


Company Note

I Malaysia

ADD (no change)

Consensus ratings*: Buy 3 Hold 0 Sell 0

Current price: RM1.56
 Target price:  RM2.82
 Previous target: RM2.82
 Up/downside: 80.8%
 CIMB / Consensus: 40.3%

Reuters: SAHO.KL
 Bloomberg: SASB MK
 Market cap: US\$98.17m
 RM435.9m
 Average daily turnover: US\$0.46m
 RM1.94m
 Current shares o/s: 279.4m
 Free float: 55.0%
 *Source: Bloomberg

Key changes in this note

 None.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	13.9	28.9	20
Relative (%)	10	28.7	16.6

Major shareholders	% held
Law King Hui	18.3
Karya Kencana S/B	18.2
Lee Swee Hang	8.5

Analyst(s)



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Sasbadi Holdings

1Q17: A good start to the year

- At 18% of our full-year forecast, 1QFY17 net profit was in line with market and our forecast as we expect stronger profit over the next quarters from the MLM division.
- Direct selling arm currently has c.3,000 distributors, who are now more focused on selling iL-Ace now that the national school curriculum has started.
- RM12m net debt or 5% net gearing; looking at one M&A annually.
- Remains an Add; our target price based on 20% discount to FY17F P/E of 16x (our target domestic education sector).

1QFY17 net profit up 120% yoy

Sasbadi's 1QFY17 revenue rose 48.6% yoy, mainly due to sales recognised for the delivery of Lego robotic orders to the government (RM3.9m) and Chinese school text books, and maiden revenue from recently-acquired United Publishing House S/B. These, coupled with greater economies of scale, boosted 1Q17 net profit by a strong 120% yoy. No interim DPS was declared, in line with our expectations. However, the company will pay out its FY16 final 1.25sen DPS, ex-date on 26 Jan.

Minimal earnings from direct selling in 1QFY17

We estimate that Sasbadi recorded its maiden RM1.2m quarterly direct selling revenue from iLearn-Ace (iL-Ace, an interactive mobile platform based on the national school curriculum) in 1QFY17 but in view of start-up costs for iL-Ace, the unit's gross profit was only RM0.1m. This division currently has around 3,000 distributors. Over the past few months, its leaders have been looking to recruit distributors who want to build the business and the focus had been less on selling iL-Ace.

i-Learn Ace sales to kick off this month

But with the start of the Malaysia's national school year in Jan, distributors would now focus more on selling iL-Ace. We expect sales should pick up strongly over the next few months. In our earnings forecast, we project iL-Ace earnings to reach RM20m in FY17F, rising to RM140m in FY18F.

Net cash balance sheet, looking at M&As

Sasbadi's net debt was at RM12m or 5% net gearing at end-1QFY17 and the company is targeting to make one acquisition annually. Most book publishers are privately owned and not many parties are keen to acquire these companies. As such, Sasbadi should be able to acquire publishing companies at attractive prices, in our view. The company is also looking at expanding its subject range in areas such as cooking and hobby books.

Looking to franchise robotics education business

Sasbadi's recently-acquired subsidiary, Direct Motion Group (DMG), conducts learning activities on robotics technology. As Sasbadi has a tie-up with University Malaya, we understand it is looking to certify its robotics education classes and franchise the business. Given the government's focus on Science, Technology, Engineering and Mathematics (STEM) education, DMG should see exciting growth prospects in the next few years. We have not factored in any profits from DMG yet.

Remains an Add

We maintain our EPS forecasts and target price, based on a 20% discount to FY18F P/E of 16x (our target P/E for the domestic education sector) to reflect its small market cap. We believe the stock is a good proxy for the domestic education sector. Sasbadi remains an Add. Potential re-rating catalysts are stronger-than-expected iL-Ace sales over the next few quarters, and M&As. Weak iL-Ace sales are a key downside risk.

