

Sasbadi Holdings (BUY ↔, EPS ↑)

EDUCATION

EARNINGS EVALUATION

July 21, 2014

Price Target: RM1.65(↑)

IPO Price: RM1.19

3Q14 Results: More to come!
Results

- **Above expectations** - Sasbadi's 9MFY08/14 earnings of RM11m came in above expectation, making up 80% of our estimation.

Deviations

- Better-than-expected sales from educational publishing segment (both print & online).

Dividends

- None.

Highlights

- **9MFY08/14 review...** Sasbadi reported revenue of RM61.9m, mainly driven by their educational print publishing and distribution of applied learning products. Its educational publishing segment alone contributed RM16.1m in 3QFY08/14 (90% of 3QFY08/14 total revenue of RM17.9m).

- Despite an underprovision of sales returns for past year paper of RM1.3m, the company managed to arrive at PAT of RM11m for 9MFY08/14.

- **Online publications...** The revenue contribution from its online publication segment picked up in 3QFY08/14, charting in at RM0.7m thanks to the introduction of two new products; Mind Map and Most Essential Exam Techniques (MEET). This reaffirms our view that Sasbadi's online publications would definitely gain positive traction from its end-users (youth who are generally more technological savvy).

- **Outlook...** On the account of PMR abolishment that will be replaced by PT3 - Pentaksiran Tingkatan 3, we believe there will be a change in its seasonality patterns. Sasbadi expects to record sales from PT3 and post-secondary educational materials in 4QFY08/14 (although 4Q is normally its weakest quarter).

- Hence, we are **POSITIVE** on Sasbadi's future prospect given its position as the main educational publisher in the country.

Risks

- Losing the textbook tender from Ministry of Education (MoE); Migration towards the online platform; Spike in paper prices; and Changes in National Curriculum and educational policies.

Forecasts

- We tweaked FY14-FY16 earnings upwards by 5.7-9.2%, taking into account higher contribution from its educational publishing segment.

Rating
BUY (↔)

- We maintain our BUY call on Sasbadi due to its strong annual FCF, its decent dividend yield of circa 3.4% and the uniqueness of the company which is closely linked to the country's education system with defensive yet growing earnings base.

Valuation

- Post-earnings revision, target price is revised upwards to RM1.65 based on unchanged P/E multiple valuations of 11.5x CY15 EPS.

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KLCI	1,873.0
Expected share price return	38.7%
Expected dividend return	3.4%
Expected total return	42.1%

Share price

IPO Price RM1.19
Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Shares (m)	127.0
Market cap (RMm)	151.13
3-mth avg volume ('000)	nm

Major shareholders

Law King Hui	20.0%
Lee Swee Hang	10.0%
Lee Eng Sang	5.0%

Summary Earnings Table

FYE Aug (RM m)	2013A	2014E	2015E	2016E
Revenue	77.96	82.09	91.95	103.46
EBITDA	20.34	21.52	25.08	29.42
PATAMI	13.62	14.65	17.19	20.34
EPS (sen)	12.87	11.54	13.54	16.02
P/E (x)	9.25	10.31	8.79	7.43
BV /share	0.6	0.7	0.8	0.9
P/BV (x)	2.0	1.71	1.51	1.32
ROA (%)	17.6	16.60	16.22	16.96
ROE (%)	23.6	19.18	18.23	18.94

HLIB

Figure #1 Quarterly results comparison

FYE Aug (RM m)	3QFY14	2QFY14	3QFY14	QoQ (%)	Comments
Revenue	-	-	17.9	-	
Sasbadi Sdn Bhd	-	-	16.1	-	
Sasbadi Online	-	-	0.7	-	Thanks to the introduction of two new products; Mind Map & MEET.
Orbit Buku	-	-	0.3	-	
Malaysian Book Promotions	-	-	0.8	-	
GP	-	-	8.1	-	
EBITDA	-	-	4.8	-	
Operating Profit	-	-	4.2	-	
Interest Income	-	-	0.02	-	
Finance Costs	-	-	(0.2)	-	
Shares of Associates/JCE	-	-	-	-	
PBT	-	-	4.0	-	
PAT	-	-	3.0	-	Effective tax rate of 26%.
PATAMI	-	-	3.0	-	
Core Earnings	-	-	3.0	-	
Basic EPS (sen)	-	-	2.84	-	
GP Margin (%)	-	-	45%	-	Better than expected revenue contribution from Sasbadi Sdn Bhd
EBITDA Margin (%)	-	-	27%	-	
Operating Profit Margin (%)	-	-	23%	-	

