

1Q FY Oct 2009 results

HELP International Corp

- 1QFY09 results in line with expectations
- Seasonally slow quarter, but strong y-y growth
- Rising enrolments, overseas ventures featuring
- Very attractive valuations, strong business franchise

BUY

Price
RM1.10

Market capitalization
RM98 million

Board
Second

Indices
FBM 2B

Sector
Trading / Services

Stock code
7236

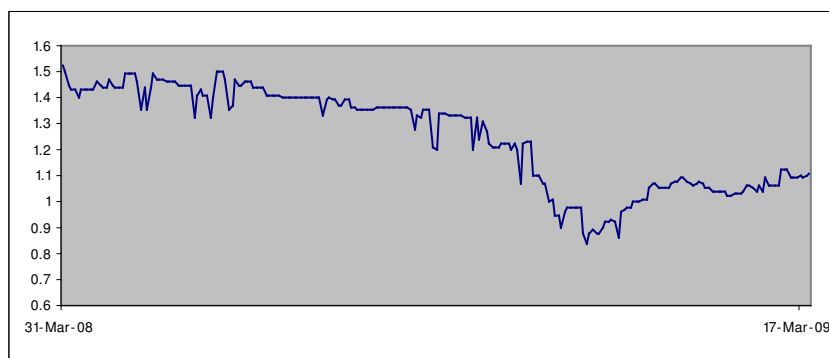
Analyst
Kevin Khoo

Key stock statistics	FY Oct08	FY Oct09E
EPS (sen)	13.3	16.1
P/E (x)	8.3	6.8
DPS (sen)	3.0	3.0
NTA/share (RM)	0.93	1.06
Issued capital (mil)	88.8 (50 sen par)	
52-week price range (RM)	0.81-1.55	

Major shareholders (%)

Selangor Properties	51.0%
Dato' Zakaria Ahmad	14.5%
Tele Suria Resources	4.4%

Share Price Chart



1Q FY Oct 2009 results highlights:

Year end Oct (RM mil)	1QFY09	1QFY08	% chg
Turnover	20.9	18.1	15.4
Pre-tax profit	2.3	1.4	63.1
Tax	(1.1)	(0.6)	84.1
Net profit	1.2	0.8	55.6
EPS (sen)	1.4	0.9	
Pre-tax profit margin (%)	11.0	7.8	
Net profit margin (%)	5.9	4.5	

HELP International Corp's results for the first quarter of FY Oct 2009 (Nov 2008-Jan 2009) were within our expectations, with very strong y-y growth numbers despite the quarter being a seasonally slow one.

HELP is one of Malaysia's leading providers of education services and is highly regarded for its academic quality and innovative products. It was among the first Malaysian institutions to introduce "twinning" programmes in the 1980s and has established strong collaborative relationships with a number of top international universities in the UK, Australia and the US.

The company's 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, 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.

Reflecting this trend, HELP's 1QFY09 pre-tax profit of RM2.3 million may appear weak relative to our earlier full year forecast of RM18 million. But they were very much within expectations. Indeed, the quarter showed very strong y-y growth, reflecting the strength of its core business.

For 1QFY09, turnover increased by 15.4% y-y to RM20.9 million. Pre-tax profit increased by a wider margin of 63.1% y-y to RM2.3 million while net profit rose 55.6% y-y to RM1.2 million.

Turnover growth reflected increasing student enrolments and some impact from earlier fee increases. The group currently has about 11,500 students enrolled. Both quarters include the impact of HELP-ICT (the former Sepang Institute of Technology), which was acquired in Nov 2007 for RM2 million.

HELP-ICT gave the group a new foothold in Klang, a wider range of courses, a 1,500-strong student base and access to a large 200,000 sq ft campus within a popular shopping mall.

However, HELP-ICT continues to be loss-making given the small population base relative to capacity. Nonetheless, losses have narrowed considerably since the HELP group took over. It lost about RM2 million in FY08 and is expected to breakeven next year.

Despite the continuing small losses at HELP-ICT, HELP's overall pre-tax profit rose 63% to RM2.3 million, while pre-tax profit margins expanded from 7.8% to 11%. This was due largely to a higher proportion of home-grown courses conducted – ie those awarded under the “HELP University College” banner, which reduced payments to external universities.

HELP's balance sheet is very strong. Net cash totaled RM73.4 million in Jan 2009, roughly unchanged from RM74 million in Oct 2008. This is equivalent to a significant 82.6 sen per share – or 75% of the current share price.

The sum includes RM27.2 million for fees paid in advance, but excludes the RM20.3 million allocated for the purchase of 23.3 acres of land for its new campus in Subang 2, Sungei Buloh.

Outlook & recommendation

HELP should be on track to comfortably achieve our full year forecasts, as the first quarter is traditionally the weakest. Indeed, we are raising our FY09 net profit forecast by 7.5% from RM13.3 million to RM14.3 million.

The HELP group has a strong business model and brand name. The strong brand name 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.

