

Company Guide

Sasbadi Holdings Berhad

Version 3 | Bloomberg: SASB MK | Reuters: SAHO.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

27 Jul 2016

BUY

Last Traded Price: RM1.19 (KLCI : 1,661.42)

Price Target : RM1.40 (17% upside) (Prev RM1.40)

Shariah Compliant: Yes

Potential Catalyst: Value accretive M&As

Where we differ: In line with consensus

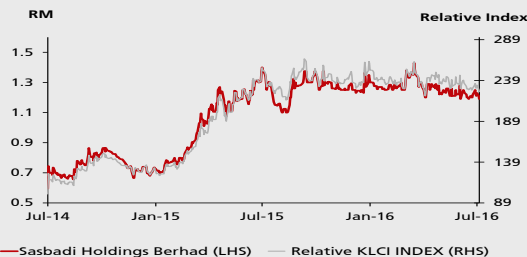
Analyst

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What's New

- 3QFY16 earnings improved by 25% y-o-y
- Expect a strong 4QFY16 from network marketing business
- Maintain BUY with RM1.40 TP

Price Relative



Forecasts and Valuation

FY Aug (RM m)	2015A	2016F	2017F	2018F
Revenue	88.0	98.1	111	126
EBITDA	24.4	32.1	37.8	42.1
Pre-tax Profit	21.4	26.0	31.2	36.3
Net Profit	15.3	18.2	22.1	26.0
Net Pft (Pre Ex.)	15.3	18.2	22.1	26.0
Net Pft Gth (Pre-ex) (%)	(1.0)	19.0	21.6	17.5
EPS (sen)	5.48	6.52	7.92	9.31
EPS Pre Ex. (sen)	5.48	6.52	7.92	9.31
EPS Gth Pre Ex (%)	(1)	19	22	18
Diluted EPS (sen)	5.48	6.52	7.92	9.31
Net DPS (sen)	2.28	3.26	3.96	4.66
BV Per Share (sen)	37.7	52.1	56.4	62.9
PE (X)	21.7	18.3	15.0	12.8
PE Pre Ex. (X)	21.7	18.3	15.0	12.8
P/Cash Flow (X)	16.6	6.7	13.5	12.3
EV/EBITDA (X)	13.9	9.4	7.8	6.6
Net Div Yield (%)	1.9	2.7	3.3	3.9
P/Book Value (X)	3.2	2.3	2.1	1.9
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	14.5	14.5	14.6	15.6
Earnings Rev (%):		(2)	(2)	(1)
Consensus EPS (sen):		7.00	8.60	N/A
Other Broker Recs:		B: 1	S: 0	H: 1

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

Solid education sector proxy

Dominant player in the publishing industry. We continue to believe that Sasbadi Holdings (Sasbadi) serves as one of the best proxies to the education sector, as it remains a dominant player in the domestic educational publishing industry with c.10% market share. The group is well managed with high ROE and superior profitability, supported by its lean operating structure and complementary business model.

3QFY16 earnings up 25% y-o-y. 3QFY16 (FYE Aug) results improved 25% y-o-y due to improved publishing sales and contribution from Sanjung Unggul. This brings 9MFY16 earnings to RM12.5m, which accounted for 67% of our full year earnings forecasts. We deem the 9MFY16 results within expectation. We expect strong contributions from its network marketing business in 4QFY16. We made marginal change to our earnings forecasts mainly for bookkeeping purposes.

RM9.4m textbook contracts won. With regards to its textbook tenders, the group has won 4 out of 26 tenders available in the categories of:- (1) Mathematics for Year 1 national Chinese primary schools (SJKC); (2) Chinese Language Year 1 SJKC; (3) Physical Education and Health Education Year 1 SJKC; and (4) Chinese Language for Year 1 national secondary schools. The total contracts won year-to-date for textbooks is RM9.4m.

Valuation:

We maintain our BUY recommendation for the group with an unchanged TP of RM1.40, based on 17x FY17 EPS. We continue to like Sasbadi as it is one of the best proxies to the education sector and for its hands-on management team.

