

Sasbadi Holdings (BUY ↔; EPS ↓)

INDUSTRY: NEUTRAL
NEWSBREAK
5 April 2017
Price Target: RM1.73 (↑)
Share price: RM1.54

Secured three textbook tenders

News/ Comments

- Sasbadi announced that its wholly-owned subsidiary, Sasbadi S/B has accepted two Letters of Acceptance (LoA) from the Ministry of Education (MoE) to publish, print, and supply the textbook packages for Mathematics and Arts Education subjects for Year 2 of the Chinese national-type primary schools ("SJCKs").
- In the same announcement, Sasbadi's indirect subsidiary, The Malaya Press S/B (subsidiary of Sanjung Unggul), has also accepted a LoA from the MoE to publish, print and supply the textbook package for Chinese Language for Year 2 of the SJCKs.
- All three contracts which amounted to RM6.81m will commence from 31st March 2017 and end on 31st December 2019.

Subject	Contract Amount
Year 2: Mathematics	RM2.98m
Year 2: Arts Education	RM0.76m
Year 2: Chinese Language	RM3.07m

- The RM6.81m worth of LoA(s) are expected to contribute positively to group's earnings in FY18. However, this is lower than the first three contracts that Sasbadi won in FY16 which amounted to RM7.71m.
- The group will be delivering its first portion of textbooks in 1QFY18 and 2QFY18 worth approximately RM4.1m. The remainder of the contract sum will flow into FY19 and FY20.
- There will be one more round of tender award expected to be called in May-2017. Recall in FY16, Sasbadi won 1 contract in the second round amounting to RM1.6m.
- We reiterate our positive outlook on Sasbadi as the company grows more solid through its fervent effort to cement its position as a sought-after educational publishing company, as well as an education and solutions provider for Lego Education robotics products and STEM education. While we expect a slower bottom line growth for its iLearn Ace segment given slow take-up rate, we remain positive on its potential over the longer term.

Risks

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

Forecasts

- We reduce FY18-FY19 earnings forecast by 7.4% and 4.4%, respectively, in light of lower-than-expected contract sum won and slower bottom line growth on its iLearn Ace front.

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 higher TP of **RM1.73** (from RM1.63) post earnings forecast adjustment and roll over of valuation into CY18. Our valuation is based on unchanged P/E multiple of 18x CY18 EPS.

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KLCI	1,747.2
Expected share price return	12.3%
Expected dividend return	2.7%
Expected total return	15.1%

Share price



Information

Bloomberg Ticker	SASB MK
Bursa Code	5252
Issued Shares (m)	279
Market cap (RM m)	430
3-mth avg. volume ('000)	642
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-1.9	5.5	14.1
Relative	-4.1	0.2	12.2

Major shareholders

Law King Hui	18.3%
Karya Kencana	18.2%
Lee Swee Hang	8.5%
EPF	7.8%

Summary Earnings Table

FYE Aug (RM m)	2016A	2017E	2018F	2019F
Revenue	93.2	109.0	121.6	134.4
Pre-tax Profit	22.2	31.5	35.5	36.3
Rpt. PATAMI	16.8	23.6	26.4	27.9
Nom. PATAMI	16.8	23.6	26.4	27.9
Nom. EPS (sen)	6.0	8.5	9.5	10.0
Nom. P/E (x)	25.5	18.2	16.3	15.4
BV/share (RM)	0.5	0.6	0.7	0.8
P/BV (x)	2.9	2.5	2.2	1.9
Gross DPS (sen)	2.3	4.2	4.7	5.0
Div. yield (%)	1.5	2.7	3.1	3.2
ROE (%)	8.2	13.8	13.4	12.4
ROA (%)	6.3	10.7	10.6	10.0

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Figure #1 Regional Peers Comparison

Company	FYE	Price (Local)		Market Cap (m) (Local) (USD)		P/E (x)		P/B (x)		ROE (%)		Gross DY (%)
						2017	2018	2017	2018	2017	2018	2017
Sasbadi	Aug	MYR	1.54	430.3	104.9	18.1	18.1	2.6	2.6	13.8	13.8	2.7
Pelangi Publishing	Sept	MYR	0.70	67.6	16.5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Prestariang	Dec	MYR	2.29	1,105.3	269.5	24.4	18.0	6.1	5.4	26.6	31.3	2.9
SEG International	Dec	MYR	1.08	779.5	190.1	25.1	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	0.19	55.0	13.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average						22.5	18.1	4.4	4.0	20.2	22.6	2.8

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Sasbadi Holdings (BUY; TP: RM1.73; CP: RM1.54)

