

# Company Focus

# Sasbadi Holdings Berhad

Bloomberg: SASB MK | Reuters: SAHO.KL

Refer to important disclosures at the end of this report

## Malaysia Equity Research

11 Dec 2015

### BUY (Upgrade from Hold)

Last Traded Price: RM2.52 (KLCI : 1,648.65)

Price Target : RM2.85 (13% upside) (Prev RM2.42)

Shariah Compliant: Yes

Reason for Report : Company visit , upgrade TP

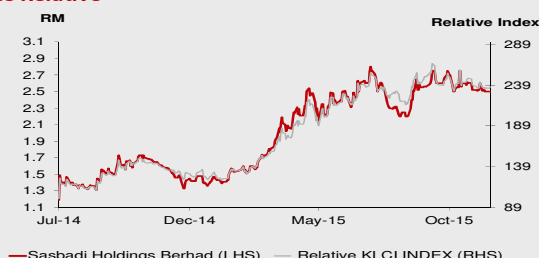
Potential Catalyst: Digital products and regional collaborations take off

Where we differ: In line with consensus

#### Analyst

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#### Price Relative



#### Forecasts and Valuation

FY Aug (RMm)	2014A	2015A	2016F	2017F
Revenue	79.5	87.4	97.6	111
EBITDA	23.0	24.5	34.2	41.3
Pre-tax Profit	16.9	21.4	29.5	35.6
Net Profit	12.3	15.3	20.9	25.4
Net Pft (Pre Ex.)	15.5	15.3	20.9	25.4
EPS (sen)	9.65	12.1	16.4	20.0
EPS Pre Ex. (sen)	12.2	12.1	16.4	20.0
EPS Gth (%)	(4)	25	36	22
EPS Gth Pre Ex (%)	21	(1)	36	22
Diluted EPS (sen)	12.2	12.1	16.4	20.0
Net DPS (sen)	0.0	5.00	8.22	10.0
BV Per Share (sen)	73.8	80.3	88.5	99.3
PE (X)	26.1	20.9	15.3	12.6
PE Pre Ex. (X)	20.7	20.9	15.3	12.6
P/Cash Flow (X)	249.1	10.8	15.3	11.7
EV/EBITDA (X)	13.0	11.8	9.1	7.2
Net Div Yield (%)	0.0	2.0	3.3	4.0
P/Book Value (X)	3.4	3.1	2.8	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	13.1	15.0	19.5	21.3
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		N/A	16.3	19.5
Other Broker Recs:		B: 0	S: 0	H: 2

ICB Industry : Consumer Services

ICB Sector: Media

Principal Business: Educational book publisher

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P

### Good for a second read

- Good growth prospects, both organically and through M&A
- Regional collaborations and digital products could yield positive earnings surprises
- Upgrade to BUY with a higher RM2.85 TP

**Go by (buy) the book.** We turn positive on Sasbadi following our recent meeting with management. We expect the group to deliver FY16-17 earnings growths of 33% and 22% respectively, driven mainly by its conventional book publication and M&A activities. Besides that, we believe that positive newflows/earnings surprises could arise from its regional collaboration(s) and unconventional digital learning products.

**Intensified efforts to monetise its digital products.** Management believes that the potential of its digital products remain underexplored and have intensified efforts to monetise its products by (1) expanding its product portfolio, and, (2) improving its marketing strategy to enhance product recognition.

**Regional collaboration(s) could book positive surprises.** A successful collaboration with Southern Publishing & Media Company Limited could enhance the group's earnings outlook. There also exists earnings upside potential from its ongoing partnership with PT Penerbit Erlangga, one of Indonesia's largest book publishers.

**Upgrade to BUY.** We changed our valuation model from DCF to PE multiple as we believe the latter better reflects near term earnings growth trajectory of Sasbadi. We derive a TP of RM2.85 based on 16x CY16 PE, which is at 30% discount to its peers. We believe the discount is justifiable given Sasbadi's small market cap and low liquidity. The stock deserves a second look for investors wishing to gain exposure to the resilient education sector.

