

Company Guide

Sasbadi Holdings Berhad

Version 5 | Bloomberg: SASB MK | Reuters: SAHO.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

1 Nov 2016

BUY

Last Traded Price (31 Oct 2016): RM1.42 (KLCI : 1,672.46)

Price Target 12-mth: RM1.58 (11% upside) (Prev RM1.40)

Shariah Compliant: Yes

Potential Catalyst: Earnings-accretive acquisition

Where we differ: In line with consensus

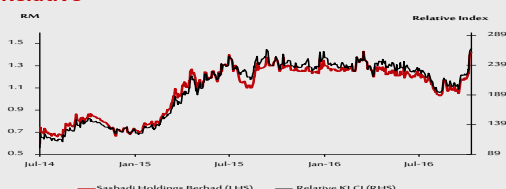
Analyst

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What's New

- 4Q core earnings below expectations mainly due to timing difference on contract recognition
- Remain positive on earnings prospects
- Maintain BUY, TP raised to RM1.58

Price Relative



Forecasts and Valuation

FY Aug (RM m)	2015A	2016A	2017F	2018F
Revenue	88.0	93.2	110	127
EBITDA	24.4	29.6	38.0	42.9
Pre-tax Profit	21.4	17.9	31.4	37.2
Net Profit	15.3	12.5	22.6	27.1
Net Pft (Pre Ex.)	15.3	16.8	22.6	27.1
Net Pft Gth (Pre-ex) (%)	(1.0)	9.6	34.9	19.7
EPS (sen)	5.48	4.46	8.10	9.69
EPS Pre Ex. (sen)	5.48	6.00	8.10	9.69
EPS Gth Pre Ex (%)	(1)	10	35	20
Diluted EPS (sen)	5.48	4.46	8.10	9.69
Net DPS (sen)	2.28	0.81	4.05	4.85
BV Per Share (sen)	37.7	51.8	56.2	62.9
PE (X)	25.9	31.8	17.5	14.6
PE Pre Ex. (X)	25.9	23.7	17.5	14.6
P/Cash Flow (X)	19.8	8.1	16.2	14.5
EV/EBITDA (X)	16.5	12.4	9.5	8.0
Net Div Yield (%)	1.6	0.6	2.9	3.4
P/Book Value (X)	3.8	2.7	2.5	2.3
Net Debt/Equity (X)	0.0	CASH	CASH	CASH
ROAE (%)	14.5	10.0	15.0	16.3
Earnings Rev (%):	(25)	3	4	
Consensus EPS (sen):		5.80	7.90	9.40
Other Broker Recs:		B: 3	S: 0	H: 0

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

Bookmark for the future

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

Sowing seeds for future growth. FY16 core earnings of RM12.5m was below our expectations and consensus estimates. The key difference was mainly due to delay in reprinting of a textbook contract, which is due to be recognised in 1QFY17. We are positive on Sasbadi's earnings prospects with (1) RM9.4m textbook tender secured, (2) reprinting contract and robotic contract to contribute in 1HFY17, and (3) network marketing starts taking shape. We adjust our earnings forecasts by <3%, mainly for bookkeeping purposes.

Network marketing – key growth driver. Since obtaining the network marketing licence in April this year, management has been actively engaged in building members for the business. We gather that the group has so far recruited about 2,000 members and significant contributions will start to kick in from FY17 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 lead to better recognition and appreciation of such products by consumers.

Valuation:

We maintain our BUY recommendation on Sasbadi with a higher TP of RM1.58, upon rolling forward our valuation base to CY17, based on a 17x PE. 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)	397 / 94.4
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)	0.23

ICB Industry : Consumer Services / Media

WHAT'S NEW**Sowing seeds for future growth**

FY16 results below expectation. Stripping out RM4.3m negative goodwill recognition, the group registered FY16 core earnings of RM12.5m, which came in below our expectations and consensus estimates. The key difference was mainly delay in reprinting of a textbook contract, which is due to be recognised in 1QFY17.

