

Sasbadi Holdings (BUY ↔; EPS ↔)

EDUCATION
NEWSBREAK

11 May 2015

Price Target: RM2.72 (↑)

Share price: RM2.50

Second contract win for the year

News/
Comments

- Sasbadi announced on the 8th of May that it has secured a contract worth RM406.6k from Ministry of Education (MOE) to publish, print and supply textbooks for subject "Design and Tehcnology" for year 6 Chinese national-type primary schools (SJKC) all over Malaysia.
- The second contract win for the year is for the period from 8th May 2015 to 31st December 2017. The group is set to deliver the first tranche of textbook in the first and second quarter for FY16, amounting to circa RM379.0k.
- Thus, earnings from the second contract will be recognised from FY16 onwards. On average, we expect the textbook contracts should provide gross margins of about 40%-50%.
- Since we initiated Sasbadi, share price has performed tremendously, increasing by 110% YTD. With its long term catalysts (earnings accretive M&As and new curriculum), we are positive on Sasbadi's long term earnings growth and believe there is more upside to its share price performance.

Risks

- Not winning the textbook contract from MOE; Migration towards the online platform; Spike in paper prices; and Changes in National Curriculum and educational policies.

Forecasts

- Unchanged. Also introduced FY17 forecasts.

Rating

BUY (↔)

- Positives:**
 - Long term catalysts from potential M&As and new curriculum for secondary schools;
 - Unique exposure to Malaysia's education system; and
 - Defensive earnings base.
- Negatives:**
 - Not winning contracts from MOE; and
 - Rising paper prices.

Valuation

- Maintain BUY with higher fair value of RM2.72 (from RM2.53 previously), based on higher targeted P/E multiple of 15.5x CY16 EPS given its higher market capitalisation, high growth rate as well as the unique exposure to the country's education system compared to its peers with defensive and growing earnings base. All in all, we are optimistic on Sasbadi's earnings growth due to the stability in their business and potential earnings accretive M&As.

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KLCI	1,807.7
Expected share price return	8.8%
Expected dividend return	1.8%
Expected total return	10.6%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	127
Market cap (RM m)	318
3-mth avg. volume ('000)	782
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	17.9	60.3	nm
Relative	20.3	59.5	nm

Major shareholders

Law King Hui	20.2%
Karya Kencana	20.0%
Lee Swee Hang	10.1%
CIMB Principal Asset Mgmt	7.1%

Summary Earnings Table

FYE Aug (RM m)	2014A	2015E	2016E	2017E
Revenue	79.51	88.66	100.30	110.21
EBITDA	22.54	24.98	30.64	34.21
PATAMI	15.55	16.72	21.43	24.00
EPS (sen)	12.24	13.16	16.87	18.90
Core EPS (sen)	14.02	13.16	16.87	18.90
P/E (x)	17.83	18.99	14.82	13.23
BV /share	0.74	0.82	0.92	1.03
P/BV (x)	3.39	3.03	2.72	2.43
DPS (sen)	-	4.61	5.90	6.61
DY %	-	1.84	2.36	2.65
ROE (%)	22.63	16.85	19.35	19.42
ROA (%)	18.69	13.98	16.71	17.25

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Financial Projections for Sasbadi (BUY; TP: RM2.72; CP: RM2.50)

Income Statement

FYE 31 Aug (RM m)	2013A	2014A	2015E	2016E	2017E
Revenue	78.0	79.5	88.7	100.3	110.2
COS	(45.8)	(42.8)	(47.0)	(52.2)	(57.4)
EBITDA	19.5	22.5	25.0	30.6	34.2
D&A	(1.9)	(2.0)	(2.7)	(2.6)	(2.2)
Net Interest	0.1	(0.3)	0.0	0.5	(0.0)
Associates/JCE	-	-	-	-	-
Exceptionals	-	-	-	-	-
Profit Before Tax	17.7	20.2	22.3	28.6	32.0
Tax	(4.9)	(4.6)	(5.6)	(7.1)	(8.0)
Minority Interests	-	-	-	-	-
PATAMI	12.8	15.5	16.7	21.4	24.0
Core Earnings	12.8	17.8	16.7	21.4	24.0
Basic Shares (m)	105.8	127.0	127.0	127.0	127.0
Basic EPS (sen)	12.05	12.24	13.16	16.87	18.90
Core EPS (sen)	12.05	14.02	13.16	16.87	18.90

