



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

# China Education Sector

## Robust Fundamentals to Foster Topline Growth

Jan 29, 2021





## China Education Sector

### Robust fundamentals to foster topline growth

- Room for growth is ample
- Supportive policy stance for private education industry reiterated; policy focus remains in the higher education segment
- After-school education segment would continue to see rising demand
- **OVERWEIGHT** sector; we prefer higher education segment and after-school education segment for their relatively low policy/regulatory uncertainty and strong fundamentals

**Market continues to provide room for growth.** In 2019, the total enrollment in China's formal education institutions increased to 282mn in 2019 from 276mn in 2018, up 2.4% YoY. Based on the national enrollment in 2019 in China and the enrollment figures of the listed players, we believe the private education segment still has room to expand.

**Supportive policy stance for private education industry reiterated.** The Notice by the MOE responding to a CPPCC proposal concerning amendments to the private education law reiterated the supportive stance for the private education segment, alleviating partially the concerns over pending legislation. In addition, policy focus remains on the higher education segment, particularly in the domain of vocational education. As the MOE has granted approval for the conversion process of several independent colleges, margins of higher education providers with independent colleges would improve in the future.

**Rising demand to support after-school education segment.** Enrollment rates gradually decrease as students advance to higher education levels; indeed, higher education has the lowest enrollment rate. We believe the competitive environment would prompt students to enroll in after-school education programs. However, the segment is facing more competition, which is evident in the rising marketing expenses of listed players.

**Sector recommendations.** We prefer the higher education segment and after-school education segment for their strong fundamentals, as reflected by their operation record, swift pandemic recovery, and lower exposure to policy/regulatory risks. For after-school education segment, our top picks are **New Oriental (EDU US/9901 HK)** and **TAL (TAL US)**, the market leaders in terms of revenue and student enrollment. Our top picks for the higher education segment are **CEG (839 HK)** and **Edvantage (382 HK)**.

**Risk factors:** 1) Macroeconomic risk; 2) Policy/regulatory uncertainty; 3) Pandemic risk; 4) Demographic risk; 5) Education quality risk; 6) Operational risk; 7) Non-GAAP financial metrics; 8) Lack of dividend payout; 9) EPS dilution risk; 10) Leverage risk.

## Sector Report

Jan 29, 2021

### OVERWEIGHT

Analyst : Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

#### Key Data (HK mkt)

Avg.21E P/E (x)	17.77
Avg.21E P/B (x)	3.68
Avg.21E Dividend Yield (%)	2.40

Source(s): Bloomberg, ABCI Securities

#### Key Data (US mkt)

Avg.21E P/E (x)	96.64
Avg.21E P/B (x)	6.61
Avg.21E Dividend Yield (%)	1.04

Source(s): Bloomberg, ABCI Securities

#### Sector Performance (HK) (%)

	Absolute	Relative*
1-mth	8.20	4.69
3-mth	5.83	(9.35)
6-mth	(0.82)	(16.87)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

#### Sector Performance (US) (%)

	Absolute	Relative*
1-mth	2.28	(0.51)
3-mth	8.55	(3.15)
6-mth	5.36	(11.56)

\*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

#### Sector Top Picks Valuation and Rating

Company	Ticker	Rating	Price	TP	Upside (%)	P/E(x) 21E	P/E(x) 22E	P/B (x) 21E	P/B (x) 22E	Yield(%) 21E	Yield(%) 22E	ROAE(%) 21E	ROAE(%) 22E
New Oriental	EDU US 9901 HK	BUY BUY	US\$167.00 HK\$ 1,317	US\$222.30 HK\$ 1,722.9	33.09 30.82	68.13 69.31	44.09 44.85	5.81 5.91	5.13 5.22	0.0 0.0	0.0 0.0	10.9	12.4
TAL	TAL US	BUY	US\$75.14	US\$89.70	19.42	262.94	111.90	10.38	9.50	0.0	0.0	5.0	8.9
CEG	839 HK	BUY	HK\$ 15.90	HK\$ 20.0	25.79	26.14	19.53	2.67	2.45	1.6	2.2	11.8	13.5
Edvantage	382 HK	BUY	HK\$ 8.99	HK\$ 13.1	45.60	17.62	11.98	3.43	2.67	2.0	3.0	21.8	25.0

Note: Data as of Jan 28, 2021; 2) New Oriental FY ends at May 30; 3) TAL FY ends at last day of Feb; 4) CEG and Edvantage FY end at Aug 31

Source(s): Bloomberg, ABCI Securities estimates



## 2021 education sector outlook

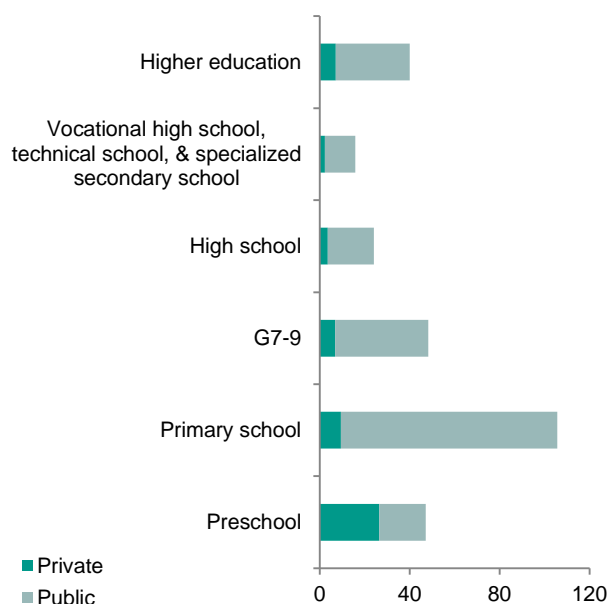
### Vast domestic market supports future growth

According to MOE, student enrollment in China's formal education system increased to 282mn in 2019 from 276mn in 2018, up 2.4% YoY. Total enrollment in preschool, primary school, G7-9, high school, and higher education increased by 1.2% YoY, 2.2% YoY, 3.8% YoY, 1.5% YoY, and 4.4% YoY to 47.1mn, 105.6mn, 48.3mn, 39.9mn, and 40.0mn in 2019.

Meanwhile, private formal education remains a relatively small part of the education industry in China compared to the public one. By student enrollment in 2019, public education still significantly outnumbered the private one except for the preschool education segment. CEG (839 HK), a leading higher education player, had a student enrollment of 241,600 as of Nov 30, 2020, which represents 0.6% of 2019 national higher education enrollment.

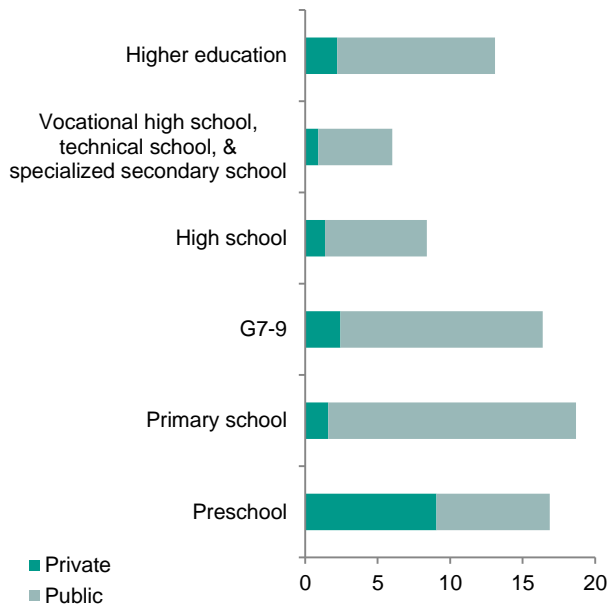
In addition, K-12 education market still has room for players to organically expand, as the leading players still represents a small fraction of the market. TAL (TAL US)'s student enrollment of normal priced long-term course (annualized figure derived from the quarterly average announced in FY20 annual report) and New Oriental (EDU US)'s student enrollment in academic subjects tutoring and test preparation courses in FY20 were 12,095k and 10,590k, which represent 5.0% and 4.4% of the total K-12 student enrollment of 240.9mn in 2019 in China.

