

Company Guide

Sasbadi Holdings Berhad

Version 6 | Bloomberg: SASB MK | Reuters: SAHO.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

15 Sep 2017

BUY

Last Traded Price (14 Sep 2017): RM0.83 (KLCI : 1,781.37)
Price Target 12-mth: RM1.25 (51% upside) (Prev RM1.17)

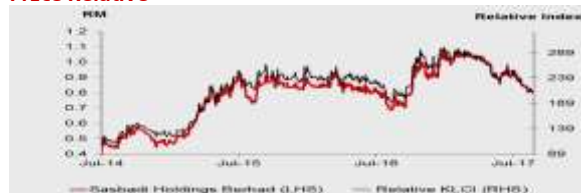
Analyst

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What's New

- Amid challenging FY17, earnings growth is expected to accelerate from FY18 onwards
- Cut earnings estimates by 7-28%. Implied FY18/FY19 core earnings growth of 50%/ 29%
- Valuation has become attractive with recent price correction
- High conviction BUY with RM1.25 TP

Price Relative



Forecasts and Valuation

FY Aug (RM m)	2016A	2017F	2018F	2019F
Revenue	92.7	109	129	148
EBITDA	22.1	28.1	38.7	48.0
Pre-tax Profit	22.2	23.4	34.1	43.4
Net Profit	16.7	16.4	24.6	31.8
Net Pft (Pre Ex.)	11.9	16.4	24.6	31.8
Net Pft Gth (Pre-ex) (%)	(22.6)	38.7	50.0	29.2
EPS (sen)	3.98	3.92	5.88	7.59
EPS Pre Ex. (sen)	2.83	3.92	5.88	7.59
EPS Gth Pre Ex (%)	(23)	39	50	29
Diluted EPS (sen)	3.98	3.92	5.88	7.59
Net DPS (sen)	1.50	1.96	2.94	3.80
BV Per Share (sen)	35.2	38.2	42.4	47.7
PE (X)	20.7	21.0	14.0	10.9
PE Pre Ex. (X)	29.2	21.0	14.0	10.9
P/Cash Flow (X)	206.5	42.3	25.7	16.4
EV/EBITDA (X)	15.6	12.7	9.3	7.5
Net Div Yield (%)	1.8	2.4	3.6	4.6
P/Book Value (X)	2.3	2.2	1.9	1.7
Net Debt/Equity (X)	CASH	0.0	0.0	0.0
ROAE (%)	13.2	10.7	14.6	16.9
Earnings Rev (%):		(28)	(13)	(7)
Consensus EPS (sen):		4.60	7.00	8.60
Other Broker Recs:		B: 4	S: 0	H: 0

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

In education we trust

Bookmark it for FY18! Sasbadi has become a high conviction BUY, given that (1) valuation has turned attractive after its relative share price underperformance, and, (2) we believe that earnings growth is poised to pick up in FY18 following management's recent actions in streamlining cost and enhancing its revenue growth trajectory.

Where we differ: Having a more positive stance than consensus. Our target price is higher than the consensus as we believe that market has underappreciated its medium term growth prospects following recent quarterly earnings disappointment. We also have a more aggressive valuation compared to the street.

Potential catalysts. Earnings accretive acquisition and stronger than expected contributions from its network marketing business. Management aims to embark on at least one earnings-accretive acquisition annually to further strengthen its dominant position in the publishing industry and drive income growth. Our revenue assumptions for its network marketing business are RM15m/RM20m for FY18/FY19, stronger than expected contribution could serve as a catalyst for the stock.

Valuation:

We are maintaining our BUY recommendation with a higher TP of RM1.25, upon (1) earnings revisions, and (2) rolling forward our valuation base to CY18, pegging to an unchanged PER of 19x. Our valuation is based on a 10% discount against its historical mean PER and implies a PEG of <1, which we believe is reasonable. With a potential 51% upside, Sasbadi is a high conviction BUY.

Key Risks to Our View:

Failure to respond timely to changes in education policies could hurt sales and earnings.

