

## investing insights

BY INSIDERASIA/ ASIA ANALYTICA

**E**stablished in 1986, HELP International Corp (RM1.50) is one of Malaysia's leading education players, offering a wide range of tertiary, pre-university and postgraduate courses. It has about 10,000 students in two main campuses in Damansara Heights, KL, and Klang.

### Industry innovator

A pioneer and innovator in tertiary education in Malaysia, it was among the first to introduce foreign "twinning" and external-degree programmes, providing local students with lower-cost routes to overseas-accredited degrees. It has developed strong collaborative relationships with a number of top international universities.

Twinning (or 2+1) programmes are tertiary courses conducted in collaboration with overseas universities, with degrees conferred by the latter. A student will spend two years at HELP before transferring overseas in the third year. This provides substantial cost savings compared with studying overseas for all three years. Another variation of this is HELP's American Degree Programme, which provides a general foundation for entry into US and other universities.

In June 1998, HELP was one of the first few colleges to be given approval to run "3+0" degree programmes awarded by foreign universities. This allows students the opportunity to obtain an overseas-accredited degree by doing all three years locally. These programmes are conducted with Charles Sturt University in Australia and the University of East London, UK.

### Strong collaborative relationships

HELP has established strong collaborative relationships with a large number of renowned foreign

universities, providing a gateway for its students to engage in credit transfer programmes as well as twinning programmes.

These include the UK's London School of Economics, University of Birmingham and University of Liverpool, Australia's University of Queensland, University of Melbourne, University of Sydney, Australian National University and University of Western Australia, and the US' Drake University and Purdue University.

### Granting own degrees

In 2004, HELP was awarded "University

college" status, allowing it to award its own home-grown degrees under the HELP University College brand name.

This will be a major source of growth going forward. HELP is able to create its own courses and awards, offer more competitively priced courses and earn higher margins, without having to pay fees to third-party universities.

In FY2006, for instance, payments to foreign universities for twinning programmes fell by 24.2% despite a 3.2% rise in gross tuition fees. This was due to higher enrolment in home-grown courses. As a percentage of gross tuition fees, payments to foreign



## An educated play

HELP is a visionary education player that is fast expanding its wings, locally and abroad. Its shares offer potentially exciting — and yet defensive — earnings

## Room for growth



universities fell from 19.1% to 14%.

"University college" status was awarded to 15 top local players. Ultimately though, it is the university college's academic standards, reputation, recognition and perception that count.

Local institutions are still generally perceived to be "inferior" compared to foreign ones, and public acceptance will take time. In this sense, HELP's reputation gives it a good advantage. The HELP University College Bachelor of Accounting degree, for instance, has been accredited by CPA Australia, ACCA and ICAEW. A total of 20 bachelor's degrees and five master's degrees have received government approval and are being progressively rolled out.

### Exporting education, foreign franchising

HELP is actively looking at opportunities for international franchising to leverage on its branding. It is in advanced stages of exploring tie-ups in Vietnam, Saudi Arabia, China and Indonesia. Its overseas ventures are expected to yield high returns with low risks, as the company does not intend to invest in buildings and assets but provide the courses, curriculum, degrees, academic support and other services.

Apart from its tertiary courses, HELP can also leverage on its pre-

university programmes. It is now one of the largest Edexcel centres in the world, offering quality "A" level education programmes. Edexcel is one of five main UK examination boards, awarding over 1.5 million certificates a year.

### New campus, pushing for 'university' status

The company is also aggressively expanding on the local front. In November 2007, it acquired Sepang Institute of Technology for RM2 million. Renamed HELP-ICT, the institution came with 1,500 students, different courses and tie-ups and a campus of about 200,000 sq ft in one of Klang's popular shopping malls. Effectively, the price paid is just RM10 psf for the space!

HELP is planning to build its own integrated campus. In mid-March, it acquired a 23.3-acre leasehold site in Sungei Buloh, Selangor, for RM20.3 million, or just RM20 psf. The land is located in Subang Delima, conveniently near the upmarket Damansara, Tropicana and Kota Damansara areas.

The total budget of about RM100 million, including land costs, will be spent over three to four years. The campus will provide a more conducive environment and boost its appeal to international students. It will also enable HELP to apply for an upgrade to "university" status, as one of the government's requirements is that it must be an integrated campus with housing facilities.

### No major impact from 80-20 rule

The Ministry of Higher Education has imposed a ruling requiring "3+0" programmes to be reduced by 2014 in order to encourage university colleges to increase their home-grown courses. The ruling stipulates that 80% of courses should be based on homegrown curriculum and 20% on collaborative courses.

As the ruling applies to universities and university colleges, HELP will be able to mitigate this by continuing to offer its programmes through wholly-owned HELP Academy, which holds "college" status. Eventually, we expect its homegrown courses to garner a larger market share. This process will take time but is already showing results.

