

BUY (Unchanged)

Change in Numbers

TP: Bt 12.50

Upside : 32.3%

(From: Bt 12.00)

15 DECEMBER 2021

Small Cap Research

SISB Pcl (SISB TB)**Eyeing new demand segment**

SISB is planning a new expansion model to capture a new segment of demand and support business growth. This low-cost model is designed to increase the affordability level of international schools. The first of these new schools is targeted for launch in 2024 and we raise our TP slightly to Bt12.5. Reaffirm BUY.

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A new school model

SISB is creating a new, low-cost international school model to capture the middle-income demand segment for international schools, which normally target upper middle- to high-income families. The new school type would use a different brand but have the same Singapore curriculum. Tuition fees would be almost half, along with its cost base, thus providing a similar margin to its existing brand. Most major cost items would be lower, including capex and equipment (by 50%) and salaries (by 30%), with a higher teacher-to-student ratio of 1:10 (vs. 1:7 at existing SISB schools). Foreign teachers would come more from Asian countries rather than Western ones. Online teaching could pool resources with existing SISB schools for scale benefits.

Raising our TP to Bt12.5

The first of the new type of schools is scheduled to open in 2024. SISB plans to launch it in one of the major provinces in Thailand (outside of Bangkok). We are confident in the model's success given strong demand for international schools along with this value-for-money option offered by the well-established SISB with its proven track record. We factor in only one campus assuming a capacity of 1,000 students opening in 2024F with Bt300m of capex. We also project it to add 6% to earnings when it reaches 50% occupancy in 2027F. Our DCF-based 12-month TP (2022F base year) is revised up slightly to Bt12.5 (from Bt12).

Earnings CAGR of 34% over 2022-24F

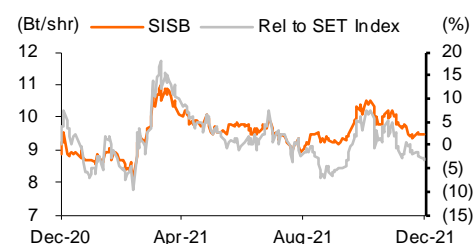
SISB is a growth stock, in our view. We estimate its earnings growth at 53/30/22% in 2022-24F. A key driver is 10-13% student growth from temporarily dropped-out students returning to school, the opening of SISB Thonburi's phase 2 in August this year, and the planned opening of SISB Nonthaburi in 2023 and the new, low-cost school in 2024. Other drivers are the end of tuition-fee discounts in 2022F, a 2-5% p.a. tuition-fee increase in 2023-24F, and the gross margin widening to 46-47% for 2022-24F from scale benefits, vs. 45% in 2021F and 42-43% in 2019-20.

Reaffirming our BUY call

We reaffirm our BUY rating on shares of SISB. Its likely weak 4Q21F earnings report on account of 5-15% tuition fee discounts and temporarily dropped-out students is not new news, in our view. We expect SISB to revert to a growth-stock mode with a 34% earnings CAGR over 2022-24F. We also like management's growth mindset geared toward market-share gains via its expansion strategy, while its financial status is robust with a net cash position.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	1,048	1,025	1,206	1,439
Net profit	160	177	271	352
Consensus NP	—	185	259	326
Diff frm cons (%)	—	(4.3)	4.6	7.9
Norm profit	175	177	271	352
Prev. Norm profit	—	177	271	357
Chg frm prev (%)	—	0.0	0.0	(1.6)
Norm EPS (Bt)	0.2	0.2	0.3	0.4
Norm EPS grw (%)	(20.7)	1.1	52.8	30.0
Norm PE (x)	50.7	50.2	32.8	25.3
EV/EBITDA (x)	24.3	23.6	17.8	14.6
P/BV (x)	4.7	4.5	4.1	3.8
Div yield (%)	0.8	0.9	1.4	1.8
ROE (%)	9.5	9.2	13.1	15.6
Net D/E (%)	(49.6)	(35.2)	(40.8)	(35.2)

PRICE PERFORMANCE**COMPANY INFORMATION**

Price as of 15-Dec-21 (Bt)	9.45
Market cap (US\$ m)	265.8
Listed shares (m shares)	940.0
Free float (%)	20.1
Avg daily turnover (US\$ m)	0.2
12M price H/L (Bt)	11.00/8.10
Sector	Professional services
Major shareholder	Mr. Yew Hook Koh 32.8%

Sources: Bloomberg, Company data, Thanachart estimates

The potential ‘Halving Project’

SISB is setting up a new low-cost international school...