FY16 - a washout year. We acknowledge that FY16 has been a challenging year for the group as (1) in early 2016, substantial amount of its resources were spent on tenders for new textbooks for primary and secondary schools, which resulted in a delay in rolling out new reference books from 2QFY16 to 3QFY16, resulting in loss of revenues, (2) higher cost incurred to expedite the proposal for a textbook tender and, to build up its network marketing business, (3) timing difference in contract recognition.

Sowing seeds for future growth. With (1) RM9.4m textbook tender secured, (2) reprinting contract and robotic contract to contribute in 1HFY17, (3) network marketing starts taking shape, we remain positive on the group earnings prospects going forward. We adjust our earnings forecasts by <3%, mainly for bookkeeping purposes.

Network marketing- key growth driver. 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 2,000 members and contributions will start to kick in from FY17 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.

Maintain BUY with higher TP of RM1.58. We maintain our BUY recommendation for the group with a higher TP of RM1.58, upon rolling forward our valuation base to CY17, based on a 17x PE. We continue to like Sasbadi as it is one of the best proxies to the education sector and for its hands-on management team.

Quarterly / Interim Income Statement (RMm)

FY Aug	4Q2015	3Q2016	4Q2016	% chg yoy	% chg qoq
Revenue	20.1	22.4	15.9	(20.9)	(29.0)
Cost of Goods Sold	(11.8)	(11.0)	(9.6)	(18.6)	(12.4)
Gross Profit	8.27	11.4	6.26	(24.3)	(45.1)
Other Oper. (Exp)/Inc	(4.9)	(5.7)	(1.9)	(61.5)	(66.7)
Operating Profit	3.33	5.70	4.36	30.9	(23.5)
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	0.0	(0.2)	nm	nm
Exceptional Gain/(Loss)	0.0	0.0	(4.3)	nm	nm
Pre-tax Profit	3.33	5.70	(0.1)	nm	nm
Tax	(0.6)	(1.6)	0.02	(103.0)	(101.2)
Minority Interest	(0.5)	(0.2)	(0.1)	77.5	(49.0)
Net Profit	2.23	3.90	(0.2)	nm	nm
Net profit bef Except.	2.23	3.90	4.13	85.1	6.0
EBITDA	4.29	8.50	5.41	25.9	(36.4)
Margins (%)					
Gross Margins	41.1	50.9	39.4		
Opg Profit Margins	16.6	25.4	27.4		
Net Profit Margins	11.1	17.4	(1.0)		

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.

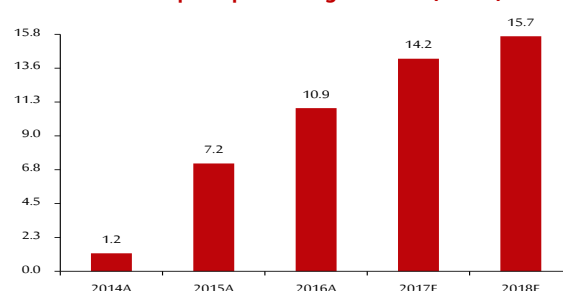
M&A to strengthen its position. In the domestic educational publishing industry, the top three players have less than 25% market share. To further strengthen its dominant position in the publishing industry and drive income growth, management is targeting to embark on at least one earnings-accretive acquisition annually. We are optimistic that the acquisition of a 70% stake in Sanjung Unggul Sdn Bhd (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/annum 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 FY6 revenue. We expect the contributions from online products to improve going forward with: (1) the launch of the i-LEARN offline platform in end-CY15; and (2) the licence 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 licence 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.

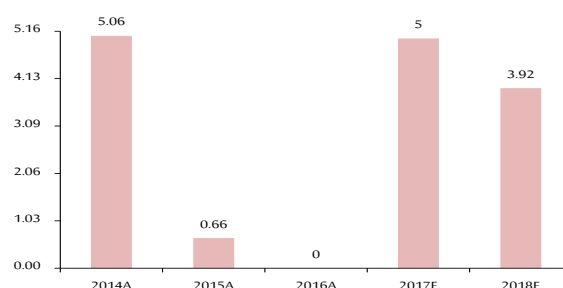
Network marketing business could be another growth driver.

