



CEG (839 HK)

Acquisition of Hainan schools will boost growth

- Acquired 60% stake in an entity owning Haikou University of Economics and Affiliated Art School of Haikou University of Economics in Hainan for RMB 1,356mn; implied total valuation represents Price/FY19 EBITDA or Price/FY19 Net profit of 9.33x and 50.52x
- The Group secured HK\$ 2bn through placing and subscription agreements; 130mn of shares (6.05% of enlarged share capital) were placed at HK\$ 15.5
- Our projected FY19-22E revenue CAGR rose to 30.5%
- Maintain **BUY**, current TP represents 39.40x/24.65x 20E/21E P/E, or 3.86x/3.48x 20E/21E P/B

Acquisition of two schools in Hainan. The Group announced the acquisition of Haikou University of Economics (海口經濟學院) and Affiliated Art School of Haikou University of Economics (海口經濟學院附屬藝術學校) via an entity owning these schools ("the Target"). The Group would acquire a 60% stake in the Target at a consideration for RMB 1,356mn. The Group had a cash balance of RMB 2,765.7mn as of end-Feb 2019 and has conducted a share placement to raise HK\$ 2bn, hence funding through internal resources would be sufficient. According to the Group, the EBITDA and net profit of the Target were RMB 242.1mn and RMB 44.7mn in FY19 (FY end: Aug 31). The implied total valuation represents Price/FY19 EBITDA and Price/ FY19 net profit of 9.33x and 50.52x. In addition, the Group will enter into a management contract with the Target that will provide the Group entitlement to 100% of the operating results of the Target until the end of Feb 2023.

Strong fundamentals of the acquired schools. According to the Group, enrollment in Haikou University of Economics was ~42k as of Dec 2019, of which 22k students were in regular higher education programs; annual enrollment quota for regular Bachelor's and Junior College programs in 2020 exceeds 11k. The Affiliated Art School of Haikou University of Economics is a vocational school with a total enrollment of 1.5k in 2019/20 school year. Total enrollment in the two schools was 43.5k, representing 23.9% of the Group's enrollment at 182k as of end-Feb 2020. Total revenue and net profit of the two schools are equivalent to 29.6% and 6.5% of the Group's respective total in FY19.

HK\$ 2bn funding from new share placement. The Group, through placing and subscription agreements, secured HK\$ 2bn. A total of 130mn of shares (6.05% of enlarged share capital) were placed at HK\$ 15.5. With the new funding, we believe the Group is better prepared financially for future expansions. We estimate Group's overall cash and cash equivalent level to reach RMB 3,311mn by end-FY20 and D/E ratio would be 47.2% by end-FY20. FY20E EPS would be 6.5% lower than our previous forecast due to the enlarged share number, but as we assume full consolidation of the two newly acquired schools starts in FY21E, our FY21E EPS forecast is 11.2% higher than that in our previous report.

Maintain BUY, TP at HK\$ 17.8. We estimate the Group's total revenue CAGR would reach 30.5% in FY19-22E mainly due to the new schools acquired, which would contribute to 16.4%/15.6% of total FY21E/FY22E revenue. Maintain **BUY**. Our DCF-derived TP represents 39.40x/24.65x 20E/21E P/E, or 3.86x/3.48x 20E/221E P/B.

Risk factors: 1) Growth risk; 2) Geographical concentration risk; 3) Acquisition risk; 4) Cost risk; 5) Education quality and student dropout risk; 6) Expansion risk; 7) Regulatory risk; 8) Liquidity risk; 9) Prolonged pandemic risk; 10) Increasing financial leverage; 11) EPS dilution from new share issuance.

Results and Valuation

FY ended Aug 31	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,294	1,955	2,618	3,808	4,344
Chg (YoY %)	N/A	51.08	33.94	45.44	14.06
Total Net Profit – to shareholders of the Company (RMB mn)	500	593	866	1,384	1,649
Chg (% YoY)	N/A	18.61	46.13	59.86	19.15
Basic EPS (RMB cents)	24.73	29.33	40.27	64.38	76.71
Change (YoY %)	N/A	18.61	37.29	59.86	19.15
P/E (x)	55.98	47.20	34.38	21.50	18.05
BVPS (RMB cents)	319.88	346.91	432.20	477.49	531.46
P/B (x)	4.33	3.99	3.20	2.90	2.61
Dividend (HK cents)	7.40	12.50	20.68	21.65	25.79
Dividend yield	0.53	0.90	1.49	1.56	1.86
ROAA (%)	N/A	5.71	5.26	7.28	7.93
ROAE (%)	N/A	9.30	11.20	14.79	15.83