...with tuition fees and cost base at almost half of existing SISB schools’

Besides SISB Pcl’s (SISB) expansion plans in the middle-to-high income family market, the company is now creating a new low-cost international school model to capture demand for international schools in the larger, middle-income family segment. The concept is to provide comparable SISB school educational services at a lower price while ensuring high margins through a cost-saving model.

The new school type would use a different brand but have the same Singapore curriculum as existing SISB schools. However, its tuition fees would be lower by almost half along with its cost base, so management expects similar margins to those of SISB schools. The areas where management expects cost savings include:

- 1) 50% lower facility and equipment costs given, for example, low land prices in the provinces.
- 2) 30% lower teaching staff salaries by, for example, using more qualified foreign teachers from Asian countries than from Western ones.
- 3) A higher teacher-to-student ratio of 1:10 vs. SISB schools’ 1:7.
- 4) Online teaching services via the pooling of resources with the SISB schools for scale benefits.

SISB plans to open its first low-cost international school in 2024

Management said it intends to announce more details about this project in the next few months and that it plans to open the first of this school type in a major province in Thailand (outside of Bangkok) in 2024 with 200 targeted students in the first year of operation. Including the existing expansion plans, SISB expects student numbers to grow by 13-14% y-y in 2022-24.

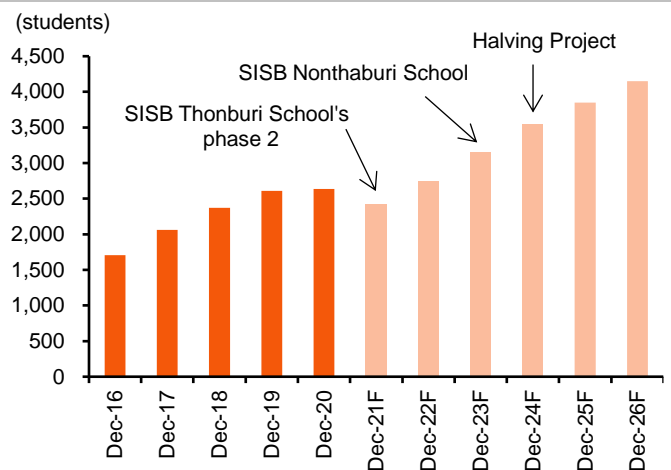
Ex 1: Overview Of ‘The Halving Project’



- The Halving Project aims to provide a **comparable quality of SISB Schools’ educational services at a lower price, while ensuring margins** through a cost-saving model
- We aim to **tap into a new, sizeable target group** beyond the international education market in Thailand, i.e. new families and students enrolling in EP/bilingual schools
- This will also serve as **a model to expand to Greater Bangkok and upcountry**

Source: Company data

Ex 2: SISB’s Student Number Forecasts



Source: Company data

Raising our TP to Bt12.5

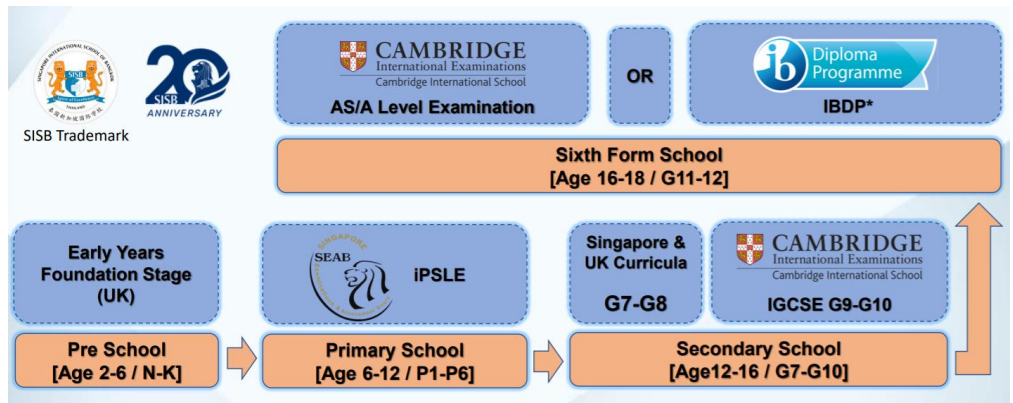
We like the model since...

