



## Wisdom Education (6068 HK)

### A leading quality private education provider in southern China

- The Group is a fundamental education service provider; its school network is currently heavily concentrated in Dongguan, Guangdong
- The Group was able to increase the first-class university admission rate of its high school graduates with improving education quality. This has enabled the Group to raise its tuition charges
- The Group's market share, as measured by the no. of students, was ranked 1<sup>st</sup> in the academic year of 2015/16 at 2.8%, indicating its ability to expand school network
- Initiate **BUY**, current TP represents 25.66x/16.28x 17E/18E P/E, or 3.14x/2.64x 17E/18E P/B

**A fundamental education provider based in Dongguan.** The Group's business currently covers all types of schools in the fundamental education sector. Headquartered in Dongguan - a region demonstrating strong economic growth and rising demand for education service, the Group would benefit from the geographical advantage and rising recognition of private schools in the fundamental education sector.

**Consistent track record in education quality enables higher tuitions .** The Group was able to increase its first-class university admission rate - an important metric of education quality, in the last two years. We believe the rising admission rate has enabled the Group to raise its tuitions.

**A leading player by student population.** The Group's market share (by no. of students) was 2.8% for the academic year of 2015/16, ranking 1<sup>st</sup> in the southern China market. We believe the scale of the Group implies its ability to expand its business and replicate the operating model in the future.

**Initiate with BUY; TP at HK\$ 3.20.** Based on our projections, in FY16-FY19E, revenue would grow at 30.38% CAGR; GPM and NPM (to owners of the company) would improve from 47.1% and 22.0% to 47.6% and 26.6%. We initiate coverage on the Group with **BUY** and our TP represents 25.66x/16.28x 17E/18E P/E or 3.14x/2.64x 17E/18E P/B.

**Risk factors:** 1) Policy & regulatory risk; 2) School expansion may lead to unstable margins and return performance; 3) Cash flow management; 4) Failure to maintain education quality; 5) Operational risk; 6) Growth risk; 7) M&A risk.

#### Results and Valuation

FY ended Aug 31	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue (RMB mn)	569	701	913	1,305	1,567
Chg (% YoY)	26.13	23.21	30.34	42.93	20.01
Net Profit (RMB mn)	182	154	223	351	417
Chg (% YoY)	100.52	(15.32)	44.33	57.64	18.68
Basic EPS (RMB)	0.12	0.10	0.11	0.17	0.20
Chg (% YoY)	100.00	(16.67)	9.26	57.64	18.68
P/E (x)	20.30	24.36	22.30	14.14	11.92
BVPS (RMB)	0.44	0.54	0.89	1.06	1.27
P/B (x)	5.48	4.53	2.73	2.29	1.92
DPS(HKD)	0.000	0.000	0.037	0.059	0.070
Yield (%)	0.00	0.00	1.54	2.42	2.87
ROAA (%)	6.45	5.69	8.21	10.56	10.46
ROAE (%)	30.74	20.50	16.82	17.61	17.53

\* Net profits are post listing expenses

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

### Initiation

June 23, 2017

Rating: **BUY**

TP: HK\$ 3.20

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	2.78
Est. share price return	15.11%
Est. dividend yield	1.54%
Est. total return	16.64%

Source(s): ABCI Securities

#### Key Data

52Wk H/L(HK\$)	2.96/1.61
Issued shares (mn)	2,039.15
Mkt cap (HK\$ mn)	5,668.85
30 days ADT (HK\$mn)	13.47

Shareholding (%)	
Liu Xuebin	45.65
Li Suwen	27.98

Source(s): Bloomberg, HKEX

% to total revenue	FY17E
Tuition fees	64.33
Boarding fees	8.19
Ancillary services	27.48

Source(s): ABCI Securities estimates

#### Sector Performance (%)

	Absolute	Relative*
1-mth	(3.81)	(5.74)
3-mth	31.22	24.21
6-mth	N/A	N/A

Source(s): Bloomberg, ABCI Securities

#### Price performance since IPO



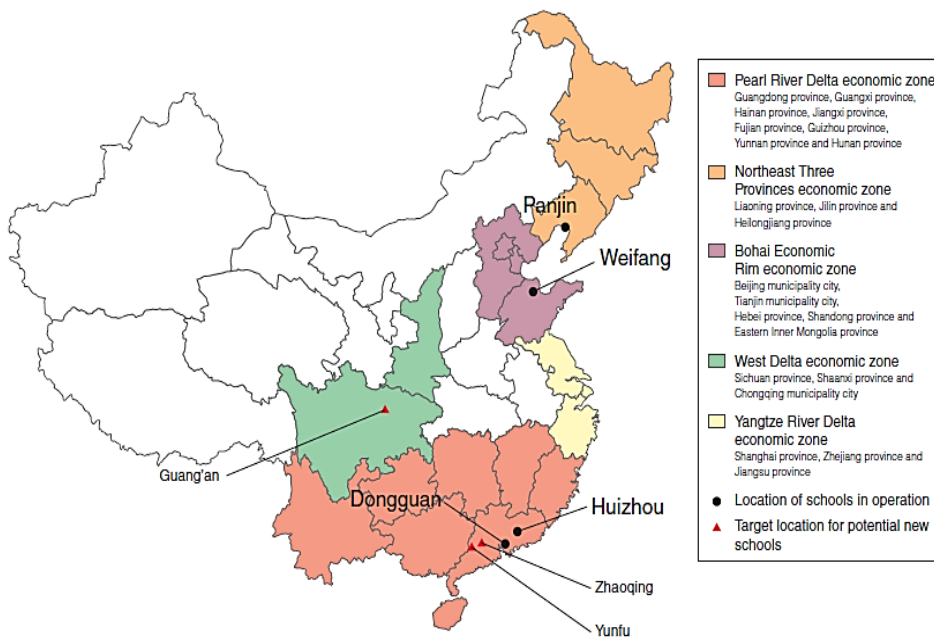
Source(s): Bloomberg, ABCI Securities

\* All pricing and market data as of closing of June 22, 2017

## Wisdom Education in brief

Wisdom Education is the largest private education provider in China. The Group's schools cover fundamental education that includes the primary and secondary schools (K-12). As of end-May 2017, the Group's current school network had 6 schools in the Guangdong, Liaoning, and Shandong province. The school network expanded to Jieyang Guangdong as the Group recently announced an acquisition of a school in the city. In addition, the total no. of students enrolled in the Group's school was 31,788 by end-Sep 2016, up 16% YoY from 27,644 by end-Sep 2015.

