

Company Guide

Sasbadi Holdings Berhad



Version 8 | Bloomberg: SASB MK | Reuters: SAHO.KL
Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

19 Jan 2018

BUY

Last Traded Price (18 Jan 2018): RM0.58 (KLCI : 1,821.60)

Price Target 12-mth: RM1.05 (81% upside) (Prev RM1.25)

Shariah Compliant: Yes

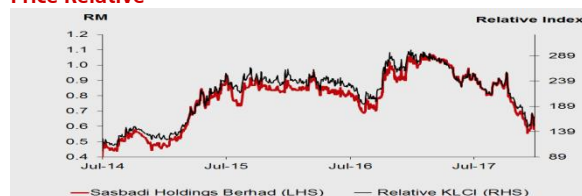
Analyst

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What's New

- Swift turnaround from 4QFY17 loss
- 1QFY18 earnings inched up by 2.3% y-o-y backed by organic growth and MLM earnings
- Cut FY18/19F earnings by 15% as earlier estimates were too optimistic
- Maintain BUY with lower TP of RM1.05

Price Relative



Forecasts and Valuation

FY Aug (RM m)	2016A	2017A	2018F	2019F
Revenue	92.7	93.1	122	139
EBITDA	22.1	18.7	34.0	41.9
Pre-tax Profit	22.2	11.5	27.8	36.0
Net Profit	16.7	8.04	20.8	27.1
Net Pft (Pre Ex.)	11.9	9.00	20.8	27.1
Net Pft Gth (Pre-ex) (%)	(22.6)	(24.1)	131.6	30.3
EPS (sen)	3.98	1.92	4.97	6.48
EPS Pre Ex. (sen)	2.83	2.15	4.97	6.48
EPS Gth Pre Ex (%)	(23)	(24)	132	30
Diluted EPS (sen)	3.98	1.92	4.97	6.48
Net DPS (sen)	1.50	1.50	2.49	3.24
BV Per Share (sen)	35.2	34.7	37.2	41.7
PE (X)	14.6	30.2	11.7	9.0
PE Pre Ex. (X)	20.5	27.0	11.7	9.0
P/Cash Flow (X)	145.2	136.2	21.4	15.3
EV/EBITDA (X)	11.0	14.4	7.9	6.3
Net Div Yield (%)	2.6	2.6	4.3	5.6
P/Book Value (X)	1.6	1.7	1.6	1.4
Net Debt/Equity (X)	CASH	0.2	0.1	0.1
ROAE (%)	13.2	5.5	13.8	16.4
Earnings Rev (%):		(1)	(15)	(15)
Consensus EPS (sen):		N/A	5.40	6.50
Other Broker Recs:		B: 2	S: 0	H: 2

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

Still in the good books

Maintaining our bullish view. We maintain our bullish view on Sasbadi. After a disappointing FY17, we foresee that the group's earnings will improve substantially in the upcoming quarters and we are optimistic that its earnings will rebound this year, following management's recent actions in streamlining cost and enhancing its revenue growth trajectory.

Where we differ: Having a more positive stance than consensus.

Our TP is higher than consensus as we believe that the market has underappreciated Sasbadi's medium-term growth prospects following its disappointing FY17 financial figures. We also have a more aggressive valuation compared to the street.

Potential catalysts. Earnings-accretive acquisition and stronger-than-expected contributions from its network marketing unit.

Management aims to embark on at least one earnings-accretive acquisition annually to further strengthen its dominant position in the publishing industry and drive income growth. Our revenue assumptions for its network marketing business are RM15m/RM20m for FY18/FY19, and a stronger-than-expected contribution would serve as a catalyst for the stock.

Valuation:

Post earnings revision, we are maintaining our BUY recommendation with a lower TP of RM1.05, pegged to a forward CY18 PE of 19x. Our valuation is based on a 10% discount to its historical mean PE, which we believe is reasonable.

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)	419
Mkt. Cap (RMm/US\$m)	243 / 61.4
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)	0.18

ICB Industry : Consumer Services / Media



WHAT'S NEW

A good start to FY18

A decent start: Sasbadi reported 1QFY18 core earnings of RM4.5m (+2.3% y-o-y, +>200% q-o-q). Although the bottomline for 1QFY18 only improved marginally y-o-y, we view the results positively since the 1QFY17 figure was boosted by non-recurring income.

