

Sasbadi Holdings (BUY ↔; EPS ↔)

EDUCATION
EARNINGS EVALUATION

30 October 2015
Price Target: RM2.72 (↔)
Share price: RM2.53

FY15 Results

Results	- Achieved FY15 revenue of RM87.4m (+10% yoy) which translates to PATAMI of RM15.3m (+53% yoy). - Despite revenue being in-line with expectations, PATAMI was slightly below both ours and consensus estimates, making up 92% and 91% for HLIB and streets full year forecasts, respectively.
Deviations	Lower than expected other operating income.
Dividends	Proposed a final single dividend of 2.0 sen/ share, subject to approval of shareholders at Sasbadi's AGM. This brings total DPS to 5 sen/share, in-line with our estimation (dividend payout ratio of circa 33%).
Highlights	FY15 review... The group's turnover improved 10% for FY15. Sasbadi S/B (education publisher) was still the largest contributor to the group with circa 83% of total revenue. Additionally, contribution from its newly acquired Chinese textbook publisher 'Sanjung Unggul' was finally captured in 4QFY15 where it registered RM4.3m of sales. Overall PBT increased 27% yoy from RM16.9m to RM21.4m due to the absence of one off provision of sales return and listing expenses which occurred in FY14 coupled with contribution from Sanjung Unggul post acquisition. 4QFY15 review... Sasbadi recorded higher sales both qoq (+7%) and yoy (+15%). Despite higher revenue, the group's PBT was lower qoq by 23% mainly on the back higher expenses as the group increased staff headcount for their business expansion. - Next quarter would be a slow quarter for the group given end of school year and end of major government exams. Nevertheless, we remain optimistic on its long term growth due rising need for education content, new secondary school curriculum in 2017 and potential M&As. We believe some of the measures in Budget 2016 would be beneficial for Sasbadi in the long term.
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, pending update from management today.
Rating	BUY (↔) Positives: (1) Long term catalysts from potential M&As and new curriculum for secondary schools in 2017; (2) Unique exposure to Malaysia's education system; and (3) Defensive earnings base. Negatives: (1) Not winning new textbook contracts from MOE; (2) Rising paper prices; and (3) Low liquidity.
Valuation	Maintain our BUY call and target price of RM2.72 based on unchanged P/E multiple of 15.5x CY16 EPS. Our positive rating is premised on Sasbadi's high growth rate and provides a unique education exposure which is closely linked to the country's education system. Target P/E is based on 55% discount to the education sector average in view of its relatively small market capitalization and low liquidity.

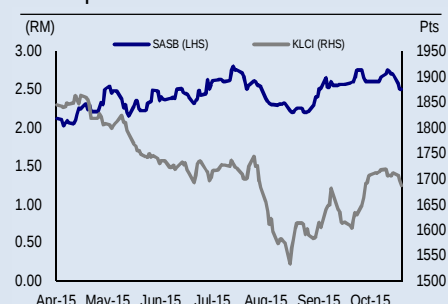
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KLCI	1,667.0
Expected share price return	7.5%
Expected dividend return	2.6%
Expected total return	10.2%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	127
Market cap (RM m)	321
3-mth avg. volume ('000)	192
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-2.3	-1.9	46.2
Relative	-6.0	-0.1	61.4

Major shareholders

Law King Hui	20.2%
Karya Kencana	20.0%
CIMB Principal Asset Mgmt	11.5%
Lee Swee Hang	10.1%

Summary Earnings Table

FYE Aug (RM m)	2014A	2015A	2016E	2017E
Revenue	79.51	87.41	100.30	110.21
EBITDA	22.54	24.51	30.64	34.21
PATAMI	15.55	15.33	21.40	24.00
EPS (sen)	12.24	12.07	16.85	18.90
Core EPS (sen)	14.02	12.07	16.85	18.90
P/E (x)	19.05	20.96	15.01	13.39
BV /share	0.74	0.83	0.90	1.00
P/BV (x)	3.62	3.05	2.80	2.52
DPS (sen)	-	5.00	6.74	7.56
DY %	-	1.91	2.66	2.99
ROE (%)	22.63	15.41	19.57	19.83
ROA (%)	18.69	11.85	16.87	17.57

