

Sasbadi Holdings (BUY ↑, EPS ↑)

EDUCATION

COMPANY INSIGHT

6 March 2015

Price Target: RM2.06 (↑)

Share price: RM1.60

Post 1QFY15 Results Meeting

Highlights

We recently visited Sasbadi to attain more information post 1QFY15 results. All in all, we left with a better understanding of the company, and we feel more confident and have reaffirmed our positive stance on the company's future prospects.

- **1QFY15 review...** 1QFY15 - a seasonally weaker quarter. Moving forward, we expect higher earnings contribution from 2Q, followed by 3Q as students purchase new books for the beginning of the new school term. Historically, 2Q contributed ~50% on average for each financial year.

- **Expansion plans on schedule...** Its M&A plan are on track. We believe a Chinese publisher would be the next M&A target given that Sasbadi does not have market presence in National-Type Schools (Chinese).

- Excluding the earnings accretive acquisition(s), we anticipate its print publication segment is able to sustain organic growth of 10%-15% pa. The company will likely produce about 1300 titles compared to 1150 titles last year.

- **Gamification of education...** During Baca World 2015 exhibition, Sasbadi soft launched its 'interactive bookmark' - a combination of tutorial videos, quizzes and games that is embedded in a bookmark which will come to life by scanning a QR code (Figure #2).

- **Plentiful upside from online segment...** To date, Sasbadi has a large subscriber numbers across all of its online platforms. The collaborative effort between Sasbadi and Penerbitan Erlangga will provide a growth stimulus to its online educational segment.

- **Learning centre to open soon...** Currently in the designing stage, Sasbadi's first learning centre will commence operation by 1H2015 in Kota Damansara. The learning centre, which focuses on science, technology, engineering and mathematics using robotics, will cater to pre-schoolers up to secondary school students.

- With STEM Education (Science, Technology, Engineering and Mathematics Education) gaining more attention, we believe the establishment of learning centres would be positive for Sasbadi's business structure (government's target is to have 60% of our students practicing STEM Education).

Risks

- Losing contracts from MOE; Spike in paper prices; and Changes in National Curriculum and Educational policies.

Forecasts

- Increase earnings by 6-7% as we take into account higher contribution from the print publication and online segment.

Rating

BUY (↑)

- We upgrade the stock to a BUY. We like Sasbadi due to its stable business structure, long term catalysts based on the new curriculum for secondary schools from 2017 onwards and its potential M&As. Overall, we are optimistic on its long term earnings growth.

Valuation

- Upgrade to BUY with target price of RM2.06 based on 15x CY15 EPS or circa 50% discount to average P/E of education sector due to Sasbadi's lower market capitalisation. We believe the valuation is justified as Sasbadi has a high growth rate and holds a unique exposure which is closely linked to the country's education system.

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KLCI	1,806.13
Expected share price return	28.8%
Expected dividend return	2.8%
Expected total return	31.5%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	127
Market cap (RM m)	203
3-mth avg. volume ('000)	128
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	11.9	9.6	nm
Relative	11.7	6.1	nm

Major shareholders

Law King Hui	20.2%
Karya Kencana	20.0%
Lee Swee Hang	10.1%
CIMB Principal Asset Mgmt	7.4%

Summary Earnings Table

FYE Aug (RM m)	2013A	2014A	2015E	2016E
Revenue	77.96	79.51	87.65	99.16
EBITDA	19.48	22.54	23.97	29.50
PATAMI	12.75	15.55	15.96	20.56
EPS (sen)	12.05	14.02	12.57	16.19
Core EPS (sen)	12.05	14.02	12.57	16.19
P/E (x)	13.02	11.20	12.49	9.70
BV /share	0.5	0.6	0.7	0.8
P/BV (x)	2.66	2.17	1.89	1.68
DPS (sen)	-	-	4.40	5.67
DY %	-	-	2.80	3.61
ROE (%)	22.27	22.63	15.87	18.03
ROA (%)	16.61	18.69	13.37	16.13