At A Glance

Issued Capital (m shrs)	419
Mkt. Cap (RMm/US\$m)	346 / 82.4
Major Shareholders (%)	
Law King Hui	18.3
Lee Swee Hang	8.5
Employees Provident Fund	5.8
Free Float (%)	62.8
3m Avg. Daily Val (US\$m)	0.09

ICB Industry : Consumer Services / Media

WHAT'S NEW

Bookmark this educator for FY18

FY17- sowing seeds for future growth. 9MFY17 has so far been an unexciting year for Sasbadi given that (1) although the group operates in a relatively resilient education sector, the weak consumer sentiments have dragged its top-line growth, and (2) operating expenses are expected to increase >15% y-o-y mainly due to start-up costs for its network marketing business, coupled with higher expenses consolidated due to its past few acquisitions such as United Publishing House Sdn Bhd and Distinct Motion Sdn Bhd.

9MFY17 earnings uninspiring. To recap, the group's 3QFY17 earnings dropped by 33% y-o-y to RM2.6m due to (1) 3.1% y-o-y reduction in 3QFY17 revenue, and (2) higher operating expenses mainly due to consolidation of the United Publishing Group's results and higher interest expenses.

This brings its 9MFY17 earnings to RM12.3m, representing a marginal y-o-y decline (-2%). It also accounts for only 60% of our full-year earnings forecast of RM21m, before revision.

Gap left in 3QFY17 too wide to close. Although management had tried to catch up with the earnings shortfall in the subsequent months, we believe that the gap is too wide to close as 4Q (end-August) is seasonally a weak quarter.

We expect the group to record a profit of RM2.1m in 4QFY17, compared to a core loss of -RM0.2m in 4QFY16. This will bring its FY17 full-year earnings to RM16.4m, implying 39% y-o-y growth in core earnings. Having said that, this is unlikely to lift investors' sentiment given street expectation of a much improved earnings trajectory from new acquisitions which have been hampered by higher operating costs while organic growth of existing print business has been weak.

Consolidating its operations to improve efficiency and cross selling. Management is aware of its slowing organic topline growth momentum and also higher cost base arising from its past acquisitions. As such, we understand that the group has actively engaged in streamlining its operations and cross leveraging its core brands to improve efficiency and cross selling.

Popping up its books. We also gather that management has intensified its efforts to boost top line by (1) bringing forward its publication timeline to provide its sales channels with ample time to market its products, (2) incorporate its digital technology into its academic publications to sharpen its competitive edge (as illustrated in Exhibit 1), (3) publishing pre-school titles, which is a new market segment that the group had minimal presence in the past, and, (4) expanding its market position in the non-academic segment by introducing more titles.

Exhibit 1: Extract of its marketing brochure to showcase its embedded digital technology on publications

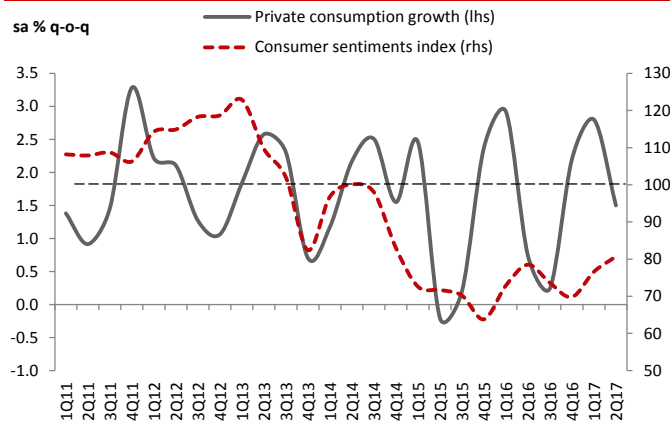


Source: Company

The recent signing of memorandum of understanding (MOU) between Sasbadi and Animasia Studio Sdn Bhd (the company that produces creative digital contents such as the animation TV series entitled 'Chuck Chicken') has illustrated that management is taking active steps to introduce new titles in the non-academic segment.

Based on the company's strategies mentioned above, coupled with the gradual recovery in consumer sentiments, we are comfortable that its conventional publication business will be back on a growth trajectory in FY18.

Exhibit 2 : Private consumption growth and CSI



Source: Department of Statistics, MIER

Network marketing business is taking shape. We wish to highlight that other than its organic growth from existing publishing business and earnings-accretive M&A, network marketing could serve as another key growth driver going forward. To recap, management believes that the potential of its digital products (currently contributing <10% of group revenue) remains underexplored and it has intensified efforts to monetise such products by: (1) expanding its product portfolio, and (2) improving its marketing strategy to enhance product recognition.

