

Sasbadi Holdings (BUY ↔; EPS ↔)

EDUCATION
COMPANY INSIGHT

4 June 2015

Price Target: RM2.72 (↔)

Share price: RM2.33

On Course

Highlights

- Sasbadi's 1HFY08/15 earnings currently stand at RM9.9m (59.2% of our full year forecast). While its second quarter is the strongest quarter (according to school term), we expect slower quarters ahead but still higher than 1Q which is the weakest quarter for the year. Despite most of their product being zero-rated, it may experience a slight slowdown due to lower spending power. Overall, we are positive that it is on course to meet our forecast.
- Management is still committed to pay up to 50% of their yearly profit. As such, we increase our dividend payout ratio to 40% (vs. 35%), which translates to a higher dividend yield of 2.3%-3.3%. Given the group's positive annual free cashflow of RM10.2m-RM19.1m and net cash position of RM24.9m, we believe the payout level is achievable.
- The acquisition of a Chinese publisher is still underway, targeting to finalise in the current financial year. We believe the acquisition should be earnings accretive for the group, with Sasbadi having an appetite for companies with low P/E multiple. Moreover, it will complement Sasbadi coverage of the education spectrum as it is currently a relatively small player in National-Type Schools (Chinese).
- PT Erlangga, which uses Sasbadi's interactive online learning system, should launch its online products by this month in accordance with the start of the academic year (July). Its online platform is catered for Year 7 – Year 9, which is equivalent to Form 1 – Form 3 in Malaysia. Out of the one-off non-refundable licensing income of USD300k, 30% was recognised in the first quarter of FY15, while the balance is to be recognised in the coming third quarter.
- There was a slight delay in the opening of its first learning centre in Kota Damansara. The group is aiming to have the learning centre ready by July or August. Capex for learning centre is estimated to be around RM0.5m.

Risks

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

Forecasts

- Unchanged.

Rating

BUY (↔)

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

Valuation

- Maintain BUY unchanged TP of RM2.72 based on unchanged P/E multiple of 15.5x CY16 EPS or circa 50% discount to average P/E of education sector given its lower market capitalisation and liquidity. We think valuation is justified as Sasbadi has high growth rate and holds a unique exposure to the country's education system.

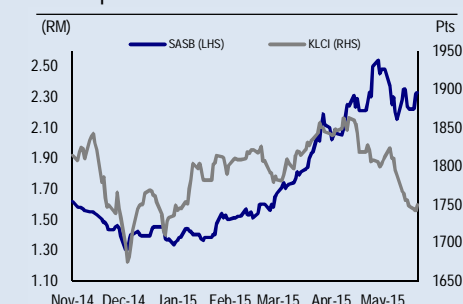
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KLCI	1,749.2
Expected share price return	16.7%
Expected dividend return	2.3%
Expected total return	19.0%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	127
Market cap (RM m)	296
3-mth avg. volume ('000)	914
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	5.4	45.6	nm
Relative	9.6	51.6	nm

Major shareholders

Law King Hui	20.2%
Karya Kencana	20.0%
Lee Swee Hang	10.1%

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)	16.62	17.71	13.83	12.33
BV /share	0.74	0.82	0.90	1.00
P/BV (x)	3.16	2.85	2.58	2.33
DPS (sen)	-	5.26	6.74	7.56
DY %	-	2.26	2.89	3.24
ROE (%)	22.63	16.91	19.57	19.83
ROA (%)	18.69	14.02	16.87	17.57

HLIB

Financial Projections for Sasbadi (BUY; TP: RM2.72; CP: RM2.33)

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)	19.3	16.6	17.7	13.8	12.3
DPS (sen)	-	-	5.3	6.7	7.6
DY %	-	-	2.3	2.9	3.2
BVPS (RM)	0.6	0.7	0.8	0.9	1.0
P/B (x)	3.9	3.2	2.8	2.6	2.3
FCF/Share (sen)	0.1	0.0	0.1	0.1	0.2
FCF yield %	6.4	0.0	3.4	5.2	6.5
ROE	22.3	22.6	16.9	19.6	19.8
ROA	16.6	18.7	14.0	16.9	17.6
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.
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Industry rating definitions

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