

Sasbadi Holdings Berhad

Bloomberg: SASB MK | Reuters: SAHO.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

17 Apr 2015

HOLD RM2.09 KLCI : 1,847.94

(Downgrade from BUY)

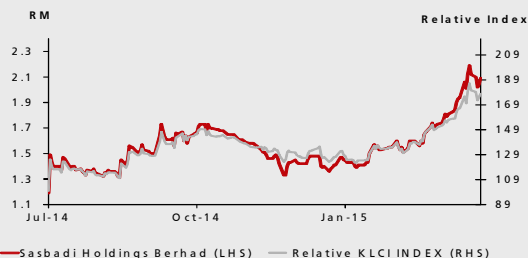
Price Target : 12-Month RM 2.25

Shariah Compliance : Yes

Reason for Report : Results preview, rating downgrade

Potential Catalyst: Earnings accretive acquisition

Where we differ: In line with consensus

AnalystKing Yoong CHEAH CFA +603 2604 3908
cheahky@alliancedbs.com**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)	21.7	15.1	11.9	9.7
PE Pre Ex. (X)	17.2	15.1	11.9	9.7
P/Cash Flow (X)	206.6	9.2	12.6	10.3
EV/EBITDA (X)	10.7	8.8	7.1	5.6
Net Div Yield (%)	0.0	3.3	4.2	5.2
P/Book Value (X)	2.8	2.6	2.3	2.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.1	17.1	20.6	22.8

Earnings Rev (%):	0	0	0
Consensus EPS (sen):	13.5	17.0	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.

Fully booked for now

- **RM2.3m contract secured; earnings estimates unchanged**
- **Expect 1HFY15 net profit to be higher at RM9.6m**
- **Share price has risen by >40% YTD; downgrade to HOLD on limited upside to our RM2.25 TP**

Secured RM2.3m contract. Sasbadi announced it has secured a contract worth RM2.3m from the Ministry of Education (MOE) to publish, print and supply textbook for the literature component of the subject of Bahasa Malaysia for Form 5 to national schools throughout Malaysia. The contract is for the period from 15 Apr 2015 to 31 Dec 2017. The group is expected to start delivering the textbook in 1QFY16, and hence, earnings from this new contract will be recognised from FY16 onwards. We are positive on this contract but make no changes to our earnings forecast as we have already factored in such potential contracts into our earnings model.

Seasonally strong 'booking' period. Sasbadi is poised to report 2QFY15 (Dec-Feb) results by end-April. As highlighted in our previous report, we expect 2Q15 to be the strongest quarter in the current financial year, driven by the new school year for primary and secondary studies up to Form 5. We expect the group to post c.RM8m net profit for 2Q (+400% q-o-q), which would take 1HFY15 net earnings to c.RM9.6m, or 55% of our full year forecast.

Limited upside to our TP, downgrade to HOLD. The stock has performed remarkably well, with its share price rising 41% YTD vs the FBM KLCI's return of only 4.9%. Following the sharp rally, the stock has almost reached our DCF-derived TP of RM2.25. We continue to like Sasbadi given its solid fundamentals and hands-on management, but downgrade the stock to HOLD because of limited upside to our TP.

At A Glance

Issued Capital (m shrs)	127
Mkt. Cap (RMm/US\$m)	265 / 72.3
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)	538

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>Structural trend bodes well</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.
Valuation	Risks
Following the strong share price performance YTD, the stock is close to our DCF-derived TP of RM2.25. We continue to like Sasbadi in view of its solid fundamentals and hands-on management, but downgrade the stock to HOLD because of limited upside to our TP.	<p>Paper cost fluctuation</p> <ul style="list-style-type: none"> A sudden surge in paper cost, which accounts for 38% of Sasbadi's COGS, would hurt earnings. <p>Changes to education policies</p> <ul style="list-style-type: none"> Failure to respond timely to changes in education policies may be detrimental to the group.

