Small Cap Research

BUY (Unchanged) | **TP: Bt 15.50** (From: Bt 14.50)

Change in Numbers | **Upside : 31.4%** | **14 JUNE 2022**

SISB Pcl (SISB TB)

Speeding up expansion

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Thanachart Securities

SISB is bringing forward its plan to open its new Rayong campus in order to capture strong demand. We therefore raise our earnings estimate by 6% in 2024F and, after our base year rollover to 2023F, our TP is lifted to Bt15.5. Given a 32% three-year earnings CAGR and 14-19% ROE, we reaffirm our BUY call on SISB.

Bringing forward Rayong campus

SISB is bringing forward the opening of its new Rayong school campus a year earlier to August 2023 and it expects breakeven within one year. The company is experiencing strong demand for international schooling in Rayong, one of the three provinces in the Eastern Economic Corridor (EEC) area. SISB's Rayong campus is located near a key residential area in Rayong province and there are no major international schools within a 25km radius. The investment cost for the campus is around Bt250m (vs. Bt450m in Bangkok), resulting in a low break-even level of 150 students (vs. 200-250 students in Bangkok).

Raising our earnings

As a result of the accelerated investment timeline mentioned above, we lift our earnings estimate by 6% in 2024F since, given potentially strong demand, we now expect both the Rayong and Nonthaburi (also due to open in August 2023) campuses to break even in 2024F (vs. total losses of Bt22m in our earlier projection). Together with rolling over the base year in our model to 2023F, our DCF-based 12-month TP is raised to Bt15.5/share (from Bt14.5). We reaffirm our BUY call on the counter. SISB is a growth stock and we estimate earnings growth of 37/30/31% in 2022-24F. With a high EBITDA margin of 37-39%, SISB is a net-cash company despite its continued expansion program. SISB is also a high ROE company at 14-19% in 2022-24F. We therefore see its high PE multiple of 39x this year, before falling to 30x in 2023F and further 23x in 2024F, as acceptable vs. its historical average of 38x between 2015-21.

Strong demand

SISB saw a record-high 2,227 Thai students at end 1Q22 vs. 2,191/2,065 at end 2020/21. It is also seeing a demand recovery from foreign students who stood at 395 at end 1Q22 vs. 447/369 at end 2020/21. We estimate foreign student growth of 14/20/9% in 2022-24F as there is demand from Chinese students who are struggling with the Chinese government's education reforms that have led to a reduction in English teaching and a crackdown on private tutoring schools. SISB uses Singaporean and British curriculums and it teaches in English, Chinese and Thai.

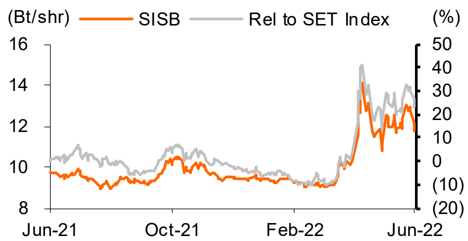
Hefty capex is not a worry

Despite substantial combined capex of Bt950m in 2022-23F mainly for the new Nonthaburi and Rayong campuses, we don't expect SISB to face any financial difficulties given its strong balance sheet with a net-cash position of Bt456m cash on hand as of end 1Q22 and Bt458m-692m in EBITDA p.a. in 2022-24F.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	1,055	1,253	1,562	1,791
Net profit	209	285	370	483
Consensus NP	—	286	366	455
Diff frm cons (%)	—	*(0.3)*	*1.0*	*6.1*
Norm profit	209	285	370	483
Prev. Norm profit	—	285	371	455
Chg frm prev (%)	—	*(0.1)*	*(0.3)*	*6.1*
Norm EPS (Bt)	0.2	0.3	0.4	0.5
Norm EPS grw (%)	19.2	36.5	29.6	30.6
Norm PE (x)	53.1	38.9	30.0	23.0
EV/EBITDA (x)	28.2	23.1	18.8	14.8
P/BV (x)	5.5	5.1	4.6	4.1
Div yield (%)	0.8	1.2	1.5	2.0
ROE (%)	10.7	13.6	16.1	18.9
Net D/E (%)	(34.1)	(22.5)	(19.4)	(31.5)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 14-Jun-22 (Bt)	11.80
Market cap (US$ m)	317.0
Listed shares (m shares)	940.0
Free float (%)	21.6
Avg daily turnover (US$ m)	1.2
12M price H/L (Bt)	14.10/8.95
Sector	Professional services
Major shareholder	Mr. Yew Hook Koh 32.8%

