

Sasbadi Holdings (BUY ↔; EPS ↑)

EDUCATION

EARNINGS EVALUATION

1 November 2016
Price Target: RM1.63 (↑)
Share price: RM1.42

FY16 Results – Below Expectations

Results

- Sasbadi's 4QFY16 revenue of RM15.9m was translated into PATAMI of RM4.3m. This brought FY16 core PATAMI to RM12.6m (adjusted for negative goodwill arising from the acquisition of United Publishing House S/B), accounting for 81% and 80% of ours and street's full year estimates, respectively.

Deviations

- Delayed order on textbook reprints, higher fixed costs from acquisitions and gain on bargain purchase of RM4.3m.

Dividends

- Declared 1.25 sen final single tier dividend.

Highlights

- YoY:** Sasbadi's FY16 revenue of RM93.2m increased by 6.6% mainly due to the consolidation of Sanjung Unggul Group's full year results. PBT increased by 3.8% as Sasbadi's educational materials publishing subsidiaries recorded higher gross profits (Sasbadi S/B (+8.6% yoy), Sanjung Unggul S/B (+137.2% yoy) and Sasbadi Holdings Bhd (+178.1% yoy)).
- However, the group's 4QFY16 revenue declined by 20.9% yoy mainly attributed by a weaker revenue recorded by Sanjung Unggul Group (-39% yoy) due to a delay in textbook reprint orders. On top of that, its subsidiary, Malaysian Book Promotions S/B, recorded weaker sales of RM4.5m (-36.4% yoy).
- Core PATAMI declined 18.1% as Sasbadi, on top of the weaker revenue, faced higher fixed costs pertaining to its recent acquisitions and increased capacity which upped staff costs and other fixed costs.
- QoQ:** 4QFY16 revenue declined -29.1% to RM15.9m as its 3QFY16 revenue enjoyed higher sales of new academic books which were delayed from 2QFY16. This resulted in a core PATAMI of RM0.03m, after taking out the gain from bargain purchase of RM4.3m (from United Publishing House).
- Outlook:** We remain positive on Sasbadi's outlook as we expect higher contribution from its online products via its direct sales/ network marketing channel (Mindtech Education) as it has already broken even and is expected to gain momentum. We also expect higher contribution from its subsidiary Sanjung Unggul as the delayed textbook reprint will come in 1QFY17. The group's recent contract with MoE to supply Lego Education robotics products to primary and secondary schools in Malaysia will also give Sasbadi the limelight as the sole distributor of the Lego Education robotics set in Malaysia. Moreover, as mentioned in our "2017 Budget" report, we believe that Sasbadi will be a beneficiary of the government's spending on education.

Risks

- (1) Accelerated migration towards the online platform; (2) Spike in paper prices; (3) Changes in National Curriculum and educational policies and (4) Execution of its direct selling segment.

Forecasts

- We increase FY17 earnings forecast by 9.0% as we expect better earnings visibility moving forward. We introduce our FY18 forecast.

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.

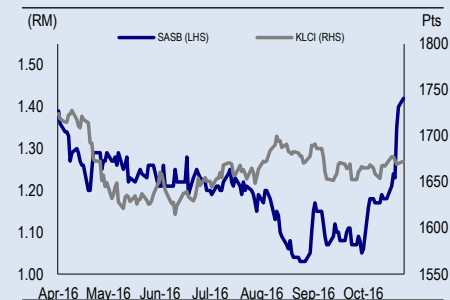
Valuation

- Reiterate BUY with a higher TP of RM1.63 as we roll over our valuation to FY18 with EPS growth of 20.8% (unchanged 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	1,672.5
Expected share price return	14.8%
Expected dividend return	3.0%
Expected total return	17.7%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	397
3-mth avg. volume ('000)	707
SC Shariah-compliant	Yes

Price Performance

	1M	3M	12M
Absolute	32.7	17.4	11.4
Relative	31.1	16.0	10.9

Major shareholders

Law King Hui	18.3%
Karya Kencana	18.2%
Lee Swee Hang	8.5%
EPF	6.5%

Summary Earnings Table

FYE Aug (RM m)	2015A	2016A	2017F	2018F
Revenue	88.0	93.2	109.0	123.0
Pre-tax Profit	21.4	22.2	31.5	38.3
Rpt. PATAMI	15.3	16.8	23.6	28.5
Nom. PATAMI	15.3	16.8	23.6	28.5
Nom. EPS (sen)	5.5	6.0	8.5	10.2
Nom. P/E (x)	25.9	23.6	16.8	13.9
BV/share (RM)	0.4	0.5	0.6	0.7
P/BV (x)	3.8	2.7	2.3	2.0
Gross DPS (sen)	5.00	3.0	4.2	5.1
Div. yield (%)	3.52	2.1	3.0	3.6
ROE (%)	13.9	8.2	13.8	14.3
ROA (%)	10.9	6.3	10.7	11.3

