

Sasbadi Holdings Berhad

Bloomberg: SASB MKJ Reuters: SAHO.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

29 Sep 2014

BUY RM1.50 KLCI : 1,843.11

(Initiating Coverage)

Price Target : 12-Month RM 2.25

Shariah Compliant: No

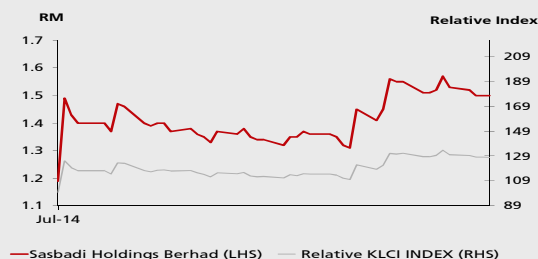
Reason for Report : Initiate Coverage

Potential Catalyst: Earnings accretive M&A deals

Analyst

Ian WAN +603 2604 3919

ianwwk@alliancedbs.com

Price Relative

Forecasts and Valuation

FY Aug (RM m)	2014F	2015F	2016F	2017F
Turnover	76	87	98	111
EBITDA	23	27	33	39
Pre-tax Profit	16	24	30	36
Net Profit	11	18	22	27
Net Pft (Pre Ex.)	15	18	22	27
EPS (sen)	9.1	13.9	17.3	21.0
EPS Pre Ex. (sen)	11.7	13.9	17.3	21.0
EPS Gth (%)	(10)	54	24	22
EPS Gth Pre Ex (%)	16	19	24	22
Diluted EPS (sen)	11.7	13.9	17.3	21.0
Net DPS (sen)	0.0	7.0	8.6	10.5
BV Per Share (sen)	73.0	80.0	88.6	99.1
PE (X)	16.6	10.8	8.7	7.1
PE Pre Ex. (X)	12.9	10.8	8.7	7.1
P/Cash Flow (X)	15.2	12.0	9.1	7.6
EV/EBITDA (X)	6.8	6.0	4.9	3.8
Net Div Yield (%)	0.0	4.6	5.8	7.0
P/Book Value (X)	2.1	1.9	1.7	1.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.4	17.4	20.5	22.4

Consensus EPS (sen):

N/A

N/A

N/A

Other Broker Recs:

B: 2

S: 0

H: 0

ICB Industry : Consumer Services

ICB Sector: Media

Principal Business: Educational book publisher

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P.

A book holds a house of gold

- **Best proxy to pre-university education industry**
- **3-year earnings CAGR of 22%**
- **Dividend yields are attractive at 5-7%**
- **Initiate coverage: high conviction BUY, RM2.25 TP (16x FY15 EPS)**

Sasbadi, your best study buddy. Sasbadi Holdings (Sasbadi) is a strong and growing market leader in the local educational publishing industry with c.9% market share. The group is very well managed with high ROE and superior profitability, thanks to its lean operating structure and complementary business model.

Strong growth prospects in a resilient education industry. With the proceeds from recent IPO, the group is in prime position to embark on earnings-accretive M&As in the fragmented educational publishing industry. In addition, there is huge potential in the untapped education services market, in particular hands-on learning centres that foster creative thinking and innovation, where Sasbadi could be the missing piece of the puzzle in Malaysia's education industry.

Compelling valuation. We forecast Sasbadi's FY15-FY17 core PAT will expand at 3-year CAGR of 22%, underpinned by earnings accretive M&As. Valuation is undemanding at 11x/9x/7x FY15-FY17 EPS, while yields are attractive at 5-7%.

Initiate coverage: high-conviction BUY. We initiate coverage of Sasbadi with a high-conviction BUY, and DCF-derived TP of RM2.25 based on conservative assumptions: 9.5% cost of equity and 1% terminal growth. Our TP implies 16x FY15 EPS, and suggests a total return of 55% from the last close of RM1.50!

At A Glance

Issued Capital (m shrs)	127
Mkt. Cap (RMm/US\$m)	191 / 58.4
Major Shareholders	
Law King Hui (%)	30.0
Lee Swee Hang (%)	15.0
Lee Eng Sang (%)	10.0
Free Float (%)	45.0
Avg. Daily Vol.('000)	2,375

SWOT Analysis

Strengths	Weakness
• Experienced and entrenched editorial team. • Extensive distribution network and sales team. • Large economies of scales. • Lean operating structure which focuses on content development. • Publishing business complemented by high value-added divisions (online publishing and applied learning products) as compared to its rivals. • Established online publishing model to prepare for the inevitable digitalisation trend.	• Subject to risk of books being returned if there is a change in the school curriculum.
Opportunities	Threats
• Earnings accretive M&A would strengthen its lead in the highly fragmented industry. • Diversifying into educational services industry via the establishment of applied learning centres. • Increasing awareness of human capital development as Malaysia marches towards high income nation by 2020. • Higher secondary school enrolment as government aims to increase mandatory schooling years from 6 to 11. • Increasing demand for sophisticated educational related products/ services.	• Sudden surge in paper cost which represents 38% of Sasbadi's COGS. • Failure to respond timely to changes in education policies. • Potential loss of contract revenue. • Low start-up capital leads to low barrier of entry for the industry.

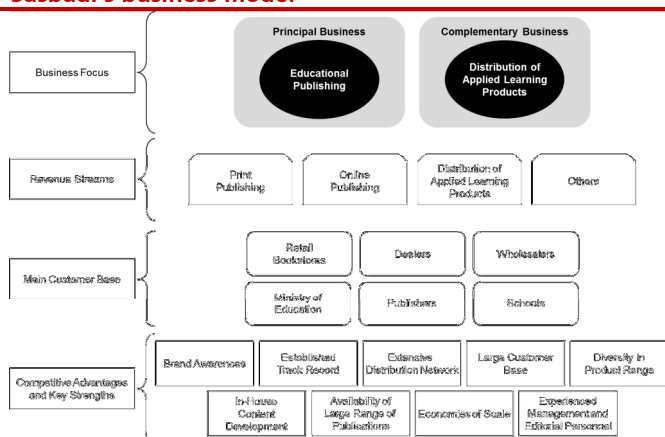
Source: AllianceDBS

Company Background

- **A household brand since 1985.** Sasbadi was co-founded by Law King Hui (Managing Director), Lee Swee Hang (Group Publishing Director) and Lee Eng Sang (Group Marketing Director) in 1985, after the three young entrepreneurs gained 4 to 6 years of working experience in the publishing industry with Pustaka Delta Pelajaran Sdn Bhd. Under the leadership of the three co-founders who have accumulated more than 100 years of combined industry experience, Sasbadi has become a market leader in the local publishing industry. The

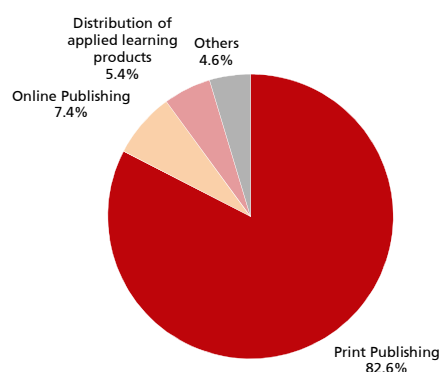
company focuses on National School Curriculum-based (NSC-based) educational materials for primary and secondary education. Over the last 29 years, Sasbadi has published millions of books (11,200 titles) and successfully transformed from a pure educational print publisher to a diversified educational publisher that is also involved in the distribution of applied learning products (since 2005) and online publishing (since 2011) which contributed 5.4% and 7.4% of FY13 revenue.