...1) it is a value-for-money school type offered by the well-established SISB...

We like SISB’s new low-cost international school model for the following reasons:

First, this is a “value-for-money” school type offered by the well-established SISB with its proven track record. SISB uses the well-perceived Singapore curriculum with strengths in math and sciences at the primary level and the British curriculum at the secondary level taught in English, Chinese and Thai.

Ex 3: SISB’s Strength Is Its Singapore Curriculum Taught In A Trilingual Format



Source: Company data

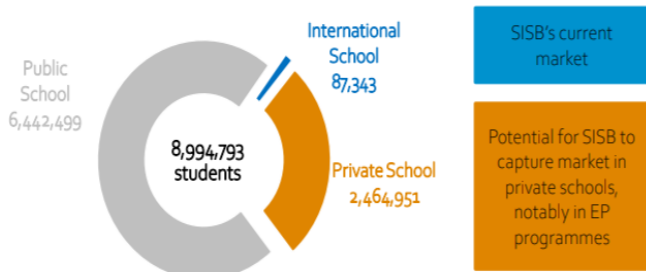
...2) growing demand for international schools...

Second, more and more parents are realizing the value of international schools for their kids’ future prospects. While total students in private schools in Thailand have grown by 0.9% a year on average over the past nine years, students in international schools who make up 3% of total students in private schools grew by 7% p.a. over the same period.

...3) sizable middle-income family market...

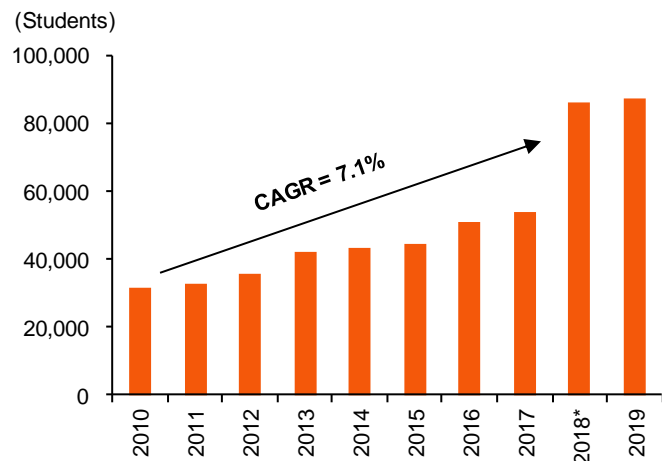
Third, the middle-income family market is sizable and management expects to gain market share from other private schools.

Ex 4: Total Number Of Students In Thailand In 2019



Source: The Office of Private Education Commission (Opec)

Ex 5: Number Of Students In International Schools



Source: The Office of Private Education Commission (Opec)

Note: * We take out the exceptionally high international student growth in 2018 to standardize average growth in 2011-19 as Opec asked more international schools to disclose their student numbers from 2018.

...4) less intense competition...

Fourth, competition in this segment is not so intense with only a couple of international schools with over 1,000 students offering average tuition fees of around Bt200,000/year.

Ex 6: International Schools With Over 1,000 Students

International Schools	Tuition Fee Range	Student Number
BPS	432K-731K	2,305
St. Andrews	331K-617K	2,054
Shrewsbury	572K-856K	1,735
NIST	552K-961K	1,661
ISB	552K-1M	1,644
Harrow	499K-949K	1,541
SISB (PU)	355K-659K	1,430
EIS	145K-160K	1,300
TSIS	170K-360K	1,297
Bangkok Prep	488-560K	1,160
RIS	401-737K	1,146
ICS	431K-511K	1,095
Regents Pattaya	330K-716K	1,018

Source: Company data

...5) low investment costs

Finally, the funding costs are low and the management expects to use internal cash flow and foresees no need for loans.

Factoring in this project, we raise our TP to Bt12.5 and reaffirm our BUY rating

Assuming the first-phase capacity of 1,000 students opens in 2024 with Bt300m of capex, we expect 200 students in the first year of operation and for it to add 6% to earnings when it reaches 50% occupancy in 2027F. Our DCF-based 12-month TP (2022F base year) therefore rises to Bt12.5/share from Bt12. We maintain our BUY rating on SISB.

