

Company Name : Sasbadi Holdings Berhad
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Sasbadi's good business model earns it high ROE

Sasbadi Holdings Bhd
 (Jan 25, RM1.51)

Maintain buy with a higher target price of RM1.75: Sasbadi serves as one of the best proxies to the Malaysian education sector, as it is a dominant player in the domestic educational publishing industry with circa 10% market share. The group is well managed and enjoys a high return on equity (ROE) and superior profitability, supported by a lean operating structure and complementary business models.

Although first quarter ending November (1QFY17) is traditionally a weak quarter for Sasbadi's educational publishing business due to the school holidays and completion of the exam period, the group has registered strong earnings of RM4.3 million during the quarter, a substantial improvement compared with core earnings of RM2 million recorded in 1QFY16. Its 1QFY17 earnings were within our expectations.

The group's 1QFY17 core earnings were boosted by revenue recognition from RM9.4 million textbook publishing contracts secured, textbook reprinting contracts, provision of Lego Education robotics sets to primary and secondary schools amounting to RM3.6 million, and increased contributions from network marketing.

The stronger 1Q results were supported by a 48% increase in its top-line growth, compared with the corresponding period last year. This meets about 18% of our and consensus' full-year earnings forecasts, which we deem to be within expectations, given that 1Q is a seasonally weak quarter for the group.

Since obtaining the network

Sasbadi Holdings Bhd

FYE AUG (RM MIL)	2015A	2016A	2017F	2018F
Revenue	88.0	92.7	115	136
Ebitda	24.4	26.9	36.2	43.5
Pre-tax profit	21.4	17.4	31.5	38.9
Net profit	15.3	11.9	22.7	28.4
Net profit (pre ex)	15.3	16.7	22.7	28.4
Net profit growth (pre ex) (%)	(1.0)	9.1	35.8	25.0
EPS (sen)	5.48	4.24	8.11	10.1
EPS pre ex (sen)	5.48	5.97	8.11	10.1
EPS growth pre ex (%)	(1)	9	36	25
Diluted EPS (sen)	5.48	5.46	8.11	10.1
Net DPS (sen)	2.28	2.25	4.06	5.07
BV per share (sen)	37.7	52.8	58.5	65.4
PER (x)	28.5	36.8	19.2	15.4
PER pre ex (x)	28.5	26.1	19.2	15.4
P/CF (x)	95.2	260.4	49.0	27.8
EV/Ebitda (x)	18.1	16.2	12.4	10.4
Net dividend yield (%)	1.5	1.4	2.6	3.3
P/BV (x)	4.1	3.0	2.7	2.4
Net debt/equity (x)	0.0	Cash	0.0	0.1
ROAE (%)	14.5	8.0	14.6	16.4

Sources: Company, AllianceDBS, Bloomberg Finance LP

marketing licence in April 2016, management has been actively engaged in recruiting members for the business. We gather that the group has so far signed on more than 3,000 members and significant contributions will start to kick in from FY17. We are positive of the group engaging in such marketing strategies since we believe that the general market remains unfamiliar with its digital products and a more personalised marketing strategy could lead to better recognition and appreciation of such products by consumers.

Since obtaining the network

marketing licence in mid-2016, management has been actively expanding the business to further monetise its digital products. We understand that the group has so far recruited more than 3,000 members. We are positive that contributions from its network marketing business has improved to RM1.2 million in 1QFY17 from RM700,000 recorded in 4QFY16. In our earnings model, we have only assumed RM5 million contributions from its network marketing business for FY17, leaving room for further earnings upgrade. — AllianceDBS

Research, Jan 25