OSK

MALAYSIA EQUITY
Investment Research
Daily News

1QFY08 Results Review

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EDUCATION

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HELP International Corp

NEUTRAL	**Downgrade**
Price	**RM1.52**
Target	**RM1.65**

Bogged Down by Higher Expenses

Earnings came in below expectations owing to margin squeeze and higher effective tax rate. Higher marketing expenses and losses from its recent acquisition bogged down earnings. After adjusting our estimates, our residual income TP has been cut from RM2.01 to RM1.65. Our TP implies a forward PER of 15x, compared to the regional average of 24x. Minimal upside warrants our downgrade to NEUTRAL.

Below expectations. Despite revenue increasing 35% on a y-o-y basis, earnings fell by 36%. While revenue was within expectations, Q1 earnings came in below expectations, making up <10% of our full year estimates. The underperformance was attributed to margin squeeze and higher effective tax rate (33.2% to 41.1% y-o-y). We expect a better 2Q as more students flow in for the February and March intake.

Contracting margins. While rise in student numbers supported a healthy topline growth, higher operating costs eroded margins. From our conversation with management they attributed the margin squeeze to higher marketing expenses in its efforts to boost student numbers. Further, HELP recently acquired Sepang Education Centre (SEC) late last year. Efforts to return SEC to black have yet to materialize and should take at least a year.

On an expansion path. In its announcements on Bursa, HELP recently announced that it will be acquiring a piece of land in Mukim Sg Buloh measuring 23.3 acres for RM20.3m. The location is nearby T3 of the old Subang airport. We understand that the land will be used to construct HELP's Subang campus. While we are positive on the expansion, we have yet to factor in any impact owing to lack of information and current low visibility.

Estimates pulled back. While most of our revenue numbers remain unchanged, we have raised our projections on the company's operating expenses. We see that marketing expenses may remain high over the immediate term. This is inline with other colleges embarking on an aggressive advertising and marketing campaign.

Reduced target price. Our residual income target price has been cut from RM2.01 to RM1.65. Half of our TP is derived from its current BV while the balance is the PV of its residual income stream discounted at a 12% cost of capital. Upside catalysts include faster turnaround of SEC, stronger growth in student numbers and foreign expansion.

FYE Oct (RMm)	FY05	FY06	FY07	FY08f	FY09f
Turnover	48.0	53.5	61.7	73.2	87.8
EBITDA	14.7	16.5	18.8	19.1	21.9
Net Profit	6.6	8.1	9.7	9.8	11.2
% chg YoY	15.1%	22.9%	20.0%	1.3%	14.6%
Consensus					
EPS (sen)^	7.4	9.1	10.9	11.0	12.6
DPS (sen)^	-	-	-	1.10	1.26
Div Yield	0.0%	0.0%	0.0%	0.7%	0.8%
ROE	11.9%	13.2%	15.2%	14.5%	14.6%
ROA	8.1%	8.9%	9.6%	8.6%	8.5%
PER (x)	20.3	16.5	13.8	13.6	11.9
P/BV (x)	2.3	2.1	1.8	1.8	1.6

Stock Profile/Statistics

Bloomberg Ticker	HELP MK
KLCI	1245.42
Issued Share Capital (m)	88.78
Market Capitalisation (RMm)	134.94
52 week H | L Price (RM)	2.02| 0.80
Average Volume (3m) '000	84.19
YTD Returns (%)	-0.11
Net gearing (x)	N.A.
Altman Z-Score	3.78
ROCE/WACC	0.69
Beta (x)	N.A.
Book Value/share (RM)	0.82

Major Shareholders (%)

Selangor Properties Bhd	51.0
Dato Zakaria bin Ahmad	14.5
Tele Suria Resources SB	4.4

Share Performance (%)

Month	Absolute	Relative
1m	(1.30)	9.10
3m	4.11	19.38
6m	4.11	5.85
12m	N.A.	N.A.

6-month Share Price Performance

EARNINGS FORECAST

Quarter Results Table

FYE Oct (RMm)	3QFY07	2QFY07	% chg	YTD FY07	YTD FY06	% chg
Turnover	18.1	17.6	2.9%	18.1	13.4	35.2%
EBITDA	2.1	5.0	-57.6%	2.1	2.7	-21.8%
Depreciation	(0.7)	(0.8)	-11.5%	(0.7)	(0.8)	-14.1%
Net interest expense	-	-	NA	-	-	NA
Associates	-	-	NA	-	-	NA
PBT	1.4	4.2	-66.3%	1.4	1.9	-25.2%
Tax	(0.6)	(0.7)	-21.3%	(0.6)	(0.6)	-6.9%
MI	(0.0)	0.0	-161.5%	(0.0)	0.0	-157.1%
Net Profit	0.8	3.4	-76.2%	0.8	1.3	-35.7%
EPS (sen)	0.9	3.9	-76.2%	0.9	1.4	-35.7%
Gross DPS (sen)	-	-	NA	-	-	NA
EBITDA margin	11.7%	28.4%	-58.8%	11.7%	20.2%	-42.2%
NTA/share (RM)				0.83	0.82	

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Turnover	48.0	53.5	61.7	73.2	87.8
EBITDA	14.7	16.5	18.8	19.1	21.9
PBT	10.0	12.0	14.2	14.4	17.0
Net Profit	6.6	8.1	9.7	9.8	11.2
EPS (sen)	7.4	9.1	10.9	11.0	12.6
DPS (sen)	-	-	-	1.1	1.3
Margin					
EBITDA	30.6%	30.8%	30.6%	26.1%	25.0%
PBT	20.9%	22.4%	23.0%	19.7%	19.4%
Net Profit	13.7%	15.1%	15.6%	13.4%	12.8%
ROE	11.9%	13.2%	14.2%	13.5%	14.6%
ROA	8.1%	8.9%	9.3%	8.4%	8.5%
Balance Sheet					
Fixed Assets	47.7	44.7	44.0	48.7	49.7
Current Assets	37.6	50.7	67.4	73.6	92.9
Total Assets	85.2	95.4	111.4	122.3	142.6
Current Liabilities	25.9	31.3	36.3	49.7	59.9
Net Current Assets	11.6	19.5	31.1	23.9	33.0
LT Liabilities	0.7	0.7	1.9	0.6	0.6
Shareholders Funds	58.5	63.4	73.2	72.0	82.1

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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