Sources: Bloomberg, Company data, Thanachart estimates

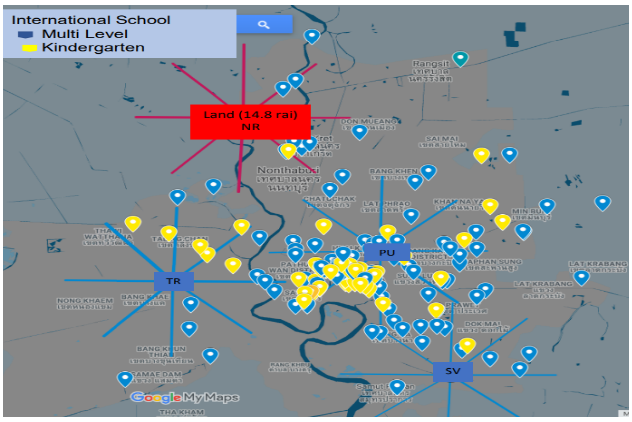
Bringing forward Rayong campus

Strong demand has led SISB to expedite the Rayong campus's opening

Given strong demand, SISB Pcl's (SISB) management is accelerating the opening schedule for its new Rayong campus to August this year instead of August 2023, which would be at the same time as the launch of its new Nonthaburi campus. Management also expects both campuses to at least break even from the first year of operation as:

First, both campuses' locations are in residential areas while there are no major international schools close to their locations, meaning competition is not intense.

