Sasbadi Holdings (BUY ←→; EPS ←→)

EDUCATION
NEWSBREAK

14 March 2017
Price Target: RM1.63 (←→)
Share price: RM1.54

Publishing Agreement for STPM and MUET

News/ Comments

- Sasbadi Sdn Bhd has entered into two Publishing Agreements with Majlis Peperiksaan Malaysia (MPM) in relation to the publishing, printing, distributing, marketing and sales of the collections of past year question papers for the Sijil Tinggi Persekolahan Malaysia ("STPM") examination and Malaysian University English Test ("MUET").
- MPM operates under the aegis of the Ministry of Education Malaysia and is the sole owner of the question papers for the STPM examination and MUET. Under the Publishing Agreements, MPM grants Sasbadi with exclusive licence for a period of three years to prepare, publish, print, distribute, market and sell past year question papers for STPM examination (Science and Social Science Streams) and MUET, as well as the analysis reports on the STPM examination and MUET for the examination years of 2017, 2018 and 2019.
- We are positive on the Publishing Agreement as it expands Sasbadi's offerings. We also deem the agreement to be synergistic with Sasbadi as the group also offers STPM syllabus through the group's purchase of Pearson's STPM titles which was rebranded under Malaysian Book Promotions, a subsidiary of Sasbadi. We expect positive top and bottom line contributions to kick in as soon as in 3QFY17 despite minimal quantum.
- We reiterate our positive outlook on Sasbadi as the company grows more solid through its fervent effort to cement its position as a sought-after educational publishing company, as well as an education and solutions provider for Lego Education robotics products and STEM education. Today marks the last day for submissions of textbook tendering under MoE and we look forward to the group's future earnings coming from the new syllabus for 2018. We believe the group is more prepared (compared to the previous year when a shorter response time was given) for the tendering for new syllabus. On top of that, we expect higher contribution from its online products via Mindtech education as it gains momentum.

Risks

- (1) Accelerated migration towards the online platform; (2) Spike in paper prices; (3) Changes in National Curriculum and educational policies; (4) Execution of its direct selling segment; and (5) Losing the textbook contract from MOE.

Forecasts

- Maintained with an upward bias, pending management meeting.

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.

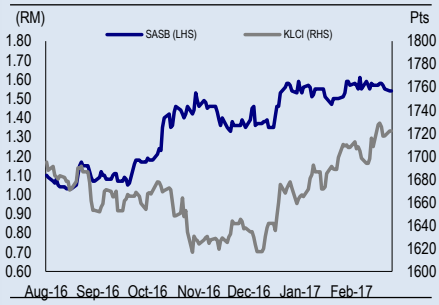
Valuation

- Reiterate **BUY** with unchanged TP of **RM1.63** (unchanged P/E multiple of 18x CY17 EPS) for now pending our meeting with management, with an upward bias.

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KLCI	1,721.9
Expected share price return	5.8%
Expected dividend return	2.7%
Expected total return	8.6%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	430
3-mth avg. volume ('000)	611
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	0.7	10.8	20.3
Relative	-0.1	5.7	18.8

Major shareholders

Law King Hui	18.3%
Karya Kencana	18.2%
Lee Swee Hang	8.5%
EPF	7.7%

Summary Earnings Table

FYE Aug (RM m)	2016A	2017E	2018F	2019F
Revenue	93.2	109.0	123.0	140.8
Pre-tax Profit	22.2	31.5	38.3	38.0
Rpt. PATAMI	16.8	23.6	28.5	29.1
Nom. PATAMI	16.8	23.6	28.5	29.1
Nom. EPS (sen)	6.0	8.5	10.2	10.4
Nom. P/E (x)	25.5	18.2	15.1	14.8
BV/share (RM)	0.5	0.6	0.7	0.8
P/BV (x)	2.9	2.5	2.2	1.9
Gross DPS (sen)	2.3	4.2	5.1	5.2
Div. yield (%)	1.5	2.7	3.3	3.4
ROE (%)	8.2	13.8	14.3	12.7
ROA (%)	6.3	10.7	11.3	10.2

HLIB

Figure #1 Regional Peers Comparison

Company	FYE	Price (Local)	Market Cap (m) (Local)	Market Cap (m) (USD)	P/E (x) 2017	P/E (x) 2018	P/B (x) 2017	P/B (x) 2018	ROE (%) 2017	ROE (%) 2018	Gross DY (%) 2017
Sasbadi	Aug	MYR 1.54	430.3	104.9	18.1	18.1	2.6	2.6	13.8	13.8	2.7
Pelangi Publishing	Sept	MYR 0.62	59.9	14.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR 2.20	1,061.9	259.0	20.6	17.5	5.8	5.1	28.8	30.7	3.1
SEG International	Dec	MYR 1.08	779.5	190.1	25.1	N/A	N/A	N/A	N/A	N/A	N/A
ASIAMET Education	Dec	MYR 0.15	61.0	14.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR 0.17	49.0	12.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average					**21.3**	**17.8**	**4.2**	**3.8**	**21.3**	**22.2**	**2.9**

HLIB, Bloomberg

Sasbadi Holdings (BUY; TP: RM1.63; CP: RM1.54)

