

# Sasbadi Holdings (BUY ↔; EPS ↔)

EDUCATION  
NEWSBREAK

30 June 2015

Price Target: RM2.72 (↔)

Share price: RM2.31

## Mantissa College Acquisition

News/  
Comments

- Sasbadi announced that it has entered into a share sale agreement (SSA) to acquire 100% of the issued and paid-up share capital of PMI Education Sdn Bhd (PMI Education), for a purchase price of RM2.6m.
- PMI Education was incorporated in Malaysia on 29<sup>th</sup> September 2003, and is presently operating a college known as "Mantissa College". Located in the centre of the prime area in Taman Tun Dr Ismail, Mantissa College offers tertiary education to a talent pool of circa 300 students currently.
- We understand that the acquisition is likely to be funded by cash. With cash of RM25.1m as at 28<sup>th</sup> February 2015, we believe Sasbadi will have no issue funding the acquisition.
- The acquisition is estimated to complete in the first quarter of FY2016. Hence, we expect any topline contribution should flow through from FY16 onwards.
- We are neutral with positive bias on the acquisition as it bodes well with Sasbadi's strategy to become a well-known education solution provider. Considering it only has primary, secondary, Form 6 and teachers' education in its books, the addition of tertiary education should be a plus for the group.
- The financial performance of PMI Education has been relatively erratic, fluctuating between marginal losses and profits over the past 5-6 years. We believe the impact should be minimal to Sasbadi.
- Mantissa College can leverage on Sasbadi's market presence in the field of education to propel itself to be on par if not better than the more established colleges or universities in Malaysia.
- We reckon the group should be able to turnaround the newly added tertiary education business based on its strong reputation and brand awareness as an educational provider among parents & students.

Risks

- Not winning new textbook contract from MOE; Migration towards the online platform; Spike in paper prices; and Changes in National Curriculum and educational policies.

Forecasts

- Unchanged.

Rating

**BUY (↔)**

- Positives:
  - Long term catalysts from potential M&As and new curriculum for secondary schools;
  - Unique exposure to Malaysia's education system;
  - Defensive earnings base.
- Negatives:
  - Not winning new textbook contracts from MOE;
  - Rising paper prices;
  - Low liquidity.

Valuation

- Maintain BUY with unchanged TP of RM2.72 based on unchanged P/E multiple of 15.5x CY16 EPS or circa 50% discount to average P/E of education sector given its lower market capitalisation and liquidity. We think valuation is justified as Sasbadi has high growth rate and holds a unique exposure to the country's education system.

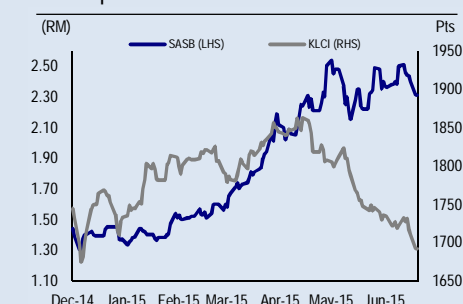
Mardhiah Omar

[mardhiah@hlib.hongleong.com.my](mailto:mardhiah@hlib.hongleong.com.my)

(603) 2168 1155

|                             |         |
|-----------------------------|---------|
| KLCI                        | 1,691.9 |
| Expected share price return | 17.7%   |
| Expected dividend return    | 2.3%    |
| Expected total return       | 20.0%   |

### Share price



### Information

|                          |         |
|--------------------------|---------|
| Bloomberg Ticker         | SASB MK |
| Bursa Code               | 5252    |
| Issued Shares (m)        | 127     |
| Market cap (RM m)        | 293     |
| 3-mth avg. volume ('000) | 832     |
| SC Shariah-compliant     | Yes     |

| Price Performance | 1M  | 3M   | 12M |
|-------------------|-----|------|-----|
| Absolute          | 4.1 | 25.5 | nm  |
| Relative          | 7.5 | 35.8 | nm  |