Key Risks to Our View:

Failure to respond timely to changes in education policies could hurt sales and earnings.

At A Glance

Issued Capital (m shrs)	279
Mkt. Cap (RMm/US\$m)	332 / 81.8
Major Shareholders (%)	
Law King Hui	18.3
Lee Swee Hang	8.5
Employees Provident Fund	5.8
Free Float (%)	62.8
3m Avg. Daily Val (US\$m)	0.05
ICB Industry : Consumer Services / Media	

WHAT'S NEW**Expect stronger 4QFY16**

3QFY16 earnings improved by 25%. The group's core earnings for 3QFY16 increased by 25% y-o-y to RM3.9m, mainly due to improved sales from:- (1) its organic publishing business with the roll out of new titles; and (2) contributions from Sanjung Unggul. This was partially offset by a higher cost base due to increased staff headcount. The quarter on quarter performance does not serve as a good comparison given that Sasbadi's business is highly seasonal.

Expect stronger 4QFY16. This brings its 9MFY16 earnings to RM12.5m, which accounted for 67% of our full year earnings forecasts. We deem the 9MFY16 results to be within expectation. We expect strong contributions from its network marketing business in 4QFY16. We have made marginal change to our earnings forecasts mainly for bookkeeping purposes.

All eyes on its network marketing business. Management believes that the potential of its digital products (currently contributing <10% of group revenue) remains underexplored and they have intensified efforts to monetise products by:- (1) expanding its product portfolio; and (2) improvising its marketing strategy to enhance product recognition. We

understand that since obtaining the network marketing license, management has been actively engaged in building members for the business in May and June. We gather that the group has so far recruited about 1,000 members and contributions will start to kick in from July onwards. We are positive of the group engaging in such marketing strategies since we believe that the general market remains unfamiliar with its digital products and a more personalised marketing strategy could help the consumer to have better recognition and appreciation of such products.

Quarterly / Interim Income Statement (RMm)

FY Aug	3Q2015	2Q2016	3Q2016	% chg yoy	% chg qoq
Revenue	18.9	33.9	22.4	18.7	(33.9)
Cost of Goods Sold	(10.0)	(16.5)	(11.0)	9.7	(33.3)
Gross Profit	8.84	17.4	11.4	28.9	(34.5)
Other Oper. (Exp)/Inc	(4.5)	(8.1)	(5.7)	26.4	(29.6)
Operating Profit	4.33	9.30	5.70	31.6	(38.7)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	0.0	(0.3)	0.0	nm	nm
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	4.30	9.00	5.70	32.6	(36.7)
Tax	(1.2)	(2.3)	(1.6)	35.0	(30.4)
Minority Interest	0.0	0.0	(0.2)	nm	nm
Net Profit	3.11	6.70	3.90	25.2	(41.8)
Net profit bef Except.	3.11	6.70	3.90	25.2	(41.8)
EBITDA	4.51	11.2	8.50	88.7	(24.1)
Margins (%)					
Gross Margins	46.9	51.3	50.9		
Opg Profit Margins	23.0	27.4	25.4		
Net Profit Margins	16.5	19.8	17.4		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

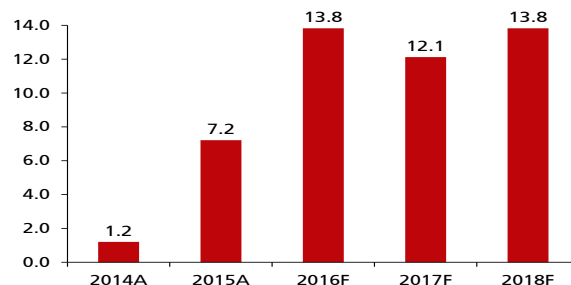
Publishing business - bread and butter. As a dominant player in Malaysia's publishing industry, Sasbadi derives its income mainly from the publication of educational materials. The group focuses on National School Curriculum-based (NSC-based) educational materials for primary and secondary education. Over the past 30 years, the group has published millions of books (>11,000 titles) and has >1,300 distribution points in Malaysia.

