

Sasbadi Holdings (BUY ↔; EPS ↔)

EDUCATION
NEWSBREAK

19 September 2016

Price Target: RM1.40 (↔)

Share price: RM1.07

Acquisition of Distinct Motion

News/ Comments

- In an announcement to Bursa Malaysia, Sasbadi announced that its wholly owned subsidiary, Sasbadi Learning Solutions Sdn Bhd has entered into a share acquisition agreement to acquire 740,000 ordinary shares (100%) of the issued and paid-up share capital of Distinct Motion Sdn Bhd.
- Distinct Motion is principally involved in the business of conducting learning activities related to gadgets, automation systems and robotics technology. On top of that, Distinct Motion's subsidiary, Distinct Element Sdn Bhd, operates a centre known as Little Botz in Damansara Jaya, conducting learning activities of robotics technology.
- As of FY15 Distinct Motion has a net loss of RM42.7k and net assets of circa RM478.9k as at 31 May 2016. The acquisition is expected to be completed by 1QFY17.
- Total consideration to be paid for the acquisition amounts to RM850k to be funded by the proceeds raised by Sasbadi through the completed private placement in Jan-16.
- Overall, we are neutral on the acquisition as any positive contribution will be insignificant for now. However, we believe this acquisition will extend Sasbadi Learning Solutions' principal activity to include conducting learning activities of robotics technology. Sasbadi will also gain two operating learning centres with its team of personnel, which is in line with its plans to establish applied learning centres focusing on science, technology, engineering and mathematics (STEM).

Risks

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

Forecasts

- Unchanged.

Rating

BUY (↔)

Valuation

- Reiterate BUY with unchanged TP of RM1.40 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	1,653.0
Expected share price return	30.8%
Expected dividend return	2.6%
Expected total return	33.5%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	299
3-mth avg. volume ('000)	269
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-1.8	-12.3	-16.1
Relative	1.0	-14.3	-16.4

Major shareholders

Law King Hui	18.3%
Karya Kencana	18.2%
Lee Swee Hang	8.5%
EPF	6.1%

Summary Earnings Table

FYE Aug (RM m)	2014A	2015A	2016E	2017E
Revenue	79.5	88.0	101.0	109.0
Pre-tax Profit	20.2	21.4	21.0	28.9
Rpt. PATAMI	15.5	15.3	15.5	21.7
Nom. PATAMI	15.5	15.3	15.5	21.7
Nom. EPS (sen)	5.6	5.5	5.6	7.8
Nom. P/E (x)	21.4	21.7	21.4	15.3
BV/share (RM)	0.3	0.4	0.6	0.6
P/BV (x)	3.5	3.2	2.2	1.9
Gross DPS (sen)	-	5.0	2.8	3.9
Div. yield (%)	-	4.2	2.3	3.3
ROE (%)	17.7	13.9	10.1	12.4
ROA (%)	14.5	10.9	8.5	10.6

HLIB

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	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
ASIAMET 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

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Sasbadi Holdings (BUY; TP: RM1.40; CP: RM1.07)

Income Statement

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	78.0	79.5	88.0	101.0	109.0
EBITDA	19.5	19.8	24.4	24.8	32.2
D&A	1.9	2.6	2.9	3.3	3.4
EBIT	17.6	20.5	21.4	21.5	28.8
Interest income	0.1	(0.3)	(0.0)	(0.5)	0.1
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	21.0	28.9
Income Tax Expense	(4.9)	(4.6)	(5.6)	(5.5)	(7.2)
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	15.5	21.7
Basic shares (m)	279.4	279.4	279.4	279.4	279.4
Basic EPS (sen)	4.6	5.6	5.5	5.6	7.8

Quarterly Financial Summary

FYE 31 Aug (RM m)	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16
Revenue	18.9	20.1	21.0	33.9	22.4
GP	8.8	8.3	9.3	17.3	11.4
Other Income	0.1	0.5	0.0	0.0	0.3
Expenses	(4.6)	(5.4)	(5.8)	(8.1)	(6.0)
EBIT	4.3	3.3	3.5	9.3	5.7
Interest Income	0.1	0.1	0.0	0.1	0.2
Finance Costs	(0.2)	(0.1)	(0.3)	(0.3)	(0.2)
PBT	4.3	3.3	3.2	9.0	5.7
Tax	(1.2)	(0.6)	(0.9)	(2.4)	(1.6)
PATAMI	3.1	2.2	2.0	6.6	3.8
Basic EPS (sen)	2.5	1.8	1.6	5.0	1.4
Adj Basic EPS (sen)	2.5	1.8	1.6	5.0	1.4

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	68.7	73.2
Receivables	20.0	31.2	40.4	38.8	41.8
Payables	(6.5)	(8.0)	(13.4)	(12.1)	(12.7)
Inventory	15.0	20.2	37.1	42.1	44.1
Net cash	11.5	20.3	(1.1)	20.5	20.7
Cash	12.0	26.3	8.3	30.0	30.2
Total Debt	(0.5)	(6.0)	(9.4)	(9.5)	(9.5)
Shareholders' funds	63.6	93.7	105.2	153.7	175.4
Share capital	2.4	63.5	63.5	95.3	95.3
Reserves	61.2	30.2	41.7	58.4	80.1
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	5.6	7.8
P/E (x)	26.1	21.4	21.7	21.4	15.3
Gross DPS (sen)	0.0	0.0	5.0	2.8	3.9
Div. yield (%)	0.0	0.0	4.2	2.3	3.3
BV/share (RM)	0.2	0.3	0.4	0.6	0.6
P/B (x)	5.2	3.5	3.2	2.2	1.9
FCF/share (sen)	0.1	0.0	0.1	0.1	0.1
Net Debt/Equity (%)	18.1	21.6	(1.0)	13.4	11.8
Enterprise value	321.0	312.2	338.6	312.0	311.8
EV/EBITDA (x)	16.5	15.8	13.9	12.6	9.7
ROE (%)	20.0	17.7	13.9	10.1	12.4
ROA (%)	16.8	14.5	10.9	8.5	10.6

Cashflow Analysis

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
EBITDA	19.5	23.1	24.4	24.8	32.2
WC changes	(0.1)	(14.9)	(20.7)	(4.6)	(4.5)
Taxation	(4.9)	(4.6)	(5.6)	(5.5)	(7.2)
Others	2.7	(2.3)	6.4	0.0	0.0
Operating cashflow	17.1	1.3	4.5	14.7	20.5
Capex & acquisitions	(8.8)	(6.8)	(20.5)	(20.5)	(20.5)
Free cashflow	8.3	(5.5)	(16.0)	(5.8)	0.0
Other inv cashflow	7.6	0.0	0.4	0.3	0.9
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)	57.2	0.2

Assumption Metrics

FYE 31 Aug (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue growth (%)	20.3	2.0	10.6	14.9	7.9
EBITDA growth (%)	18.2	1.6	23.1	1.8	30.0
EBIT growth (%)	18.2	16.8	4.5	0.4	33.9
PBT growth (%)	18.6	14.3	6.1	(1.9)	37.8
EBITDA margin (%)	25.0	24.9	27.7	24.5	29.6
EBIT margin (%)	22.5	25.8	24.4	21.3	26.4
PBT margin (%)	22.7	25.4	24.3	20.8	26.5

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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.
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Industry rating definitions

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.