### Major shareholders

|               |       |
|---------------|-------|
| Law King Hui  | 20.2% |
| Karya Kencana | 20.0% |
| Lee Swee Hang | 10.6% |

### Summary Earnings Table

| FYE Aug (RM m) | 2014A | 2015E | 2016E  | 2017E  |
|----------------|-------|-------|--------|--------|
| Revenue        | 79.51 | 88.66 | 100.30 | 110.21 |
| EBITDA         | 22.54 | 24.98 | 30.64  | 34.21  |
| PATAMI         | 15.55 | 16.72 | 21.43  | 24.00  |
| EPS (sen)      | 12.24 | 13.16 | 16.87  | 18.90  |
| Core EPS (sen) | 14.02 | 13.16 | 16.87  | 18.90  |
| P/E (x)        | 16.48 | 17.56 | 13.71  | 12.22  |
| BV /share      | 0.74  | 0.82  | 0.90   | 1.00   |
| P/BV (x)       | 3.13  | 2.82  | 2.56   | 2.31   |
| DPS (sen)      | -     | 5.26  | 6.74   | 7.56   |
| DY %           | -     | 2.28  | 2.92   | 3.27   |
| ROE (%)        | 22.63 | 16.91 | 19.57  | 19.83  |
| ROA (%)        | 18.69 | 14.02 | 16.87  | 17.57  |

HLIB

## Financial Projections for Sasbadi (BUY; TP: RM2.72; CP: RM2.31)

### Income Statement

| FYE 31 Aug (RM m)  | 2013A       | 2014A       | 2015E       | 2016E       | 2017E       |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue            | 78.0        | 79.5        | 88.7        | 100.3       | 110.2       |
| COS                | (45.8)      | (42.8)      | (47.0)      | (52.2)      | (57.4)      |
| EBITDA             | 19.5        | 22.5        | 25.0        | 30.6        | 34.2        |
| D&A                | (1.9)       | (2.0)       | (2.7)       | (2.6)       | (2.2)       |
| Net Interest       | 0.1         | (0.3)       | 0.0         | 0.5         | (0.0)       |
| Associates/JCE     | -           | -           | -           | -           | -           |
| Exceptionals       | -           | -           | -           | -           | -           |
| Profit Before Tax  | 17.7        | 20.2        | 22.3        | 28.6        | 32.0        |
| Tax                | (4.9)       | (4.6)       | (5.6)       | (7.1)       | (8.0)       |
| Minority Interests | -           | -           | -           | -           | -           |
| <b>PATAMI</b>      | <b>12.8</b> | <b>15.5</b> | <b>16.7</b> | <b>21.4</b> | <b>24.0</b> |
| Core Earnings      | 12.8        | 17.8        | 16.7        | 21.4        | 24.0        |
| Basic Shares (m)   | 105.8       | 127.0       | 127.0       | 127.0       | 127.0       |
| Basic EPS (sen)    | 12.05       | 12.24       | 13.16       | 16.87       | 18.90       |
| Core EPS (sen)     | 12.05       | 14.02       | 13.16       | 16.87       | 18.90       |