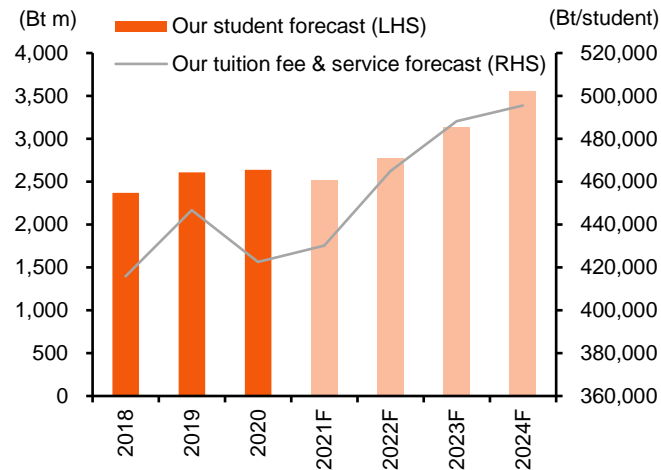
Earnings CAGR of 34% over 2022-24F

We forecast a strong earnings recovery

We regard SISB as a growth stock with a 34% earnings CAGR over 2022-24F. In 2022F, we estimate its earnings to grow by 53% y-y driven by 10% y-y student growth from temporarily dropped-out students returning to school, the launch of SISB Thonburi School's phase 2 in August this year, and no more tuition-fee discounts.

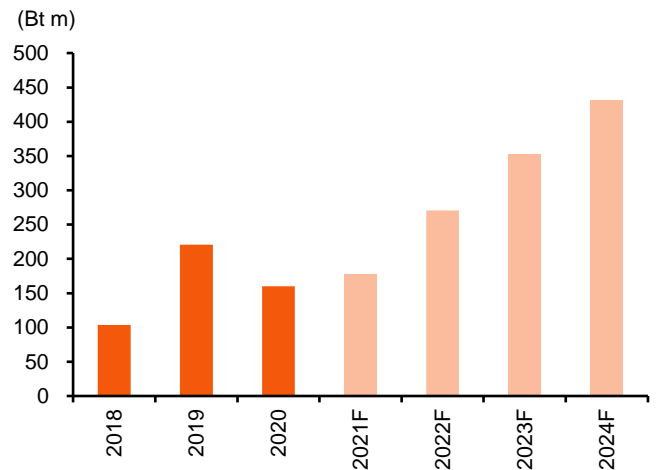
In 2023F, we estimate further earnings growth of 30% y-y driven by 13% y-y student growth from the scheduled operation of the greenfield SISB Nonthaburi School in August 2023 and a 5% tuition fee hike. Meanwhile, in 2024F, we expect growth of 22% y-y to be driven by 13% y-y student growth from the operation of its first low-cost school and a 2% tuition fee hike. Given the high operating leverage nature of the business, we also project its gross margin to widen to 46-47% in 2022-24F, from 45% in 2021F and 42-43% in 2019-20.

Ex 7: Our Student And Tuition Fee Forecasts



Sources: Company data, Thanachart estimates

Ex 8: Our Earnings Forecasts



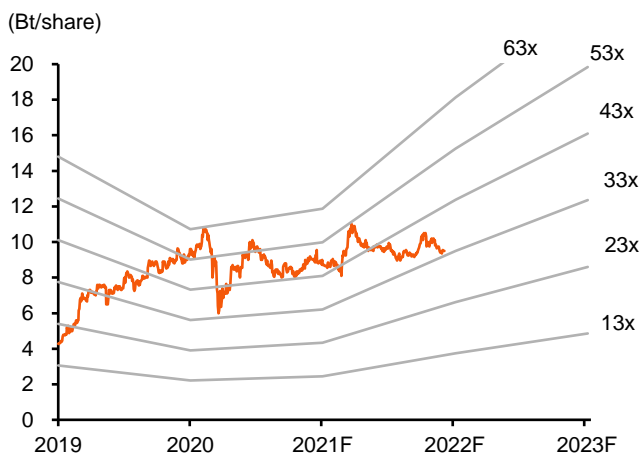
Sources: Company data, Thanachart estimates