To recap, the group's 1QFY17 core earnings were boosted by (1) textbook reprinting contract, and (2) provisions of Lego Education robotics sets to primary and secondary schools amounting to RM3.6m. If we strip out these two contributions from the 1QFY17 results, 1QFY18 earnings would have grown by double digits y-o-y.

The stronger earnings y-o-y were mainly driven by (1) strong growth from its organic print publishing business, (2) higher contributions from its networking marketing operations, and (3) 13% y-o-y reduction in its operating expenses.

The improvement in its organic business and lower operating expenses illustrate that management's recent strategies to streamline cost and enhance its revenue growth trajectory are starting to bear fruit.

The q-o-q performance does not serve as a good comparison, given that Sasbadi's business is highly seasonal.

Cut earnings by 15%: Although we view the 1QFY18 results positively, we believe that our previous earnings forecasts were overly optimistic.

As forewarned in our previous report, despite our optimistic view of the group's prospects, we do acknowledge that given the small base established in FY17, the group will need to grow its revenue by 39% and earnings by 187% to meet our previous FY18 earnings forecasts, which we deem to be stretch targets at this juncture. Besides that, the steep drop in its organic publishing business in the 4QFY17 could indicate that its impending recovery could take a longer time than we had expected.

We cut our FY18-19 earnings estimates by about 15%, mainly to account for (1) lower organic growth from its publishing business, and (2) higher finance cost.

Maintain BUY with a lower TP of RM1.05. Post earnings revision, we are maintaining our BUY recommendation with a lower TP of RM1.05, pegged to a forward CY18 PE of 19x. Our valuation is based on a 10% discount to its historical mean PE, which we believe is reasonable.

Quarterly / Interim Income Statement (RMm)

FY Aug	1Q2017	4Q2017	1Q2018	% chg yoy	% chg qoq
Revenue	31.2	13.0	29.5	(5.6)	127.0
Cost of Goods Sold	(16.3)	(9.9)	(15.2)	(6.6)	54.2
Gross Profit	14.9	3.11	14.3	(4.4)	358.5
Other Oper. (Exp)/Inc	(8.2)	(7.6)	(7.2)	(12.2)	(5.9)
Operating Profit	6.76	(4.5)	7.09	4.9	257.7
Net Interest (Exp)/Inc	(0.4)	(0.5)	(0.8)	(105.8)	(44.5)
Exceptional Gain/(Loss)	0.0	(0.5)	0.0	nm	(100.0)
Pre-tax Profit	6.38	(5.5)	6.31	(1.1)	215.0
Tax	(1.6)	0.97	(1.9)	14.1	(291.0)
Minority Interest	(0.4)	0.34	0.0	nm	(100.0)
Net Profit	4.35	(4.2)	4.45	2.3	205.2
Net profit bef Except.	4.35	(3.7)	4.45	2.3	219.2
EBITDA	7.94	(3.3)	8.06	1.6	nm
Margins (%)					
Gross Margins	47.8	23.9	48.3		
Opg Profit Margins	21.7	(34.6)	24.1		
Net Profit Margins	13.9	(32.6)	15.1		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

Critical Factors

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 command less than 25% market share. To further strengthen its dominant position in the publishing industry and drive income growth, management aims to embark on at least one earnings-accretive acquisition annually.

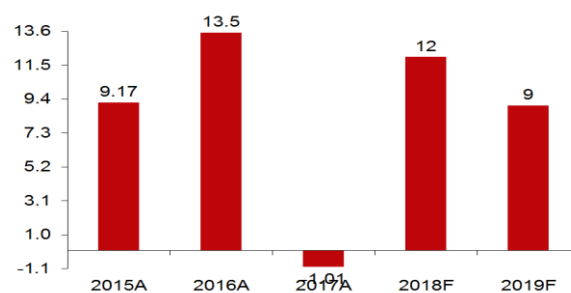
Applied and online learning products. Sasbadi is also involved in the distribution of applied learning products (since 2005) and online publishing (since 2011), which contributed <15% of FY16 revenue. We expect contributions from online products to improve going forward with: (1) the launch of the i-LEARN offline platform, and (2) licence and services agreement (LSA) with one of Indonesia's largest book publishers, PT Penerbit Erlangga.

These initiatives 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 royalty fees based on net sales generated through the online platform in Indonesia.