### Balance Sheet

| FYE 31 Aug (RM m)          | 2013A       | 2014A       | 2015E        | 2016E        | 2017E        |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| Fixed Assets               | 28.0        | 30.3        | 28.8         | 27.5         | 26.5         |
| Other long-term assets     | 0.04        | 4.99        | 4.99         | 4.99         | 4.99         |
| Other short-term assets    | 0.9         | 1.6         | 1.6          | 1.6          | 1.6          |
| <b>Working Capital</b>     | <b>28.5</b> | <b>43.4</b> | <b>49.8</b>  | <b>54.6</b>  | <b>58.5</b>  |
| Receivables                | 20.0        | 31.2        | 32.8         | 35.7         | 37.7         |
| Payables                   | (6.5)       | (8.0)       | (8.8)        | (9.7)        | (10.7)       |
| Inventory                  | 15.0        | 20.2        | 25.8         | 28.6         | 31.5         |
| <b>Net cash</b>            | <b>11.5</b> | <b>20.3</b> | <b>24.6</b>  | <b>33.2</b>  | <b>43.8</b>  |
| Cash                       | 12.0        | 26.3        | 30.7         | 33.4         | 44.0         |
| Total Debt                 | (0.5)       | (6.0)       | (6.0)        | (0.2)        | (0.2)        |
| <b>Shareholders' funds</b> | <b>63.6</b> | <b>93.7</b> | <b>104.7</b> | <b>116.7</b> | <b>130.4</b> |
| Share capital              | 2.4         | 63.5        | 63.5         | 63.5         | 63.5         |
| Reserves                   | 61.2        | 30.2        | 41.2         | 53.2         | 66.9         |
| Minorities                 | -           | -           | -            | -            | -            |
| Other liabilities          | 5.3         | 6.8         | 5.1          | 5.1          | 5.1          |

### Cashflow Analysis

| FYE 31 Aug (RM m)         | 2013A        | 2014A      | 2015E       | 2016E       | 2017E       |
|---------------------------|--------------|------------|-------------|-------------|-------------|
| EBITDA                    | 19.5         | 22.5       | 25.0        | 30.6        | 34.2        |
| WC changes                | (0.1)        | (14.9)     | (5.6)       | (2.8)       | (2.9)       |
| Taxation                  | (4.9)        | (4.6)      | (5.6)       | (7.1)       | (8.0)       |
| Others                    | 2.7          | (1.7)      | (2.4)       | (3.9)       | (3.0)       |
| <b>Operating cashflow</b> | <b>17.1</b>  | <b>1.3</b> | <b>11.5</b> | <b>16.8</b> | <b>20.4</b> |
| Capex & acquisitions      | (1.3)        | (1.3)      | (1.3)       | (1.3)       | (1.3)       |
| <b>Free cashflow</b>      | <b>15.8</b>  | <b>0.0</b> | <b>10.2</b> | <b>15.5</b> | <b>19.1</b> |
| Other inv cashflow        | 0.1          | (5.5)      | 0.5         | 0.5         | -           |
| New borrowings            | (0.3)        | 5.5        | -           | (5.8)       | -           |
| Share issuance            | -            | 25.2       | -           | -           | -           |
| Dividends paid            | (16.1)       | (8.5)      | (5.9)       | (7.5)       | (8.4)       |
| Other fin cashflow        | (0.0)        | (8.2)      | (0.5)       | (0.0)       | (0.0)       |
| <b>Net cashflow</b>       | <b>(0.5)</b> | <b>8.5</b> | <b>4.4</b>  | <b>2.7</b>  | <b>10.7</b> |

### Quarterly Financial Summary

| FYE 31 Aug (RM m)  | 3QFY14       | 4QFY14       | 1QFY15       | 2QFY15       |
|--------------------|--------------|--------------|--------------|--------------|
| Revenue            | 17.9         | 17.5         | 16.3         | 32.1         |
| COGS               | (9.831)      | (10.270)     | (9.392)      | (14.656)     |
| Gross Profit       | 8.110        | 7.279        | 6.931        | 17.457       |
| Other Income       | 0.041        | -            | 0.063        | -            |
| Expenses           | (3.945)      | (5.345)      | (4.725)      | (5.988)      |
| Operating Profit   | 4.206        | 1.934        | 2.269        | 11.469       |
| Interest Income    | 0.022        | 0.055        | 0.113        | 0.109        |
| Finance Costs      | (0.189)      | (0.097)      | (0.096)      | (0.113)      |
| Associates/JCE     | -            | -            | -            | -            |
| Profit Before Tax  | 4.039        | 1.892        | 2.286        | 11.465       |
| Tax                | (1.035)      | (0.676)      | (0.638)      | (3.128)      |
| Profit After Tax   | 3.004        | 1.216        | 1.648        | 8.337        |
| MI                 | -            | -            | -            | -            |
| <b>PATAMI</b>      | <b>3.004</b> | <b>1.216</b> | <b>1.648</b> | <b>8.337</b> |
| Core PATAMI        | 3.004        | 2.5          | 1.648        | 8.337        |
| Basic EPS (sen)    | 2.84         | 1.05         | 1.30         | 6.56         |
| DPS (sen)          | -            | -            | 3.00         | -            |
| W. Ave. Shares (m) | 105.8        | 115.4        | 127.0        | 127.0        |

