

Sasbadi Holdings (BUY ↔; EPS ↔)

EDUCATION
NEWSBREAK

25 November 2015
Price Target: RM2.80 (↔)
Share price: RM2.51

MOU – Alliance with Southern Publishing

Highlights

- Sasbadi has entered into a Memorandum of Understanding (MOU) with Southern Publishing and Media Company Limited in China.
- The MOU was signed to explore opportunities and leverage on intellectual property rights, digital teaching and learning resources & technology as well as online teaching and learning platforms for both parties.
- Located in Guangzhou, Southern Publishing is involved in editing, publishing and distributing books, magazines, digital publishing and e-journal among others.
- Currently, Southern Publishing has eight publishing houses which publishes different fields of subjects i.e.: social sciences, literature, children's publishing, and economic management.

Financial Impact

- With limited information available, our earnings will be maintained. Will keep a close watch on this development and make necessary modifications once financial impact can be identified.

Comments

- We are neutral on this MOU given the lack of information available. Still in early stages of discussion. Nevertheless, we think Sasbadi would be able to leverage on its Chinese educational content both online and offline via the strategic alliance with Southern Publishing.

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

- Maintained.

Rating

BUY (↔)

- We like Sasbadi due to its strong annual FCF, high growth rate, and unique education exposure which is closely linked to the country's education system.

Valuation

- Maintain BUY with unchanged TP of RM2.80 based on unchanged P/E multiple of 15.5x CY16 EPS. Targeted 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	1,677.0
Expected share price return	11.6%
Expected dividend return	2.7%
Expected total return	14.3%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	127
Market cap (RM m)	319
3-mth avg. volume ('000)	113
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-7.0	13.1	58.9
Relative	-5.2	3.3	73.7

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)	20.5	20.8	14.9	13.2
BV/share (RM)	0.7	0.8	1.0	1.2
P/BV (x)	3.4	3.0	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)		P/E (x)		P/B (x)		ROE (%)		Gross DY (%)
						2016	2017	2016	2017	2016	2017	2016
Sasbadi	Aug	MYR	2.51	318.8	75.1	14.9	13.3	2.5	2.1	16.8	15.8	2.7
Pelangi Publishing	Sept	MYR	0.56	54.2	12.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR	2.50	1,208.4	284.8	26.0	18.8	6.3	5.5	24.9	31.4	2.6
SEG International	Dec	MYR	1.39	1,003.2	236.5	30.9	25.7	4.6	4.6	17.7	16.4	6.8
ASIAMET Education	Dec	MYR	0.43	161.7	38.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR	0.32	81.0	19.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						23.9	19.3	4.5	4.1	19.8	21.2	4.0

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Financial Projections for Sasbadi (BUY; TP: RM2.80; CP: RM2.51)

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

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

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

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
Basic EPS (sen)	10.0	12.2	12.1	16.9	18.9
P/E (x)	25.0	20.5	20.8	14.9	13.2
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)	5.0	3.4	3.0	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	307.3	298.5	324.7	310.2	294.8
EV/EBITDA (x)	15.7	15.1	13.3	9.5	8.3
ROE (%)	20.0	17.7	13.9	16.8	15.8
ROA (%)	16.8	14.5	10.6	13.4	13.0

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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