HLIB

Figure #1 Quarterly results comparison

FYE Aug (RM m)	4QFY15	3QFY16	4QFY16	Qoq (%)	Yoy (%)	Comments
Revenue	20.1	22.4	15.9	-29.1	-20.9	YoY/QoQ: Delay in textbook reprint orders and weaker sales by Malaysian Book Promotions S/B.
GP	8.3	11.4	6.3	-45.2	-24.3	
Other op. Income	0.5	0.3	4.5	1378.2	831.8	YoY/QoQ: Gain from bargain purchase via acquisition of United Publishing House.
Expenses	(5.4)	(6.0)	(6.4)	7.5	18.7	YoY/QoQ: Higher staff headcount and fixed cost.
EBIT	3.3	5.7	4.4	-24.1	30.9	YoY: Filtered down from other operating income.
Interest income	0.1	0.2	0.1	-38.9	0.0	
Finance Costs	(0.1)	(0.2)	(0.3)	14.0	125.9	
PBT	3.3	5.7	4.2	-26.0	26.8	Filtered down from EBIT
Tax	(0.6)	(1.6)	0.0	-101.2	-103.0	
PATAMI	2.2	3.8	4.3	12.7	94.1	
Basic EPS (sen)	1.8	1.4	1.6	12.7	-11.8	
Adj. EPS (sen)	1.8	1.4	0.0	-99.2	-99.3	

Sasbadi, HLIB

Figure #2 Cumulative results comparison

FYE Aug (RM m)	FY15	FY16	Yoy (%)	Comments
Revenue	87.4	93.2	7	Due to consolidation of Sanjung Unggul Group's full year results.
GP	41.5	44.3	7	
Other op. Income	0.6	4.9	677	Gain from bargain purchase via acquisition of United Publishing House
Expenses	(20.7)	(26.3)	27	Higher staff headcount and fixed cost.
EBIT	21.4	22.9	7	
Interest income	0.4	0.4	-20	
Finance Costs	(0.5)	(1.0)	122	
PBT	21.4	22.2	4	
Tax	(5.6)	(4.9)	-12	Effective tax rate of 22%
PATAMI	15.3	16.8	10	
Basic EPS (sen)	12.1	6.2	-48	
Adj. EPS (sen)	12.1	4.7	-61	

Sasbadi, HLIB

Figure #3 Consensus vs HLIB

FYE Dec (RM m)	FY16E			FY17E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	101.0	97.1	4.1	109.0	114.5	-4.8
PATAMI	15.5	15.7	-0.7	21.7	22.3	-2.6

Bloomberg, HLIB

Figure #4 Regional Peers Comparison

Company	FYE	Price		Market Cap (m)		P/E (x)		P/B (x)		ROE (%)		Gross DY (%)
		(Local)	(USD)	(Local)	(USD)	2016	2017	2016	2017	2016	2017	2016
Sasbadi	Aug	MYR 1.42	396.7	96.8	23.7	16.7	2.8	2.4	8.2	14.3	1.6	
Pelangi Publishing	Sept	MYR 0.56	54.1	13.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Prestariang	Dec	MYR 2.25	1,086.1	264.8	41.7	20.1	6.3	5.6	15.9	32.2	3.1	
SEG International	Dec	MYR 1.11	801.1	195.4	24.7	N/A	N/A	N/A	N/A	N/A	N/A	
ASIAMET Education	Dec	MYR 0.22	80.9	19.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
SMRT	Dec	MYR 0.19	55.1	13.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Average					30.0	18.4	4.5	4.0	12.1	23.2	2.3	

HLIB, Bloomberg

Sasbadi Holdings (BUY; TP: RM1.63; CP: RM1.42)

Income Statement

FYE 31 Aug (RM m)	2014A	2015A	2016A	2017F	2018F
Revenue	79.5	88.0	93.2	109.0	123.0
EBITDA	19.8	24.4	26.7	38.4	45.8
D&A	2.6	2.9	3.9	5.8	6.6
EBIT	20.5	21.4	22.9	32.6	39.2
Interest income	(0.3)	(0.0)	(0.7)	(1.1)	(0.9)
Interest expense	(0.5)	(0.5)	(1.0)	(1.6)	(1.6)
JV & Associates	0.0	0.0	0.0	0.0	0.0
PBT	20.2	21.4	22.2	31.5	38.3
Income Tax Expense	(4.6)	(5.6)	(4.9)	(7.9)	(9.8)
Discontinued op.	0.0	0.0	0.0	0.0	0.0
NCI	0.0	(0.5)	(0.4)	0.0	0.0
PATAMI	15.5	15.3	16.8	23.6	28.5
Basic shares (m)	279.4	279.4	279.4	279.4	279.4
Basic EPS (sen)	5.6	5.5	6.0	8.5	10.2

