

## 3Q FY Oct 2009 Results

# HELP International Corp Berhad

- Strong 3QFY09 results, earnings growth accelerates
- Fraser Park campus to open in Jan 2010
- Rising enrolments, overseas ventures contributing
- Cash rich balance sheet, strong branding, low P/Es

**BUY**

Price  
**RM1.46**

Market capitalization  
**RM130 million**

Board  
**Main**

Sector  
**Trading / Services**

Stock code  
**7236**

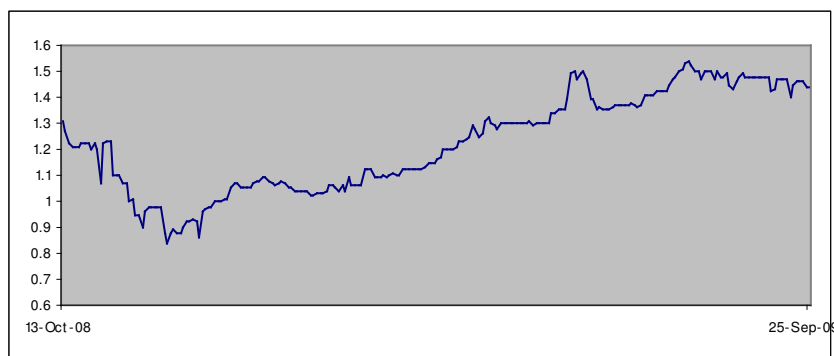
Analyst  
**Kevin Khoo**

Key stock statistics	FY Oct08	FY Oct09E
EPS (sen)	13.3	16.1
P/E (x)	11.0	9.1
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)	0.81-1.54	

### Major shareholders (%)

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

### Share Price Chart



### 3Q FY Oct 2009 Results Highlights:

Year end Oct (RM mil)	9mth-FY09	9mth-FY08	% chg
Turnover	70.4	60.4	16.5
Pre-tax profit	14.5	10.7	35.8
Tax	(5.0)	(3.9)	29.5
Net profit	9.5	6.8	39.1
EPS (sen)	10.7	7.7	
Pre-tax profit margin (%)	20.6	17.6	
Net profit margin (%)	13.5	11.3	

HELP International Corp's earnings continue to gather momentum, with growth accelerating in the third quarter. The company's consistent double-digit growth is a testament to its strong branding and business model.

The company 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.

HELP reported a strong set of results for 3QFY Oct 2009 (May-July 2009), which is traditionally a weak quarter. Revenue and profits continued to grow at a robust double-digit clip, with y-y net profit growth accelerating from 22% in 2QFY09 to 80% in 3QFY09.

The company'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, 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.

For 3QFY09, revenue increased 18.2% y-y to RM21.6 million. Pre-tax profit increased 61.9% y-y to RM4.3 million while net profit rose 79.5% y-y to RM2.9 million.

For the first nine months of FY09, revenue rose 16.5% y-y to RM70.4 million. Pre-tax profit increased 35.8% y-y to RM14.5 million and net profit rose 39.1% y-y to RM9.5 million. Pre-tax profit margins averaged 20.6% for the period, compared with 17.6% a year ago.

These numbers accounted for 66% of our full year net profit forecast, which is within expectations as the final quarter is traditionally very strong. In FY08, the first nine months' net profit accounted for 58% of the full year total.

The growth in turnover and profits reflect increasing student enrolments and earlier fee increases, which will be felt over several years, plus a higher proportion of students studying for home-grown degrees. The company also managed its costs well in preparation for the recession.

The company currently has about 11,500 students enrolled, including those in HELP-ICT (the former Sepang Institute of Technology), acquired in Nov 2007, but excluding students studying for its degrees overseas.

Profit margins have also been improving due 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 RM72.4 million in July 2009, almost unchanged from RM74.6 million in April 2009. This is equivalent to a significant 82 sen per share – or 56% of the current share price.

The sum includes RM17.9 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, which is pending completion.

## Outlook & recommendation

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HELP should be on track to comfortably achieve our full year forecasts given that the final quarter is traditionally a very strong one.

The company 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.

From just 8,600 students in Oct 2007, HELP 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 company has been growing its student base through acquisitions and new branch campuses, organic growth and overseas tie-ups that are now featuring more strongly.

In Nov 2007, HELP acquired the loss-making HELP-ICT (the former Sepang Institute of Technology), giving it various new courses and a student base of about 1,500 students.

HELP-ICT is being positioned as the engineering, vocational and medical college of the group. We understand the institute will be relocated to the new Fraser Business Park campus in downtown Kuala Lumpur, in line with branding the new campus as a hub for vocational courses. This will also increase economies of scale at the new city campus.

The campus at Fraser Business Park will open in Jan 2010. HELP will lease space in the business centre, which can accommodate up to 5,000 students. It 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.

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, which 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 RM50 million, excluding land cost. This can be easily funded through annual cash flows, although it will take advantage of the current low interest rate regime. 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 its brand.

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 currently has over 1,000 students studying overseas for its degrees, most of them in Vietnam and some in Indonesia and China. It 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 net profit to rise 21.1% to RM14.3 million in FY09, driven by rising student numbers and rising overseas income.

At RM1.46, P/E valuations are very low at 9.1 and 8.3 times FY09-10 earnings. These valuations are very attractive for a company with strong fundamentals, balance sheet and branding, and favourable growth prospects.

The stock's underlying valuations are much lower if we subtract its sizable cash reserves of RM72.4 million, although much of that will later be invested in the new campus. Net cash accounts for a significant 56% of the share price and 80% of NTA. Its latest NTA stands at RM1.02 per share.

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

**Profit & Loss Analysis**

<b>Year end Oct (RM mil)</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>
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**

<b>Year end Oct</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>
EPS (sen)	10.9	13.3	16.1	17.6
P/E (x)	13.4	11.0	9.1	8.3
Dividend (sen)	3.0	3.0	3.0	3.0
Dividend yield (%)	2.1	2.1	2.1	2.1
Payout ratio (%)	20	23	19	17
Book value (RM)	0.82	0.93	1.06	1.20
Price/Book value (x)	1.77	1.58	1.38	1.21
Cashflow/share (sen)	14.5	18.4	21.3	23.8
Price/Cashflow (x)	10.1	8.0	6.9	6.1
Gearing %	Net cash	Net cash	Net cash	Net cash
ROE (%)	13.2	14.3	15.2	14.6



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