We understand that its membership has exceeded 8,000 since August, a significant jump from <6,000 members registered back in May. Our back-of-the-envelope calculation suggests that its monthly revenue could surge to about RM1m/ month with 8,000-9,000 members. This is a remarkable improvement from its ~RM500,000/month as shown in its 3Q (end-May) results. We have raised our revenue assumption for its network marketing business to RM15m/RM20m for FY18/FY19 (we previously assumed RM8m for FY18 and RM10m for FY19).

Cut forward earnings by 7- 28%. Despite our optimism with regards to the group's earnings prospects from FY18 onwards, we have cut our FY17/FY18/FY19 earnings by 28%/13%/7%, mainly to account for (1) uninspiring 9MFY17 earnings reported, and (2) higher cost base assumption as we anticipate a higher operating cost than previously assumed, notwithstanding management's effort to streamline its operations. Even with lower earnings estimates, our revised earnings imply that the group will register core earnings growth of 50%/29% in FY18/FY19.

Market has priced in recent earnings disappointment but ignore its medium-term growth prospects. The stock has yielded an unimpressive return of -10% on a year-to-date basis while its share price has slumped by >15% since the release of its 3QFY17 results.

The group is currently trading at a forward PER of 14x, which is below-1SD of its historical mean. At its current valuation, we believe that the market has priced in recent earnings disappointment but ignore its medium-term growth prospects from FY18 onwards.

Let's turn the page to a new and exciting chapter. BUY with RM1.25 TP. We are maintaining our BUY recommendation with a TP of RM1.25, upon (1) earnings revisions, and (2) rolling forward our valuation base to CY18, pegging to an unchanged PER of 19x. Our valuation is based on a 10% discount against its historical mean PER and implies a PEG of <1, which we believe is reasonable. With a potential 51% upside, Sasbadi is a high conviction BUY.

CRITICAL DATA POINTS TO WATCH

Critical Factors

Publishing business – bread and butter. As a dominant player in Malaysia's publishing industry, Sasbadi derives its income mainly from the publication of educational materials. The group focuses on National School Curriculum-based (NSC-based) educational materials for primary and secondary education. Over the past 30 years, the group has published millions of books (>11,000 titles) and has >1,300 distribution points in Malaysia.

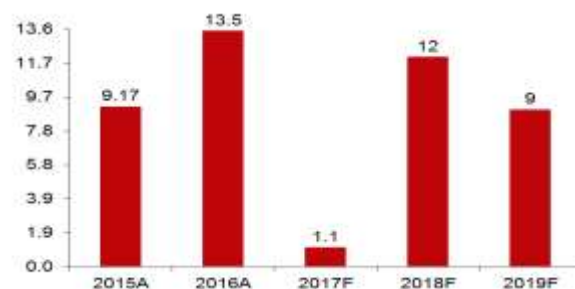
M&A to strengthen its position. In the domestic educational publishing industry, the top three players command less than 25% market share. To further strengthen its dominant position in the publishing industry and drive income growth, management aims to embark on at least one earnings-accretive acquisition annually.

Applied and online learning products. Sasbadi is also involved in the distribution of applied learning products (since 2005) and online publishing (since 2011), which contributed <15% of FY16 revenue. We expect the contributions from online products to improve going forward with: (1) the launch of the i-LEARN offline platform, and (2) the licence and services agreement (LSA) with one of Indonesia's largest book publishers, PT Penerbit Erlangga. This would grant the publisher an exclusive and non-transferable licence to use its interactive online learning system i-LEARN, and sell the latter's online learning materials under its platform in Indonesia. In return, Sasbadi would receive semi-annual royalty fees based on net sales generated through the online platform in Indonesia.

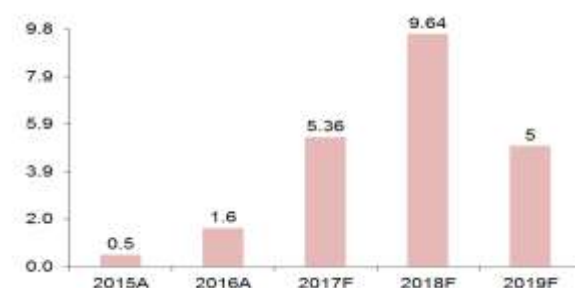
Network marketing business could be another growth driver. We understand that since obtaining the network marketing licence in May 2016, management has been actively engaged in building up membership for the business.

