

Sasbadi Holdings (BUY ↔; EPS ↔)

EDUCATION
EARNINGS EVALUATION

28 January 2016

Price Target: RM2.80 (↔)

Share price: RM2.60

1QFY16 Results

Results

- **Within expectations:** Sasbadi's revenue of RM21.0m (+5% qoq and 29% yoy) translated into PATAMI of RM2.0m, accounting for 9% and 10% of both ours and consensus estimates.

Deviations

- A seasonally weaker quarter for the group. We expect higher earnings contributions from 2Q, followed by 3Q as students purchase new books for the beginning of the school term.

Dividends

- None.

Highlights

- **1QFY16 yoy review...** Sasbadi recorded revenue of RM21.0m, a growth of 29% yoy, whereas its PATAMI grew 23% to RM2.0m thanks to the consolidation of Sanjung Unggul which was completed in the previous quarter.
- Sanjung Unggul, which publishes books and educational materials catering for students of national-type Chinese schools (SJKC), contributed RM5.4m to total revenue. Sasbadi S/B, on the other hand, declined 4% yoy to RM14.7m.
- We look forward to the group's future earnings coming from the new syllabus for secondary school in 2017. Tendering process should end in mid-2016. We believe there will be more opportunities for the curriculum-based textbook segment where competition is milder.

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 pending a meeting with the management for an update post results.

Rating

BUY (↔)

- We like Sasbadi due to its strong annual FCF, high growth rate, and unique education exposure which is closely linked to the country's education system.

Valuation

- Maintain BUY with unchanged TP of RM2.80 based on unchanged P/E multiple of 15.5x CY16 EPS. Targeted P/E is based on 55% discount to the education sector average in view of its relatively small market capitalization and low liquidity.

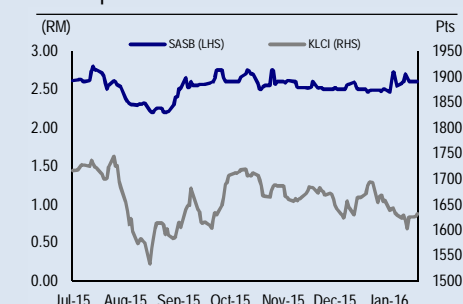
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KLCI	1,631.5
Expected share price return	7.7%
Expected dividend return	2.6%
Expected total return	10.3%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	140
Market cap (RM m)	363
3-mth avg. volume ('000)	126
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	4.0	4.0	81.8
Relative	6.0	8.2	100.9

Major shareholders

Law King Hui	18.3%
Karya Kencana	18.2%
CIMB Principal Asset Mgmt	9.9%
Lee Swee Hang	9.2%

Summary Earnings Table

FYE Aug (RM m)	2014A	2015A	2016E	2017E
Revenue	79.5	87.4	103.1	110.7
Pre-tax Profit	20.2	21.4	29.0	32.1
Rpt. PATAMI	15.5	15.3	21.5	24.1
Nom. PATAMI	15.5	15.3	21.5	24.1
Nom. EPS (sen)	12.2	12.1	16.9	18.9
Nom. P/E (x)	21.2	21.5	15.3	13.7
BV/share (RM)	0.7	0.8	1.0	1.2
P/BV (x)	3.5	3.1	2.6	2.2
Gross DPS (sen)	-	5.0	6.8	7.6
Div. yield (%)	-	1.9	2.6	2.9
ROE (%)	17.7	13.9	16.8	15.8
ROA (%)	14.5	10.6	13.4	13.0

HLIB

Figure #1 Quarterly Results Comparison

FYE May (RMm)	1Q15	4Q15	1Q16	Qoq (%)	Yoy (%)	Comments
Revenue	16.3	20.1	21.0	5	29	Yoy: Contributed by newly acquired Sanjung Unggul. Qoq: Subdued growth as 1 st quarter is the weakest quarter for Sasbadi.
GP	6.9	8.3	9.3	12	34	
Other op. Income	0.1	0.5	0.0	-99	-92	
Expenses	(4.7)	(5.4)	(5.8)	7	22	Filtered down from EBITDA.
EBIT	2.3	3.3	3.5	6	55	Filtered down from EBIT.
Interest income	0.1	0.1	0.0	-92	-92	Filtered down from PBT.
Finance Costs	(0.1)	(0.1)	(0.3)	156	199	
PBT	2.3	3.3	3.2	-3	42	
Tax	(0.6)	(0.6)	(0.9)	44	44	
PATAMI	1.6	2.2	2.0	-9	23	
Basic EPS (sen)	1.3	1.8	1.6	-9	23	
Adj. EPS (sen)	1.3	1.8	1.6	-9	23	