Reaffirming our BUY call

Solid fundamentals remain intact, in our view

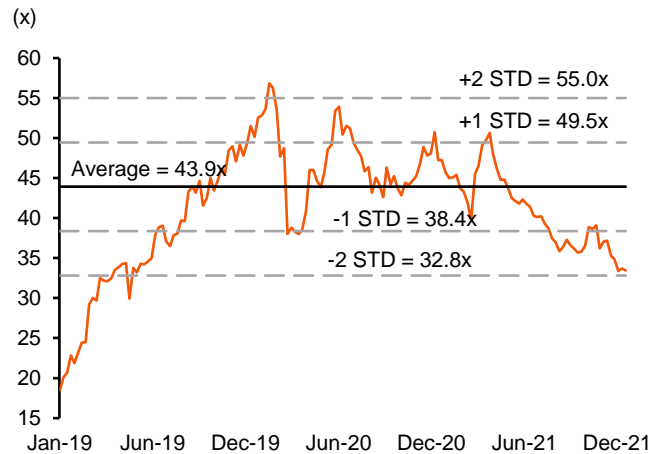
We project SISB’s earnings to reach bottom in 4Q21F after being hit by 5-15% tuition fee discounts to help parents during the COVID-19 pandemic, higher depreciation expenses from the operation of the Thonburi campus’s phase 2, and students temporarily dropping out. However, we reaffirm our BUY rating on SISB. **First**, we believe the bad news has already been factored in by the market. **Second**, we project a strong earnings recovery with a 34% earnings CAGR over 2021-24F. **Third**, we like management’s growth mindset which is geared toward market-share gains via its expansion strategy. **Finally**, its financial status is robust with Bt846m of cash on hand at end-3Q21 and a net cash position.

Ex 9: SISB’s PE Band



Sources: Bloomberg, Thanachart estimates

Ex 10: SISB’s PE Standard Deviation



Sources: Bloomberg, Thanachart estimates

Ex 11: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	450	550	658	792	933	1,086	1,243	1,392	1,558	1,741	1,941	—
Free cash flow	244	44	300	579	718	869	874	1,173	1,335	1,515	1,712	20,073
PV of free cash flow	243	36	227	393	442	485	443	539	557	548	559	6,558
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	9.7											
Terminal growth (%)	2.0											
Enterprise value - add investments	11,030											
Net debt (2021F)	(697)											
Minority interest	0											
Equity value	11,727											
# of shares (m)	940											
Target price/share (Bt)	12.5											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 12: Valuation Comparison With Regional Peers

Name	BBG code	Country	—EPS growth—		— PE —		— P/BV —		EV/EBITDA		— Div yield —	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Beijing Kaiwen Edu.	002659 CH	China	85.4	na	na	39.4	0.9	0.9	22.6	11.5	na	na
NIIT Ltd	NIIT IN	India	42.2	15.7	25.8	22.3	3.6	3.3	15.2	13.3	1.4	2.2
Huali University Group	1756 HK	Hong Kong	31.0	21.4	3.0	2.5	0.4	0.3	4.5	3.7	13.7	17.2
China New Higher Edu.	2001 HK	Hong Kong	22.5	16.5	6.8	5.5	1.4	1.2	7.0	5.7	4.2	6.3
Minsheng Education	1569 HK	Hong Kong	291.0	24.0	4.5	3.6	0.6	0.6	2.4	2.0	5.8	7.0
SISB Pcl	SISB TB	Thailand	1.1	52.8	50.2	32.8	4.5	4.1	23.6	17.8	0.9	1.4
Average			78.9	26.1	18.1	17.7	1.9	1.7	12.6	9.0	5.2	6.8

Sources: Company data, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

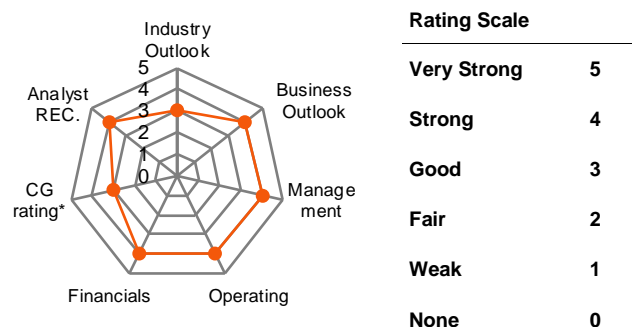
Based on 15-Dec-2021 closing prices

COMPANY DESCRIPTION

SISB Public Company Limited (SISB) provides educational services in Thailand. The school offers various subjects such as languages, sciences, social studies, and maths, as well as music, dance, art, and sports. With four campuses in Bangkok, Samutprakarn and Chiangmai and more than 2,600 students, it is one of the biggest school groups in Thailand.