Ex 1: Nonthaburi Campus

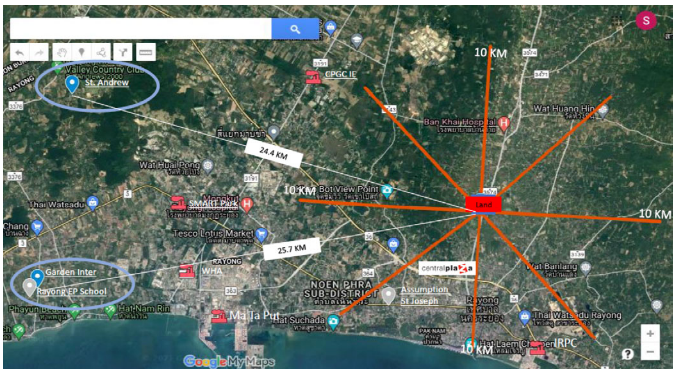


Source: Company data

Ex 2: Nonthaburi Campus

Source: Company data

Ex 3: Rayong Campus – 25km From Its Competitors



Source: Company data

Ex 4: Rayong Campus

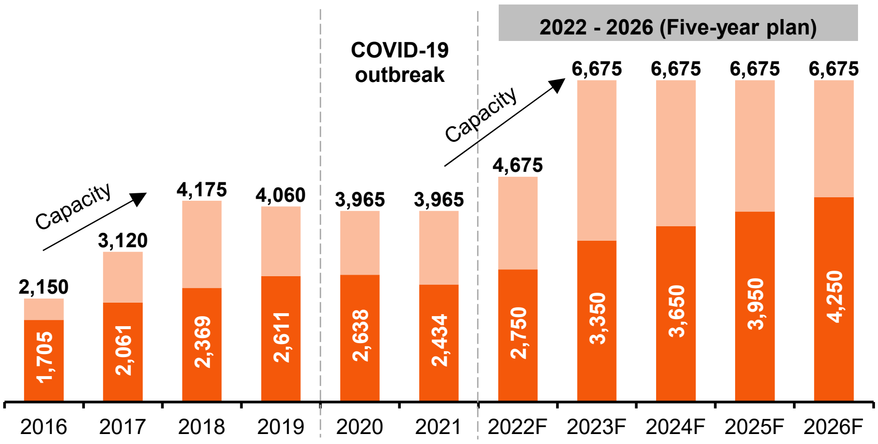
Source: Company data

Second, the investment cost for the Nonthaburi campus is around Bt450m, so the break-even point is about 250 students. So far this year, there have been enquires from over 400 families at this campus's admissions office. Therefore, management believes this potentially strong demand could allow the campus break even from the first year of operation.

Third, for the Rayong campus, the investment cost is much lower than for the Nonthaburi campus at Bt250m, resulting in a lower break-even point of only 150 students.

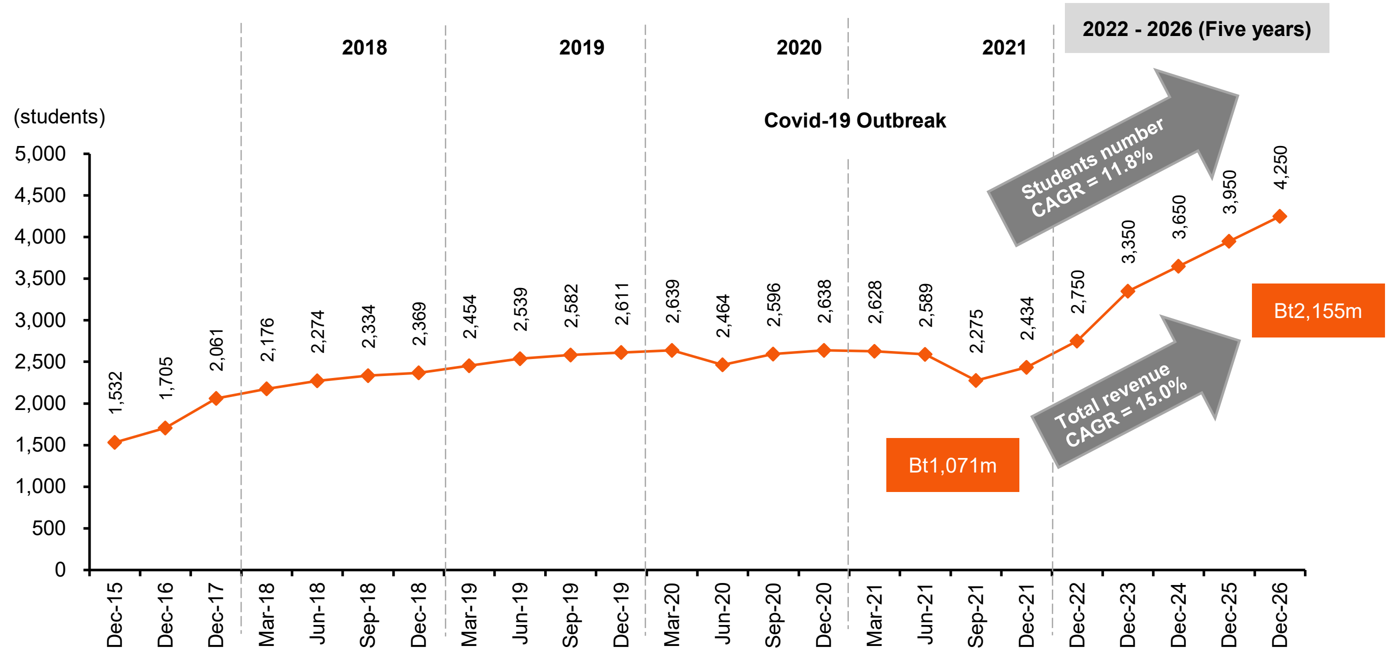
With these new schools, SISB's capacity would expand to 6,675 places in August 2023 from 4,675 at present. SISB also expect 2,750 students at end 2022F, increasing to 4,250 at end 2026F with revenue doubling from Bt1.1bn in 2022F to Bt2.2bn in 2026F.

