

# Sasbadi Holdings Bhd

Everyone's study buddy.

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## INVESTMENT MERIT

- **Biggest market share.** With over 30 years of experience, SASBADI is a leading print publisher of primary and secondary schools National School Curriculum (NSC) based educational material. This includes textbooks and supplementary educational materials (e.g. revision books) and is widely used by most national schools, while students and parents aim for their study guides. Publishing and printing of education syllabus makes up c. 85% of FY14 revenue, while remaining comprises of publication of supplementary materials, applied learning and online segments. The group has an estimated 9% market share (revenue of c.RM80m) where the group is believed to have the largest market share in this fragmented industry, while the next biggest player is Pelangi at c.7% market share (revenue of c.RM60m).
- **Competitive edge hard to replicate**, such as: (i) having a sizeable experienced editorial team (c.100 editors with more than 15 years' experience), (ii) extensive and established distribution network of c.1,500 points in Malaysia, and (iii) economies of scale. These factors give the group an edge in terms of producing new titles quickly and easily whenever there are changes in MoE's curriculum requirements. This translates to them having the highest production volume of c.1300 titles p.a. vs. c.700 titles p.a. by its peer, Pelangi. For instance, SASBADI was able to roll out new reference book materials (Jun-14) within a one-month period after the MoE had changed the PT3 (Pentaksiran Tingkatan 3) assessment format which was in time to cater to demands arising from the PT3 exam.
- **A more efficient player.** Compared to its only listed peer, Pelangi, it is evident that SASBADI success is a result of economies of scale hence better cost efficiency. They also enjoy an asset-light operation structure given that printing is outsourced while they focus on the richer margin content development. For better illustration, its 3-year historical average EBIT margin is c.22% as compared to Pelangi's average EBIT margin of c.12% on better cost structures, including proportionately lower admin/market costs. Core net margin wise, SASBADI enjoys c.18% vs. its listed peer's c.8%.
- **Expanding market share through M&A.** Recall that SASBADI has acquired IP rights from Penerbitan Multimedia S/B and Pearson Malaysia for RM1.0m and RM5.5m, respectively to venture into the teacher training and post-secondary education segment (which the group has previously no presence). For future acquisitions, we understand that any acquisitions initiated by SASBADI will be market cap accretive and earnings accretive as well. We reckon that this is likely given that its acquisition PERs are estimated to be lower than the Group's trading PER and we expect synergies due to better economic of scale. Thus far, management has allocated RM11.5m (46%) of its IPO proceeds for the acquisition of publishers to venture into the Chinese national school segment (see overleaf for details).
- **Online content-the new growth driver.** SASBADI recently rolled out its 'interactive bookmark' product that allows students to leverage on the online platform to supplement their studies. Besides, the group have also partnered with PT Penerbit Erlangga to operate i-Learn platform in Indonesia. We are positive on this expansion strategy as it enables the group to mitigate the risk of the online platform that is slowly replacing the traditional paper and book that we are using now. However, meaningful contributions will most probably be seen in the next couple of years, in our view.
- **Projecting FY15-16E core NP growth of 14%-29% to RM17.6m-RM20.0m**, underpinned by (i) Print Publishing revenue to growth by 13%-10% assuming that number of titles published to grow by 13%-12% to 1300-1450 for FY15-16E, respectively, (ii) other segments to achieve flat growth, (iii) stable margins.
- **50% dividend payout.** They have a dividend policy of up to 50% payout, and assuming full 50% payout, it translates into a DPS of 7.8 sen or 3.8% yield.
- **NOT RATED.** Based on Pelangi's annual and quarterly data, **SASBADI should be valued in the range of RM2.21-RM2.68**, based on targeted 14.0x-17.0x FY16 PERs. The applied PERs are Pelangi's respective historical and trailing peak PERs. We believe this higher-end valuation range is justifiable after taking several factors (such as larger market capitalization, superior margins and stronger earnings growth trajectory vis-à-vis Pelangi) into considerations. Moreover, any positive newsflow from its M&A plays and i-Learn program could serve as re-rating catalysts.
- **Key risk:** (i) Volatility in paper prices, (ii) Changes in Educational policies, (iii) Migration to online platform.

	Rating	Fair Value
Last Price		RM2.21
Kenanga	NOT RATED	RM2.21-2.68
Consensus	N.A.	RM2.34

## Stock Information

Stock Name	SASBADI HOLDINGS BHD
CAT Code	5252
Industry	Education
Industry Sub-sector	Educational Publishing
YTD stock price chg	52.25%
Market Cap (RM m)	283.21
Issued shares (m)	127.00
52-week range (Hi)	2.31
52-week range (Low)	1.41
3-mth avg daily vol:	761943
Free Float	38%
Beta	N.A.
Altman's Z-score	N.A.

## Major Shareholders

LAW KING HUI	20.15%
KARYA KENCANA SDN BH	20.00%
LEE SWEE HANG	10.11%

## Financials

FYE Aug (RM'm)	2014A	2015E	2016E
Revenue	79.5	89.9	100.3
EBIT	17.2	24.3	27.6
Net Profit (NP)	12.3	17.6	20.0
EPS (sen)	9.6	13.9	15.8
BV/Share (RM)	0.7	0.8	0.9
PER	22.9	15.9	14.0
Price/BV (x)	3.0	2.7	2.5
Net Gearing (x)	N.Cash	N.Cash	N.Cash
NDPS (sen)	0.0	6.9	7.9
Dividend Yield (%)	N.A.	3.1	3.6

