



Wisdom Education (6068 HK)

Sustaining growth momentum in FY17

- Revenue grew by 39.7% YoY, supported by growth in tuition fees (+21.7% YoY), boarding fees (+24.1% YoY), and ancillary services (+104.5% YoY)
- Surging staff cost, exchange loss, and higher effective tax rate lead to lower margins
- Total FY17 dividend payout ratio at 50.9%
- Potential eligibility for SZ-HK stock connect as the Group has met the mkt. cap and index requirements
- Acquisition of Jieyang school would boost revenue growth in FY18; we project decent growth and margins in the next few years
- Maintain **BUY**; TP represents 29.51x/21.07x 18E/19E P/E, or 4.20x/3.50x 18E/19E P/B

Revenue growth exceeded expectation. FY17 revenue grew 39.7% YoY to RMB 979mn, above our projection of RMB 912mn. Higher revenue was supported by growth in tuition fees (+21.7% YoY), boarding fees (+24.1% YoY), and ancillary services (+104.5% YoY). Student enrollment, which increased 15.0% YoY, together with the high growth in the average tuition and boarding fees for its schools in Dongguan, extended growth momentum. Meanwhile, substantial growth in ancillary services reflects the addition of value-added services, such as shuttle bus service and study tours.

Profitability went off track. The 22.1% YoY staff cost increase, exchange loss of RMB 26mn due to HKD's depreciation against RMB, and a higher effective tax rate of 25.9% offset gains from cost-controls on selling expenses and admin expenses. GPM, OPM, and NPM (to owners of the Company) were 45.9%, 32.3%, and 20.4% vs. 47.1%, 32.0% and 22.0% in FY16. Adjusted NPM also declined from 26.5% in FY16 to 25.4% in FY17.

Total FY17 dividend payout at 50.9%. The Group announced a final DPS and final dividend of RMB 0.026 and RMB 53.01mn. Including the interim DPS and interim dividend of RMB 0.024 and RMB 48.94mn, the Group's FY17 dividend amounted to RMB 101.96mn, representing a payout ratio of 50.9%.

Potential eligibility for SZ-HK stock connect. The Group's mkt. cap has risen above HK\$ 9bn since the beginning of Oct (avg. mkt. cap since beg-Oct is HK\$ 9.42bn). In addition, the Group has been a constituent of Hang Seng Composite SmallCap Index since Sep 4, 2017. Now that the Group has met the two major eligibility criteria of the SZ-HK stock connect, it may be added to the trading list in the next review.

Maintain BUY, TP at HK\$ 4.95. The Group's recent acquisition of the Jieyang School would boost growth in FY18 revenue to 42.93% YoY. We project a revenue CAGR of 34.3% in 2017-20E, supported by the increasing student enrollment and tuition level. We expect GPM, OPM, and NPM (to owners of the Company) would be stable at ~45%, ~31% and ~21% in the next three years. Maintain **BUY**. Our DCF-derived TP at HK\$ 4.95 represents 29.51x/21.07x 18E/19E P/E, or 4.20x/3.50x 18E/19E P/B .

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

Results and Valuation

FY ended - Aug 31	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue (RMB mn)	701	979	1,400	1,881	2,374
Chg (% YoY)	23.21	39.73	42.93	34.41	26.21
Net Profit (RMB mn)	154	200	289	406	514
Chg (% YoY)	(15.32)	29.71	44.58	40.10	26.78
Basic EPS (RMB)	0.10	0.11	0.14	0.20	0.25
Chg (% YoY)	(16.67)	10.00	29.06	40.10	26.78
P/E (x)	37.58	34.17	26.47	18.90	14.90
BVPS (RMB)	0.54	0.86	1.00	1.20	1.45
P/B (x)	6.98	4.39	3.77	3.14	2.59
DPS(HKD)	0.000	0.059	0.050	0.070	0.089
Yield (%)	0.00	1.57	1.34	1.88	2.38
ROAA (%)	5.69	6.91	7.65	8.84	9.13
ROAE (%)	20.50	15.54	15.31	18.12	19.06

Source(s): The Group, Bloomberg, ABCI Securities estimates

Company Report

Nov 23, 2017

Rating: **BUY**

TP: HK\$ 4.95

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Share price (HK\$)	4.44
52Wk H/L(HK\$)	5.22/1.61
Est. share price return	10.36%
Est. dividend yield	1.57%
Est. total return	11.93%
Previous rating & TP	BUY;HK \$4.35
Previous report date	Jun 23, 2017

Source(s): ABCI Securities

Key Data

Issued shares (mn)	2,039.15
Mkt cap (HK\$ mn)	9,053.84
3-mth days ADT (HK\$mn)	19.47

