

Malaysia Company Focus

Sasbadi Holdings Berhad

Bloomberg: SASB MK | Reuters: SAHO.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Mar 2015

BUY RM1.72 KLCI : 1,809.13

Price Target : 12-Month RM 2.25

Reason for Report : Company update

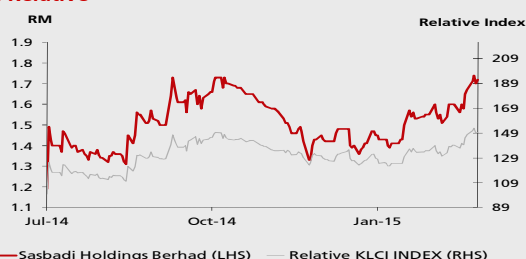
Potential Catalyst: Earnings accretive M&A

AllianceDBS vs Consensus: In line with consensus

Analyst

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Price Relative



Forecasts and Valuation

FY Aug (RM m)	2014A	2015F	2016F	2017F
Revenue	79	87	100	114
EBITDA	23	27	33	40
Pre-tax Profit	17	24	30	37
Net Profit	12	18	22	27
Net Pft (Pre Ex.)	15	18	22	27
EPS (sen)	9.6	13.8	17.5	21.6
EPS Pre Ex. (sen)	12.2	13.8	17.5	21.6
EPS Gth (%)	(4)	43	27	23
EPS Gth Pre Ex (%)	21	14	27	23
Diluted EPS (sen)	12.2	13.8	17.5	21.6
Net DPS (sen)	0.0	6.9	8.8	10.8
BV Per Share (sen)	73.8	80.7	89.5	100.3
PE (X)	17.8	12.4	9.8	8.0
PE Pre Ex. (X)	14.1	12.4	9.8	8.0
P/Cash Flow (X)	170.0	7.6	10.4	8.5
EV/EBITDA (X)	8.6	7.0	5.6	4.4
Net Div Yield (%)	0.0	4.0	5.1	6.3
P/Book Value (X)	2.3	2.1	1.9	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.1	17.1	20.6	22.8

Earnings Rev (%)

Consensus EPS (sen):	13.0	16.5	22.0
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.

Good book to keep

- Continuous product innovation should sustain Sasbadi's long term earnings prospects
- Despite seasonally weak 1Q, we expect the group to meet full year earnings target
- Maintain BUY with RM2.25 TP

Continuous innovation. We visited Sasbadi recently where management showcased their new products such as interactive bookmarks, and electronic tablets preloaded with 93 book titles designed for teacher training programs as illustrated in figure 1. Although we do not expect these new products to contribute significantly to Sasbadi in the immediate term, we take comfort that continuous product innovation undertaken by the group will help to improve its competitive edge and sustain its longer term growth prospects.

On track to meet our full year earnings target.

Sasbadi's quarterly earnings are impacted by seasonality depending on the start of the school season. We understand that for FYAug15, 2Q (Dec to Feb) is expected to be the strongest quarter for the group driven by the start of new school year for primary and secondary studies up to Form 5. The acquisition of Pearson's publishing rights and production files (IPs) in 2013 has enabled the group to strengthen its position in the publication of upper and post-secondary national school curriculum-based educational materials. As such, 3Q (March to May) is expected to be its second strongest quarter due to schools reopening in May for Form 6 students. Therefore, even though 1Q15 earnings of RM1.6m accounted for only 9% of our full year estimate, we deem its quarterly results within expectations since this is a seasonally weak quarter for the group.

Maintain BUY, RM2.25 TP. We reiterate our BUY rating on Sasbadi, with DCF-derived TP of RM2.25. The stock is trading at undemanding valuations (12.4x/9.8x/8.0x FY15-FY17F EPS). Yield is decent at 4% for FY15.

At A Glance

Issued Capital (m shrs)	127
Mkt. Cap (RMm/US\$m)	218 / 59.3
Major Shareholders	
Law King Hui (%)	30.4
Lee Swee Hang (%)	15.0
Lee Eng Sang (%)	10.0
Free Float (%)	45.0
Avg. Daily Vol.('000)	199