Sasbadi's business model



Source: Company, AllianceDBS

FY13 revenue breakdown by segment

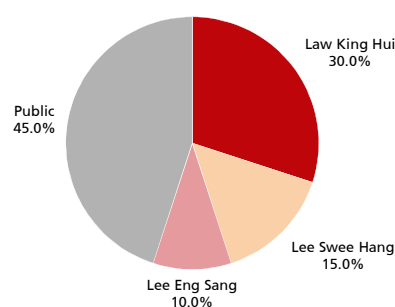


- **Major shareholders and key management.** Sasbadi is jointly controlled by the three co-founders who collectively own 55% equity stake post-IPO on 23 July 2014. In terms of individual stakes, Law King Hui owns 30% effective stake, followed by Lee Swee Hang 15% and Lee Eng Sang 10%.

- The board of directors of Sasbadi comprises seven members: three independent non-executive directors (including the chairman), and four executive directors led by Law King Hui as Group Managing Director (MD). His son Law En Ruey is Chief Operating Officer (COO), and he is also supported by the other two co-founders and a team of professional managers who have served the group for almost 20 years (on average).

- Over the years, Law King Hui - who practises hands-on management - has introduced several innovative concepts and strategies to promote the reading culture in Malaysia. His contributions to the industry have led to his selection as one of the 21 personalities documented in the publication, "Tokoh-tokoh Perbukuan Malaysia" (Prominent Figures of Malaysia Book Publishing Industry) by the National Library of Malaysia.

EXHIBIT 1: Shareholding structure



* Takes into account individual stake in Karya Kencana which directly owns 25.4m (20%) stake in Sasbadi post-IPO.

Sources: AllianceDBS

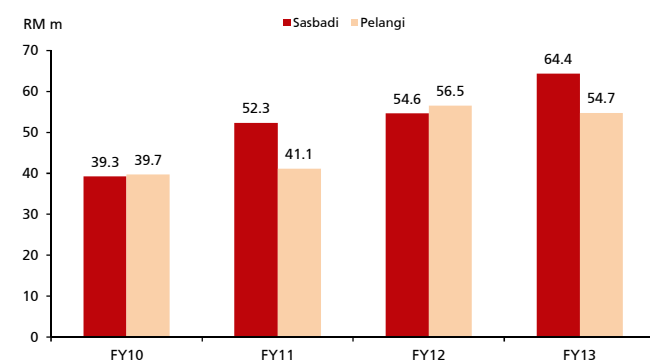
Board of Directors

Name	Age	Designation	Profile
Dato' Salleh bin Mohd	63	Independent non-executive chairman	- Appointed to the board on 7 May 2013. 1974 - Graduated from Universiti of Malaya with a Bachelor of Arts with First Class Honours. Started his career as a teacher at SK Kayan, Setiawan, Perak in 1971. 1992 to 1994 - Served as the Principal Assistant Director at Perak State Education Department, Principal of SM Sains Tengku Abdullah of Raub, and King Edward VII School of Taiping, Perak. 1996 to 2001 - Served as District Education Officer at the Manjong District Education Office and subsequently as Sector Head at the Perak State Education Department 2001 to 2007 - Served in the Ministry of Education with the last designation as the Deputy Director General of Education Malaysia in charge of policy matters and implementation, a position he held until his retirement from the civil service in 2007. 2008 - 2012 - Served as a member of the Malaysian Education Service Commission, Prime Minister's Department, to promote quality education relating to recruitment, appointment, and discipline of personnel. He was a member of the Advisory Panel for Excellent School Cluster.
Law King Hui	55	Managing Director	- Appointed to the board on 7 May 2013. 1980 - Graduated from Tunku Abdul Rahman College with a Certificate in Electronic Engineering. 1980 to 1985 - Started his career as a Test Technician with National Semi Conductors Sdn Bhd, and joined Pustaka Delta Pelajaran Sdn Bhd in 1981 where he held a diverse range of positions such as Sales Representative, Administration Coordinator, Management Executive, and Regional Manager. 1985 - Co-founded Sasbadi Sdn Bhd with Lee Swee Hang and Lee Eng Sang. - More than 30 years of experience in book publishing industry and is responsible for the group's overall business strategies. - Actively involved in the development and growth of the publishing industry in Malaysia, and has held several key positions in different independent and governmental organisations. - Recipient of the Anugerah Perdana (Tokoh Industri Buku Negara) awarded by Yayasan Pembangunan Buku Negara in 2013.
Lee Swee Hang	61	Executive director, Group Publishing Director	- Appointed to the board on 7 May 2013. 1974 - Obtained his Higher School Certificate. 1975 - Started his career as Senior Malay Language Editor with Preston Corporation Sdn Bhd. 1979 to 1985 - Joined Pustaka Delta Pelajaran Sdn Bhd as Chief Editor. 1985 - Co-founded Sasbadi Sdn Bhd with Law King Hui and Lee Eng Sang. - Responsible for the group's editorial and production teams, soliciting new authors and establishing a network of authors.
Lee Eng Sang	63	Executive director, Group Marketing Director	- Appointed to the board on 7 May 2013. 1969 - Obtained his Malaysian Certificate of Education (MCE). 1970 to 1977 - Started his career as a school teacher. 1978 to 1985 - Joined Pustaka Sistem Pelajaran Sdn Bhd as a Sales Representative. He subsequently joined Pustaka Delta Pelajaran Sdn Bhd and was promoted to Regional Manager in 1983. 1985 - Co-founded Sasbadi Sdn Bhd with Law King Hui and Lee Swee Hang, where he established a formidable marketing and sales force that strengthen the group's competitive advantage. - Responsible for the group's marketing and sales department.
Law En Ruey	29	Executive director, COO	- Appointed to the board on 7 May 2013. 2007 - Graduated from the University of Bath, England with Bachelor of Science in Mathematics and Physics with 1st Class Honours. Obtained Master of Science in Management with 1st Class Honours from the same University in 2008. 2008 to 2010 - Started his career as a Management Trainee with AmBank (M) Berhad and subsequently promoted to Credit Analyst Manager in the Business Credit Risk Evaluation Unit in 2009. 2010 to 2012 - Joined Sasbadi as a Senior Manager where he was responsible to assist the MD in the management of projects, operations and IT of the group. Promoted to General Manager in 2011. 2013 - Promoted to Chief Operating Officer where he is responsible of the group's operation and business development.
Dato' Noor Rezan binti Bapoo Hashim	61	Independent non-executive director	- Appointed to the board on 7 May 2013. 1974 - Graduated with a Bachelor of Arts with Honours from the University of Malaya. 1982 - Obtained Master of Arts (TESL) from the University of Hawaii, the United States of America 1975 to 1988 - Served as a English teacher at various secondary schools in Peninsula Malaysia. 1988 to 1995 - Promoted to Afternoon Supervisor and later Administrative Senior Assistant of SMK Raja Ali, KL. 1995 to 2003 - Promoted to Principal of various schools in KL. 2003 to 2006 - Served as Deputy Director and subsequently Director in various divisions of the Ministry of Education. 2007 to 2011 - Served as Deputy Director-General of Education Malaysia, a position she held until her retirement in 2011. 2011 to 2012 - Served as the Education Advisor of Khazanah Nasional Bhd, advising on matters pertaining to their projects involving education. - Awarded the "Tokoh Kepimpinan Pendidikan Kebangsaan 2013" (National Education Leadership Award)
Lim Hun Soon @ David Lim	59	Independent non-executive director	- Appointed to the board on 7 May 2013. 1978 to 2011 - Graduated from the University of Leeds with a Bachelor of Arts in Economics. More than 33 years of experience in audit firm, KPMG with last position as an Audit Partner. - Currently sits in the board of Affin Investment Bank, Manulife Insurance Bhd, Manulife Holdings Bhd, Ann Joo Resources Berhad and IJM Land Bhd. He also holds directorship in Rockwills Trustee Bhd. - Appointed as the representative of Malaysia to sit in the Council of the Institute of Chartered Accountants in England and Wales in 2013. - A member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants

Investment Merits

- Market lead and lean operating structure.** Sasbadi is a strong and growing market leader in the NSC-based educational publishing industry with c.9% market share, based on apparent annual consumption of RM750m in 2013, according to estimates from Vital Factor Consulting Group. We like Sasbadi's market lead and lean operating structure (outsources printing and focuses on content development) which creates an edge for the group to compete and grow its market share in the fragmented educational publishing industry.
- Sasbadi's competitive edge is hard to replicate.** In our view, the key competitive advantage in the print publishing industry is built on: (1) an experienced and entrenched editorial team, (2) an extensive and established distribution network, (3) a diversified product range, and (4) economies of scale. Over the last 29 years, Sasbadi has built an extensive distribution network covering 1,380 distribution points in Malaysia with 570 active dealers. Coupled with its experienced and entrenched editorial team (60% of the team members have 7 to 26 years of experience; 55% have been with the group for more than seven years), this creates a strong competitive edge for the group which competitors and new entrants would find hard to replicate.
- In prime position to lead industry consolidation.** Compared with the only listed rival, Pelangi Publishing Group (c.7% market share), Sasbadi is in prime position to take the lead to consolidate the fragmented educational publishing industry. The former has not been able to generate consistent improvement in business scale/model, ROE, nor profitability, due to its low value-added business model which is integrated with the asset-heavy printing business. Meanwhile, Sasbadi's business model is complemented by the high-margin online publishing operation and distribution of applied learning products. This is evident in Sasbadi's operating cost structure vs Pelangi's (see Exhibit 3).

EXHIBIT 2: Historical publishing revenue by company



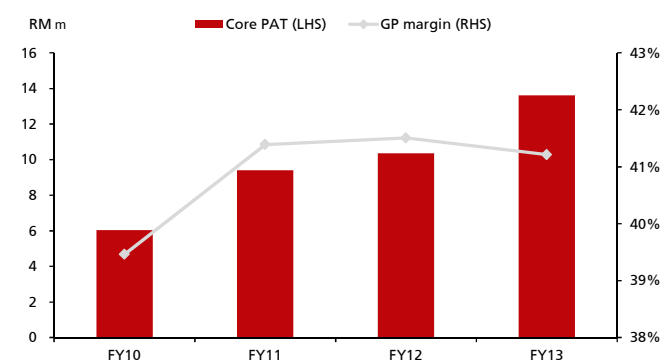
Sources: Company

EXHIBIT 3: Key comparisons between Sasbadi & Pelangi

Company	Sasbadi	Pelangi
FYE	31-Aug-13	30-Sep-13
Publishing revenue	64.4	54.7
Non-publishing revenue	13.6	11.7
Group core PBT	17.7	6.6
Group core PBT margin	27.4%	12.1%
Group core ROE	20.3%	4.3%
Operating cost breakdown (RM m)	51.6	47.8
COGS	37.6	33.9
General & administration expenses	8.5	8.8
Selling & distribution expenses	5.5	5.0
Depreciation	1.9	2.3
Staff costs*	13.2	13.5
Operating cost as a % of publishing revenue	80.2%	87.3%
COGS	58.4%	62.0%
General & administration expenses	13.2%	16.1%
Selling & distribution expenses	8.6%	9.2%
Depreciation	3.0%	4.2%
Staff costs	20.5%	24.7%

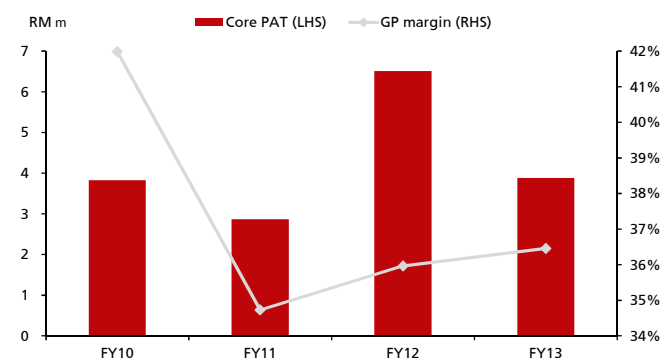
Sources: AllianceDBS

EXHIBIT 4: Sasbadi's historical core PAT & GP margin



Sources: Company

EXHIBIT 5: Pelangi's historical core PAT & GP margin



Sources: Company

- **A game of survival.** In Malaysia's educational publishing industry, the top three players dominate with less than 25% market share and the rest of the market is shared by about 200 small publishers (works out to RM2.8m average revenue per publisher). This implies huge room for market leaders like Sasbadi to grow through merger & acquisition (M&A). In fact, management has earmarked RM11.5m or 46% of its IPO proceeds for the acquisition of publishers, in particular educational materials for national-type schools (Chinese) and general titles (in Bahasa Malaysia and Chinese).