Source: AllianceDBS

Segmental Breakdown

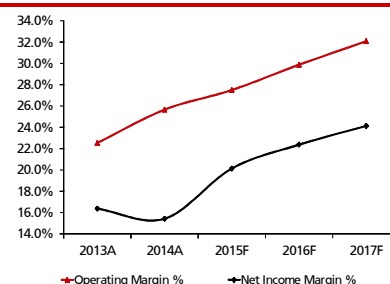
FY Aug	2013A	2014A	2015F	2016F	2017F
Revenues (RM m)					
Print Publishing	64	66	75	87	100
Online publishing	6	2	2	2	3
Applied learning products	4	5	6	7	7
Others	4	4	4	4	4
Total	78	79	87	100	114
Operating profit (RM m)					
Print Publishing	27	33	36	42	49
Online publishing	4	1	1	1	2
Applied learning 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
Other Non Opg (Exp)/Inc	0	0	0
Associates & JV Inc	0	0	0
Net Interest (Exp)/Inc	0	0	0
Exceptional Gain/(Loss)	0	0	0
Pre-tax Profit	4	2	2
Tax	(1)	(1)	(1)
Minority Interest	0	0	0
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

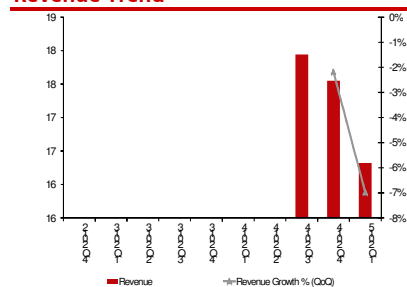
Gross Margins (%)	45.2	41.5	42.5
Opg Profit Margins (%)	23.2	11.0	13.5
Net Profit Margins (%)	16.7	6.9	10.1

Balance Sheet (RM m)

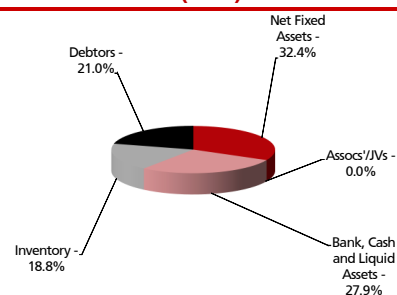
FY Aug	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	28	30	33	35	34
Other LT Assets	0	5	11	14	13
Cash & ST Invt	12	24	29	30	41
Inventory	15	20	19	22	24
Debtors	19	31	21	25	28
Other Current Assets	3	1	2	2	3
Total Assets	77	112	116	128	142
ST Debt	0	3	0	0	0
Creditor	2	7	2	2	2
Other Current Liab	6	3	8	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)

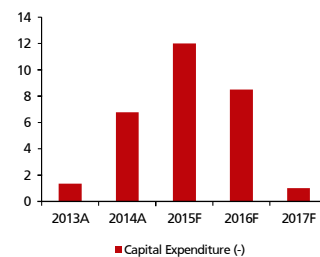


Cash Flow Statement (RM m)

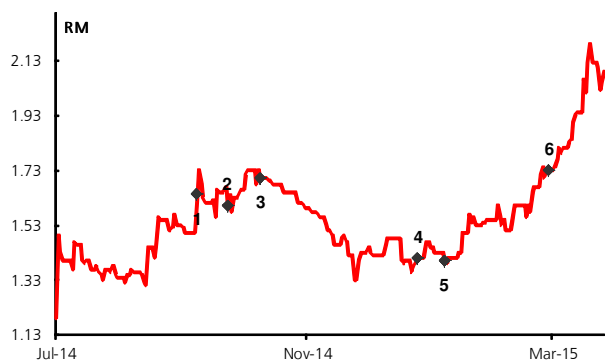
FY Aug	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	18	17	24	30	37
Dep. & Amort.	2	3	3	4	4
Tax Paid	(4)	(5)	(7)	(8)	(9)
Assoc. & JV Inc/(loss)	0	0	0	0	0
Chg in Wkg.Cap.	0	(15)	8	(5)	(6)
Other Operating CF	2	2	0	0	0
Net Operating CF	17	1	29	21	26
Capital Exp.(net)	(1)	(7)	(12)	(9)	(1)
Net Investing CF	(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
Net Financing CF	(16)	14	(12)	(11)	(14)
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



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

Source: AllianceDBS

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

DISCLAIMER

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR") (formerly known as HwangDBS Vickers Research Sdn Bhd), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published and Printed by
AllianceDBS Research Sdn Bhd (128540 U)
(formerly known as HWANGDBS Vickers Research Sdn Bhd)
19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com