

Company Focus

Sasbadi Holdings Berhad

Bloomberg: SASB MK | Reuters: SAHO.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

15 Jan 2015

BUY RM1.39 KLCI : 1,742.01

Price Target : 12-Month RM 2.25

Reason for Report : Company visit

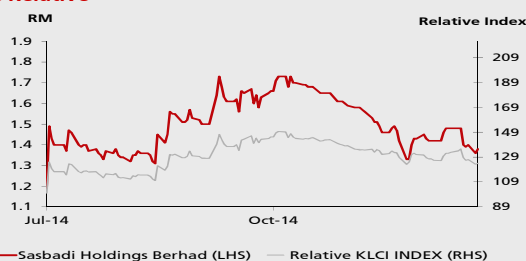
Potential Catalyst: Value accretive acquisition

AllianceDBS vs Consensus: In line with consensus

Analyst

King Yoong CHEAH CFA +603 2604 3908
cheahky@alliancedbs.com

Price Relative



Forecasts and Valuation

FY Aug (RM m)	2014F	2015F	2016F	2017F
Revenue	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)	15.4	10.0	8.0	6.6
PE Pre Ex. (X)	11.9	10.0	8.0	6.6
P/Cash Flow (X)	14.1	11.1	8.4	7.0
EV/EBITDA (X)	6.2	5.5	4.5	3.5
Net Div Yield (%)	0.0	5.0	6.2	7.6
P/Book Value (X)	1.9	1.7	1.6	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.4	17.4	20.5	22.4
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		14.0	16.5	21.0
Other Broker Recs:		B: 3	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.

Still in the good books

- Expect 1QFY15 results to be seasonably weak
- Yet, still on track to meet our FY15 earnings target with new products and potential M&A
- Reiterate BUY with an unchanged TP of RM2.25

Actively rolling out new products. We understand that the group will roll out about 1,300 titles this year compared with 1,150 titles last year, with new products (1) to capitalise on the revised examination format with the rolling out of Pentaksiran Tingkatan 3 (PT3) or Form 3 Assessment since 2014, to replace Penilaian Menengah Rendah (PMR) or Lower Secondary Assessment, and, (2) to introduce more concise yet comprehensive revision books to cater for increased popularity of such publications to students.

Learning centre to commence operations. The new applied learning centre, which focuses on science, mathematics and technology by using robotics and children educational development products, is expected to commence operations by 1H2015 in Kota Damansara. We are optimistic on this expansion strategy in view of rising demand for such sophisticated educational products/services in Malaysia. Besides that, we believe that such a venture serves as a strong platform for the group to tap into government spending on strengthening early childhood education. To recap, the government has allocated RM530m for preschool programmes in 2014.

1QFY15 results seasonally weak, full year's on track. The group is poised to announce its 1QFY15 results at end-January. We believe that the quarterly results will be unexciting, given that Sept-Nov period serves as the weakest quarter for the group. We are optimistic that the group is on track to meet our FY15 earnings target, supported by additional new products rolled out, coupled with potential value accretive acquisitions.

Reiterate BUY with RM2.25 TP. We reiterate our BUY rating on Sasbadi, based on a DCF-derived TP of RM2.25. The stock is trading at an undemanding valuation (10x/8x/6.6x of FY15-FY17 EPS). Yield is decent at 5% for FY15.

At A Glance

Issued Capital (m shrs)	127
Mkt. Cap (RMm/US\$m)	177 / 49.0
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)	224