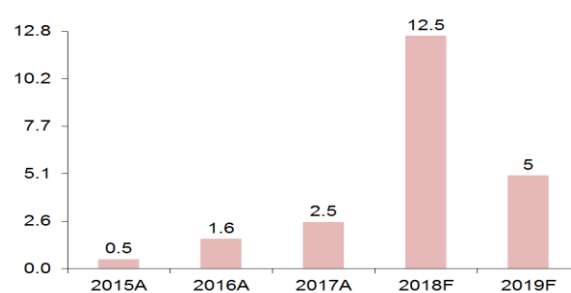
Network marketing business could be another growth driver. We understand that since obtaining the network marketing licence in May 2016, management has been actively engaged in building up membership for the business.

We gather that the group has so far recruited about 11,000 members and significant contributions will start to kick in from this year onwards. We are positive on the group engaging in such marketing strategies as 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.

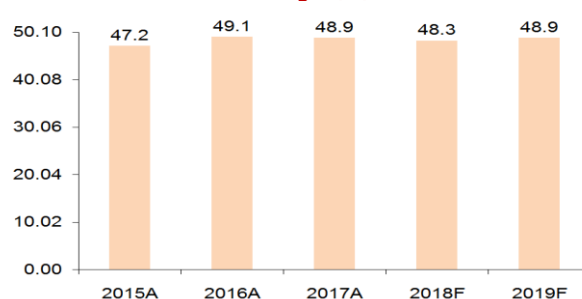
Organic topline growth for print publishing business (%)



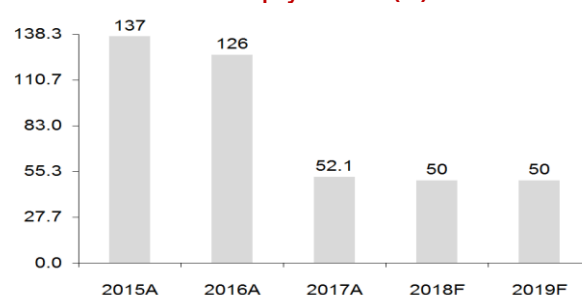
Incremental revenue from network marketing & digital products (RM m)



GP margin (%)

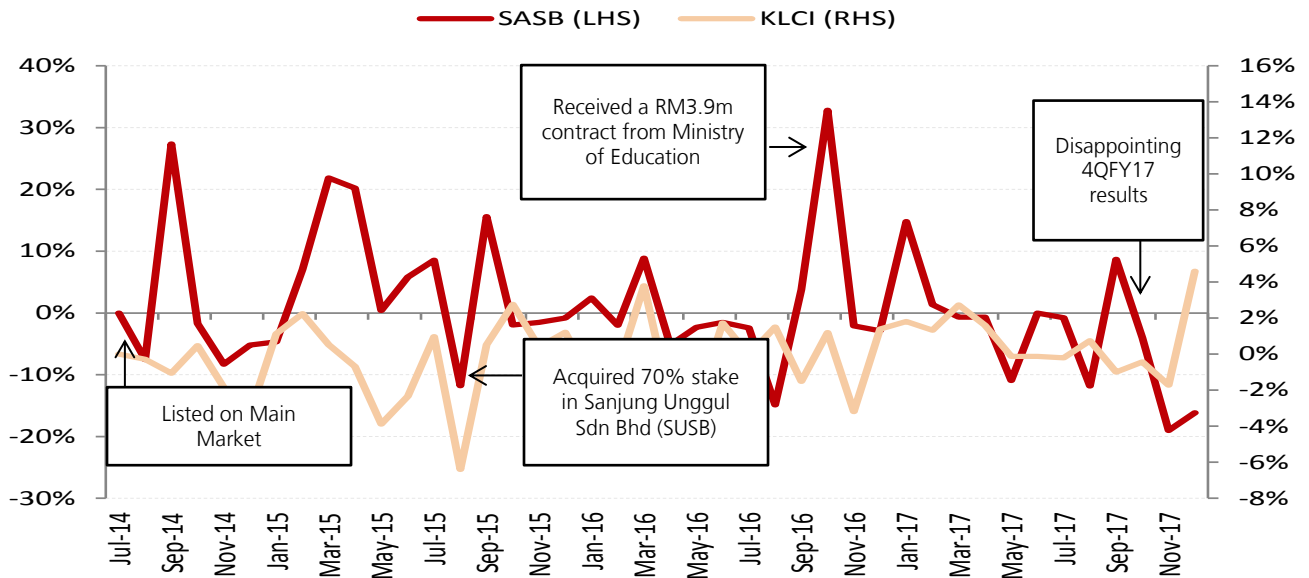


Dividend payout ratio (%)



