

Sasbadi Holdings (BUY ↔; EPS ↔)

EDUCATION
EARNINGS EVALUATION

25 January 2017

Price Target: RM1.63 (↔)

Share price: RM1.56

1QFY17 Results

Results

- **Within expectations.** Reported 1QFY17 core earnings of RM4.3m, accounting for 18% and 19% of our and street's full year estimates, respectively.

Deviations

- Typically a seasonally weaker quarter for the group but slightly lifted by delivery of textbook reprints that was delayed from the previous quarter. We anticipate higher earnings contributions from 2Q followed by 3Q as students purchase new books for the beginning of the school term.

Dividends

- None.

Highlights

- **YoY:** Sasbadi's 1QFY17 revenue of RM31.2m increased by 48.4% mainly due to the delayed delivery of textbook reprints, new textbook orders, consolidation of United Publishing Group's revenue and delivery/supply of robotics sets to schools under the contracts with MoE that was announced on 27 October 2016. PBT of RM6.4m increased by 96.9% arising from higher revenue but was slightly offset by higher costs incurred.
- **QoQ:** Revenue increased by 96.3% while PBT increased 51.3%. Textbook reprints which are typically ordered in 4Q were delayed into 1Q which contributed to a stronger 1QFY17 sequentially.
- **Outlook:** We remain positive on Sasbadi's outlook as the company is gradually cementing its position as an education and solutions provider for Lego Education robotics products and STEM education. We look forward to the group's future earnings coming from the new syllabus for 2018. Tendering process should end by March 2017. We believe the group is more prepared (compared to the previous year where a shorter response time was given) for the tendering for new syllabus. On top of that, we expect higher contribution from its online products via Mindtech education as it gains momentum.

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

- Unchanged.

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 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	1,680.7
Expected share price return	4.5%
Expected dividend return	2.7%
Expected total return	7.2%

Share price



sasb

Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	436
3-mth avg. volume ('000)	1,429
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	13.9	25.8	20.0
Relative	9.6	25.6	16.0

Major shareholders

Law King Hui	18.3%
Karya Kencana	18.2%
Lee Swee Hang	8.5%
EPF	6.0%

Summary Earnings Table

FYE Aug (RM m)	2015A	2016A	2017E	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	18.5	15.3
BV/share (RM)	0.4	0.5	0.6	0.7
P/BV (x)	3.8	2.7	2.5	2.2
Gross DPS (sen)	5.0	3.0	4.2	5.1
Div. yield (%)	3.5	2.1	2.7	3.3
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)	1QFY16	4QFY16	1QFY17	Qoq (%)	Yoy (%)	Comments
Revenue	21.0	15.9	31.2	96.3	48.4	YoY/QoQ: Delayed textbook reprint orders from 4QFY16, new textbooks, consolidation of United Publishing Group's revenue and delivery/supply of Lego robotics sets under contract with MoE.
GP	9.3	6.3	14.9	138.1	60.5	
Other op. Income	0.0	4.5	0.2	-95.0	NM	QoQ: Gain from bargain purchase via acquisition of United Publishing House in 4QFY16.
Expenses	(5.8)	(6.4)	(8.4)	30.1	45.0	
EBIT	3.5	4.4	6.8	55.0	92.2	
Interest income	0.0	0.1	0.1	-52.3	466.7	
Finance Costs	(0.3)	(0.3)	(0.4)	71.1	50.9	
PBT	3.2	4.2	6.4	51.3	96.9	Filtered down from revenue.
Tax	(0.9)	0.0	(1.6)	NM	NM	
PATAMI	2.0	4.3	4.3	0.1	113.4	Filtered down from revenue.
Basic EPS (sen)	1.6	1.6	1.6	0.1	-3.0	
Adj. EPS (sen)	1.6	0.0	1.6	NM	-3.0	

Sasbadi, HLIB

Figure #2 Regional Peers Comparison

Company	FYE	Price		Market Cap (m)		P/E (x)		P/B (x)		ROE (%)		Gross DY (%)
		(Local)		(Local)	(USD)	2016	2017	2016	2017	2016	2017	2016
Sasbadi	Aug	MYR 1.56		435.9	106.3	18.4	18.4	2.6	2.6	13.8	13.8	2.7
Pelangi Publishing	Sept	MYR 0.54		52.2	12.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR 2.16		1,042.6	254.2	69.7	19.8	6.0	5.5	8.3	29.2	1.8
SEG International	Dec	MYR 1.13		815.6	198.9	29.0	N/A	N/A	N/A	N/A	N/A	N/A
ASIAMET Education	Dec	MYR 0.18		71.2	17.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SMRT	Dec	MYR 0.18		53.5	13.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						39.0	19.1	4.3	4.1	11.1	21.5	2.2

HLIB, Bloomberg

Figure #3 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: RM1.56)

Income Statement

FYE 31 Aug (RM m)	2014A	2015A	2016A	2017E	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)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Revenue	21.0	33.9	22.4	15.9	31.2
GP	9.3	17.3	11.4	6.3	14.9
Other Income	0.0	0.0	0.3	4.5	0.2
Expenses	(5.8)	(8.1)	(6.0)	(6.4)	(8.4)
EBIT	3.5	9.3	5.7	4.4	6.8
Interest Income	0.0	0.1	0.2	0.1	0.1
Finance Costs	(0.3)	(0.3)	(0.2)	(0.3)	(0.4)
PBT	3.2	9.0	5.7	4.2	6.4
Tax	(0.9)	(2.4)	(1.6)	0.0	(1.6)
PATAMI	2.0	6.6	3.8	4.3	4.3
Basic EPS (sen)	1.6	5.0	1.4	1.6	1.6
Adj Basic EPS (sen)	1.6	5.0	1.4	0.0	1.6

Balance Sheet

FYE 31 Aug (RM m)	2014A	2015A	2016A	2017E	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	2017E	2018F
Basic EPS (sen)	5.6	5.5	6.0	8.5	10.2
P/E (x)	28.0	28.4	25.9	18.5	15.3
Gross DPS (sen)	0.0	5.0	2.3	4.2	5.1
Div. yield (%)	0.0	3.2	1.4	2.7	3.3
BV/share (RM)	0.3	0.4	0.5	0.6	0.7
P/B (x)	4.7	4.1	2.9	2.5	2.2
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	415.6	442.0	435.6	432.8	424.7
EV/EBITDA (x)	21.0	18.1	16.3	11.3	9.3
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	2017E	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

Assumption Metrics

FYE 31 Aug (RM m)	2014A	2015A	2016A	2017E	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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