Ex 5: SISB's Capacity And Student Numbers



Source: Company data

Ex 6: SISB's Revenue Projections



Source: Company data

32% three-year earnings CAGR

We raise our earnings estimate by 6% for 2024F

We raise our earnings estimate for SISB by 6% in 2024F after making changes to the following assumptions:

First, we revise up our student number assumptions by 6/3% in 2023/24F given the faster-than-expected opening of the Rayong campus.

Second, we now project both the Rayong and Nonthaburi campuses to break even in 2024F (vs. total losses of Bt22m l in our earlier projection).

Third, we raise our capex assumption by 125% in 2022F but we lower our number by 57% in 2024F given the speeding-up of the Rayong campus's opening plan.

Our TP is increased to Bt15.5 and we reaffirm our BUY call on SISB

Along with rolling over the base year in our model to 2023F, our DCF-based 12-month TP is increased to Bt15.5/share from Bt14.5 and we reaffirm our BUY rating on SISB.

Ex 7: Key Assumption Changes

	2020	2021	2022F	2023F	2024F
Students (students)					
New	2,638	2,434	2,814	3,382	3,691
Old			2,814	3,202	3,591
Change (%)			-	*5.6*	*2.8*
Gross margin (%)					
New	42.7	47.1	49.3	48.8	50.8
Old			49.3	49.6	49.8
Change (pp)			-	*(0.8)*	*1.0*
Normalized earnings (Bt m)					
New	175	209	285	370	483
Old			285	371	455
Change (%)			*(0.1)*	*(0.3)*	*6.1*

Source: Company data, Thanachart estimates

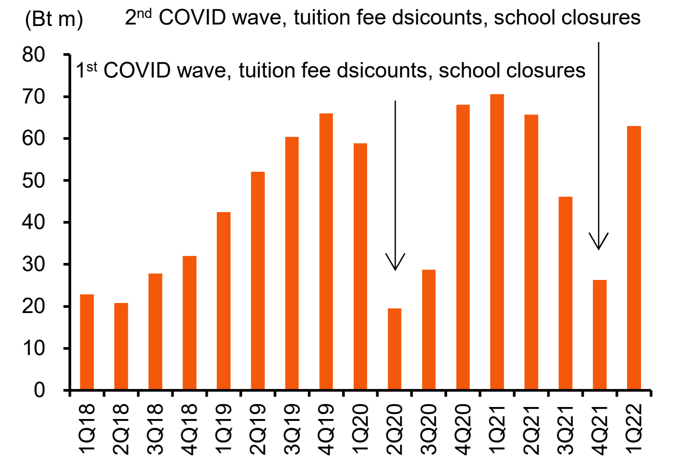
We like SISB given…

Despite the 31% surge in the share price from its low this year, we still see catalysts for SISB's share price from:

…1) its record-high earnings this year with further growth of 30/31% in 2023/24F…

