

Sasbadi Holdings (HOLD ↓; EPS ↔)

EDUCATION

EARNINGS EVALUATION

29 July 2015

Price Target: RM2.72 (↔)

Share price: RM2.67

3QFY15 Results – In line

Results

- 9MFY15 revenue of RM67.3m (+9% yoy) was translated into PATAMI of RM13.1m (+19% yoy).
- Both revenue and PATAMI came within expectations, with PATAMI accounting for 78% and 77% of HLIB and consensus full year estimates, respectively.

Deviations

- None.

Dividends

- None.

Highlights

- 9MFY15 review...** Sales improved by 9% for 9M15 mainly due to improvement in its educational print publishing arm Sasbadi Sdn Bhd (+8% yoy) as well as Sasbadi Online (+113% yoy) and Malaysian Book Promotions (13% yoy). Margins have also improved. EBITDA margin has increased by 2%-pt to 30%.
- 3QFY15 review...** Coming from a seasonally stronger 2Q, both revenue and PBT suffered double digit sequential declines. Sasbadi's turnover and PBT decreased 41% and 63% qoq, respectively, but still increased 5% and 4% yoy, reflecting rising demand for its education content.
- We expect next quarter to be soft for Sasbadi. As stated in our report dated 4th June 2015 "On Course", it may experience a slight slowdown due to lower spending power coming from GST regime. However, with Sasbadi's stable business model, we believe business should remain resilient.
- We continue to like the company due to its innovativeness in creating products that cater to the palate of technological savvy youth and its unique exposure to education sector. Share price has done tremendously, increasing 84% YTD vs. KLCI which depreciated 3%. With limited upside to our TP, we downgrade the stock to a HOLD.

Risks

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

Forecasts

- Unchanged.

Rating

HOLD (↓)

- Positives:**
 - (1) Long term catalysts from potential M&As and new curriculum for secondary schools; (2) Unique exposure to Malaysia's education system; and (3) Defensive earnings base.
- Negatives:**
 - (1) Not winning new textbook contracts from MOE; (2) Rising paper prices; and (3) Low liquidity.
- Maintain target price of RM2.72 based on unchanged P/E multiple of 15.5x CY16 EPS. Since potential total return to our TP and projected dividend yield is 3.8%, we downgrade the stock from BUY to HOLD. Additionally, share price has appreciated 84% YTD. Overall, we believe the current valuation is justified and fair as Sasbadi has a high growth rate and holds a unique education exposure which is closely linked to the country's education system but has relatively small market capitalization and low liquidity.

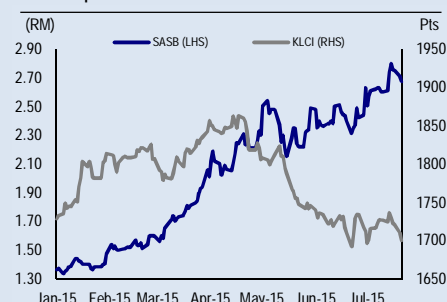
Mardhiah Omar

mardhiah@hlib.hongleong.com.my

(603) 2168 1155

KLCI	1,699.7
Expected share price return	1.9%
Expected dividend return	2.0%
Expected total return	3.8%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	127
Market cap (RM m)	339
3-mth avg. volume ('000)	535
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	11.3	19.7	90.7
Relative	12.0	30.7	110.6

Major shareholders

Law King Hui	20.2%
Karya Kencana	20.0%
CIMB Principal Asset Mgmt	10.6%
Lee Swee Hang	10.1%

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)	19.05	20.30	15.84	14.13
BV /share	0.74	0.82	0.90	1.00
P/BV (x)	3.62	3.26	2.95	2.66
DPS (sen)	-	5.26	6.74	7.56
DY %	-	1.97	2.52	2.83
ROE (%)	22.63	16.91	19.57	19.83
ROA (%)	18.69	14.02	16.87	17.57

HLIB

Figure #1 Quarterly results comparison

FYE Aug (RM m)	3QFY14	2QFY15	3QFY15	Qoq (%)	Yoy (%)	Comments
Revenue	17.9	32.1	18.9	-41	5	Made up 21% and 22% of HLIB and consensus' estimates.
Sasbadi Holdings	0.0	3.8	0.0	n.m	n.m	
Sasbadi Sdn Bhd	16.1	30.1	15.1	-50	-6	A seasonally weaker quarter compared to Q2.
Sasbadi Online	0.7	0.1	1.2	754	76	
Orbit Buku	0.3	0.3	0.6	78	100	
Malaysian Book Promotions	0.8	2.3	1.7	-25	111	
Sasbadi Learning Solutions	0.0	1.2	2.0	70	n.m	Yoy/Qoq: Assumed the activity of distributing applied learning products since January 2015 which was previously parked under Sasbadi Sdn Bhd.
GP	8.1	17.5	8.8	-49	9	
Expenses	(3.9)	(6.0)	(4.6)	-23	16	
EBITDA	4.8	12.2	5.1	-58	6	
Operating Profit	4.2	11.5	4.3	-62	3	Qoq: Coming from a seasonally stronger quarter.
Interest Income	0.02	0.11	0.12	8	436	
Finance Costs	(0.2)	(0.1)	(0.2)	34	-20	
Shares of Associates/JCE	-	-	-			
PBT	4.0	11.5	4.3	-63	6	
PAT	3.0	8.3	3.1	-63	4	Effective tax rate of 28%.
PATAMI	3.0	8.3	3.1	-63	4	
Core Earnings	3.0	8.3	3.1	-63	4	Accounting for 19% and 18% of ours and streets' estimates.
Basic EPS (sen)	2.84	6.56	2.45	-63	-14	
GP Margin (%)	45%	54%	47%	-14	4	
EBITDA Margin (%)	27%	38%	27%	-28	1	
Operating Profit Margin (%)	23%	36%	23%	-36	-2	

