

Sasbadi Holdings (BUY ↔; EPS ↓)

EDUCATION
COMPANY INSIGHT

20 June 2016

Price Target: RM1.55 (↔)

Share price: RM1.22

Post 2QFY16 Results Meeting

Highlights

- We met up Sasbadi's CFO Mr. Tang Yuen Kin last week, some key takeaways are as per below:
- The slightly tepid results were due to higher resources used for the textbook tender participation. Excluding Sanjung Unggul, its applied learnings products and online division, the group actually recorded 11% decline yoy in gross profit. The decline in earnings for Malaysian Book Promotions was partly due to rebranding of some titles to Sasbadi Sdn Bhd.
- Out of the 26 textbook tenders (see figure #1 below) Sasbadi won RM9.4m in total. These textbooks are to be delivered and used 2017 onwards.
- The group's opening of its first learning centre in Kota Damansara in 2HCY16 will be delayed as management is currently relooking at its business model. Though slightly delayed, we still believe the establishment of the applied learnings centres would be beneficial for Sasbadi in the future as STEM Education (Science, Technology, Engineering and Mathematics Education) is gaining more traction in Malaysia.
- Despite being in a recession proof business, we believe the group would be slightly affected by the weak purchasing power and tough business environment. Hence, we are expecting a softer 2H16 for the group.
- Also, note that the take up rate for the online educational products sold by PT. Penerbit Erlangga is slower than expected (based on the LSA, Sasbadi will receive royalties semi-annually based on net sales received by PT. Penerbit Erlangga).
- Excluding Sanjung Unggul, we anticipate an organic growth of high single digits. Sasbadi's direct selling business, Mindtech Education S/B which focuses on selling and consumer education on the group's digital/online educational products, has recorded approximately 700-800 memberships. We believe this would provide growth impetus for the group's online segment.

Risks

- Migration towards the online platform;
- Spike in paper prices; and
- Changes in National Curriculum and educational policies.

Forecasts

- FY16 earnings forecast is slightly reduced by 4% as we expect softer 2H for Sasbadi.

Rating

BUY (↔)

- We like Sasbadi due to its strong annual FCF, high growth rate, its innovativeness in creating products that cater to tech-savvy youth and unique education exposure which is closely linked to the country's education system.

Valuation

- Reiterate BUY with TP of RM1.55 based on P/E multiple of 18x CY17 EPS. Targeted P/E is based on a discount of 40% to education sector. Valuation is justified in our view, due to Sasbadi's relatively small market capitalisation and low liquidity.

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KLCI	1,624.2
Expected share price return	27.0%
Expected dividend return	3.5%
Expected total return	30.6%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	341
3-mth avg. volume ('000)	375
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-0.8	-2.4	-2.4
Relative	-0.5	3.1	3.5

Major shareholders

Law King Hui	18.3%
Karya Kencana	18.2%
Lee Swee Hang	8.5%

Summary Earnings Table

FYE Aug (RM m)	2014A	2015A	2016E	2017E
Revenue	79.5	88.0	100.4	108.5
Pre-tax Profit	20.2	21.4	26.5	32.1
Rpt. PATAMI	15.5	15.3	19.6	24.1
Nom. PATAMI	15.5	15.3	19.6	24.1
Nom. EPS (sen)	5.6	5.5	7.0	8.6
Nom. P/E (x)	21.9	22.2	17.4	14.2
BV/share (RM)	0.3	0.4	0.6	0.7
P/BV (x)	3.6	3.2	2.2	1.9
Gross DPS (sen)	-	5.0	3.5	4.3
Div. yield (%)	-	4.1	2.9	3.5
ROE (%)	17.7	13.9	12.4	13.2
ROA (%)	14.5	10.9	10.5	11.4
HLIB				

Figure #1 Textbook Contracts Tenders in 2016 (based on subjects)

No.	Subjects
1	Matematik (Tingkatan 1)
2	Sains (Tingkatan 1)
3	Geographi (Tingkatan 1)
4	Reka Bentuk dan Teknologi (Tingkatan 1)
5	Asas Sains Komputer (Tingkatan 1)
6	Pendidikan Seni Visual (Tingkatan 1)
7	Pendidikan Muzik (Tingkatan 1)
8	Bahasa Arab (Tingkatan 1)
9	Bahasa Cina (Tingkatan 1)
10	Bahasa Tamil (Tingkatan 1)
11	Bahasa Jepun Menengah Rendah
12	Pendidikan Jasmani dan Kesihatan (Tingkatan 1)
13	English (Tingkatan 1)
14	Pendidikan Moral (Tahun 1 SJKC)
15	Matematik (Tahun 1 SJKC)
16	Sains (Tahun 1 SJKC)
17	Bahasa Cina (Tahun 1 SJKC)
18	Matematik (Tahun 1 SJKC)
19	Sains (Tahun 1 SJKT)
20	Bahasa Tamil (Tahun 1 SJKT)
21	Pendidikan Jasmani dan Kesihatan (Tahun 1 SJKC)
22	English (Tahun 1 SJK)
23	Ekonomi (Tingkatan 4)
24	Perniagaan (Tingkatan 4)
25	Prinsip Perakaunan (Tingkatan 4)
26	Komponen Sastera Bahasa Melayu (Tingkatan 3)

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*Highlighted in yellow – Contracts won by Sasbadi

