

# Company Focus

## Sasbadi Holdings Berhad

Bloomberg: SASB MK | Reuters: SAHO.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

15 Jan 2015

**BUY RM1.39** KLCI : 1,742.01

Price Target : 12-Month RM 2.25

Reason for Report : Company visit

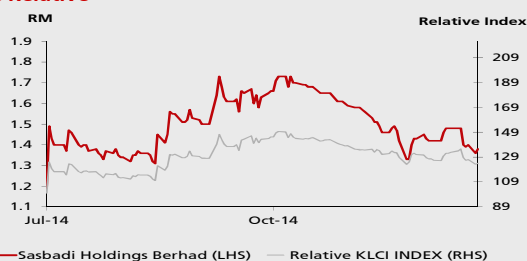
Potential Catalyst: Value accretive acquisition

AllianceDBS vs Consensus: In line with consensus

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Aug (RM m)	2014F	2015F	2016F	2017F
Revenue	76	87	98	111
EBITDA	23	27	33	39
Pre-tax Profit	16	24	30	36
Net Profit	11	18	22	27
Net Pft (Pre Ex.)	15	18	22	27
EPS (sen)	9.1	13.9	17.3	21.0
EPS Pre Ex. (sen)	11.7	13.9	17.3	21.0
EPS Gth (%)	(10)	54	24	22
EPS Gth Pre Ex (%)	16	19	24	22
Diluted EPS (sen)	11.7	13.9	17.3	21.0
Net DPS (sen)	0.0	7.0	8.6	10.5
BV Per Share (sen)	73.0	80.0	88.6	99.1
PE (X)	15.4	10.0	8.0	6.6
PE Pre Ex. (X)	11.9	10.0	8.0	6.6
P/Cash Flow (X)	14.1	11.1	8.4	7.0
EV/EBITDA (X)	6.2	5.5	4.5	3.5
Net Div Yield (%)	0.0	5.0	6.2	7.6
P/Book Value (X)	1.9	1.7	1.6	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	12.4	17.4	20.5	22.4
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		14.0	16.5	21.0
Other Broker Recs:		B: 3	S: 0	H: 0

ICB Industry : Consumer Services

ICB Sector: Media

Principal Business: Educational book publisher

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

## Still in the good books

- Expect 1QFY15 results to be seasonably weak
- Yet, still on track to meet our FY15 earnings target with new products and potential M&A
- Reiterate BUY with an unchanged TP of RM2.25

**Actively rolling out new products.** We understand that the group will roll out about 1,300 titles this year compared with 1,150 titles last year, with new products (1) to capitalise on the revised examination format with the rolling out of Pentaksiran Tingkatan 3 (PT3) or Form 3 Assessment since 2014, to replace Penilaian Menengah Rendah (PMR) or Lower Secondary Assessment, and, (2) to introduce more concise yet comprehensive revision books to cater for increased popularity of such publications to students.

**Learning centre to commence operations.** The new applied learning centre, which focuses on science, mathematics and technology by using robotics and children educational development products, is expected to commence operations by 1H2015 in Kota Damansara. We are optimistic on this expansion strategy in view of rising demand for such sophisticated educational products/services in Malaysia. Besides that, we believe that such a venture serves as a strong platform for the group to tap into government spending on strengthening early childhood education. To recap, the government has allocated RM530m for preschool programmes in 2014.

**1QFY15 results seasonally weak, full year's on track.** The group is poised to announce its 1QFY15 results at end-January. We believe that the quarterly results will be unexciting, given that Sept-Nov period serves as the weakest quarter for the group. We are optimistic that the group is on track to meet our FY15 earnings target, supported by additional new products rolled out, coupled with potential value accretive acquisitions.

**Reiterate BUY with RM2.25 TP.** We reiterate our BUY rating on Sasbadi, based on a DCF-derived TP of RM2.25. The stock is trading at an undemanding valuation (10x/8x/6.6x of FY15-FY17 EPS). Yield is decent at 5% for FY15.

### At A Glance

Issued Capital (m shrs)	127
Mkt. Cap (RMm/US\$m)	177 / 49.0
Major Shareholders	
Law King Hui (%)	30.0
Lee Swee Hang (%)	15.0
Lee Eng Sang (%)	10.0
Free Float (%)	45.0
Avg. Daily Vol.('000)	224