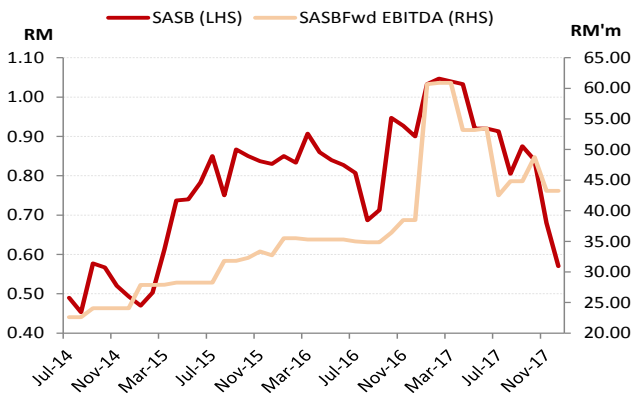
Source: Company, AllianceDBS

Appendix 1: Sasbadi's share price vs FBM KLCI



Source: Company, Bloomberg L.P., AllianceDBS

Sasbadi's share price vs forward EBITDA

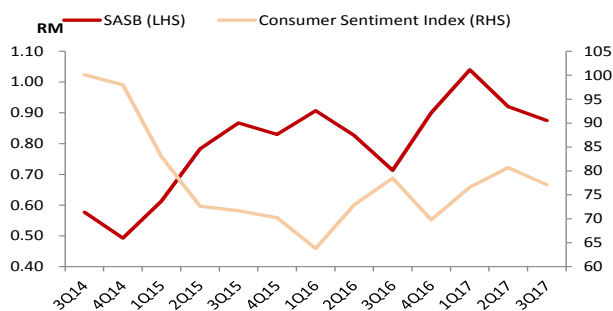


Source: Company, Bloomberg L.P., AllianceDBS

Remarks

The group's share price performance is closely correlated to its forward EBITDA (correlation coefficient of ~0.8). As such, delivering strong earnings growth through (1) expanding its publication business, (2) growing its network marketing business, and (3) earnings-accretive M&A activities, will serve as a key re-rating catalyst for the group.

Sasbadi's share price vs Consumer sentiment index



Source: Company, Bloomberg L.P., AllianceDBS

Remarks

Although the group is viewed as a consumer stock, its share price has no apparent correlation with the consumer sentiment index as we believe that it is operating in a relative resilient publication sector. Nonetheless, we do acknowledge that weak consumer sentiment could impact the growth rate of its print publication business.

Balance Sheet:

Healthy balance sheet. Sasbadi was in a net debt position with a modest net gearing position of 0.3x as at end-Nov 2017. We are comfortable with its low gearing position. Nonetheless, we do not discount the possibility 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 changes for 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.

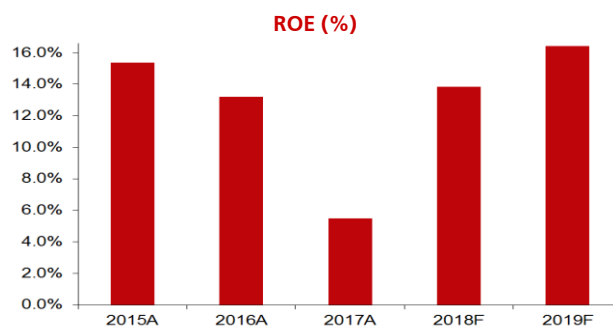
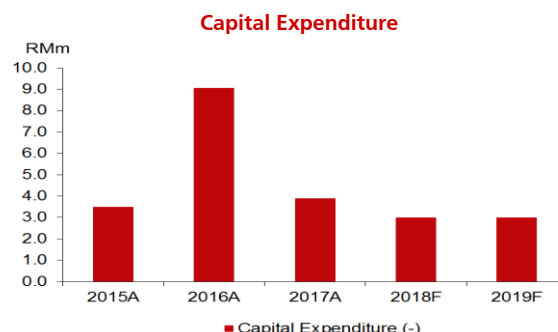
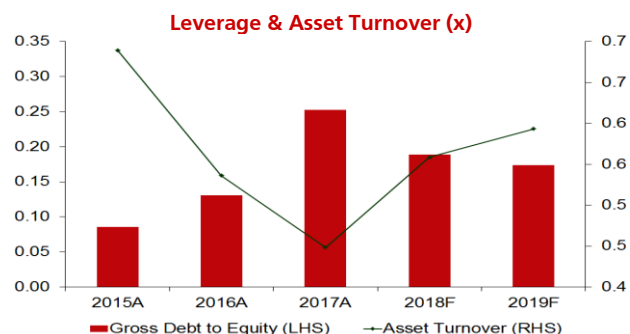
Key Risks:

Paper cost fluctuations. A sudden surge in paper cost, which represents about 40% of Sasbadi’s cost of goods sold, would hurt earnings.