Source: Thanachart

COMPANY RATING



Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Solid brand perception and awareness.
- Economies of scale allow it to offer mid-range tuition fees and broaden targeted households.
- Robust financial status.

O — Opportunity

- Growing demand for international schools in Thailand.
- Opportunities to expand in AEC markets.
- Business diversification.

W — Weakness

- Three out of four campuses are located on leased land, so there is a risk pertaining to lease contract extensions.
- Teachers are the key to its success, so a shortage of teachers presents a risk.

T — Threat

- Intense competition.
- Ageing society trend.
- Laws and regulations for operating schools.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	11.40	12.50	10%
Net profit 21F (Bt m)	185	177	-4%
Net profit 22F (Bt m)	259	271	5%
Consensus REC	BUY: 3	HOLD: 1	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimate for 2022F is 5% higher than the Bloomberg consensus number, likely due to us having a more aggressive assumption for SISB's student number growth and economies of scale.
- Our DCF-based TP is 10% higher than the Street's following our higher earnings forecast.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A weak economic situation in Thailand would represent the key downside risk to our student and tuition-fee-growth assumptions.
- A continuation of the COVID-19 crisis would also represent a secondary downside risk to our student and tuition-fee-growth assumptions.
- If the company can't increase its tuition fees to offset rising teacher costs, this would negatively impact our gross-margin assumptions and therefore our net-profit forecasts.
- To comply with the government's strict regulations, the company may incur extra costs, which would negatively impact our gross-margin assumptions and our net-profit forecasts. This is a secondary downside risk to our call.

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	1,095	1,048	1,025	1,206	1,439
Cost of sales	634	601	564	649	772
Gross profit	461	447	462	557	667
% gross margin	42.1%	42.7%	45.0%	46.2%	46.4%
Selling & administration expenses	272	276	277	289	324
Operating profit	189	172	185	267	343
% operating margin	17.3%	16.4%	18.0%	22.2%	23.9%
Depreciation & amortization	126	156	162	183	207
EBITDA	316	328	347	450	550
% EBITDA margin	28.8%	31.3%	33.8%	37.3%	38.2%
Non-operating income	34	28	16	26	32
Non-operating expenses	(1)	(0)	0	0	0
Interest expense	(3)	(26)	(24)	(22)	(22)
Pre-tax profit	220	174	177	271	354
Income tax	2	(1)	2	3	4
After-tax profit	217	175	175	269	350
% net margin	19.9%	16.7%	17.1%	22.3%	24.3%
Shares in affiliates' Earnings	3	1	2	2	2
Minority interests	0	0	0	0	0
Extraordinary items	0	(15)	0	0	0
NET PROFIT	221	160	177	271	352
Normalized profit	221	175	177	271	352
EPS (Bt)	0.2	0.2	0.2	0.3	0.4
Normalized EPS (Bt)	0.2	0.2	0.2	0.3	0.4

After COVID-19 subsides, we expect SISB's earnings to turn around strongly from 2022F

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,172	1,098	867	1,053	1,023
Cash & cash equivalent	1,096	1,008	780	950	900
Account receivables	56	77	75	88	105
Inventories	8	7	7	8	9
Others	11	6	6	7	9
Investments & loans	54	54	54	54	54
Net fixed assets	1,419	1,556	1,794	1,812	2,105
Other assets	56	458	462	467	472
Total assets	2,701	3,166	3,178	3,386	3,654
LIABILITIES:					
Current liabilities:	571	626	621	631	646
Account payables	41	77	72	83	98
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	19	17	19	17	16
Others current liabilities	511	532	530	531	532
Total LT debt	58	60	64	57	54
Others LT liabilities	253	604	515	550	594
Total liabilities	882	1,289	1,200	1,238	1,294
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	470	470	470	470	470
Share premium	1,128	1,128	1,128	1,128	1,128
Warrants	0	0	0	0	0
Surplus	0	0	0	0	0
Retained earnings	221	279	381	550	762
Shareholders' equity	1,819	1,877	1,979	2,148	2,360
Liabilities & equity	2,701	3,166	3,178	3,386	3,654

Despite its capex cycle, SISB's huge cash on hand should be ample with no need for loans

