

Sasbadi Holdings (BUY ↔; EPS ↔)

EDUCATION
NEWSBREAK

13 September 2016

Price Target: RM1.40 (↔)

Share price: RM1.15

Office Space Acquisition

News

- In an announcement to Bursa Malaysia, Sasbadi announced that it has entered into two sale and purchase agreements with THHT Resources S/B (THHT) to acquire two retail lots in Cova Square, Kota Damansara.

Comments

- Total consideration to be paid for both acquisition amounts to RM2.6m to be funded by the proceeds raised by Sasbadi through the completed private placement earlier this year.
- Utilisation of the private placement has been revised to increase repayment of bank borrowings by RM6.4m and the acquisition of RM2.6m. The available fund for future acquisitions now stands at RM5.9m.
- The properties, which are located in close proximity to Sasbadi's head office, are meant to be used as Mindtech Education's member recruitment and training activities. Mindtech Education is Sasbadi's subsidiary that focuses on its online segment of direct sales/ network marketing of their digital/ online educational products.
- Since June 2016, the number of recruitment for the company's direct selling business has almost doubled from around 700 to more than 1,300 members. The property is currently being renovated for use by Mindtech Education and the acquisition is expected to be completed by 2QFY17.
- Overall, we are positive on the acquisition as we believe it allows focused resources for Mindtech which reaffirms our anticipation of organic growth from this division. However, any positive topline contribution will take some time to translate to the bottomline as the direct selling business is still in its initial stages.

Risks

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

Forecasts

- Unchanged.

Rating

BUY (↔)

Valuation

- Reiterate BUY with unchanged TP of RM1.40 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	1,686.4
Expected share price return	21.7%
Expected dividend return	2.4%
Expected total return	24.2%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	321
3-mth avg. volume ('000)	259
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-4.2	-8.7	-4.2
Relative	-5.0	-10.7	-8.9

Major shareholders

Law King Hui	18.3%
Karya Kencana	18.2%
Lee Swee Hang	8.5%
EPF	5.8%

Summary Earnings Table

FYE Aug (RM m)	2014A	2015A	2016E	2017E
Revenue	79.5	88.0	101.0	109.0
Pre-tax Profit	20.2	21.4	21.0	28.9
Rpt. PATAMI	15.5	15.3	15.5	21.7
Nom. PATAMI	15.5	15.3	15.5	21.7
Nom. EPS (sen)	5.6	5.5	5.6	7.8
Nom. P/E (x)	21.4	21.7	21.4	15.3
BV/share (RM)	0.3	0.4	0.6	0.6
P/BV (x)	3.5	3.2	2.2	1.9
Gross DPS (sen)	-	5.0	2.8	3.9
Div. yield (%)	-	4.2	2.3	3.3
ROE (%)	17.7	13.9	10.1	12.4
ROA (%)	14.5	10.9	8.5	10.6

HLIB

Sasbadi Holdings (BUY; TP: RM1.40; CP: RM1.15)

Income Statement

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	78.0	79.5	88.0	101.0	109.0
EBITDA	19.5	19.8	24.4	24.8	32.2
D&A	1.9	2.6	2.9	3.3	3.4
EBIT	17.6	20.5	21.4	21.5	28.8
Interest income	0.1	(0.3)	(0.0)	(0.5)	0.1
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	21.0	28.9
Income Tax Expense	(4.9)	(4.6)	(5.6)	(5.5)	(7.2)
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	15.5	21.7
Basic shares (m)	279.4	279.4	279.4	279.4	279.4
Basic EPS (sen)	4.6	5.6	5.5	5.6	7.8

Quarterly Financial Summary

FYE 31 Aug (RM m)	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16
Revenue	18.9	20.1	21.0	33.9	22.4
GP	8.8	8.3	9.3	17.3	11.4
Other Income	0.1	0.5	0.0	0.0	0.3
Expenses	(4.6)	(5.4)	(5.8)	(8.1)	(6.0)
EBIT	4.3	3.3	3.5	9.3	5.7
Interest Income	0.1	0.1	0.0	0.1	0.2
Finance Costs	(0.2)	(0.1)	(0.3)	(0.3)	(0.2)
PBT	4.3	3.3	3.2	9.0	5.7
Tax	(1.2)	(0.6)	(0.9)	(2.4)	(1.6)
PATAMI	3.1	2.2	2.0	6.6	3.8
Basic EPS (sen)	2.5	1.8	1.6	5.0	1.4
Adj Basic EPS (sen)	2.5	1.8	1.6	5.0	1.4

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	68.7	73.2
Receivables	20.0	31.2	40.4	38.8	41.8
Payables	(6.5)	(8.0)	(13.4)	(12.1)	(12.7)
Inventory	15.0	20.2	37.1	42.1	44.1
Net cash	11.5	20.3	(1.1)	20.5	20.7
Cash	12.0	26.3	8.3	30.0	30.2
Total Debt	(0.5)	(6.0)	(9.4)	(9.5)	(9.5)
Shareholders' funds	63.6	93.7	105.2	153.7	175.4
Share capital	2.4	63.5	63.5	95.3	95.3
Reserves	61.2	30.2	41.7	58.4	80.1
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	5.6	7.8
P/E (x)	26.1	21.4	21.7	21.4	15.3
Gross DPS (sen)	0.0	0.0	5.0	2.8	3.9
Div. yield (%)	0.0	0.0	4.2	2.3	3.3
BV/share (RM)	0.2	0.3	0.4	0.6	0.6
P/B (x)	5.2	3.5	3.2	2.2	1.9
FCF/share (sen)	0.1	0.0	0.1	0.1	0.1
Net Debt/Equity (%)	18.1	21.6	(1.0)	13.4	11.8
Enterprise value	321.0	312.2	338.6	312.0	311.8
EV/EBITDA (x)	16.5	15.8	13.9	12.6	9.7
ROE (%)	20.0	17.7	13.9	10.1	12.4
ROA (%)	16.8	14.5	10.9	8.5	10.6

Cashflow Analysis

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
EBITDA	19.5	23.1	24.4	24.8	32.2
WC changes	(0.1)	(14.9)	(20.7)	(4.6)	(4.5)
Taxation	(4.9)	(4.6)	(5.6)	(5.5)	(7.2)
Others	2.7	(2.3)	6.4	0.0	0.0
Operating cashflow	17.1	1.3	4.5	14.7	20.5
Capex & acquisitions	(8.8)	(6.8)	(20.5)	(20.5)	(20.5)
Free cashflow	8.3	(5.5)	(16.0)	(5.8)	0.0
Other inv cashflow	7.6	0.0	0.4	0.3	0.9
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)	57.2	0.2

Assumption Metrics

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue growth (%)	20.3	2.0	10.6	14.9	7.9
EBITDA growth (%)	18.2	1.6	23.1	1.8	30.0
EBIT growth (%)	18.2	16.8	4.5	0.4	33.9
PBT growth (%)	18.6	14.3	6.1	(1.9)	37.8
EBITDA margin (%)	25.0	24.9	27.7	24.5	29.6
EBIT margin (%)	22.5	25.8	24.4	21.3	26.4
PBT margin (%)	22.7	25.4	24.3	20.8	26.5

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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.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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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.