Changes 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.15% market share. The group is well managed and enjoys high ROE and superior profitability, thanks to its lean operating structure and complementary business models.



Source: Company, AllianceDBS

Key Assumptions

FY Aug	2015A	2016A	2017A	2018F	2019F
Organic topline growth for print publishing business (%)	9.17	13.5	(1.0)	12.0	9.00
Incremental revenue from network marketing & digital products (RM m)	0.50	1.60	2.50	12.5	5.00
GP margin (%)	47.2	49.1	48.9	48.3	48.9
Dividend payout ratio (%)	137	126	52.1	50.0	50.0

Income Statement (RMm)

FY Aug	2015A	2016A	2017A	2018F	2019F
Revenue	88.0	92.7	93.1	122	139
Cost of Goods Sold	(46.5)	(47.2)	(47.5)	(63.0)	(71.3)
Gross Profit	41.5	45.5	45.5	58.9	68.2
Other Opng (Exp)/Inc	(20.0)	(27.5)	(31.4)	(29.5)	(30.7)
Operating Profit	21.5	18.0	14.1	29.4	37.5
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	(0.1)	(0.6)	(1.7)	(1.6)	(1.4)
Exceptional Gain/(Loss)	0.0	4.85	(1.0)	0.0	0.0
Pre-tax Profit	21.4	22.2	11.5	27.8	36.0
Tax	(5.6)	(5.1)	(3.5)	(7.0)	(8.9)
Minority Interest	(0.5)	(0.4)	0.05	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	15.3	16.7	8.04	20.8	27.1
Net Profit before Except.	15.3	11.9	9.00	20.8	27.1
EBITDA	24.4	22.1	18.7	34.0	41.9
Growth					
Revenue Gth (%)	10.7	5.3	0.4	31.0	14.4
EBITDA Gth (%)	23.4	(9.5)	(15.3)	81.4	23.3
Opg Profit Gth (%)	25.1	(16.3)	(21.6)	108.5	27.3
Net Profit Gth (Pre-ex) (%)	24.9	(22.6)	(24.1)	131.6	30.3
Margins & Ratio					
Gross Margins (%)	47.2	49.1	48.9	48.3	48.9
Opg Profit Margin (%)	24.4	19.4	15.2	24.1	26.9
Net Profit Margin (%)	17.4	18.0	8.6	17.1	19.5
ROAE (%)	15.4	13.2	5.5	13.8	16.4
ROA (%)	12.0	9.7	3.9	9.5	11.5
ROCE (%)	13.8	9.0	5.3	11.4	13.8
Div Payout Ratio (%)	41.5	37.6	78.1	50.0	50.0
Net Interest Cover (x)	215.0	29.0	8.3	18.4	26.1

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Aug	1Q2017	2Q2017	3Q2017	4Q2017	1Q2018
Revenue	31.2	27.2	21.7	13.0	29.5
Cost of Goods Sold	(16.3)	(10.2)	(11.4)	(9.9)	(15.2)
Gross Profit	14.9	17.0	10.3	3.11	14.3
Other Oper. (Exp)/Inc	(8.2)	(9.4)	(6.4)	(7.6)	(7.2)
Operating Profit	6.76	7.52	3.90	(4.5)	7.09
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	(0.4)	(0.4)	(0.5)	(0.5)	(0.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	(0.5)	0.0
Pre-tax Profit	6.38	7.08	3.45	(5.5)	6.31
Tax	(1.6)	(1.9)	(0.8)	0.97	(1.9)
Minority Interest	(0.4)	0.18	(0.1)	0.34	0.0
Net Profit	4.35	5.37	2.60	(4.2)	4.45
Net profit bef Except.	4.35	5.37	2.60	(3.7)	4.45
EBITDA	7.94	8.65	5.00	(3.3)	8.06