We understand that since obtaining the network marketing licence, 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 2,000 members and significant contributions will start to kick in from FY17 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 achieve better recognition and appreciation of such products by consumers.

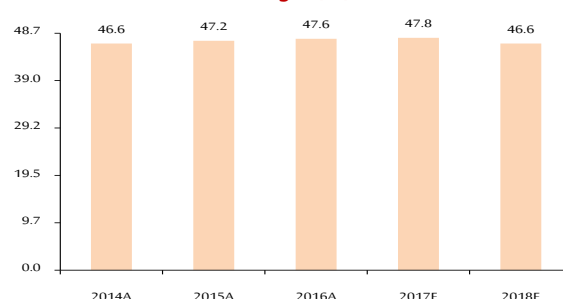
Incremental print publishing revenue (RM m)



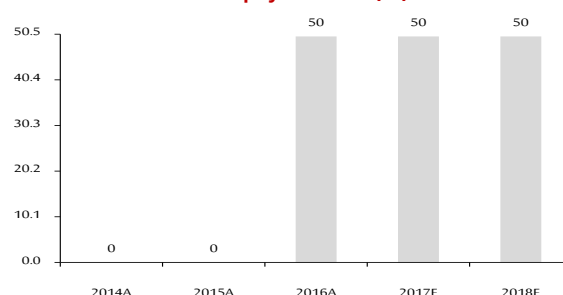
Organic growth (excl. past year exam) (RM m)



GP margin (%)



Dividend payout ratio (%)



Source: Company, AllianceDBS

Balance Sheet:

Healthy balance sheet. Sasbadi is in a net cash position as at end-Aug 2016. Nonetheless, we do not discount that the group may engage in capital-raising exercises 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 share price.

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

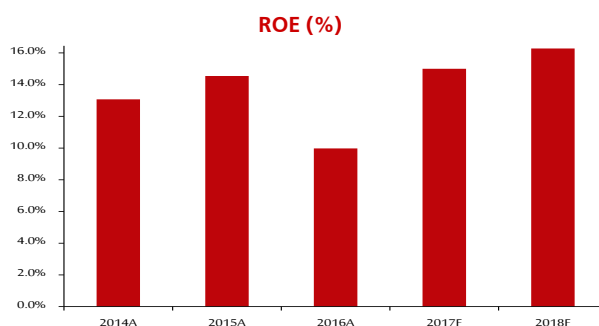
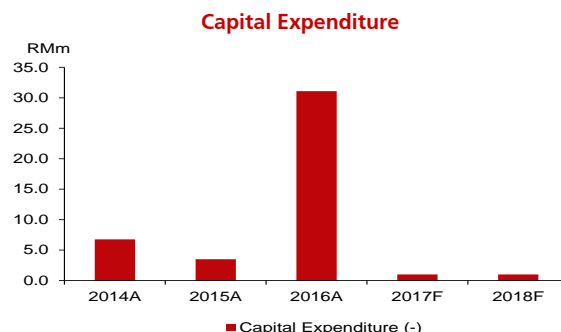
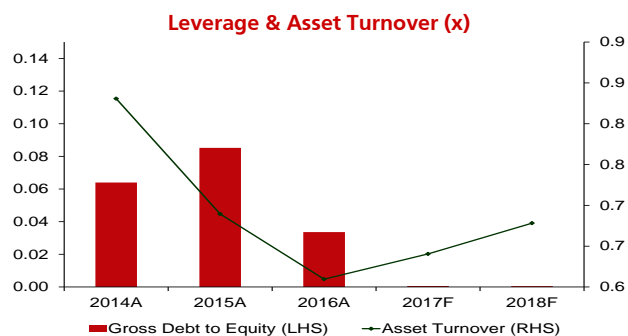
Key Risks:

Paper cost fluctuation. A sudden surge in paper cost, which represents about 40% of Sasbadi's cost of goods sold, 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 and enjoys high ROE and superior profitability, thanks to its lean operating structure and complementary business model.