### Exhibit 1: School network of the Group



Source(s): Prospectus of Company

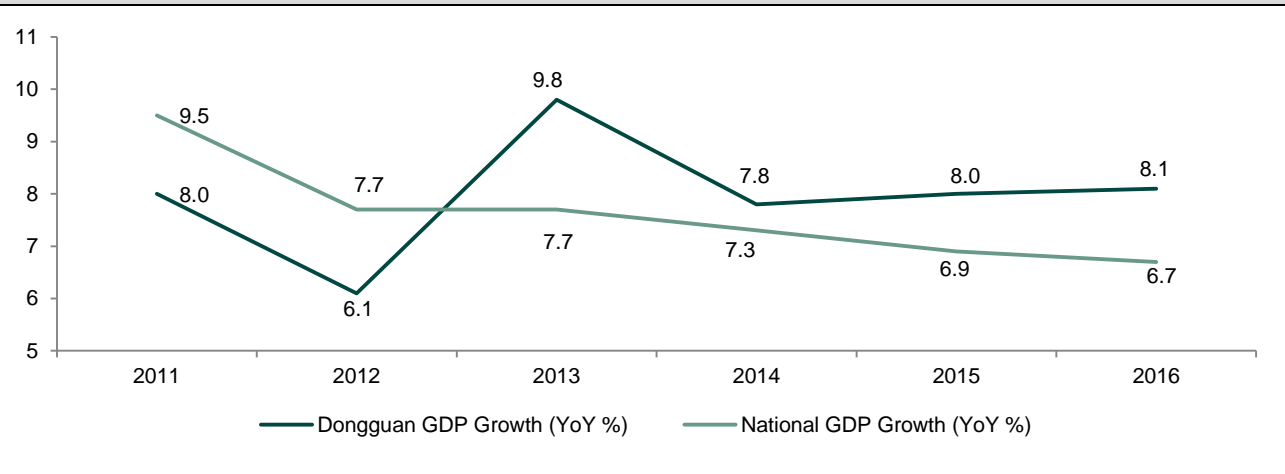
## Investment highlights

### 1. Headquartered in Dongguan, Guangdong - a manufacturing hub with rising demand for education

The Group's current education network is heavily based in Dongguan, Guangdong, a major manufacturing hub in southern China. According to the Dongguan Statistics Bureau, Dongguan's GDP has been growing at rates above 8% YoY in 2015 and 2016, which were higher than the national ones. In addition, the city's average disposal incomes of its residents were RMB 41.9k in 2016 and RMB 38.7k in 2015, which were 1.76x of the national average in both years. The robust local economy enables the city's households to spend more on premium purchase.

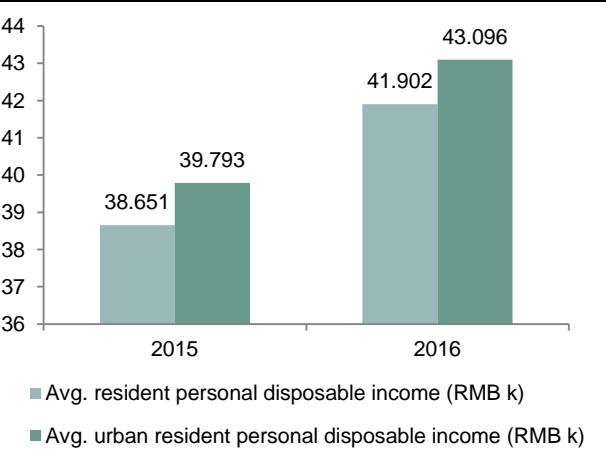


Exhibit 2: GDP growth of Dongguan and China



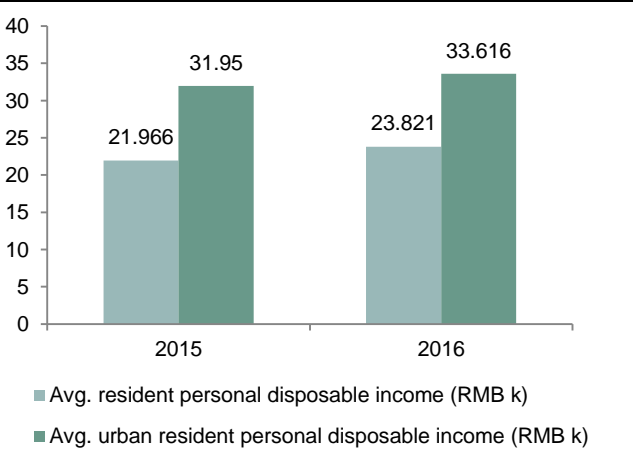
Source(s): NBS, Dongguan Statistics Bureau, ABCI Securities

Exhibit 3: Personal disposable income of Dongguan residents



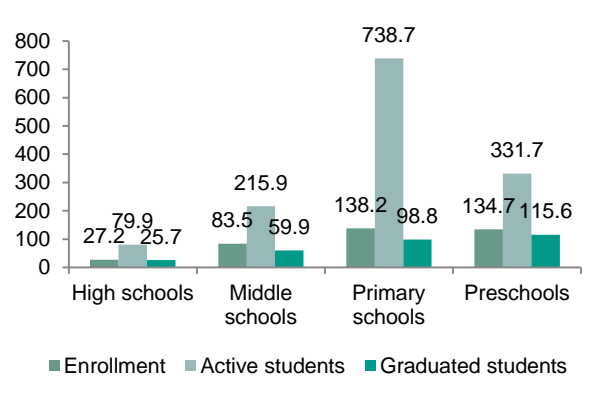
Source(s): Dongguan Statistics Bureau, ABCI Securities

Exhibit 4: Personal disposable income of residents in China

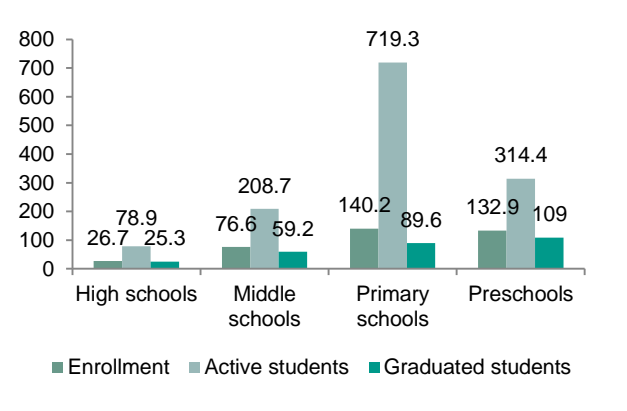


Source(s): NBS, ABCI Securities

In addition, demand for education in Dongguan has been rising. The no. of enrolled students in preschools, primary schools, middle schools and high schools has been increasing. Dongguan's competition in the education sector has been increasing. According to the Dongguan Statistics Bureau, the no. of kindergartens, primary schools and middle schools increased from 949, 327 and 179 in 2015 to 1016, 328 and 191 in 2016. We believe the Group would benefit from the strong local economy and rising demand for quality education provided that its education quality would continue to improve in coming years.