**Exhibit 1: 2019 total student enrollment in China (mn ppl)**



Source(s): MOE, ABCI Securities

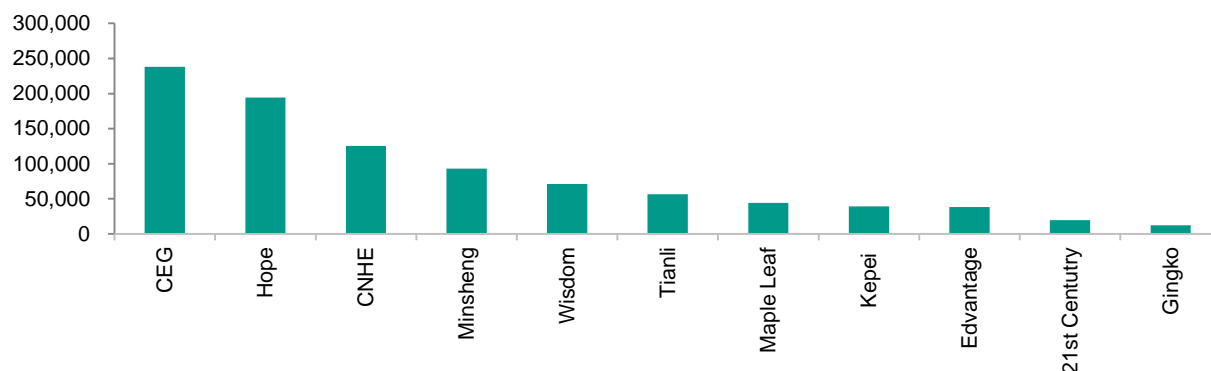
**Exhibit 2: 2019 new student enrollment in China (mn ppl)**



Source(s): MOE, ABCI Securities



**Exhibit 3: Student enrollment for 2020/21 school year announced by listed formal education players (ppl)**

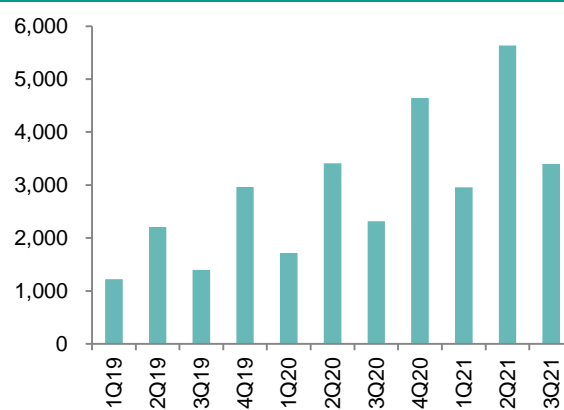
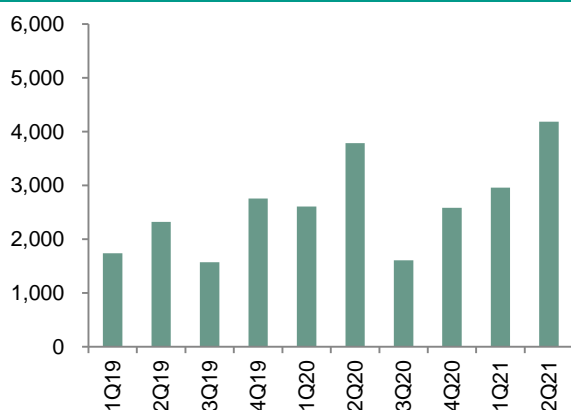


Source(s): Companies, ABCI Securities

**Exhibit 4: Student enrollment figures of leading players in after-school education segment (k ppl)**

New Oriental (EDU US)

TAL (TAL US)



Note: 1) New Oriental FY ends at May 30; 2) TAL FY ends at last day of Feb; 3) New Oriental's figures refer to enrollment in academic subjects tutoring and test preparation courses, 4) TAL figures refer to student enrollment of normal priced long-term course  
Source(s): Companies, ABCI Securities

### Supportive stance for the private education industry reiterated

The government's support for the private education industry has been reiterated in a Notice by the MOE responding to a CPPCC proposal concerning amendments to the private education law ("Notice"). The Notice specifically states the connected transactions within the education companies that comply with regulations are permitted and disclosure mechanism of connected transactions will be set up to prevent illegal appropriation of profits. The Notice also states the MOE would not set uniformed standards on implementation issues such as transition period and tax policy across the nation due to the varying regional situations. Moreover, the MOE would ensure fair treatment for both the for-profit and not-for-profit schools.

We believe the Notice has helped alleviate some of the investors' concerns over the pending formalization of Private Education Law, in particular, the legality of the VIE structure widely adopted by the listed education players. The abolishment of uniformed standard on implementation issues across the nation would provide more flexibility for the authorities in different regions to tailor the legislation based on the local situations. The emphasis on fair treatment for both for-profit and not-for-profit schools would provide a better environment for industry players.



## Higher education segment remains in policy spotlight

According to the Government Work Report released in early 2020, the targeted increase in higher education enrollment is 2mn in 2020-2021, and the number of people receiving technical training should exceed 35mn. Based on the higher education enrollment in 2019 of 40.02mn, the targeted growth by end-2022 is ~5%.

Furthermore, the Central Economic Work Conference held in Dec 2020 also emphasized the development of the vocational education system, which we believe would provide more opportunities for the private higher education players to expand their businesses.

## Conversion of independent colleges to boost margins

The MOE announced a total of 54 independent colleges eligible for conversion in late 2020. The independent colleges owned by CEG (839 HK) and Edvantage (382 HK) were among these schools. In Jan 2021, Edvantage (382 HK) announced it had obtained approval for conversion of Huashang College; CEG (839 HK) also announced it had successfully obtained approval for conversion of Chongqing Nanfang Translators College and Guangdong University Sontan College.

**Exhibit 5: Independent colleges that has been publicly notified to enter into conversion process**

Independent college	Conversion Status	Current owner
四川外国语大学重庆南方翻译学院 Chongqing Nanfang Translators College (CNTC) of SISU	Obtained approval	CEG (839 HK)
广州大学松田学院 Guangzhou University Sontan College	Obtained approval	
广东财经大学华商学院 Huashang College Guangdong University of Finance and Economics	Obtained approval	Edvantage (382 HK)

Source(s): MOE, Companies, ABCI Securities

After conversion, these schools will be completely separated from their sponsor schools, which means they can gradually reduce and eventually eliminate the sponsor fees. The exact amount of cost saved would depend on the contribution of each school to its parent group. In addition, the conversion would provide better operational consolidation as these schools would be fully controlled by their parent companies.

## “Survival of the fittest” means more demand for after school education service

Competition intensifies as students move to higher levels of education in China. According to the MOE, the gross enrollment rate at the higher education level was 51.6% in 2019, the lowest among all levels. The relatively low enrollment rate at higher education means students would need to excel in exams for admission, engendering the demand for quality after-school education programs. This trend would continue to benefit industry players, especially leaders with a vast school network and a reliable reputation.

**Exhibit 6: Admission rates in different levels of education in China**

	2015	2016	2017	2018	2019
Higher education	40.0	42.7	45.7	48.1	51.6
High school (G10-12)	87.0	87.5	88.3	88.8	89.5
Middle school (G7-9)	104.0	104.0	103.5	100.9	102.6
Primary school (G1-6)	99.88	99.92	99.91	99.95	99.94
Preschool	75.0	77.4	79.6	81.7	83.4

Note: Primary school uses net rate; others use gross rate

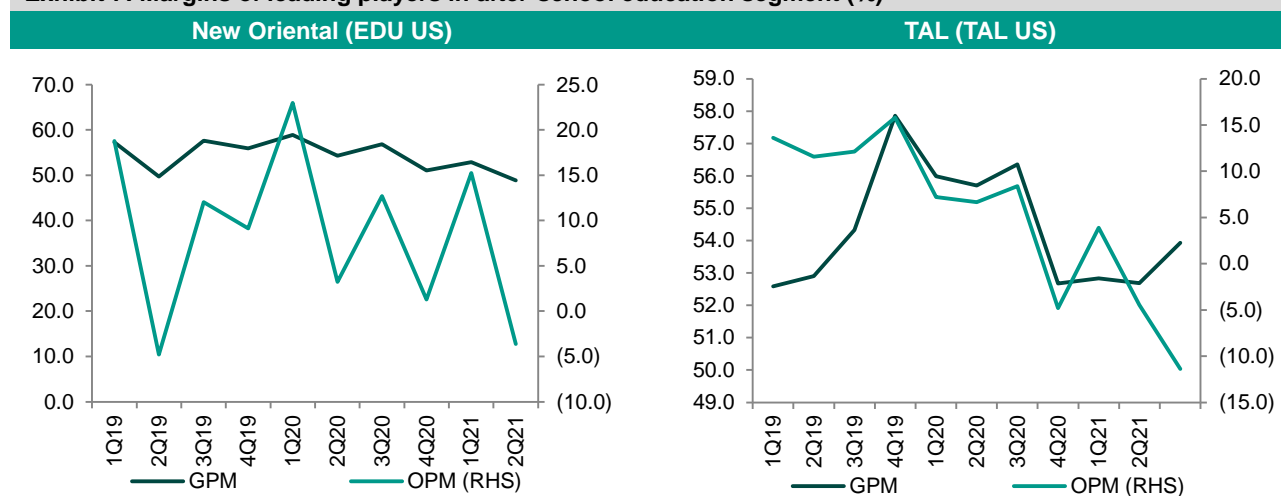
Source(s): MOE, ABCI Securities



### Competitive environment has led to more marketing efforts in the after-school education segment

Despite rising demand for after-school education services, the market competition has been intensifying, with operating expenses escalating among the leading players. In the quarter as of end-Nov 2020, TAL (TAL US)'s SG&A/net revenue ratio increased to 63.0%, while New Oriental (EDU US)'s SG&A/ net revenue ratio reached 52.5%. Both groups cited the increase in marketing efforts was the one of the reasons for such increases. For New Oriental (EDU US), increasing teachers' resulted in a lower GPM in the latest quarter. We believe the ease for students to switch schools and the increasing variety of offerings by the industry incumbents and new players would mean operating expenses would continue to rise in the short term. As a result, margin profiles of the players in the after-school education segment will likely suffer.

