

Sasbadi Holdings (BUY ↔; EPS ↔)

**EDUCATION
NEWSBREAK**

5 December 2016

Price Target: RM1.63 (↔)

Share price: RM1.40

Robotics R&D Collaboration with UM

News/ Comments

- Sasbadi Learning Solutions, a wholly-owned subsidiary of Sasbadi Holdings Bhd, has signed a Memorandum of Agreement (MoA) with University of Malaya (UM).
- The MoA was signed for the collaborative research and product development of Robotics Education in science, technology, engineering and mathematics (STEM) education.
- As Malaysia's oldest university, UM has a top-notch reputation amongst Malaysians. UM is working on providing its students with fast-track access to become equipped with advance knowledge and skills on computer science and information technology.
- We are positive on the MoA as the implicit endorsement from UM will further put Sasbadi in the limelight as a coveted applied learning products provider. We believe the MoA is a step in the right direction for Sasbadi as it grows and adapts to the changing education landscape, putting focus on STEM education. A successful collaboration would also widen Sasbadi's revenue base, however, we opine that any contribution from this MoA, which will be shared with UM, will take some time to kick in.
- We remain positive on Sasbadi's outlook as this latest news, coupled with the group's contract with MoE to supply Lego Education robotics products to primary and secondary schools in Malaysia, will cement Sasbadi's position as the sole distributor of the Lego Education robotics set in Malaysia and the solutions provider for STEM education. In the immediate term, 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.

Risks

- (1) Accelerated migration towards the online platform; (2) Spike in paper prices; (3) Changes in National Curriculum and educational policies; (4) Execution of its direct selling segment and (5) Losing the textbook contract from MOE.

Forecasts

- We maintain our earnings forecast. However, we will keep a close watch on this development and make necessary adjustments once financial impact can be ascertained.

Rating

BUY (↔)

Valuation

- 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.
- Reiterate BUY with unchanged TP of RM1.63 (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	1,629.0
Expected share price return	16.4%
Expected dividend return	3.0%
Expected total return	19.4%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	391
3-mth avg. volume ('000)	1,532
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-4.1	33.3	12.0
Relative	-3.0	37.4	14.7

Major shareholders

Law King Hui	18.3%
Karya Kencana	18.2%
Lee Swee Hang	8.5%
EPF	6.7%

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)	25.5	23.2	16.6	13.7
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)	5.0	2.3	4.2	5.1
Div. yield (%)	3.5	1.6	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 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	1.40	391.2	95.4	23.3	16.5	2.8	2.3	8.2	13.8	2.1
Pelangi Publishing	Sept	MYR	0.52	50.2	12.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR	2.02	975.0	237.8	54.6	18.5	5.9	5.2	9.5	32.6	2.5
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	0.20	75.2	18.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR	0.19	53.7	13.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						34.2	17.5	4.3	3.8	8.8	23.2	2.3

HLIB, Bloomberg

Figure #2 HLIB vs Consensus

FYE Dec (RM m)	FY17F			FY18F		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	109.0	114.5	-4.8	123.0	163.0	-24.5
PATAMI	23.6	22.9	3.0	28.5	40.1	-28.8

Bloomberg, HLIB

Sasbadi Holdings (BUY; TP: RM1.63; CP: RM1.40)

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

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

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)	(11.8)	(11.8)	(11.7)
Taxation	(4.6)	(5.6)	(6.7)	(7.9)	(9.8)
Others	(2.4)	6.4	(6.5)	0.0	0.0
Operating cashflow	1.1	4.5	1.6	18.7	24.3
Capex & acquisitions	(6.8)	(20.5)	(14.9)	(15.3)	(15.3)
Free cashflow	(5.7)	(16.0)	(13.3)	3.5	9.0
Other inv cashflow	0.0	0.4	(0.0)	0.5	0.7
New borrowings	5.5	3.5	5.0	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)	(0.2)	1.8	(1.6)
Net cashflow	8.5	(16.4)	17.2	5.8	8.1

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

Rates and Ratios

FYE 31 Aug (RM m)	2014A	2015A	2016A	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	0.0	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

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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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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