INVESTMENT THESIS

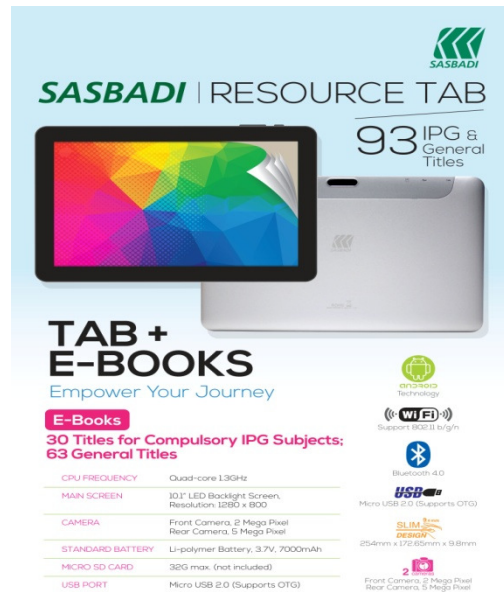
Profile	Rationale
Sasbadi Holdings (Sasbadi) is a market leader in the local educational publishing industry with c.9% market share. The group is well managed with high ROE and superior profitability, thanks to its lean operating structure and complementary business model.	<p>M&A-led earnings expansion</p> <ul style="list-style-type: none"> 3-year earnings CAGR (FY15-FY17) is expected to be strong at 22%, driven by strong organic growth and earnings accretive M&A initiatives in the fragmented educational print publishing industry. <p>Star in the making</p> <ul style="list-style-type: none"> 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. <p>Bright structural trend</p> <ul style="list-style-type: none"> 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 & products by middle-income parents, and (3) rising school enrolment rates under MEB 2013-2025. <p>Compelling valuation</p> <ul style="list-style-type: none"> Valuation is undemanding while yields are attractive based on 50% payout ratio.
Valuation	Risks
Reiterate BUY with RM2.25 TP. We reiterate our BUY rating on Sasbadi, based on DCF-derived TP of RM2.25.	<p>Paper cost fluctuation</p> <ul style="list-style-type: none"> A sudden surge in paper cost which represents 38% of Sasbadi's COGS. <p>Change of education policies</p> <ul style="list-style-type: none"> Failure to respond timely to changes in education policies.

Source: AllianceDBS

Figure 1: Examples of new products: Interactive Bookmark and Teacher training tablet



Source: Company



Segmental Breakdown

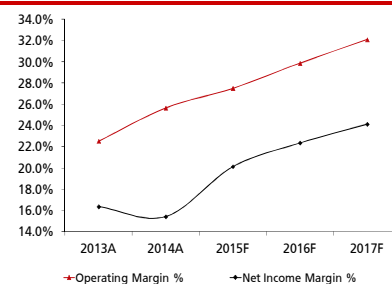
FY Aug	2013A	2014A	2015F	2016F	2017F
Revenues (RM m)					
Print Publishing	64	66	75	87	100
Online publishing	6	2	2	2	3
Applied learning products	4	5	6	7	7
Others	4	7	4	4	4
Total	78	79	87	100	114
Operating Profit (RM m)					
Print Publishing	27	33	36	42	49
Online publishing	4	1	1	1	2
Applied learning products	2	3	3	3	4
Others	0	0	0	0	0
Total	32	37	40	47	54
Operating Margins (%)					
Print Publishing	41.6	49.7	47.7	48.2	48.6
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
Total	41.2	45.9	46.3	47.0	47.6

Income Statement (RM m)

FY Aug	2013A	2014A	2015F	2016F	2017F
Revenue	78	79	87	100	114
Cost of Goods Sold	(46)	(42)	(47)	(53)	(60)
Gross Profit	32	37	40	47	54
Other Opng (Exp)/Inc	(15)	(17)	(16)	(17)	(18)
Operating Profit	18	20	24	30	36
Exceptional Gain/(Loss)	0	(3)	0	0	0
Pre-tax Profit	18	17	24	30	37
Tax	(5)	(5)	(7)	(8)	(9)
Net Profit	13	12	18	22	27
Net Profit before Except.	13	15	18	22	27
EBITDA	19	23	27	33	40
Growth					
Revenue Gth (%)	20.3	1.9	9.7	14.2	14.2
EBITDA Gth (%)	22.1	18.0	17.5	23.8	20.5
Opg Profit Gth (%)	22.5	16.1	17.5	24.0	22.7
Net Profit Gth (%)	17.1	(3.9)	43.2	26.8	23.3
Margins & Ratio					
Gross Margins (%)	41.2	46.6	46.3	47.0	47.6
Opg Profit Margin (%)	22.5	25.7	27.5	29.9	32.1
Net Profit Margin (%)	16.4	15.4	20.1	22.4	24.1
ROAE (%)	22.1	13.1	17.1	20.6	22.8
ROA (%)	16.5	11.0	15.1	18.3	20.3
ROCE (%)	20.4	14.6	16.4	19.7	21.8
Div Payout Ratio (%)	63.5	69.4	50.0	50.0	50.0
Net Interest Cover (x)	NM	62.9	NM	NM	NM

Source: Company, AllianceDBS

Margins Trend



Quarterly / Interim Income Statement (RM m)

FY Aug	3Q2014	4Q2014	1Q2015
Revenue	18	18	16
Cost of Goods Sold	(10)	(10)	(9)
Gross Profit	8	7	7
Other Oper. (Exp)/Inc	(4)	(5)	(5)
Operating Profit	4	2	2
Pre-tax Profit	4	2	2
Tax	(1)	(1)	(1)
Net Profit	3	1	2
Net profit bef Except.	3	1	2
EBITDA	5	3	3