**Exhibit 7: Margins of leading players in after-school education segment (%)**



Note: 1) New Oriental FY ends at May 30; 2) TAL FY ends at last day of Feb  
Source(s): Companies, ABCI Securities

### Regional resurgence of pandemic adds uncertainty

In recent months, the emergence of new domestic COVID-19 cases has led to temporary disruption in certain regions in China. If the situation is not contained, the impact on the education sector can be significant.

Based on the events in 2020, we believe the formal education segment would be more defensive against disruption because tuition revenue can generally be secured through online teaching. The after-school education segment, however, are more adversely affected as offline teaching still remains the preferred method among students and reopening of offline teaching may be dependent on the approval by relevant authorities and the full reopening of local formal education institutions, based on the reopening protocol in 2020.





## Sector recommendation

We believe the higher education segment and the after-school education segment present more opportunities. For the higher education segment, supportive policies would create room for growth; also, the conversion of independent colleges would benefit the listed players through cost-saving. Market potential for the after-school education segment remains large, especially when the K-12 student population is much higher than the student population enrolled in the leading after-school education institutions.

Our top picks for the after-school education segment are **New Oriental (EDU US/9901 HK)** and **TAL (TAL US)**, the market leaders in terms of revenue and student enrollment. Our top picks for the higher education segment are **CEG (839 HK)** and **Edvantage (382 HK)** – the former is currently the market leader by student enrollment. Both players have portfolio schools in Guangdong, which could potentially benefit from the Greater Bay Area initiative.

**Exhibit 8: Valuation and rating of the sector top picks**

Name	Ticker	Rating	Price	TP	Upside (%)	P/E(x)		P/B (x)		Yield (%)		ROAA (%)		ROAE (%)	
						21E	22E	21E	22E	21E	22E	21E	22E	21E	22E
New Oriental	EDU US 9901 HK/	BUY	US\$167.00 HK\$ 1,317	US\$222.30 HK\$ 1,722.9	33.09 30.82	68.13 69.31	44.09 44.85	5.81 5.91	5.13 5.22	0.0 0.0	0.0 0.0	4.8 5.7	5.7 10.9	10.9 12.4	12.4
TAL	TAL US	BUY	US\$75.14	US\$89.70	19.42	262.94	111.90	10.38	9.50	0.0	0.0	1.9	3.0	5.0	8.9
CEG	839 HK	BUY	HK\$ 15.90	HK\$ 20.0	25.79	26.14	19.53	2.67	2.45	1.6	2.2	6.0	7.3	11.8	13.5
Edvantage	382 HK	BUY	HK\$ 8.99	HK\$ 13.1	45.60	17.62	11.98	3.43	2.67	2.0	3.0	10.5	12.2	21.8	25.0
<i>Average</i>						<u>88.83</u>	<u>46.47</u>	<u>5.64</u>	<u>4.99</u>	<u>0.73</u>	<u>1.04</u>	<u>5.8</u>	<u>7.0</u>	<u>12.4</u>	<u>14.9</u>

Note: 1) Data as of Jan 28, 2021; 2) New Oriental FY ends at May 30; 3) TAL FY ends at last day of Feb; 4) CEG and Edvantage FY ends at Aug 31

Source(s): Bloomberg, ABCI Securities estimates



## Risk factors

### Macroeconomic risk

The post-pandemic recovery has been substantial, but the average per capita spending has been lagging behind growth in income, showing a conservative attitude in consumption. The spending on “Education, cultural, & entertainment services” declined by 22.1% YoY in 2020. If the economic recovery is disrupted in 2021, spending on education may lessen further.

**Exhibit 9: Per capita average spending on “Education, cultural, & entertainment services”**

	1Q19	1H19	2019	1Q20	1H20	9M20	2020
Average spending (RMB)	548	1,033	2,513	350	664	1,276	2,592
Change (YoY %)	20.6	10.9	12.9	(36.1)	(35.7)	(27.7)	(22.1)

Source(s): NBS, ABCI Securities

### Policy/regulatory uncertainty

The education sector is still waiting for the formal legislation of Private Education Law, which would help clarify the regulatory guidelines for different segments in the industry. In addition, MOE has stated the relevant local authorities would determine the implementation measures applied based on the situations specific to each region, which means that schools in different provinces may need to comply with different regulations.

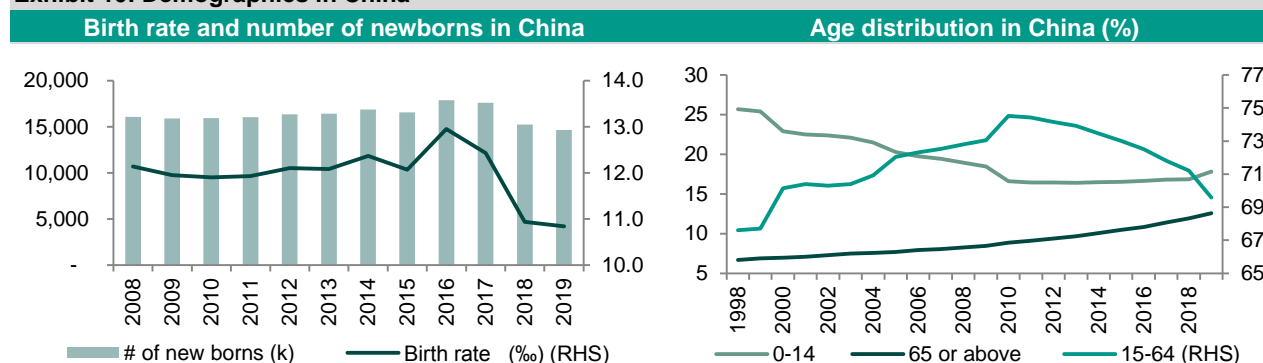
### Pandemic risk

Local cases of COVID-19 have emerged recently in China. If a national outbreak recurs, education players would face another round of lockdown and revenue loss. After-school education players would be affected the most, as in 2020. According to MOE, resumption of offline courses for after-school education providers would depend on the full reopening of local formal education schools.

### Demographic risk

In 2019, the Chinese population continued to age and number of newborns declined. Education sector would suffer if the number of newborns continues to drop or the population keeps aging, as the shrinking student population would reduce the potential market size of the industry.

**Exhibit 10: Demographics in China**



Source(s): NBS, ABCI Securities





### Education quality risk

Education quality is crucial for student retention and new student recruitment. If education players are unable to maintain the education quality of the courses offered, students may switch to other competitors – this is especially true for the after-school education players.

### Operational risk

The daily operations of education institutions involve unpredictable incidents, which include but not limited to accidents on campus and teacher/student's academic/personal misconducts. It is possible such incidents would result in reputational damage to schools.

### Non-GAAP financial metrics

Some education players also disclose non-GAAP financial metrics, which exclude the impact of share-based compensation expenses on operating costs and expenses. There are discrepancies between the reported figures and the non-GAAP figures. We believe investors should exercise caution when interpreting the non-GAAP financial metrics.

### Lack of dividend payout

Some education players lack a consistent track record of dividend payout. Dividend payout would affect the total return to investors. Companies without dividend payments are generally considered as less appealing to certain investors.

### EPS dilution risk

As some education players have recently conducted secondary listing or issued new shares, the increased number of shares would lead to EPS dilution.

### Leverage risk

Certain players have increased their leverage, which would increase the finance costs and ultimately impact the margin profile of these players.



## New Oriental (EDU US / 9901 HK) Returning to growth in 2Q21

- 2Q21 net revenue grew 13.1% YoY vs. 8.0% YoY decline in 1Q21; 2Q21 student enrollment was up 10.4%
- Margins impacted by increasing teachers' compensations, rental costs, and marketing expenses; 2Q21 OPM dropped to -3.6% from 3.2% in 1Q21
- HK-listing raised net proceeds of HK\$ ~11.5bn (US\$ ~1.48bn), which represents 56% of the cash and cash equivalent as of end-Nov 2020
- Expect FY19-22E revenue CAGR of 28.4%
- Maintain **BUY**; current TP represents 90.68x/58.68x 21E/22E P/E, or 7.73x/6.83x 21E/22E P/B

**Returning to growth in 2Q21.** 2Q21 recorded a net revenue growth of 13.1% YoY vs. 8.0% YoY decline in 1Q21. Net revenue of K-12 all-subject after-school tutoring business grew 26% YoY; net revenue of U-Can middle and high school all-subjects after-school tutoring business and POP Kids program grew 27% YoY and 24% YoY. Student enrollment was up 10.4% YoY to 4,183.1k, while the no. of schools and learning centers increased from 1,472 in 1Q21 to 1,518 2Q21. However, the increase in teachers' compensations, rental costs, and marketing expenses has led to higher operating costs, decreasing margins. GPM dropped from 52.9% in 1Q21 to 48.9% in 2Q21. The SG&A expenses/net revenue ratio rose from 37.6% in 1Q21 to 52.5% in 2Q21. As a result, 2Q21 OPM dropped to -3.6% from 15.2% in 1Q21, and non-GAAP OPM declined to -1.5% from 16.8% in 1Q21. We expect operating expenses would continue to rise in the short term amid competition.