Sasbadi, HLIB

Figure #2 Cumulative results comparison

FYE Aug (RM m)	9MFY14	9MFY15	Yoy (%)	Comments
Revenue	61.9	67.3	9	Made up 76% and 77% of ours and consensus' estimates.
Sasbadi Holdings	0.0	3.8	n.m	
Sasbadi Sdn Bhd	56.0	60.6	8	Contributed 94% of revenue.
Sasbadi Online	0.8	1.7	113	
Orbit Buku	1.0	1.0	-1	
Malaysian Book Promotions	4.2	4.7	13	
Sasbadi Learning Solutions	0.0	3.1	n.m	Assumed the activity of distributing applied learning products since January 2015 which was previously parked under Sasbadi Sdn Bhd.
GP	29.8	33.2	12	Stronger revenue contribution from Sasbadi Sdn Bhd, Sasbadi Online and Malaysian Book Promotions.
Expenses	(14.6)	(15.3)	5	
EBITDA	17.2	20.2	18	
Operating Profit	15.3	18.1	18	
Interest Income	0.08	0.34	n.m	
Finance Costs	(0.4)	(0.4)	0.3	
Shares of Associates/JCE	-	-		
PBT	15.0	18.1	21	
PAT	11.0	13.1	19	Effective tax rate of 28%.
PATAMI	11.0	13.1	19	
Core Earnings	11.0	13.1	19	Made up of 78% and 77% of HLIB and consensus' estimates.
Basic EPS (sen)	10.43	10.31	-1	
GP Margin (%)	48%	49%	3	
EBITDA Margin (%)	28%	30%	8	
Operating Profit Margin (%)	25%	27%	9	

Sasbadi, HLIB

Figure #3 Consensus vs HLIB

FYE Dec (RM m)	FY15E			FY16E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	88.7	87.3	+1.6	100.3	99.6	+0.7
PATAMI	16.7	17.0	-1.7	21.4	21.3	+0.6

Bloomberg, HLIB

Financial Projections for Sasbadi (HOLD; TP: RM2.72; CP: RM2.67)

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	-	-	-	-	-
PATAMI	12.8	15.5	16.7	21.4	24.0
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
Working Capital	28.5	43.4	49.8	54.6	58.5
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
Net cash	11.5	20.3	24.6	33.2	43.8
Cash	12.0	26.3	30.7	33.4	44.0
Total Debt	(0.5)	(6.0)	(6.0)	(0.2)	(0.2)
Shareholders' funds	63.6	93.7	104.7	116.7	130.4
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)
Operating cashflow	17.1	1.3	11.5	16.8	20.4
Capex & acquisitions	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Free cashflow	15.8	0.0	10.2	15.5	19.1
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)
Net cashflow	(0.5)	8.5	4.4	2.7	10.7

Quarterly Financial Summary

FYE 31 Aug (RM m)	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15
Revenue	17.9	17.5	16.3	32.1	18.9
COGS	(9.831)	(10.270)	(9.392)	(14.656)	(10.0)
Gross Profit	8.110	7.279	6.931	17.457	8.842
Other Income	0.041	-	0.063	-	0.076
Expenses	(3.945)	(5.345)	(4.725)	(5.988)	(4.586)
Operating Profit	4.206	1.934	2.269	11.469	4.332
Interest Income	0.022	0.055	0.113	0.109	0.118
Finance Costs	(0.189)	(0.097)	(0.096)	(0.113)	(0.151)
Associates/JCE	-	-	-	-	-
Profit Before Tax	4.039	1.892	2.286	11.465	4.299
Tax	(1.035)	(0.676)	(0.638)	(3.128)	(1.185)
Profit After Tax	3.004	1.216	1.648	8.337	3.114
MI	-	-	-	-	-
PATAMI	3.004	1.216	1.648	8.337	3.114
Core PATAMI	3.004	2.5	1.648	8.337	3.114
Basic EPS (sen)	2.84	1.05	1.30	6.56	2.45
DPS (sen)	-	-	3.00	-	-
W. Ave. Shares (m)	105.8	115.4	127.0	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)	22.1	19.0	20.3	15.8	14.1
DPS (sen)	-	-	5.3	6.7	7.6
DY %	-	-	2.0	2.5	2.8
BVPS (RM)	0.6	0.7	0.8	0.9	1.0
P/B (x)	4.4	3.6	3.3	3.0	2.7
FCF/Share (sen)	0.1	0.0	0.1	0.1	0.2
FCF yield %	5.6	0.0	3.0	4.6	5.6
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

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 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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