HLIB

Meeting Highlights

- **1QFY15 review...** 1QFY15 - a seasonally weaker quarter. Moving forward, we expect higher earnings contribution from 2Q (December – February), followed by 3Q (Mar – May) as students purchases new books for the beginning of the new school term. Historically, 2Q contributed ~50% on average for each financial year.
- **Expansion plans on schedule...** The potential M&A(s) are on track. We believe a Chinese publisher would be the next M&A target given that Sasbadi does not have market presence in National-Type Schools (Chinese). If this materialises, it would be another catalyst to Sasbadi's earnings. Excluding the earnings accretive acquisition(s), we anticipate its print publication segment is able to sustain organic growth of 10%-15% pa. We gathered that the company will produce about 1300 titles compared to 1150 titles last year. The reason being: (1) Sasbadi can leverage on its new revenue stream from Penerbitan Multimedia Sdn Bhd to provide educational materials for teachers' training schools throughout Malaysia. At present, there are 27 institutions in Malaysia (see Figure #1 below). (2) Other than that, with Pearson in its boat, the group will be able to record sales of post-secondary educational materials (STPM). Intake of students should be in May and its new semester to begin in December. (3) Additional products based on PT3.
- **Gamification of education...** During Baca World 2015 exhibition 31st Jan – 1st Feb, Sasbadi soft launched its 'interactive bookmark' - a combination of tutorial videos, quizzes and games that is embedded in a bookmark which will come to life by scanning a QR code (Figure #2). The apps will be available for iPhone & Androids. With over 50 titles, the bookmark is designed for primary & secondary students. The bookmark will be officially available in early March. We believe the product that is both educational as well as exhilarating will be able to capture the eyeballs of younger generation and thus, complement Sasbadi's online and print publication segment. Furthermore, as the group is on an expansion spree, we expect more exciting products to be launched this year.
- **Plentiful upside from online segment...** To date, Sasbadi has a large subscriber numbers across all of its online platforms. The collaborative effort between Sasbadi and PT. Penerbitan Erlangga (PPE) will provide a growth stimulus to its online educational segment as it is able to venture into the education market in one of the most populated country in the world coupled with the royalties received on a semi-annual basis based on net sales achieved by PPE (c. 8% of net sales). We do not discount the possibility of more collaboration with publishers from abroad. Additionally, in the event of a change in educational policies on e-Learning, Sasbadi would be ready to reap the opportunity given their expertise in digital education (one of the first publisher to enter into online education).
- **Learning centre to open soon...** Currently in the designing stage, Sasbadi's first learning centre will commence operation by 1H2015 in Kota Damansara. The learning centre, which focuses on science, technology, engineering and mathematics using robotics, will cater to pre-schoolers up to secondary school students. With STEM Education (Science, Technology, Engineering and Mathematics Education) gaining more attention, we believe the establishment of learning centres would be positive for Sasbadi's business structure (government's target is to have 60% of our students practicing STEM Education).
- With its catalyst 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), huge upside from its online educational segment and potential M&A(s), we are optimistic on Sasbadi's long term earnings prospects.

Figure #1 Number of teacher training schools in Malaysia

Institute of Teacher Education	
IPGM Kampus Perlis IPGM Kampus Darul Aman IPGM Kampus Sultan Abdul Halim IPGM Kampus Pulau Pinang IPGM Kampus Tuanku Bainun IPGM Kampus Ipoh IPGM Kampus Bahasa Melayu IPGM Kampus Bahasa Antarabangsa IPGM Kampus Ilmu Khas IPGM Kampus Pendidikan Teknik IPGM Kampus Pendidikan Islam IPGM Kampus Raja Melewar IPGM Kampus Perempuan Melayu IPGM Kampus Tun Hussein Onn	IPGM Kampus Temenggong Ibrahim IPGM Kampus Tengku Ampuan Afzan IPGM Kampus Dato' Razali Ismail IPGM Kampus Sultan Mizan IPGM Kampus Kota Baharu IPGM Kampus Gaya IPGM Kampus Kent IPGM Kampus Tawau IPGM Kampus Keningau IPGM Kampus Batu Lintang IPGM Kampus Sarawak IPGM Kampus Rajang IPGM Kampus Tun Abdul Razak

Institute of Teacher Education, MOE
Note: IPGM (Institut Pendidikan Guru Malaysia)

Figure #2 Interactive Bookmark



Company

Financial Projections for Sasbadi Holdings (BUY; TP: RM2.06)

Income Statement

FYE 31 Aug (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	64.8	78.0	79.5	87.6	99.2
COS	(37.9)	(45.8)	(42.8)	(47.0)	(52.2)
EBITDA	16.5	19.5	22.5	24.0	29.5
D&A	(1.6)	(1.9)	(2.0)	(2.7)	(2.6)
Net Interest	0.0	0.1	(0.3)	0.0	0.5
Associates/JCE	-	-	-	-	-
Exceptionals	-	-	-	-	-
Profit Before Tax	14.9	17.7	20.2	21.3	27.4
Tax	(4.0)	(4.9)	(4.6)	(5.3)	(6.9)
Minority Interests	-	-	-	-	-
PATAMI	10.9	12.8	15.5	16.0	20.6
Core Earnings	10.9	12.8	17.8	16.0	20.6
Basic Shares (m)	105.8	105.8	127.0	127.0	127.0
Basic EPS (sen)	10.29	12.05	14.02	12.57	16.19
Core EPS (sen)	10.29	12.05	14.02	12.57	16.19