**HK listing strengthens cash position.** The Group completed its HK listing in 2020 with an IPO price of HK\$ 1,190/ share and over-allotment option exercised. The total net amount raised was HK\$ ~11.5bn (US\$ ~1.48bn), representing 56% of cash and cash equivalent by end-Nov 2020. According to the Group, 40% of net proceeds would be used to enhance student learning experiences and improve the functions and efficiency of the OMO system and other learning platforms; 30% of net proceeds would be used for business growth and geographical expansion; 20% is for strategic investment and acquisition; 10% is for general corporate purpose and working capital needs.

**Maintain BUY; TP at US\$222.3/HK\$ 1,722.9.** The Group expects 3Q21 net revenue to reach US\$ 1,098.6mn-US\$ 1,144.8mn, which represents YoY growth of 19% - 24%. We expect FY20-23E revenue CAGR to be 28.8% with a student enrollment CAGR of 28.4%. However, we expect increase in marketing-related expenses and teachers' salary amid intensifying competition would put pressure on margins; GPM and NPM<sup>1)</sup> are expected to reach 57.6% and 12.7% in FY23E vs. 55.6% and 9.9% in FY20E. Maintain **BUY**. We raise DCF-derived TP mainly due to higher long-term growth projections. Current TP represents 90.68x/58.68x 21E/22E P/E, or 7.73x/6.83x 21E/22E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Regulatory risk; 3) Pandemic risk; 4) Demographic risk; 5) Rapidly changing industry; 6) Education quality risk; 7) Expansion risk; 8) Seasonality of business; 9) Concentration risk; 10) Non-GAAP financial metrics; 11) Lack of dividend payout; 12) EPS dilution from new share issuance.

### Results and Valuation

FY ended May 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	3,096	3,579	4,342	5,669	7,582
Chg (% YoY)	26.5	15.6	21.3	30.6	33.7
Net profit (US\$ mn) <sup>(1)</sup>	238	413	417	645	977
Chg (% YoY)	(19.6)	73.6	0.9	54.5	51.5
EPS (US\$)	1.50	2.61	2.45	3.79	5.74
Chg (% YoY)	(19.8)	74.0	(6.1)	54.5	51.5
BVPS (US\$)	14.9	17.3	28.8	32.5	38.3
Chg (% YoY)	18.4	15.8	66.4	13.2	17.6
P/E (x) – US	111.33	63.98	68.13	44.09	29.10
P/E (x) – HK	113.27	65.10	69.31	44.85	29.60
P/B (x) – US	11.20	9.67	5.81	5.13	4.36
P/B (x) – HK	11.39	9.83	5.91	5.22	4.44
ROAA (%)	5.3	6.3	4.8	5.7	7.0
ROAE (%)	10.9	16.2	10.9	12.4	16.2
DPS (US\$)	0	0	0	0	0
Yield (%) – US	0.0	0.0	0.0	0.0	0.0
Yield (%) – HK	0.0	0.0	0.0	0.0	0.0

Note: Each ADS represents one common share

Source(s): The Company, ABCI Securities estimates

## Company Report

Jan 29, 2021

Rating (US): BUY  
Rating (HK): BUY  
TP (US): US\$ 222.3  
TP (HK): HK\$ 1,722.9

Analyst: Paul Pan  
Tel: (852) 2147 8829  
paulpan@abci.com.hk

Price (US/HK)	US\$ 167.0/HK\$ 1,317
Est. price return (US/HK)	33.09%/30.82%
Est. dividend yield (US/HK)	0%/0%
Est. total return (US/HK)	33.09%/30.82%
Last Rating & TP (US)	BUY/US\$ 185.6
Previous Report Date	Oct 14, 2020

Source(s): Bloomberg, ABCI Securities estimate

### Key Data

52Wk H/L (US\$) (US shr)	187.43/102.01
52Wk H/L (HK\$) (HK shr)	1,445/1,219
Total issued shares (mn)	170.2
Issued US shr (mn)	160.4
Issued HK shr (mn)	9.8
US-shr market cap (US\$ mn)	26,781
H-shr market cap (HK\$ mn)	12,907
3-mth avg daily turnover (US\$ mn) (US shr)	194.33
Avg daily turnover since IPO (HK\$ mn) (HK shr)	127.56
Major shareholder(s) (%):	
Minhong Yu	11.6

Source(s): Bloomberg, ABCI Securities

### Price performance – US (%)

	Absolute	Relative*
1-mth	(2.62)	(4.11)
3-mth	0.66	(15.59)
6-mth	23.26	4.62

\*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

### Price performance – HK (%)

	Absolute	Relative*
1-mth	(5.39)	(11.25)
3-mth	N/A	N/A
6-mth	N/A	N/A

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

1) refers to net profit to shareholders of the Company;

2) US\$/HK\$= 7.7516;

3) Market data as of Jan 28, 2021



### Exhibit 1: Changes in assumptions and valuations

Exhibit 1: Changes in assumptions and valuations					
As of May 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
<b>Assumptions</b>					
D/E (%)	6.0	5.2	3.7	3.6	Adjusted based on 2Q21 results
D/A (%)	2.8	2.5	1.6	1.5	
Tax rate (%)	26.8	26.5	26.8	26.5	N/A
Revenue growth (YoY %)	21.3	30.6	21.3	30.6	N/A
<b>Valuations</b>					
TP (US\$)	222.3		185.6		Increase in TP due to better long-term growth outlook after FY22E resulting in overall valuation increase
P/E (x)	90.68	58.68	62.80	43.36	
P/B (x)	7.73	6.83	9.17	7.57	

Note: Previous report was published on Oct 14, 2020

Source(s): ABCI Securities estimates

### Exhibit 2: Changes in major forecasts

As of May 31	Current report			Previous report			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue (US\$ mn)	4,342	5,669	7,582	4,342	5,669	7,482	0.0	0.0	1.3
Net profit (to owners of the Company) (US\$ mn)	417	645	977	468	678	961	(10.9)	(4.9)	1.6
EPS (US\$)	2.45	3.79	5.74	2.95	4.28	6.07	(16.91)	(11.50)	(5.44)

Source(s): ABCI Securities estimates



## Financial statements

### Consolidated income statement

As of May 31 (US\$ mn, except per share data)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net revenue</b>	<b>3,096</b>	<b>3,579</b>	<b>4,342</b>	<b>5,669</b>	<b>7,582</b>
Cost of revenue	(1,376)	(1,589)	(1,996)	(2,526)	(3,212)
<b>Gross profit</b>	<b>1,720</b>	<b>1,990</b>	<b>2,346</b>	<b>3,143</b>	<b>4,370</b>
Selling and marketing expenses	(384)	(445)	(554)	(738)	(988)
General and admin expenses	(1,034)	(1,146)	(1,422)	(1,849)	(2,426)
Gain/loss on disposal of subsidiaries	4	0	0	0	0
<b>Operating profit</b>	<b>306</b>	<b>399</b>	<b>370</b>	<b>556</b>	<b>956</b>
Other income, net	10	89	197	314	355
<b>Profit before tax provision and gain(loss) from investments</b>	<b>316</b>	<b>488</b>	<b>567</b>	<b>870</b>	<b>1,311</b>
Tax	(86)	(134)	(152)	(231)	(347)
Income/(Loss) from equity method investments	(2)	1	(1)	(1)	(1)
<b>Net profit</b>	<b>228</b>	<b>355</b>	<b>414</b>	<b>639</b>	<b>964</b>
- Owners	238	413	417	645	977
- MI	(10)	(58)	(3)	(6)	(12)
<b>Net profit per common share/ADS (US\$)</b>					
- Basic	1.50	2.61	2.45	3.79	5.74
- Diluted	1.50	2.59	2.43	3.75	5.69

Note: Each ADS represents one common share

Source(s): The Company, ABCI Securities estimates

### Consolidated balance sheet

As of May 31 (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash, cash equivalents, and restricted cash	1,414	915	3,110	3,364	4,236
ST investments	1,669	2,318	2,802	3,639	4,470
Others	383	523	812	952	1,374
<b>Current assets</b>	<b>3,466</b>	<b>3,756</b>	<b>6,724</b>	<b>7,955</b>	<b>10,080</b>
PP&E	532	672	817	877	1,328
LT investments	405	431	574	637	745
Right-of-use assets	0	1,425	2,125	1,842	2,789
Others	244	271	432	492	646
<b>Non-current assets</b>	<b>1,180</b>	<b>2,800</b>	<b>3,948</b>	<b>3,849</b>	<b>5,509</b>
<b>Total assets</b>	<b>4,647</b>	<b>6,557</b>	<b>10,672</b>	<b>11,804</b>	<b>15,589</b>
Deferred revenue	1,301	1,324	2,203	2,288	3,621
Others	705	1,155	1,481	1,957	2,609
<b>Current liabilities</b>	<b>2,006</b>	<b>2,479</b>	<b>3,684</b>	<b>4,245</b>	<b>6,231</b>
LT borrowing & unsecured senior note	96	118	299	294	292
Deferred tax liabilities	19	12	31	25	51
Non-current lease liabilities	0	1,078	1,635	1,579	2,391
<b>Non-current liabilities</b>	<b>115</b>	<b>1,208</b>	<b>1,965</b>	<b>1,899</b>	<b>2,733</b>
Shareholders' capital	2,361	2,737	4,892	5,537	6,514
MI	164	133	130	124	111
<b>Total equity</b>	<b>2,525</b>	<b>2,870</b>	<b>5,022</b>	<b>5,661</b>	<b>6,625</b>
<b>Total liabilities and equity</b>	<b>4,647</b>	<b>6,557</b>	<b>10,672</b>	<b>11,804</b>	<b>15,589</b>

