

1Q FY Oct 2010 Results

HELP International Corp Berhad

- Robust 1QFY10, net profit doubles
- On track for continued 20% EPS growth in FY10-11
- Low P/E of 8x FY11, net cash 98 sen per share
- Underlying business, excl cash & building comes “free”

BUY

Price
RM2.03

Market capitalization
RM180 million

Board
Main

Sector
Trading / Services

Stock code
7236

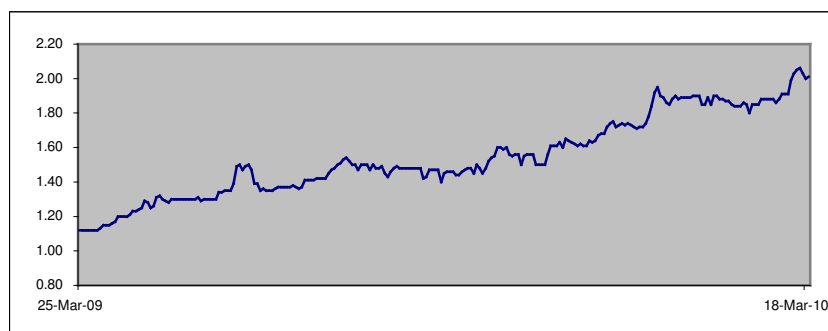
Analyst
Kevin Khoo

Key stock statistics	FY Oct09	FY Oct10E
EPS (sen)	17.4	20.8
P/E (x)	11.7	9.7
DPS (sen)	3.0	2.0
NTA/share (RM)	1.09	1.27
Issued capital (mil)	88.8 (50 sen par)	
52-week price range (RM)	1.00-2.29	

Major shareholders (%)

Selangor Properties	51.0%
Acacia Partners LP	7.2%
Dato' Zakaria Ahmad	5.1%

Share Price Chart



1Q FY Oct 2010 Results Highlights:

Year end Oct (RM mil)	1QFY10	1QFY09	% chg
Turnover	23.5	20.9	12.7
Pre-tax profit	3.8	2.3	63.4
Tax	(1.3)	(1.1)	25.0
Net profit	2.4	1.2	97.1
EPS (sen)	2.7	1.4	
Pre-tax profit margin (%)	16.0	11.0	
Net profit margin (%)	10.3	5.9	

HELP International Corp posted another sterling set of results for 1Q FY Oct 2010. Earnings at the education company continue to expand at a double-digit clip, underscoring its resilience and strong branding. Margins also expanded significantly, thanks to rising demand for home-grown degrees and financial prudence measures during the recession.

For 1Q FY10, revenue rose 12.7% y-y to RM23.5 million. Pre-tax profit increased more significantly, by 63.4% y-y to RM3.8 million as did net profit, which almost doubled to RM2.4 million.

This accounted for 13% of our full year net profit forecast of RM18.5 million, which is within expectations as its earnings are seasonal. As a comparison, earnings in 1QFY09's accounted for just 8% of the full year's total.

HELP'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, 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.

The growth in turnover and profits reflect increasing student enrolments and fee increases, which are felt over several years. More important is the significant increase in profitability and margins. Pre-tax margin expanded from 11% to 16% y-y, despite being the seasonally slow quarter.

This was due to a higher proportion of students studying for home-grown degrees, ie those awarded under the "HELP University College" banner, which reduced payments to external universities. In addition, it also instituted better cost-management efforts during the recession.

HELP's balance sheet remains very strong. Despite paying an initial deposit of RM5 million for the purchase of the HELP Residence hostel, its net cash position remained virtually unchanged over the last quarter. HELP Residence will cost RM50 million, but to be paid over five years.

Net cash stood at RM87.2 million in Jan 2010. This is equivalent to a significant 98 sen per share – or 48% of the current share price of RM2.03.

The sum includes RM30.8 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.

The acquisition of both the Subang 2 land and HELP Residence (the latter for RM50 million, but to be paid over 5 years), are pending regulatory approvals, and will be completed this year.

Outlook & Recommendation

Strategic road map in place

HELP is on track for continued double-digit growth in FY2010-2011. The company's net profit has grown a compounded 24% annually over the last four years and looks set to continue in the next two years. This is a testament to its strong branding, business model and recession-proof qualities.

HELP has a clearly mapped out growth strategy over the next few years, which culminates in the settling up of its new flagship Subang 2 campus.

In the near to 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.

The company will also enjoy substantial cost savings from the recently proposed acquisition of HELP Residence, which will be fully realized in FY2011 (the acquisition is pending completion).

Recall that in Dec 2009, HELP had proposed to buy the HELP Residence building in Damansara Heights, which is presently used as its hostel, for RM50 million cash, to be paid over a period of 5 years, with interest accrued at 4% pa on the unpaid balance. This works out to RM329 psf.

The acquisition is very positive earnings-wise, as savings from rental will far outweigh interest costs. The current annual rental of RM4.127 million for the hostel translates into a rental yield of 8.25% for the vendor, as opposed to interest income of just 2% and the imputed interest rate of 4% for the staggered instalment payments.

Thus, HELP could potentially save up to RM3.125 million a year in FY2011, which is equivalent to 14% of its pre-tax profit base in FY2009.