EXHIBIT 6: Notable educational publisher in Malaysia

- | | |
|------------------------------------|-------------------------------|
| 1) Cemerlang Publications Sdn Bhd | 6) Oxford Fajar Sdn Bhd |
| 2) Cerdik Publications Sdn Bhd | 7) Penerbitan Pelangi Sdn Bhd |
| 3) Gemilang Publishing Sdn Bhd | 8) PEP Publications Sdn Bhd |
| 4) Hup Lick Publishing (M) Sdn Bhd | 9) Sasbadi Sdn Bhd |
| 5) Info-Didik Sdn Bhd | 10) The Malaya Press Sdn Bhd |

(listed in alphabetical order)

Sources: Vital Factor Consulting

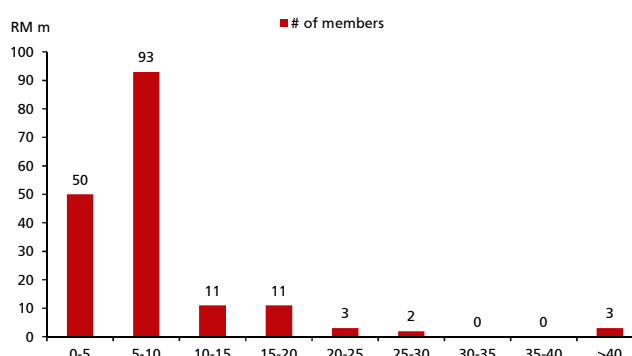
- **Earnings-accretive acquisition.** If it materialises, the acquisition would be earnings-accretive to Sasbadi, given that (1) private publishers are generally less efficient and profitable (generally less than 10% net margin) due to lack of scale, and (2) educational publishing is a high GP margin business which implies high operating leverage. Hence, we are optimistic of Sasbadi's M&A-led earnings growth strategy for the next three years. According to Malaysia Book Publishers Association, there were 176 members registered as at Sep 2011, of which 143 or 81% of members generate less than RM10m revenue p.a. In other words, 80% of the competitors are making less than RM1m PAT p.a. or perhaps loss-making. This suggests Sasbadi has strong bargaining power to embark on its acquisition strategy.

- **Low hanging fruit.** Assuming Sasbadi acquires two small publishers annually which generate annual revenues of RM3m each, this would lift the group's publishing revenue by 9-10% p.a., on top of 5-7% organic growth each year. More importantly, we understand the acquisition price for private publishers/IPs is generally cheap at <5x P/E and profitability can be improved sharply (to 2.5x P/E if margin doubles) under a larger, complementary, and more efficient publishing model.

- **Acquisition of Pearson Malaysia's IPs is a prelude.** For instance, Sasbadi had the opportunity to acquire the publishing rights and production files for a list of titles (IPs) from Pearson Malaysia for RM5.5m in Sep 2013. This is a 50-year-old reputable publisher in Malaysia which focuses on upper and post-secondary NSC-based educational materials. This is a sweet deal for Sasbadi, given that (1) the Pearson's brand has high awareness and market share in the post-secondary education segment, where Sasbadi has limited

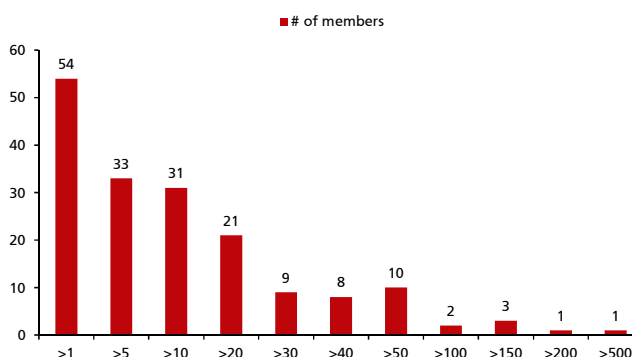
presence, and (2) the acquisition is compelling and earnings-accretive as the acquired IPs could generate c.RM10m additional revenue for the group with much better profit margins (> 20% net margin vs. the group's FY13 core PAT margin of 16.4%) due to operating leverage effect. This is a prelude to its upcoming M&A-driven earnings growth cycle.

EXHIBIT 7: 2011 revenue by MABOPA members



Sources: Malaysia Book Publishers Association (MABOPA)

EXHIBIT 8: Distribution of MABOPA members by number of employees



Sources: Malaysia Book Publishers Association (MABOPA)

- **Creating new growth drivers.** Sasbadi also plans to expand the distribution of applied learning products (5.4% of FY13 revenue). It will set up two applied learning centres which focus on science, mathematics and technology by using robotics and children educational development products in high pedestrian traffic areas such as shopping malls by 2015. We view this expansion strategy positively as there is rising demand for sophisticated educational products/services in Malaysia, especially in the affluent Klang Valley market. In addition, the Malaysian government may introduce more incentives such as tax relief to encourage parents to spend more on children's education to build up creative thinking, innovation, problem-solving and leadership skills under the new Malaysian Education Blueprint (MEB) 2013-2025. Management could consider rolling out the applied

learning centres faster under a franchise model once the two centres are running successfully and receive good response from consumers.

EXHIBIT 9: 5 key aspirations outlined in MEB 2013-2025

- 1) Access:** 100% enrolment across all levels from pre-school to upper secondary by 2020;
 - 2) Quality:** To be ranked among the top countries in international assessments such as PISA (Programme for International Student Assessment) and TIMSS (Trends in International Mathematics and Science Study) in 15 years;
 - 3) Equity:** 50% reduction in achievement gaps (urban-rural, socioeconomic and gender) by 2020;
 - 4) Unity:** An education system that gives children shares values and experiences by embracing diversity;
 - 5) Efficiency:** A system that maximises student outcomes within current budget.
- Sources: *Malaysia Education Blueprint 2013-2025*

- **Transforming into an educational group.** The proposed applied learning centres are expected to improve the “Sasbadi” brand and image, which would help to pave the way for the group to transform from a well-known print publisher to a diversified educational group over the next three years. While the group has no immediate plans to venture into other education fields, the management is ambitious to play a bigger role in the fast-growing and yet, resilient, education industry. Currently, Sasbadi is the exclusive distributor of LEGO education products, NI myDAQ and LabVIEW products from National Instrument Singapore (Pte) Ltd. The group also distributes Pitsco’s home learning products in Malaysia. Going forward, Sasbadi targets to expand its product range in the applied learning division by bringing in more intellectual learning products that are well-received in advanced countries.