Figure #2 Regional Peers Comparison

Company	FYE	Price		Market Cap (m)		P/E (x)		P/B (x)		ROE (%)		Gross DY (%)
		(Local)		(Local)	(USD)	2016	2017	2016	2017	2016	2017	2016
Sasbadi	Aug	MYR 1.22		340.9	83.1	16.7	14.2	2.0	1.7	12.9	13.2	3.0
Pelangi Publishing	Sept	MYR 0.50		47.9	11.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR 2.04		985.2	240.3	22.9	16.1	5.2	4.7	24.1	29.8	3.0
SEG International	Dec	MYR 1.22		880.5	214.7	27.1	N/A	3.8	N/A	16.1	N/A	1.9
SIAMET Education	Dec	MYR 0.27		101.5	24.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR 0.18		50.1	12.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						22.2	15.1	3.7	3.2	17.7	21.5	2.6

HLIB, Bloomberg

Sasbadi Holdings (BUY; TP: RM1.55; CP: RM1.22)

Income Statement

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	78.0	79.5	88.0	100.4	108.5
EBITDA	19.5	19.8	24.4	30.3	35.3
D&A	1.9	2.6	2.9	3.3	3.4
EBIT	17.6	20.5	21.4	27.1	31.8
Interest income	0.1	(0.3)	(0.0)	(0.5)	0.3
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	26.5	32.1
Income Tax Expense	(4.9)	(4.6)	(5.6)	(6.9)	(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	19.6	24.1
Basic shares (m)	279.4	279.4	279.4	279.4	279.4
Basic EPS (sen)	4.6	5.6	5.5	7.0	8.6

Quarterly Financial Summary

FYE 31 Aug (RM m)	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
Revenue	32.1	18.9	20.1	21.0	33.9
GP	17.5	8.8	8.3	9.3	17.3
Other Income	0.0	0.1	0.5	0.0	0.0
Expenses	(6.0)	(4.6)	(5.4)	(5.8)	(8.1)
EBIT	11.5	4.3	3.3	3.5	9.3
Interest Income	0.1	0.1	0.1	0.0	0.1
Finance Costs	(0.1)	(0.2)	(0.1)	(0.3)	(0.3)
PBT	11.5	4.3	3.3	3.2	9.0
Tax	(3.1)	(1.2)	(0.6)	(0.9)	(2.4)
PATAMI	8.3	3.1	2.2	2.0	6.6
Basic EPS (sen)	6.6	2.5	1.8	1.6	5.0
Adj Basic EPS (sen)	6.6	2.5	1.8	1.6	5.0

Balance Sheet

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	28.0	30.3	30.9	30.7	30.4
Other long-term assets	0.0	5.0	22.7	40.0	57.4
Other short-term assets	0.9	1.6	1.4	1.4	1.4
Working Capital	28.5	43.4	64.0	68.6	73.0
Receivables	20.0	31.2	40.4	38.5	41.6
Payables	(6.5)	(8.0)	(13.4)	(12.2)	(12.7)
Inventory	15.0	20.2	37.1	42.2	44.1
Net cash	11.5	20.3	(1.1)	24.7	28.1
Cash	12.0	26.3	8.3	34.3	37.7
Total Debt	(0.5)	(6.0)	(9.4)	(9.5)	(9.5)
Shareholders' funds	63.6	93.7	105.2	157.8	182.7
Share capital	2.4	63.5	63.5	95.3	95.3
Reserves	61.2	30.2	41.7	62.5	87.4
Minorities	0.0	0.0	5.1	0.0	0.0
Other liabilities	5.3	6.8	7.6	7.6	7.6

Rates and Ratios

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Basic EPS (sen)	4.6	5.6	5.5	7.0	8.6
P/E (x)	26.7	21.9	22.2	17.4	14.2
Gross DPS (sen)	0.0	0.0	5.0	3.5	4.3
Div. yield (%)	0.0	0.0	4.1	2.9	3.5
BV/share (RM)	0.2	0.3	0.4	0.6	0.7
P/B (x)	5.4	3.6	3.2	2.2	1.9
FCF/share (sen)	0.1	0.0	0.1	0.1	0.2
Net Debt/Equity (%)	18.1	21.6	(1.0)	15.7	15.0
Enterprise value	329.4	320.6	347.0	316.1	313.6
EV/EBITDA (x)	16.9	16.2	14.2	10.4	8.9
ROE (%)	20.0	17.7	13.9	12.4	13.2
ROA (%)	16.8	14.5	10.9	10.5	11.4

Cashflow Analysis

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
EBITDA	19.5	23.1	24.4	30.3	35.3
WC changes	(0.1)	(14.9)	(20.7)	(4.5)	(4.9)
Taxation	(4.9)	(4.6)	(5.6)	(6.9)	(8.0)
Others	2.7	(2.3)	6.4	0.0	0.0
Operating cashflow	17.1	1.3	4.5	18.9	22.3
Capex & acquisitions	(8.8)	(6.8)	(20.5)	(20.5)	(20.5)
Free cashflow	8.3	(5.5)	(16.0)	(1.6)	1.8
Other inv cashflow	7.6	0.0	0.4	0.3	1.1
New borrowings	(0.3)	5.5	3.5	0.0	0.0
Share issuance	0.0	0.0	0.0	31.8	0.0
Dividends paid	0.0	(8.5)	(3.8)	0.0	0.0
Other fin cashflow	(16.2)	17.0	(0.5)	31.0	(0.8)
Net cashflow	(0.5)	8.5	(16.4)	61.4	2.1

Assumption Metrics

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue Growth (%)	20.3	2.0	10.6	14.2	8.0
PBT Growth (%)	18.6	14.3	6.1	24.5	16.3
PAT Growth (%)	17.1	21.9	1.5	26.2	17.7
EBITDA Margin (%)	25.0	24.9	27.7	30.2	32.5
EBIT Margin (%)	22.5	25.8	24.4	26.9	29.3
PBT Margin (%)	22.7	25.4	24.3	26.4	29.6
PAT Margin (%)	16.4	19.6	17.9	19.6	22.2

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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.
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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