Profitable during crisis, financial performance is sustainable

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INTI Universal Holdings Bhd (Inti) is one of the largest private colleges in the country and with five strategically placed campuses, it is well positioned for Malaysia's move towards becoming a regional educational hub.

Profitable throughout the crisis, its financial performance is sustainable through a combination of steady student population growth (of about 12% per annum), high earnings before interest, tax, depreciation and amortisation (ebitda) margins of more than 35%, low gearing and capacity expansion.

Having developed its own intellectual property rights, cost savings on franchise fees could potentially be sizeable. Moreover, this will allow Inti to expand overseas through export education and franchising to markets such as Thailand, Vietnam and China.

Fair value of RM4.80 is based on a price earnings multiple (PE) of 11.3 times financial year (FY) 2001 earnings (25% discount of our target 2001 market PE of 15 times).

The stock is fairly illiquid and would thus be more suitable for small-cap funds. While we like the company, the stock's near term price performance may be affected by the prevailing market risk, rather than specific stock risk.

We recommend refraining from buying until the market stabilises. (The stock closed at RM3.96 yesterday).

A local college with a strong reputation

Inti Universal has, over the past 14 years, developed a strong foothold in the field of private education, with a reputation of providing quality tertiary courses at very affordable prices.

With just 900 students in 1990, its enrolment has jumped 12-fold over the past 10 years to 11,500 students presently – an impressive compounded growth rate of 29% per annum.

Today, Inti offers 30 twinning programmes with universities from the UK, US and Australia and it has non-exclusive programme collaborations with more than 280 affiliate universities throughout the world.

Inti currently has five campuses across Malaysia – the jewel in the crown being its state-of-the-art main campus at Bandar Baru Nilai, Negeri Sembilan.

With a present population of 4,500, the main campus is capable of accommodating up to 5,200 students.

Sprawled over 55 acres, there is room for expansion to take on an optimum capacity of 10,000 students.

The latest addition to its stable is International College Penang (a 70:30 joint venture with Sheffield Enterprise), which it acquired in March this year for RM2 million.

The college will cater primarily to the northern peninsula region and the Indonesian market.

Inti has also expanded abroad. In 1993, it set up the Beijing Inti Management College in China, offering business and English language courses.

The potential here is significant, considering that 17% of China's 1.3 billion population are between 15 to 24 years of age.

In May this year, the group acquired a 50% stake in St. Theresa Professional Development Co, Thailand (which offers a collaborative degree programme with the University of Bradford (UK)), for RM5 million cash.

Positive industry growth prospects

The liberalisation of Malaysia's education sector over the past few years has unlocked dynamic growth opportunities for local private colleges.

This fact was further underpinned by the ringgit's devaluation in 1998, which forced more students to opt for cheaper local education, instead of going abroad.

Presently, only 22% of Malaysians between 17 to 23 years of age receive tertiary education – the government wants to raise this figure to 30% by 2005 and 40% by 2010.

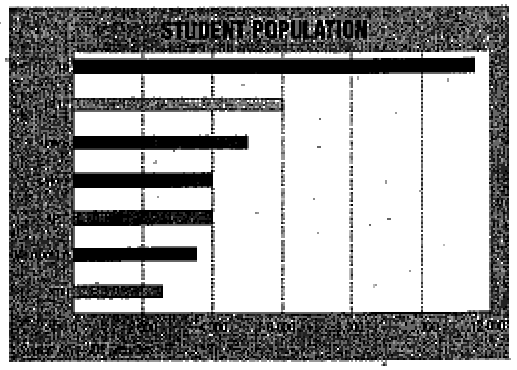
Private colleges have been earmarked to supply a third of this requirement and Inti, being the largest private college in the country, is certainly well placed to benefit from such a move.

Government support for the industry has been encouraging – the Higher Education Fund Corporation has been offering more study loans while the EPF now permits withdrawals for degree and post-graduate courses.

On the back of these positive developments, Inti expects a sustainable student intake growth of 10 to 15% per annum.

Foreign student enrolments are also mounting. The number of foreign students in Malaysia increased threefold between 1997 and 1999. From a zero base in 1996, Inti now has over 1,800 overseas students and they are mainly from Indonesia, Africa, China and Pakistan. It plans to raise its ratio of foreign students from 17.8% to 30% in the medium term.

With the recent acquisition of its Penang campus, Inti is also strategically placed to attract students from Sumatra, Indonesia. Indonesia is an attractive target market – 21% of its 216 million population are within the tertiary-education age group.



Attractive courses drive up demand

Inti's turnover has been expanding at an impressive compounded annual rate of 28% over the past five years.

Apart from higher student enrolments, the other contributory factor to this growth is the progressive shift in emphasis from US programmes (which average RM2,800/semester) to higher valued UK courses (which average RM4,600/semester).

Inti's "3+0" programme for UK courses is particularly popular. It allows a student to complete all three years of tertiary education locally, instead of studying abroad for the same duration.

Savings are substantial to students – total tuition fees of RM40,000 for the degree at Inti, as opposed to approximately RM120,000 in the UK.

There are three intakes per annum (April, August and December), thus assuring the college of strong operating cash flows throughout the year – students pay fees up-front.

Intakes are higher in December and April due to the higher influx of secondary school leavers.

We are forecasting a turnover growth of 15% in FY2000 and 17% in FY2001, driven by a 12% growth in yearly student intake and a possible fee increment in 2001 (pending the Ministry of Education's approval). Our forecast assumes a mere 5% fee increment in 2001.

Capacity expansion in the pipeline

Inti has allocated RM40 to 50 million capex to increase the accommodation capacity in Nilai to 10,000 students by 2005 from 5,000 currently.

Another RM2.1 million will be spent on capacity expansion for the college in Bukit Jambul, Penang.

Inti's ebitda margin has traditionally been high at about 40% but dipped to 36% in FY1999 because the main campus in Nilai was still in the process of filling up.

Currently, the campus is operating at 86% of its capacity and margins will undoubtedly improve on the back of higher capacity utilisation in the near future.

Inti has also successfully applied for MSC status for three campuses, which qualifies 25% of its total revenue for tax incentives. We have factored these tax incentives into our earnings estimates and we expect a lower overall tax rate of 24% for FY2000 and FY2001.

Opportunities from export education

One of the largest cost components to a private college is the franchise fee which it incurs in bringing in courses from abroad.

The amount paid is sizeable and it typically ranges between 25 to 35% of total revenue.

Inti's move towards developing its own intellectual property rights (IPR) is an effective counter-measure and it certainly places the group in a better bargaining position with its overseas affiliates.

Tan ... the college group's managing director

At present, Inti is exploring export education opportunities in Guangzhou, Bangkok, New South Wales (Australia) and Hongkong.

Growth constraints

While Inti continues to be a dominant player in the private education field, there are several growth constraints applying to the industry in general but hits directly on Inti as well.

Fee control

One of the main impediments to revenue growth is the government's control over tuition fees.

The government only allows for one fee increment every three years and any increase in tuition fee requires prior approval from the Ministry of Education.

Moreover, local and foreign students currently pay similar tuition fees in Malaysia, though higher administrative charges are incurred in catering to foreign students.

Proliferation of issued licenses

With over 600 issued licenses for educational institutes, Inti faces stiff competition. However, as the current classification system lumps all educational institutes together (including polytechnics, vocational and technical schools), the level of competition could be overstated.

Potential changes in government policies

The education industry is very much subject to changes in government policies – for example, the recognition of degrees offered, the accreditation of programmes and the issuance of visas to students from countries of foreign affiliate universities.

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