EXHIBIT 10: Robotics from LEGO Education



Sources: *Company*

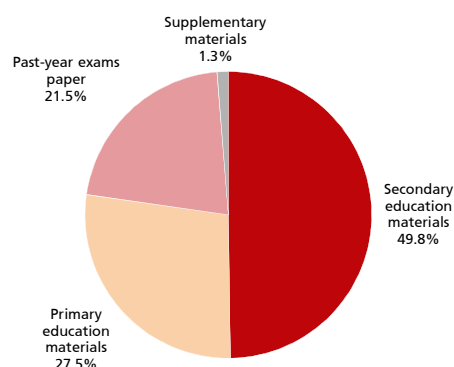
EXHIBIT 11: LEGO education products carried by Sasbadi



Sources: *Company*

- **Best proxy to MEB 2013-2025.** Sasbadi will be a major beneficiary of Malaysia’s new education blueprint, which aims to increase compulsory schooling from 6 to 11 years by 2020. Given its strong presence in national schools, Sasbadi is a good proxy to ride on the rising enrolment rates in national schools over the next six years, especially secondary education which generated 50% of its publishing revenue in FY13.

EXHIBIT 12: FY13 print publishing revenue breakdown



Sources: *Company*

Industry Outlook

- **Not a sunset industry.** In general, the content publishing industry in Malaysia is divided into educational and non-educational segments. We believe the educational publishing industry is much more resilient than the non-educational segment which publishes general materials such as newspapers, fiction, religion, biographies, and other general books. The advent of information technology has eroded the relevance of non-educational book publishing business. But this is not the case for the educational segment, at least not in Malaysia. To ensure equal access to education, including those from the low income group, the Malaysian government will continue to use print copies of educational materials for many more years.

- **NSC and non-NSC based educational material.** In Malaysia, the educational publishing segment comprises mainly NSC and non-NSC content. The NSC content is prescribed by the Ministry of Education (MOE) in Malaysia. Meanwhile, most non-NSC educational materials are used in international schools, expatriate schools, pre-university, professional certification and others.

- The NSC-based educational publishing industry can be further divided into two sub-segments: (1) government authorised textbooks and supporting educational material, and (2) general supporting educational material such as workbooks and revision books. Between the two, business risk is higher for the first sub-segment as government-authorised textbooks requires the publisher to tender for publication rights for a certain period (between 6 and 10 years) via an open tender process. While contract-sales appear to be an opportunity to some publishers who have little exposure in this segment, it is also a risk to the existing authorised publishers due to the competitive open tender process.

- **Number of book titles has been expanding at 4.5% CAGR since 2009.** According to the National Library of Malaysia, the number of book titles published in Malaysia grew at a 5-year CAGR of 4.5% between 2009 and 2013. Among the 19,000 book titles published in the country in 2013, educational books for primary and secondary schools made up 31%, implying 7.4% CAGR over five years. This suggests the key market for Sasbadi remains vibrant, brushing off concerns of a structural decline. This market segment will continue to register mid- to high- single digit growth rate going forward, underpinned by increasing awareness of human capital development as Malaysians march towards high-income nation status by 2020.

EXHIBIT 13: Number of book titles published in Malaysia

	2009	2010	2011	2012	2013	5-year CAGR (%)
Adult ⁽¹⁾	7,609	7,787	9,448	9,554	9,064	4.6
Textbook ⁽²⁾	3,969	4,218	4,638	5,550	6,241	7.4
Children	4,189	3,751	3,937	4,095	4,682	1.1
Total	15,767	15,756	18,023	19,199	19,987	4.5

Notes: (1) includes educational and non-educational books; (2) in addition to textbooks, this category also includes other student materials including workbooks, revision guides and reference books. (Source: National Library of Malaysia)

Sources: National Library of Malaysia

- **School enrolment rates still behind developed nations.** Malaysia's education system can be split into five tiers: (1) pre-school, (2) primary, (3) secondary, (4) post-secondary, and (5) higher education. Literacy and student enrolment rates in Malaysia, particularly for secondary education, are still below the average in high-income nations (literacy rate 100%, secondary enrolment rate 90%), according to UNESCO estimates. Based on MOE estimates, the literacy and enrolment rates for secondary education were less than 95% and 85% (average of lower and upper secondary) in 2012 and 2013. Under the MEB 2013-2025, the MOE is targeting 100% enrolment and to extend compulsory schooling from 6 to 11 years by 2020. This suggests more room to grow for the NSC-based publishing industry.

EXHIBIT 14: Literacy and enrolment rates in Malaysia

	2009	2010	2011	2012	2013
<u>Literacy Rate¹</u>					
Ages 10 and above	N/A	93.7	94.5	94.6	N/A
Ages 15 and above	N/A	93.1	93.9	94.1	N/A

	2009	2010	2011	2012	2013
<u>Enrolment Rate</u>					
Primary ²	94.3	94.2	94.4	94.5	94.4
Lower Secondary	86.5	86.8	86.1	86.2	85.4
Upper Secondary	77.3	77.2	77.8	78.0	78.0
Post Secondary ³	15.9	15.0	15.8	17.5	16.8

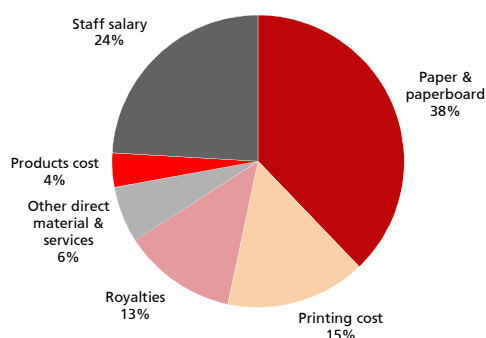
Notes: All units in percentages; (1) Literacy is defined as having formal education; (2) Excluding pre-school enrolment in primary schools; (3) Including enrolment in Form 6, Matriculation Centres and ITE under Ministry of Education only.

Sources: MOE

Key Risks

- Fluctuations in paper prices.** Paper is a key raw material for Sasbadi's operation, making up 38% of total cost of goods sold in FY13. Given that paper is a global commodity, the group is subject to risks of higher operating costs if paper prices rise sharply. But this risk is mitigated by Sasbadi's proven cost control measures – it registered stable gross profit margins of 40-41% in the last four years even though paper prices fluctuated by more than 10% during the period. Also, the structural decline in paper demand from the non-educational publishing industry will reduce global paper consumption, which could reduce prices.

EXHIBIT 15: COGS breakdown



Sources: AllianceDBS estimates

EXHIBIT 16: Historical price of uncoated woodfree paper



Sources: Department of Statistic

- Changes to education policies a double edged sword.** Any major changes to the education system, such as a change in the national curriculum and abolishment of national examinations, could temporarily reduce demand for books and/or result in the return of outdated books. The MOE will revise the primary school standard curriculum in 2016 and roll out a new secondary school standard curriculum in 2017 to embed a balanced set of knowledge and skills, including creative thinking, innovation, problem-

solving and leadership. While this presents new business opportunities to Sasbadi, the group could also be negatively affected if the return of outdated books exceeds sales of new books. However, this risk could be mitigated by management's strong track record of timely response to changes in demand dynamics, supported by its experienced and large editorial team.