Source(s): The Company, ABCI Securities estimates



### Consolidated cash flow statement

As of May 31 (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	228	355	414	639	964
Depreciation and amortization	114	151	164	209	276
Change in working capital	311	191	870	528	1,537
Others	153	107	52	58	64
<b>Cash flow from operating activities</b>	<b>806</b>	<b>804</b>	<b>1,500</b>	<b>1,433</b>	<b>2,841</b>
Change in PP&E and land use right	(260)	(285)	(402)	(528)	(629)
Change in investments	(245)	(800)	(481)	(398)	(938)
Others	(70)	(172)	(231)	(105)	(313)
<b>Cash flow from investing activities</b>	<b>(575)</b>	<b>(1,256)</b>	<b>(1,114)</b>	<b>(1,032)</b>	<b>(1,881)</b>
Change in borrowing	96	20	181	(5)	(3)
Others	170	(38)	1,524	(138)	(152)
<b>Cash flow from financing activities</b>	<b>267</b>	<b>(18)</b>	<b>1,705</b>	<b>(143)</b>	<b>(155)</b>
Effect of foreign exchange rate changes	(66)	(29)	56	(2)	35
Net change in cash, cash equivalent, and restricted cash	431	(499)	2,146	257	841
<b>cash, cash equivalent, and restricted cash - end</b>	<b>1,418</b>	<b>919</b>	<b>3,121</b>	<b>3,376</b>	<b>4,252</b>

Source(s): The Company, ABCI Securities estimates

### Key operating and financial ratios

As of May 31	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Growth (YoY %)</b>					
Net revenue	26.5	15.6	21.3	30.6	33.7
Gross profit	24.5	15.7	17.9	34.0	39.0
Operating profit	16.2	30.6	(7.2)	50.2	71.9
Net profit (to shareholders of the Company)	(19.6)	73.6	0.9	54.5	51.5
<b>Profitability ratios (%)</b>					
GPM	55.6	55.6	54.0	55.4	57.6
OPM	9.9	11.1	8.5	9.8	12.6
NPM (to owners of the Company)	7.4	9.9	9.5	11.3	12.7
Non-GAAP OPM	12.2	12.9	10.2	11.4	14.1
Non-GAAP NPM (to owners of the Company)	13.3	13.5	11.3	13.0	14.4
<b>Return ratios (%)</b>					
ROAA	5.3	6.3	4.8	5.7	7.0
ROAE	10.9	16.2	10.9	12.4	16.2
<b>Liquidity ratio (x)</b>					
Current ratio	1.7	1.5	1.8	1.9	1.6
Cash ratio	0.8	0.5	1.0	0.9	0.8
<b>Leverage ratios (%)</b>					
Total debt to Equity	3.8	4.1	6.0	5.2	4.4
Total debt to Total assets	2.1	1.8	2.8	2.5	1.9
Net debt/(cash) to Equity	(56.5)	(37.7)	(66.2)	(65.2)	(73.6)
Net debt/(cash) to Total assets	(30.7)	(16.5)	(31.2)	(31.3)	(31.3)

Note: Non-GAAP measures exclude the impact of share-based compensation expenses on operating costs and expenses

Source(s): The Company, ABCI Securities estimates



## TAL (TAL US)

### 3Q21 net revenue grew by 35.0% YoY

- 3Q21 net revenue was up by 35.0% YoY, beating the Group's guidance of 28%-32% increase YoY; total student enrollment of normal priced long-term course jumped 46.5% YoY
- 3Q21 GPM was at 53.9% vs. 52.7% in 2Q21; SG&A expenses put pressure on OPM and NPM (to shareholders), which were -11.4% and -3.9% in 3Q21
- The Group raised US\$ 3.3bn through private placement, which represents ~78% of cash and cash equivalent as of end-3Q21
- Maintain **BUY**; current TP represents 314.01x/133.64x 21E/22E P/E, or 12.39x/11.34x 21E/22E P/B

**3Q21 revenue grew by 35.0%.** 3Q21 net revenue reached US\$ 1,119mn, beating the guidance of US\$ 1,061.1mn-1,094.3mn. Student enrollment of normal priced long-term course increased by 46.5% YoY, supporting revenue growth. Despite an improved GPM of 53.9% in 3Q21 vs. 52.7% in 2Q21, the SG&A expenses/net revenue ratio rose to 63.0%, resulting in OPM of -11.4% and NPM (to shareholders of the Company) of -3.9%.

**Private placement to raise US\$ 3.3bn.** The Group recently announced that it would raise US\$ 3.3bn through private placement, of which US\$ 2.3bn was in convertible notes and US\$ 1bn was in newly-issued Class A Common shares. The convertible notes portion was led by the PE firm Silver Lake. The amount raised in this placement represents ~78% of cash and cash equivalent as of end-3Q21. We believe the additional funding would help prepare for future expansion.

**Maintain BUY; TP at US\$ 89.7/ADS.** We believe the growth in revenue and student enrollment in 3Q21 is a result of the successful implementation of expansion strategy. We raise our FY20-23E revenue CAGR to 40.5%. In contrast, we lower our margin projections since expansion will demand higher SG&A expenses as shown in 3Q21 results. We expect GPM and NPM (to shareholders of the Company) to increase from 55.1% and -3.4% in FY20 to 56.7% and 7.8% in FY23E. We increase our DCF-derived TP mainly on the higher net revenue growth forecasts. Current TP represents 314.01x/133.64x 21E/22E P/E, or 12.39x/11.34x 21E/22E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Regulatory risk; 3) Pandemic risk; 4) Demographic risk; 5) Changing industry landscape; 6) Education quality risk; 7) Expansion risk; 8) Seasonality of business; 9) High growth of SG&A expenses may reduce profitability; 10) Non-GAAP financial metrics; 11) Lack of dividend payout; 12) Dual-class voting structure; 13) EPS dilution from new share issuance.

#### Results and Valuation

	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	2,563	3,273	4,461	6,628	9,081
Chg (YoY %)	49.4	27.7	36.3	48.6	37.0
Net Profit – to shareholders of the Company (US\$ mn)	367	(110)	173	407	704
Change (% YoY)	85.1	(130.0)	N/A	135.0	73.0
Basic net profit per common share (US\$)	1.93	(0.56)	0.86	2.01	3.48
Change (YoY %)	70.8	(129.0)	N/A	135.0	73.0
Basic net profit per ADS (US\$)	0.64	(0.19)	0.29	0.67	1.16
Change (YoY %)	68.4	(129.7)	N/A	135.0	73.0
P/E (x)	117.41	(395.47)	262.94	111.90	64.68
BVPS (US\$)	13.08	12.69	21.72	23.74	27.22
P/B (x)	17.24	17.76	10.38	9.50	8.28
Dividend (US\$)	0	0	0	0	0
Dividend yield (%)	0	0	0	0	0
ROAA (%)	10.7	(2.7)	1.9	3.0	4.2
ROAE (%)	17.9	(4.4)	5.0	8.9	13.7

Note: FY ends on the last day of Feb

Source(s): The Company, ABCI Securities estimates

## Company Report

Jan 29 2021

Rating: BUY

TP: US\$ 89.7

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	75.14
52WK H/L (HK\$)	84.43/45.15
Est. share price return	19.42%
Est. dividend yield	0.00%
Est. total returns	19.42%
Previous rating&TP	BUY/US\$ 80.0
Previous report date	Oct 23, 2020

Source(s): Bloomberg, ABCI Securities estimates

#### Key data

# of ADS – Class A (mn)	399.50
Class A mkt cap (US\$ mn)	45,108.59
3-mth avg ADT (US\$mn)	216.15
Major shareholders (%)	
Bright Unison Limited	24.0

Source(s): Bloomberg, ABCI Securities

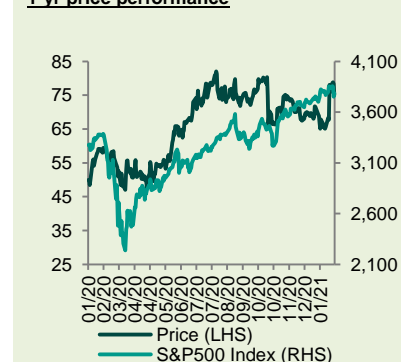
#### Price performance (%)

	Absolute	Relative*
1-mth	10.50	9.00
3-mth	12.96	(3.29)
6-mth	(4.51)	(23.15)

Note: relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

#### 1-yr price performance



Source(s): Bloomberg, ABCI Securities

Note: 1) Market data as of Jan 28, 2021; 2) Three ADSs represent one Class A common Share