Income Statement

FYE 31 Aug (RM m)	2015A	2016A	2017E	2018F	2019F
Revenue	88.0	93.2	109.0	123.0	140.8
EBITDA	24.4	26.7	38.4	45.8	45.6
D&A	2.9	3.9	5.8	6.6	7.0
EBIT	21.4	22.9	32.6	39.2	38.6
Interest income	(0.0)	(0.7)	(1.1)	(0.9)	(0.7)
Interest expense	(0.5)	(1.0)	(1.6)	(1.6)	(1.6)
JV & Associates	0.0	0.0	0.0	0.0	0.0
PBT	21.4	22.2	31.5	38.3	38.0
Income Tax Expense	(5.6)	(4.9)	(7.9)	(9.8)	(9.9)
Discontinued op.	0.0	0.0	0.0	0.0	1.0
NCI	(0.5)	(0.4)	0.0	0.0	0.0
PATAMI	**15.3**	**16.8**	**23.6**	**28.5**	**29.1**
Basic shares (m)	279.4	279.4	279.4	279.4	279.4
Basic EPS (sen)	5.5	6.0	8.5	10.2	10.4

Quarterly Financial Summary

FYE 31 Aug (RM m)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Revenue	21.0	33.9	22.4	15.9	31.2
GP	9.3	17.3	11.4	6.3	14.9
Other Income	0.0	0.0	0.3	4.5	0.2
Expenses	(5.8)	(8.1)	(6.0)	(6.4)	(8.4)
EBIT	3.5	9.3	5.7	4.4	6.8
Interest Income	0.0	0.1	0.2	0.1	0.1
Finance Costs	(0.3)	(0.3)	(0.2)	(0.3)	(0.4)
PBT	3.2	9.0	5.7	4.2	6.4
Tax	(0.9)	(2.4)	(1.6)	0.0	(1.6)
PATAMI	2.0	6.6	3.8	4.3	4.3
Basic EPS (sen)	1.6	5.0	1.4	1.6	1.6
Adj Basic EPS (sen)	1.6	5.0	1.4	0.0	1.6

Balance Sheet

FYE 31 Aug (RM m)	2015A	2016A	2017E	2018F	2019F
Fixed Assets	30.9	42.7	48.2	52.9	57.2
Other long-term assets	22.7	29.6	33.2	37.2	42.2
Other short-term assets	1.4	4.3	4.3	4.3	4.3
Working Capital	**64.0**	**79.3**	**91.1**	**102.9**	**117.7**
Receivables	40.4	49.2	57.6	65.0	74.4
Payables	(13.4)	(18.9)	(21.1)	(23.8)	(27.2)
Inventory	37.1	49.0	54.6	61.6	70.6
Net cash	**(1.1)**	**5.8**	**3.0**	**11.1**	**16.1**
Cash	8.3	25.8	23.1	31.2	36.1
Total Debt	(9.4)	(20.0)	(20.0)	(20.0)	(20.0)
Shareholders' funds	**105.2**	**147.8**	**171.4**	**200.0**	**229.1**
Share capital	63.5	69.9	69.9	69.9	69.9
Reserves	41.7	77.9	101.6	130.1	159.2
Minorities	5.1	5.5	0.0	0.0	0.0
Other liabilities	7.6	8.5	8.5	8.5	8.5

Rates and Ratios

FYE 31 Aug (RM m)	2015A	2016A	2017E	2018F	2019F
Basic EPS (sen)	5.5	6.0	8.5	10.2	10.4
P/E (x)	28.1	25.5	18.2	15.1	14.8
Gross DPS (sen)	5.0	2.3	4.2	5.1	5.2
Div. yield (%)	3.2	1.5	2.7	3.3	3.4
BV/share (RM)	0.4	0.5	0.6	0.7	0.8
P/B (x)	4.1	2.9	2.5	2.2	1.9
FCF/share (sen)	0.1	0.0	0.1	0.1	0.1
Net Debt/Equity (%)	(1.0)	3.8	1.8	5.6	7.0
Enterprise value	436.4	430.0	427.3	419.1	414.2
EV/EBITDA (x)	17.9	16.1	11.1	9.2	9.1
ROE (%)	13.9	8.2	13.8	14.3	12.7
ROA (%)	10.9	6.3	10.7	11.3	10.2

Cashflow Analysis

FYE 31 Aug (RM m)	2015A	2016A	2017E	2018F	2019F
EBITDA	24.4	26.7	38.4	45.8	45.6
WC changes	(20.7)	(11.8)	(11.8)	(11.7)	(14.9)
Taxation	(5.6)	(6.7)	(7.9)	(9.8)	(9.9)
Others	6.4	(6.5)	0.0	0.0	0.0
Operating cashflow	**4.5**	**1.6**	**18.7**	**24.3**	**20.9**
Capex & acquisitions	(20.5)	(14.9)	(15.3)	(15.3)	(15.3)
Free cashflow	**(16.0)**	**(13.3)**	**3.5**	**9.0**	**5.6**
Other inv cashflow	0.4	(0.0)	0.5	0.7	0.9
New borrowings	3.5	5.0	0.0	0.0	0.0
Share issuance	0.0	31.3	0.0	0.0	0.0
Dividends paid	(3.8)	(5.6)	0.0	0.0	0.0
Other fin cashflow	(0.5)	(0.2)	1.8	(1.6)	(1.6)
Net cashflow	**(16.4)**	**17.2**	**5.8**	**8.1**	**5.0**

Assumption Metrics

FYE 31 Aug (RM m)	2015A	2016A	2017E	2018F	2019F
Revenue growth (%)	10.6	6.0	16.9	12.9	14.5
EBITDA growth (%)	23.1	9.8	43.6	19.2	(0.3)
EBIT growth (%)	4.5	6.8	42.4	20.3	(1.5)
PBT growth (%)	6.1	3.7	41.9	21.6	(0.9)
EBITDA margin (%)	27.7	28.7	35.2	37.2	32.4
EBIT margin (%)	24.4	24.6	29.9	31.9	27.4
PBT margin (%)	24.3	23.8	28.9	31.1	27.0

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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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