

2Q FY Oct 2008 results

HELP International Corp

- Strong 2QFY08 results in line with expectations
- Student enrolment numbers growing strongly
- Overseas ventures progressing well
- Reasonably priced at 9.8x FY09 P/E. Maintain BUY

BUY

Price
RM1.44

Market capitalization
RM128 million

Board
Second

Sector
Trading / Services

Stock code
7236

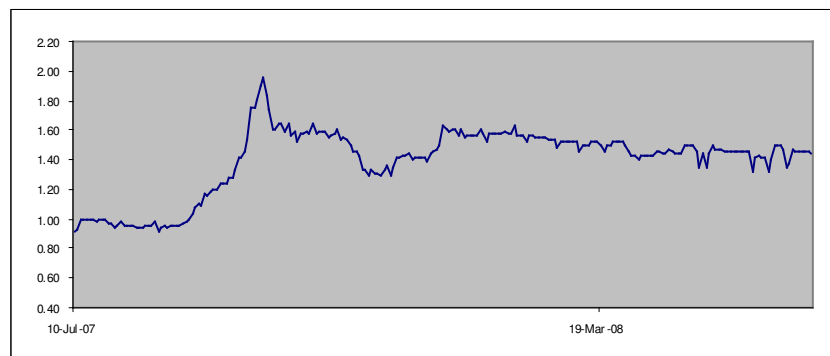
Analyst
Kevin Khoo

Key stock statistics	FY Oct07	FY Oct08E
EPS (sen)	10.9	11.5
P/E (x)	13.2	12.6
DPS (sen)	3.0	3.0
NTA/share (RM)	0.82	0.91
Issued capital (mil)	88.8 (50 sen par)	
52-week price range (RM)	0.81-1.63	

Major shareholders (%)

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

Share Price Chart



1H FY Oct 2008 results highlights:

Year end Oct (RM mil)	1H2008	1H2007	% chg
Turnover	42.1	32.0	31.6
Pre-tax profit	8.0	7.3	10.3
Tax	(2.8)	(2.4)	20.1
Minority interests	(0.0)	(0.0)	NM
Net profit	5.2	4.9	5.2
EPS (sen)	5.8	6.7	
Pre-tax profit margin (%)	19.0	22.7	
Net profit margin (%)	12.3	15.4	

HELP International Corp's (RM1.44) 2QFY Oct 2008 (Feb-April 2008) numbers were in line with our expectations. The company is one of Malaysia's leading providers of education services, offering a wide range of tertiary, pre-university and post-graduate courses.

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

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

Reflecting this trend, the company reported strong 2QFY08 numbers, with pre-tax profit of RM6.6 million, up 22.8% y-y from RM5.4 million in 2QFY07 and compared with just RM1.4 million in 1QFY08.

Cumulative six-month pre-tax profit for 1HFY08 was RM8 million – up 10.3% y-y and accounting for 55% of our full year forecast. Net profit for 1HFY08 increased 5.2% to RM5.2 million while revenue rose 31.6% to RM42.1 million. This was achieved despite losses at newly acquired HELP-ICT.

Formerly known as Sepang Institute of Technology, loss-making HELP-ICT was acquired in Nov 2007 for RM2 million. The college gave the group a new foothold in Klang, a wider range of courses, a 1,500-strong student base and a large 200,000 sq ft campus within a popular shopping mall.

HELP-ICT posted a loss of RM759,000 for the quarter and RM1.4 million year-to-date, on revenue of RM2.1 million and RM3.8 million respectively. We expect it to turnaround by the end of next year.

If we exclude these losses, we estimate HELP's underlying cumulative net profit would have risen a robust 35% y-y to RM6.6 million.

HELP's balance sheet is very strong. Net cash increased from RM57.7 million in Oct 2007 to RM63 million in April 2008 – equivalent to a significant 70.9 sen per share. This includes RM18.2 million for fees paid in advance.

