

Sasbadi Holdings (BUY ↔; EPS ↑)

EDUCATION
COMPANY INSIGHT

3 November 2015
Price Target: RM2.80 (↑)
Share price: RM2.53

Post FY15 Results Meeting

Highlights

We met Sasbadi on Friday to get more information post FY15 results. We left feeling optimistic on the group's future growth.

- **4QFY15 review...** The lukewarm results were due to higher expenses as the group increased staff headcount for their business expansion. Also, despite being in a recession proof business, earnings were slightly affected due to lower spending power. Note that same time last year, bulk of its revenue came from the sales of new educational material based on PT3. Hence, 4QFY15 showed a normalisation in its earnings.
- **Online segment...** Launched the new version of iLearn in September. We believe a change in MOE policy with regards to e-learning is needed in order for its digital segment to achieve significant growth.
- **Full year contribution in FY16...** Apart from M&As, new syllabus and organic growth, FY16 would also be underpinned by full contribution from 70%-owned Sanjung Unggul. Sanjung Unggul currently controls circa 40%-50% of Chinese publisher market share.
- **More upside from textbook publishing...** MOE has recently announced several tenders for KSSR and KSSM (the latter is new syllabus for secondary school in 2017). The tendering process should end in mid-2016 with delivery by end of 2016. Thus, earnings shall be recognised from FY17 onwards.
- Rather than dividing the textbook distribution over 3 zones, the winning tender would be able to distribute textbook nationally i.e. winning 1 textbook tender now would be equivalent to 3 textbook tenders previously.
- **Catalyst from potential M&As...** Over the next 2-3 years, management is looking at acquiring at least 1 company per annum. The group would be looking at companies with low P/E multiple that can complement its current business model.
- Not winning the textbook contract from MOE; Migration towards the online platform; Spike in paper prices; and Changes in National Curriculum and educational policies.

Risks

Forecasts

Rating

- Earnings increased marginally by 0.2% - 0.3% based on the deviations stated above and inclusion of Sanjung Unggul.

BUY (↔↔)

- **Positives:**
(1) Long term catalysts from potential M&As and new curriculum for secondary schools from 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.
- Maintain BUY with higher TP of RM2.80 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.

Valuation

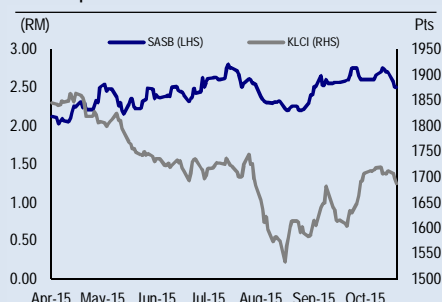
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KLCI	1,664.1
Expected share price return	9.8%
Expected dividend return	2.7%
Expected total return	12.5%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	127
Market cap (RM m)	324
3-mth avg. volume ('000)	191
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-7.3	0.0	50.0
Relative	-9.2	3.5	67.2

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	79.5	87.4	103.1	110.7
Pre-tax Profit	20.2	21.4	29.0	32.1
Rpt. PATAMI	15.5	15.3	21.5	24.1
Nom. PATAMI	15.5	15.3	21.5	24.1
Nom. EPS (sen)	12.2	12.1	16.9	18.9
Nom. P/E (x)	20.8	21.1	15.1	13.5
BV/share (RM)	0.7	0.8	1.0	1.2
P/BV (x)	3.5	3.1	2.5	2.1
Gross DPS (sen)	-	5.0	6.8	7.6
Div. yield (%)	-	2.0	2.7	3.0
ROE (%)	17.7	13.9	16.8	15.8
ROA (%)	14.5	10.6	13.4	13.0

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Figure #1 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	2.55	323.9	75.3	15.1	13.5	2.6	2.1	16.8	15.8	2.7
Pelangi Publishing	Sept	MYR	0.53	51.3	11.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR	2.41	1,164.9	270.9	24.6	18.1	6.0	5.3	25.9	31.1	2.7
SEG International	Dec	MYR	1.37	988.8	229.9	28.5	24.9	4.6	4.6	18.5	16.0	7.3
ASIAMET Education	Dec	MYR	0.44	163.6	38.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR	0.34	84.8	19.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						22.7	18.8	4.4	4.0	20.4	21.0	4.2

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Financial Projections for Sasbadi (BUY; TP: RM2.80; CP: RM2.55)