We gather that the group has so far recruited >8,000 members and significant contributions will start to kick in from FY18 onwards. We are positive on the group engaging in such marketing strategies as we believe that the general market remains unfamiliar with its digital products and a more personalised marketing strategy could achieve better recognition and appreciation of such products by consumers.

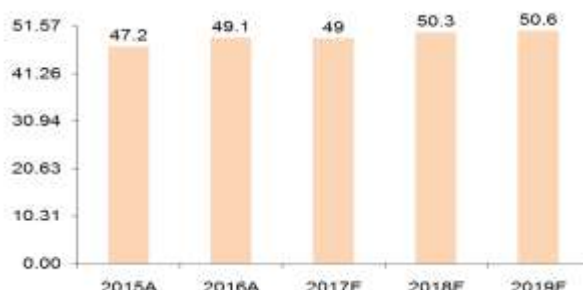
Organic topline growth for print publishing business (%)



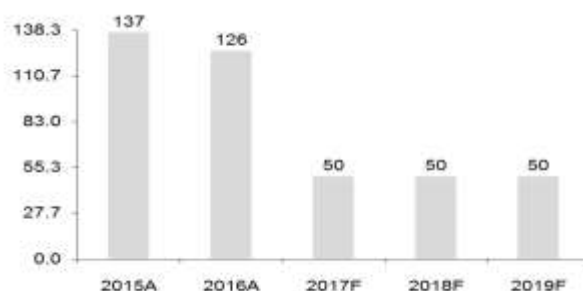
Incremental revenue from network marketing & digital products (RM m)



GP margin (%)

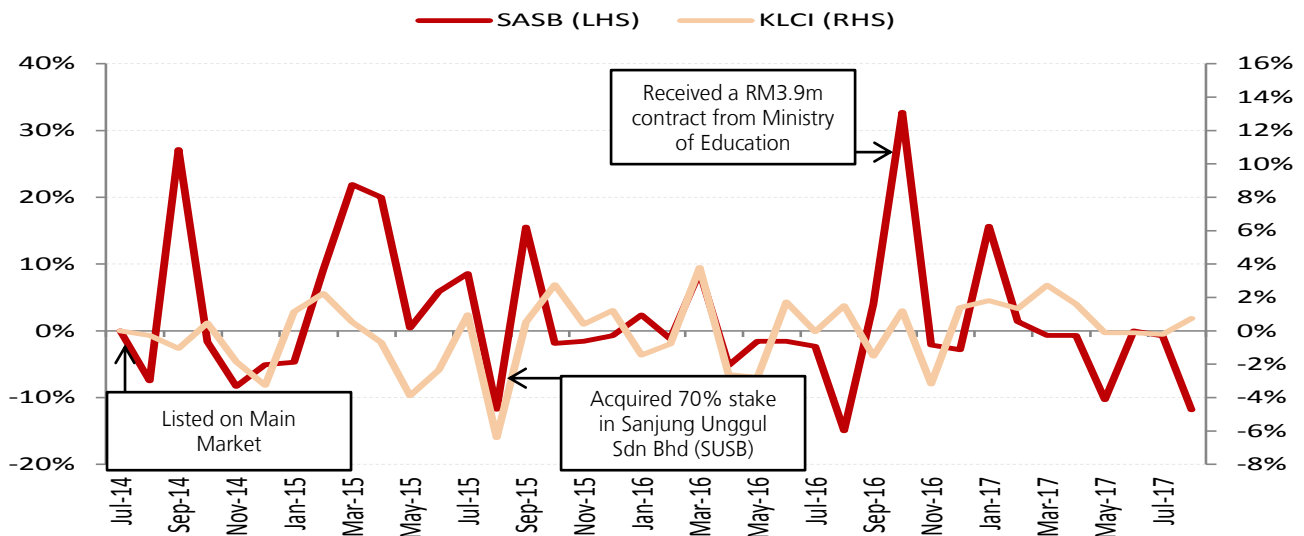


Dividend payout ratio (%)



