Company Name : **SASBADI HOLDINGS BERHAD**
Date : **15 September 2017**
Source : **The Edge Financial Daily**

Sasbadi's earnings expected to pick up

Sasbadi Holdings Bhd (Sep 15, 85 sen)

Maintain buy with a higher target price (TP) of RM1.25: Our TP is higher than the consensus' as we believe that the market has under-appreciated its medium-term growth prospects following the recent quarterly earnings disappointment. We also have a more aggressive valuation compared to the street.

Management aims to embark on at least one earnings-accretive acquisition annually to further strengthen its dominant position in the publishing industry and drive income growth. Our revenue assumptions for its network marketing business are RM15 million to RM20 million for the financial year 2018 (FY18) and FY19, stronger-than-expected contributions could serve as a catalyst for the stock.

For the first nine months of FY17, it has so far been unexciting for Sasbadi given that: i) although the group operates in a relatively resilient education sector, weak consumer sentiments have dragged its top-line growth; and ii) operating expenses are expected to increase >15% year-on-year (y-o-y) mainly due to start-up costs for its network marketing business, coupled with higher expenses consolidated due to its past acquisitions such as the United Publishing House Sdn Bhd and Distinct Motion Sdn Bhd.

Although management had tried to catch up with the earnings shortfall in the subsequent months, we believe that the gap is too wide to close as the fourth quarter of FY17 (4QFY17) ending in August is seasonally a weak quarter. We expect the group to record a profit of RM2.1 million in 4QFY17, compared to a core loss of -RM0.2 million in the 4QFY16. This will bring its FY17 full-year earnings to RM16.4 million, implying a 39% y-o-y growth in core earnings. Having said that, this is unlikely to lift investors' sentiment given that street expectations of a much improved earnings' trajectory from new acquisitions have been hampered by higher operating costs while, at the same time, the organic growth of the existing print business has been weak.

Management is aware of its slowing organic top-line growth momentum and the higher cost base arising from its past acquisitions. As such, we understand that the group has actively engaged in streamlining its operations and cross leveraging its core brands to improve efficiency and cross selling. — *AllianceDBS Research, Sept 15*

Sasbadi Holdings Bhd

FYE AUG (RM MIL)	2016A	2017F	2018F	2019F
Revenue	92.7	109	129	148
Ebitda	22.1	28.1	38.7	48.0
Pre-tax profit	22.2	23.4	34.1	43.4
Net profit	16.7	16.4	24.6	31.8
Net profit (pre ex)	11.9	16.4	24.6	31.8
Net profit growth (pre ex) (%)	(22.6)	38.7	50.0	29.2
EPS (sen)	3.98	3.92	5.88	7.59
EPS pre ex (sen)	2.83	3.92	5.88	7.59
EPS growth pre ex (%)	(23)	39	50	29
Diluted EPS (sen)	3.98	3.92	5.88	7.59
Net DPS (sen)	1.50	1.96	2.94	3.80
BV per share (sen)	35.2	38.2	42.4	47.7
PER (x)	20.7	21.0	14.0	10.9
PER pre ex (x)	29.2	21.0	14.0	10.9
P/CF (x)	206.5	42.3	25.7	16.4
EV/Ebitda (x)	15.6	12.7	9.3	7.5
Net dividend yield (%)	1.8	2.4	3.6	4.6
P/BV (x)	2.3	2.2	1.9	1.7
Net debt/equity (x)	Cash	0.0	0.0	0.0
ROAE (%)	13.2	10.7	14.6	16.9

Sources: Company, AllianceDBS, Bloomberg Finance LP