M&A to strengthen its position. In the domestic educational publishing industry, the top three players have less than 25% market share. To further strengthen its dominant position in the publishing industry and drive income growth, management is targeting to embark on at least one earnings accretive acquisition annually.

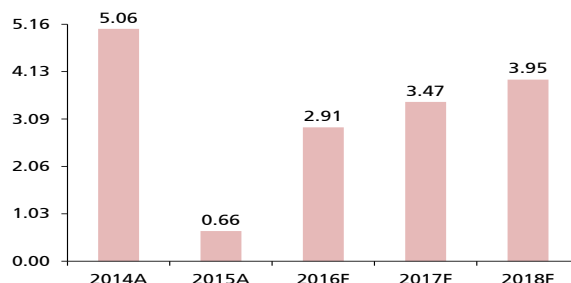
We are optimistic that the acquisition of a 70% stake in SUSB, which is a major publishing player in the national Chinese schools (Sekolah Jenis Kebangsaan Cina) with c.1,300 book titles, will drive FY17 revenue growth by c.11%. We are also optimistic that the successful acquisition of United Publishing could add about RM1m-2m/annuam to Sasbadi's earnings.

Applied and online learning products. Sasbadi is also involved in the distribution of applied learning products (since 2005) and online publishing (since 2011), which contributed <15% of FY15 revenue. We expect the contributions from online products to improve going forward with:- (1) the launch of i-LEARN offline platform since end CY15; and (2) the license 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 license to use its interactive online learning system i-LEARN, and sell the latter's online learning materials under its platform in Indonesia. In return, Sasbadi would receive semi-annual royalties fees based on net sales generated through the online platform in Indonesia.

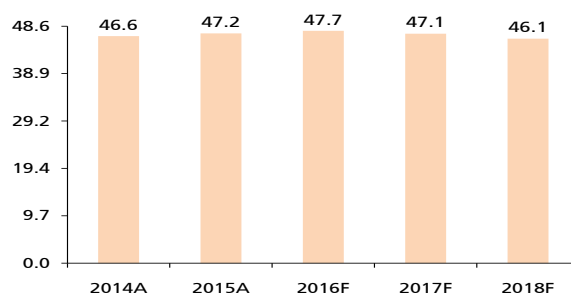
Incremental print publishing revenue (RM m)



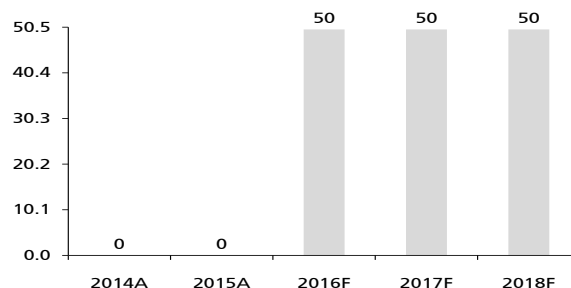
Organic growth (excl. past year exam) (RM m)



GP margin (%)



Dividend payout ratio (%)



Source: Company, AllianceDBS

Balance Sheet:

Healthy balance sheet. Sasbadi is in a net cash position at present. Nonetheless, we do not discount that the group may engage in capital raising exercise going forward should it undertake a sizeable acquisition in the future.

Share Price Drivers:

Proxy to defensive education industry. Sasbadi is a good proxy to Malaysia's education industry, given that it is principally involved in the provision of educational materials for primary and secondary education. As such, any government policy change to the educational sector may influence its stock price.

Earnings delivery and earnings accretive acquisitions. Sasbadi's share price will also be largely dependent on its earnings delivery and the ability for the group to engage in earnings accretive acquisitions.