Shareholding (%)	
Liu Xuebin	45.61
Li Suwen	27.95

Source(s): Bloomberg, HKEX

% to total revenue	FY18E
Tuition fees	58.69
Boarding fees	7.56
Ancillary services	33.75

Source(s): ABCI Securities estimates

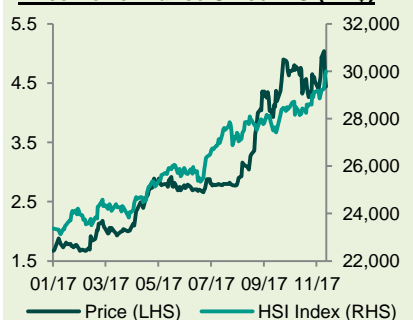
Price Performance (%)

	Absolute	Relative*
1-mth	(7.11)	(12.53)
3-mth	40.51	30.05
6-mth	53.63	32.16

* Reflected to HSI

Source(s): Bloomberg, ABCI Securities

Price Performance Since IPO (HK\$)



Source(s): Bloomberg, ABCI Securities

* All pricing and market data as of end-Nov 22, 2017



Exhibit 1: Student enrollment

	Student enrollment (persons)			Chg (YoY%)	
	2015/16	2016/17	2017/18	2016/17	2017/18
Existing schools					
Dongguan Guangming School	10,417	10,510	10,507	0.9	(0.1)
Dongguan Guangming Primary School	5,959	5,973	5,970	0.2	(0.1)
Dongguan Guangzheng Preparatory School	7,768	9,094	10,620	17.1	16.8
Huizhou Guangzheng Preparatory School	2,500	3,903	6,011	56.1	54.0
Panjin Guangzheng Preparatory School	1,000	1,590	2,170	59.0	36.5
Weifang Guangzheng Preparatory School	N/A	718	1,401	N/A	95.1
Jieyang School	N/A	N/A	4,501	N/A	N/A

Source(s): The Group, ABCI Securities

Exhibit 2: Revenue, tuition & boarding fees, and per student figures

	FY16	FY17	Growth (YoY%)
Revenue by school (RMB K)			
<i>Overall</i>	<u>700,741</u>	<u>979,140</u>	<u>39.73</u>
Dongguan Guangming School & Dongguan Guangming Primary School	428,000	531,055	24.08
Dongguan Guangzheng Preparatory School	194,691	285,607	46.70
Huizhou Guangzheng Preparatory School	59,742	111,318	86.33
Panjin Guangzheng Preparatory School	18,308	35,780	95.43
Weifang Guangzheng Preparatory School	N/A	15,380	N/A
Tuition and boarding fees by school (RMB K)			
<i>Overall</i>	<u>550,116</u>	<u>671,170</u>	<u>22.01</u>
Dongguan Guangming School	217,807	245,392	12.66
Dongguan Guangming Primary School	115,616	120,375	4.12
Dongguan Guangzheng Preparatory School	155,593	198,335	27.47
Huizhou Guangzheng Preparatory School	47,117	75,174	59.55
Panjin Guangzheng Preparatory School	13,983	22,726	62.53
Weifang Guangzheng Preparatory School	N/A	9,168	N/A
Average tuition and Boarding Fees per student by school (RMB)			
<i>Overall</i>	<u>19,900</u>	<u>21,114</u>	<u>6.10</u>
Dongguan Guangming School	20,909	23,348	11.66
Dongguan Guangming Primary School	19,402	20,153	3.87
Dongguan Guangzheng Preparatory School	20,030	21,809	8.88
Huizhou Guangzheng Preparatory School	18,847	19,261	2.20
Panjin Guangzheng Preparatory School	13,983	14,293	2.22
Weifang Guangzheng Preparatory School	N/A	12,769	N/A

Source(s): The Group, ABCI Securities

Exhibit 3: Capacity and utilization rate (%)

As of beg of school year (Sep 1)	Capacity (persons)			Utilization rate (%)		Target Student Capacity
	2015/16	2016/17	2017/18	2015/16	2016/17	
By schools	30,552	33,152	49,804	90.5	95.9	<u>88,554</u>
Existing schools						
Dongguan Guangming School	10,532	10,744	10,744	98.9	97.8	<u>10,744</u>
Dongguan Guangming Primary School	6,062	6,060	6,060	98.3	98.6	<u>6,060</u>
Dongguan Guangzheng Preparatory School	9,038	9,706	13,500	85.9	93.7	<u>15,226</u>
Huizhou Guangzheng Preparatory School	3,465	4,024	8,000	72.2	97.0	<u>9,464</u>
Panjin Guangzheng Preparatory School	1,455	1,866	2,500	68.7	85.2	<u>6,200</u>
Weifang Guangzheng Preparatory School	N/A	752	4,000	N/A	95.5	<u>8,000</u>
Jieyang School	N/A	N/A	5,000	N/A	N/A	<u>18,000</u>
Greenfield Schools Under Construction — Expected commencement in September 2017						
Yunfu Guangzheng Preparatory School	N/A	N/A	N/A	N/A	N/A	<u>7,000</u>
Guang'an Guangzheng Preparatory School	N/A	N/A	N/A	N/A	N/A	<u>7,860</u>
By category	30,552	33,152		90.5	95.9	
High school	8,112	8,294		84.2	93.2	
Middle school	11,288	12,924		95.2	96.8	
Primary school	10,836	11,554		90.1	96.9	
International programs	316	380		95.9	91.3	

