

Broker's Call - SEG International, Malakoff and Tenaga

SEG International Bhd Consensus net profit estimates FY12/04: RM19.3mil
SEG International Bhd (SEGi) is Bursa Malaysia's largest operator of private institutions of higher learning.

Comment by TA Securities: SEGi's success can be attributed to its foresight in offering a wider range of products that cater to not only traditional secondary school leavers but also the vast pool of working adults. This reduces the risk of fluctuation in student enrolment in any particular segment.

We have downgraded our student growth rate for FY05 to 12% from 25% previously because 5,000 students are expected to graduate by FY05. This will result in 7.7% downgrade for FY05 earnings.

Given the low penetration rate in the Malaysian education sector (only 25% of youth aged 17-23 are enrolled for tertiary education), the growing desire of Malaysians to acquire knowledge, the emphasis on human capital development, and the government's intent to improve its services account through education services, we believe the sector's prospects are bright. We picked SEGi because it is one of the largest education providers in Malaysia, with 18,500 students, and has strong growth potential.

SEGi's revenue and net profit for FY03 were lower than those of Inti Universal Holdings Bhd. However, in Q104, SEGi posted a higher net profit compared to Inti. We also like SEGi for its diverse student base and innovative marketing.

SEGi is trading at 12.5 times and 10.1 times price earnings ratio (PER) for FY04 and FY05 respectively. We value SEGi at RM3.63 based on 14 times PER for FY05 with a near-term target of RM2.94. The valuation is pegged to a 12% premium to the industry average for Pacific Rim listed education providers but at a 38.1% discount to Inti's valuation on FY04 estimated earnings per share.

SEGi will be transferred to the main board soon, as the authorities have given approval.

Recommendation: TA Securities maintains a Buy recommendation on SEGi.