### More innovative courses

More innovative programmes are on the way, notably in specialist areas such as security management, business psychology, recreation and tourism, applied medical sciences and bio informatics. Last September, it signed an arrangement with two Australian firms, Sustainability Pty Ltd and Linkage International Pty Ltd, to offer courses relating to the oil and gas industry.

### Focus on academic excellence and staff

HELP's tagline, "The University of Achievers", reflects its emphasis on academic excellence. The company does not spend heavily on advertising. Instead, it relies more on its reputation, word of mouth, and participation in education fairs, roadshows and school visits to boost enrolment. It sets above-average entry standards.

By accepting only good students (rather than all and sundry), HELP minimises failures and maintains a high level of academic excellence. By 2010, it aims to have a quarter of its staff force made up of PhD holders. Staff turnover is low at just 1.5%, due to its strong industry positioning and staff loyalty. This minimises recruitment and retraining costs.

### Tuition fee hike, but still 'undervalued'

HELP increased its fees by 8% to 12% for its courses last year. The fee hike will not be applicable to existing students but will impact new

enrolments. Fees are typically raised every year. We forecast net increases of 7% for FY2008 to FY2010.

Tuition fees here remain reasonable compared with overseas alternatives, giving ample room for future fee hikes. A tertiary degree at HELP cost RM12,000 to RM15,000 a year, compared with A\$20,000 to A\$23,000 (RM60,000 to RM69,000) in Australian universities. That's four to five times higher and does not include higher living and travelling expenses.

## HELP's earnings forecast (RM mil)

Year-end Oct	2006	2007	2008E	2009E	2010E
Revenue	53.5	61.7	76.8	89.4	102.9
Pre-tax profit	12.0	13.4	14.5	18.1	20.2
Net profit	8.1	9.7	10.2	13.1	14.7
Operating margin (%)	25.1	21.6	20.2	24.0	23.8
Pre-tax margin (%)	22.4	21.7	18.9	20.2	19.6
EPS (sen)	9.1	10.9	11.5	14.7	16.6
PER (x)	16.5	13.8	13.1	10.2	9.0
Dividend per share (sen)	—	3.0	3.0	3.0	3.0
Dividend yield (%)	—	2.0	2.0	2.0	2.0
NTA per share (RM)	0.60	0.82	0.91	1.03	1.16
P/NTA (x)	2.49	1.82	1.65	1.46	1.29

Students typically study locally for two or three years before transferring overseas. As a large number of students leave each year, it is important to secure new enrolments and ensure steady overall student numbers. After including new enrolments and leaving students, we are forecasting annual net increases in student numbers of 5% a year in FY2009 to FY2010.

### Earnings outlook

HELP has registered consistent revenue and earnings growth over the last few years, despite rising competition and the faltering financial performance of its rivals. We expect net profit to rise a modest 5.3% to RM10.2 million, or 11.5 sen per share, in FY2008, due to small losses from newly acquired HELP-ICT, which will likely take a year to turn around. This will also result in a higher-

than-normal effective tax rate.

In FY2009, we expect earnings to grow 28.6% to RM13.1 million, or 14.7 sen per share, driven by rising student enrolments and higher fees, maiden contributions from HELP-ICT and overseas franchising opportunities and tie-ups, which should start to feature more strongly.

Total student numbers will jump from about 8,500 to 10,000 in FY2008, after including HELP-ICT. The growing acceptance of HELP's homegrown

courses and overseas franchising business, especially in FY2009, will bolster profit margins going forward.

### Attractive valuations

HELP's shares are trading on attractive FY2008 to FY2009 price-earnings ratios (PERs) of 13.1 and 10.2 times. We recommend a "buy". The company has ample growth opportunities with defensive, recession-proof qualities. This makes it an ideal investment

for the current volatile market environment. The ability to rise well above its peers is a strong testament to the HELP brand.

We would value HELP's shares at a PER of 13.5 times FY2009, in line with the consumer sector, which is still conservative relative to its overseas peers (Singapore's Raffles Education Corp is trading at around 26 times 2008 earnings). This suggests a fair value of RM1.99, 33% above the current share price of RM1.50. There is room for further longer-term price gains given its exciting local and overseas expansion plans.

### Strong balance sheet

HELP has a very strong balance sheet. As at last October, it had cash of RM57.7 million. Of this, RM14.6 million were fees paid in advance by students, giving it net cash of RM43.1 million, or a substantial 49 sen per share.

Going forward, RM100 million will be spent on the new campus but will be spread over three to four years. Given the strong cash flows, we expect this to be comfortably absorbed, although net cash position is expected to reverse to a small gearing of 12% in FY2010.

We expect net dividends of 3 sen per share over FY2008 to FY2010, which translate into a net yield of 2% and payout ratio of 26% in FY2008 and 20% in FY2009. Higher dividends can be expected after the completion of the new campus, as cash reserves will start building up again. ■



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