## INVESTMENT THESIS

Profile	Rationale
<p>Sasbadi Holdings (Sasbadi) is a leading print publisher founded by three entrepreneurs with combined industry experience of more than 100 years. Since its inception in 1985, the group has been a dominant industry player, focusing on the primary and secondary National School Curriculum-based (NSC-based) educational materials. Today, the group's operations include applied learning products and online publishing which contributed 5% and 2% of FY14 revenue respectively.</p>	<p><b>M&amp;A-led earnings expansion</b></p> <ul style="list-style-type: none"> <li>3-year earnings CAGR (FY15-FY17) is expected to be strong at 22%, driven by strong organic growth and earnings accretive M&amp;A initiatives in the fragmented educational print publishing industry.</li> </ul> <p><b>Star in the making</b></p> <ul style="list-style-type: none"> <li>Diversifying into educational services industry via the establishment of applied learning centres will transform the group into a more diversified educational group, which could re-rate its share price over the long term.</li> </ul> <p><b>Bright structural trend</b></p> <ul style="list-style-type: none"> <li>Riding on the structural trend of (1) increasing awareness of human resource development as Malaysians march towards high-income nation status by 2020, (2) increased demand for sophisticated educational services &amp; products by middle-income parents, and (3) rising school enrolment rates under MEB 2013-2025.</li> </ul> <p><b>Compelling valuation</b></p> <ul style="list-style-type: none"> <li>Valuation is undemanding while yields are attractive based on 50% payout ratio.</li> </ul>
Valuation	Risks
<p>Given the lack of quality comparable peers in the educational print publishing industry, we value Sasbadi using the DCF-metric with the following key assumptions of (1) 9.5% cost of equity, and (2) 1% terminal growth. This metric is appropriate for Sasbadi due to (1) the resilient education industry, and (2) strong cash flow generation as print publishing is an asset-light and low capex business. We derive a target price of RM2.25 for Sasbadi and have a BUY rating.</p>	<p><b>Paper cost fluctuation</b></p> <ul style="list-style-type: none"> <li>A sudden surge in paper cost which represents 38% of Sasbadi's COGS.</li> </ul> <p><b>Change of education policies</b></p> <ul style="list-style-type: none"> <li>Failure to respond timely to changes in education policies.</li> </ul> <p><b>Loss of contract revenues</b></p> <ul style="list-style-type: none"> <li>Loss of contract revenues.</li> </ul>

Source: AllianceDBS

### Key Assumptions

FY Aug	2013A	2014F	2015F	2016F	2017F
Incremental print publishing	9.7	1.2	9.7	10.3	11.8
Organic (excl. past year exam)	11.2	5.1	3.3	3.8	4.3
Past year exam paper	(1.5)	(13.8)	0.0	0.0	0.0
M&A revenue	0.0	10.0	6.4	6.6	7.5

### Segmental Breakdown

FY Aug	2013A	2014F	2015F	2016F	2017F
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#### Revenues (RM m)

Print Publishing	64	66	75	86	97
Online publishing	6	2	2	2	3
Applied learning products	4	5	6	7	7
Others	4	4	4	4	4
<b>Total</b>	<b>78</b>	<b>76</b>	<b>87</b>	<b>98</b>	<b>111</b>

#### Gross Profit (RM m)

Print Publishing	27	33	36	42	48
Online publishing	4	1	1	1	2
Applied learning products	2	3	3	3	4
<b>Total</b>	<b>32</b>	<b>37</b>	<b>41</b>	<b>47</b>	<b>53</b>

#### Gross Margins (%)

Print Publishing	41.6	49.7	48.0	48.5	49.0
Online publishing	61.4	55.0	56.7	58.3	60.1
Applied learning products	39.2	50.0	50.0	50.0	50.0
Others	4.3	5.0	5.0	5.0	5.0
<b>Total</b>	<b>41.2</b>	<b>47.8</b>	<b>46.6</b>	<b>47.3</b>	<b>47.9</b>

### Income Statement (RM m)

FY Aug	2013A	2014F	2015F	2016F	2017F
Revenue	78	76	87	98	111
Cost of Goods Sold	(46)	(40)	(46)	(52)	(58)
<b>Gross Profit</b>	<b>32</b>	<b>37</b>	<b>41</b>	<b>47</b>	<b>53</b>
Other Opng (Exp)/Inc	(15)	(16)	(17)	(17)	(18)
<b>Operating Profit</b>	<b>18</b>	<b>20</b>	<b>24</b>	<b>29</b>	<b>35</b>
<b>Pre-tax Profit</b>	<b>18</b>	<b>16</b>	<b>24</b>	<b>30</b>	<b>36</b>
Tax	(5)	(4)	(7)	(8)	(9)
<b>Net Profit</b>	<b>13</b>	<b>11</b>	<b>18</b>	<b>22</b>	<b>27</b>
Net Profit before Except.	13	16	18	22	27
EBITDA	19	23	27	33	39

#### Growth

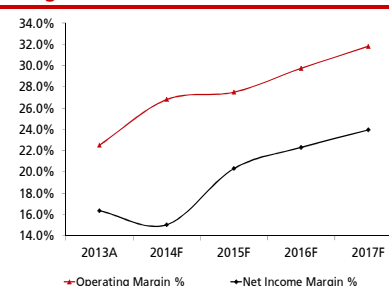
Revenue Gth (%)	20.3	(2.0)	13.9	13.0	13.2
EBITDA Gth (%)	22.1	17.4	16.7	22.3	19.3
Opg Profit Gth (%)	22.5	16.7	16.8	22.3	21.1
Net Profit Gth (%)	17.1	(9.8)	53.9	24.1	21.6

