

Sasbadi Holdings (HOLD ↔; EPS ↔)

 EDUCATION
NEWSBREAK

10 August 2015

Price Target: RM2.72 (↔)

Share price: RM2.53

Sanjung Unggul Acquisition

 News/
Comments

- Sasbadi announced that it has entered into a sale and purchase agreement (SPA) to acquire 70% of the issued and paid-up share capital of Sanjung Unggul Sdn Bhd, for a purchase consideration of RM21.0m. The acquisition is expected to complete by the current financial year (FY15/08).
- The acquisition will be funded via a combination of proceeds raised from IPO and debt. Refer table below.

IPO proceeds	RM10.5m
	RM7.0m
Borrowings	RM3.5m
Total	RM21.0m

- Based on its latest quarter, the acquisition will increase the group's gearing from 0.06 times to 0.10 times.
- Sanjung Unggul was incorporated in Malaysia on 22nd August 2001 and has three wholly-owned subsidiaries (1) Big Tree Publications S/B; (2) Jinbang Publication S/B; and (3) Media Distribution S/B. Sanjung Unggul mainly publishes books and educational materials for students in national-type Chinese schools.
- We are positive on the acquisition as the newly captured market segment – national-type Chinese schools would be an added bonus to the group's business model. Sasbadi should be able to enjoy the positive contribution from Sanjung Unggul by end of FY15 after assuming interest foregone using IPO proceeds and additional interest from debt.
- In addition to the above, the acquisition valuation of 8.4x P/E implies a circa 50% discount to Sasbadi's current P/E of 19.1x. Thus we deem the acquisition to be value accretive for Sasbadi.

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

- No changes to our forecasts.

Rating

HOLD (↔)

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

Valuation

- Maintain HOLD 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.

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KLCI	1,682.7
Expected share price return	7.5%
Expected dividend return	2.1%
Expected total return	9.6%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	127
Market cap (RM m)	321
3-mth avg. volume ('000)	405
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	1.2	1.2	84.7
Relative	3.2	8.7	101.9

Major shareholders

Law King Hui	20.2%
Karya Kencana	20.0%
Lee Swee Hang	10.8%

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	16.71	21.40	24.00
EPS (sen)	12.24	13.15	16.85	18.90
Core EPS (sen)	14.02	13.15	16.85	18.90
P/E (x)	18.05	19.23	15.01	13.39
BV /share	0.74	0.82	0.90	1.00
P/BV (x)	3.43	3.09	2.80	2.52
DPS (sen)	-	5.26	6.74	7.56
DY %	-	2.08	2.66	2.99
ROE (%)	22.63	16.91	19.57	19.83
ROA (%)	18.69	14.02	16.87	17.57

HLIB

Financial Projections for Sasbadi (HOLD; TP: RM2.72; CP: RM2.53)

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

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

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

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)	21.0	18.0	19.2	15.0	13.4
DPS (sen)	-	-	5.3	6.7	7.6
DY %	-	-	2.1	2.7	3.0
BVPS (RM)	0.6	0.7	0.8	0.9	1.0
P/B (x)	4.2	3.4	3.1	2.8	2.5
FCF/Share (sen)	0.1	0.0	0.1	0.1	0.2
FCF yield %	5.9	0.0	3.2	4.8	5.9
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				

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

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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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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