Quarterly Financial Summary

FYE 31 Aug (RM m)	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16
Revenue	20.1	21.0	33.9	22.4	15.9
GP	8.3	9.3	17.3	11.4	6.3
Other Income	0.5	0.0	0.0	0.3	4.5
Expenses	(5.4)	(5.8)	(8.1)	(6.0)	(6.4)
EBIT	3.3	3.5	9.3	5.7	4.4
Interest Income	0.1	0.0	0.1	0.2	0.1
Finance Costs	(0.1)	(0.3)	(0.3)	(0.2)	(0.3)
PBT	3.3	3.2	9.0	5.7	4.2
Tax	(0.6)	(0.9)	(2.4)	(1.6)	0.0
PATAMI	2.2	2.0	6.6	3.8	4.3
Basic EPS (sen)	1.8	1.6	5.0	1.4	1.6
Adj Basic EPS (sen)	1.8	1.6	5.0	1.4	0.0

Balance Sheet

FYE 31 Aug (RM m)	2014A	2015A	2016A	2017F	2018F
Fixed Assets	30.3	30.9	42.7	48.2	52.9
Other long-term assets	5.0	22.7	29.6	33.2	37.2
Other short-term assets	1.6	1.4	4.3	4.3	4.3
Working Capital	43.4	64.0	79.3	91.1	102.9
Receivables	31.2	40.4	49.2	57.6	65.0
Payables	(8.0)	(13.4)	(18.9)	(21.1)	(23.8)
Inventory	20.2	37.1	49.0	54.6	61.6
Net cash	20.3	(1.1)	5.8	3.0	11.1
Cash	26.3	8.3	25.8	23.1	31.2
Total Debt	(6.0)	(9.4)	(20.0)	(20.0)	(20.0)
Shareholders' funds	93.7	105.2	147.8	171.4	200.0
Share capital	63.5	63.5	69.9	69.9	69.9
Reserves	30.2	41.7	77.9	101.6	130.1
Minorities	0.0	5.1	5.5	0.0	0.0
Other liabilities	6.8	7.6	8.5	8.5	8.5

Rates and Ratios

FYE 31 Aug (RM m)	2014A	2015A	2016E	2017F	2018F
Basic EPS (sen)	5.6	5.5	6.0	8.5	10.2
P/E (x)	25.5	25.9	23.6	16.8	13.9
Gross DPS (sen)	0.0	5.0	2.3	4.2	5.1
Div. yield (%)	0.0	3.5	1.6	3.0	3.6
BV/share (RM)	0.3	0.4	0.5	0.6	0.7
P/B (x)	4.2	3.8	2.7	2.3	2.0
FCF/share (sen)	0.0	0.1	0.1	0.1	0.1
Net Debt/Equity (%)	21.6	(1.0)	3.8	1.8	5.6
Enterprise value	376.5	402.9	396.5	393.7	385.6
EV/EBITDA (x)	19.0	16.5	14.8	10.3	8.4
ROE (%)	17.7	13.9	8.2	13.8	14.3
ROA (%)	14.5	10.9	6.3	10.7	11.3

Cashflow Analysis

FYE 31 Aug (RM m)	2014A	2015A	2016A	2017F	2018F
EBITDA	23.1	24.4	26.7	38.4	45.8
WC changes	(14.9)	(20.7)	(15.3)	(11.8)	(11.7)
Taxation	(4.6)	(5.6)	(4.9)	(7.9)	(9.8)
Others	(2.4)	6.4	(4.9)	0.0	0.0
Operating cashflow	1.1	4.5	1.6	18.7	24.3
Capex & acquisitions	(6.8)	(20.5)	(15.3)	(15.3)	(15.3)
Free cashflow	(5.7)	(16.0)	(13.6)	3.5	9.0
Other inv cashflow	0.0	0.4	0.4	0.5	0.7
New borrowings	5.5	3.5	10.5	0.0	0.0
Share issuance	0.0	0.0	31.3	0.0	0.0
Dividends paid	(8.5)	(3.8)	(5.6)	0.0	0.0
Other fin cashflow	17.2	(0.5)	25.6	1.8	(1.6)
Net cashflow	8.5	(16.4)	48.5	5.8	8.1

Assumption Metrics

FYE 31 Aug (RM m)	2014A	2015A	2016A	2017F	2018F
Revenue growth (%)	2.0	10.6	6.0	16.9	12.9
EBITDA growth (%)	1.6	23.1	9.8	43.6	19.2
EBIT growth (%)	16.8	4.5	6.8	42.4	20.3
PBT growth (%)	14.3	6.1	3.7	41.9	21.6
EBITDA margin (%)	24.9	27.7	28.7	35.2	37.2
EBIT margin (%)	25.8	24.4	24.6	29.9	31.9
PBT margin (%)	25.4	24.3	23.8	28.9	31.1

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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.
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