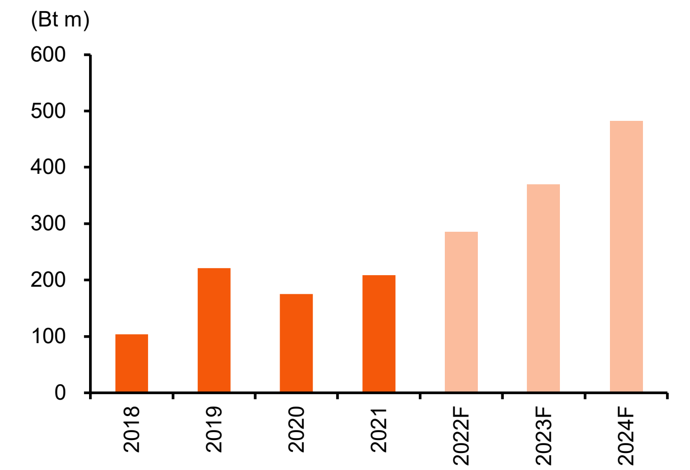
1) Record-high earnings this year with further growth of 30/31% y-y in 2023/24F, driven by student growth of 16/20/9% in 2022-24F, tuition fee hikes of 3-5% p.a. in 2022-24F (SISB has already informed parents of a 5% tuition fee increase this year), increased high-margin food & beverage and after-school activity revenue as students have returned to on-site study at its schools, and benefits from economies of scale.

Ex 8: SISB's Quarterly Earnings



Sources: Company data, Thanachart estimates

Ex 9: SISB's Yearly Earnings



Sources: Company data, Thanachart estimates

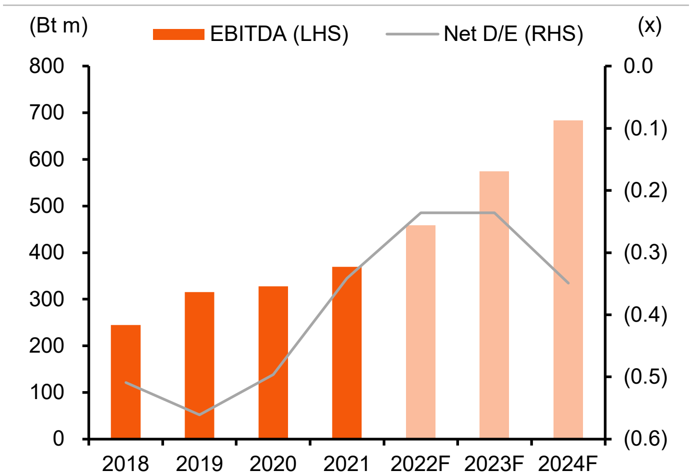
…2) highly profitable business…

2) Its highly profitable business with EBITDA margins of 37-39% in 2022-24F, high ROE of 14-19%, and a solid balance sheet with a net-cash position.

…3) acceptable valuation in our view

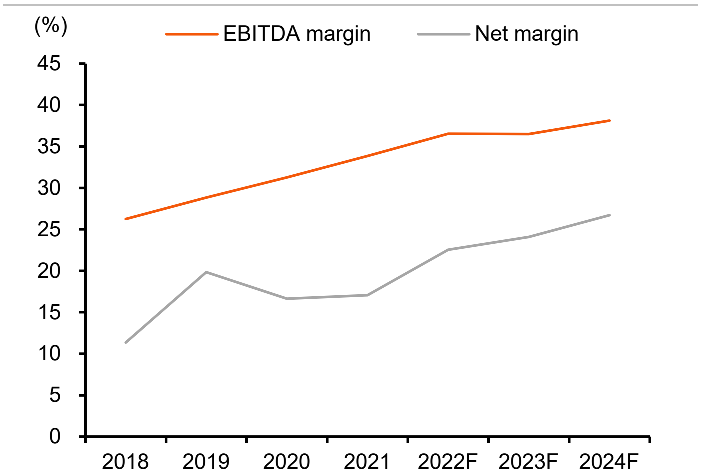
3) Its acceptable valuation with a PE of 39x in 2022F, falling to 30x in 2023F and 23x in 2024F, vs. its historical average of 38x in 2015-21.