**Exhibit 5: No. of students in Dongguan (2016) – fundamental education (k)**


Source(s): Dongguan Statistics Bureau, ABCI Securities

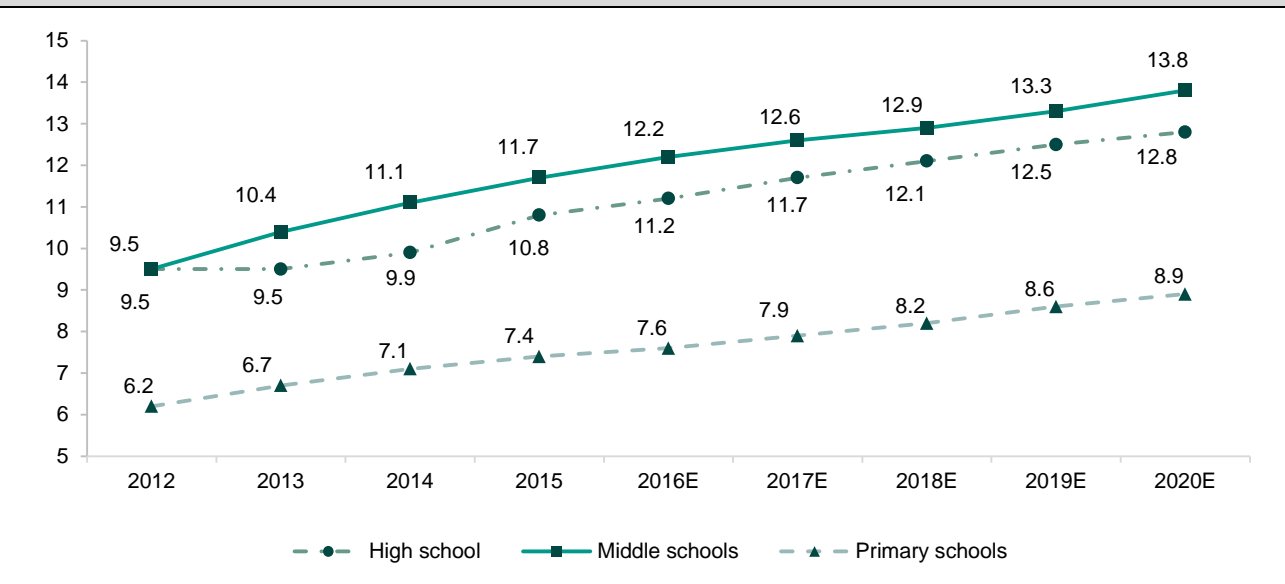
**Exhibit 6: No. of students in Dongguan (2015) – fundamental education (k)**


Source(s): Dongguan Statistics Bureau, ABCI Securities

## 2. Focus on fundamental education – a segment where private schools are gaining more recognition from the public

The Group's business mainly focuses on the fundamental education segment where private schools are gaining recognition from the public. According to the Group's prospectus, the penetration rate of private schools in the fundamental education segment has been increasing and we expect the trend to continue.

The rising recognition has been reflected in the rising tuitions of the listed private education providers. Compared to private schools in the higher education segment, tuitions of private schools in the fundamental education segment are generally higher and are growing fast. This is reflected by the tuition range of the listed private education providers in the past few years.

**Exhibit 7: Private school penetration rate (%)**


Source(s): Prospectus of the Group, F&amp;S data, ABCI Securities

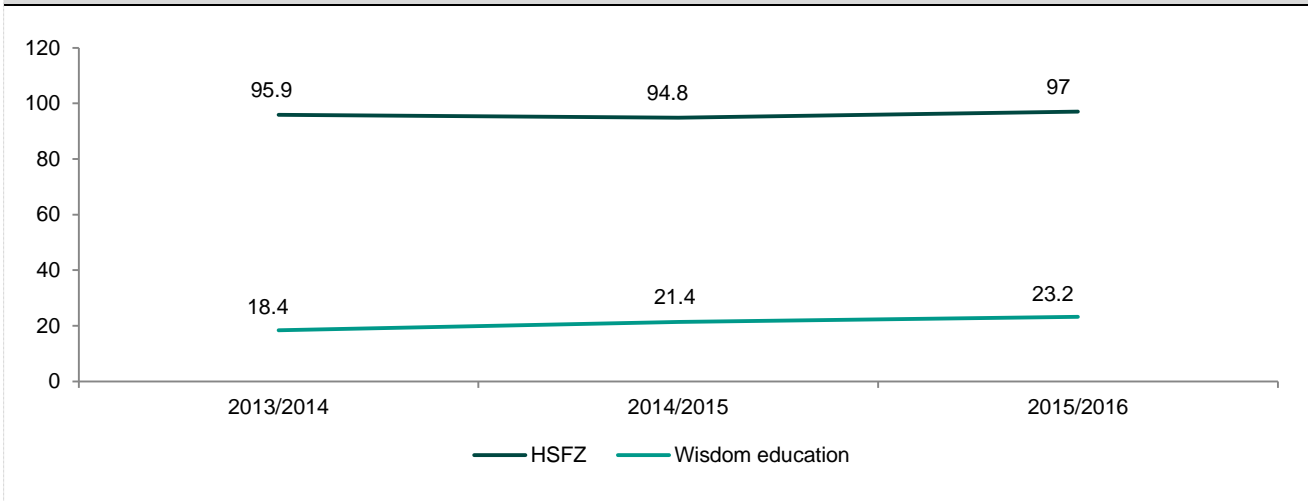


### 3. Rising tuitions supported by improving education quality

For a private school that covers the fundamental education, the primary determinants of the quality of its programs are the no. of students entering Peking University and Tsinghua University, and the admission rate of high school graduates into first-class universities. The former would guarantee a higher public profile for the school, and the latter would be referenced by prospective students and their parents.

The Group has achieved a strong track record that forges its reputation. Admission rate of its high school students into the first-class universities increased from 18.4% in the academic year of 2013/14 to 23.2% in 2015/16; meanwhile, the college admission rate was above 98.4%. Nonetheless, compared to the Affiliated High School of South China Normal University (HSFZ), one of the top high schools in the Guangdong province, the admission rate of the Group still has room for improvement.

Exhibit 8: First-class university admission rate comparison (%)

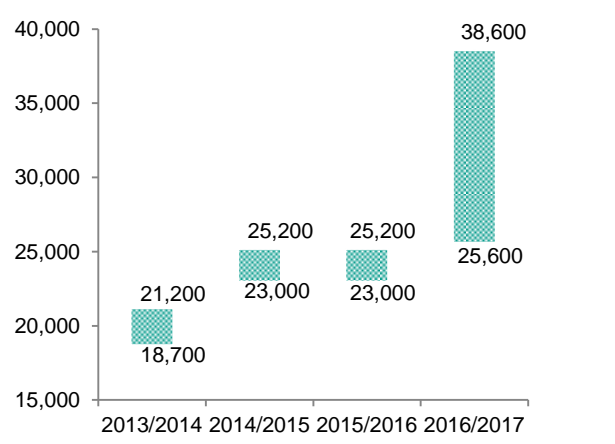


Source(s): Company, official website of HSFZ, ABCI Securities

The Group's consistent track record in education, especially high school education, allows it to demand premium tuition. In the academic year of 2016/2017, the Group's tuition (excl. international programs) was significantly higher than that in the previous 3 years.