#### At A Glance

Issued Capital (m shrs)	127
Mkt. Cap (RMm/US\$m)	320 / 75.0
Major Shareholders	
Law King Hui (%)	30.0
Lee Swee Hang (%)	15.0
Lee Eng Sang (%)	10.0
Free Float (%)	45.0
3m Avg. Daily Val (US\$m)	0.08

## INVESTMENT THESIS

Profile	Rationale
Sasbadi is a market leader in the local educational publishing industry with c.12% market share. The group is well managed with high ROE and superior profitability, thanks to its lean operating structure and complementary business model.	<p><b>M&amp;A-led earnings expansion</b></p> <ul style="list-style-type: none"> <li>Strong earnings growth driven by organic growth and earnings-accretive M&amp;A initiatives in the fragmented educational print publishing industry. Potential earnings upsides from its regional collaboration(s) and monetisation of its digital products.</li> </ul> <p><b>Star in the making</b></p> <ul style="list-style-type: none"> <li>Diversifying into educational services industry via the establishment of applied learning centres will transform the group into a more diversified educational group, which could re-rate its share price over the long term.</li> </ul> <p><b>Bright structural trend</b></p> <ul style="list-style-type: none"> <li>Riding on the structural trend of (1) increasing awareness of human resource development as Malaysians march towards high-income nation status by 2020, (2) increased demand for sophisticated educational services &amp; products by middle-income parents, and (3) rising school enrolment rates under MEB 2013-2025.</li> </ul>
Valuation	Risks
We upgrade the stock to a BUY with a higher TP of RM2.85, based on 16x CY16 PE. We continue to like Sasbadi for its solid fundamentals and hands-on management.	<p><b>Paper cost fluctuation.</b> A sudden surge in paper cost, which represents about 40% of Sasbadi's COGS, would hurt earnings.</p> <p><b>Change in education policies.</b> Failure to respond to changes in education policies in a timely manner would hurt sales and earnings.</p>

Source: AllianceDBS

### Highlights

**Go by (buy) the book.** We turn positive on Sasbadi following our recent meeting with management. We expect the group to deliver FY16-17 earnings growths of 33% and 22% respectively, driven mainly by its conventional book publication and M&A activities. Other than growing from its conventional book publication and M&A activities, we believe that positive newflows/earnings surprises could arise from its regional collaboration(s) and unconventional digital learning products. In our earnings model, we only conservatively expect its digital products to grow by low teens for FY16-17 and contribute <12% of the group's total earnings, leaving room for earnings upgrade from such segments. Furthermore, we have not accounted for potential earnings contributions from its regional collaboration(s).

**Regional collaboration(s) could book positive surprises.** The group had recently entered into an MOU with Southern Publishing and Media Company Limited, one of the biggest publishing corporations in South China, to explore potential collaborations with IP rights, digital and online learning and teaching. Any successful collaboration on this front could provide positive earnings surprises for the group. We also understand that the group is talking to other players in the region for potential collaborations.

**Potential upside surprises from Indonesia venture.** On the other hand, we have not factored in potential earnings contributions from its collaboration with PT Penerbit Erlangga, one of Indonesia's largest book publishers, leaving potential earnings upside from this venture. To recap, in 2014, Sasbadi entered into a Licence and Services Agreement (LSA) with one of Indonesia's largest book publishers, PT Penerbit Erlangga. This would grant the publisher an exclusive and non-transferable licence to use its interactive online learning system i-LEARN, and sell the latter's online learning materials under the platform in Indonesia. In return, Sasbadi would receive semi-annual royalties fees based on net sales generated through the online platform in Indonesia. PT Penerbit Erlangga has launched its online learning product called 'E Learn' in September this year.

**Intensified efforts to monetise its digital products.** Management believes that the potential of its digital products (currently contributing <10% of group revenue) remains underexplored and have intensified efforts to monetise its products by (1) expanding its product portfolio, and, (2) improvising its marketing strategy to enhance product recognition. Although management did not divulge much information during the meeting, they are excited about the new augmented reality digital products to be rolled out in the coming months. We observe that the group has acquired a new subsidiary called Mindtech Education Sdn Bhd back in July to explore business opportunities in network marketing. We are positive of potentially engaging such marketing strategies since we believe that the general market remains unfamiliar with such products

**Table 1 : Examples of its digital products**



and a more personalised marketing strategy could help the consumer to have better recognition and appreciation of these digital products .

**Upgrade to BUY with a higher TP of RM2.85.** We changed our valuation model from DCF to PE multiple as we believe the latter better reflects near term earnings growth trajectory of Sasbadi. We derive a TP of RM2.85 based on 16x CY16 PE which is at 30% discount to its peers. We believe the discount is justifiable given Sasbadi's small market cap and low liquidity. The stock deserves a second look for investors wishing to gain exposure to the resilient education sector.