Growth

Revenue Gth (%)	N/A	(2.2)	(7.0)
EBITDA Gth (%)	nm	(46.3)	11.5
Opg Profit Gth (%)	nm	(53.6)	14.1
Net Profit Gth (%)	nm	(59.5)	35.5

Margins

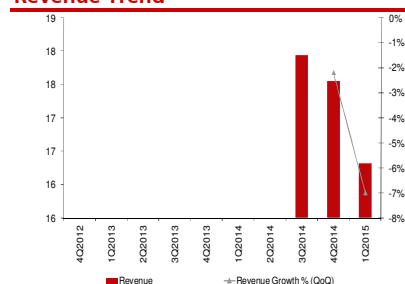
Gross Margins (%)	45.2	41.5	42.5
Opg Profit Margins (%)	23.2	11.0	13.5
Net Profit Margins (%)	16.7	6.9	10.1

Balance Sheet (RM m)

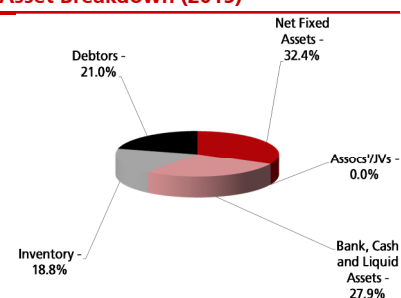
FY Aug	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	28	30	33	35	34
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	0	5	11	14	13
Cash & ST Invt	12	24	29	30	41
Inventory	15	20	19	22	24
Debtors	19	31	21	25	28
Other Current Assets	3	1	2	2	3
Total Assets	77	112	116	128	142
ST Debt	0	3	0	0	0
Creditor	2	7	2	2	2
Other Current Liab	6	3	8	8	9
LT Debt	0	0	0	0	0
Other LT Liabilities	4	4	4	4	4
Shareholder's Equity	65	94	102	114	127
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	77	112	116	128	142
Non-Cash Wkg. Capital	29	42	34	38	44
Net Cash/(Debt)	11	20	28	30	41
Debtors Turn (avg days)	74.0	115.1	109.9	84.4	84.4
Creditors Turn (avg days)	16.6	43.1	38.8	15.2	15.1
Inventory Turn (avg days)	151.8	161.6	164.7	152.2	151.1
Asset Turnover (x)	1.0	0.8	0.8	0.8	0.8
Current Ratio (x)	6.1	5.5	7.6	7.7	8.6
Quick Ratio (x)	3.9	3.9	5.3	5.3	6.2
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	184.8	6,060.6	4,292.9	505.1
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

Source: Company, AllianceDBS

Revenue Trend



Asset Breakdown (2015)

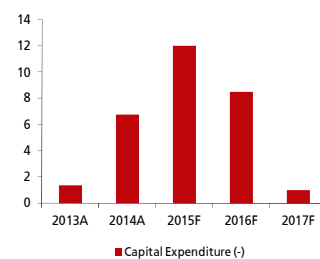


Cash Flow Statement (RM m)

FY Aug	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	18	17	24	30	37
Dep. & Amort.	2	3	3	4	4
Tax Paid	(4)	(5)	(7)	(8)	(9)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	0	(15)	8	(5)	(6)
Other Operating CF	2	2	0	0	0
Net Operating CF	17	1	29	21	26
Capital Exp.(net)	(1)	(7)	(12)	(9)	(1)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(1)	(7)	(12)	(9)	(1)
Div Paid	(16)	(9)	(9)	(11)	(14)
Chg in Gross Debt	0	0	(3)	0	0
Capital Issues	0	23	0	0	0
Other Financing CF	0	0	0	0	0
Net Financing CF	(16)	14	(12)	(11)	(14)
Currency Adjustments	0	0	0	0	0
Chg in Cash	0	9	5	1	11
Opg CFPS (sen)	13.5	12.8	16.2	20.4	24.6
Free CFPS (sen)	12.4	(4.3)	13.3	9.9	19.4

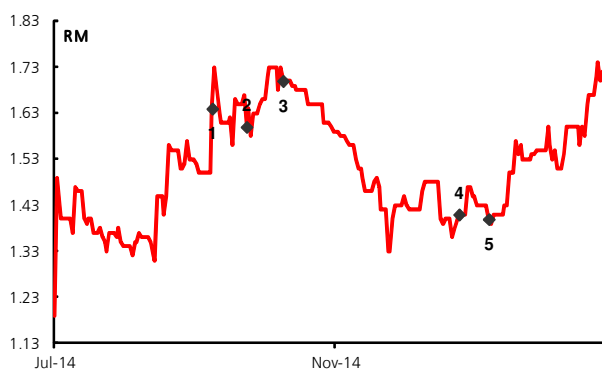
Source: Company, AllianceDBS

Capital Expenditure



Target Price & Ratings History

in



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

Source: AllianceDBS

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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 i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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