

Company Name : Sasbadi Holdings Berhad
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Sasbadi First Half Earnings Below Forecasts, Says CIMB Research

KUALA LUMPUR: Educational materials publisher Sasbadi Holdings' 1HFY8/18 net profit was below CIMB Equities Research and market expectations, at 28% of the full-year forecast, due to weaker-than-expected retail and multi-level marketing (MLM) revenue.

It said on Wednesday that 2Q is seasonally its strongest quarter due to the start of the national school year but 2QFY18 revenue was down 2.6% on-year.

"We cut our FY18-20F retail and MLM revenue forecasts due to slower-than-expected revenue growth. This reduces our FY18-20 EPS forecasts by 48.4%-54.9%. The stock remains an Add given its attractive 2018F P/E of 10 times and only 1.1 times price-to-book value (PBV)," it said.

To recap, Sasbadi's 1HFY18 revenue declined 4.1% on-year to RM56mil; net profit also declined by the same percentage.

This was due to 1) RM3.8m contract to supply lego robotics sets to the Ministry of Education (MOE) in 1HFY17, and 2) RM2.5m in delayed orders of reprinted textbooks for the MOE (from 4QFY16 to 1QFY17).

"If we excluded these items, 1HFY18 revenue would rise 7.6% on-year, which was still disappointing as we expected stronger retail sales growth in 1HFY18," it said.

CIMB Research said Sasbadi's 1HFY18 MLM revenue was RM6m, a big rise compared to only RM2.6m revenue in 1HFY17.

"However, the figure was still below our expectation as we anticipated exponential revenue growth for the MLM division in 1HFY18," it said.

On a quarter-on-quarter basis, its 1HFY18 MLM revenue was up 60%. It would seem Sasbadi's MLM division continues to face stiff competition from other MLM companies that are actively looking for new distributors who want to build an MLM business.

Sasbadi also announced that it was buying a 100% stake in Pinko Creative, a Chinese comic book publisher, for RM900,000 which the research house believes should come from internal funds.

As at end-March, Sasbadi's net debt was at RM31mil or 0.19 times net gearing. The company also announced a RM9m asset revaluation surplus for its properties, which is not reflected in its profit & loss (P&L) statement.

CIMB Research also noted that the government would in 2018 continue to give tertiary students prepaid cards instead of book vouchers.

"This could negatively impact Sasbadi's retail sales, as happened in 2017, in our view," it said.

However, the impact would be mitigated this year it has launched i) new preschool books with technology enhancement features, ii) "Marshall Cavendish" English text books based on Singapore's K-12 syllabus and iii) Chuck Chicken books.

"Sasbadi still aims for double-digit retail sales growth in FY18F," it said.

CIMB Research slashed its FY18F-20F EPS by 48.4%-54.9%, mainly to reflect lower retail and MLM revenue forecasts as both sectors continue to face strong peer competition and tight domestic consumer spending.

"We were earlier too optimistic about Sasbadi's MLM prospects and it now looks like this division might take a longer time to see the exponential revenue growth we had expected," it said.