Ex 10: SISB's EBITDA Vs. Net D/E



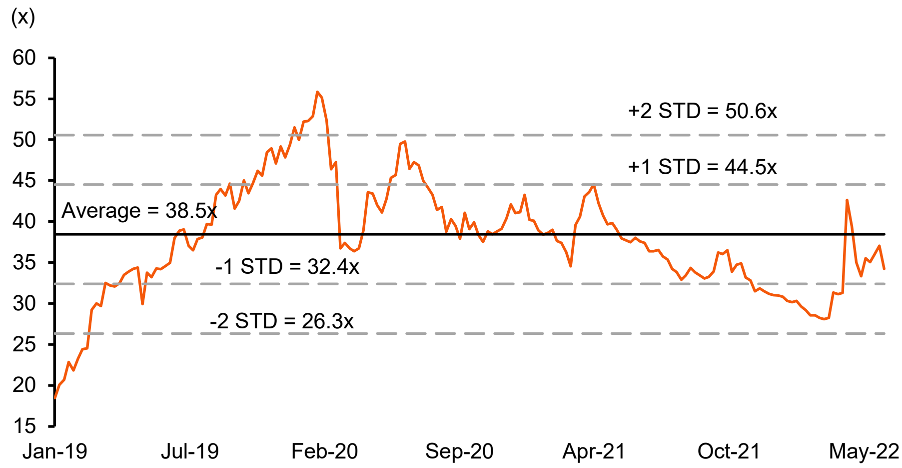
Sources: Company data, Thanachart estimates

Ex 11: SISB's EBITDA Margin Vs. Net Margin



Sources: Company data, Thanachart estimates

Ex 12: SISB's PE Standard Deviation



Sources: Bloomberg, Thanachart estimates

Ex 13: 12-month DCF-based TP Calculation Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
EBITDA	565	692	799	896	1,003	1,119	1,244	1,390	1,551	1,713	1,888	—
Free cash flow	60	530	637	733	838	952	826	1,220	1,377	1,536	1,709	23,248
PV of free cash flow	60	450	492	519	544	568	452	612	608	620	630	8,563

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.8
WACC (%)	8.5
Terminal growth (%)	2.0
Enterprise value - add investments	14,118
Net debt (2022F)	(492)
Minority interest	—
Equity value	14,610
# of shares (m)	940
Target price/share (Bt)	**15.5**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 14: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div yield 22F (%)	Div yield 23F (%)
NIIT Ltd	NIIT IN	India	(12.3)	16.3	27.6	23.8	4.2	3.2	17.1	12.6	1.4	2.9
China New Higher Edu.	2001 HK	Hong Kong	23.8	15.3	5.4	4.7	1.0	0.9	5.3	4.7	9.2	10.0
Minsheng Education	1569 HK	Hong Kong	49.5	11.6	2.6	2.3	0.4	0.4	1.3	1.1	9.5	12.0
Edvantage Group	382 HK	Hong Kong	29.5	15.7	4.3	3.7	0.8	0.7	4.7	4.0	6.6	7.6
SISB Pcl	SISB TB	Thailand	36.5	29.6	38.9	30.0	5.1	4.6	23.1	18.8	1.2	1.5
Average			**25.4**	**17.7**	**15.8**	**12.9**	**2.3**	**2.0**	**10.3**	**8.2**	**5.6**	**6.8**

Sources: Company data, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

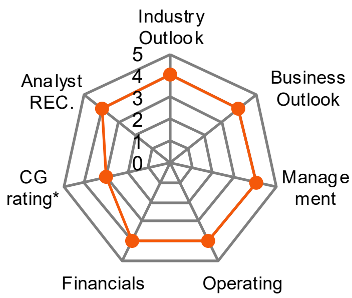
Based on 14-Jun-2022 closing prices

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



Rating Scale	
Very Strong	**5**
Strong	**4**
Good	**3**
Fair	**2**
Weak	**1**
None	**0**

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.

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.

