

FY Oct 2009 Final Results

HELP International Corp Berhad

- Sterling final results, net profit up 31% to RM15.5m
- Hostel purchase will raise earnings by >RM3m
- 20% EPS growth in FY10-11, low P/E of 6.9x for FY11
- Strong balance sheet, net cash of 99 sen per share

BUY

Price
RM1.74

Market capitalization
RM155 million

Board
Main

Sector
Trading / Services

Stock code
7236

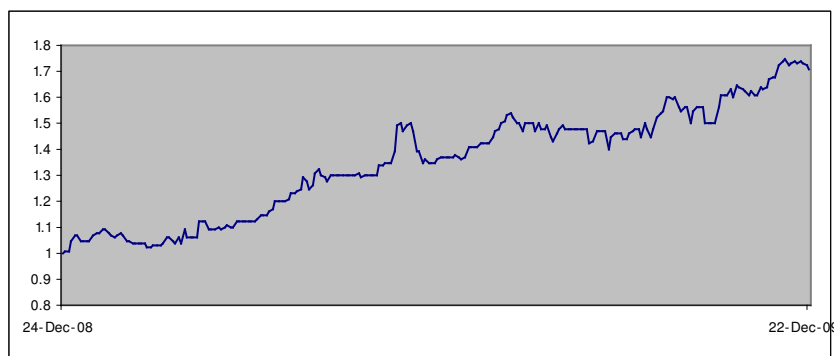
Analyst
Kevin Khoo

Key stock statistics	FY Oct09	FY Oct10E
EPS (sen)	17.4	20.8
P/E (x)	10.0	8.4
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)	1.00-1.74	

Major shareholders (%)

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

Share Price Chart



FY Oct 2009 Final Results Highlights:

Year end Oct (RM mil)	FY2009	FY2008	% chg
Turnover	96.6	86.5	11.6
Pre-tax profit	21.8	16.1	35.7
Tax	(6.4)	(4.3)	48.6
Net profit	15.5	11.8	31.1
EPS (sen)	17.4	13.3	
Pre-tax profit margin (%)	22.6	18.6	
Net profit margin (%)	16.0	13.6	

HELP International Corp posted a sterling set of final results that were above expectations. Earnings at the highly regarded and leading education company continued to expand at a double-digit clip, underscoring its resilience and strong branding despite the severe recession in the last year.

For FY Oct 2009, HELP's pre-tax profit rose 35.7% y-y to RM21.8 million on the back of an 11.6% rise in revenue to RM96.6 million. Net profit surged 31.1% to RM15.5 million, a new high and 8.4% above our earlier forecast.

Net profit in 4QFY09 rose 20% y-y to RM6 million and accounted for 39% of the full year total. 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.

The growth in turnover and profits reflect increasing student enrolments and earlier fee increases, which are felt over several years. We understand average fee increases and student enrolment numbers grew about 5-7% each, contributing to the 11.6% increase in total revenue.

The company's pre-tax profit grew disproportionately more than revenue (by 35.7%) as pre-tax margins expanded from 18.6% to 22.6%.

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 and raised staff productivity during the recession.

In fact, HELP's profitability would have been even better if not for Klang-based HELP-ICT's continuing losses (although this has narrowed to RM2 million), as well as increased philanthropic activities as the company disbursed more scholarships due to the weak economic environment

The sterling performance continues the company's double-digit earnings growth momentum, with net profit growing over 20% a year since FY06. This is a testament to HELP's strong branding and business model, and recession-proof qualities.

Indeed, its Oct year-end would have captured the worst period of the recent financial crisis, which was accelerated by the collapse of Lehman Brothers in Sept 2008.

HELP's balance sheet remains very strong – and has strengthened further in the last quarter. The company has no borrowings. Net cash increased from RM72.4 million in July 2009 to RM87.7 million in Oct 2009. This is equivalent to a significant 99 sen per share – or 57% of the current share price.

The sum includes RM20.3 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.

Its future expansion plans can be easily funded from its presently large cash reserves and strong annual cash flows. A first and final dividend of 3 sen per share has been declared.

Outlook & recommendation

HELP is on track for continued double-digit growth in FY2010-2011, anchored by rising student numbers and fee increases, the addition of its Fraser Park campus, and cost savings from the acquisition of HELP Residence (which will be fully realized in FY2011).

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.

From just 8,600 students in Oct 2007, HELP now has about 12,000 students, plus another 1,000 plus students studying for its 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.