Income Statement

FYE 31 Aug (RM m)	2015A	2016A	2017E	2018F	2019F
Revenue	88.0	93.2	109.0	121.6	134.4
EBITDA	24.4	26.7	38.4	42.9	44.0
D&A	2.9	3.9	5.8	6.6	7.0
EBIT	21.4	22.9	32.6	36.4	37.0
Interest income	(0.0)	(0.7)	(1.1)	(0.9)	(0.7)
Interest expense	(0.5)	(1.0)	(1.6)	(1.6)	(1.6)
JV & Associates	0.0	0.0	0.0	0.0	0.0
PBT	21.4	22.2	31.5	35.5	36.3
Income Tax Expense	(5.6)	(4.9)	(7.9)	(9.0)	(9.4)
Discontinued op.	0.0	0.0	0.0	0.0	1.0
NCI	(0.5)	(0.4)	0.0	0.0	0.0
PATAMI	15.3	16.8	23.6	26.4	27.9
Basic shares (m)	279.4	279.4	279.4	279.4	279.4
Basic EPS (sen)	5.5	6.0	8.5	9.5	10.0

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)	2015A	2016A	2017E	2018F	2019F
Fixed Assets	30.9	42.7	48.2	52.9	57.2
Other long-term assets	22.7	29.6	33.2	37.2	42.2
Other short-term assets	1.4	4.3	4.3	4.3	4.3
Working Capital	64.0	79.3	91.1	101.7	112.4
Receivables	40.4	49.2	57.6	64.2	71.0
Payables	(13.4)	(18.9)	(21.1)	(23.5)	(26.0)
Inventory	37.1	49.0	54.6	60.9	67.4
Net cash	(1.1)	5.8	3.0	10.2	18.1
Cash	8.3	25.8	23.1	30.3	38.2
Total Debt	(9.4)	(20.0)	(20.0)	(20.0)	(20.0)
Shareholders' funds	105.2	147.8	171.4	197.8	225.7
Share capital	63.5	69.9	69.9	69.9	69.9
Reserves	41.7	77.9	101.6	128.0	155.9
Minorities	5.1	5.5	0.0	0.0	0.0
Other liabilities	7.6	8.5	8.5	8.5	8.5

Rates and Ratios

FYE 31 Aug (RM m)	2015A	2016A	2017E	2018F	2019F
Basic EPS (sen)	5.5	6.0	8.5	9.5	10.0
P/E (x)	28.1	25.5	18.2	16.3	15.4
Gross DPS (sen)	5.0	2.3	4.2	4.7	5.0
Div. yield (%)	3.2	1.5	2.7	3.1	3.2
BV/share (RM)	0.4	0.5	0.6	0.7	0.8
P/B (x)	4.1	2.9	2.5	2.2	1.9
FCF/share (sen)	0.1	0.0	0.1	0.1	0.1
Net Debt/Equity (%)	(1.0)	3.8	1.8	5.2	8.0
Enterprise value	436.4	430.0	427.3	420.1	412.1
EV/EBITDA (x)	17.9	16.1	11.1	9.8	9.4
ROE (%)	13.9	8.2	13.8	13.4	12.4
ROA (%)	10.9	6.3	10.7	10.6	10.0

Cashflow Analysis

FYE 31 Aug (RM m)	2015A	2016A	2017E	2018F	2019F
EBITDA	24.4	26.7	38.4	42.9	44.0
WC changes	(20.7)	(11.8)	(11.8)	(10.5)	(10.7)
Taxation	(5.6)	(6.7)	(7.9)	(9.0)	(9.4)
Others	6.4	(6.5)	0.0	0.0	0.0
Operating cashflow	4.5	1.6	18.7	23.4	23.9
Capex & acquisitions	(20.5)	(14.9)	(15.3)	(15.3)	(15.3)
Free cashflow	(16.0)	(13.3)	3.5	8.1	8.6
Other inv cashflow	0.4	(0.0)	0.5	0.7	0.9
New borrowings	3.5	5.0	0.0	0.0	0.0
Share issuance	0.0	31.3	0.0	0.0	0.0
Dividends paid	(3.8)	(5.6)	0.0	0.0	0.0
Other fin cashflow	(0.5)	(0.2)	1.8	(1.6)	(1.6)
Net cashflow	(16.4)	17.2	5.8	7.2	7.9

Assumption Metrics

FYE 31 Aug (RM m)	2015A	2016A	2017E	2018F	2019F
Revenue growth (%)	10.6	6.0	16.9	11.5	10.5
EBITDA growth (%)	23.1	9.8	43.6	11.8	2.5
EBIT growth (%)	4.5	6.8	42.4	11.6	1.8
PBT growth (%)	6.1	3.7	41.9	12.6	2.5
EBITDA margin (%)	27.7	28.7	35.2	35.3	32.8
EBIT margin (%)	24.4	24.6	29.9	29.9	27.6
PBT margin (%)	24.3	23.8	28.9	29.2	27.0

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Published & Printed by
Hong Leong Investment Bank Berhad (10209-W)
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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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