- Threat from online publishing.** Online publishing is an inevitable trend and threat to the publishing industry. Hence, Sasbadi's business could be adversely affected in the future if the group fails to effectively compete with this substitute product. Fortunately, management acknowledges this threat and had ventured into online publishing in 2011. By leveraging on the group's rich content, Sasbadi is currently the leading online educational resources provider in Malaysia which offers cloud-based teaching and learning content, tools as well as platforms. Hence, we foresee limited risk.

- Low entry barriers.** Start-up capital requirement in the educational publishing industry is low at about RM1m (excluding land & building cost) to set up the business. This could lead to more competition in this fragmented industry, but Sasbadi will be able to fend off new competitors given that it is a market leader with an entrenched editorial team, large distribution network, and economies of scale.

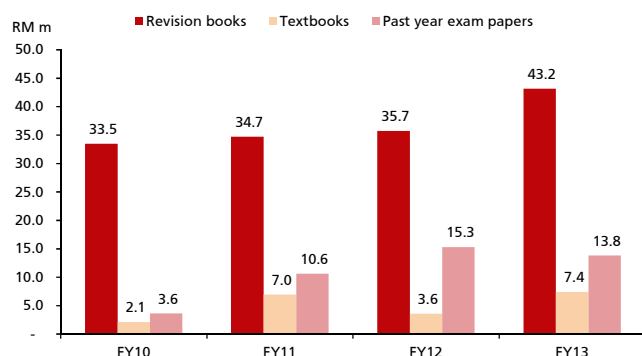
Conversely, new entrants could pose serious threats to the smaller players, which would benefit Sasbadi's M&A strategy.

- Loss of key talents.** Book publishing depends on talent, especially in the sales & marketing and editorial divisions. As such, the loss of key management personnel without a suitable and timely replacement could derail the group's growth prospect. However, this risk is manageable, judging from the low staff turnover since Sasbadi was formed. For instance, its two Sales Directors joined the group in 1985 and 1986, respectively, and have contributed to the group's success since it was established in 1985. Also, more than 55% of its editorial staff has been with the group for over seven years.

- Loss of contract revenue.** In FY13, 27% of Sasbadi's revenue was generated from government contracts, comprising textbook tenders (9.5%) and past years' examination papers (17.7%). Unfortunately, the group failed to renew its license for the reprinting, distributing, and selling of past years' examination papers upon expiry on 14 Sep 2013. This will result in the loss of RM13.8m in revenue in FY14. However, the impact will largely be mitigated by contribution from the newly acquired IPs from Pearson Malaysia (Sep 2013). This will help to reduce the impact of non-renewal of contracts going forward. More importantly, as earnings from FY14 onwards will not contain contribution from past years' examination papers, winning such contracts in future would boost earnings (>10%). We understand the exclusive right to publish past years' examination papers lapsed in September this year, and the MOE or Yayasan Guru

Malaysia Berhad (YGMB) would need to call for a fresh tender for this lucrative business soon.

EXHIBIT 17: Sasbadi's publishing revenue breakdown



Sources: Company

Financial Highlights

- Earnings set to grow at 3-year CAGR of 22%.** We forecast Sasbadi's core earnings will grow at a 3-year CAGR of 22% between FY15 and FY17, underpinned by: (1) 14-15% revenue growth from print publishing, (2) 20% and 10% revenue growth from online publishing and applied learning products, and (3) improving operating margins led by improving economies of scales. Our revenue growth projection (RM10-12m p.a.) for print publishing division assumes: (1) 5% organic growth excluding revenue from past years' examination paper, and (2) RM6-8m additional annual revenue from earnings-accretive M&A deals. Our assumptions are reasonable, premised on the outlook for and risks in the industry. For FY14, we expect group core net profit to grow by 16% to RM14.8m, driven by strong margin expansion following the synergistic acquisition of IPs from Pearson Malaysia in Sep 2013.

EXHIBIT 18: Key revenue drivers

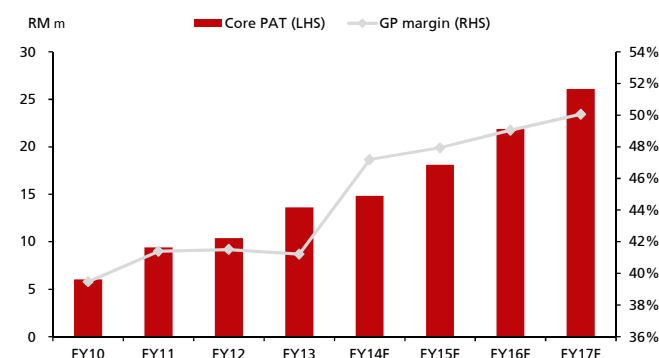
Revenue growth rate	FY11	FY12	FY13	FY14F	FY15F	FY16F	FY17F
Revision & text books (organic)	15%	-4%	21%	10%	5%	5%	5%
Past-year exam paper	18%	9%	-3%	-21%	0%	0%	0%
M&A revenue	0%	0%	0%	16%	10%	10%	10%
Online publishing		90%	392%	-70%	20%	20%	20%
Applied learning products		105%	-11%	30%	10%	10%	10%
Group revenue growth		28%	8%	-2%	14%	13%	13%

Revenue growth drivers (RM m)	FY11	FY12	FY13	FY14F	FY15F	FY16F	FY17F
Revision & text books (organic)	6.1	(2.4)	11.2	5.1	3.3	3.8	4.3
Past-year exam paper	7.0	4.7	(1.5)	(13.8)	-	-	-
M&A revenue	-	-	-	10.0	6.4	6.6	7.5
Online publishing	0.6	0.6	4.6	(4.0)	0.3	0.4	0.5
Applied learning products	(0.0)	2.4	(0.5)	1.3	0.5	0.6	0.7
Group revenue growth	13.7	5.3	13.8	(1.5)	10.6	11.3	13.0

Group GP margin	41.4%	41.5%	41.2%	47.8%	46.6%	47.3%	47.9%
Group OP margin	21.2%	22.1%	22.5%	26.8%	27.5%	29.7%	31.8%

Sources: AllianceDBS estimates

EXHIBIT 19: Sasbadi's PAT and GP margin trend



Sources: Company, AllianceDBS estimates

- Yields are also attractive at 5-7%.** Sasbadi plans to adopt a dividend payout policy of up to 50% of its total PAT. This suggests the stock could be a good dividend play that offers strong earnings growth in a resilient industry. FY15 and FY16 dividend yields are estimated at 4.6% and 5.8%, based on 50% payout. We expect Sasbadi's balance sheet to improve with net cash rising to RM34m by end FY14, as the group had raised RM25m from its IPO exercise on 23 Jul 2014. This would be sufficient to fund its M&A ventures, establish two applied learning centres, and build a new warehouse/office building to cater to its rapidly-growing business. Over the next three financial years, we forecast Sasbadi will generate RM16-25m cash flow from operation each year.