Financial Summary	Aug-15A	Aug-16A	Aug-17F	Aug-18F	Aug-19F
Revenue (RMm)	88.0	93.2	123.0	238.8	298.5
Operating EBITDA (RMm)	24.3	22.4	39.0	93.4	121.9
Net Profit (RMm)	15.30	16.90	25.00	64.70	85.60
Core EPS (RM)	0.05	0.05	0.09	0.23	0.31
Core EPS Growth	24%	(11%)	85%	159%	32%
FD Core P/E (x)	28.49	32.17	17.43	6.74	5.09
DPS (RM)	0.03	0.02	0.05	0.12	0.16
Dividend Yield	1.60%	1.44%	2.88%	7.37%	9.94%
EV/EBITDA (x)	18.17	19.47	11.13	4.26	3.15
P/FCFE (x)	379.0	89.0	9.7	3.1	2.9
Net Gearing	1.0%	(3.4%)	(4.7%)	(22.7%)	(24.9%)
P/BV (x)	4.14	2.95	2.72	2.26	1.85
ROE	15.4%	10.7%	16.2%	36.7%	40.0%
% Change In Core EPS Estimates			(0.208%)	(0.019%)	0.023%
CIMB/consensus EPS (x)			1.07	1.63	0.99

SOURCE: COMPANY DATA, CIMB FORECASTS

A good start to the year

Figure 1: Results comparison

FYE Aug (RM m)	1QFY17	1QFY16	yoy % chg	qoq % chg	Prev. FY17F	Comments
Revenue	31.2	21.0	48.6	96.2	123.0	In line, rising revenue from Sanjung Unggul, Sasbadi S/B and UPH maiden revenue
Operating costs	(23.6)	(17.0)	38.8	59.5	(84.0)	
EBITDA	7.6	4.0	90.0	590.9	39.0	In line, expect higher revenue from MLM division over the next few quarters
EBITDA margin (%)	24.4	19.0	27.9	252.1	31.7	
Depn & amort.	(1.2)	(0.9)	25.0	0.0	(4.2)	
EBIT	6.6	3.2	106.3	>100	34.8	
Interest expense	(0.4)	(0.1)	200.0	0.0	(2.0)	In line, RM12m net debt or 5% net gearing
Interest & invt inc	0.1	0.1	0.0	0.0	2.0	
Pretax profit	6.4	3.2	100.0	52.4	34.8	In line, contribution from Lego robotics and sales of textbooks to government
Tax	(1.6)	(0.9)	77.8	nm	(9.1)	
Tax rate (%)	25.0	28.1	(11.1)	nm	26.1	No tax incentives
Minority interests	(0.40)	(0.30)	(11.1)	-	(0.7)	
Net profit	4.4	2.0	120.0	4.8	25.0	In line, expect stronger quarters from MLM division
EPS (sen)	1.6	0.7	120.0	4.8	8.9	

SOURCES: CIMB, COMPANY REPORTS

Major wave 3 in progress ▶

Sasbadi's weekly chart shows the stock in major wave 3. The first leg of wave 3 should be completed over the next few weeks, likely to be followed by a correction. In the Elliot Wave Principle, the third wave of a major wave 3 should have the strongest price momentum. If we are right, the next few months should be exciting for the stock.

Figure 2: Sasbadi weekly price chart (RM1.58)



