

18 October 2016

# Sasbadi Holdings Berhad

## Mergers and Acquisitions

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### INVESTMENT MERIT

**We reiterate a "Trading Buy" call on SASBADI with an upgraded FV of RM1.38 based on 17.0x FY17E EPS. While growth in the print publication segment is slower than expected, the group aims to thrive through strategic acquisitions to generate inorganic growth to expand its business segments, while leveraging on the group's extensive distribution network, in-house content development and economies of scale to turn around these acquisitions.**

**Revisiting the leading publisher of educational material.** Since our last report on SASBADI in Jul 2015 (Trading Buy, TP: RM1.34 – ex-2:1 share split in Mar'16), the company has continued to pursue strategic acquisitions in conjunction to its expansion plans as per its IPO prospectus. The group had also continued to actively participate in textbook tenders with the Ministry of Education for publishing of textbooks in the coming years. Management guided that they have won a total tender value of RM9.4m in 2016 (*kindly refer to the overleaf for details of the recent mergers and acquisitions made by the group*).

**Rosy growth despite weaker consumer sentiment.** Though consumer sentiment was sluggish in FY15, the group was able to register an 11% growth in revenue to RM88.0m thanks to the consolidated results from the newly acquired Sanjung Unggul group as well as improved sales from its print publication segment. We can attribute this to the growing population within the country and constantly expanding student base in the market. FY15 PATAMI of RM15.8m recorded a 29% growth due to less one-off expenses (i.e. listing expenses).

As of 9M16, organic growth continued to be stagnant between most core subsidiaries, with group sales (+15% YoY) being driven primarily by consolidation of results the Sanjung Unggul group. However, 9M16 PATAMI of RM13.0m declined slightly from 9M15 PATAMI of RM13.1m owing to the costs and resources involved in undertaking the textbook tenders.

**Inorganic growth to spearhead prospects.** The group's strategy of inorganic expansion through mergers and acquisitions appears appropriate in the existing markets which have limited organic growth. Not only will strategic acquisitions into Sanjung Unggul and United Publishing House expand the group's product and readership (i.e. Chinese educational material), it also provides the opportunity to leverage on its in-house content development and economies of scale. Additionally, the group's subsidiary, Mindtech Education, provides a strong channel to expand on the direct selling segment of the group's digital educational products and online platform offerings.

Along with textbook tenders in the bag, we expect FY16E/FY17E sales of RM96.2m/RM116.3m (+9%/+21% YoY) and stronger net earnings at RM16.4m/RM20.5m (+4%/+25% YoY). We estimate dividend payments of 3.2 sen/4.0 sen for FY16E/FY17E, which is in line with the management's guided dividend pay-out ratio of c.50% which translate to a 2.8%/3.5% yield.

**Reiterate "Trading Buy" with a fair value of RM1.38 (upgrade from RM1.34).** This is based on an unchanged 17.0x PER on a FY17E EPS of 8.1 sen. While the valuation is at a premium against SASBADI's closest peer, Pelangi (which trades at 16.0x based on a 12-months trailing PER), we believe the premium is justified given its: (i) visible growth catalysts; (ii) greater competitive advantages in terms of a larger distribution network and economies of scale, and (iii) more attractive dividend yield of 3.5% against Pelangi's 2.3%.

	Rating	Fair Value
Last Price	-	RM1.17
Kenanga	Trading Buy	RM1.38
Consensus	-	-

### Stock Information

Shariah Compliant	Yes
Stock Name	SASBADI HOLDINGS BHD
CAT Code	5252
Industry	Media
Industry Sub-sector	Publishing-Books
YTD stock price chg	-6.02%
Market Cap (RM'm)	326.90
Issued shares (m)	279.40
52-week range (Hi)	1.45
52-week range (Low)	1.02
3-mth avg daily vol:	413,594
Free Float	37.6%
Beta	0.68
Altman's Z-score	8.47

### Major Shareholders

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

### Financials

FYE Aug (RM'm)	2015A	2016E	2017E
Revenue	88.0	96.2	116.3
EBITDA	41.4	44.9	54.2
Profit Before Tax (PBT)	21.4	23.2	28.8
<b>PATAMI</b>	<b>15.8</b>	<b>16.4</b>	<b>20.5</b>
EPS (sen)	6.2	6.5	8.1
BV/Share (RM)	0.4	0.4	0.5
PER (x)	18.8	18.1	14.5
Price/BV (x)	2.8	2.6	2.4
Net Gearing (x)	0.0	N.Cash	N.Cash
DPS (sen)	3.0	3.2	4.0
Div Yield (%)	2.6%	2.8%	3.5%

