

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; and
 - Defensive yet growing earnings base.
- Negatives:
 - Not winning new textbook contracts from MOE;
 - Rising paper prices; and
 - 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.

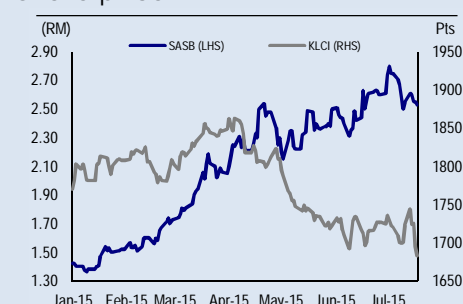
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| | |
|-----------------------------|---------|
| KLCI | 1,682.7 |
| Expected share price return | 7.5% |
| Expected dividend return | 2.1% |
| Expected total return | 9.6% |

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 |

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) | 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 | 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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Equity rating definitions

| | |
|---------------------|--|
| 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. |
| HOLD | Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside. |
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Industry rating definitions

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