Valuation

- Initiate coverage: high conviction BUY, RM2.25 TP.** Given its strong growth prospects in a resilient industry, we derived our RM2.25 TP from the DCF-metric with the following key assumptions: (1) cost of equity 9.5%, and (2) terminal growth rate 1.0%. Our TP is justified by (1) 3-year earnings CAGR of 22%, and (2) lack of quality comparable peers in the region. Our TP implies 16x/13x/11x P/E based on FY15/FY16/FY17 EPS. We initiate coverage with a BUY rating for 55% total upside to our TP.

Sasbadi: FCFE valuation metric

(RM m)	Year Sum	1 FY15	2 FY16	3 FY17	Terminal Value
Y-O-Y core income growth		19.4%	24.1%	21.6%	1.0%
Core net income		17.7	22.0	26.7	
(+) Depreciation & amortisation		2.8	3.4	3.5	
(-) Capex		(12.0)	(8.5)	(1.0)	
(-) Changes in working capital		(4.6)	(4.4)	(5.1)	
(-) Net debt repayment (principal)		-	-	-	
FCFE		3.9	12.4	24.1	286.8
Discounting factor @ 9.5% cost of equity		0.913	0.834	0.762	0.762
Discounted equity cash flow	250.8	3.6	10.4	18.4	218.5
(+) Estimated net cash as at 31 Aug 2014	34.3				
Total equity value	285.0				
Number of shares (m)	127.0				
Target price (RM) per share/ Implied P/E	2.25	16.2	13.0	10.7	
Implied yield		3.1%	3.8%	4.7%	

Key assumptions

Cost of equity (ke) = $R_f + (B \times MRP)$	9.5%
Market Risk Premium (MRP)	5.0%
Terminal growth	1.0%
Beta (B)	1.00
Risk free rate (Rf)	4.5%

Source: AllianceDBS estimates

Key Assumptions

FY Aug	2012A	2013A	2014F	2015F	2016F	2017F
Incremental print publishing revenue (RM m)	2.3	9.7	1.2	9.7	10.3	11.8
Organic (excl. past year exam)	(2.4)	11.2	5.1	3.3	3.8	4.3
Past year exam paper	4.7	(1.5)	(13.8)	0.0	0.0	0.0
M&A revenue	0.0	0.0	10.0	6.4	6.6	7.5

Sensitivity Analysis

	2014
Organic growth +/- 1%	Net Profit +/- 1.3%
M&A growth +/- 1%	Net Profit +/- 1.4%

Assume 5% organic growth for print publishing

RM10m M&A revenue in FY14 from the acquisition of Pearson Malaysia's IPs in Sep 2013, thereafter we assume 10% print publishing growth from M&A for FY15-FY17

Segmental Breakdown

FY Aug	2012A	2013A	2014F	2015F	2016F	2017F
Revenues (RM m)						
Print Publishing	55	64	66	75	86	97
Online publishing	1	6	2	2	2	3
Applied learning products	5	4	5	6	7	7
Others	4	4	4	4	4	4
Total	65	78	76	87	98	111
Gross profit (RM m)						
Print Publishing	24	27	33	36	42	48
Online publishing	1	4	1	1	1	2
Applied learning products	2	2	3	3	3	4
Others	0	0	0	0	0	0
Total	27	32	37	41	47	53
GP Margins (%)						
Print Publishing	43.9	41.6	49.7	48.0	48.5	49.0
Online publishing	57.7	61.4	55.0	56.7	58.3	60.1
Applied learning products	42.9	39.2	50.0	50.0	50.0	50.0
Others	5.2	4.3	5.0	5.0	5.0	5.0
Total	41.5	41.2	47.8	46.6	47.3	47.9

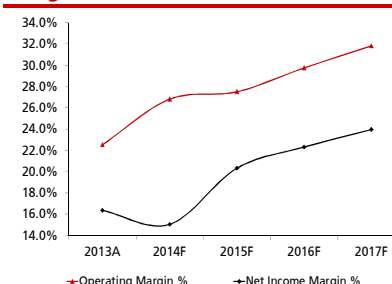
Print publishing GP margin is expected to expand due to stronger margins for Pearson Malaysia's IPs. GP margin fell in FY13 mainly due to a steep drop in margins for past years' examination papers.

Source: Company, AllianceDBS

Income Statement (RM m)

FY Aug	2012A	2013A	2014F	2015F	2016F	2017F
Revenue	65	78	76	87	98	111
Cost of Goods Sold	(38)	(46)	(40)	(46)	(52)	(58)
Gross Profit	27	32	37	41	47	53
Other Opng (Exp)/Inc	(13)	(15)	(16)	(17)	(17)	(18)
Operating Profit	14	18	20	24	29	35
Other Non Opg (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0	0
Net Interest (Exp)/Inc	0	0	0	0	0	0
Exceptional Gain/(Loss)	1	0	(5)	0	0	0
Pre-tax Profit	15	18	16	24	30	36
Tax	(4)	(5)	(4)	(7)	(8)	(9)
Minority Interest	0	0	0	0	0	0
Preference Dividend	0	0	0	0	0	0
Net Profit	11	13	11	18	22	27
Net Profit before Except.	10	13	15	18	22	27
EBITDA	16	19	23	27	33	39
Growth						
Revenue Gth (%)	8.1	20.3	(2.0)	13.9	13.0	13.2
EBITDA Gth (%)	13.5	22.1	17.4	16.7	22.3	19.3
Opg Profit Gth (%)	12.9	22.5	16.7	16.8	22.3	21.1
Net Profit Gth (%)	14.9	17.1	(9.8)	53.9	24.1	21.6
Margins & Ratio						
Gross Margins (%)	41.5	41.2	47.8	46.6	47.3	47.9
Opg Profit Margin (%)	22.1	22.5	26.8	27.5	29.7	31.8
Net Profit Margin (%)	16.8	16.4	15.0	20.3	22.3	24.0
ROAE (%)	20.9	22.1	12.4	17.4	20.5	22.4
ROA (%)	15.2	16.5	11.1	15.6	18.4	20.2
ROCE (%)	18.7	20.4	15.2	16.5	19.5	21.4
Div Payout Ratio (%)	14.3	126.4	73.9	50.0	50.0	50.0
Net Interest Cover (x)	NM	NM	NM	NM	NM	NM

Margins Trend



Adjusted for non-recurring expenses:
 (1) RM3m listing fee, (2) RM1.3m
 under-provision for returns after PMR
 was abolished in 2014, and (3)
 RM0.3m impairment charge for
 intangible assets

ROAE dropped to 12.4% due to
 non-recurring expenses. Recurring
 ROAE is 19%.