#### Margins & Ratio

Gross Margins (%)	41.2	47.8	46.6	47.3	47.9
Opg Profit Margin (%)	22.5	26.8	27.5	29.7	31.8
Net Profit Margin (%)	16.4	15.0	20.3	22.3	24.0
ROAE (%)	22.1	12.4	17.4	20.5	22.4
ROA (%)	16.5	11.1	15.6	18.4	20.2
ROCE (%)	20.4	15.2	16.5	19.5	21.4
Div Payout Ratio (%)	126.4	73.9	50.0	50.0	50.0

Source: Company, AllianceDBS

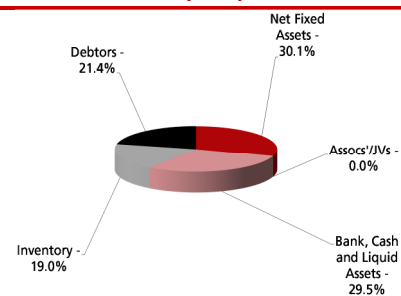
### Margins Trend



**Balance Sheet (RM m)**

<b>FY Aug</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Net Fixed Assets	28	27	30	32	31
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	0	5	11	14	13
Cash & ST Invt	12	35	30	31	42
Inventory	15	16	19	21	24
Debtors	19	19	21	24	27
Other Current Assets	3	2	2	2	2
<b>Total Assets</b>	<b>77</b>	<b>104</b>	<b>114</b>	<b>125</b>	<b>139</b>
Creditor	2	2	2	2	2
Other Current Liab	6	5	6	6	7
Other LT Liabilities	4	4	4	4	4
Shareholder's Equity	65	93	102	113	126
<b>Total Cap. &amp; Liab.</b>	<b>77</b>	<b>104</b>	<b>114</b>	<b>125</b>	<b>139</b>
Non-Cash Wkg. Capital	29	30	35	39	44
Net Cash/(Debt)	11	34	29	31	42
Debtors Turn (avg days)	74.0	90.7	84.5	84.8	84.8
Creditors Turn (avg days)	16.6	17.7	14.8	15.2	15.1
Inventory Turn (avg days)	151.8	152.8	148.2	152.2	151.2
Asset Turnover (x)	1.0	0.8	0.8	0.8	0.8
Current Ratio (x)	6.1	10.7	9.5	9.4	10.4
Quick Ratio (x)	3.9	7.9	6.7	6.6	7.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	246.9	2,188.6	4,040.4	2,862.0	336.7
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

Source: Company, AllianceDBS

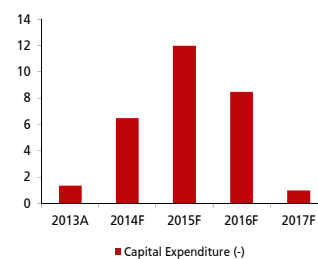
**Asset Breakdown (2015)**

### Cash Flow Statement (RM m)

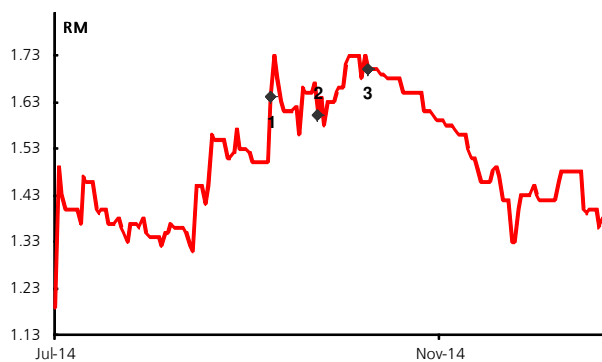
FY Aug	2013A	2014F	2015F	2016F	2017F
Pre-Tax Profit	18	16	24	30	36
Dep. & Amort.	2	2	3	3	4
Tax Paid	(4)	(4)	(7)	(8)	(9)
Chg in Wkg.Cap.	0	(1)	(5)	(4)	(5)
Other Operating CF	2	0	0	0	0
<b>Net Operating CF</b>	<b>17</b>	<b>13</b>	<b>16</b>	<b>21</b>	<b>25</b>
Capital Exp.(net)	(1)	(7)	(12)	(9)	(1)
<b>Net Investing CF</b>	<b>(1)</b>	<b>(7)</b>	<b>(12)</b>	<b>(9)</b>	<b>(1)</b>
Div Paid	(16)	(9)	(9)	(11)	(13)
Capital Issues	0	25	0	0	0
<b>Net Financing CF</b>	<b>(16)</b>	<b>16</b>	<b>(9)</b>	<b>(11)</b>	<b>(13)</b>
Chg in Cash	0	23	(5)	1	11
Opg CFPS (sen)	13.5	10.9	16.1	20.0	23.8
Free CFPS (sen)	12.4	4.8	3.1	9.8	19.0

Source: Company, AllianceDBS

### Capital Expenditure



### Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	29 Sep 14	1.64	2.25	Buy
2:	14 Oct 14	1.60	2.25	Buy
3:	30 Oct 14	1.70	2.25	Buy

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

Source: AllianceDBS

## DISCLOSURE

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### 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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Wong Ming Tek, Executive Director

Published and Printed by  
**AllianceDBS Research Sdn Bhd** (128540 U)  
(formerly known as HWANGDBS Vickers Research Sdn Bhd)  
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