Sasbadi, HLIB

Figure #2 Cumulative results comparison

FYE Aug (RM m)	9MFY13	9MFY14	YoY (%)	Comments
Revenue	-	61.9	-	Made up 76% of our forecast.
Sasbadi Sdn Bhd	-	56.0	-	Contributed 90% of revenue in the current quarter.
Sasbadi Online	-	0.8	-	
Orbit Buku	-	1.0	-	
Malaysian Book Promotions	-	4.2	-	
GP	-	29.8	-	
EBITDA	-	17.2	-	
Operating Profit	-	15.3	-	
Interest Income	-	0.1	-	
Finance Costs	-	(0.4)	-	
Shares of Associates/JCE	-	-	-	
PBT	-	15.0	-	
PAT	-	11.0	-	Effective tax rate of 26%.
PATAMI	-	11.0	-	
Core Earnings	-	11.0	-	Made up 80% of our estimate.
Basic EPS (sen)	-	10.43	-	
GP Margin (%)	-	48%	-	
EBITDA Margin (%)	-	28%	-	
Operating Profit Margin (%)	-	25%	-	

Sasbadi, HLIB

Figure #3 Peer comparison

	Price (RM)	Market Cap (RM m)	EPS (sen)		P/E (x)		P/B (x)		ROE (%)		Dividend Yield (%)
			2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	2014E
Pelangi	0.76	73.5	-	-	-	-	-	-	-	-	-
Prestariang	2.23	1,079.3	0.09	0.13	23.98	17.56	6.86	5.95	36.17	38.90	2.83
SeG International	1.44	926.8	0.05	0.06	29.39	26.18	3.60	3.51	11.85	12.90	2.92
Average			0.07	0.09	23.68	21.87	5.23	4.73	24.01	25.90	2.88
Sasbadi	1.19	151.1	11.5	13.5	10.3	8.8	1.7	1.5	19.2	18.2	3.4
HLIB, Bloomberg											

Financial Projections for Sasbadi Holdings (BUY; TP: RM1.65)

Income Statement

FYE 31 Aug (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	64.8	78.0	82.1	91.9	103.5
COS	(37.9)	(45.8)	(48.1)	(53.4)	(59.8)
EBITDA	16.5	20.3	21.5	25.1	29.4
D&A	(1.6)	(1.9)	(2.2)	(2.6)	(2.9)
Net Interest	0.0	0.1	0.3	0.4	0.6
Associates/JCE	-	-	-	-	-
Exceptionals	-	-	-	-	-
Profit Before Tax	14.9	18.5	19.5	22.9	27.1
Tax	(4.0)	(4.9)	(4.9)	(5.7)	(6.8)
Minority Interests	-	-	-	-	-
PATAMI	10.9	13.6	14.7	17.2	20.3
Core Earnings	10.9	13.6	14.7	17.2	20.3
Basic Shares (m)	105.8	105.8	127.0	127.0	127.0
Basic EPS (sen)	10.29	12.87	11.54	13.54	16.02

Quarterly Financial Summary

FYE 31 Aug (RM m)	3QFY14
Revenue	17.9
COGS	(9.831)
Gross Profit	8.110
Other Income	0.041
Expenses	(3.945)
Operating Profit	4.206
Interest Income	0.022
Finance Costs	(0.189)
Associates/JCE	-
Profit Before Tax	4.039
Tax	(1.035)
Profit After Tax	3.004
MI	-
PATAMI	3.004
Basic EPS (sen)	2.84
DPS (sen)	-
W. Ave. Shares (m)	105.8

