

Sasbadi Holdings (BUY ↔; EPS ↔)

 EDUCATION
 COMPANY INSIGHT

 10 September 2014
 Price Target: RM1.65 (↔)
 Share price: RM1.45

Post-IPO update
Highlights

We recently visited Sasbadi to obtain update after its IPO listing. After the visit, we remain positive on its earnings prospects despite absence of near-term catalysts. Here are the key takeaways:

- **M&A plan is intact but not imminent.** To recap, 45.6% of the IPO proceeds (RM11.5m) will be utilised for its acquisition of publishing companies that complement its current business structure. Although the M&A plan is still on track, it may not be imminent as discussions with potential targets are still in early stage.
 - In the absence of any earnings-accretive acquisition(s), its printing publishing segment is expected to be able to sustain organic growth of about ~10% p.a..
 - **Normalisation in digital segment but upside is huge.** Its online educational segment has already passed the initial super growth stage and earnings should normalise but sustainable. We gathered that a change in MOE policy on e-learning is needed for this segment to chart significant earnings growth. We opine that Sasbadi is ready to reap the opportunity but it may take a few more years before all schools are equipped with IT hardware and internet access.
 - **Soon to be declared SC Shariah compliant.** We also understand that there are no obstacles for Sasbadi to be declared SC Shariah compliant in the review in November 2014. We see this as a near-term catalyst for share price performance.
 - **Long-term catalyst from new curriculum.** Apart from the potential M&As, a long-term catalyst will emanate from the new curriculum for secondary schools from 2017 onwards (continuation of Kurikulum Standard Sekolah Rendah (KSSR) that was started in 2011 for primary schools). There are vast opportunities for the curriculum-based textbook segment where competition is less stiff.
 - All-in-all, we remain positive on Sasbadi due to its:
 - (i) Strong annual Free Cash Flow of RM14-16m;
 - (ii) Potential SC Shariah compliant in Nov;
 - (iii) Long term catalysts and decent dividend yield; and
 - (iv) Uniqueness of the business which is closely linked to the country's education system with defensive yet growing earnings base, given the young population base.
- Risks**
- Losing the textbook tender from MOE; Migration towards the online platform; Spike in paper prices; and Changes in National Curriculum and educational policies.
- Forecasts**
- Unchanged.
- Valuation**
- Reiterate our **BUY** call with unchanged TP of **RM1.65**, based on unchanged P/E multiple valuation of 11.5x CY15 EPS or 55% discount to average P/E of the education sector due to Sasbadi's lower market capitalisation.

Mardhiah Omar

mardhiah@hlib.hongleong.com.my

(603) 2168 1155

KLCI	1,874.1
Expected share price return	13.8%
Expected dividend return	2.8%
Expected total return	16.6%

Share price

Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	127
Market cap (RM m)	184
3-mth avg. volume ('000)	nm
SC Shariah-compliant	No

Price Performance	1M	3M	12M
Absolute	5.8	nm	nm
Relative	3.9	nm	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)	11.27	12.57	10.71	9.05
BV /share	0.6	0.7	0.8	0.9
P/BV (x)	2.38	2.09	1.84	1.61
DPS (sen)	-	12.7	4.1	4.8
DY %	-	10.7	3.4	4.0
ROA (%)	17.63	16.60	16.22	16.96
ROE (%)	23.60	19.18	18.23	18.94

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

Income Statement

FYE 31 Aug (RM m)	2012A	2013A	2014E	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	2014E	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

Rates and 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	2014E	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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 Level 23, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

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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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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
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