Balance Sheet

FYE 31 Aug (RM m)	2013A	2014A	2015E	2016E	2017E
Fixed Assets	28.0	30.3	28.8	27.5	26.5
Other long-term assets	0.04	4.99	4.99	4.99	4.99
Other short-term assets	0.9	1.6	1.6	1.6	1.6
Working Capital	28.5	43.4	49.8	54.6	58.5
Receivables	20.0	31.2	32.8	35.7	37.7
Payables	(6.5)	(8.0)	(8.8)	(9.7)	(10.7)
Inventory	15.0	20.2	25.8	28.6	31.5
Net cash	11.5	20.3	24.6	33.2	43.8
Cash	12.0	26.3	30.7	33.4	44.0
Total Debt	(0.5)	(6.0)	(6.0)	(0.2)	(0.2)
Shareholders' funds	63.6	93.7	104.7	116.7	130.4
Share capital	2.4	63.5	63.5	63.5	63.5
Reserves	61.2	30.2	41.2	53.2	66.9
Minorities	-	-	-	-	-
Other liabilities	5.3	6.8	5.1	5.1	5.1

Cashflow Analysis

FYE 31 Aug (RM m)	2013A	2014A	2015E	2016E	2017E
EBITDA	19.5	22.5	25.0	30.6	34.2
WC changes	(0.1)	(14.9)	(5.6)	(2.8)	(2.9)
Taxation	(4.9)	(4.6)	(5.6)	(7.1)	(8.0)
Others	2.7	(1.7)	(2.4)	(3.9)	(3.0)
Operating cashflow	17.1	1.3	11.5	16.8	20.4
Capex & acquisitions	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Free cashflow	15.8	0.0	10.2	15.5	19.1
Other inv cashflow	0.1	(5.5)	0.5	0.5	-
New borrowings	(0.3)	5.5	-	(5.8)	-
Share issuance	-	25.2	-	-	-
Dividends paid	(16.1)	(8.5)	(5.9)	(7.5)	(8.4)
Other fin cashflow	(0.0)	(8.2)	(0.5)	(0.0)	(0.0)
Net cashflow	(0.5)	8.5	4.4	2.7	10.7

Quarterly Financial Summary

FYE 31 Aug (RM m)	3QFY14	4QFY14	1QFY15	2QFY15
Revenue	17.9	17.5	16.3	32.1
COGS	(9.831)	(10.270)	(9.392)	(14.656)
Gross Profit	8.110	7.279	6.931	17.457
Other Income	0.041	-	0.063	-
Expenses	(3.945)	(5.345)	(4.725)	(5.988)
Operating Profit	4.206	1.934	2.269	11.469
Interest Income	0.022	0.055	0.113	0.109
Finance Costs	(0.189)	(0.097)	(0.096)	(0.113)
Associates/JCE	-	-	-	-
Profit Before Tax	4.039	1.892	2.286	11.465
Tax	(1.035)	(0.676)	(0.638)	(3.128)
Profit After Tax	3.004	1.216	1.648	8.337
MI	-	-	-	-
PATAMI	3.004	1.216	1.648	8.337
Core PATAMI	3.004	2.5	1.648	8.337
Basic EPS (sen)	2.84	1.05	1.30	6.56
DPS (sen)	-	-	3.00	-
W. Ave. Shares (m)	105.8	115.4	127.0	127.0

Rates and Ratios

FYE 31 Aug (RM m)	2013A	2014A	2015E	2016E	2017E
EPS (sen)	12.1	14.0	13.2	16.9	18.9
PER (x)	20.7	17.8	19.0	14.8	13.2
DPS (sen)	-	-	4.6	5.9	6.6
DY %	-	-	1.8	2.4	2.6
BVPS (RM)	0.6	0.7	0.8	0.9	1.0
P/B (x)	4.2	3.4	3.0	2.7	2.4
FCF/Share (sen)	0.1	0.0	0.1	0.1	0.2
FCF yield %	6.0	0.0	3.2	4.9	6.0
ROE	22.3	22.6	16.8	19.3	19.4
ROA	16.6	18.7	14.0	16.7	17.3
Net Debt/Equity (%)	N Cash	N Cash	N Cash	N Cash	N Cash

Assumption Metrics

FYE 31 Aug (RM m)	2013A	2014A	2015E	2016E	2017E
Revenue Growth (%)	20.3	2.0	11.5	13.1	9.9
PATAMI Growth (%)	17.1	21.9	7.5	28.2	12.0
EPS Growth (%)	17.1	1.6	7.5	28.2	12.0
EBITDA Margin (%)	25.0	28.3	28.2	30.6	31.0
EBIT Margin (%)	22.7	25.4	25.1	28.5	29.0
PBT Margin (%)	22.7	25.4	25.1	28.5	29.0
PAT Margin (%)	16.4	19.6	18.9	21.4	21.8

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Equity rating definitions

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.
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NOT RATED	No research coverage and report is intended purely for informational purposes.

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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
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.