### Exhibit 1: Changes in assumptions and valuations

	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
D/E (%)	58.7	53.1	10.0	9.8	Higher leverage due to convertible bonds issued
D/A (%)	20.3	17.4	3.3	3.1	
Tax rate (%)	19.5	19.7	19.5	19.7	N/A
Revenue growth (YoY %)	36.3	48.6	35.1	44.5	Adjusted based on 3Q21 results
Valuations					
TP (HK\$)	89.7		80.0		Higher TP due to higher net revenue growth projections that offset margin changes resulting in overall valuation increase
P/E (x)	314.01	133.64	178.39	83.97	
P/B (x)	12.39	11.34	17.27	14.32	

Note: FY ends on the last day of Feb

Source(s): ABCI Securities estimates

### Exhibit 2: Changes in major forecasts

	Current report			Previous report			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue (US\$ mn)	4,461	6,628	9,081	4,423	6,390	8,737	0.87	3.73	3.94
Net profit (to owners of the Company) (US\$ mn)	173	407	704	270	573	863	(35.8)	(29.0)	(18.4)
EPS (US\$)	0.86	2.01	3.48	1.35	2.86	4.30	(36.5)	(29.6)	(19.0)

Note: Previous report issued on Oct 23, 2020; FY ends on the last day of Feb

Source(s): ABCI Securities estimates



## Financial statements

### Consolidated income statement

(US\$ mn, except per share data)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net revenue</b>	<b>2,563</b>	<b>3,273</b>	<b>4,461</b>	<b>6,628</b>	<b>9,081</b>
Cost of revenue	(1,164)	(1,469)	(2,047)	(2,905)	(3,936)
<b>Gross profit</b>	<b>1,399</b>	<b>1,805</b>	<b>2,415</b>	<b>3,723</b>	<b>5,144</b>
Selling and marketing expenses	(484)	(853)	(1,349)	(2,056)	(2,628)
General and admin expenses	(580)	(795)	(1,076)	(1,543)	(2,101)
Others	7	(20)	21	32	48
<b>Operating profit</b>	<b>342</b>	<b>137</b>	<b>11</b>	<b>156</b>	<b>464</b>
Net financial expenses	42	61	198	346	390
Other gains/(losses)	74	(249)	15	23	45
<b>Pretax profit</b>	<b>457</b>	<b>(51)</b>	<b>224</b>	<b>524</b>	<b>898</b>
Tax	(77)	(69)	(44)	(103)	(171)
Loss from equity method investments	(16)	(8)	(10)	(9)	(9)
<b>Net profit</b>	<b>365</b>	<b>(128)</b>	<b>170</b>	<b>411</b>	<b>719</b>
- Owners	367	(110)	173	407	704
- MI	(3)	(17)	(3)	4	15
<b>Net profit per common share (US\$)</b>					
- Basic	1.93	(0.56)	0.86	2.01	3.48
- Diluted	1.83	(0.56)	0.86	2.01	3.48
<b>Net profit per common ADS (US\$)</b>					
- Basic	0.64	(0.19)	0.29	0.67	1.16
- Diluted	0.61	(0.19)	0.29	0.67	1.16

Note: 1) Three ADSs represent one Class A common Share; 2) FY ends on the last day of Feb

Source(s): The Company, ABCI Securities estimates

### Consolidated balance sheet

(US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash, cash equivalents, and restricted cash	1,247	1,874	7,031	7,493	10,234
ST investments	268	345	408	452	368
Others	230	276	414	537	757
<b>Current assets</b>	<b>1,746</b>	<b>2,496</b>	<b>7,853</b>	<b>8,483</b>	<b>11,359</b>
Property and equipment	288	367	647	842	1,249
Goodwill	414	379	523	523	523
Intangible assets	75	59	81	76	98
Operating lease right-of-use assets	0	1,244	2,134	2,780	4,121
Others	1,212	1,027	1,557	2,039	2,293
<b>Non-current assets</b>	<b>1,989</b>	<b>3,075</b>	<b>4,942</b>	<b>6,260</b>	<b>8,285</b>
<b>Total assets</b>	<b>3,735</b>	<b>5,571</b>	<b>12,795</b>	<b>14,743</b>	<b>19,644</b>
ST Deferred revenue	434	780	2,071	2,303	3,583
ST Operating lease liabilities	0	305	538	701	1,039
Others	750	721	1,431	2,096	3,570
<b>Current liabilities</b>	<b>1,184</b>	<b>1,807</b>	<b>4,040</b>	<b>5,099</b>	<b>8,192</b>
LT borrowing & convertible bond	0	262	2,593	2,561	2,584
LT Operating lease liabilities	0	950	1,676	2,183	3,236
Others	21	9	70	73	86
<b>Non-current liabilities</b>	<b>21</b>	<b>1,220</b>	<b>4,339</b>	<b>4,817</b>	<b>5,905</b>
Shareholders' capital	2,484	2,516	4,389	4,796	5,500
MI	47	28	25	29	44
<b>Total equity</b>	<b>2,530</b>	<b>2,544</b>	<b>4,414</b>	<b>4,826</b>	<b>5,545</b>
<b>Mezzanine equity</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total liabilities and equity</b>	<b>3,735</b>	<b>5,571</b>	<b>12,795</b>	<b>14,743</b>	<b>19,644</b>

Note: FY ends on the last day of Feb

Source(s): The Company, ABCI Securities estimates



### Consolidated cash flow statement

(US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	365	(128)	170	411	719
Depreciation and amortization	89	118	135	197	285
Change in working capital	(272)	442	1,482	353	1,983
Others	13	423	320	355	573
<b>Cash flow from operating activities</b>	<b>194</b>	<b>856</b>	<b>2,108</b>	<b>1,317</b>	<b>3,560</b>
Change in property and equipment	(137)	(178)	(281)	(418)	(569)
Change in investments	283	(86)	(164)	(70)	135
Others	(313)	(76)	(124)	(119)	(141)
<b>Cash flow from investing activities</b>	<b>(167)</b>	<b>(339)</b>	<b>(569)</b>	<b>(606)</b>	<b>(576)</b>
Change in bank borrowing	(15)	61	14	68	13
Others	490	71	3,542	(332)	(347)
<b>Cash flow from financing activities</b>	<b>475</b>	<b>131</b>	<b>3,556</b>	<b>(264)</b>	<b>(334)</b>
Effect of foreign exchange rate changes	33	3	40	19	93
Net change in cash, cash equivalent, and restricted cash	267	536	651	5,095	446
<b>cash, cash equivalent, and restricted cash - end</b>	<b>1,264</b>	<b>1,915</b>	<b>7,051</b>	<b>7,516</b>	<b>10,259</b>

Note: FY ends on the last day of Feb

Source(s): The Company, ABCI Securities estimates

### Key operating and financial ratios

	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Growth (YoY %)</b>					
Net revenue	49.4	27.7	36.3	48.6	37.0
Gross profit	68.0	29.0	33.8	54.2	38.2
Operating profit	63.7	(59.8)	(92.1)	1,336.3	197.7
Net profit (to shareholders of the Company)	85.1	(130.0)	N/A	135.0	73.0
Non-GAAP operating profit	63.8	(39.0)	(36.4)	128.3	103.4
Non-GAAP net profit (to shareholders of the Company)	81.0	(98.3)	4,093.2	91.5	59.9
<b>Profitability ratios (%)</b>					
GPM	54.6	55.1	54.1	56.2	56.7
OPM	13.3	4.2	0.2	2.4	5.1
NPM (to owners of the Company)	14.3	(3.4)	3.9	6.1	7.8
Non-GAAP OPM	16.3	7.8	3.6	5.6	8.3
Non-GAAP NPM (to owners of the Company)	17.3	0.2	7.3	9.4	11.0
<b>Return ratios (%)</b>					
ROAA	10.7	(2.7)	1.9	3.0	4.2
ROAE	17.9	(4.4)	5.0	8.9	13.7
<b>Liquidity ratio (x)</b>					
Current ratio	1.5	1.4	1.9	1.7	1.4
Cash ratio	1.1	1.1	1.7	1.5	1.3
<b>Leverage ratios (%)</b>					
Total debt to Equity	8.5	10.3	58.7	53.1	46.6
Total debt to Total assets	5.8	4.7	20.3	17.4	13.2
Net debt/(cash) to Equity	(41.4)	(65.0)	(100.9)	(102.6)	(138.4)
Net debt/(cash) to Total assets	(28.1)	(29.7)	(34.8)	(33.6)	(39.1)

Note: 1) FY ends on the last day of Feb; 2) FY20 net profit (to shareholders of the Company) is negative; 3) Non-GAAP measures exclude the impact of share-based compensation expenses on operating costs and expenses

Source(s): The Company, ABCI Securities estimates



## CEG (839 HK)

### New funding to help expansion

- Top-up placing of existing shares and subscription for new shares would help the Group raise net proceeds of HK\$ ~2,012.6mn, which represents 58.5% of the Group's cash and cash equivalent as of end-Aug 2020
- FY20 revenue and enrollment increased by 37.0% YoY and 6% YoY; overseas expansion further enhanced the Group's results
- More growth will be fostered by acquisition of Haikou University of Economics, campus expansion, and conversion of independent colleges
- Maintain **BUY**; current TP represents 32.88x/24.57x 21E/22E P/E, or 3.35x/3.08x FY21E/22E P/B

**Fundraising through top-up placing of existing shares and subscription for new shares.** The arrangement will help the Group raise HK\$ ~2,012.6mn, which represents 58.5% of the Group's cash and cash equivalent as of end-Aug 2020. After completing the placing and subscription, the placees and other public shareholders would hold 5.37% and 28.63% of the Group's total enlarged issued shares. We believe the new funding would help the Group in future expansion.