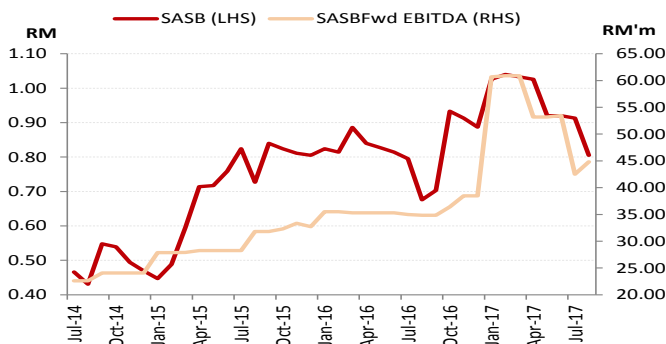
Source: Company, AllianceDBS

Appendix 1: Sasbadi's share price vs FBM KLCI



Source: Company, Bloomberg L.P., AllianceDBS

Sasbadi's share price vs forward EBITDA

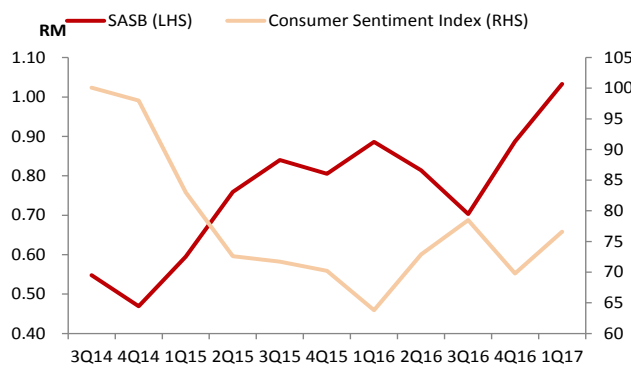


Source: Company, Bloomberg L.P., AllianceDBS

Remarks

The group's share price performance is closely correlated to its forward EBITDA (correlation coefficient of ~ 0.8). As such, registering strong earnings growth through (1) expanding its publication business, (2) growing its network marketing business, and (3) earnings accretive M&A activities, serve as key re-rating catalyst for the group.

Sasbadi's share price vs Consumer sentiment index



Source: Company, Bloomberg L.P., AllianceDBS

Remarks

Although the group is view as a consumer stock, its share price has no apparent correlation with the consumer sentiment index as we believe that it is operating in a relative resilient publication sector. Nonetheless, we do acknowledge that weak consumer sentiments could drag the growth rate of its print publication business. We only expect 1% growth for FY17 (end August) due to weak consumer sentiments.

Balance Sheet:

Healthy balance sheet. Sasbadi was in a net debt position with modest net gearing position of 0.1x as at May 2017. We are comfortable with its low gearing position. Nonetheless, we do not discount the possibility that the group may engage in capital-raising exercises should it undertake a sizeable acquisition in the future.

Share Price Drivers:

Proxy to defensive education industry. Sasbadi is a good proxy to Malaysia's education industry, given that it is principally involved in the provision of educational materials for primary and secondary education. As such, any government policy change to the educational sector may influence its share price.

Earnings delivery and earnings-accretive acquisitions. Sasbadi's share price will also be largely dependent on its earnings delivery and the group's ability to engage in earnings-accretive acquisitions.

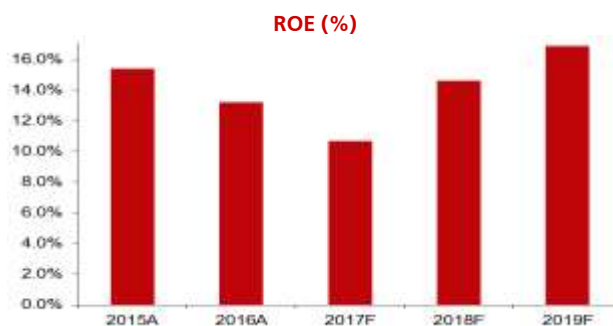
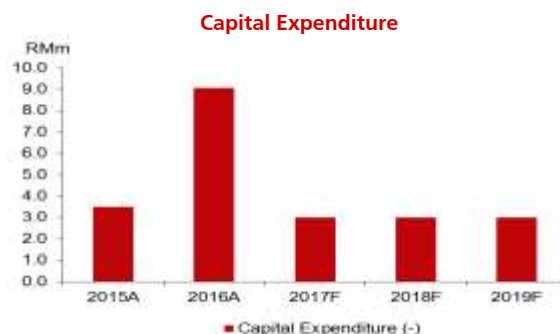
Key Risks:

Paper cost fluctuations. A sudden surge in paper cost, which represents about 40% of Sasbadi's cost of goods sold, would hurt earnings.