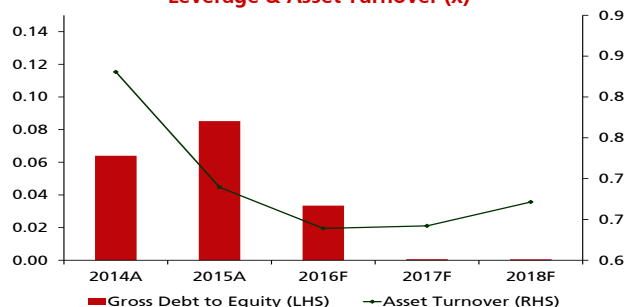
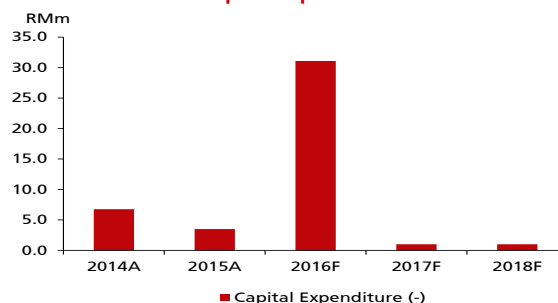
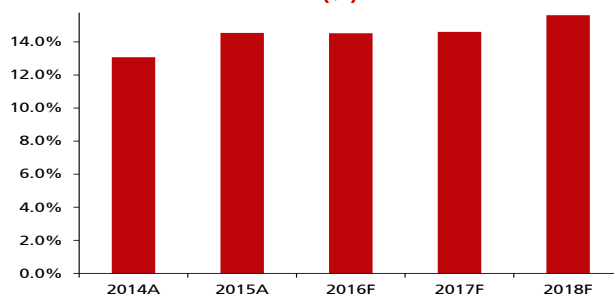
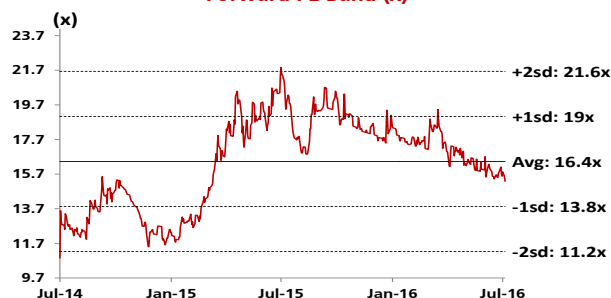
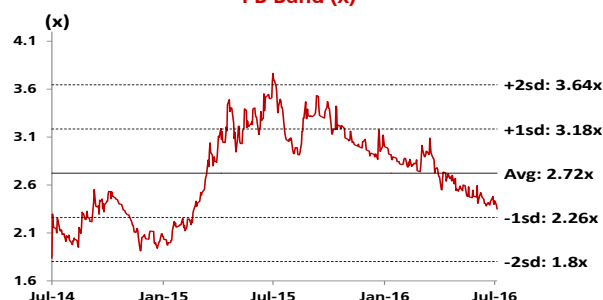
Key Risks:

Paper cost fluctuation. A sudden surge in paper cost, which represents about 40% of Sasbadi's COGS, would hurt earnings.

Change in education policies. Failure to respond to changes in education policies in a timely manner would hurt sales and earnings.

Company Background

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.

Leverage & Asset Turnover (x)**Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, AllianceDBS

Key Assumptions

FY Aug	2014A	2015A	2016F	2017F	2018F
Incremental print publishing revenue (RM m)	1.24	7.22	13.8	12.1	13.8
Organic growth (excl. past year exam) (RM m)	5.06	0.66	2.91	3.47	3.95
GP margin (%)	46.6	47.2	47.7	47.1	46.1
Dividend payout ratio (%)	0.0	0.0	50.0	50.0	50.0

Income Statement (RMm)