The longer-term growth strategy will focus on the 23.3 acre Subang 2 integrated campus. This will elevate HELP into a full-fledged University, from its present status as a University College granted since 2004.

The Subang 2 campus will also serve as HELP's regional centre for its increasing overseas student population. This includes those coming to Malaysia to study full-time, as well as those studying overseas for its accredited degrees, most of which the last year is typically spent in Malaysia.

In addition to HELP's current student population of about 12,000 in Malaysia, it has over 1,000 plus students studying for HELP accredited courses overseas, in Vietnam, China and Indonesia. The majority are students enrolled in Vietnam National University.

The overseas ventures involve a “franchise” or “twinning” like arrangements with low risks and entry costs, but high international visibility and earnings potential. HELP provides software, syllabus, training, technical and academic support, without heavy investment in buildings or physical assets.

HELP is expanding its overseas base further, and is in the process of setting up new affiliations with a number of colleges this year, including 4 in Indonesia, 23 in China, 1 in Cambodia and likely another one in Vietnam, all of which will see students studying for HELP-accredited or twinning degrees.

With these new tie-ups, the company should see significant overseas income from FY2011 onwards. It expects to see about 500-600 new overseas based students in FY2010 and 1,200-1,600 the following year – in addition to the current base of over 1,000 students.

Thus, the new Subang 2 campus will alleviate hostel and accommodation constraints at its present Damansara campus, and allow for HELP to become a major regional education player.

Underlying resilience

The rising – and very 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.

HELP 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 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.

Robust earnings growth, attractive valuations

We are maintaining our forecasts and **BUY** recommendation. We expect net profit to rise 20% to RM18.5 million in FY10 and 21% to RM22.4 million in FY11, with EPS of 20.8 sen and 25.2 sen, respectively.

At RM2.03, HELP’s P/E valuations are low at just 9.7 and 8 times for FY10-11 earnings. These valuations are very attractive for a company with strong fundamentals, balance sheet and branding, solid growth prospects and relatively resilient earnings.

The stock's underlying valuations are much lower if we subtract its sizable cash reserves of RM87.2 million, equivalent to a hefty 98 sen per share.

Its latest NTA of RM1.11 per share is also severely understated. The company's main fixed asset, the 11-storey Wisma HELP in Damansara Heights, is carried in its books at only RM32 million – or just RM119 psf for the built-up space.

If we place a conservative value of RM350 psf for Wisma HELP – still well prices below prices of RM520-RM700 for newer buildings in the Mont'Kiara, Bangsar and Damansara Heights areas, we would arrive at a value of RM94.2 million for the building.

Thus, the value of the building and cash alone would total RM181.4 million – or RM2.05 per share, around the current share price. This implies that investors are getting HELP's other assets, including the underlying business, valuable franchises and strong branding built up for the past 24 years, for effectively "free".

New campuses to anchor expansion

HELP's expansion will be anchored by two new campuses, in Fraser Business Park and Subang 2.

Due to delays in construction and handover, the new campus at Fraser Business Park on Jalan Sungei Besi, Kuala Lumpur, will open later – in the fourth quarter instead of May 2010. HELP will lease 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, including a wide range of new courses such as culinary, hospitality, performing arts, physiotherapy and others.

HELP-ICT (the former Sepang Institute of Technology acquired in Nov 2007) will also move from its present location in Klang to the Fraser Park campus. This will give the new campus an instant base of about 1,500 students with economies of scale.

More importantly, it will further 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. HELP-ICT also plans to introduce several new popular courses next year, such as pharmacy.

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, which is still being finalized.

The entire campus is expected to cost around RM100 million, including land cost. HELP hopes to receive building approvals this year and start building next year. The first phase, with 300,000 sq ft of built-up space will cost RM50 million. This can be easily funded through annual cash flows.

Profit & Loss Analysis

Year end Oct (RM mil)	2008	2009	2010E	2011E
Turnover	86.5	96.6	105.8	117.8
EBITDA	15.5	24.8	29.2	35.8
Depreciation	(4.6)	(4.6)	(5.0)	(5.5)
Interest income/(exp)	5.2	1.6	1.0	(0.4)
Pre-tax profit	16.1	21.8	25.2	29.9
Tax	(4.3)	(6.4)	(6.7)	(7.5)
Minorities	(0.0)	-	-	
Net profit	11.8	15.5	18.5	22.4
Operating margin (%)	17.9	25.7	27.6	30.4
Pre-tax margin (%)	18.6	22.6	23.8	25.4
Net margin (%)	13.6	16.0	17.5	19.0
Effective tax rate (%)	26.7	29.2	26.5	25.0

Per Share Data

Year end Oct	2008	2009	2010E	2011E
EPS (sen)	13.3	17.4	20.8	25.2
P/E (x)	15.3	11.7	9.7	8.0
Dividend (sen)	3.0	3.0	2.0	2.0
Dividend yield (%)	1.5	1.5	1.0	1.0
Payout ratio (%)	23	17	10	8
Book value (RM)	0.93	1.09	1.27	1.51
Price/Book value (x)	2.19	1.87	1.59	1.35
Cashflow/share (sen)	18.4	22.6	26.5	31.4
Price/Cashflow (x)	11.0	9.0	7.7	6.5
Gearing %	Net cash	Net cash	Net cash	Net cash
ROE (%)	14.3	16.0	16.3	16.7



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