Source: Company, AllianceDBS

Key Assumptions

FY Aug	2014A	2015A	2016A	2017F	2018F
Incremental print publishing revenue (RM m)	1.24	7.22	10.9	14.2	15.7
Organic growth (excl. past year exam) (RM m)	5.06	0.66	0.0	5.00	3.92
GP margin (%)	46.6	47.2	47.6	47.8	46.6
Dividend payout ratio (%)	0.0	0.0	50.0	50.0	50.0

Income Statement (RMm)

FY Aug	2014A	2015A	2016A	2017F	2018F
Revenue	79.5	88.0	93.2	110	127
Cost of Goods Sold	(42.4)	(46.5)	(48.9)	(57.5)	(67.6)
Gross Profit	37.0	41.5	44.4	52.6	59.0
Other Opng (Exp)/Inc	(16.6)	(20.0)	(21.5)	(21.4)	(22.4)
Operating Profit	20.4	21.5	22.9	31.2	36.7
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)	(0.7)	0.24	0.49
Exceptional Gain/(Loss)	(3.2)	0.0	(4.3)	0.0	0.0
Pre-tax Profit	16.9	21.4	17.9	31.4	37.2
Tax	(4.6)	(5.6)	(4.8)	(7.8)	(9.1)
Minority Interest	0.0	(0.5)	(0.6)	(1.0)	(1.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	12.3	15.3	12.5	22.6	27.1
Net Profit before Except.	15.5	15.3	16.8	22.6	27.1
EBITDA	23.0	24.4	29.6	38.0	42.9
Growth					
Revenue Gth (%)	1.9	10.7	5.9	18.1	15.0
EBITDA Gth (%)	18.0	6.2	21.2	28.5	13.0
Opg Profit Gth (%)	16.1	5.4	6.4	36.2	17.7
Net Profit Gth (Pre-ex) (%)	21.2	(1.0)	9.6	34.9	19.7
Margins & Ratio					
Gross Margins (%)	46.6	47.2	47.6	47.8	46.6
Opg Profit Margin (%)	25.7	24.4	24.5	28.3	29.0
Net Profit Margin (%)	15.4	17.4	13.4	20.5	21.4
ROAE (%)	13.1	14.5	10.0	15.0	16.3
ROA (%)	10.7	10.9	8.2	13.2	14.5
ROCE (%)	14.2	12.6	11.8	14.4	15.7
Div Payout Ratio (%)	69.4	41.5	18.0	50.0	50.0
Net Interest Cover (x)	62.9	215.0	31.6	NM	NM

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Aug	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Revenue	20.1	21.0	33.9	22.4	15.9
Cost of Goods Sold	(11.8)	(11.7)	(16.5)	(11.0)	(9.6)
Gross Profit	8.27	9.29	17.4	11.4	6.26
Other Oper. (Exp)/Inc	(4.9)	(5.8)	(8.1)	(5.7)	(1.9)
Operating Profit	3.33	3.52	9.30	5.70	4.36
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	0.0	(0.3)	(0.3)	0.0	(0.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	(4.3)
Pre-tax Profit	3.33	3.24	9.00	5.70	(0.1)
Tax	(0.6)	(0.9)	(2.3)	(1.6)	0.02
Minority Interest	(0.5)	(0.3)	0.0	(0.2)	(0.1)
Net Profit	2.23	2.03	6.70	3.90	(0.2)
Net profit bef Except.	2.23	2.03	6.70	3.90	4.13
EBITDA	4.29	4.46	11.2	8.50	5.41

Growth

Revenue Gth (%)	6.6	4.6	61.2	(33.9)	(29.0)
EBITDA Gth (%)	(4.7)	3.9	151.0	(24.1)	(36.4)
Opg Profit Gth (%)	(23.1)	5.6	164.4	(38.7)	(23.5)
Net Profit Gth (Pre-ex) (%)	(28.3)	(9.0)	229.7	(41.8)	6.0