O — Opportunity

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

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	13.32	15.50	16%
Net profit 22F (Bt m)	286	285	0%
Net profit 23F (Bt m)	366	370	1%
Consensus REC	**BUY: 4**	**HOLD: 1**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates for 2022-23F are in line with the Bloomberg consensus numbers.
- However, our DCF-based TP is 16% higher than the Street's, likely due to us having a higher earnings growth projection over the long term.

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

After the easing of the COVID-19 restrictions, we expect SISB's earnings to grow strongly from 2022F

SISB's balance sheet looks solid and it is in a net-cash position

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	1,048	1,055	1,253	1,562	1,791
Cost of sales	601	558	636	800	881
Gross profit	**447**	**496**	**617**	**761**	**910**
% gross margin	42.7%	47.1%	49.3%	48.8%	50.8%
Selling & administration expenses	276	279	326	390	430
Operating profit	**172**	**218**	**291**	**371**	**480**
% operating margin	16.4%	20.7%	23.3%	23.8%	26.8%
Depreciation & amortization	156	152	167	194	212
EBITDA	**328**	**370**	**458**	**565**	**692**
% EBITDA margin	31.3%	35.0%	36.6%	36.2%	38.6%
Non-operating income	28	20	20	25	30
Non-operating expenses	(0)	(5)	0	0	0
Interest expense	(26)	(26)	(25)	(24)	(23)
Pre-tax profit	**174**	**208**	**286**	**372**	**486**
Income tax	(1)	0	3	4	6
After-tax profit	**175**	**208**	**283**	**368**	**481**
% net margin	16.7%	19.7%	22.6%	23.5%	26.8%
Shares in affiliates' Earnings	1	1	2	2	2
Minority interests	0	0	0	0	0
Extraordinary items	(15)	0	0	0	0
NET PROFIT	**160**	**209**	**285**	**370**	**483**
Normalized profit	**175**	**209**	**285**	**370**	**483**
EPS (Bt)	0.2	0.2	0.3	0.4	0.5
Normalized EPS (Bt)	0.2	0.2	0.3	0.4	0.5

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	1,098	863	717	746	1,087
Cash & cash equivalent	1,008	764	600	600	920
Account receivables	77	78	93	116	133
Inventories	7	8	9	11	13
Others	6	12	15	18	21
Investments & loans	54	55	55	55	55
Net fixed assets	1,556	1,999	2,283	2,589	2,527
Other assets	458	417	423	428	433
Total assets	**3,166**	**3,334**	**3,478**	**3,818**	**4,102**
LIABILITIES:					
Current liabilities:	626	635	644	685	681
Account payables	77	84	96	121	133
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	17	18	26	32	17
Others current liabilities	532	533	522	533	532
Total LT debt	**60**	**58**	**82**	**101**	**53**
Others LT liabilities	604	626	564	622	666
Total liabilities	**1,289**	**1,319**	**1,290**	**1,408**	**1,401**
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	**279**	**416**	**590**	**813**	**1,103**
Shareholders' equity	1,877	2,014	2,188	2,411	2,702
Liabilities & equity	**3,166**	**3,334**	**3,478**	**3,818**	**4,102**

Sources: Company data, Thanachart estimates

We factor in Bt950m of capex in 2022-23F mainly for the investments in the new Thonburi and Nonthaburi campuses

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	174	208	286	372	486
Tax paid	(0)	(0)	(3)	(4)	(6)
Depreciation & amortization	156	152	167	194	212
Chg In working capital	16	5	(4)	(0)	(6)
Chg In other CA & CL / minorities	53	21	(11)	9	(2)
Cash flow from operations	**399**	**386**	**434**	**570**	**685**
Capex	(293)	(595)	(450)	(500)	(150)
Right of use	(348)	(6)	(5)	(5)	(5)
ST loans & investments	0	0	0	0	0
LT loans & investments	(1)	(1)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	255	43	(63)	58	44
Cash flow from investments	**(386)**	**(558)**	**(518)**	**(447)**	**(111)**
Debt financing	1	(0)	31	25	(63)
Capital increase	0	0	0	0	0
Dividends paid	(94)	(71)	(111)	(147)	(192)
Warrants & other surplus	(8)	0	0	0	0
Cash flow from financing	**(101)**	**(72)**	**(80)**	**(122)**	**(254)**
Free cash flow	**106**	**(209)**	**(16)**	**70**	**535**