### Quarterly Financial

Data (RM'm)	1Q16	2Q16	3Q16
Revenue	21.0	33.9	22.4
PBT	3.2	9.0	5.7
Net Profit (NP)	2.3	6.7	4.0
Basic EPS (sen)	1.6	5.0	1.4
Revenue Growth (QoQ)	4.6%	61.0%	-33.8%
EPS growth (QoQ)	-9.1%	212.5%	-72.4%
NP Margin	11.0%	19.8%	18.0%

### Peers Comparisons

	PER (FY16)	Div. Yld (%)	Mkt Cap (RM'm)
Pelangi Publishing	16.0	2.3	53.2
Prestariang	30.0	1.6	1,071.6
SEG International	25.3	5.3	822.8
<b>Average</b>	<b>23.8</b>	<b>3.1</b>	<b>649.2</b>
<b>FBMSC</b>	<b>10.7</b>	<b>3.4</b>	<b>-</b>
<b>SASBADI</b>	<b>18.1</b>	<b>2.8</b>	<b>326.9</b>

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### Other Salient Points

**Acquisition spree.** As part of its intention to venture into the publication business of Chinese educational materials, the group has acquired a majority stake in the Sanjung Unggul group and United Publishing House group. The combined acquisitions of these companies allow the group to publish Chinese textbooks and dictionaries, as well as novels and comic books. Most recently, the group has entered into a share purchase agreement with Distinct Motion Sdn Bhd to expand its applied learning centres segment. Distinct Motion is principally involved in the business of conducting learning activities related to gadgets, automation systems and robotics technology.

### Daily Charting – Sasbadi Holdings Bhd



**Comment:** SASBADI's longer term trend is down with the key SMAs remaining in negative-crossover state. Nevertheless, the technical picture is beginning to show some improvement on a shorter-term basis. An uptrend channel has taken shape over the past two months, while the MACD is now giving off a "bullish convergent" signal. Combined, these indicate that the share price may have bottomed out last month. That said, SASBADI would need to break out above the channel resistance at RM1.23 (R1) in order to trigger a BUY signal. Overhead resistances beyond are RM1.30 (R2) and RM1.45 (R3) while the more obvious downside support levels are RM1.11 (S1) and RM1.02 (S2).

Source: Kenanga Research

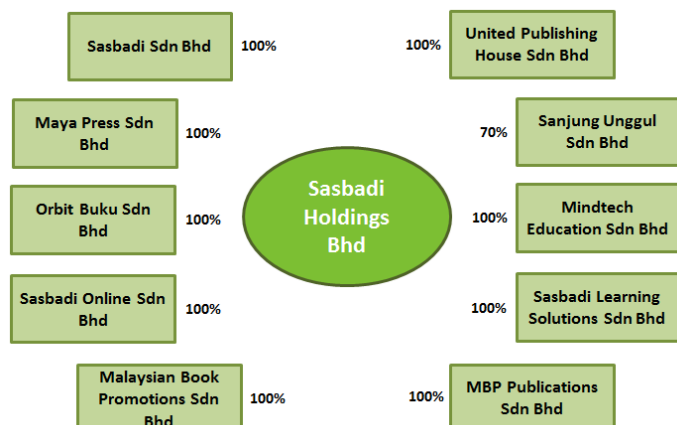
#### About the stock:

Name : Sasbadi Holdings Berhad  
Bursa Code : SASBADI  
CAT Code : 5252

#### Key Support & Resistance level

Resistance : RM1.23 (R1) RM1.30 (R2)  
Support : RM1.11 (S1) RM1.02 (S2)  
Outlook : Bullish

### CORPORATE STRUCTURE



### BUSINESS OVERVIEW

SASBADI is principally a publisher of educational materials, undertaking print publishing focusing on primary and secondary school education as well as other non-curriculum based educational materials and general title books. The group also undertake online publishing of educational materials and distribution of applied learning products designed to provide hands-on learning experience to students.

### BUSINESS SEGMENTS

SASBADI's business segments include educational print based on the national school curriculum, online publishing of educational materials and applied learning products for hands-on learning.

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