Sasbadi Holdings (BUY ←→; EPS ←→)

EDUCATION
NEWSBREAK

17 April 2015
Price Target: RM2.42 (↑)
Share price: RM2.09

The 'Komsas' Contract

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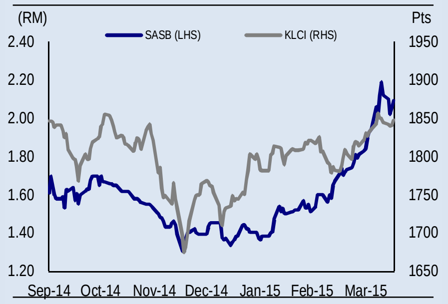
KLCI	1847.9
Expected share price return	15.8%
Expected dividend return	2.7%
Expected total return	18.5%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	127
Market cap (RM m)	265
3-mth avg. volume ('000)	485
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	22.2	48.2	nm
Relative	17.8	39.9	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)	17.34	15.59	16.63	12.91
BV /share	0.60	0.87	0.82	0.92
P/BV (x)	3.47	2.41	2.55	2.26
DPS (sen)	-	-	4.40	5.67
DY %	-	-	2.10	2.71
ROE (%)	22.27	22.63	15.87	18.03
ROA (%)	16.61	18.69	13.37	16.13

HLIB

News

- Sasbadi announced that its wholly-owned subsidiary, Sasbadi Sdn Bhd (SSB) has received a Letter of Acceptance dated 15th April 2015 from Ministry of Education (MOE) to publish, print and supply textbooks for literature component of the subject of Bahasa Malaysia for Form 5 ("KOMSAS BM Textbook for Form 5") to national schools throughout Malaysia.
- The RM2.3m contract will commence from 15th April 2015 and end on 31st December 2017, a period of not more than 3 years.

Comments

- The positive contribution from the contract will be seen in FY16. Sasbadi is set to deliver the first tranche of KOMSAS BM Textbook in the first quarter of FY16 worth RM1.95m.
- Assuming a gross margin of about 40%-50%, the contract is anticipated to contribute about 2.8%-3.5% to Sasbadi's FY16 bottomline.
- Sasbadi has been receiving contracts from MOE for more than 30 years. The RM2.3m contract is the first contract received for the year. Due to its strong reputation of delivering high quality education materials to its end users, Sasbadi has built a good relationship with MOE and we believe the group will be able to secure more contracts in the future.

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.

Rating

BUY (←→)

- We like Sasbadi due to its strong annual FCF, its decent dividend yield and the uniqueness of the company which is closely linked to the country's education system with defensive yet growing earnings base.

Valuation

- Maintain BUY with higher target price of RM2.42 (+18% from RM2.06 previously) as we rolled forward our valuation based on 15x FY16 EPS or circa 50% discount to average P/E of education sector due to Sasbadi's lower market capitalisation and liquidity. 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.

Figure #1 Peers Comparison

Company	Price (RM)	Market Cap (RM m)	P/E (x)		P/B (x)		ROE (%)		Yield (%)
			2015	2016	2015	2016	2015	2016	2015
Pelangi	0.58	56.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	2.61	1263.2	21.22	16.62	6.44	5.33	32.00	35.40	2.91
SEG	1.46	984.5	33.18	26.55	4.87	4.87	13.00	N/A	1.51
Average			**27.20**	**21.58**	**5.66**	**5.10**	**22.50**	**35.40**	**2.21**
Sasbadi	2.09	265.4	16.39	12.91	2.55	2.26	15.87	18.03	2.11

Financial Projections for Sasbadi (BUY; TP: RM2.42; CP: RM2.09)

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	12.20	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	2014E	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	2014E	2015E	2016E
EPS (sen)	10.3	12.1	14.0	12.6	16.2
PER (x)	20.3	17.3	15.6	16.6	12.9
DPS (sen)	16.7	-	-	4.40	5.67
DY %	10.4	-	-	2.10	2.71
BVPS (RM)	0.5	0.6	0.9	0.8	0.9
P/B (x)	4.3	3.5	2.4	2.6	2.3
FCF/Share (sen)	0.0	0.1	0.0	0.1	0.1
FCF yield %	0.8	7.1	0.0	3.7	5.5
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	2014E	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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Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
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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.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between –5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than –5% over 12-months.