

02 July 2015

Sasbadi Holdings Bhd

Safe Book Keeping

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INVESTMENT MERIT

- An unheralded defensive play.** Since we featured SASBADI on 05 May 2015 at RM2.21 (Report titled: Everybody's Study Buddy), its share price has risen 6.19% to RM2.40 (as of 26th of June 2015) which significantly outperformed the benchmark FBM Small Cap Index (which declined by 2.88%) over the same period. SASBADI offers itself as an alternative resilient play for investors, and has performed relatively well in the recent sell-down (3.9% vs. -7.6% in FBMKLCI since 27th April to 26th June). We believe the relatively strong share price performance was mainly due to its recession proof business of publishing printed and online educational materials, which made up c.90% of the group's FY14 revenue. Moving forward, we expect the group to record a stable revenue growth of 13%/12% in FY15/16 on the back of 11.5%/13.0% climb in its number of titles published. On top of that, we also expect the group to sustain its EBITDA margin at 25%, in-line with its historical performance.
- Surprise venture into tertiary education.** SASBADI has recently announced the proposed acquisition of 100% equity interest in PMI Education Sdn Bhd for RM2.6m, translating into a PBV of c.2.8x based on net assets of RM0.9m. The acquisition was not part of the existing IPO plans and will be funded through internally generated funds (SASBADI has a net cash position of c.RM25m as at 28 February 2015). Despite higher acquisition pricing i.e. PBV, we deem the acquisition pricing to be fair given as the absolute pricing is only c.10% of its net cash position. PMI Education Sdn Bhd is principally involved in operating a college named "Mantissa College" in TTDI, KL, which provides tertiary education to students (primarily in the business courses). SASBADI is currently in the midst of planning its strategy to turn around the loss-making Mantissa College. Should the college continue to be loss-making, we view that the impact to the group's financial is expected to be minimal. Note that we have yet to compute any earnings contributions from this acquisition pending further guidance from the management.
- En-course to complete Chinese publisher acquisition.** Our recent check with management suggests that the Group is still undergoing negotiation to acquire a local Chinese publisher, on target to complete the acquisition by the end of 2015. To recap, the company has allocated RM11.5m (46%) of its IPO proceeds to venture into the Chinese national school and applied learning segment. Based on our preliminary analysis, FY13 average revenue per student (ARPS) for the Group's primary school segment is c.RM9.3/student based on 2.15m students and FY13 Primary School revenue contribution of RM19.9m (Primary school contributes c.25-27% of FY11-FY14 revenue). In a blue-sky scenario, the Group will be able to add on c.RM4.5m p.a. or c.5.6% to their current revenue, assuming FY13 ARPS as a base if they are able to penetrate all c.500k Primary school Chinese students. This could translate to c.RM1.0m increase in the group's earnings assuming group net margin of c.20%. However, we have yet to compute the earnings assumption to our forecast yet.
- PT Erlangga to launch online program in Aug-15.** Leveraging on SASBADI's interactive online learning system (i-Learn programme), PT Erlangga is expected to officially roll-out its online product by Aug-15 in Indonesia (in accordance with the start of the academic year). We deem this as a positive progress from SASBADI to diversify its revenue stream in the online segment. We understand from the management that the online learning program is catered for the Tahun 7 – Tahun 9 students (equivalent to the Form 1 – Form 3 in Malaysia). To recap, the i-Learn platform is licensed by SASBADI to PT Penerbit Erlangga (PPE) for the latter to deliver PPE's learning materials online to students in Indonesia via a subscription business model. Under the agreement between both parties, PPE shall pay a one-off non-refundable fee of USD300k (c.RM978k) to SASBADI (30% was recognised in the 1Q15, while the balance is to be recognised in the coming 3Q15) as well as royalties fee (c.8%) based on net sales (i-Learn Indonesia) received by PPE on a semi-annual basis. Again, we have yet to factor in any potential contributions from this business tie-up into our forecasts.
- Upgraded to TRADING BUY with TP of RM2.68,** based on targeted 17.0x FY16 PER (which is Pelangi's trailing peak PER) on an unchanged FY16E EPS estimate of 15.8 sen. We believe a valuation re-rating is warranted given its: (i) stable margins of c.25% EBITDA margin (in-line with its historical performance), (ii) decent earnings growth of 14%-29% for FY15, and FY16 respectively, (iii) resilient business nature, and (iv) potential sweet earnings surprises from its acquisitions and business tie-ups. Coupled with a net dividend yield assumption of 3.3%, the stock could potentially reward shareholders with a decent total upside of c.16%.