## Quarterly Financial Data

	4Q14	1Q15	2Q15
Revenue	17.5	16.3	32.1
Revenue Growth (QoQ)	-2.2%	-7.0%	96.7%
EBIT	1.9	2.4	11.5
OP Margin	11.0%	14.5%	35.7%
Net Profit (NP)	1.2	1.6	8.3
EPS (sen)	1.05	1.3	6.5
EPS Growth (QoQ)	-63.0%	23.8%	404.6%

	PER (FY16)	Div. Yld (%)	Mkt Cap (RM'm)
<b>Peers Comparisons</b>			
PELANGI PUBLISHING *	N.A.	N.A.	55.1
PRESTARIANG	16.1	3.4	1,210.0
SEG INTERNATIONAL	26.3	1.9	991.7
<b>Average</b>	<b>21.2</b>	<b>2.3</b>	<b>752.3</b>
<b>SASBADI</b>	<b>14.0</b>	<b>3.6</b>	<b>280.7</b>
<b>FBMKLCI</b>	<b>16.7</b>	<b>3.1</b>	<b>1.05T</b>

\* No consensus number available

05 May 2015

## OTHER POINTS

**2QFY15 results.** YoY, the group recorded a revenue of RM48.4m (+10% YoY), underpinned by higher contribution from Sasbadi Sdn Bhd (educational print segment). Meanwhile, the company recorded a stronger PAT of RM9.9m in 1HFY15 (+24% YoY). QoQ, the company's 2QFY15 revenue increased by 97% to RM32.1m, while its PBT increased to RM11.5m in 2QFY15 from RM2.3m in 1QFY15. We understand that the group's 2Q is traditionally the strongest quarter as national schools in Malaysia embarks on a new academic year.

**Pearson's IP acquisition accretive.** While we have no details in actual contribution from Pearson Malaysia, we understand that the Group still manage to grow c.2% & c.21% in FY14 revenue and core net profit due to contributions from the Pearson IP acquisition despite (i) failure to renew its license for printing, distributing and selling of past year examination papers, and (ii) loss of revenue from PMR-related books due to the change in assessment policy, which impacted its sales dramatically.

**Potential new growth driver.** SASBADI is currently negotiating with one of a local Chinese publisher to expand its market share in the Chinese-national school segment, which could potentially allow the group to penetrate additional c.500k students. Note that there is no contribution from Chinese Chinese-national school segment prior to this acquisition. Based on our preliminary analysis, FY13 average revenue per student (ARPS) for the Group's primary school segment is estimated at c.RM9.3/student. This estimation is derived from a pool of 2.15m primary school students in 2013 and Primary School segment contributed approximately RM19.9m (or 25.5%) to FY13 Group revenue. Assuming FY13 ARPS and the Group's ability to penetrate all c.500k Primary school Chinese students, this could translate into revenue of RM4.65m p.a. (or 5.6% to FY15E revenue) and net profit of RM1.0m with a 20% net margin assumption. However, we have yet to factor this additional earnings contribution to our forecast and we are not surprise to see a higher-than-expected earnings contribution from this acquisition due to synergies arising from economic of scale.

**i-Learn to boost its online segment.** The i-Learn platform is developed by SASBADI to allow PT Penerbit Erlangga (PPE) to deliver PPE's learning materials online to students in Indonesia via a subscription business model. Under the agreement between both parties, PPE shall pay a one-off non-refundable fee of USD300k (c.RM978k) to SASBADI as well as royalties fee (c.8%) based on net sales (i-Learn Indonesia) received by PPE on a semi-annual basis. Again, we have yet to factor this additional earnings contribution to our forecast.

**Valuation.** Based on Pelangi's annual and quarterly data, **SASBADI should be valued in the range of RM2.18-RM2.68, or RM2.43 on average**, based on targeted 14.0x-17.0x FY16 PERs. The applied PERs are Pelangi's respective historical and trailing peak PERs. We believe this higher-end valuation range is justifiable after taking considerations such as larger market capitalization, superior margins and stronger earnings growth trajectory vis-à-vis Pelangi. Moreover, any positive newsflow from its M&A plays and i-Learn program could serve as re-rating catalysts. In fact, as compared with other listed education players such as Pretariang & Segi, these listed companies are trading at 16.1x-26.3x FY16 PER, representing 15%-78% premium over Sasbadi. Hence, we believe the aforementioned valuation range is undemanding.

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## Daily Charting – Sasbadi Holdings Bhd



**Comment:** Underlying trend remained up for SASBADI as it continues to trade along its uptrend regression. The share price is currently seen to be undergoing a consolidation phase after reaching an all-time high level of RM2.35. Key indicators (Stochastic and RSI) are also neutralising their respective overbought situation. Thus we expect the share price to consolidate further towards RM2.10 (S2), where we view that strong buying support will emerge.

### About the stock:

**Name** : Sasbadi Holdings Berhad  
**Bursa Code** : SASBADI  
**CAT Code** : 5252

### Key Support & Resistance level

**Resistance** : RM2.35 (R1) RM2.42 (R2) RM2.55 (R3)  
**Support** : RM2.18 (S1) RM2.10 (S2) RM1.95 (S3)  
**Outlook** : Neutral

Source: Kenanga Research

## CORPORATE STRUCTURE



## BUSINESS OVERVIEW

- SASBADI is principally a publisher of educational materials, undertaking print publishing focusing on primary and secondary school education as well as other non-curriculum based educational materials and general title books. The group also undertake online publishing of educational materials and distribution of applied learning products designed to provide hands-on learning experience to students.

## BUSINESS SEGMENTS

- SASBADI's business segments include educational print based on the national school curriculum, online publishing of educational materials and applied learning products for hands-on learning.

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