Source(s): The Group, ABCI Securities



Exhibit 4: Other operating data

	2013/14	2014/15	2015/16	2016/17
University acceptance				
Students admitted to first-tier universities (%)	18.4	21.4	23.2	25.0
Students admitted to universities (%)	94.8	94.8	94.8	97.0
Transfer rate of different levels of schools (%)				
Primary school to middle school	86.9	82.4	83.3	90.0
Middle school to high school	51.9	54.9	58.7	60.0
# of teachers (persons) (as of end of school year)	1,359	1,666	1,960	2,580

Source(s): The Group, ABCI Securities

Exhibit 5: Projected level and growth of student enrollment, tuition and other fees per student

	FY16A	FY17A	FY18A	FY19E	FY20E
Total enrollment (no. of students)	27,644	31,788	41,180	51,485	60,028
<i>Growth (YoY %)</i>	<u>21.05</u>	<u>14.99</u>	<u>29.55</u>	<u>25.03</u>	<u>16.59</u>
Tuition (RMB k per student)	17.71	18.75	19.95	21.41	23.03
<i>Growth (YoY %)</i>	<u>3.25</u>	<u>5.87</u>	<u>6.39</u>	<u>7.36</u>	<u>7.56</u>
Boarding fees (RMB k per student)	2.19	2.36	2.57	2.79	3.04
<i>Growth (YoY %)</i>	<u>(1.02)</u>	<u>7.95</u>	<u>8.67</u>	<u>8.73</u>	<u>8.70</u>
Ancillary services fee (RMB k per student)	5.45	9.69	11.47	12.33	13.48
<i>Growth (YoY %)</i>	<u>(1.63)</u>	<u>77.81</u>	<u>18.38</u>	<u>7.49</u>	<u>9.36</u>

Source(s): The Group, ABCI Securities estimates

Exhibit 6: 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
6068 HK	Wisdom	睿见教育	31-Aug	26.47	18.90	3.77	3.14	1.34	1.88	7.65	8.84	15.31	18.12
1317 HK	Mapleleaf	枫叶教育	31-Aug	21.16	17.48	3.94	3.49	1.86	2.15	11.36	11.86	19.39	20.61
6169 HK	Yuhua	宇华教育	31-Aug	21.09	17.59	3.37	3.00	2.54	2.92	11.42	12.81	16.10	18.10
1565 HK	Virscend	成实外教育	31-Dec	22.69	17.36	3.61	3.21	1.90	2.56	12.27	16.01	15.20	17.40
1569 HK	Minsheng Edu	民生教育	31-Dec	14.69	13.09	1.54	1.40	1.81	2.50	9.57	9.12	11.14	11.00
2001 HK	China New Higher Edu	中国新高教	31-Dec	17.67	14.24	2.71	2.34	1.96	2.34	9.86	10.64	16.52	17.83
<i>Average of Wisdom, Maple Leaf, Yuhua, and Virscend</i>				<u>22.85</u>	<u>17.83</u>	<u>3.67</u>	<u>3.21</u>	<u>1.91</u>	<u>2.38</u>	<u>10.67</u>	<u>12.38</u>	<u>16.50</u>	<u>18.56</u>
<i>Average of all peers</i>				<u>20.63</u>	<u>16.44</u>	<u>3.15</u>	<u>2.76</u>	<u>1.90</u>	<u>2.39</u>	<u>10.35</u>	<u>11.55</u>	<u>15.61</u>	<u>17.18</u>

As of end-Nov 22, 2017

Source(s): Bloomberg, ABCI Securities estimates



Consolidated income statement (FY16A-FY20E)