Source(s): the Company, ABCI Securities estimates

Company Report

Aug 12, 2020

Rating: **BUY**

TP: HK\$ 17.8

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Share price (HK\$)	15.44
52WK H/L (HK\$)	17.32/8.9
Est. share price return	15.20%
Est. dividend yield	1.49%
Est. total returns	16.69%
Previous rating & TP	BUY/HK\$ 15.5
Previous report date	Jul 15, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued shares (mn)	2,020.22*
Mkt cap (HK\$ mn)	31,192.23*
3-mth avg ADT (HK\$mn)	100.34
Major Shareholders (%)	
Yu Guo	34.88
Xie Ketao	34.88

Note: shares and mkt cap data are before placement

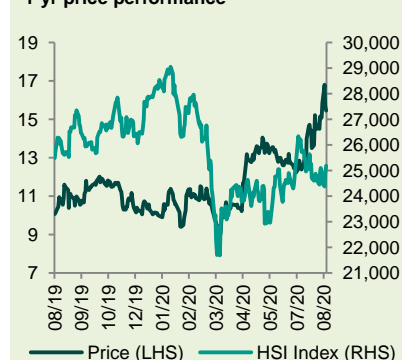
Source(s): Bloomberg, the Group, ABCI Securities

Price performance (%)

	Absolute	Relative (HSI)*
1-mth	24.72	26.60
3-mth	13.70	7.29
6-mth	35.81	42.82

Source(s): Bloomberg

1-yr price performance



Source(s): Bloomberg, ABCI Securities

Note: market data as of Aug 12, 2020

RMB/HKD= 1.1152



Exhibit 1: Changes in assumptions and valuations

FY ends at Aug 31	Current report		Previous report		Rationale
	FY20E	FY21E	FY20E	FY21E	
Assumptions					
GPM (%)	57.5	57.8	57.5	57.8	We assume consolidation of the newly acquired schools would increase finance costs, and reduce margins
Pretax margin (%)	34.5	37.5	34.5	38.0	
NPM (to shareholders of the Company) (%)	33.1	36.4	33.1	36.6	
D/E (%)	47.2	46.7	58.6	51.8	
D/A (%)	24.7	23.5	27.5	25.3	
Valuations					
TP (HK\$)	17.8		15.5		Change in TP and valuation mainly due to increased revenue brought by the newly acquired schools
P/E (x)	39.40	24.65	32.49	24.17	
P/B (x)	3.86	3.48	3.99	3.58	

Note: Previous report was published on Jul 15, 2020

Source(s): The Group, ABCI Securities estimates

Exhibit 2: Change in major forecasts

FY ends at Aug 31	Current report			Previous report			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue (RMB mn)	2,618	3,808	4,344	2,618	3,183	3,667	0.0	19.6	18.5
Net profit (to owners of the Company) (RMB mn)	866	1,384	1,649	866	1,163	1,463	0.0	19.0	12.7
EPS (RMB cent)	40.27	64.38	76.71	43.06	57.88	72.77	(6.5)	11.2	5.4

Note: Previous report was published on July 15, 2020

Source(s): ABCI Securities estimates



Financial statement of the Group

Consolidated income statement

FY ends at Aug 31 (RMB mn)	FY18E	FY19A	FY20E	FY21E	FY22E
Revenue	1,294	1,955	2,618	3,808	4,344
- Tuition fees	1,172	1,774	2,369	3,444	3,924
- Boarding fees	101	153	164	236	267
- Ancillary services	22	27	85	129	153
COGS	(497)	(833)	(1,113)	(1,608)	(1,825)
Gross profit	797	1,121	1,505	2,200	2,519
Selling expenses	(21)	(53)	(125)	(158)	(179)
Admin expenses	(212)	(353)	(366)	(555)	(638)
Others	34	56	156	219	257
Finance costs	(31)	(104)	(267)	(278)	(256)
Pretax profit	567	668	902	1,428	1,702
Tax	13	19	(32)	(37)	(44)
Net profit	579	687	870	1,391	1,658
- Profit attributable to shareholders	500	593	866	1,384	1,649
- Minority interest	43	95	4	7	8
Dividend	134	226	399	417	497
EPS (RMB cents)					
- Basic	24.73	29.33	40.27	64.38	76.71
- Diluted	24.62	29.20	40.10	64.10	76.37
DPS (HK cents)	7.40	12.50	20.68	21.65	25.79

Note. 1) The Group changed its FY-end to Aug 31 from Dec 31 in 2018 and only disclosed income statement data for Jan-Aug 2018; 2) FY18 data is calculated based on disclosures and our estimates