INVESTMENT THESIS

Profile	Rationale
<p>Sasbadi Holdings (Sasbadi) is a leading print publisher founded by three entrepreneurs with combined industry experience of more than 100 years. Since its inception in 1985, the group has been a dominant industry player, focusing on the primary and secondary National School Curriculum-based (NSC-based) educational materials. Today, the group's operations include applied learning products and online publishing which contributed 5% and 2% of FY14 revenue respectively.</p>	<p>M&A-led earnings expansion</p> <ul style="list-style-type: none"> 3-year earnings CAGR (FY15-FY17) is expected to be strong at 22%, driven by strong organic growth and earnings accretive M&A initiatives in the fragmented educational print publishing industry. <p>Star in the making</p> <ul style="list-style-type: none"> Diversifying into educational services industry via the establishment of applied learning centres will transform the group into a more diversified educational group, which could re-rate its share price over the long term. <p>Bright structural trend</p> <ul style="list-style-type: none"> Riding on the structural trend of (1) increasing awareness of human resource development as Malaysians march towards high-income nation status by 2020, (2) increased demand for sophisticated educational services & products by middle-income parents, and (3) rising school enrolment rates under MEB 2013-2025. <p>Compelling valuation</p> <ul style="list-style-type: none"> Valuation is undemanding while yields are attractive based on 50% payout ratio.
Valuation	Risks
<p>Given the lack of quality comparable peers in the educational print publishing industry, we value Sasbadi using the DCF-metric with the following key assumptions of (1) 9.5% cost of equity, and (2) 1% terminal growth. This metric is appropriate for Sasbadi due to (1) the resilient education industry, and (2) strong cash flow generation as print publishing is an asset-light and low capex business. We derive a target price of RM2.25 for Sasbadi and have a BUY rating.</p>	<p>Paper cost fluctuation</p> <ul style="list-style-type: none"> A sudden surge in paper cost which represents 38% of Sasbadi's COGS. <p>Change of education policies</p> <ul style="list-style-type: none"> Failure to respond timely to changes in education policies. <p>Loss of contract revenues</p> <ul style="list-style-type: none"> Loss of contract revenues.

Source: AllianceDBS

Key Assumptions

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

Segmental Breakdown

FY Aug	2013A	2014F	2015F	2016F	2017F
--------	-------	-------	-------	-------	-------

Revenues (RM m)

Print Publishing	64	66	75	86	97
Online publishing	6	2	2	2	3
Applied learning products	4	5	6	7	7
Others	4	4	4	4	4

Total	78	76	87	98	111
--------------	-----------	-----------	-----------	-----------	------------

Gross Profit (RM m)

Print Publishing	27	33	36	42	48
Online publishing	4	1	1	1	2
Applied learning products	2	3	3	3	4

Total	32	37	41	47	53
--------------	-----------	-----------	-----------	-----------	-----------

Gross Margins (%)

Print Publishing	41.6	49.7	48.0	48.5	49.0
Online publishing	61.4	55.0	56.7	58.3	60.1
Applied learning products	39.2	50.0	50.0	50.0	50.0
Others	4.3	5.0	5.0	5.0	5.0

Total	41.2	47.8	46.6	47.3	47.9
--------------	-------------	-------------	-------------	-------------	-------------

Income Statement (RM m)

FY Aug	2013A	2014F	2015F	2016F	2017F
--------	-------	-------	-------	-------	-------

Revenue	78	76	87	98	111
Cost of Goods Sold	(46)	(40)	(46)	(52)	(58)

Gross Profit	32	37	41	47	53
---------------------	-----------	-----------	-----------	-----------	-----------

Other Opng (Exp)/Inc	(15)	(16)	(17)	(17)	(18)
----------------------	------	------	------	------	------

Operating Profit	18	20	24	29	35
-------------------------	-----------	-----------	-----------	-----------	-----------

Pre-tax Profit	18	16	24	30	36
-----------------------	-----------	-----------	-----------	-----------	-----------

Tax	(5)	(4)	(7)	(8)	(9)
-----	-----	-----	-----	-----	-----

Net Profit	13	11	18	22	27
-------------------	-----------	-----------	-----------	-----------	-----------

Net Profit before Except.	13	16	18	22	27
---------------------------	----	----	----	----	----

EBITDA	19	23	27	33	39
--------	----	----	----	----	----

Growth

Revenue Gth (%)	20.3	(2.0)	13.9	13.0	13.2
-----------------	------	-------	------	------	------

EBITDA Gth (%)	22.1	17.4	16.7	22.3	19.3
----------------	------	------	------	------	------

Opg Profit Gth (%)	22.5	16.7	16.8	22.3	21.1
--------------------	------	------	------	------	------

Net Profit Gth (%)	17.1	(9.8)	53.9	24.1	21.6
--------------------	------	-------	------	------	------

Margins & Ratio

Gross Margins (%)	41.2	47.8	46.6	47.3	47.9
-------------------	------	------	------	------	------

Opg Profit Margin (%)	22.5	26.8	27.5	29.7	31.8
-----------------------	------	------	------	------	------

Net Profit Margin (%)	16.4	15.0	20.3	22.3	24.0
-----------------------	------	------	------	------	------

ROAE (%)	22.1	12.4	17.4	20.5	22.4
----------	------	------	------	------	------

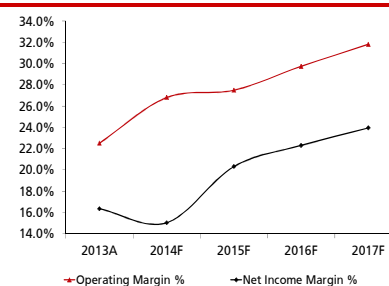
ROA (%)	16.5	11.1	15.6	18.4	20.2
---------	------	------	------	------	------