	Rating	Fair Value
Last Price		RM2.37
Kenanga	TRADING BUY	RM2.68
Consensus	BUY	RM2.34

Stock Information

Stock Name	Sasbadi Holdings Bhd
CAT Code	5252
Industry	Education
Industry Sub-sector	Education Publishing
YTD stock price chg	-8.5%
Market Cap (RM m)	301.0
Issued shares (m)	127.0
52-week range (Hi)	2.57
52-week range (Low)	1.19
3-mth avg daily vol:	831,003
Free Float	49%
Beta	N.A.
Altman's Z-score	N.A.

Major Shareholders

KING HUI LAW	20.2%
KARYA KENCANA SDN BHD	20.0%
LEE SWEE HANG	10.1%

Financials

FYE Nov (RM'm)	2014A	2015E	2016E
Revenue	79.5	89.9	100.3
EBIT	17.2	24.3	27.6
Net Profit (NP)	12.3	17.6	20.0
EPS (sen)	9.6	13.9	15.8
BV/Share (RM)	0.7	0.8	0.9
PER	24.6	17.1	15.0
Price/BV (x)	3.2	2.9	2.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash
NDPS (sen)	0.0	6.9	7.9
Dividend Yield (%)	-	2.9	3.3

Quarterly Financial Data	4Q14	1Q15	2Q15
Revenue	17.5	16.3	32.1
Revenue Growth (QoQ)	-2.2%	-7.0%	96.7%
EBIT	1.9	2.4	11.5
OP Margin	11.0%	14.5%	35.7%
Net Profit (NP)	1.2	1.6	8.3
EPS (sen)	1.1	1.3	6.6
EPS Growth (QoQ)	-63.0%	23.8%	404.6%

Peers Comparisons	PER (FY16)	Div. Yld (%)	Mkt Cap (RM)
PELANGI PUBLISHING*	N.A.	N.A.	51.3m
PRESTARIANG	17.2	2.9	1.3b
SEG INTERNATIONAL	26.4	1.9	1.1b



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Daily Charting – Sasbadi Holdings Bhd



Comment: In tandem with the lacklustre trading volume, SASBADI has been consolidating for the past two months after reaching a high of RM2.58. The underlying trend remains up with the share price trading above all the SMA levels, which are all trending upwards. Indicator-wise, both Stochastic and RSI are posting a relatively neutral outlook to imply a possible prolonged consolidation in the near-term. We reckon that a fresh catalyst is needed for the share price to rally further, whereby a swift breakout above the RM2.58 resistance is vital for further uptrend.

Source: Kenanga Research

About the stock:

Name : Sasbadi Holdings Bhd
Bursa Code : SASBADI
CAT Code : 5252

Key Support & Resistance level

Resistance	: RM2.58 (R1)	RM2.65 (R2)	RM2.80 (R3)
Support	: RM2.34 (S1)	RM2.20 (S2)	RM2.10 (S3)
Outlook	Neutral		

CORPORATE STRUCTURE



BUSINESS OVERVIEW

- SASBADI is principally a publisher of educational materials, undertaking print publishing focusing on primary and secondary school education as well as other non-curriculum based educational materials and general title books. The group also undertake online publishing of educational materials and distribution of applied learning products designed to provide hands-on learning experience to students.

BUSINESS SEGMENTS

- SASBADI's business segments include educational print based on the national school curriculum, online publishing of educational materials and applied learning products for hands-on learning.

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