
Payout ratio (%)	17	15	12	11
Book value (RM)	0.68	0.80	0.94	1.11
Price/Book value (x)	3.33	2.83	2.41	2.04
Cashflow/share (sen)	14.1	17.0	19.9	23.5
Price/Cashflow (x)	16.0	13.3	11.3	9.6
Gearing %	Net cash	Net cash	Net cash	Net cash
ROE (%)	16.0	16.8	17.1	17.1



*InsiderAsia is brought to you by Asia Analytica Sdn Bhd,
an investment adviser licensed by the Securities Commission of Malaysia.*

NOTE: These reports are intended for Malaysian residents only and are prepared without regard to your specific investment objectives, financial situation or particular needs. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or related financial instruments. The information herein is obtained from various sources and we do not guarantee its accuracy or completeness. All views and advice are given in good faith but without legal responsibility. You should not regard the reports as a substitute for the exercise of your own judgment and you should seek professional advice for your specific investment needs. Any opinions expressed in these reports are subject to change without notice. Our shareholders, directors and employees may have positions in or may be materially interested in any of the stocks in any of the markets mentioned. We may also have or have had dealings with or may provide or have provided content services to the companies mentioned in the reports.

This report has been prepared by Asia Analytica Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Asia Analytica Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/

Comments & contact: info@insiderasia.com Tel: 03-77218060 Fax: 03-77218061

Asia Analytica Sdn Bhd Suite 3B, Level 3, Menara KLK, 1 Jalan PJU7/6, Mutiara Damansara, 47810 Petaling Jaya, Selangor, Malaysia