Company Data

Figure #2 1QFY16 Results vs. HLIB's Estimates and Consensus

	Actual 1QFY16	HLIB FY16	Actual vs. HLIB (%)	Consensus FY16	Actual vs. Consensus (%)	Comments
Revenue	92.6	21.0	103.1	20%	100.3	Within expectations.
EBITDA	2.1	4.5	32.7	14%	33.5	Within expectations.
EBITDA Margin (%)	2.3	21%	32%		33%	
EBIT	1.1	3.5	29.5	12%	29.4	Within expectations.
PBT	1.4	3.2	29.0	11%	29.3	
PAT		2.3	21.5	11%	21.2	
PATAMI		2.0	21.5	9%	21.2	
Basic EPS (sen)	1.0	1.6	16.9	9%	16.5	Within expectations.
Adj. EPS (sen)	1.0	1.6	16.9	9%	16.5	

Company Data, HLIB, Bloomberg

Figure #3 Consensus vs. HLIB

FYE Dec (RM m)	FY16E			FY17E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	103.1	100.3	2.8	110.7	111.0	-0.3
PATAMI	21.5	21.2	1.3	24.1	24.8	-2.8

Bloomberg, HLIB

Figure #4 Regional Peers Comparison

Company	FYE	Price (Local)		Market Cap (m) (Local) (USD)		P/E (x)		P/B (x)		ROE (%)		Gross DY (%)
						2016	2017	2016	2017	2016	2017	2016
Sasbadi	Aug	MYR	2.60	363.2	85.4	15.4	13.8	2.6	2.2	16.8	15.8	2.6
Pelangi Publishing	Sept	MYR	0.50	48.4	11.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR	2.70	1,305.0	306.9	54.0	20.8	7.0	6.5	14.7	32.8	2.4
SEG International	Dec	MYR	1.30	938.3	220.6	28.9	24.1	4.3	4.3	17.7	16.4	7.2
ASIAMET Education	Dec	MYR	0.30	112.8	26.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR	0.20	50.6	11.9	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						32.8	19.5	4.6	4.3	16.4	21.7	4.1

HLIB, Bloomberg

Financial Projections for Sasbadi (BUY; TP: RM2.80; CP: RM2.60)

Income Statement

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	78.0	79.5	87.4	103.1	110.7
EBITDA	19.6	19.8	24.5	32.7	35.5
D&A	2.0	2.6	3.1	3.2	3.2
EBIT	17.6	20.5	21.4	29.5	32.3
Interest income	0.1	(0.3)	(0.0)	(0.5)	(0.2)
Interest expense	(0.1)	(0.5)	(0.5)	(0.8)	(0.8)
JV & Associates	0.0	0.0	0.0	0.0	0.0
PBT	17.7	20.2	21.4	29.0	32.1
Income Tax Expense	(4.9)	(4.6)	(5.6)	(7.5)	(8.0)
Discontinued op.	0.0	0.0	0.0	0.0	0.0
NCI	0.0	0.0	(0.5)	0.0	0.0
PATAMI	12.8	15.5	15.3	21.5	24.1
Basic shares (m)	127.0	127.0	127.0	127.0	127.0
Basic EPS (sen)	10.0	12.2	12.1	16.9	18.9