Deducting that, net cash is still very sizable at RM44.8 million, or 50.5 sen per share. It has since allocated RM20.3 million for the purchase of 23.3 acres of land for its new campus in Subang 2, Sungei Buloh.

Outlook & recommendation

HELP is on track to comfortably achieve our full year forecasts. The company seasonally has a weak third quarter, followed by a very strong fourth quarter.

We understand the group currently has close to 11,000 students, as compared with about 10,000 six months ago (both including HELP-ICT). The sharp rise in enrolment reflects the increasing popularity and recognition of HELP's courses and branding.

The company is highly regarded for its academic quality and innovative products. It was among the first Malaysian institutions to introduce "twinning" and external degree programmes in the 1980s and has established strong collaborative relationships with a number of top international universities in the UK, Australia and the US.

HELP's own 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. It has applied for full university status as it will meet the requirements with the new proposed full-fledged campus in Subang 2.

The new Subang 2 campus land was acquired for just RM20 psf, compared to market prices of around RM50-60 psf. HELP will build the campus in stages. It will start with around 200,000 sq ft of built-up space next year, with planned capex of about RM30 million spread over two years.

HELP-ICT is expected to turnaround by the end of next year. The college currently has about 1,500 students and will breakeven after achieving 2,000 students. The acquisition has given HELP a new footprint in Klang, which has an estimated population of just over 1 million. HELP-ICT plans to introduce 2-3 new pharmacy and engineering courses this year.



HELP's overseas ventures in Vietnam, Indonesia, China and Saudi Arabia are also taking off and should contribute more strongly from FY09 onwards. Its ability to penetrate the international market is a strong testimony to the HELP brand.

We like the company's cash-generating, recession-proof business and strong franchise and branding. We maintain our **BUY** recommendation.

We expect net profit to rise a modest 5.3% to RM10.2 million, or 11.5 sen per share, in FY08, due to small losses from newly acquired HELP-ICT. This will also result in a higher than normal effective tax rate.

In FY09, we expect earnings to grow 28.6% to RM13.1 million, or 14.7 sen per share, driven by rising student enrolments and higher fees, maiden contributions from HELP-ICT and overseas franchising opportunities and tie-ups, which should start to feature more strongly.

HELP's valuations are attractive at 9.8 times FY09 earnings for its strong fundamentals and good growth prospects. Its valuations are less than half regional peers such as Raffles Education Corp.

Profit & Loss Analysis

Year end Oct (RM mil)	2006	2007	2008E	2009E
Turnover	53.5	61.7	76.8	89.4
EBITDA	13.4	13.3	15.5	21.5
Depreciation	(4.5)	(3.2)	(4.0)	(4.2)
Interest income/(exp)	3.1	3.2	3.0	(8.0)
Pre-tax profit	12.0	13.4	14.5	18.1
Tax	(3.9)	(3.7)	(4.4)	(5.0)
Minorities	0	0	-	-
Net profit	8.1	9.7	10.2	13.1
Operating margin (%)	25.1	21.6	20.2	24.0
Pre-tax margin (%)	22.4	21.7	18.9	20.2
Net margin (%)	15.1	15.7	13.3	14.6
Effective tax rate (%)	32.9	27.9	30.0	27.5

Per Share Data

Year end Oct	2006	2007	2008E	2009E
EPS (sen)	9.1	10.9	11.5	14.7
P/E (x)	15.9	13.2	12.6	9.8
Dividend (sen)	NM	3.0	3.0	3.0
Dividend yield (%)	NM	2.1	2.1	2.1
Payout ratio (%)	NM	20	26	20
Book value (RM)	0.60	0.82	0.91	1.03
Price/Book value (x)	2.39	1.75	1.58	1.40
Cashflow/share (sen)	14.1	14.5	16.0	19.5
Price/Cashflow (x)	10.2	10.0	9.0	7.4
Gearing %	Net cash	Net cash	Net cash	Net cash
ROE (%)	15.0	13.2	12.6	14.4



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