

Sasbadi Holdings (BUY ↔; EPS ↓)

EDUCATION
COMPANY INSIGHT

11 April 2016

Price Target: RM1.55 (↑)

Share price: RM1.36

More to read in FY17

Highlights

- **Potential textbook contracts.** The Ministry of Education (MOE) recently closed the textbook tenders for the relevant subjects of Year 1 of SJKC and SJKT (revised KSSR syllabus), and Form 1 and Form 4 (new KSSM syllabus) in February and early April 2016. We anticipate the results of the winning tenders to be announced in 2 – 3 months, with delivery of textbooks by end of 2016.
- **M&As.** The group's plan to acquire at least 1 company per annum is on track. After the MoU with Southern Publishing and Media Company in China (MoU extended to 21st May 2016), we believe the next M&A target would be a local publisher that can add value to Sasbadi.
- **Print publication.** We expect an organic growth of high single digit, to be contributed mainly by Sanjung Unggul. Also, Sasbadi will likely produce circa 1,400 titles compared to previous year of 1300 titles.
- **Applied learning centre.** The opening of its first learning centre in Kota Damansara will be slightly delayed to 2HCY16. Management is currently reviewing the business model to ensure it will best suit the group. Capex to be spent on the learning centres is approximately RM0.5m.
- **2QFY16.** Despite 2Q being the strongest quarter for the group (historically contributed 50% to full year earnings), we believe FY16 earnings might be slightly dampened by the slow consumer and business sentiment (lower spending power).
- As such, we cut our FY16 earnings by 3% to RM20.4m. Nevertheless, we continue to remain upbeat on its FY17 earnings excitement.

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

- Due to slower consumer and business sentiment, we reduce our earnings slightly by 3% for FY16.

Rating

BUY (↔)

- We like Sasbadi due to its strong annual FCF, high growth rate, its innovativeness in creating products that cater to tech-savvy youth and unique education exposure which is closely linked to the country's education system.

Valuation

- We arrive at our TP of RM1.55 based on a higher P/E multiple of 18x CY17 EPS. Targeted P/E is based on lower discount of 40% (from 55%) as we take into account earnings excitement FY17 onwards. Maintain BUY. Valuation is justified in our view, due to Sasbadi's relatively small market capitalisation and low liquidity.

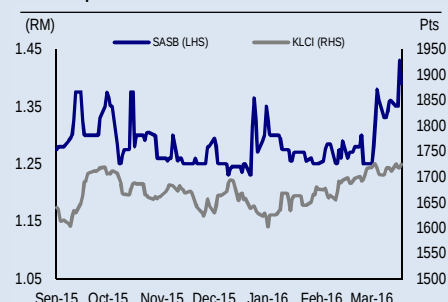
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KLCI	1,718.4
Expected share price return	14.0%
Expected dividend return	3.2%
Expected total return	17.1%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	380
3-mth avg. volume ('000)	355
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	7.1	8.8	28.3
Relative	5.2	5.0	38.2

Major shareholders

Law King Hui	18.3%
Karya Kencana	18.2%
Lee Swee Hang	8.5%
EPF	5.1%

Summary Earnings Table

FYE Aug (RM m)	2014A	2015A	2016E	2017E
Revenue	79.5	88.0	100.5	108.5
Pre-tax Profit	20.2	21.4	27.6	32.1
Rpt. PATAMI	15.5	15.3	20.4	24.1
Nom. PATAMI	15.5	15.3	20.4	24.1
Nom. EPS (sen)	5.6	5.5	7.3	8.6
Nom. P/E (x)	24.4	24.8	18.6	15.8
BV/share (RM)	0.3	0.4	0.6	0.7
P/BV (x)	4.1	3.6	2.4	2.1
Gross DPS (sen)	-	5.0	3.7	4.3
Div. yield (%)	-	3.7	2.7	3.2
ROE (%)	17.7	13.9	12.9	13.2
ROA (%)	14.5	10.9	10.9	11.3

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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	1.36	380.0	97.4	18.6	15.8	2.3	1.9	12.9	13.2	2.7
Pelangi Publishing	Sept	MYR	0.58	56.1	14.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR	3.00	1,450.0	371.7	31.3	23.1	7.5	6.8	25.3	30.8	2.0
SEG International	Dec	MYR	1.25	902.2	231.2	27.8	N/A	3.9	N/A	16.1	N/A	1.8
ASIAMET Education	Dec	MYR	0.29	109.1	28.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR	0.21	57.0	14.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						25.9	19.4	4.6	4.4	18.1	22.0	2.2

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Sasbadi Holdings (BUY; TP: RM1.55; CP: RM1.36)