ROCE (%)	20.4	15.2	16.5	19.5	21.4
----------	------	------	------	------	------

Div Payout Ratio (%)	126.4	73.9	50.0	50.0	50.0
----------------------	-------	------	------	------	------

Source: Company, AllianceDBS

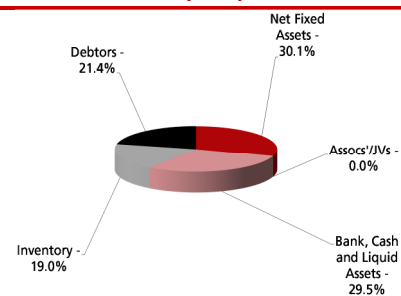
Margins Trend



Balance Sheet (RM m)

FY Aug	2013A	2014F	2015F	2016F	2017F
Net Fixed Assets	28	27	30	32	31
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	0	5	11	14	13
Cash & ST Invt	12	35	30	31	42
Inventory	15	16	19	21	24
Debtors	19	19	21	24	27
Other Current Assets	3	2	2	2	2
Total Assets	77	104	114	125	139
Creditor	2	2	2	2	2
Other Current Liab	6	5	6	6	7
Other LT Liabilities	4	4	4	4	4
Shareholder's Equity	65	93	102	113	126
Total Cap. & Liab.	77	104	114	125	139
Non-Cash Wkg. Capital	29	30	35	39	44
Net Cash/(Debt)	11	34	29	31	42
Debtors Turn (avg days)	74.0	90.7	84.5	84.8	84.8
Creditors Turn (avg days)	16.6	17.7	14.8	15.2	15.1
Inventory Turn (avg days)	151.8	152.8	148.2	152.2	151.2
Asset Turnover (x)	1.0	0.8	0.8	0.8	0.8
Current Ratio (x)	6.1	10.7	9.5	9.4	10.4
Quick Ratio (x)	3.9	7.9	6.7	6.6	7.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	246.9	2,188.6	4,040.4	2,862.0	336.7
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

Source: Company, AllianceDBS

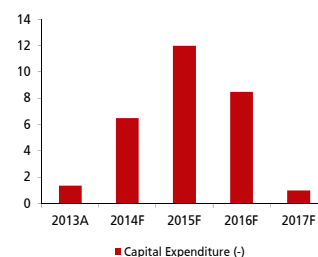
Asset Breakdown (2015)

Cash Flow Statement (RM m)

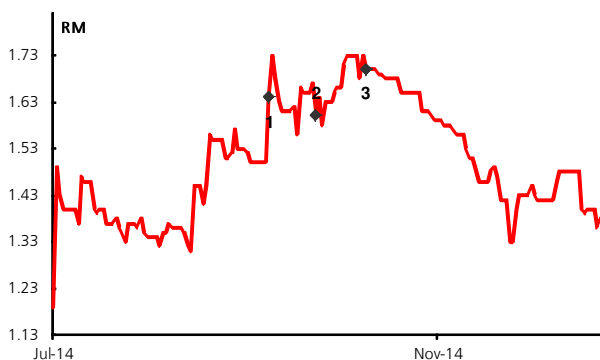
FY Aug	2013A	2014F	2015F	2016F	2017F
Pre-Tax Profit	18	16	24	30	36
Dep. & Amort.	2	2	3	3	4
Tax Paid	(4)	(4)	(7)	(8)	(9)
Chg in Wkg.Cap.	0	(1)	(5)	(4)	(5)
Other Operating CF	2	0	0	0	0
Net Operating CF	17	13	16	21	25
Capital Exp.(net)	(1)	(7)	(12)	(9)	(1)
Net Investing CF	(1)	(7)	(12)	(9)	(1)
Div Paid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

Source: Company, AllianceDBS

Capital Expenditure



Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	29 Sep 14	1.64	2.25	Buy
2:	14 Oct 14	1.60	2.25	Buy
3:	30 Oct 14	1.70	2.25	Buy

Note: Share price and Target price are adjusted for corporate actions.

Source: 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

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR") (formerly known as HwangDBS Vickers Research Sdn Bhd), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published and Printed by
AllianceDBS Research Sdn Bhd (128540 U)
(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