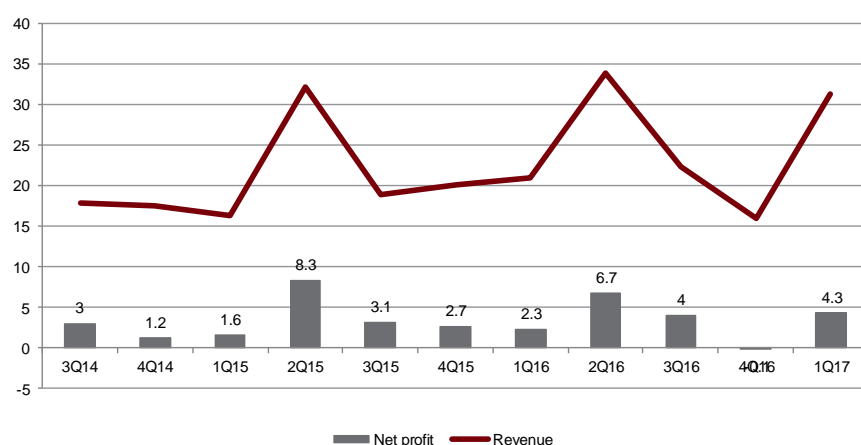
SOURCES: CIMB, COMPANY REPORTS

Figure 3: Contracts secured from the government to print and supply text books

Period	Subject	Amount (RMm)
May-2016 to Dec-2018	Chinese language Form 1	1.6
Apr-2016 to Dec-2018	Maths Year 1 (Chinese)	3.9
Apr-2016 to Dec-2018	Chinese language	3.1
Apr-2016 to Dec-2018	Physical education	0.8
Total		9.4

SOURCES: CIMB, COMPANY REPORTS

Figure 4: Sasbadi's quarterly revenue and net profit (RMm)



SOURCES: CIMB, COMPANY REPORTS

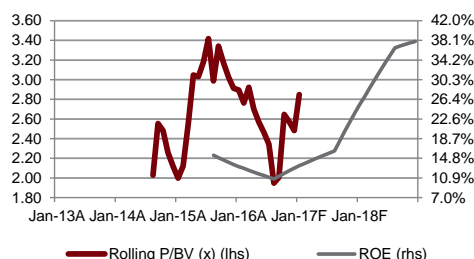
Figure 5: Sector comparisons

Company	Bloomberg Ticker	Reco m.	Target Price		Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
			(local curr)	(local curr)		CY2016	CY2017		CY2016	CY2017	CY2016	CY2017	CY2016	CY2017	CY2016	CY2017
Sasbadi Holdings	SASB MK	Add	RM1.56	RM2.82	98	17.6	9.3	72.0%	2.87	2.55	12.8%	24.2%	14.6	7.1	1.9%	4.5%
China Maple Leaf Educational	1317 HK	Add	HK\$4.95	HK\$8.32	868	18.1	15.5	20.5%	2.78	2.49	16.6%	17.2%	15.5	11.6	2.1%	2.3%
Overseas Education Ltd	OEL SP	Hold	S\$0.36	S\$0.42	105	33.7	23.5	-20.9%	0.99	1.01	2.9%	4.2%	9.5	8.6	5.5%	6.3%
Prestariang	PRES MK	Add	RM2.16	RM3.23	235	82.3	13.4	67.9%	5.78	4.93	7.7%	39.7%	72.3	11.2	0.8%	4.5%
Sector average					326.6	37.9	15.4	34.9%	3.1	2.7	10.0%	21.3%	28.0	9.6	2.6%	4.4%

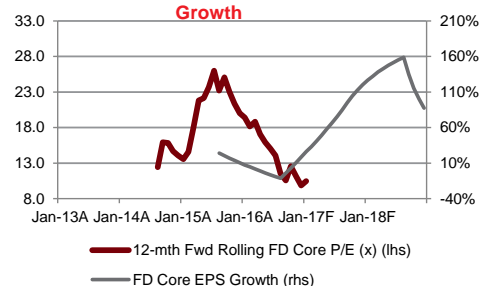
SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(RMm)	Aug-15A	Aug-16A	Aug-17F	Aug-18F	Aug-19F
Total Net Revenues	88.00	93.20	123.00	238.80	298.50
Gross Profit	43.12	45.67	69.00	118.80	178.50
Operating EBITDA	24.33	22.40	39.00	93.40	121.90
Depreciation And Amortisation	(2.90)	(3.80)	(4.20)	(4.60)	(4.90)
Operating EBIT	21.43	18.60	34.80	88.80	117.00
Financial Income/(Expense)	(0.03)	(0.70)	0.00	0.00	0.00
Pretax Income/(Loss) from Assoc.	0.00	0.00	0.00	0.00	0.00
Non-Operating Income/(Expense)	0.00	0.00	0.00	0.00	0.00
Profit Before Tax (pre-EI)	21.40	17.90	34.80	88.80	117.00
Exceptional Items		4.30			
Pre-tax Profit	21.40	22.20	34.80	88.80	117.00
Taxation	(5.60)	(4.90)	(9.10)	(23.10)	(30.40)
Exceptional Income - post-tax					
Profit After Tax	15.80	17.30	25.70	65.70	86.60
Minority Interests	(0.50)	(0.40)	(0.70)	(1.00)	(1.00)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	15.30	16.90	25.00	64.70	85.60
Recurring Net Profit	15.30	13.55	25.00	64.70	85.60
Fully Diluted Recurring Net Profit	15.30	13.55	25.00	64.70	85.60

