Company Name : **Sasbadi Holdings Berhad**
Date : **22 January 2018**
Source : **The Edge Financial Daily**

Sasbadi eyeing one acquisition per year to strengthen its dominant position

Sasbadi Holdings Bhd (Jan 19, 60.5 sen)

Maintain buy with a target price of RM1.05: Sasbadi Holdings Bhd reported core earnings for its first quarter of financial year 2018 (1QFY18) of RM4.5 million (+2.3% year-on-year [y-o-y], > +200% quarter-on-quarter [q-o-q]). Although the bottom line for 1QFY18 only improved marginally y-o-y, we view the results positively since the 1QFY17 figure was boosted by non-recurring income. To recap, the group's 1QFY17 core earnings were boosted by textbook reprinting contract and provisions of Lego Education robotic sets to primary and secondary schools amounting to RM3.6 million. If we strip off these two contributions from its 1QFY17 results, 1QFY18 earnings would have grown by double digits y-o-y.

The stronger earnings y-o-y were mainly driven by a strong growth from its organic print publishing business, a higher contribution from its networking marketing operations, and 13% y-o-y reduction in its operating expenses. The improvement in its organic business and lower operating expenses illustrate the management's recent strategies of streamlining cost and enhancing its revenue growth trajectory are starting to bear fruit. The q-o-q performance did not serve as a good comparison, given that Sasbadi's business is highly seasonal.

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/RM20 million for FY18/FY19, and a stronger-than-expected contribution would serve as a catalyst for the stock.

Although we view the 1QFY18 results positively, we believe that our previous earnings forecasts were overly optimistic. As forewarned in our previous report, despite our optimistic view of the group's prospects, we do acknowledge that given the small base established in FY17, the group will need to grow its revenue by 39% and earnings by 187% to meet our previous FY18 earnings forecasts, which we deem to be stretched targets at this juncture. Besides that, the steep drop in its organic publishing business in 4QFY17 could indicate that its impending recovery would take a longer time than we had expected. We cut our FY18-FY19 earnings estimates by about 15%, mainly to account for lower organic growth in its publishing business and a higher finance cost.

Post-earnings revision, we are maintaining our "buy" recommendation with a lower TP of RM1.05, pegged at a forward calendar year 2018 price-earnings ratio (PER) of 19 times. Our valuation is based on a 10% discount to its historical mean PER, which we believe is reasonable. — *AllianceDBS Research, Jan 19*