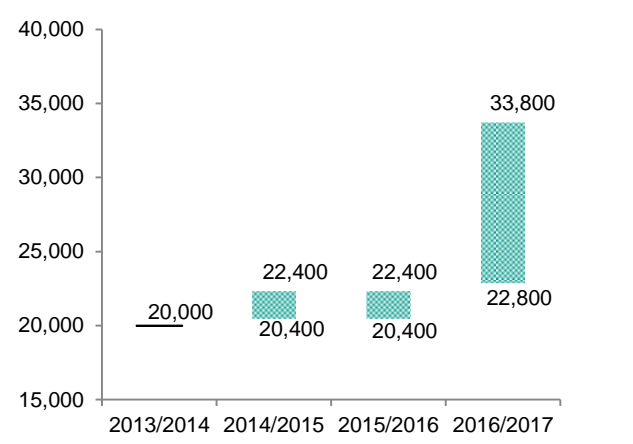


Exhibit 9: Tuition range - high school of Dongguan Guangming School (RMB)



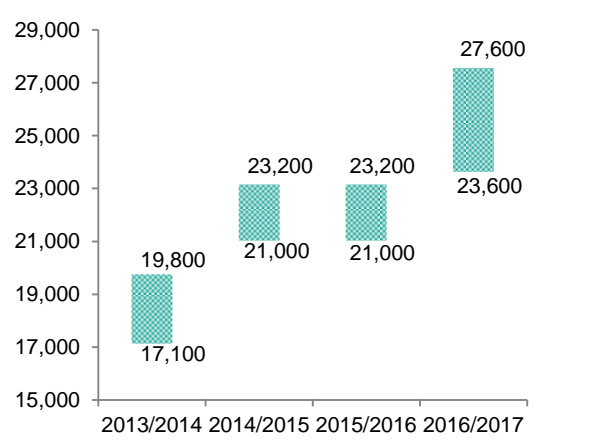
Source(s): Company, ABCI Securities

Exhibit 10: Tuition range - high school of Dongguan Guangzheng Preparatory School (RMB)



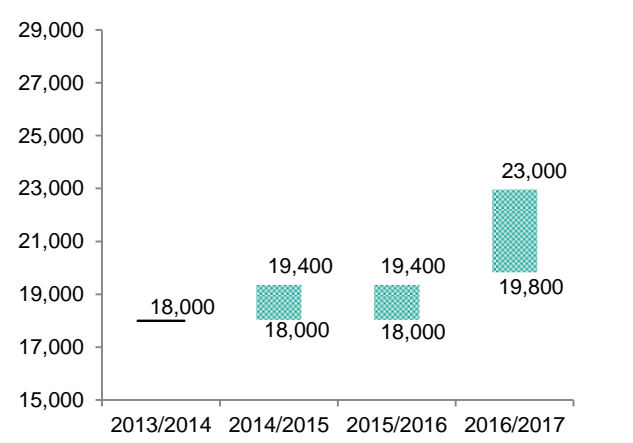
Source(s): Company, ABCI Securities

Exhibit 11: Tuition range - middle school of Dongguan Guangming School (RMB)



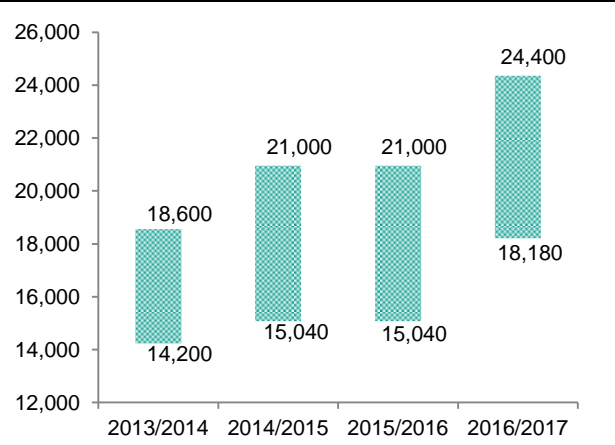
Source(s): Company, ABCI Securities

Exhibit 12: Tuition range - middle school of Dongguan Guangzheng Preparatory School (RMB)



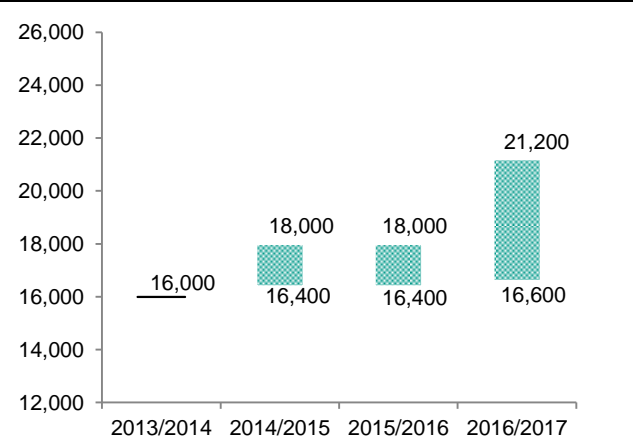
Source(s): Company, ABCI Securities

Exhibit 13: Tuition range - Dongguan Guangming Primary School (RMB)



Source(s): Company, ABCI Securities

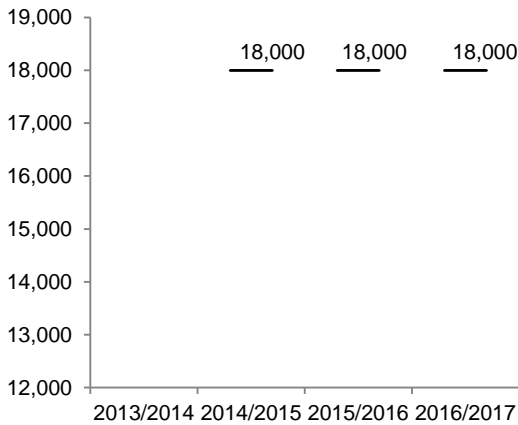
Exhibit 14: Tuition range - primary school of Dongguan Guangzheng Preparatory School (RMB)



Source(s): Company, ABCI Securities

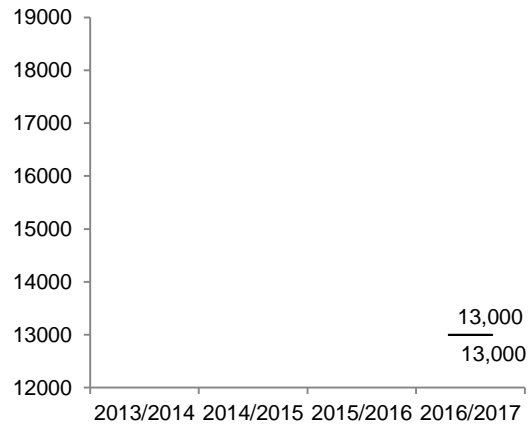


Exhibit 15: Tuition range - middle school of Panjin Guangzheng Preparatory School (RMB)