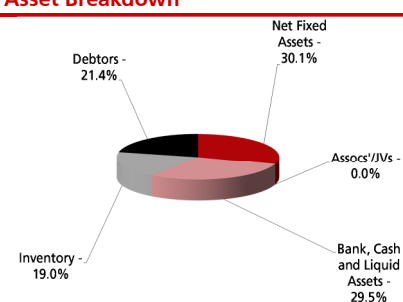
Source: Company, AllianceDBS

Balance Sheet (RM m)

FY Aug	2012A	2013A	2014F	2015F	2016F	2017F
Net Fixed Assets	29	28	27	30	32	31
Invt in Associates & JVs	0	0	0	0	0	0
Other LT Assets	0	0	5	11	14	13
Cash & ST Invt	13	12	35	30	31	42
Inventory	21	15	16	19	21	24
Debtors	12	19	19	21	24	27
Other Current Assets	2	3	2	2	2	2
Total Assets	78	77	104	114	125	139
ST Debt	0	0	0	0	0	0
Creditor	2	2	2	2	2	2
Other Current Liab	20	6	5	6	6	7
LT Debt	1	0	0	0	0	0
Other LT Liabilities	4	4	4	4	4	4
Shareholder's Equity	51	65	93	102	113	126
Minority Interests	0	0	0	0	0	0
Total Cap. & Liab.	78	77	104	114	125	139
Non-Cash Wkg. Capital	14	29	30	35	39	44
Net Cash/(Debt)	12	11	34	29	31	42
Debtors Turn (avg days)	69.5	74.0	90.7	84.5	84.8	84.8
Creditors Turn (avg days)	34.8	16.6	17.7	14.8	15.2	15.1
Inventory Turn (avg days)	196.9	151.8	152.8	148.2	152.2	151.2
Asset Turnover (x)	0.9	1.0	0.8	0.8	0.8	0.8
Current Ratio (x)	2.2	6.1	10.7	9.5	9.4	10.4
Quick Ratio (x)	1.1	3.9	7.9	6.7	6.6	7.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	122.0	246.9	2,188.6	4,040.4	2,862.0	336.7

Source: Company, AllianceDBS

Asset Breakdown



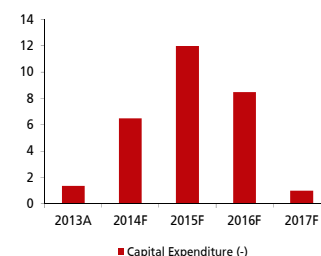
Balance sheet is healthy after recent IPO

Cash Flow Statement (RM m)

FY Aug	2012A	2013A	2014F	2015F	2016F	2017F
Pre-Tax Profit	14	18	16	24	30	36
Dep. & Amort.	2	2	2	3	3	4
Tax Paid	(4)	(4)	(4)	(7)	(8)	(9)
Assoc. & JV Inc/(loss)	0	0	0	0	0	0
Chg in Wkg.Cap.	(9)	0	(1)	(5)	(4)	(5)
Other Operating CF	0	2	0	0	0	0
Net Operating CF	3	17	13	16	21	25
Capital Exp.(net)	(1)	(1)	(7)	(12)	(9)	(1)
Other Invt.(net)	0	0	0	0	0	0
Invt.s in Assoc. & JV	0	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0	0
Other Investing CF	1	0	0	0	0	0
Net Investing CF	0	(1)	(7)	(12)	(9)	(1)
Div Paid	(2)	(16)	(9)	(9)	(11)	(13)
Chg in Gross Debt	0	0	0	0	0	0
Capital Issues	0	0	25	0	0	0
Other Financing CF	0	0	0	0	0	0
Net Financing CF	(2)	(16)	16	(9)	(11)	(13)
Currency Adjustments	0	0	0	0	0	0
Chg in Cash	1	0	23	(5)	1	11
Opg CFPS (sen)	9.8	13.5	10.9	16.1	20.0	23.8
Free CFPS (sen)	1.7	12.4	4.8	3.1	9.8	19.0

Source: Company, AllianceDBS

Capital Expenditure

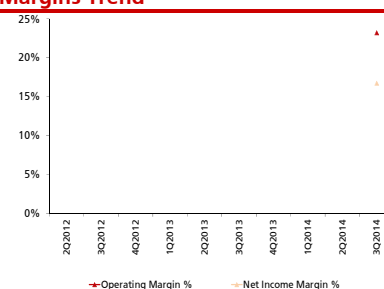


RM21m capex requirement in FY15-16 will be funded by RM25m IPO proceeds.

Quarterly / Interim Income Statement (RM m)

FY Aug	2Q2013	3Q2013	4Q2013	1Q2014	2Q2014	3Q2014
Revenue	N/A	N/A	N/A	N/A	N/A	18
Cost of Goods Sold	N/A	N/A	N/A	N/A	N/A	(10)
Gross Profit	N/A	N/A	N/A	N/A	N/A	8
Other Oper. (Exp)/Inc	N/A	N/A	N/A	N/A	N/A	(4)
Operating Profit	N/A	N/A	N/A	N/A	N/A	4
Other Non Opg (Exp)/Inc	N/A	N/A	N/A	N/A	N/A	0
Associates & JV Inc	N/A	N/A	N/A	N/A	N/A	0
Net Interest (Exp)/Inc	N/A	N/A	N/A	N/A	N/A	0
Exceptional Gain/(Loss)	N/A	N/A	N/A	N/A	N/A	0
Pre-tax Profit	N/A	N/A	N/A	N/A	N/A	4
Tax	N/A	N/A	N/A	N/A	N/A	(1)
Minority Interest	N/A	N/A	N/A	N/A	N/A	0
Net Profit	N/A	N/A	N/A	N/A	N/A	3
Net profit bef Except.	N/A	N/A	N/A	N/A	N/A	3
EBITDA	N/A	N/A	N/A	N/A	N/A	5

Margins Trend



No comparable historical quarterly numbers as the company was listed recently.

Growth

Revenue Gth (%)	nm	nm	nm	nm	nm	nm
EBITDA Gth (%)	nm	nm	nm	nm	nm	nm
Opg Profit Gth (%)	nm	nm	nm	nm	nm	nm
Net Profit Gth (%)	nm	nm	nm	nm	nm	nm

Margins

Gross Margins (%)	N/A	N/A	N/A	N/A	N/A	45.2
Opg Profit Margins (%)	N/A	N/A	N/A	N/A	N/A	23.2
Net Profit Margins (%)	N/A	N/A	N/A	N/A	N/A	16.7

Source: Company, AllianceDBS

DISCLOSURE**Stock rating definitions**

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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Wong Ming Tek, Executive Director

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(formerly known as HWANGDBS Vickers Research Sdn Bhd)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com