FY Aug	2014A	2015A	2016F	2017F	2018F
Revenue	79.5	88.0	98.1	111	126
Cost of Goods Sold	(42.4)	(46.5)	(51.3)	(58.7)	(67.8)
Gross Profit	37.0	41.5	46.8	52.2	57.9
Other Opng (Exp)/Inc	(16.6)	(20.0)	(20.5)	(21.3)	(22.1)
Operating Profit	20.4	21.5	26.2	31.0	35.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.3)	(0.1)	(0.3)	0.23	0.50
Exceptional Gain/(Loss)	(3.2)	0.0	0.0	0.0	0.0
Pre-tax Profit	16.9	21.4	26.0	31.2	36.3
Tax	(4.6)	(5.6)	(6.8)	(8.1)	(9.3)
Minority Interest	0.0	(0.5)	(1.0)	(1.0)	(1.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	12.3	15.3	18.2	22.1	26.0
Net Profit before Except.	15.5	15.3	18.2	22.1	26.0
EBITDA	23.0	24.4	32.1	37.8	42.1
Growth					
Revenue Gth (%)	1.9	10.7	11.4	13.1	13.2
EBITDA Gth (%)	18.0	6.2	31.5	17.8	11.3
Opg Profit Gth (%)	16.1	5.4	22.0	18.0	15.6
Net Profit Gth (Pre-ex) (%)	21.2	(1.0)	19.0	21.6	17.5
Margins & Ratio					
Gross Margins (%)	46.6	47.2	47.7	47.1	46.1
Opg Profit Margin (%)	25.7	24.4	26.8	27.9	28.5
Net Profit Margin (%)	15.4	17.4	18.6	20.0	20.7
ROAE (%)	13.1	14.5	14.5	14.6	15.6
ROA (%)	10.7	10.9	11.9	12.8	13.9
ROCE (%)	14.2	12.6	13.7	14.0	15.1
Div Payout Ratio (%)	69.4	41.5	50.0	50.0	50.0
Net Interest Cover (x)	62.9	215.0	105.0	NM	NM

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Aug	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	18.9	20.1	21.0	33.9	22.4
Cost of Goods Sold	(10.0)	(11.8)	(11.7)	(16.5)	(11.0)
Gross Profit	8.84	8.27	9.29	17.4	11.4
Other Oper. (Exp)/Inc	(4.5)	(4.9)	(5.8)	(8.1)	(5.7)
Operating Profit	4.33	3.33	3.52	9.30	5.70
Net Interest (Exp)/Inc	0.0	0.0	(0.3)	(0.3)	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	4.30	3.33	3.24	9.00	5.70
Tax	(1.2)	(0.6)	(0.9)	(2.3)	(1.6)
Minority Interest	0.0	(0.5)	(0.3)	0.0	(0.2)
Net Profit	3.11	2.23	2.03	6.70	3.90
Net profit bef Except.	3.11	2.23	2.03	6.70	3.90
EBITDA	4.51	4.29	4.46	11.2	8.50

Growth

Revenue Gth (%)	(41.2)	6.6	4.6	61.2	(33.9)
EBITDA Gth (%)	(64.8)	(4.7)	3.9	151.0	(24.1)
Opg Profit Gth (%)	(62.3)	(23.1)	5.6	164.4	(38.7)
Net Profit Gth (Pre-ex) (%)	(62.5)	(28.3)	(9.0)	229.7	(41.8)

Margins

Gross Margins (%)	46.9	41.1	44.2	51.3	50.9
Opg Profit Margins (%)	23.0	16.6	16.7	27.4	25.4
Net Profit Margins (%)	16.5	11.1	9.7	19.8	17.4

Balance Sheet (RMm)