Income Statement

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	78.0	79.5	88.0	100.5	108.5
EBITDA	19.5	19.8	24.4	31.4	35.3
D&A	1.9	2.6	2.9	3.3	3.4
EBIT	17.6	20.5	21.4	28.1	31.8
Interest income	0.1	(0.3)	(0.0)	(0.5)	0.3
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	27.6	32.1
Income Tax Expense	(4.9)	(4.6)	(5.6)	(7.2)	(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	20.4	24.1
Basic shares (m)	279.4	279.4	279.4	279.4	279.4
Basic EPS (sen)	4.6	5.6	5.5	7.3	8.6

Quarterly Financial Summary

FYE 31 Aug (RM m)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16
Revenue	16.3	32.1	18.9	20.1	21.0
GP	6.9	17.5	8.8	8.3	9.3
Other Income	0.1	0.0	0.1	0.5	0.0
Expenses	(4.7)	(6.0)	(4.6)	(5.4)	(5.8)
EBIT	2.3	11.5	4.3	3.3	3.5
Interest Income	0.1	0.1	0.1	0.1	0.0
Finance Costs	(0.1)	(0.1)	(0.2)	(0.1)	(0.3)
PBT	2.3	11.5	4.3	3.3	3.2
Tax	(0.6)	(3.1)	(1.2)	(0.6)	(0.9)
PATAMI	1.6	8.3	3.1	2.2	2.0
Basic EPS (sen)	1.3	6.6	2.5	1.8	1.6
Adj Basic EPS (sen)	1.3	6.6	2.5	1.8	1.6

Balance Sheet

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	28.0	30.3	30.9	30.7	30.4
Other long-term assets	0.0	5.0	22.7	40.0	57.4
Other short-term assets	0.9	1.6	1.4	1.4	1.4
Working Capital	28.5	43.4	64.0	68.0	73.0
Receivables	20.0	31.2	40.4	38.6	41.6
Payables	(6.5)	(8.0)	(13.4)	(11.9)	(12.7)
Inventory	15.0	20.2	37.1	41.4	44.1
Net cash	11.5	20.3	(1.1)	26.0	28.1
Cash	12.0	26.3	8.3	35.6	37.7
Total Debt	(0.5)	(6.0)	(9.4)	(9.5)	(9.5)
Shareholders' funds	63.6	93.7	105.2	158.6	182.7
Share capital	2.4	63.5	63.5	95.3	95.3
Reserves	61.2	30.2	41.7	63.3	87.4
Minorities	0.0	0.0	5.1	0.0	0.0
Other liabilities	5.3	6.8	7.6	7.6	7.6

Rates and Ratios

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Basic EPS (sen)	4.6	5.6	5.5	7.3	8.6
P/E (x)	29.8	24.4	24.8	18.6	15.8
Gross DPS (sen)	0.0	0.0	5.0	3.7	4.3
Div. yield (%)	0.0	0.0	3.7	2.7	3.2
BV/share (RM)	0.2	0.3	0.4	0.6	0.7
P/B (x)	6.0	4.1	3.6	2.4	2.1
FCF/share (sen)	0.1	0.0	0.1	0.1	0.2
Net Debt/Equity (%)	18.1	21.6	(1.0)	16.4	15.4
Enterprise value	368.5	359.7	386.1	354.0	351.9
EV/EBITDA (x)	18.9	18.2	15.9	11.3	10.0
ROE (%)	20.0	17.7	13.9	12.9	13.2
ROA (%)	16.8	14.5	10.9	10.9	11.3

Cashflow Analysis

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
EBITDA	19.5	23.1	24.4	31.4	35.3
WC changes	(0.1)	(14.9)	(20.7)	(4.0)	(4.9)
Taxation	(4.9)	(4.6)	(5.6)	(7.2)	(8.0)
Others	2.7	(2.3)	6.4	0.0	0.0
Operating cashflow	17.1	1.3	4.5	20.2	22.3
Capex & acquisitions	(8.8)	(6.8)	(20.5)	(20.5)	(20.5)
Free cashflow	8.3	(5.5)	(16.0)	(0.3)	1.8
Other inv cashflow	7.6	0.0	0.4	0.3	1.1
New borrowings	(0.3)	5.5	3.5	0.0	0.0
Share issuance	0.0	0.0	0.0	31.8	0.0
Dividends paid	0.0	(8.5)	(3.8)	0.0	0.0
Other fin cashflow	(16.2)	17.0	(0.5)	31.0	(0.8)
Net cashflow	(0.5)	8.5	(16.4)	62.7	2.1

Assumption Metrics

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue Growth (%)	20.3	2.0	10.6	14.3	7.9
PBT Growth (%)	18.6	14.3	6.1	28.8	16.5
PAT Growth (%)	17.1	21.9	1.5	29.3	18.0
EBITDA Margin (%)	25.0	24.9	27.7	31.2	32.5
EBIT Margin (%)	22.5	25.8	24.4	28.0	29.3
PBT Margin (%)	22.7	25.4	24.3	27.4	29.6
PAT Margin (%)	16.4	19.6	17.9	20.3	22.2

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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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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.