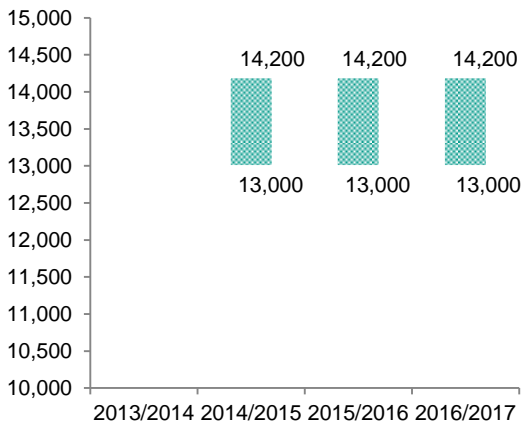
Source(s): Company, ABCI Securities

Exhibit 16: Tuition range - middle school of Weifang Guangzheng Preparatory School (RMB)



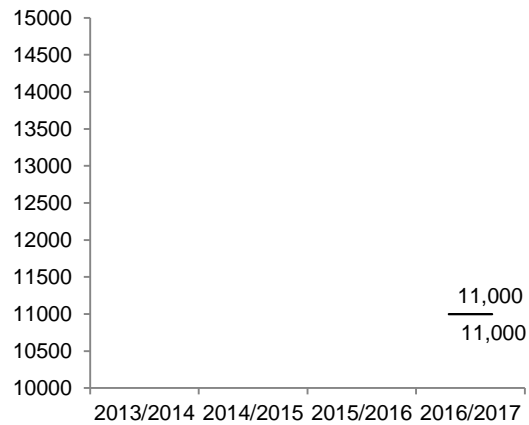
Source(s): Company, ABCI Securities

Exhibit 17: Tuition range - primary school of Panjin Guangzheng Preparatory School (RMB)



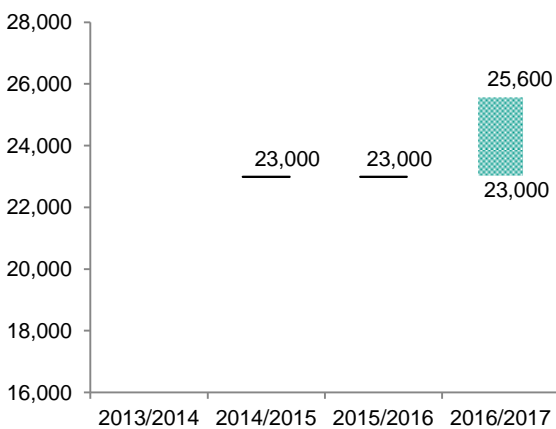
Source(s): Company, ABCI Securities

Exhibit 18: Tuition range - primary school of Weifang Guangzheng Preparatory School (RMB)



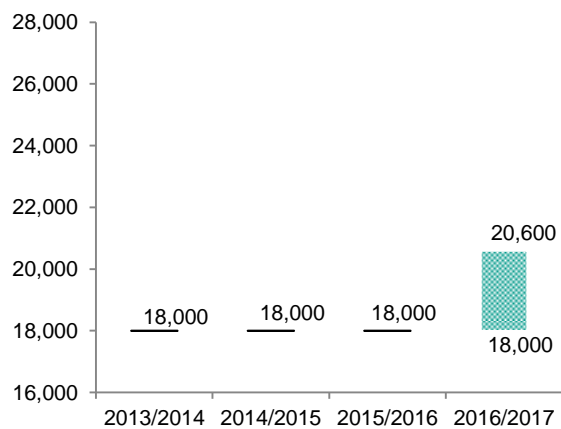
Source(s): Company, ABCI Securities

Exhibit 19: Tuition range - high school of Huizhou Guangzheng Preparatory School (RMB)



Source(s): Company, ABCI Securities

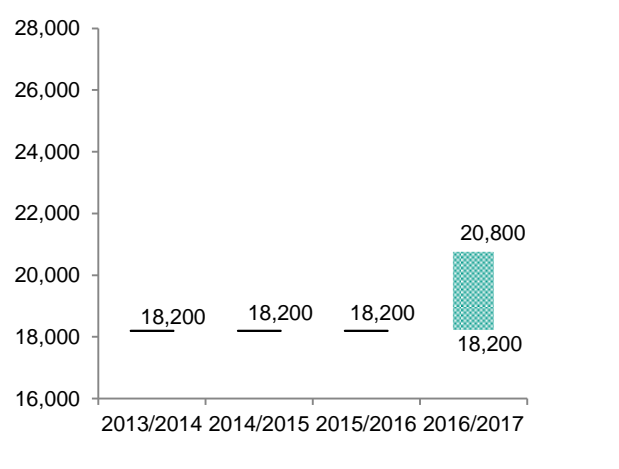
Exhibit 20: Tuition range - middle school of Huizhou Guangzheng preparatory school (RMB)



Source(s): Company, ABCI Securities



Exhibit 21: Tuition range - primary school of Huizhou Guangzheng Preparatory School (RMB)

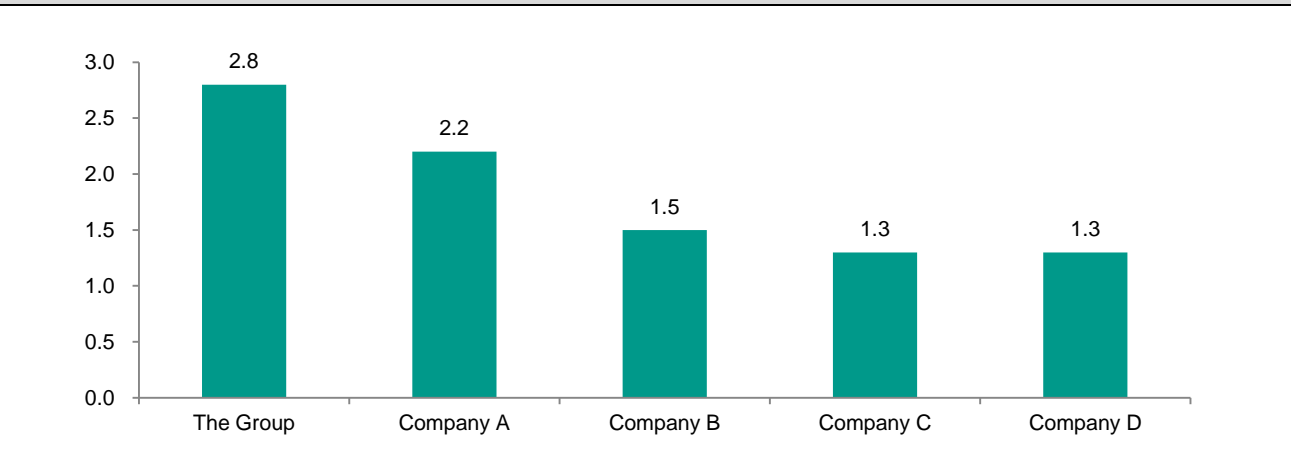


Source(s): Company, ABCI Securities

#### 4. Leading position in the southern China market

The Group has achieved a leading position in the premium private education (including primary and secondary schools) in southern China. According to the Group's prospectus, the Group's market share in terms of student enrolment was ranked 1<sup>st</sup> at 2.8% for the academic year of 2015/16 in southern China. The scale of the Group indicates its ability to expand its business and replicate the operating model.