HLIB

Figure #1 Quarterly results comparison

FYE Aug (RM m)	4QFY14	3QFY15	4QFY15	Qoq (%)	Yoy (%)	Comments
Revenue	17.5	18.9	20.1	7	15	Made up 23% of HLIB and consensus estimates. Seasonally weaker but more than offset by maiden contribution from newly acquired subsidiary.
Sasbadi Holdings	-	0.0	-	n.m	n.m	
Sasbadi Sdn Bhd	13.7	15.1	12.3	-18	-10	Education contents publisher still the major contributor.
Sasbadi Online	0.7	1.2	0.3	-75	-58	
Orbit Buku	0.1	0.6	1.0	72	634	
Malaysian Book Promotions	3.0	1.7	2.3	37	-22	
Sasbadi Learning Solutions	-	2.0	1.7	-12	n.m	
Sanjung Unggul	-	-	4.3	n.m	n.m	Maiden contribution from newly acquired Chinese textbook publisher.
GP	7.3	8.8	8.3	-6	14	
Expenses	(5.3)	(4.6)	(5.4)	18	1	
EBITDA	2.6	5.1	4.3	-16	66	
Operating Profit	1.9	4.3	3.3	-23	72	
Interest Income	0.1	0.12	0.1	-9	95	
Finance Costs	(0.1)	(0.2)	(0.1)	-26	15	
Shares of Associates/JCE	-	-	-	-	-	
PBT	1.9	4.3	3.3	-23	76	
PAT	1.2	3.1	2.7	-14	121	Effective tax rate of 19%.
PATAMI	1.2	3.1	2.2	-28	86	
Core Earnings	2.5	3.1	2.2	-29	-12	Made up only 13% of ours and consensus estimates.
Basic EPS (sen)	1.05	2.45	1.76	-28	68	
GP Margin (%)	41%	47%	41%	-12	-1	
EBITDA Margin (%)	15%	27%	21%	-21	45	
Operating Profit Margin (%)	11%	23%	17%	-28	50	
Sasbadi, HLIB						

Figure #2 Cumulative results comparison

FYE Aug (RM m)	FY14	FY15	Yoy (%)	Comments
Revenue	79.5	87.4	10	Made up for 99% and 100% of both ours and consensus forecasts.
Sasbadi Holdings	-	3.8	n.m	
Sasbadi Sdn Bhd	69.7	72.9	5	Education contents publisher contributed 83% of revenue. Growth in line with sustained rising need to education contents.
Sasbadi Online	1.5	2.0	30	
Orbit Buku	1.1	2.0	77	
Malaysian Book Promotions	7.1	7.0	-1	
Sasbadi Learning Solutions	-	4.9	n.m	Assumed the activity of distributing applied learning products since January 2015 which was previously parked under Sasbadi Sdn Bhd.
Sanjung Unggul	-	4.3	n.m	Newly acquired Chinese textbook publisher.
GP	37.0	41.5	12	Stronger revenue contribution from Sasbadi Sdn Bhd, Sasbadi Online and Malaysian Book Promotions coupled with newly captured Sanjung Unggul post acquisition.
Expenses	(20.0)	(20.7)	4	
EBITDA	19.8	24.5	24	
Operating Profit	17.2	21.4	24	
Interest Income	0.1	0.4	239	
Finance Costs	(0.5)	(0.5)	4	
Shares of Associates/JCE	-	-	-	
PBT	16.9	21.4	27	
PAT	12.3	15.8	29	Effective tax rate of 26%.
PATAMI	12.3	15.3	25	
Core Earnings	13.6	15.3	13	Made up 92% and 91% of ours and consensus forecasts.
Basic EPS (sen)	11.32	12.07	7	
GP Margin (%)	47%	47%	2	
EBITDA Margin (%)	25%	28%	13	
Operating Profit Margin (%)	22%	24%	13	

Sasbadi, HLIB

Figure #3 Consensus vs. HLIB

FYE Dec (RM m)	FY16E			FY17E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	100.3	99.3	+1.0	110.2	110.5	-0.3
PATAMI	21.4	20.8	+2.9	24.0	24.5	-2.0

Bloomberg, HLIB

Figure #4 Regional Peers Comparison

Company	FYE	Price (Local)		Market Cap (m) (Local) (USD)		P/E (x)		P/B (x)		ROE (%)		Gross DY (%)
						2016	2017	2016	2017	2016	2017	2016
Sasbadi	Aug	MYR	2.53	321.3	74.7	15.0	13.4	2.8	2.5	19.6	19.8	2.7
Pelangi Publishing	Sept	MYR	0.58	55.6	12.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR	2.39	1,155.2	268.7	24.4	18.0	6.0	5.3	25.9	31.1	2.8
SEG International	Dec	MYR	1.40	1,010.4	235.0	29.2	25.5	4.7	4.7	18.5	16.0	7.1
ASIAMET Education	Dec	MYR	0.45	169.2	39.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR	0.32	81.0	18.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						22.9	18.9	4.5	4.2	21.3	22.3	4.2

HLIB, Bloomberg

Financial Projections for Sasbadi (BUY; TP: RM2.72; CP: RM2.53)

Income Statement

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	78.0	79.5	87.4	100.3	110.2
COS	(45.8)	(42.8)	(45.9)	(52.2)	(57.4)
EBITDA	19.5	22.5	24.5	30.6	34.2
D&A	(1.9)	(2.0)	(3.1)	(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	21.4	28.6	32.0
Tax	(4.9)	(4.6)	(5.6)	(7.1)	(8.0)
Minority Interests	-	-	(0.45)	-	-
PATAMI	12.8	15.5	15.3	21.4	24.0
Core Earnings	12.8	17.8	15.3	21.4	24.0
Basic Shares (m)	105.8	127.0	127.0	127.0	127.0
Basic EPS (sen)	12.05	12.24	12.07	16.87	18.90
Core EPS (sen)	12.05	14.02	12.07	16.87	18.90