Cash Flow

(RMm)	Aug-15A	Aug-16A	Aug-17F	Aug-18F	Aug-19F
EBITDA	24.33	22.40	39.00	93.40	121.90
Cash Flow from Inv. & Assoc.	24.33	22.40	39.00	93.40	121.90
Change In Working Capital	(15.40)	(11.90)	(4.90)	9.70	(24.50)
(Incr)/Decr in Total Provisions	0.00	0.00	0.00	0.00	0.00
Other Non-Cash (Income)/Expense	0.00	0.00	0.00	0.00	0.00
Other Operating Cashflow	(5.60)	(4.90)	(9.10)	(23.10)	(30.40)
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00	0.00
Tax Paid	(5.60)	(4.90)	(9.10)	(23.10)	(30.40)
Cashflow From Operations	22.05	23.10	54.90	150.30	158.50
Capex	(22.00)	(12.00)	(10.00)	(10.00)	(10.00)
Disposals Of FAs/subsidiaries	0.00	0.30	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	0.00	0.00	0.00	0.00	0.00
Other Investing Cashflow	1.10	(6.50)	0.00	0.00	0.00
Cash Flow From Investing	(20.90)	(18.20)	(10.00)	(10.00)	(10.00)
Debt Raised/(repaid)	0.00	0.00	0.00	0.00	0.00
Proceeds From Issue Of Shares	0.00	31.30	0.00	0.00	0.00
Shares Repurchased	0.00	0.00	0.00	0.00	0.00
Dividends Paid	(3.80)	(6.30)	(12.50)	(32.30)	(42.70)
Preferred Dividends	0.00	0.00	0.00	0.00	0.00
Other Financing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Financing	(3.80)	25.00	(12.50)	(32.30)	(42.70)
Total Cash Generated	(2.65)	29.90	32.40	108.00	105.80
Free Cashflow To Equity	1.15	4.90	44.90	140.30	148.50
Free Cashflow To Firm	1.15	4.90	44.90	140.30	148.50

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Aug-15A	Aug-16A	Aug-17F	Aug-18F	Aug-19F
Total Cash And Equivalents	8.3	25.2	16.7	54.3	69.5
Total Debtors	40.4	49.2	47.0	48.0	50.0
Inventories	37.1	49.0	53.2	43.0	64.5
Total Other Current Assets	1.4	4.3	4.3	4.3	4.3
Total Current Assets	87.2	127.7	121.2	149.6	188.3
Fixed Assets	30.9	45.3	51.1	56.5	61.6
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	22.3	26.3	26.3	26.3	26.3
Total Other Non-Current Assets	0.4	0.7	0.4	0.4	0.4
Total Non-current Assets	53.6	72.3	77.8	83.2	88.3
Short-term Debt	9.3	10.5	3.0	3.0	3.0
Current Portion of Long-Term Debt	0.0	0.0	0.0	0.0	0.0
Total Creditors	13.4	18.9	16.0	16.5	15.5
Other Current Liabilities	1.6	0.5	1.8	1.8	2.6
Total Current Liabilities	24.3	29.9	20.8	21.3	21.1
Total Long-term Debt	0.1	9.5	5.9	5.9	5.9
Hybrid Debt - Debt Component	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Liabilities	6.1	7.4	5.8	5.8	5.0
Total Non-current Liabilities	6.2	16.9	11.7	11.7	10.9
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	30.5	46.8	32.5	33.0	32.0
Shareholders' Equity	105.2	147.8	160.3	192.7	235.6
Minority Interests	5.1	5.5	6.2	7.2	8.2
Total Equity	110.3	153.3	166.5	199.9	243.8