Exhibit 22 : Market share of the Group by student no. (%)



Source(s): The Group, ABCI Securities

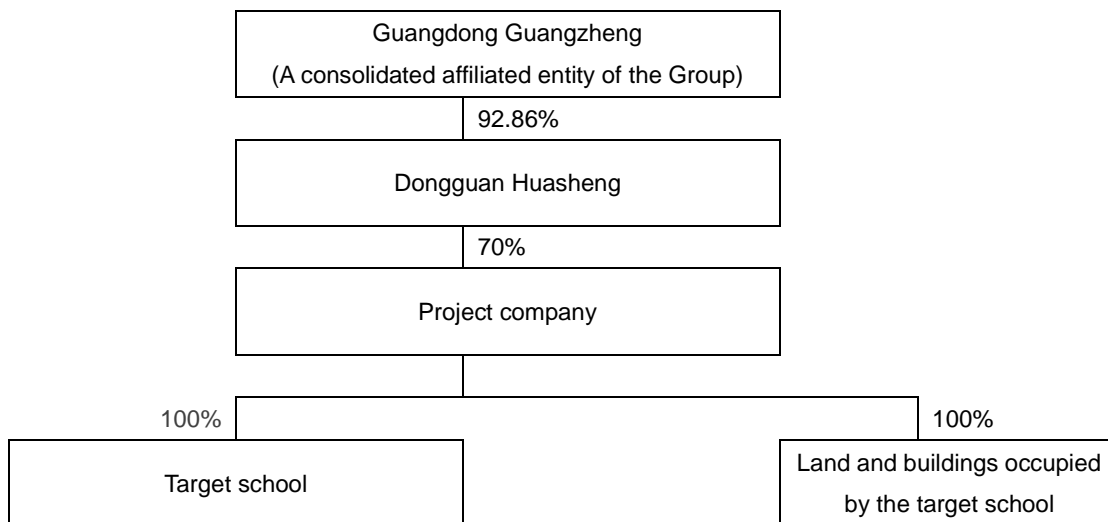


## Acquisition of Jieyang School

The Group announced it has entered into an agreement to acquire Huanan Shida Yuedong Preparatory School as well as its land and buildings via Guangdong Guangzheng, its consolidated affiliated entity. The considerations for the target school and its assets are RMB 91mn and RMB 133mn in the form of cash.

After the acquisition, a project company would be formed and the Group would hold a 70% stake through its 92.86%-owned subsidiary, Dongguan Huasheng. The Group would effectively own 65% of the target school (including the land, buildings and facilities). The implied value of the school, together with the assets mentioned, is RMB 344.62mn. Please refer to Exhibit 23 for details of the holding structure.

### Exhibit 23: Holding structure of Jieyang school post-acquisition



Sources: The Group, ABIC Securities

According to the Group, the target school currently has ~3,200 students and the no. of students is expected to increase to 4,500 for the 2017/18 academic year. The current student population at the target school represents 10% of the Group's total in 2016/17 academic year .

In addition, the target school recorded a net profit after tax and extraordinary items of RMB 7.125mn in 2016 and a net asset value of RMB 64.5mn by end-2016. The implied P/E and P/B for the acquisition are 48.37x and 5.34x.



## Growth outlook

We believe the Group can grow further by expanding the capacity of existing schools, opening new schools, or acquiring other schools. The Group's solid track record in first-class university admission and its extensive knowledge in the field of fundamental education will prove invaluable for future development.

According to the Group, aside from increasing the current capacity of the existing schools, it also plans to open 3 new schools - Guang'an Guangzheng Preparatory School, Yunfu Guangzheng Preparatory School, and Anyue Guangzheng Preparatory School. The recent acquisition would also help boost the Group's student number. Please refer to the following tables for the expected capacity and enrolled students expansion.

**Exhibit 24: Capacity expansion assumption – by end of FY**

(no. of students)	FY15A	FY16A	FY17E	FY18E	FY19E
Total capacity	28,614	33,152	51,304	58,717	66,129
Growth	-3.71%	15.86%	54.75%	14.45%	12.62%
Existing schools	28,614	33,152	44,804	47,052	49,299
Dongguan Guangming Secondary School	10,651	10,744	10,744	10,744	10,744
Dongguan Guangming Primary School	2,783	6,060	6,060	6,060	6,060
Dongguan Guangzheng Preparatory School	8,098	9,706	13,500	13,932	14,363
Huizhou Guangzheng Preparatory School	88	4,024	8,000	8,366	8,732
Panjin Preparatory School	6,994	1,866	2,500	3,150	3,800
Weifang Guangzheng Preparatory School	0	752	4,000	4,800	5,600
New schools	0	0	6,500	11,665	16,830
Guang'an Guangzheng Preparatory School	0	0	1,000	2,715	4,430
Yunfu Guangzheng Preparatory School	0	0	0	1,750	3,500
Anyue Guangzheng Preparatory School	0	0	0	1,700	3,400
Huanan Shida Yuedong Preparatory School (Newly acquired school)	0	0	5,500	5,500	5,500

Source(s): The Group, ABCI Securities estimates

**Exhibit 25: Student enrollment expansion assumption – by end of FY**

(no. of students)	FY15A	FY16A	FY17E	FY18E	FY19E
Total enrollment	27,644	31,788	45,098	51,951	59,572
Growth	21.05%	14.99%	41.87%	15.19%	14.67%
Existing schools	27,644	31,788	39,998	42,993	45,063
Dongguan Guangming Secondary School	10,417	10,510	10,508	10,541	10,503
Dongguan Guangming Primary School	5,959	5,973	5,975	5,971	5,973
Dongguan Guangzheng Preparatory School	7,768	9,094	11,975	12,685	13,150
Huizhou Guangzheng Preparatory School	2,500	3,903	6,208	7,117	7,695
Panjin Preparatory School	1,000	1,590	1,704	2,325	2,661
Weifang Guangzheng Preparatory School	0	718	3,629	4,355	5,081
New schools	0	0	5,100	8,957	14,509
Guang'an Guangzheng Preparatory School	0	0	600	1,765	3,544
Yunfu Guangzheng Preparatory School	0	0	0	1,138	2,800
Anyue Guangzheng Preparatory School	0	0	0	1,105	2,720
Huanan Shida Yuedong Preparatory School (Newly acquired school)	0	0	4,500	4,950	5,445

Source(s): The Group, ABCI Securities estimates

Based on the Group's projected capacity, students enrolled and our estimated tuition and fees per student for each period (Exhibit 26), we believe its topline would grow at 30.76% CAGR in 2016-19E. By 2019E, the Group's students enrolled would be 59.6k and total revenue would reach RMB 1,566.7mn.