Changes in education policies. Failure to respond to changes in education policies in a timely manner would hurt sales and earnings.

Company Background

Sasbadi is a market leader in the local educational publishing industry with c.12% market share. The group is well managed and enjoys high ROE and superior profitability, thanks to its lean operating structure and complementary business models.



Source: Company, AllianceDBS

Key Assumptions

FY Aug	2015A	2016A	2017F	2018F	2019F
Organic topline growth for print publishing business (%)	9.17	13.5	1.10	12.0	9.00
Incremental revenue from network marketing & digital products (RM m)	0.50	1.60	5.36	9.64	5.00
GP margin (%)	47.2	49.1	49.0	50.3	50.6
Dividend payout ratio (%)	137	126	50.0	50.0	50.0

Income Statement (RMm)

FY Aug	2015A	2016A	2017F	2018F	2019F
Revenue	88.0	92.7	109	129	148
Cost of Goods Sold	(46.5)	(47.2)	(55.4)	(64.2)	(73.4)
Gross Profit	41.5	45.5	53.2	65.0	75.0
Other Opng (Exp)/Inc	(20.0)	(27.5)	(29.2)	(30.3)	(31.0)
Operating Profit	21.5	18.0	24.0	34.7	44.0
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.1)	(0.6)	(0.6)	(0.6)	(0.6)
Exceptional Gain/(Loss)	0.0	4.85	0.0	0.0	0.0
Pre-tax Profit	21.4	22.2	23.4	34.1	43.4
Tax	(5.6)	(5.1)	(6.0)	(8.4)	(10.6)
Minority Interest	(0.5)	(0.4)	(1.0)	(1.0)	(1.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	15.3	16.7	16.4	24.6	31.8
Net Profit before Except.	15.3	11.9	16.4	24.6	31.8
EBITDA	24.4	22.1	28.1	38.7	48.0
Growth					
Revenue Gth (%)	10.7	5.3	17.2	18.9	14.9
EBITDA Gth (%)	23.4	(9.5)	27.0	37.8	24.0
Opg Profit Gth (%)	25.1	(16.3)	33.3	44.4	26.9
Net Profit Gth (Pre-ex) (%)	24.9	(22.6)	38.7	50.0	29.2
Margins & Ratio					
Gross Margins (%)	47.2	49.1	49.0	50.3	50.6
Opg Profit Margin (%)	24.4	19.4	22.1	26.8	29.7
Net Profit Margin (%)	17.4	18.0	15.1	19.1	21.4
ROAE (%)	15.4	13.2	10.7	14.6	16.9
ROA (%)	12.0	9.7	7.8	10.8	12.6
ROCE (%)	13.8	9.0	9.7	13.3	15.3
Div Payout Ratio (%)	41.5	37.6	50.0	50.0	50.0
Net Interest Cover (x)	215.0	29.0	39.5	58.4	74.1

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Aug	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	22.4	15.9	31.2	27.2	21.7
Cost of Goods Sold	(11.0)	(9.6)	(16.3)	(10.2)	(11.4)
Gross Profit	11.4	6.26	14.9	17.0	10.3
Other Oper. (Exp)/Inc	(6.2)	(6.2)	(8.2)	(9.4)	(6.4)
Operating Profit	5.20	0.05	6.76	7.52	3.90
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.0	(0.2)	(0.4)	(0.4)	(0.5)
Exceptional Gain/(Loss)	0.50	4.32	0.0	0.0	0.0
Pre-tax Profit	5.70	4.22	6.38	7.08	3.45
Tax	(1.6)	0.02	(1.6)	(1.9)	(0.8)
Minority Interest	(0.2)	(0.1)	(0.4)	0.18	(0.1)
Net Profit	3.90	4.13	4.35	5.37	2.60
Net profit bef Except.	3.40	(0.2)	4.35	5.37	2.60
EBITDA	8.00	1.03	7.94	8.65	5.00