We expect net profit to rise 20% to RM18.5 million in FY09 and 21% to RM22.4 million in FY11, with EPS of 20.8 sen and 25.2 sen, respectively.

At RM1.74, HELP's P/E valuations are low at just 8.4 and 6.9 times 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. We maintain our **BUY** recommendation.

The stock's underlying valuations are much lower if we subtract its sizable cash reserves of RM87.7 million, equivalent to a hefty 99 sen per share.

Understated balance sheet

HELP's present NTA of RM1.09 per share is also severely understated.

The company's main property asset is Wisma HELP, an 11-storey building in the prime Damansara Heights suburb of Kuala Lumpur. The 29-year old 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 RM32 million – or just RM119 psf for the built-up space.

Although the building is relatively old at 29 years, the valuation is far too low compared with current market prices of RM520-750 psf in the wider area Damansara Heights, Bangsar and Mont'Kiara areas, as well as current replacement costs.

As a comparison, an even older nearby building, the 37-year old Wisma Damansara was sold last year by HELP's parent, Selangor Properties to a joint venture between Selangor Properties and E&O Property Devt for RM371 psf (the venture was later unwound due to the financial crisis).

If we place a conservative value of RM350 psf for Wisma HELP, we would arrive at a value of RM94.2 million for the building. Thus, the value of the building and cash alone (RM87.7 million) would total RM181.9 million – or RM2.05 per share, some 18% above the current share price.

This implies – at the current share price and up to RM2.05 – investors are getting HELP's other assets, including the underlying business, valuable franchises and strong branding built up for over 20 years, for effectively free.

Acquisition of HELP Residence positive

On 28 Dec 2009, HELP had proposed to buy the HELP Residence building, which is presently used as its hostel, for RM50 million cash. 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 2 years old and has gross floor area of 151,956 sq ft. It comprises 432 rooms, 5 executive rooms, a reception office, a library, a multi-purpose hall and a cafeteria. The property is currently being rented by HELP at a monthly rental of RM343,933, or RM4.127 million per year.

The purchase consideration will be satisfied in cash over 5 years. After the initial payment of RM5 million, the remaining balance will be paid over 10 equal half-yearly instalments of RM4.5 million each over the next 5 years, with interest of 4% per annum on the unpaid portion of the balance.

The net book value of the property as at 30 June 2009 was RM50 million.

We view the acquisition very positively for the following reasons:

- The purchase price appears fair, at the vendor's book value and RM329 psf based on the gross area, roughly equivalent to construction costs.
- The payment is staggered over 5 years, with interest at just 4%, which will not place a strain on HELP's cash flow given its expansion plans.
- The acquisition is very positive for HELP's bottom-line, as savings from rental will far outweigh interest costs. The current annual rental of RM4.127 million 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

New campuses to anchor expansion

The new campus at Fraser Business Park on Jalan Sungei Besi, Kuala Lumpur, will open in May 2010, slightly later than the 1Q10 schedule. 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.

In addition, we understand HELP-ICT (the former Sepang Institute of Technology acquired in Nov 2007) will be moved 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 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. We expect the company to remain in net cash position throughout the construction period.

The full-fledged campus will support HELP's application for full university status. It will also tie in with its regional expansion plans in making Malaysia a major hub for international students studying for its own home-grown and twinning degrees.

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.

Growing international presence

HELP's overseas ventures in Vietnam, Indonesia and China are taking off well. The ability to penetrate the international market is a strong testimony to its strong brand name.

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 has over 1,000 students studying overseas for its degrees, most of them at the Vietnam National University in Hanoi, and others at private colleges in Indonesia and China. Under these arrangements, students will transfer to Malaysia after a year or two in their home countries to obtain HELP or other accredited degrees.

The company is constantly exploring opportunities in other parts of the region. We understand it has also been invited by state governments in the Middle East and Central Asia to explore the possibility of education tie-ups.

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)	13.1	10.0	8.4	6.9
Dividend (sen)	3.0	3.0	2.0	2.0
Dividend yield (%)	1.7	1.7	1.1	1.1
Payout ratio (%)	23	17	10	8
Book value (RM)	0.93	1.09	1.27	1.51
Price/Book value (x)	1.88	1.60	1.36	1.15
Cashflow/share (sen)	18.4	22.6	26.5	31.4
Price/Cashflow (x)	9.4	7.7	6.6	5.5
Gearing %	Net cash	Net cash	Net cash	Net cash
ROE (%)	14.3	16.0	16.3	16.7



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