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

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	63.3	53.1	38.9	30.0	23.0
Normalized PE - at target price (x)	83.2	69.8	51.1	39.4	30.2
PE (x)	69.4	53.1	38.9	30.0	23.0
PE - at target price (x)	91.1	69.8	51.1	39.4	30.2
EV/EBITDA (x)	31.0	28.2	23.1	18.8	14.8
EV/EBITDA - at target price (x)	41.6	37.6	30.7	25.0	19.8
P/BV (x)	5.9	5.5	5.1	4.6	4.1
P/BV - at target price (x)	7.8	7.2	6.7	6.0	5.4
P/CFO (x)	27.8	28.7	25.5	19.5	16.2
Price/sales (x)	10.6	10.5	8.9	7.1	6.2
Dividend yield (%)	0.6	0.8	1.2	1.5	2.0
FCF Yield (%)	1.0	(1.9)	(0.1)	0.6	4.8
(Bt)					
Normalized EPS	0.2	0.2	0.3	0.4	0.5
EPS	0.2	0.2	0.3	0.4	0.5
DPS	0.1	0.1	0.1	0.2	0.2
BV/share	2.0	2.1	2.3	2.6	2.9
CFO/share	0.4	0.4	0.5	0.6	0.7
FCF/share	0.1	(0.2)	(0.0)	0.1	0.6

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(4.3)	0.6	18.8	24.6	14.7
Net profit (%)	(27.6)	30.5	36.5	29.6	30.6
EPS (%)	(27.6)	30.5	36.5	29.6	30.6
Normalized profit (%)	(20.7)	19.2	36.5	29.6	30.6
Normalized EPS (%)	(20.7)	19.2	36.5	29.6	30.6
Dividend payout ratio (%)	44.7	45.0	45.0	45.0	45.0
Operating performance					
Gross margin (%)	42.7	47.1	49.3	48.8	50.8
Operating margin (%)	16.4	20.7	23.3	23.8	26.8
EBITDA margin (%)	31.3	35.0	36.6	36.2	38.6
Net margin (%)	16.7	19.7	22.6	23.5	26.8
D/E (incl. minor) (x)	0.0	0.0	0.0	0.1	0.0
Net D/E (incl. minor) (x)	(0.5)	(0.3)	(0.2)	(0.2)	(0.3)
Interest coverage - EBIT (x)	6.6	8.5	11.7	15.4	20.5
Interest coverage - EBITDA (x)	12.6	14.5	18.3	23.5	29.6
ROA - using norm profit (%)	6.0	6.4	8.4	10.1	12.2
ROE - using norm profit (%)	9.5	10.7	13.6	16.1	18.9
DuPont					
ROE - using after tax profit (%)	9.4	10.7	13.5	16.0	18.8
- asset turnover (x)	0.4	0.3	0.4	0.4	0.5
- operating margin (%)	19.1	22.2	24.9	25.4	28.5
- leverage (x)	1.6	1.7	1.6	1.6	1.5
- interest burden (%)	87.0	89.1	92.0	93.9	95.4
- tax burden (%)	100.4	99.9	98.8	98.8	98.8
WACC (%)	8.5	8.5	8.5	8.5	8.5
ROIC (%)	21.6	23.0	21.7	21.6	24.4
NOPAT (Bt m)	172	218	288	367	474
invested capital (Bt m)	946	1,327	1,696	1,943	1,852

Sources: Company data, Thanachart estimates

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For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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