

Sasbadi Holdings (BUY ↔; EPS ↔)

**EDUCATION
NEWSBREAK**

18 July 2016

Price Target: RM1.55 (↔)

Share price: RM1.22

Acquisition of United Publishing House

News/ Comments

- In an announcement to Bursa Malaysia, Sasbadi announced that it has acquired 100% equity interest in United Publishing House (M) Sdn Bhd (UPH) for a purchase price of RM4.35m.
- On top of being a major dictionary publisher, UPH also publishes books and trades printed materials with focus in early educational materials, story books, comic books, and school references and workbooks in Chinese language. Upon acquisition, Sasbadi will have an additional 880 titles in its possession.
- At the same time, UPH entered into various share transfer agreement with a purchase consideration of RM800k to acquire 100% equity interests in (1)UPH Distributor SB; (2) Penerbitan Minda SB; (3) Penerbitan Daya SB; and (4) G-Apple Studio SB, all of which are involved in a similar business as UPH but are currently inactive.
- As of FY15 UPH recorded a PAT of RM0.1m. Meanwhile, the other 4 companies to be acquired by UPH are currently loss making with a total loss of RM1.45m. Hence, we believe any positive contribution will take some time to kick in.
- Total consideration to be paid for all the above acquisitions amounts to RM5.15m to be funded by the proceeds raised by Sasbadi through the completed private placement earlier this year.
- Overall, we are neutral on the above acquisitions as the expected contribution is insignificant for now, accounting for less than 1% of FY16 PATAMI. However, we believe the acquisition will expand Sasbadi's foothold in the Chinese language publishing market.

Risks

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

Forecasts

- No changes to our forecasts pending more information from management.

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.

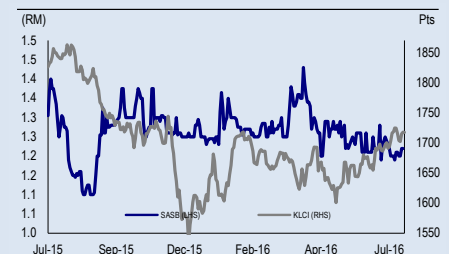
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KLCI	1668.4
Expected share price return	27.0%
Expected dividend return	2.9%
Expected total return	29.9%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	341
3-mth avg. volume ('000)	217
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	0.0	-6.2	-6.2
Relative	-2.7	-3.4	-2.9

Major shareholders

Law King Hui	18.32%
Karya Kencana	18.18%
CIMB Principal Asset Mgmt	8.69%
Lee Swee Hang	8.47%

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

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Figure #1 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	1.22	340.9	86.8	16.7	14.2	2.0	1.7	12.9	13.2	3.0
Pelangi Publishing	Sept	MYR	0.51	49.3	12.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR	2.18	1,053.3	223.6	21.2	15.2	4.7	4.3	23.0	28.8	3.4
SEG International	Dec	MYR	1.22	880.5	218.6	26.4	N/A	3.7	N/A	16.1	N/A	1.9
ASIAMET Education	Dec	MYR	0.32	118.5	23.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR	0.20	55.7	12.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						21.4	14.7	3.5	3.0	17.3	21.0	2.8

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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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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.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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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.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.