Growth

Revenue Gth (%)	(33.9)	(29.0)	96.3	(12.9)	(20.1)
EBITDA Gth (%)	(28.6)	(87.2)	671.9	8.9	(42.2)
Opg Profit Gth (%)	(44.1)	(99.1)	13,985.4	11.2	(48.1)
Net Profit Gth (Pre-ex) (%)	(49.3)	(105.3)	2,503.9	23.4	(51.6)

Margins

Gross Margins (%)	50.9	39.4	47.8	62.4	47.5
Opg Profit Margins (%)	23.2	0.3	21.7	27.7	18.0
Net Profit Margins (%)	17.4	26.0	13.9	19.8	12.0

Balance Sheet (RMm)

FY Aug	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	30.9	45.2	45.7	46.1	46.6
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	22.7	29.1	29.2	27.8	26.4
Cash & ST Invt	8.34	25.9	13.7	11.8	14.0
Inventory	37.1	47.9	56.2	65.1	74.5
Debtors	40.4	51.7	60.6	72.0	82.8
Other Current Assets	1.36	5.14	10.8	15.3	21.4
Total Assets	141	205	216	238	266
ST Debt	9.30	10.5	10.0	10.0	10.0
Creditor	13.4	22.4	26.2	30.4	34.8
Other Current Liab	1.60	2.00	2.11	2.11	2.11
LT Debt	0.10	9.52	9.52	9.52	9.52
Other LT Liabilities	6.10	7.43	2.00	2.00	2.00
Shareholder's Equity	105	148	160	178	200
Minority Interests	5.10	5.47	6.10	6.47	7.10
Total Cap. & Liab.	141	205	216	238	266
Non-Cash Wkg. Capital	63.9	80.4	99.3	120	142
Net Cash/(Debt)	(1.1)	5.85	(5.8)	(7.7)	(5.6)
Debtors Turn (avg days)	148.3	181.3	188.6	187.4	190.3
Creditors Turn (avg days)	89.6	151.5	172.8	171.8	171.3
Inventory Turn (avg days)	239.8	360.0	370.1	368.0	367.0
Asset Turnover (x)	0.7	0.5	0.5	0.6	0.6
Current Ratio (x)	3.6	3.7	3.7	3.9	4.1
Quick Ratio (x)	2.0	2.2	1.9	2.0	2.1
Net Debt/Equity (X)	0.0	CASH	0.0	0.0	0.0
Net Debt/Equity ex MI (X)	0.0	CASH	0.0	0.0	0.0
Capex to Debt (%)	37.2	45.2	15.4	15.4	15.4
Z-Score (X)	6.6	4.4	4.6	4.5	4.5

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Aug	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	21.4	22.2	23.4	34.1	43.4
Dep. & Amort.	2.90	4.09	4.06	4.00	3.95
Tax Paid	(5.9)	(6.7)	(6.0)	(8.4)	(10.6)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(15.4)	(12.0)	(13.3)	(16.2)	(15.7)
Other Operating CF	1.60	(5.9)	0.0	0.0	0.0
Net Operating CF	4.58	1.67	8.18	13.4	21.1
Capital Exp.(net)	(3.5)	(9.1)	(3.0)	(3.0)	(3.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(18.6)	(6.2)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.10	0.31	0.0	0.0	0.0
Net Investing CF	(22.0)	(14.9)	(3.0)	(3.0)	(3.0)
Div Paid	(3.8)	(5.6)	(8.2)	(12.3)	(15.9)
Chg in Gross Debt	0.90	5.13	(0.5)	0.0	0.0
Capital Issues	0.0	31.6	0.0	0.0	0.0
Other Financing CF	(0.2)	(0.7)	0.0	0.0	0.0
Net Financing CF	(3.1)	30.5	(8.7)	(12.3)	(15.9)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(20.5)	17.3	(3.6)	(1.9)	2.14
Opg CFPS (sen)	4.77	3.27	5.13	7.07	8.77
Free CFPS (sen)	0.26	(1.8)	1.23	2.49	4.31

Source: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Nov 16	0.90	1.05	BUY
2:	13 Dec 16	0.91	1.05	BUY
3:	25 Jan 17	1.01	1.17	BUY
4:	22 Mar 17	1.04	1.17	BUY

Source: AllianceDBS

Analyst: King Yoong CHEAH

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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