FY Aug	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	30.3	30.9	36.2	34.8	33.5
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	4.95	22.7	42.7	38.3	34.3
Cash & ST Invt	26.3	8.34	36.1	43.8	56.8
Inventory	20.2	37.1	21.1	24.1	27.9
Debtors	31.1	40.4	24.2	27.4	31.0
Other Current Assets	1.67	1.36	5.91	11.2	11.4
Total Assets	114	141	166	179	195
ST Debt	5.80	9.30	4.80	0.0	0.0
Creditor	8.00	13.4	2.11	2.41	2.78
Other Current Liab	2.48	1.60	6.49	7.20	8.07
LT Debt	0.20	0.10	0.10	0.10	0.10
Other LT Liabilities	4.30	6.10	6.10	6.10	6.10
Shareholder's Equity	93.7	105	146	158	176
Minority Interests	0.0	5.10	1.00	6.10	2.00
Total Cap. & Liab.	114	141	166	179	195
Non-Cash Wkg. Capital	42.5	63.9	42.6	53.1	59.4
Net Cash/(Debt)	20.3	(1.1)	31.2	43.7	56.7
Debtors Turn (avg days)	115.4	148.3	120.2	84.8	84.7
Creditors Turn (avg days)	45.8	89.6	62.2	15.9	15.4
Inventory Turn (avg days)	161.3	239.8	233.5	159.1	154.3
Asset Turnover (x)	0.8	0.7	0.6	0.6	0.7
Current Ratio (x)	4.9	3.6	6.5	11.1	11.7
Quick Ratio (x)	3.5	2.0	4.5	7.4	8.1
Net Debt/Equity (X)	CASH	0.0	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	0.0	CASH	CASH	CASH
Capex to Debt (%)	112.8	37.2	634.7	nm	nm
Z-Score (X)	7.4	9.4	9.0	8.9	8.9

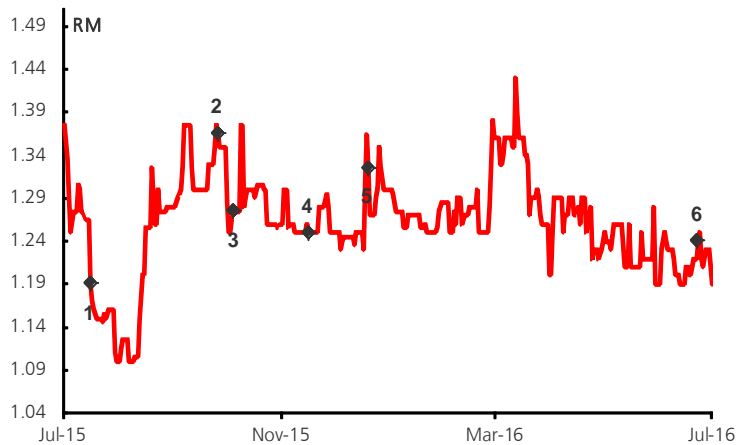
Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Aug	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	16.9	21.4	26.0	31.2	36.3
Dep. & Amort.	2.58	2.90	5.84	6.84	6.28
Tax Paid	(5.2)	(5.9)	(6.8)	(8.1)	(9.3)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(15.0)	0.0	24.5	(5.4)	(6.3)
Other Operating CF	1.88	1.60	0.0	0.0	0.0
Net Operating CF	1.12	20.0	49.6	24.6	27.0
Capital Exp.(net)	(6.8)	(3.5)	(31.1)	(1.0)	(1.0)
Other Invt.(net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(18.6)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.04	0.10	0.0	0.0	0.0
Net Investing CF	(6.7)	(22.0)	(31.1)	(1.0)	(1.0)
Div Paid	(8.5)	(3.8)	(9.1)	(11.1)	(13.0)
Chg in Gross Debt	(0.3)	0.90	(4.5)	(4.8)	0.0
Capital Issues	25.2	0.0	31.2	0.0	0.0
Other Financing CF	(2.3)	(0.2)	0.0	0.0	0.0
Net Financing CF	14.1	(3.1)	17.6	(15.9)	(13.0)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	8.52	(5.1)	36.1	7.73	13.0
Opg CFPS (sen)	5.78	7.16	8.97	10.7	11.9
Free CFPS (sen)	(2.0)	5.91	6.61	8.45	9.31

Source: Company, AllianceDBS

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	10 Aug 15	1.19	1.23	HOLD
2:	21 Oct 15	1.37	1.21	HOLD
3:	30 Oct 15	1.28	1.21	HOLD
4:	11 Dec 15	1.25	1.43	BUY
5:	14 Jan 16	1.33	1.43	BUY
6:	18 Jul 16	1.24	1.40	BUY

Source: AllianceDBS

DISCLOSURE

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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