Quarterly Financial Summary

FYE 31 Aug (RM m)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16
Revenue	16.3	32.1	18.9	20.1	21.0
GP	6.9	17.5	8.8	8.3	9.3
Other Income	0.1	0.0	0.1	0.5	0.0
Expenses	(4.7)	(6.0)	(4.6)	(5.4)	(5.8)
EBIT	2.3	11.5	4.3	3.3	3.5
Interest Income	0.1	0.1	0.1	0.1	0.0
Finance Costs	(0.1)	(0.1)	(0.2)	(0.1)	(0.3)
PBT	2.3	11.5	4.3	3.3	3.2
Tax	(0.6)	(3.1)	(1.2)	(0.6)	(0.9)
PATAMI	1.6	8.3	3.1	2.2	2.0
Basic EPS (sen)	1.3	6.6	2.5	1.8	1.6
Adj Basic EPS (sen)	1.3	6.6	2.5	1.8	1.6

Balance Sheet

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	28.0	30.3	30.9	29.6	28.2
Other long-term assets	0.0	5.0	21.1	25.9	30.8
Other short-term assets	0.9	1.6	5.0	5.0	5.0
Working Capital	28.5	43.4	65.3	69.8	74.9
Receivables	20.0	31.2	42.0	39.5	42.4
Payables	(6.5)	(8.0)	(13.7)	(12.2)	(13.1)
Inventory	15.0	20.2	37.1	42.5	45.6
Net cash	11.5	20.3	(1.1)	8.5	23.9
Cash	12.0	26.3	8.3	18.1	33.5
Total Debt	(0.5)	(6.0)	(9.4)	(9.5)	(9.5)
Shareholders' funds	63.6	93.7	105.2	127.8	151.8
Share capital	2.4	63.5	63.5	63.5	63.5
Reserves	61.2	30.2	41.7	64.3	88.3
Minorities	0.0	0.0	4.9	0.0	0.0
Other liabilities	5.3	6.8	11.1	11.1	11.1

Rates and Ratios

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Basic EPS (sen)	10.0	12.2	12.1	16.9	18.9
P/E (x)	25.9	21.2	21.5	15.4	13.7
Gross DPS (sen)	0.0	0.0	5.0	6.8	7.6
Div. yield (%)	0.0	0.0	1.9	2.6	2.9
BV/share (RM)	0.5	0.7	0.8	1.0	1.2
P/B (x)	5.2	3.5	3.1	2.6	2.2
FCF/share (sen)	0.1	0.1	0.1	0.2	0.2
Net Debt/Equity (%)	N Cash	N Cash	(1.0)	N Cash	N Cash
Enterprise value	318.7	309.9	336.2	321.7	306.3
EV/EBITDA (x)	16.3	15.7	13.7	9.8	8.6
ROE (%)	20.0	17.7	13.9	16.8	15.8
ROA (%)	16.8	14.5	10.6	13.4	13.0

Cashflow Analysis

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
EBITDA	19.6	23.1	24.5	32.7	35.5
WC changes	(0.1)	(14.9)	(22.0)	(4.4)	(5.1)
Taxation	(4.9)	(4.6)	(5.6)	(7.5)	(8.0)
Others	2.6	(2.3)	7.5	0.0	0.0
Operating cashflow	17.1	1.3	4.5	20.7	22.4
Capex & acquisitions	(8.8)	(6.8)	(6.8)	(6.8)	(6.8)
Free cashflow	8.3	(5.5)	(2.3)	14.0	15.6
Other inv cashflow	7.6	0.0	0.4	0.3	0.5
New borrowings	(0.3)	5.5	3.5	0.0	0.0
Share issuance	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	(8.5)	(3.8)	0.0	0.0
Other fin cashflow	(16.2)	17.0	(0.5)	(0.8)	(0.8)
Net cashflow	(0.5)	8.5	(2.6)	13.5	15.4

Assumption Metrics

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue Growth (%)	20.3	2.0	9.9	17.9	7.3
PBT Growth (%)	18.9	1.0	23.8	33.5	8.7
PAT Growth (%)	18.2	16.8	4.4	37.9	9.4
EBITDA Margin (%)	25.1	24.9	28.0	31.7	32.1
EBIT Margin (%)	22.5	25.8	24.5	28.6	29.2
PBT Margin (%)	22.7	25.4	24.5	28.1	29.0
PAT Margin (%)	16.4	19.6	18.1	20.8	21.7

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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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