

Sasbadi Holdings ----- NOT COVERED**More than just a textbook story**

Joanna Cheah, CFA / Research Analyst / 6 03 2723 2081 / joanna.cheah@credit-suisse.com

- Sasbadi undertakes the print publishing of educational materials for primary and secondary schools under the Malaysian National School Curriculum. In addition, it also publishes other non-curriculum based educational materials and engages in online publishing.
- In April 2016, the company received a licence to sell its digital/online learning under a multi-level marketing structure. Management guided that they expect FY17 to be a turning point for digital awareness as well as contributions to the group. Thus far, management indicates that sales from MLM have grown seven-fold over three months.
- The company claims that its business is almost recession-proof, as it benefits from the government's yearly allocated expenditure on education. They also expect to benefit from Malaysia's Education Blueprint (MEB) 2013-25.
- Bloomberg consensus expects a 5% EPS decline in FY16 before growing by 36% in FY17. The stock trades at 14.9x FY17 P/E.

(SASB MK / SAHO.KL)

Company name	Sasbadi Holdings			
Current price (RM)	1.18			
Mkt cap (US\$ mn)	78.1			
Daily trad vol - 6m avr (mn)	0.37			
Daily trad val - 6m avr (US\$ mn)	0.11			
YE Aug	FY14A	FY15A	FY16E	FY17E
Revenue (RM mn)	79	87	98	110
EBITDA (RM mn)	20	24	27	35
PAT (RM mn)	12	15	16	22
EBITDA margin (%)	25%	27%	28%	32%
Net margin (%)	15%	18%	17%	20%
EPS (RM)	0.06	0.06	0.06	0.08
P/E (x)	20.7	19.3	20.3	14.9
Dividend yield (%)	0.0	2.1	2.4	2.4
P/B (x)	3.2	2.8	2.0	2.0
ROE (%)	n/a	15.4	11.7	13.5
Net debt (cash)/equity (%)	-21.6	1.0	-23.4	-28.8

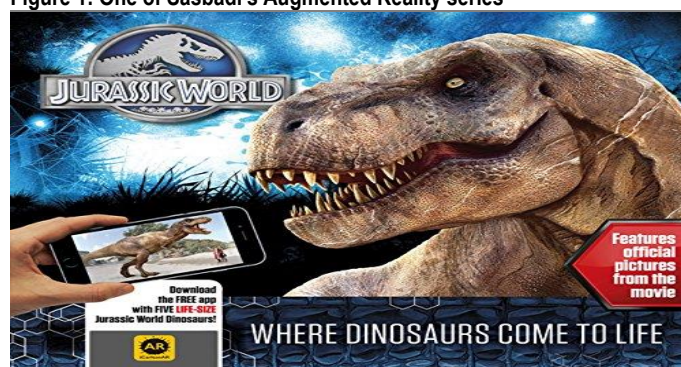
Source: Company data, Bloomberg estimates.

Back to school

Sasbadi is synonymous with school textbooks in Malaysia. The company prints National School Curriculum based textbooks for primary and secondary schools. It also produces supplementary educational materials (revision guides, workbooks, assessment books), general title books and has online publishing. According to management, conventional academic print contributes ~85% to sales, followed by ~7% applied learning and 5% digital. The remainder comprises publishing general title books, distribution of third-party publications and paper trading.

Education gone modern—turning point for digital learning

Recognising the gradual shift from traditional print to digital, Sasbadi has been creating digital educational solutions since 2011. Examples include: (1) "Interactive Bookmarks", app-based learning materials delivered in the form of interactive quiz games and tutorial videos; and (2) "Augmented Reality" which mixes real and virtual worlds so that readers can see, hear and interact with 3D animations that "pop out" of the books into the real environment.

Figure 1: One of Sasbadi's Augmented Reality series

Source: Company website.

The company is cognisant that awareness of its digital offerings is fairly muted (we only discovered their products upon visiting them). Thus, it has applied for a license to sell its digital/online learning under a multi-level marketing (MLM) structure and has obtained approvals in April 2016. With MLM in place, management expects 2017 to be a turning point for digital awareness as well as the group's revenue. Management indicates that MLM sales have grown seven-fold between June and September 2016. They expect a 40-45% gross profit margin.

Almost recession-proof business?

Since entering the publishing industry in 1981, Sasbadi claims to have been profitable every year. The government typically allocates about 20% of its annual budget to education expenditure (school textbooks, cash handouts for books, book vouchers etc.), which management expects to trickle down to companies like Sasbadi. It would also benefit from Malaysia's education blueprint (MEB) 2013-25, which aims to increase compulsory schooling from 6 to 11 years by 2020.

Consensus: FY17 EPS to grow 36%

Bloomberg consensus estimates a 5% EPS dip in FY16 before growing by a strong 36% in FY17. Management guided that higher resources have been used for the recent textbook tender participation in FY16. Essentially, the Ministry of Education decided to revise the curriculum for selected standards in primary and secondary schools to incorporate digital/multi-media elements and has thus called for new textbook tenders. According to management, Sasbadi won RM9.4 mn in total contracts. The cost involved in this tender process will be recognised in FY16 while a contribution would come through only upon delivery by year-end (Sasbadi has an August year-end).

The stock trades at 14.9x FY17 P/E, offering a 2.4% yield and is in a net cash position.

According to the company, key risks include fluctuations in paper cost, which makes up 40% of their COGS, any loss of contract revenue and failure to respond in a timely manner to changes in education policies.

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Companies Mentioned (Price as of 19-Oct-2016)

Sasbadi Holdings (SAHO.KL, RM1.18)

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