## Peers comparison table

					EPS (FD) Growth (YoY)		P/E (FD)		Price/BVPS		Dividend Yield		ROE	
	Call	Target Price (LC)	Current Price (LC)	Mkt Cap (MYR m)	CY2015	CY2016	CY2015	CY2016	CY2015	CY2016	CY2015	CY2016	CY2015	CY2016
Pelangi	NR	NR	0.52	50.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sasbadi	BUY	2.85	2.52	320.0	13.5%	25.0%	17.9x	14.3x	3.0x	2.7x	2.8%	3.5%	16.9%	19.0%
SEG	NR	NR	1.40	1,010.4	25.0%	20.0%	31.1x	25.9x	4.7x	4.7x	6.7%	1.9%	17.7%	17.7%
Pres tariang	NR	NR	2.93	1,416.2	54.8%	104.6%	45.1x	22.0x	7.5x	6.6x	2.1%	2.7%	14.7%	14.7%
Total / weighted avg				2,797.0	38.3%	63.1%	36.1x	22.2x	5.8x	5.3x	3.8%	2.4%	15.8%	16.0%

Source: Bloomberg, AllianceDBS

### Key Assumptions

FY Aug	2013A	2014A	2015A	2016F	2017F
Incremental print publishing revenue (RM m)	9.73	1.24	7.22	13.8	12.1
Organic growth (excl. past year exam) (RM m)	11.2	5.06	0.66	2.91	3.47
Incremental revenue from past year exam paper (RM m)	(1.5)	(13.8)	0.0	0.0	0.0
GP margin (%)	41.2	46.6	47.5	47.5	48.0
Dividend payout ratio (%)	0.0	0.0	41.4	50.0	50.0

### Sensitivity Analysis

FY16	
GP margin +/- 1%	Net Profit +/- 4%

### Income Statement (RMm)

FY Aug	2013A	2014A	2015A	2016F	2017F
Revenue	78.0	79.5	87.4	97.6	111
Cost of Goods Sold	(45.8)	(42.4)	(45.9)	(51.3)	(57.5)
<b>Gross Profit</b>	<b>32.1</b>	<b>37.0</b>	<b>41.5</b>	<b>46.4</b>	<b>53.1</b>
Other Opng (Exp)/Inc	(14.6)	(16.6)	(20.1)	(17.0)	(17.7)
<b>Operating Profit</b>	<b>17.6</b>	<b>20.4</b>	<b>21.4</b>	<b>29.4</b>	<b>35.4</b>
Net Interest (Exp)/Inc	0.10	(0.3)	0.0	0.18	0.15
Exceptional Gain/(Loss)	0.0	(3.2)	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>17.7</b>	<b>16.9</b>	<b>21.4</b>	<b>29.5</b>	<b>35.6</b>
Tax	(4.9)	(4.6)	(5.6)	(7.7)	(9.1)
Minority Interest	0.0	0.0	(0.5)	(1.0)	(1.0)
<b>Net Profit</b>	<b>12.8</b>	<b>12.3</b>	<b>15.3</b>	<b>20.9</b>	<b>25.4</b>
Net Profit before Except.	12.8	15.5	15.3	20.9	25.4
EBITDA	19.5	23.0	24.5	34.2	41.3

### Growth

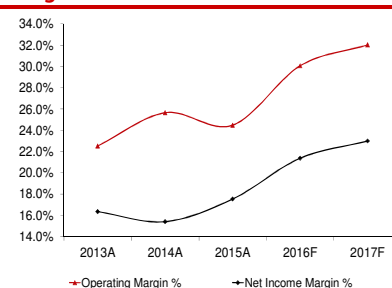
Revenue Gth (%)	20.3	1.9	10.0	11.7	13.3
EBITDA Gth (%)	22.1	18.0	6.7	39.4	21.0
Opg Profit Gth (%)	22.5	16.1	4.9	37.2	20.7
Net Profit Gth (Pre-ex) (%)	23.1	21.2	(0.8)	36.2	21.8