Balance Sheet

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	28.0	30.3	30.9	27.5	26.5
Other long-term assets	0.04	4.99	21.06	4.99	4.99
Other short-term assets	0.9	1.6	5.0	1.6	1.6
Working Capital	28.5	43.4	65.3	54.6	58.5
Receivables	20.0	31.2	42.0	35.7	37.7
Payables	(6.5)	(8.0)	(13.7)	(9.7)	(10.7)
Inventory	15.0	20.2	37.1	28.6	31.5
Net cash	11.5	20.3	(1.1)	33.2	43.8
Cash	12.0	26.3	8.3	33.4	44.0
Total Debt	(0.5)	(6.0)	(9.4)	(0.2)	(0.2)
Shareholders' funds	63.6	93.7	105.2	116.7	130.4
Share capital	2.4	63.5	63.5	63.5	63.5
Reserves	61.2	30.2	41.7	53.2	66.9
Minorities	-	-	4.9	-	-
Other liabilities	5.3	6.8	11.1	5.1	5.1

Cashflow Analysis

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
EBITDA	19.5	22.5	24.5	30.6	34.2
WC changes	(0.1)	(14.9)	(22.0)	(2.8)	(2.9)
Taxation	(4.9)	(4.6)	(5.6)	(7.1)	(8.0)
Others	2.7	(1.7)	7.5	(3.9)	(3.0)
Operating cashflow	17.1	1.3	4.5	16.8	20.4
Capex & acquisitions	(1.3)	(1.3)	(2.5)	(1.3)	(1.3)
Free cashflow	15.8	0.0	2.0	15.5	19.1
Other inv cashflow	0.1	(5.5)	(19.5)	0.5	-
New borrowings	(0.3)	5.5	3.4	(5.8)	-
Share issuance	-	25.2	-	-	-
Dividends paid	(16.1)	(8.5)	(3.8)	(7.5)	(8.4)
Other fin cashflow	(0.0)	(8.2)	(2.6)	(0.0)	(0.0)
Net cashflow	(0.5)	8.5	(20.5)	2.7	10.7

Quarterly Financial Summary

FYE 31 Aug (RM m)	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15
Revenue	17.5	16.3	32.1	18.9	20.1
COGS	(10.270)	(9.392)	(14.656)	(10.0)	(11.8)
Gross Profit	7.279	6.931	17.457	8.842	8.269
Other Income	-	0.063	-	0.076	0.487
Expenses	(5.345)	(4.725)	(5.988)	(4.586)	(5.424)
Operating Profit	1.934	2.269	11.469	4.332	3.332
Interest Income	0.055	0.113	0.109	0.118	0.107
Finance Costs	(0.097)	(0.096)	(0.113)	(0.151)	(0.112)
Associates/JCE	-	-	-	-	-
Profit Before Tax	1.892	2.286	11.465	4.299	3.327
Tax	(0.676)	(0.638)	(3.128)	(1.185)	(0.640)
Profit After Tax	1.216	1.648	8.337	3.114	2.687
MI	-	-	-	-	(0.454)
PATAMI	1.216	1.648	8.337	3.114	2.233
Core PATAMI	2.5	1.648	8.337	3.114	2.233
Basic EPS (sen)	1.05	1.30	6.56	2.45	1.76
DPS (sen)	-	3.00	-	-	2.00
W. Ave. Shares (m)	115.4	127.0	127.0	127.0	127.0

Rates and Ratios

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
EPS (sen)	12.1	14.0	12.1	16.9	18.9
PER (x)	21.0	18.0	21.0	15.0	13.4
DPS (sen)	-	-	5.0	6.7	7.6
DY %	-	-	2.0	2.7	3.0
BVPS (RM)	0.6	0.7	0.8	0.9	1.0
P/B (x)	4.2	3.4	3.1	2.8	2.5
FCF/Share (sen)	0.1	0.0	0.0	0.1	0.2
FCF yield %	5.9	0.0	0.6	4.8	5.9
ROE	22.3	22.6	15.4	19.6	19.8
ROA	16.6	18.7	11.8	16.9	17.6
Net Debt/Equity (%)	(18.1)	(21.6)	1.0	N Cash	N Cash

Assumption Metrics

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue Growth (%)	20.3	2.0	9.9	13.1	9.9
PATAMI Growth (%)	17.1	21.9	(1.4)	28.2	12.0
EPS Growth (%)	17.1	1.6	(1.4)	28.2	12.0
EBITDA Margin (%)	25.0	28.3	28.0	30.6	31.0
EBIT Margin (%)	22.7	25.4	24.5	28.5	29.0
PBT Margin (%)	22.7	25.4	24.5	28.5	29.0
PAT Margin (%)	16.4	19.6	17.5	21.4	21.8

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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.
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