**Exhibit 26: Projected level and growth of the Group's tuition and other fees per student**

	FY15	FY16A	FY17E	FY18E	FY19E
Level (RMB k per student)					
Tuition	17.15	17.71	18.48	18.84	19.84
Boarding fees	2.21	2.19	2.35	2.45	2.59
Ancillary services fee	5.54	5.45	7.90	7.66	7.72
<i>Growth (YoY %)</i>					
Tuition per student		3.25	4.37	1.91	5.33
Boarding fees per student		(1.02)	7.44	4.17	5.80
Ancillary services fee per student		(1.63)	44.91	(2.98)	0.82

Source(s): The Group, ABCI Securities estimates

## Profitability outlook

As long as the Group is able to improve its education quality, its tuition, hence its margins, would have room to grow further. We expect GPM to increase from 47.1% in FY16 to 47.6% in FY19E; OPM to increase from 32.0% in FY16 to 32.4% in FY19E; NPM (to owners of the Group) to increase from 22% in FY16 to 26.6% in FY19E.

## Valuation

To derive a TP for the Group, we conduct a DCF analysis with the following assumptions:

- (1) Expansion of its current schools and the new schools indicated in the Prospectus will be successful
- (2) a risk-free rate of 3.64%;
- (3) a beta of 0.97;
- (4) an expected market return of 11.27%;
- (5) a target debt-to-asset ratio of 10%;
- (6) an after-tax cost of debt at 7.05%.

Our TP arrives at HK\$ 3.20, which represents 25.66x/16.28x 17E/18E P/E, or 3.14x/2.64x 17E/18E P/B.

Currently, some private education providers are trading at a premium. Virscend (1565 HK) is trading at a rather high 17E P/E of 38.17x. The average 17E P/E of Mapleleaf (1317 HK), Yuhua (6169 HK), and Virscend (1565 HK) is 28.13x, while the average 17E P/E of all peers is 22.64x. The two higher education providers, Minsheng (1569 HK) and China New Higher Edu (2001 HK), have a lower valuation.

**Exhibit 27: Bloomberg consensus valuation of the education sector companies**

	English name	Chinese name	FY end	P/E (x)		P/B (x)		Yield (%)		ROAA (%)		ROAE (%)	
				FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
1317 HK	Mapleleaf	枫叶教育	31-Aug	20.07	16.61	3.35	2.97	2.11	2.51	10.92	10.92	17.31	18.20
6169 HK	Yuhua	宇华教育	31-Aug	24.76	17.58	3.19	2.89	2.84	3.17	10.06	10.75	19.56	14.87
1565 HK	Virscend	成实外教育	31-Dec	38.17	27.76	5.21	4.63	1.42	1.53	9.31	11.94	14.07	18.09
1569 HK	Minsheng Edu	民生教育	31-Dec	13.28	10.99	1.51	1.33	1.74	2.48	11.25	10.44	13.96	12.13
2001 HK	China New Higher Edu	中国新高教	31-Dec	15.49	12.18	2.22	1.96	1.57	2.13	9.75	10.30	17.40	16.87
<i>Average of Maple Leaf, Yuhua, and Virscend</i>				<u>28.13</u>	<u>21.04</u>	<u>27.67</u>	<u>20.65</u>	<u>3.92</u>	<u>3.49</u>	<u>2.13</u>	<u>2.40</u>	<u>10.10</u>	<u>11.20</u>
<i>Average of all peers</i>				<u>22.64</u>	<u>17.26</u>	<u>22.36</u>	<u>17.02</u>	<u>3.10</u>	<u>2.75</u>	<u>1.94</u>	<u>2.36</u>	<u>10.26</u>	<u>10.87</u>
<b>6068 HK</b>	<b>Wisdom</b>	<b>睿见教育</b>	<b>31-Aug</b>	<b>25.66</b>	<b>16.28</b>	<b>3.14</b>	<b>2.64</b>	<b>1.54</b>	<b>2.42</b>	<b>8.21</b>	<b>10.56</b>	<b>16.82</b>	<b>17.61</b>

As of end-June 22, 2017

Source(s): Bloomberg, ABCI Securities estimates



## Risk factors

**Uncertainty in regulatory changes.** The Draft Foreign Investment Law and its accompanying explanatory notes published by MOFCOM proposed major changes to the PRC foreign investment regulation in Jan 2015. In addition, the NDRC and MOFCOM have promulgated the Market Access Negative List (Pilot) that is applicable only to Tianjin, Shanghai, Fujian, and Guangdong. Even though the Group complies with the existing regulations, the finalized version of the regulation may pose uncertainties in term of the legality of the Group's corporate structure, which may affect the Group's ability to expand its school network or its day-to-day operation. Shareholders' ability to receive economic benefits may also be affected.

**Expansion of school network could lead to fluctuating growth or margins.** The Group has already taken steps to expand its school network to other provinces. However, such moves may lead to fluctuating growth, margins, or returns ratios in the future as newly established schools typically have lower tuitions and student no.

**Cash flow management.** The tuition payment of a school usually concentrates on a certain period of a given year. Therefore, the ability to budget the school's spending would be crucial.

**Inability to maintain the quality of education may result in declining reputation and profit.** To remain competitive, the Group would need to maintain or improve its university and first-class university admission rates of high-school students. Decline in admission rate would lead to reduced interest from prospective students, student drop-outs, or loss of teaching staff.

**Risks in day-to-day operation.** The education business has inherent risks relating to the health and safety of students. If malpractice or oversight by the administrative or teaching staff cause serious harm on any of the students, the Group's schools would be liable for lawsuits that could lead to financial and reputational damages.

**Growth risk.** As the portfolio schools of the Group have a long operating history, most are operating at capacity with stable margins. Therefore, the Group may face growth bottleneck if it is unable to acquire or build new schools.

**M&A risk.** The Group would be using part of the proceeds to acquire new schools to expand school network. We believe these newly acquired schools would undergo a transition period before their operations can align with the Group's standard. If the transition period is longer or more challenging than expected, additional expenditures may incur.