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	220	174	177	271	354
Tax paid	(2)	(0)	(1)	(3)	(4)
Depreciation & amortization	126	156	162	183	207
Chg In working capital	(6)	16	(3)	(3)	(3)
Chg In other CA & CL / minorities	38	53	1	2	1
Cash flow from operations	376	399	336	450	556
Capex	(160)	(293)	(400)	(200)	(500)
Right of use	0	(348)	(5)	(5)	(5)
ST loans & investments	0	0	0	0	0
LT loans & investments	(3)	(1)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(7)	255	(88)	35	44
Cash flow from investments	(170)	(386)	(493)	(170)	(461)
Debt financing	6	1	5	(9)	(4)
Capital increase	(49)	0	0	0	0
Dividends paid	0	(94)	(76)	(101)	(140)
Warrants & other surplus	49	(8)	0	0	0
Cash flow from financing	6	(101)	(70)	(110)	(144)
Free cash flow	217	106	(64)	250	56

Capex in 2021-2023F is for SISB Thonburi phase 2, SISB Nonthaburi and the 'Halving Project'

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	40.2	50.7	50.2	32.8	25.3
Normalized PE - at target price (x)	53.2	67.1	66.4	43.4	33.4
PE (x)	40.2	55.5	50.2	32.8	25.3
PE - at target price (x)	53.2	73.5	66.4	43.4	33.4
EV/EBITDA (x)	24.9	24.3	23.6	17.8	14.6
EV/EBITDA - at target price (x)	34.0	33.0	31.9	24.2	19.8
P/BV (x)	4.9	4.7	4.5	4.1	3.8
P/BV - at target price (x)	6.5	6.3	5.9	5.5	5.0
P/CFO (x)	23.6	22.3	26.5	19.8	16.0
Price/sales (x)	8.1	8.5	8.7	7.4	6.2
Dividend yield (%)	1.1	0.8	0.9	1.4	1.8
FCF Yield (%)	2.4	1.2	(0.7)	2.8	0.6
(Bt)					
Normalized EPS	0.2	0.2	0.2	0.3	0.4
EPS	0.2	0.2	0.2	0.3	0.4
DPS	0.1	0.1	0.1	0.1	0.2
BV/share	1.9	2.0	2.1	2.3	2.5
CFO/share	0.4	0.4	0.4	0.5	0.6
FCF/share	0.2	0.1	(0.1)	0.3	0.1

Sources: Company data, Thanachart estimates

Given its solid fundamentals, SISB deserves a premium valuation, in our view

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	17.5	(4.3)	(2.2)	17.6	19.3
Net profit (%)	113.4	(27.6)	10.7	52.8	30.0
EPS (%)	113.4	(27.6)	10.7	52.8	30.0
Normalized profit (%)	113.4	(20.7)	1.1	52.8	30.0
Normalized EPS (%)	113.4	(20.7)	1.1	52.8	30.0
Dividend payout ratio (%)	42.6	44.7	45.0	45.0	45.0
Operating performance					
Gross margin (%)	42.1	42.7	45.0	46.2	46.4
Operating margin (%)	17.3	16.4	18.0	22.2	23.9
EBITDA margin (%)	28.8	31.3	33.8	37.3	38.2
Net margin (%)	19.9	16.7	17.1	22.3	24.3
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.6)	(0.5)	(0.4)	(0.4)	(0.4)
Interest coverage - EBIT (x)	69.7	6.6	7.8	12.3	15.9
Interest coverage - EBITDA (x)	116.1	12.6	14.6	20.8	25.5
ROA - using norm profit (%)	8.6	6.0	5.6	8.2	10.0
ROE - using norm profit (%)	12.9	9.5	9.2	13.1	15.6
DuPont					
ROE - using after tax profit (%)	12.7	9.4	9.1	13.0	15.5
- asset turnover (x)	0.4	0.4	0.3	0.4	0.4
- operating margin (%)	20.3	19.1	19.6	24.3	26.1
- leverage (x)	1.5	1.6	1.6	1.6	1.6
- interest burden (%)	98.8	87.0	88.2	92.6	94.2
- tax burden (%)	98.9	100.4	98.9	98.9	98.9
WACC (%)	9.7	9.7	9.7	9.7	9.7
ROIC (%)	23.9	21.6	19.3	20.6	26.7
NOPAT (Bt m)	187	172	183	264	339
invested capital (Bt m)	799	946	1,281	1,272	1,530

Sources: Company data, Thanachart estimates

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