From just 8,600 students in Oct 2007, the HELP group now has about 11,500 students, including 1,500 from HELP-ICT. This excludes over 1,000 students studying for HELP accredited courses overseas in Vietnam, Indonesia and China through franchising arrangements.

The group has been growing its student base through acquisitions and new colleges (HELP-ICT and soon, the new Fraser Business Park and Subang campuses), organic growth (from its strong branding, academic standing and new courses) and overseas tie-ups that are now featuring more strongly.

On the local front, HELP-ICT is being positioned as the engineering, vocational and medical college of the group. The group will be introducing new twinning courses for pharmacy soon, and aims to introduce more vocational courses in the future.

HELP-ICT is expected to turnaround next year. The college currently has about 1,500 students and will breakeven after achieving 2,000 students.

The new campus at Fraser Business Park, Kuala Lumpur, is expected to open later this year. HELP will lease over 200,000 sq ft of space in the business centre in downtown Kuala Lumpur, which will accommodate up to 5,000 students. As a city campus, it will cater largely to post-graduate, technical and other courses.

Further out, the group's longer-term expansion plans will be centred on the Subang 2 campus near Sungei Buloh. Located on 23.3 acres, the land was acquired for just RM20 psf, compared to market prices of around RM50-60 psf. The land acquisition is still being finalized.

The entire campus is expected to cost around RM100 million, including land cost of RM20.3 million. HELP hopes to receive building approvals by the end of this year and start building next year.

The first phase, with 300,000 sq ft of built-up space will cost RM70 million, including land cost. This can be easily funded through annual cash flows, although it will likely take advantage of current low interest rates. The full-fledged campus will support HELP's application for full university status.

HELP's home-grown degrees, granted under the HELP University College brandname are also gaining popularity – not just locally but abroad as well.

The company was awarded “University College” status in 2004, enabling it to design and award its own degrees. The shift towards more home-grown degrees has helped improve overall margins, which would have been even stronger if not for losses at HELP-ICT.

HELP's overseas ventures in Vietnam, Indonesia, China and Saudi Arabia are also taking off well. Its ability to penetrate the international market is a strong testimony to the HELP brand.

The overseas ventures involve a “franchise” or “twinning” like arrangements with low risks and entry costs on the part of the company, but with high international visibility for its branding and good earnings potential.

In most cases, HELP provides software, syllabus, training, technical and academic and support, without heavy investment in buildings or physical assets.

HELP currently has over 1,000 students studying overseas for its degrees, most of them in Vietnam and some in Indonesia and China. The group is also exploring opportunities in other parts of Indochina.

The Vietnam venture is the largest and involves twinning programmes with Vietnam National University in Hanoi. Under these arrangements, students will transfer to Malaysia after a year or two in Vietnam to obtain HELP or other accredited degrees.

Similar “twinning” arrangements are being done with several Indonesian and Chinese colleges, but on a smaller scale. We understand the company has also been invited to explore similar ventures in other parts of Indochina.

We expect HELP's net profit to rise 21.1% to RM14.3 million in FY09, driven by rising student numbers, lower losses at HELP-ICT and rising overseas income. P/E valuations are very low at 6.8 and 6.3 times FY09-10 earnings, and the stock trades near our estimated NTA of RM1.06 by end-2009.

These valuations are very attractive for a company with strong fundamentals, balance sheet and branding, and favourable growth prospects. We maintain our **BUY** recommendation. We like HELP's cash-generating, fairly recession-proof business and strong business franchise.

Profit & Loss Analysis

Year end Oct (RM mil)	2007	2008	2009E	2010E
Turnover	61.7	86.5	91.1	102.0
EBITDA	13.3	15.4	22.7	25.8
Depreciation	(3.2)	(4.5)	(4.6)	(5.5)
Interest income/(exp)	3.2	5.2	1.2	0.8
Pre-tax profit	13.4	16.1	19.3	21.1
Tax	(3.7)	(4.3)	(5.0)	(5.5)
Minorities	0.0	(0.0)	-	-
Net profit	9.7	11.8	14.3	15.6
Operating margin (%)	21.6	17.8	24.9	25.3
Pre-tax margin (%)	21.7	18.6	21.2	20.7
Net margin (%)	15.7	13.6	15.7	15.3
Effective tax rate (%)	27.9	26.7	26.0	26.0

Per Share Data

Year end Oct	2007	2008	2009E	2010E
EPS (sen)	10.9	13.3	16.1	17.6
P/E (x)	10.1	8.3	6.8	6.3
Dividend (sen)	3.0	3.0	3.0	3.0
Dividend yield (%)	2.7	2.7	2.7	2.7
Payout ratio (%)	20	23	19	17
Book value (RM)	0.82	0.93	1.06	1.20
Price/Book value (x)	1.33	1.19	1.04	0.91
Cashflow/share (sen)	14.5	18.4	21.3	23.8
Price/Cashflow (x)	7.6	6.0	5.2	4.6
Gearing %	Net cash	Net cash	Net cash	Net cash
ROE (%)	13.2	14.3	15.2	14.6



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