Balance Sheet

FYE 31 Aug (RM m)	2012A	2013A	2014A	2015E	2016E
Fixed Assets	28.6	28.0	34.1	32.9	31.4
Other long-term assets	0.04	0.04	0.04	0.04	0.04
Other short-term assets	2.1	0.7	0.7	0.7	0.7
Working Capital	28.4	29.5	39.5	44.1	49.2
Receivables	12.8	21.0	18.4	20.7	23.2
Payables	(5.9)	(6.5)	(6.6)	(7.3)	(8.1)
Inventory	21.5	15.0	27.7	30.7	34.1
Net cash	11.7	11.5	18.1	26.8	37.4
Cash	12.5	12.0	18.6	27.3	37.9
Total Debt	(0.8)	(0.5)	(0.5)	(0.5)	(0.5)
Shareholders' funds	50.9	64.5	88.3	100.3	114.5
Share capital	2.4	2.4	39.0	39.0	39.0
Reserves	48.5	62.1	49.3	61.3	75.6
Minorities	-	-	-	-	-
Other liabilities	20.0	5.3	4.2	4.2	4.2

Valuation Ratios

FYE 31 Aug (RM m)	2012A	2013A	2014E	2015E	2016E
EPS (sen)	10.3	12.9	11.5	13.5	16.0
PER (x)	0.1	0.1	0.1	0.1	0.1
DPS (sen)	16.7	-	12.7	4.1	4.8
DY %	14.0	-	10.7	3.4	4.0
BVPS (RM)	0.5	0.6	0.7	0.8	0.9
P/B (x)	2.5	2.0	1.7	1.5	1.3
FCF/Share (sen)	0.0	0.1	(0.02)	0.11	0.13
FCF yield %	1.4	12.5	(1.86)	8.91	10.67
ROE	20.9	23.6	19.2	18.2	18.9
ROA	15.2	17.6	16.6	16.2	17.0
Net Gearing (%)	(23.0)	(17.8)	(20.5)	(26.7)	(32.6)

Cashflow Analysis

FYE 31 Aug (RM m)	2012A	2013A	2014A	2015E	2016E
EBITDA	16.5	20.3	21.5	25.1	29.4
WC changes	(7.7)	(1.1)	(10.0)	(4.5)	(5.2)
Taxation	(4.0)	(4.9)	(4.9)	(5.7)	(6.8)
Others	(1.6)	2.9	(1.1)	(0.0)	0.0
Operating cashflow	3.2	17.1	5.5	14.8	17.5
Capex & acquisitions	(1.5)	(1.3)	(8.3)	(1.3)	(1.3)
Free cashflow	1.7	15.8	(2.8)	13.5	16.1
Other inv cashflow	1.0	0.1	0.3	0.4	0.6
New borrowings	0.2	(0.3)	-	-	-
Share issuance	-	-	25.2	-	-
Dividends paid	(1.6)	(16.1)	(16.1)	(5.2)	(6.1)
Other fin cashflow	(0.5)	(0.0)	(0.0)	(0.0)	(0.0)
Net cashflow	0.9	(0.5)	6.6	8.7	10.6

Assumption Metrics

FYE 31 Aug (RM m)	2012A	2013A	2014E	2015E	2016E
Revenue Breakdown					
Educational Publishing	55.8	70.1	73.8	82.9	93.6
Dist. of appl. Learning prod.	4.7	4.2	5.0	5.9	6.9
Others	4.3	3.6	3.4	3.2	3.0
Revenue Growth (%)	8.1	20.3	3.9	11.3	12.7
PATAMI Growth (%)	14.9	25.0	2.1	14.4	17.4
EPS Growth (%)	14.9	25.0	(10.4)	17.3	18.3
EBITDA Margin (%)	25.4	26.1	26.2	27.3	28.4
EBIT Margin (%)	23.0	23.8	23.8	24.9	26.2
PBT Margin (%)	23.0	23.8	23.8	24.9	26.2
PAT Margin (%)	16.8	17.5	17.8	18.7	19.7

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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