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Aug 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Bank balances and cash	1,738	3,497	3,311	1,848	1,892
Trade receivables, deposits, prepayments and other receivables	130	571	580	927	741
Others	190	839	1,066	949	995
Current assets	2,059	4,906	4,958	3,724	3,629
PP&E	3,259	5,851	7,175	9,185	9,916
LT Prepaid lease payment	63	1,051	0	0	0
Goodwill	917	1,566	1,566	2,706	2,706
Intangible assets	994	1,708	1,759	1,812	1,867
Others	1,442	257	2,327	2,988	3,286
Non-current assets	6,675	10,433	12,827	16,691	17,775
Total assets	8,733	15,339	17,784	20,415	21,403
ST Contracted liabilities	1,038	1,617	1,940	3,242	2,665
ST Borrowing	107	285	129	125	121
Trade payables, other payables and accrued expenses	546	1,530	1,530	1,586	1,439
Others	56	297	323	122	110
Current liabilities	1,747	3,729	3,923	5,075	4,336
LT Borrowing	130	1,838	2,148	2,595	3,119
Convertible bonds	0	2,144	2,112	2,080	2,049
Others	394	620	309	399	473
Non-current liabilities	524	4,602	4,568	5,073	5,640
Equity to owners of the Company	6,143	6,595	8,875	9,842	10,994
Minority interest	319	414	418	425	433
Equity	6,462	7,008	9,293	10,267	11,428
Total liabilities and equity	8,733	15,339	17,784	20,415	21,403

Note. The Group changed its FY-end to Aug 31 from Dec 31 in 2018

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Aug 31 (RMB mn)	FY18E	FY19A	FY20E	FY21E	FY22E
Net profit for the period	579	668	870	1,391	1,658
Depreciation	127	236	459	381	505
Change in working capital	481	44	255	79	258
Others	71	193	342	201	305
Cash flow from operating activities	1,258	1,141	1,927	2,052	2,726
Capex	(205)	(808)	(943)	(2,301)	(1,083)
Others	(2,585)	(1,460)	(625)	(930)	(1,334)
Cash flow from investing activities	(2,790)	(2,268)	(1,568)	(3,231)	(2,417)
Change in borrowings	86	4,030	122	411	489
Interest paid	(31)	(32)	(267)	(278)	(256)
Others	(28)	(1,188)	(399)	(417)	(497)
Cash flow from financing activities	27	2,810	(544)	(284)	(264)
Net change in cash	(1,505)	1,758	(185)	(1,463)	44
Cash and cash equivalent - beg	3,243	1,738	3,497	3,311	1,848
ForEx impact	22	74	87	112	54
Cash and cash equivalent - end	1,738	3,497	3,311	1,848	1,892

Note. 1) The Group changed its FY-end to Aug 31 from Dec 31 in 2018 and did not disclose FY18 cash flow data adjusted for the new FY-end

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Aug 31	FY18E	FY19E	FY20E	FY21E	FY22E
Growth (YoY %)					
Revenue	N/A	51.1	33.9	45.4	14.1
- Tuition fees	N/A	51.3	33.5	45.4	14.0
- Boarding fees	N/A	51.5	6.6	44.1	13.1
- Ancillary services	N/A	25.4	212.5	50.6	18.8
Gross profit	N/A	40.7	34.2	46.1	14.5
Pretax profit	N/A	17.9	35.0	58.2	19.2
Total net profit (to owners of the Company)	N/A	18.6	46.1	59.9	19.1
Profitability ratios (%)					
GPM	61.6	57.4	57.5	57.8	58.0
Pretax margin	43.8	34.2	34.5	37.5	39.2
Total NPM (to shareholders of the Company)	38.6	30.3	33.1	36.4	38.0
Revenue contribution (%)					
Tuition fees	90.6	90.7	90.5	90.4	90.3
Boarding fees	7.8	7.9	6.2	6.2	6.1
Ancillary services	1.7	1.4	3.3	3.4	3.5
Return ratios (%)					
ROAA	N/A	5.7	5.3	7.3	7.9
ROAE	N/A	9.3	11.2	14.8	15.8
Liquidity ratio (x)					
Current ratio	1.2	1.3	1.3	0.7	0.8
Cash ratio	1.0	0.9	0.8	0.4	0.4
Leverage ratios (%)					
Total debt to Equity	3.7	60.9	47.2	46.7	46.3
Total debt to Total assets	2.7	27.8	24.7	23.5	24.7
Net debt/(cash) to Equity	(23.2)	11.0	11.6	28.7	29.7
Net debt/(cash) to total assets	(17.2)	5.0	6.1	14.5	15.9

Note. 1) The Group changed its FY-end to Aug 31 from Dec 31 in 2018 and did not disclose FY17 figures

Source(s): The Group, ABCI Securities estimates



Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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