**FY20 revenue growth reached 37.0% YoY.** Such growth was supported by the 38.3% YoY, 17.4% YoY, and 65.2% YoY growth in tuition fees, boarding fees, and ancillary services. As of end-FY20, student enrollment grew by 6% YoY to 180.2k, thanks to the 7.6% YoY increase in higher education segment and the 3,788 enrollment additions from the global education segment after the acquisition of overseas schools.

**Growth boosters in near future.** The Group's acquisition of Haikou University of Economics (HUE) would boost FY21 results due to financial consolidation. The Group's total enrollment, including HUE, was ~238k as of Dec 2020. In the summer of 2021, phase two of Guangdong Baiyun University would be in operation, increasing enrollment capacity by 18k. Phase one of the new campus of Guangzhou Songtian University is expected to commence operation in Sep 2021, adding 13k in enrollment capacity. Moreover, conversion of portfolio independent colleges would help improve margins as sponsor fees would be reduced and eventually be eliminated. In Jan 2020, Chongqing Nanfang Translators College and Guangzhou University Songtian College have already gained the conversion approval from MOE.

**Maintain BUY, TP at HK\$ 20.0.** We believe the Group would see healthy growth as a result of its acquisition and internal expansion. We expect FY20-23E revenue CAGR of 20.7%. Student enrollment and revenue per student during the same period are expected to expand at 15.8% and 4.2% CAGRs. Financial results of Haikou University of Economics, CEG's recent acquisition, would be consolidated into the financial statements starting from FY21. We project the Group's GPM/NPM (to shareholders of the Group) to increase from 59.8%/23.6% in FY20 to 59.8%/37.2% in FY23E. We expect the positive impacts of the independent college conversion would be reflected in FY22E results where GPM and NPM (to shareholders of the Group) are estimated to reach 59.6% and 35.5%. We roll over our DCF forecasts by one year and our DCF-derived TP rises to HK\$ 20.0 as a result. Current TP represents 32.88x/24.57x 21E/22E P/E, or 3.35x/3.08x 21E/22E 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) EPS dilution of share placement.

#### Results and Valuation

FY ended Aug 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,955	2,678	3,809	4,355	4,709
Chg (YoY %)	51.08	37.00	42.22	14.35	8.12
Total Net Profit – to shareholders of the Company (RMB mn)	593	633	1,155	1,546	1,750
Chg (% YoY)	18.61	6.85	82.45	33.83	13.18
Basic EPS (RMB cents)	29.33	31.28	50.84	68.04	77.00
Change (YoY %)	18.61	6.63	62.52	33.83	13.18
P/E (x)	45.30	42.48	26.14	19.53	17.26
BVPS (RMB cents)	346.91	414.25	498.31	542.27	592.02
P/B (x)	3.83	3.21	2.67	2.45	2.24
Dividend (HK cents)	12.50	27.30	21.83	29.22	33.07
Dividend yield	0.94	2.05	1.64	2.20	2.49
ROAA (%)	5.71	4.26	5.97	7.27	7.61
ROAE (%)	9.30	8.35	11.81	13.47	13.96

Source(s): The Company, ABCI Securities estimates

## Company Report

Jan 29, 2021

Rating: **BUY**

TP: HK\$ 20.0

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	15.90
52WK H/L (HK\$)	18.94/8.9
Est. share price return	25.79%
Est. dividend yield	1.64%
Est. total returns	27.43%
Previous rating&TP	BUY/HK\$ 17.8
Previous report date	Aug 12, 2020

Source(s): Bloomberg, ABCI Securities estimates

#### Key data

Issued shares (mn)	2,150.52
Mkt cap (HK\$ mn)	34,193.30
3-mth avg ADT (HK\$mn)	126.22
Shareholding (%)	
Blue Sky Education International	34.88
White Clouds Education International	34.88

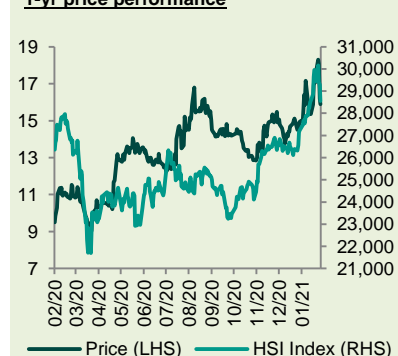
Source(s): Bloomberg, ABCI Securities

#### Price performance (%)

	Absolute	Relative (HSI)*
1-mth	6.43	0.57
3-mth	23.45	3.74
6-mth	8.16	(9.90)

Source(s): Bloomberg, ABCI Securities

#### 1-yr price performance



Source(s): Bloomberg, ABCI Securities

Note: market data as of Jan 28, 2021

RMB/HKD= 1.1965



**Exhibit 1: Changes in assumptions, projections, and valuations**

Exhibit A: Changes in assumptions, projections, and valuations					
As of Aug 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
D/E (%)	43.0	42.1	46.7	46.3	Adjusted due to fund raising through top-up placing of existing shares and subscription for new shares
D/A (%)	23.3	23.8	23.5	24.7	
Tax rate (%)	2.6	2.6	2.6	2.6	N/A
Revenue growth (YoY %)	42.2	14.3	45.4	14.1	Adjusted based on FY20 performance
Valuations					
TP (HK\$)	20.0		17.8		Increase in TP and valuation mainly due to roll over of DCF forecast period by one year
P/E (x)	32.88	24.57	24.65	20.81	
P/B (x)	3.35	3.08	3.48	3.00	

Note: Previous report was published on Aug 12, 2020

Source(s): ABCI Securities estimates

**Exhibit 2: Changes in major forecasts**

As of Aug 31	Current report		Previous report		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue (RMB mn)	3,809	4,355	3,808	4,344	0.0	0.3
Net profit (to owners of the Company) (RMB mn)	1,155	1,546	1,384	1,649	(16.5)	(6.2)
EPS (RMB cent)	50.84	68.04	64.38	76.71	(21.0)	(11.3)

Source(s): ABCI Securities estimates



## Financial statements

### Consolidated income statement

As of Aug 31 (RMB mn otherwise specified)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>1,955</b>	<b>2,678</b>	<b>3,809</b>	<b>4,355</b>	<b>4,709</b>
- Tuition fees	1,774	2,453	3,444	3,934	4,250
- Boarding fees	153	180	236	267	286
- Ancillary services	27	45	129	153	172
COGS	(833)	(1,077)	(1,563)	(1,762)	(1,891)
<b>Gross profit</b>	<b>1,121</b>	<b>1,601</b>	<b>2,246</b>	<b>2,594</b>	<b>2,818</b>
Selling expenses	(53)	(135)	(158)	(180)	(194)
Admin expenses	(353)	(372)	(555)	(640)	(683)
Others	38	(272)	(39)	77	103
Finance costs	(86)	(93)	(302)	(255)	(239)
<b>Pretax profit</b>	<b>668</b>	<b>730</b>	<b>1,192</b>	<b>1,595</b>	<b>1,805</b>
Tax	19	(19)	(31)	(41)	(46)
<b>Net profit</b>	<b>687</b>	<b>710</b>	<b>1,161</b>	<b>1,554</b>	<b>1,759</b>
- Profit attributable to shareholders	593	633	1,155	1,546	1,750
- Minority interest	95	77	6	8	9
<b>Dividend (HK\$ k)</b>	<b>253</b>	<b>570</b>	<b>415</b>	<b>555</b>	<b>628</b>
EPS (RMB cents)					
- Basic	29.33	31.28	50.84	68.04	77.00
- Diluted	29.20	31.05	50.63	67.75	76.68
DPS (HK cents)	12.50	27.30	21.83	29.22	33.07