農銀國際

ABC INTERNATIONAL

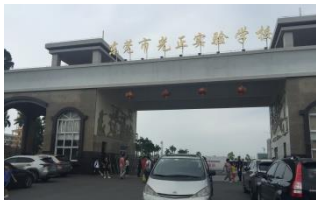
ABCI SECURITIES COMPANY LIMITED

Wisdom Education International Holdings Company Limited

Education Sector

June 23, 2017

### School snapshots



Source(s): Company, ABCI Securities



Consolidated income statement (FY15A-FY19E)

FY ends at Aug 31 (RMB mn, except per share data)	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Revenue</b>	<b>569</b>	<b>701</b>	<b>913</b>	<b>1305</b>	<b>1567</b>
- Tuition	392	490	588	849	1031
- Boarding fees	51	61	75	111	135
- Ancillary services	126	151	251	345	401
COGS	(289)	(370)	(478)	(679)	(821)
<b>Gross profit</b>	<b>280</b>	<b>330</b>	<b>436</b>	<b>627</b>	<b>746</b>
S&D expenses	(8)	(13)	(17)	(24)	(29)
Admin expenses	(76)	(94)	(122)	(175)	(210)
Listing expenses	0	(24)	(7)	0	0
Others	6	1	8	9	9
<b>Operating profit</b>	<b>201</b>	<b>200</b>	<b>298</b>	<b>437</b>	<b>516</b>
Net finance cost	11	(6)	(27)	(15)	(14)
Pretax profit	212	195	271	422	502
Tax	(30)	(40)	(48)	(71)	(86)
<b>Net profit</b>	<b>182</b>	<b>154</b>	<b>223</b>	<b>351</b>	<b>417</b>
- Owners of the company	182	154	223	351	417
- Minority interest	(0)	(0)	0	0	0
Dividend	0	0	67	105	125
<b>EPS (RMB)</b>	<b>0.12</b>	<b>0.10</b>	<b>0.11</b>	<b>0.17</b>	<b>0.20</b>
<b>DPS (HKD)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.04</b>	<b>0.06</b>	<b>0.07</b>

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (FY15A-FY19E)

FY ends at Aug 31 (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Cash and cash equivalent	12	104	525	542	593
Inventories	2	5	5	8	8
Others	1,517	587	53	72	78
<b>Current assets</b>	<b>1,532</b>	<b>695</b>	<b>583</b>	<b>621</b>	<b>679</b>
PP&E	1,007	1,344	1,748	2,161	2,654
Investment property	18	20	24	27	29
Investment in new schools (Jieyang School)	0	0	31	233	242
Others	408	399	586	640	685
<b>Non-current assets</b>	<b>1,433</b>	<b>1,763</b>	<b>2,389</b>	<b>3,061</b>	<b>3,609</b>
<b>Total assets</b>	<b>2,965</b>	<b>2,458</b>	<b>2,972</b>	<b>3,682</b>	<b>4,288</b>
Trade payables	25	40	72	67	113
ST borrowings	538	142	86	117	95
Other payables and accruals	204	208	267	392	401
Others	779	763	461	634	800
<b>Current liabilities</b>	<b>1,546</b>	<b>1,153</b>	<b>886</b>	<b>1,210</b>	<b>1,409</b>
LT borrowings	738	465	249	268	263
Others	6	9	9	18	14
<b>Non-current liabilities</b>	<b>744</b>	<b>475</b>	<b>258</b>	<b>287</b>	<b>277</b>
Shareholders' equity	675	831	1,818	2,170	2,587
Minority interest	0	0	0	0	0
<b>Total equity</b>	<b>675</b>	<b>831</b>	<b>1,818</b>	<b>2,170</b>	<b>2,587</b>
<b>Total liabilities and equity</b>	<b>2,965</b>	<b>2,458</b>	<b>2,962</b>	<b>3,666</b>	<b>4,273</b>

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (FY15A-FY19E)**

FY ends at Aug 31 (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Pretax profit	212	195	271	422	502
Depreciation	41	49	70	96	129
Change in working capital	78	98	(470)	241	199
Others	(12)	(5)	18	(17)	(33)
<b>Cash flow from operating activities</b>	<b>319</b>	<b>338</b>	<b>(111)</b>	<b>742</b>	<b>797</b>
CapEx	(211)	(200)	(636)	(769)	(708)
Others	(98)	451	693	20	8
<b>Cash flow from investing activities</b>	<b>(309)</b>	<b>251</b>	<b>57</b>	<b>(750)</b>	<b>(701)</b>
Bank borrowing	6	(668)	(273)	50	(27)
Others	(17)	171	749	(27)	(18)
<b>Cash flow from financing activities</b>	<b>(11)</b>	<b>(497)</b>	<b>476</b>	<b>23</b>	<b>(45)</b>
<b>Net change in cash and cash equivalent</b>	<b>(1)</b>	<b>91</b>	<b>422</b>	<b>16</b>	<b>51</b>
ForEx effect	0	0	0	0	0
<b>Cash and cash equivalent at the end of FY</b>	<b>12</b>	<b>104</b>	<b>525</b>	<b>542</b>	<b>593</b>

Source(s): Company, ABCI Securities estimates

**Key operating and financial ratios (FY15A-FY19E)**

FY ends at Aug 31	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Growth (YoY %)</b>					
Revenue	26.13	23.21	30.34	42.93	20.01
Gross profit	32.35	18.20	31.90	43.81	19.05
EBIT	44.62	12.09	32.30	44.14	18.58
EBITDA	42.91	13.41	34.27	42.59	21.42
Pretax Profit	89.14	(8.39)	39.18	55.86	19.08
Net profit (to owners of the company)	100.52	(15.32)	44.33	57.64	18.68
<b>Profitability ratios (%)</b>					
GPM	49.1	47.1	47.7	48.0	47.6
OPM	35.2	32.0	32.5	32.7	32.4
EBITDA margin	42.0	38.7	39.8	39.7	40.2
Pretax margin	37.3	27.8	29.6	32.3	32.1
NPM (to owners of the company)	32.1	22.0	24.4	26.9	26.6
<b>Revenue contribution (%)</b>					
Tuition	68.87	69.86	64.33	65.07	65.79
Boarding fees	8.89	8.64	8.19	8.47	8.60
Ancillary services fees	22.24	21.50	27.48	26.46	25.61
<b>Return ratios (%)</b>					
ROAA	6.45	5.69	8.21	10.56	10.46
ROAE	30.74	20.50	16.82	17.61	17.53
<b>Liquidity ratio (x)</b>					
Current ratio	0.99	0.60	0.66	0.51	0.48
Quick ratio	0.99	0.60	0.65	0.51	0.48
Cash ratio	0.01	0.09	0.59	0.45	0.42
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	0	0	0	0	0
Days of inventory on hand	2	3	4	3	3
Days of outstanding payable	25	32	43	37	40
CCC	(23)	(29)	(39)	(34)	(37)
<b>Leverage ratios (%)</b>					
Total debt/Equity	188.89	73.15	18.42	17.75	13.85
Total debt/Total assets	43.02	24.72	11.27	10.46	8.35

Source(s): Company, ABCI Securities estimates

## Disclosures

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### Definition of equity rating

Rating	Definition
Buy	Stock return $\geq$ Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

### Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.  
Tel: 852) 2868 2183**