Income Statement

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	78.0	79.5	87.4	103.1	110.7
EBITDA	19.6	19.8	24.5	32.7	35.5
D&A	2.0	2.6	3.1	3.2	3.2
EBIT	17.6	20.5	21.4	29.5	32.3
Interest income	0.1	(0.3)	(0.0)	(0.5)	(0.2)
Interest expense	(0.1)	(0.5)	(0.5)	(0.8)	(0.8)
JV & Associates	0.0	0.0	0.0	0.0	0.0
PBT	17.7	20.2	21.4	29.0	32.1
Income Tax Expense	(4.9)	(4.6)	(5.6)	(7.5)	(8.0)
Discontinued op.	0.0	0.0	0.0	0.0	0.0
NCI	0.0	0.0	(0.5)	0.0	0.0
PATAMI	12.8	15.5	15.3	21.5	24.1
Basic shares (m)	127.0	127.0	127.0	127.0	127.0
Basic EPS (sen)	10.0	12.2	12.1	16.9	18.9

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

Balance Sheet

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	28.0	30.3	30.9	29.6	28.2
Other long-term assets	0.0	5.0	21.1	25.9	30.8
Other short-term assets	0.9	1.6	5.0	5.0	5.0
Working Capital	28.5	43.4	65.3	69.8	74.9
Receivables	20.0	31.2	42.0	39.5	42.4
Payables	(6.5)	(8.0)	(13.7)	(12.2)	(13.1)
Inventory	15.0	20.2	37.1	42.5	45.6
Net cash	11.5	20.3	(1.1)	8.5	23.9
Cash	12.0	26.3	8.3	18.1	33.5
Total Debt	(0.5)	(6.0)	(9.4)	(9.5)	(9.5)
Shareholders' funds	63.6	93.7	105.2	127.8	151.8
Share capital	2.4	63.5	63.5	63.5	63.5
Reserves	61.2	30.2	41.7	64.3	88.3
Minorities	0.0	0.0	4.9	0.0	0.0
Other liabilities	5.3	6.8	11.1	11.1	11.1

Rates and Ratios

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Basic EPS (sen)	10.0	12.2	12.1	16.9	18.9
P/E (x)	25.4	20.8	21.1	15.1	13.5
Gross DPS (sen)	0.0	0.0	5.0	6.8	7.6
Div. yield (%)	0.0	0.0	2.0	2.7	3.0
BV/share (RM)	0.5	0.7	0.8	1.0	1.2
P/B (x)	5.1	3.5	3.1	2.5	2.1
FCF/share (sen)	0.1	0.1	0.1	0.2	0.2
Net Debt/Equity (%)	N Cash	N Cash	(1.0)	N Cash	N Cash
Enterprise value	312.4	303.6	329.8	315.3	299.9
EV/EBITDA (x)	15.9	15.3	13.5	9.6	8.4
ROE (%)	20.0	17.7	13.9	16.8	15.8
ROA (%)	16.8	14.5	10.6	13.4	13.0

Cashflow Analysis

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
EBITDA	19.6	23.1	24.5	32.7	35.5
WC changes	(0.1)	(14.9)	(22.0)	(4.4)	(5.1)
Taxation	(4.9)	(4.6)	(5.6)	(7.5)	(8.0)
Others	2.6	(2.3)	7.5	0.0	0.0
Operating cashflow	17.1	1.3	4.5	20.7	22.4
Capex & acquisitions	(8.8)	(6.8)	(6.8)	(6.8)	(6.8)
Free cashflow	8.3	(5.5)	(2.3)	14.0	15.6
Other inv cashflow	7.6	0.0	0.4	0.3	0.5
New borrowings	(0.3)	5.5	3.5	0.0	0.0
Share issuance	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	(8.5)	(3.8)	0.0	0.0
Other fin cashflow	(16.2)	17.0	(0.5)	(0.8)	(0.8)
Net cashflow	(0.5)	8.5	(2.6)	13.5	15.4

Assumption Metrics

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue Growth (%)	20.3	2.0	9.9	17.9	7.3
PBT Growth (%)	18.9	1.0	23.8	33.5	8.7
PAT Growth (%)	18.2	16.8	4.4	37.9	9.4
EBITDA Margin (%)	25.1	24.9	28.0	31.7	32.1
EBIT Margin (%)	22.5	25.8	24.5	28.6	29.2
PBT Margin (%)	22.7	25.4	24.5	28.1	29.0
PAT Margin (%)	16.4	19.6	18.1	20.8	21.7

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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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