

Sasbadi Holdings (BUY ↔; EPS ↔)

EDUCATION
NEWSBREAK

24 May 2016

Price Target: RM1.55 (↔)

Share price: RM1.22

Termination of MOU

News/
Comments

- In an announcement to Bursa Malaysia, Sasbadi announced that it has terminated its Memorandum of Understanding (MOU) with Southern Publishing and Media Company Limited, a publisher in China.
- Reason for the termination is solely because no progress was made since the MOU was announced in November last year (refer to our report dated 11th November 2015 entitled MOU Alliance with Southern Publishing).
- Also, note that Southern Publishing and Media Company was listed in Shanghai Stock Exchange in February this year. Thus, we believe this could have contributed to the slow progress for the MOU between Sasbadi and Southern Publishing and Media Company.
- No financial impact to Sasbadi in our view – the MOU did not involve any significant costs for both parties.
- In view of the termination, we believe Sasbadi is still on the lookout for more opportunities domestically and internationally to add into their books.

Risks

- Migration towards the online platform;
- Spike in paper prices; and
- Changes in National Curriculum and educational policies.

Forecasts

- No changes to our forecasts as we have not taken into account any contribution from the MOU.

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

- Reiterate BUY with TP of RM1.55 based on P/E multiple of 18x CY17 EPS. Targeted P/E is based on a discount of 40% to education sector. Valuation is justified in our view, due to Sasbadi's relatively small market capitalisation and low liquidity.

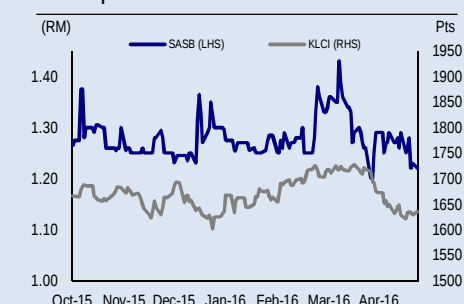
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KLCI	1,634.9
Expected share price return	27.0%
Expected dividend return	3.5%
Expected total return	30.6%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	341
3-mth avg. volume ('000)	380
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-3.2	-4.3	13.5
Relative	1.7	-1.8	24.1

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)	21.6	21.9	16.4	13.9
BV/share (RM)	0.3	0.4	0.6	0.7
P/BV (x)	3.6	3.2	2.1	1.8
Gross DPS (sen)	-	5.0	3.7	4.3
Div. yield (%)	-	4.2	3.0	3.6
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	1.22	340.9	83.5	16.7	14.2	2.0	1.7	12.9	13.2	3.0
Pelangi Publishing	Sept	MYR	0.51	49.3	12.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR	2.18	1,053.3	258.0	22.7	16.8	5.5	5.0	25.3	30.8	2.8
SEG International	Dec	MYR	1.22	880.5	215.7	27.1	N/A	3.8	N/A	16.1	N/A	1.9
ASIAMET Education	Dec	MYR	0.32	118.5	29.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR	0.20	55.7	13.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						22.2	15.5	3.8	3.3	18.1	22.0	2.6

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Sasbadi Holdings (BUY; TP: RM1.55; CP: RM1.22)

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)	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
Revenue	32.1	18.9	20.1	21.0	33.9
GP	17.5	8.8	8.3	9.3	17.3
Other Income	0.0	0.1	0.5	0.0	0.0
Expenses	(6.0)	(4.6)	(5.4)	(5.8)	(8.1)
EBIT	11.5	4.3	3.3	3.5	9.3
Interest Income	0.1	0.1	0.1	0.0	0.1
Finance Costs	(0.1)	(0.2)	(0.1)	(0.3)	(0.3)
PBT	11.5	4.3	3.3	3.2	9.0
Tax	(3.1)	(1.2)	(0.6)	(0.9)	(2.4)
PATAMI	8.3	3.1	2.2	2.0	6.6
Basic EPS (sen)	6.6	2.5	1.8	1.6	5.0
Adj Basic EPS (sen)	6.6	2.5	1.8	1.6	5.0

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)	26.3	21.6	21.9	16.4	13.9
Gross DPS (sen)	0.0	0.0	5.0	3.7	4.3
Div. yield (%)	0.0	0.0	4.2	3.0	3.6
BV/share (RM)	0.2	0.3	0.4	0.6	0.7
P/B (x)	5.3	3.6	3.2	2.1	1.8
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	323.8	315.0	341.4	309.3	307.1
EV/EBITDA (x)	16.6	15.9	14.0	9.9	8.7
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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Industry rating definitions

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