### Margins & Ratio

Gross Margins (%)	41.2	46.6	47.5	47.5	48.0
Opg Profit Margin (%)	22.5	25.7	24.5	30.1	32.0
Net Profit Margin (%)	16.4	15.4	17.5	21.4	23.0
ROAE (%)	22.1	13.1	15.0	19.5	21.3
ROA (%)	16.5	11.0	13.3	17.2	18.9
ROCE (%)	20.4	14.6	14.9	19.5	21.2
Div Payout Ratio (%)	63.5	69.4	41.4	50.0	50.0
Net Interest Cover (x)	NM	62.9	856.1	NM	NM

Source: Company, AllianceDBS

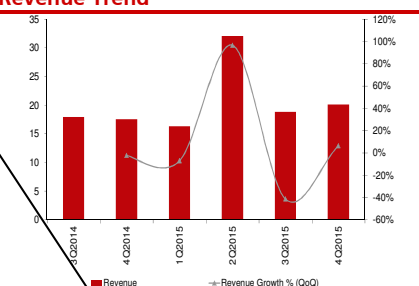
### Margins Trend



## Quarterly / Interim Income Statement (RMm)

FY Aug	4Q2014	1Q2015	2Q2015	3Q2015	4Q2015
Revenue	17.6	16.3	32.1	18.9	20.1
Cost of Goods Sold	(10.3)	(9.4)	(14.7)	(10.0)	(11.8)
<b>Gross Profit</b>	<b>7.28</b>	<b>6.93</b>	<b>17.4</b>	<b>8.84</b>	<b>8.27</b>
Other Oper. (Exp)/Inc	(5.4)	(4.7)	(5.9)	(4.5)	(4.9)
<b>Operating Profit</b>	<b>1.93</b>	<b>2.21</b>	<b>11.5</b>	<b>4.33</b>	<b>3.33</b>
Net Interest (Exp)/Inc	0.0	0.02	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.06	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>1.89</b>	<b>2.29</b>	<b>11.5</b>	<b>4.30</b>	<b>3.33</b>
Tax	(0.7)	(0.6)	(3.2)	(1.2)	(0.6)
Minority Interest	0.0	0.0	0.0	0.0	(0.5)
<b>Net Profit</b>	<b>1.22</b>	<b>1.65</b>	<b>8.30</b>	<b>3.11</b>	<b>2.23</b>
Net profit bef Except.	1.22	1.59	8.30	3.11	2.23
EBITDA	2.58	2.88	12.8	4.51	4.29

## Revenue Trend



Sasbadi's earnings are highly seasonal with 2Q (Dec-Feb) of its FY being its strongest quarter.

## Growth

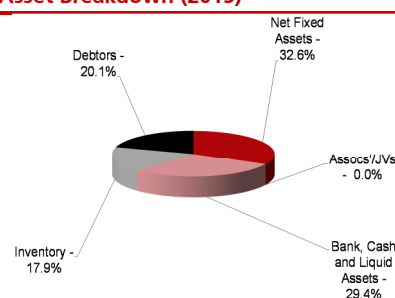
Revenue Gth (%)	(2.2)	(7.0)	96.7	(41.2)	6.6
EBITDA Gth (%)	(46.3)	11.5	344.9	(64.8)	(4.7)
Opg Profit Gth (%)	(53.6)	14.1	421.3	(62.3)	(23.1)
Net Profit Gth (Pre-ex) (%)	(59.0)	30.3	423.7	(62.5)	(28.3)

Sequential comparisons is not meaningful given that the group's earnings are subject to high seasonality.

## Margins

Gross Margins (%)	41.5	42.5	54.2	46.9	41.1
Opg Profit Margins (%)	11.0	13.5	35.8	23.0	16.6
Net Profit Margins (%)	6.9	10.1	25.9	16.5	11.1