Growth

Revenue Gth (%)	96.3	(12.9)	(20.1)	(40.2)	127.0
EBITDA Gth (%)	671.9	8.9	(42.2)	nm	nm
Opg Profit Gth (%)	13,985.4	11.2	(48.1)	(215.4)	157.7
Net Profit Gth (Pre-ex) (%)	(2,503.9)	23.4	(51.6)	(243.5)	119.2

Margins

Gross Margins (%)	47.8	62.4	47.5	23.9	48.3
Opg Profit Margins (%)	21.7	27.7	18.0	(34.6)	24.1
Net Profit Margins (%)	13.9	19.8	12.0	(32.6)	15.1

Balance Sheet (RMm)

FY Aug	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	30.9	45.2	46.9	47.3	47.8
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	22.7	29.1	28.0	24.2	22.4
Cash & ST Invt	8.34	25.9	10.3	12.2	11.4
Inventory	37.1	47.9	65.2	69.1	78.1
Debtors	40.4	51.7	54.1	70.9	81.1
Other Current Assets	1.36	5.14	5.69	2.81	2.81
Total Assets	141	205	210	227	244
ST Debt	9.30	10.5	16.3	10.0	10.0
Creditor	13.4	22.4	20.4	27.0	30.5
Other Current Liab	1.60	2.00	1.20	1.36	1.36
LT Debt	0.10	9.52	20.4	20.4	20.4
Other LT Liabilities	6.10	7.43	6.46	6.46	6.46
Shareholder's Equity	105	148	145	156	175
Minority Interests	5.10	5.47	0.0	5.47	0.0
Total Cap. & Liab.	141	205	210	227	244
Non-Cash Wkg. Capital	63.9	80.4	103	114	130
Net Cash/(Debt)	(1.1)	5.85	(26.5)	(18.3)	(19.0)
Debtors Turn (avg days)	148.3	181.3	207.5	187.2	198.9
Creditors Turn (avg days)	89.6	151.5	181.5	147.7	157.0
Inventory Turn (avg days)	239.8	360.0	480.7	418.9	401.7
Asset Turnover (x)	0.7	0.5	0.4	0.6	0.6
Current Ratio (x)	3.6	3.7	3.6	4.0	4.1
Quick Ratio (x)	2.0	2.2	1.7	2.2	2.2
Net Debt/Equity (X)	0.0	CASH	0.2	0.1	0.1
Net Debt/Equity ex MI (X)	0.0	CASH	0.2	0.1	0.1
Capex to Debt (%)	37.2	45.2	10.6	9.9	9.9
Z-Score (X)	7.3	4.7	4.7	4.7	5.0

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Aug	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	21.4	22.2	11.5	27.8	36.0
Dep. & Amort.	2.90	4.09	4.60	4.54	4.41
Tax Paid	(5.9)	(6.7)	(5.9)	(7.0)	(8.9)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(15.4)	(12.0)	(22.4)	(14.0)	(15.7)
Other Operating CF	1.60	(5.9)	14.0	0.0	0.0
Net Operating CF	4.58	1.67	1.79	11.3	15.9
Capital Exp.(net)	(3.5)	(9.1)	(3.9)	(3.0)	(3.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(18.6)	(6.2)	(0.9)	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.10	0.31	0.34	0.0	0.0
Net Investing CF	(22.0)	(14.9)	(4.4)	(3.0)	(3.0)
Div Paid	(3.8)	(5.6)	(6.3)	(10.4)	(13.6)
Chg in Gross Debt	0.90	5.13	13.0	(6.3)	0.0
Capital Issues	0.0	31.6	0.0	0.0	0.0
Other Financing CF	(0.2)	(0.7)	(0.8)	0.0	0.0
Net Financing CF	(3.1)	30.5	5.87	(16.7)	(13.6)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(20.5)	17.3	3.24	(8.4)	(0.7)
Opg CFPS (sen)	4.77	3.27	5.77	6.05	7.53
Free CFPS (sen)	0.26	(1.8)	(0.5)	1.99	3.07

Source: Company, AllianceDBS

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Jan 17	1.01	1.17	BUY
2:	22 Mar 17	1.04	1.17	BUY
3:	15 Sep 17	0.85	1.25	BUY
4:	30 Oct 17	0.85	1.25	BUY
5:	01 Nov 17	0.80	1.25	BUY

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

DISCLAIMER

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