Key Ratios

	Aug-15A	Aug-16A	Aug-17F	Aug-18F	Aug-19F
Revenue Growth	10.7%	5.9%	32.0%	94.1%	25.0%
Operating EBITDA Growth	23%	(8%)	74%	139%	31%
Operating EBITDA Margin	27.6%	24.0%	31.7%	39.1%	40.8%
Net Cash Per Share (RM)	(0.00)	0.02	0.03	0.16	0.22
BVPS (RM)	0.38	0.53	0.57	0.69	0.84
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	26.2%	22.1%	26.1%	26.0%	26.0%
Net Dividend Payout Ratio	50.0%	50.0%	50.0%	50.0%	50.0%
Accounts Receivables Days	148.5	175.9	142.7	72.6	59.9
Inventory Days	233.0	331.5	345.4	146.3	163.5
Accounts Payables Days	87.0	124.4	117.9	49.4	48.7
ROIC (%)	27.6%	15.8%	22.4%	54.0%	73.0%
ROCE (%)	19.5%	12.2%	20.0%	46.2%	50.7%
Return On Average Assets	12.4%	8.0%	12.9%	30.4%	34.0%

Key Drivers

	Aug-15A	Aug-16A	Aug-17F	Aug-18F	Aug-19F
Growth In Number Of Students (%)	1.0%	1.0%	1.0%	1.0%	1.0%
Average Student Fee Change (%)	2.0%	2.0%	3.0%	2.0%	2.0%
Campus Utilisation Rates (%)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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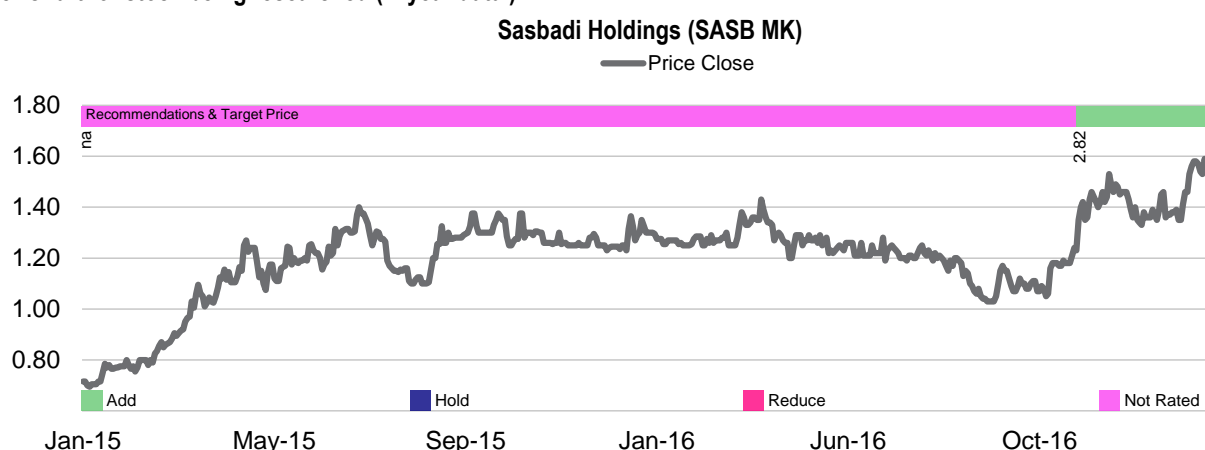
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	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

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Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

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