Quarterly Financial Summary

FYE 31 Aug (RM m)	3QFY14	4QFY14	1QFY15
Revenue	17.9	17.5	16.3
COGS	(9.831)	(10.270)	(9.392)
Gross Profit	8.110	7.279	6.931
Other Income	0.041	-	0.063
Expenses	(3.945)	(5.345)	(4.725)
Operating Profit	4.206	1.934	2.269
Interest Income	0.022	0.055	0.113
Finance Costs	(0.189)	(0.097)	(0.096)
Associates/JCE	-	-	-
Profit Before Tax	4.039	1.892	2.286
Tax	(1.035)	(0.676)	(0.638)
Profit After Tax	3.004	1.216	1.648
MI	-	-	-
PATAMI	3.004	1.216	1.648
Core PATAMI	3.004	2.5	1.648
Basic EPS (sen)	2.84	1.05	1.30
DPS (sen)	-	-	3.00
W. Ave. Shares (m)	105.8	115.4	127.0

Balance Sheet

FYE 31 Aug (RM m)	2012A	2013A	2014A	2015E	2016E
Fixed Assets	28.6	28.0	30.3	28.8	27.5
Other long-term assets	0.04	0.04	4.99	4.99	4.99
Other short-term assets	2.1	0.9	1.6	1.6	1.6
Working Capital	28.4	28.5	43.4	49.4	54.2
Receivables	12.8	20.0	31.2	32.4	35.3
Payables	(5.9)	(6.5)	(8.0)	(8.8)	(9.7)
Inventory	21.5	15.0	20.2	25.8	28.6
Net cash	11.7	11.5	20.3	24.5	32.5
Cash	12.5	12.0	26.3	30.6	32.7
Total Debt	(0.8)	(0.5)	(6.0)	(6.0)	(0.2)
Shareholders' funds	50.9	63.6	93.7	107.4	120.7
Share capital	2.4	2.4	63.5	63.5	63.5
Reserves	48.5	61.2	30.2	43.9	57.2
Minorities	-	-	-	-	-
Other liabilities	20.0	5.3	6.8	5.1	5.1

Rates and Ratios

FYE 31 Aug (RM m)	2012A	2013A	2014A	2015E	2016E
EPS (sen)	10.3	12.1	14.0	12.6	16.2
PER (x)	15.5	13.3	11.4	12.7	9.9
DPS (sen)	16.7	-	-	4.40	5.67
DY %	10.4	-	-	2.75	3.54
BVPS (RM)	0.5	0.6	0.7	0.8	1.0
P/B (x)	3.3	2.7	2.2	1.9	1.7
FCF/Share (sen)	0.02	0.15	0.00	0.08	0.12
FCF yield %	1.0	9.3	0.0	4.8	7.2
ROE	20.9	22.3	22.6	15.9	18.0
ROA	15.2	16.6	18.7	13.4	16.1
Net Debt/Equity (%)	N Cash	N Cash	N Cash	N Cash	N Cash

Cashflow Analysis

FYE 31 Aug (RM m)	2012A	2013A	2014A	2015E	2016E
EBITDA	16.5	19.5	22.5	24.0	29.5
WC changes	(7.7)	(0.1)	(14.9)	(5.6)	(2.8)
Taxation	(4.0)	(4.9)	(4.6)	(5.3)	(6.9)
Others	(1.6)	2.7	(1.7)	(2.0)	(3.9)
Operating cashflow	3.2	17.1	1.3	11.1	15.9
Capex & acquisitions	(1.5)	(1.3)	(1.3)	(1.3)	(1.3)
Free cashflow	1.7	15.8	0.0	9.8	14.7
Other inv cashflow	1.0	0.1	(5.5)	0.5	0.5
New borrowings	0.2	(0.3)	5.5	-	(5.8)
Share issuance	-	-	25.2	-	-
Dividends paid	(1.6)	(16.1)	(8.5)	(5.6)	(7.2)
Other fin cashflow	(0.5)	(0.0)	(8.2)	(0.5)	(0.0)
Net cashflow	0.9	(0.5)	8.5	4.3	2.2

Assumption Metrics

FYE 31 Aug (RM m)	2012A	2013A	2014A	2015E	2016E
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	17.1	1.6	2.6	28.8
EBITDA Margin (%)	25.4	25.0	28.3	27.3	29.7
EBIT Margin (%)	23.0	22.7	25.4	24.3	27.6
PBT Margin (%)	23.0	22.7	25.4	24.3	27.6
PAT Margin (%)	16.8	16.4	19.6	18.2	20.7

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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.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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