## Asset Breakdown (2015)



## Balance Sheet (RMm)

FY Aug	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	28.1	30.3	33.2	38.3	36.8
Other LT Assets	0.0	4.95	11.1	32.3	28.9
Cash & ST Invt	12.0	23.9	29.9	9.25	22.8
Inventory	15.0	20.3	18.1	21.1	23.6
Debtors	19.1	31.0	20.5	24.1	27.3
Other Current Assets	2.60	1.12	2.26	2.46	2.64
<b>Total Assets</b>	<b>76.9</b>	<b>112</b>	<b>115</b>	<b>127</b>	<b>142</b>
ST Debt	0.25	3.46	0.0	0.0	0.0
Creditor	2.01	7.40	1.81	2.11	2.36
Other Current Liab	5.78	3.06	7.30	7.98	8.58
LT Debt	0.30	0.20	0.20	0.20	0.20
Other LT Liabilities	4.04	3.73	3.73	3.73	3.73
Shareholder's Equity	64.5	93.7	102	112	126
Minority Interests	0.0	0.0	0.0	1.00	1.00
<b>Total Cap. &amp; Liab.</b>	<b>76.9</b>	<b>112</b>	<b>115</b>	<b>127</b>	<b>142</b>
Non-Cash Wkg. Capital	29.0	41.9	31.8	37.5	42.6
Net Cash/(Debt)	11.5	20.3	29.7	9.05	22.6
Debtors Turn (avg days)	74.0	115.1	107.4	83.3	84.7
Creditors Turn (avg days)	16.6	43.1	39.3	15.4	15.8
Inventory Turn (avg days)	151.8	161.6	163.8	154.0	158.1
Asset Turnover (x)	1.0	0.8	0.8	0.8	0.8
Current Ratio (x)	6.1	5.5	7.8	5.6	7.0
Quick Ratio (x)	3.9	3.9	5.5	3.3	4.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	246.9	184.8	6,060.6	15,707.1	505.1
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

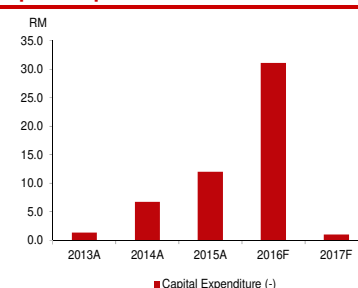
Source: Company, AllianceDBS

## Cash Flow Statement (RMm)

FY Aug	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	17.7	16.9	22.6	29.5	35.6
Dep. & Amort.	1.92	2.58	3.02	4.80	5.91
Tax Paid	(4.3)	(5.1)	(6.2)	(7.7)	(9.1)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	0.0	(15.0)	10.2	(5.8)	(5.1)
Other Operating CF	1.82	1.94	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>17.1</b>	<b>1.29</b>	<b>29.6</b>	<b>20.9</b>	<b>27.3</b>
Capital Exp.(net)	(1.4)	(6.8)	(12.0)	(31.1)	(1.0)
Other Investing CF	0.13	0.04	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(1.2)</b>	<b>(6.7)</b>	<b>(12.0)</b>	<b>(31.1)</b>	<b>(1.0)</b>
Div Paid	(16.1)	(8.5)	(8.2)	(10.4)	(12.7)
Chg in Gross Debt	0.0	(0.3)	(3.5)	0.0	0.0
Capital Issues	0.0	22.7	0.0	0.0	0.0
Other Financing CF	(0.3)	3.34	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>(16.4)</b>	<b>17.3</b>	<b>(11.7)</b>	<b>(10.4)</b>	<b>(12.7)</b>
Chg in Cash	(0.5)	11.9	5.93	(20.6)	13.5
Opg CFPS (sen)	13.5	12.8	15.3	21.0	25.5
Free CFPS (sen)	12.4	(4.3)	13.9	(8.0)	20.7

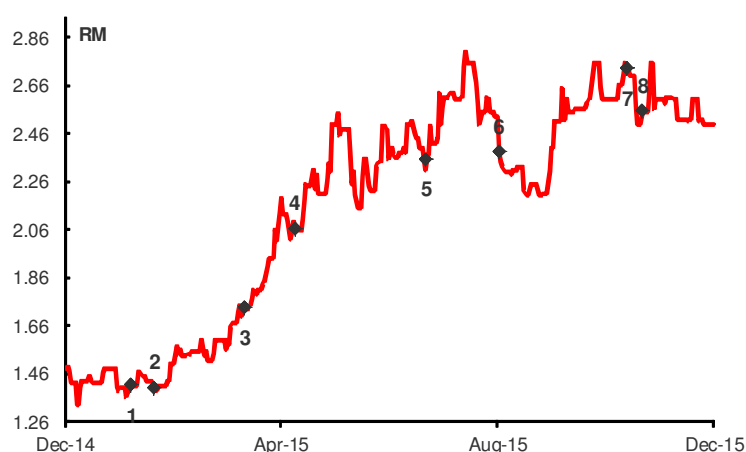
Source: Company, AllianceDBS

## Capital Expenditure



Consists of RM7.5m for land acquisition and RM21m for acquisition of SUSB

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

## DISCLOSURE

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### Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

### Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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