FY ends at Aug 31 (RMB mn, except per share data)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	701	979	1,400	1,881	2,374
- Tuition	490	596	821	1,103	1,383
- Boarding fees	61	75	106	144	182
- Ancillary services	151	308	472	635	809
COGS	(370)	(529)	(762)	(1,021)	(1,288)
Gross profit	330	450	637	860	1,086
S&D expenses	(13)	(17)	(24)	(32)	(41)
Admin expenses	(94)	(126)	(178)	(241)	(303)
Listing expenses	(24)	(10)	0	0	0
Others	1	(15)	(7)	(12)	(21)
Operating profit	200	282	427	576	721
Net finance cost	(6)	(11)	(40)	(46)	(52)
Pretax profit	195	270	387	530	669
Tax	(40)	(70)	(98)	(125)	(154)
Net profit	154	200	290	406	514
- Owners of the company	154	200	289	406	514
- Minority interest	(0)	(0)	0	0	0
Dividend	0	102	87	122	154
EPS (RMB)	0.10	0.11	0.14	0.20	0.25
DPS (RMB)	0.00	0.06	0.05	0.07	0.09

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet (FY16A-FY20E)

FY ends at Aug 31 (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash and cash equivalent	104	378	591	695	1,279
Inventories	5	9	7	16	12
Others	587	217	304	302	400
Current assets	695	604	902	1,014	1,691
PP&E	1,344	1,779	2,161	2,654	3,219
Investment property	20	20	25	27	35
Others	399	928	1,145	1,249	1,374
Non-current assets	1,763	2,728	3,331	3,930	4,629
Total assets	2,458	3,332	4,233	4,944	6,320
Trade payables	40	59	79	108	127
ST borrowings	142	155	212	206	269
Other payables and accruals	208	335	433	591	701
Others	763	546	938	968	1,473
Current liabilities	1,153	1,094	1,662	1,873	2,571
LT borrowings	465	467	491	582	725
Others	9	26	44	48	69
Non-current liabilities	475	493	535	630	794
Shareholders' equity	831	1,746	2,035	2,441	2,955
Minority interest	0	0	0	0	0
Total equity	831	1,746	2,035	2,441	2,955
Total liabilities and equity	2,458	3,332	4,233	4,944	6,320

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement (FY16A-FY20E)

FY ends at Aug 31 (RMB mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Pretax profit	195	270	387	530	669
Depreciation	49	70	96	129	177
Change in working capital	98	(339)	454	168	565
Others	(5)	393	(9)	(27)	(27)
Cash flow from operating activities	338	393	928	800	1,383
CapEx	(200)	(576)	(802)	(691)	(849)
Others	451	109	66	(32)	(90)
Cash flow from investing activities	251	(467)	(736)	(724)	(939)
Bank borrowing	(668)	14	82	85	205
Others	171	360	(61)	(56)	(66)
Cash flow from financing activities	(497)	374	21	29	139
Net change in cash and cash equivalent	91	300	212	105	583
ForEx effect	0	(26)	(13)	(7)	(3)
Cash and cash equivalent at the end of FY	104	378	591	695	1,279

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios (FY16A-FY20E)

FY ends at Aug 31	FY16A	FY17A	FY18E	FY19E	FY20E
Growth (YoY %)					
Revenue	23.21	39.73	42.93	34.41	26.21
Gross profit	18.20	36.16	41.61	35.07	26.19
EBIT	12.09	41.14	37.34	35.20	26.32
EBITDA	13.41	41.59	37.05	35.12	28.25
Pretax Profit	(8.39)	38.95	43.18	36.98	26.11
Net profit (to owners of the company)	(15.32)	29.71	44.58	40.10	26.78
Profitability ratios (%)					
GPM	47.1	45.9	45.5	45.7	45.7
OPM	32.0	32.3	31.1	31.2	31.3
EBITDA margin	38.7	39.2	37.6	37.8	38.4
Pretax margin	27.8	27.6	27.7	28.2	28.2
NPM (to owners of the company)	22.0	20.4	20.7	21.6	21.7
Revenue contribution (%)					
Tuition	69.86	60.87	58.69	58.61	58.24
Boarding fees	8.64	7.68	7.56	7.65	7.68
Ancillary services fees	21.50	31.45	33.75	33.74	34.08
Return ratios (%)					
ROAA	5.69	6.91	7.65	8.84	9.13
ROAE	20.50	15.54	15.31	18.12	19.06
Liquidity ratio (x)					
Current ratio	0.60	0.55	0.54	0.54	0.66
Quick ratio	0.60	0.54	0.54	0.53	0.65
Cash ratio	0.09	0.35	0.36	0.37	0.50
Cash conversion cycle (days)					
Days of outstanding receivable	0	0	0	0	0
Days of inventory on hand	3	5	4	4	4
Days of outstanding payable	32	34	33	33	33
CCC	(29)	(29)	(29)	(29)	(29)
Leverage ratios (%)					
Total debt/Equity	73.15	35.62	34.57	32.31	33.62
Total debt/Total assets	24.72	18.66	16.62	15.95	15.72

Source(s): The Group, ABCI Securities estimates



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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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