Margins

Gross Margins (%)	41.1	44.2	51.3	50.9	39.4
Opg Profit Margins (%)	16.6	16.7	27.4	25.4	27.4
Net Profit Margins (%)	11.1	9.7	19.8	17.4	(1.0)

Balance Sheet (RMm)

FY Aug	2014A	2015A	2016A	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	36.4	43.8	56.5
Inventory	20.2	37.1	20.5	23.6	27.8
Debtors	31.1	40.4	23.5	27.2	31.2
Other Current Assets	1.67	1.36	5.87	11.2	11.4
Total Assets	114	141	165	179	195
ST Debt	5.80	9.30	4.80	0.0	0.0
Creditor	8.00	13.4	2.05	2.36	2.78
Other Current Liab	2.48	1.60	6.35	7.09	8.05
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	145	157	176
Minority Interests	0.0	5.10	1.00	6.10	2.00
Total Cap. & Liab.	114	141	165	179	195
Non-Cash Wkg. Capital	42.5	63.9	41.4	52.5	59.6
Net Cash/(Debt)	20.3	(1.1)	31.5	43.7	56.4
Debtors Turn (avg days)	115.4	148.3	125.0	83.9	84.1
Creditors Turn (avg days)	45.8	89.6	66.8	15.9	15.3
Inventory Turn (avg days)	161.3	239.8	249.1	158.9	153.0
Asset Turnover (x)	0.8	0.7	0.6	0.6	0.7
Current Ratio (x)	4.9	3.6	6.5	11.2	11.7
Quick Ratio (x)	3.5	2.0	4.5	7.5	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	1,000.0	1,000.0
Z-Score (X)	11.1	8.0	11.5	14.0	13.3

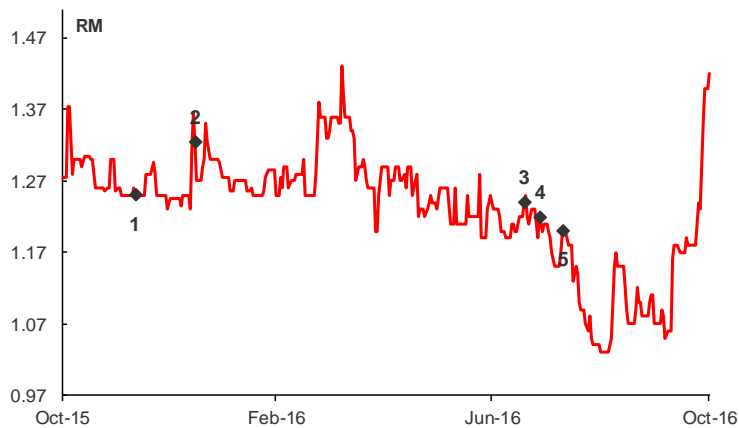
Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Aug	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	16.9	21.4	23.8	31.4	37.2
Dep. & Amort.	2.58	2.90	5.84	6.84	6.28
Tax Paid	(5.2)	(5.9)	(6.3)	(7.8)	(9.1)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(15.0)	0.0	25.7	(6.0)	(7.1)
Other Operating CF	1.88	1.60	0.0	0.0	0.0
Net Operating CF	1.12	20.0	49.1	24.5	27.3
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)	(8.3)	(11.3)	(13.5)
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)	18.4	(16.1)	(13.5)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	8.52	(5.1)	36.4	7.35	12.8
Opg CFPS (sen)	5.78	7.16	8.38	10.9	12.3
Free CFPS (sen)	(2.0)	5.91	6.44	8.40	9.41

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	11 Dec 15	1.25	1.43	BUY
2:	14 Jan 16	1.33	1.43	BUY
3:	18 Jul 16	1.24	1.40	BUY
4:	27 Jul 16	1.22	1.40	BUY
5:	09 Aug 16	1.20	1.40	BUY

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

Source: AllianceDBS

Analyst: King Yoong CHEAH

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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