### Rates and Ratios

| FYE 31 Aug (RM m)   | 2013A  | 2014A  | 2015E  | 2016E  | 2017E  |
|---------------------|--------|--------|--------|--------|--------|
| EPS (sen)           | 12.1   | 14.0   | 13.2   | 16.9   | 18.9   |
| PER (x)             | 19.2   | 16.5   | 17.6   | 13.7   | 12.2   |
| DPS (sen)           | -      | -      | 5.3    | 6.7    | 7.6    |
| DY %                | -      | -      | 2.3    | 2.9    | 3.3    |
| BVPS (RM)           | 0.6    | 0.7    | 0.8    | 0.9    | 1.0    |
| P/B (x)             | 3.8    | 3.1    | 2.8    | 2.6    | 2.3    |
| FCF/Share (sen)     | 0.1    | 0.0    | 0.1    | 0.1    | 0.2    |
| FCF yield %         | 6.5    | 0.0    | 3.5    | 5.3    | 6.5    |
| ROE                 | 22.3   | 22.6   | 16.9   | 19.6   | 19.8   |
| ROA                 | 16.6   | 18.7   | 14.0   | 16.9   | 17.6   |
| Net Debt/Equity (%) | N Cash | N Cash | N Cash | N Cash | N Cash |

### Assumption Metrics

| FYE 31 Aug (RM m)  | 2013A | 2014A | 2015E | 2016E | 2017E |
|--------------------|-------|-------|-------|-------|-------|
| Revenue Growth (%) | 20.3  | 2.0   | 11.5  | 13.1  | 9.9   |
| PATAMI Growth (%)  | 17.1  | 21.9  | 7.5   | 28.2  | 12.0  |
| EPS Growth (%)     | 17.1  | 1.6   | 7.5   | 28.2  | 12.0  |
| EBITDA Margin (%)  | 25.0  | 28.3  | 28.2  | 30.6  | 31.0  |
| EBIT Margin (%)    | 22.7  | 25.4  | 25.1  | 28.5  | 29.0  |
| PBT Margin (%)     | 22.7  | 25.4  | 25.1  | 28.5  | 29.0  |
| PAT Margin (%)     | 16.4  | 19.6  | 18.9  | 21.4  | 21.8  |

## Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 30 June 2015, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 30 June 2015, the analyst, Mardhiah Omar, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by  
**Hong Leong Investment Bank Berhad (10209-W)**  
 Level 23, Menara HLA  
 No. 3, Jalan Kia Peng  
 50450 Kuala Lumpur  
 Tel 603 2168 1168 / 603 2710 1168  
 Fax 603 2161 3880

## Equity rating definitions

|                     |  |
|---------------------|--|
| <b>BUY</b>          | Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.             |
| <b>TRADING BUY</b>  | Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity. |
| <b>HOLD</b>         | Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.          |
| <b>TRADING SELL</b> | Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity. |
| <b>SELL</b>         | Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.                                     |
| <b>NOT RATED</b>    | No research coverage and report is intended purely for informational purposes.   |

## Industry rating definitions

|                    |  |
|--------------------|--|
| <b>OVERWEIGHT</b>  | The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.    |
| <b>NEUTRAL</b>     | The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months. |
| <b>UNDERWEIGHT</b> | The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.    |