Source(s): The Company, ABCI Securities estimates

### Consolidated balance sheet

As of Aug 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Bank balances and cash	3,497	3,443	3,501	3,569	4,374
Trade receivables, deposits, prepayments and other receivables	571	594	914	758	869
Others	839	1,004	1,285	1,337	1,479
<b>Current assets</b>	<b>4,906</b>	<b>5,041</b>	<b>5,700</b>	<b>5,664</b>	<b>6,721</b>
PP&E	5,851	6,847	8,341	8,993	9,960
LT Prepaid lease payment	1,051	0	0	0	0
Goodwill	1,566	1,792	1,792	1,792	1,792
Intangible assets	1,708	2,299	2,368	2,439	2,512
Others	257	1,996	2,716	2,973	3,349
<b>Non-current assets</b>	<b>10,433</b>	<b>12,934</b>	<b>15,216</b>	<b>16,196</b>	<b>17,614</b>
<b>Total assets</b>	<b>15,339</b>	<b>17,975</b>	<b>20,916</b>	<b>21,861</b>	<b>24,335</b>
ST Contracted liabilities	1,617	1,239	2,643	2,509	2,813
ST Borrowing	285	292	283	274	266
Trade payables, other payables and accrued expenses	1,530	1,480	1,574	1,258	1,881
Others	297	368	104	103	114
<b>Current liabilities</b>	<b>3,729</b>	<b>3,379</b>	<b>4,604</b>	<b>4,145</b>	<b>5,074</b>
LT Borrowing	1,838	2,387	2,195	2,562	2,969
Convertible bonds	2,144	2,428	2,392	2,356	2,321
Others	620	874	402	474	518
<b>Non-current liabilities</b>	<b>4,602</b>	<b>5,689</b>	<b>4,988</b>	<b>5,392</b>	<b>5,807</b>
Equity to owners of the Company	6,595	8,573	10,985	11,976	13,097
Minority interest	414	334	340	347	356
<b>Equity</b>	<b>7,008</b>	<b>8,907</b>	<b>11,324</b>	<b>12,323</b>	<b>13,454</b>
<b>Total liabilities and equity</b>	<b>15,339</b>	<b>17,975</b>	<b>20,916</b>	<b>21,861</b>	<b>24,335</b>

Source(s): The Company, ABCI Securities estimates





### Consolidated cash flow statement

As of Aug 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit for the period	668	730	1,192	1,595	1,805
Depreciation	236	322	357	483	708
Change in working capital	44	(549)	79	260	26
Others	193	408	271	214	193
<b>Cash flow from operating activities</b>	<b>1,141</b>	<b>911</b>	<b>1,899</b>	<b>2,551</b>	<b>2,731</b>
Capex	(808)	(969)	(1,765)	(978)	(1,569)
Others	(1,460)	(1,622)	(740)	(1,019)	146
<b>Cash flow from investing activities</b>	<b>(2,268)</b>	<b>(2,591)</b>	<b>(2,505)</b>	<b>(1,997)</b>	<b>(1,423)</b>
Change in borrowings	1,074	594	(237)	324	363
Interest paid	(32)	(139)	(302)	(255)	(239)
Others	1,768	1,175	1,256	(555)	(628)
<b>Cash flow from financing activities</b>	<b>2,810</b>	<b>1,630</b>	<b>716</b>	<b>(487)</b>	<b>(504)</b>
<b>Net change in cash</b>	<b>1,684</b>	<b>(49)</b>	<b>110</b>	<b>68</b>	<b>805</b>
Cash and cash equivalent - beg	1,738	3,497	3,391	3,501	3,569
ForEx impact	74	(56)	45	(5)	22
<b>Cash and cash equivalent - end</b>	<b>3,497</b>	<b>3,391</b>	<b>3,501</b>	<b>3,569</b>	<b>4,374</b>

Source(s): The Company, ABCI Securities estimates

### Key operating and financial ratios

As of Aug 31	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Growth (YoY %)</b>					
Revenue	51.1	37.0	42.2	14.3	8.1
- Tuition fees	51.3	38.3	40.4	14.2	8.0
- Boarding fees	51.5	17.4	30.9	13.4	7.1
- Ancillary services	25.4	65.2	184.9	19.1	12.3
Gross profit	40.7	42.8	40.3	15.5	8.7
Pretax profit	17.9	9.2	63.3	33.9	13.2
Total net profit (to owners of the Company)	18.6	6.8	82.5	33.8	13.2
<b>Profitability ratios (%)</b>					
GPM	57.4	59.8	59.0	59.6	59.8
Pretax margin	34.2	27.2	31.3	36.6	38.3
Total NPM (to shareholders of the Company)	30.3	23.6	30.3	35.5	37.2
<b>Revenue contribution (%)</b>					
Tuition fees	90.7	91.6	90.4	90.3	90.3
Boarding fees	7.9	6.7	6.2	6.1	6.1
Ancillary services	1.4	1.7	3.4	3.5	3.7
<b>Return ratios (%)</b>					
ROAA	5.7	4.3	6.0	7.3	7.6
ROAE	9.3	8.3	11.8	13.5	14.0
<b>Liquidity ratio (x)</b>					
Current ratio	1.3	1.5	1.2	1.4	1.3
Cash ratio	0.9	1.0	0.8	0.9	0.9
<b>Leverage ratios (%)</b>					
Total debt to Equity	60.9	57.3	43.0	42.1	41.3
Total debt to Total assets	27.8	28.4	23.3	23.8	22.8
Net debt/(cash) to Equity	11.0	18.7	12.1	13.2	8.8
Net debt/(cash) to total assets	5.0	9.3	6.5	7.4	4.9

Source(s): The Company, ABCI Securities estimates



## Edvantage Group (382 HK) 1Q21 revenue grew by 15.6% YoY

- 1Q21 student enrollment grew 10.1% YoY to reach 38,784; enrollment in Huashang College/Huashang Vocational College increased by 3.6% YoY/25.1% YoY, while their average tuition per student grew 7.8% YoY/4.7% YoY
- Placement of new shares raised HK\$ 459.77mn, which represents 28.2% of the Group's liquid funds of RMB 1,363.9mn as of end-1Q21
- Conversion of Huashang College would improve margin
- Expect FY20A-23E revenue CAGR at 34.8%
- Maintain **BUY**; current TP implies 25.66x/17.44x 21E/22E P/E, or 4.99x/3.88x 21E/22E P/B

**1Q21 revenue growth at 15.6% YoY.** In 1Q21 (Sep-Nov 2020), revenue reached RMB 243.7mn. Student enrollment was 38,784, up 10.1% YoY. Enrollment for Huashang College and Huashang Vocational College grew by 3.6% YoY and 25.1% YoY to 24,988 and 13,336, while average tuition per student for the two schools grew 7.8% YoY and 4.7% YoY. Financial consolidation with the recently acquired schools in Sichuan would begin in 2Q21 (Dec 2020 – Feb 2021), which we expect to result in higher growth.

**HK\$ 459.77mn raised through new share placement.** The Group has recently announced a placement of new issued shares at HK\$ 8.73 per share, raising net proceeds of HK\$ 459.77mn. The amount represents 28.2% of the Group's liquid funds of RMB 1,363.9mn as of end-1Q21. After the placement, public shareholders and the placees would hold 24.45% and 4.97% of total shares issued. We believe the funds would help future expansion.

**Approval for conversion of Huashang College.** The Group obtained the conversion approval for Huashang College. We believe the conversion would help the Group consolidate the operation of its portfolio schools and enhance margins with the reduction and eventual elimination of the sponsor fees (a proportion of tuition generated from Huashang College). We expect the positive impact will be reflected on FY22 results, and total elimination of such fees would occur in FY25.

**Maintain BUY; TP at HK\$ 13.1.** We expect FY20-23E revenue CAGR of 34.8%. We expect GPM and NPM (owners of the Company) would increase from 49.5% and 36.4% in FY20 to 56.0% and 42.7% in FY23E. Maintain **BUY**. We revise up DCF-derived TP, which represents 25.66x/17.44x 21E/22E P/E, or 4.99x/3.88x 21E/22E P/B, due to upward revision of margin forecasts as 1Q21 GPM continues to improve and the conversion of Huashang College would boost profitability.

**Risk factors:** 1) Growth risk; 2) Acquisition risk; 3) Education quality risk; 4) Regulatory risk; 5) Prolonged pandemic risk; 6) EPS dilution effect from share placement.

### Results and Valuation

FY ended Aug 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	704	800	1,230	1,669	1,958
Change (YoY %)	10.7	13.6	53.7	35.7	17.3
Net Profit – to owners of the Company (RMB mn)	217	291	457	672	837
Change (YoY %)	34.1	34.5	56.8	47.1	24.5
Basic EPS (RMB cent)	27.68	28.66	42.64	62.73	78.08
Change (YoY %)	28.4	3.5	48.8	47.1	24.5
P/E (x)	27.14	26.22	17.62	11.98	9.62
BVPS (RMB cent)	157.67	180.18	219.18	281.91	359.99
P/B (x)	4.77	4.17	3.43	2.67	2.09
Dividend (HK cent)	1.0	9.8	18.3	26.9	33.5
Dividend yield	0.11	1.09	2.04	3.00	3.73
ROAA (%)	8.1	8.8	10.5	12.2	12.6
ROAE (%)	19.4	18.9	21.8	25.0	24.3

Source(s): The Company, ABCI Securities estimates

## Company Report

Jan 29, 2020

Rating: **BUY**

TP: HK\$ 13.1

Analyst: Paul Pan

Tel: (852) 2147 8829

Email: paulpan@abci.com.hk

Share price (HK\$)	8.99
52WK H/L (HK\$)	10.68/3.4
Est. share price return	45.60%
Est. dividend yield	2.04%
Est. total returns	47.64%
Previous report date	Dec 23, 2020
Previous rating/TP	BUY / HK\$ 12.1
Source(s): Bloomberg, ABCI Securities estimates	

### Key data

Issued shares (mn)	1,071.66
Mkt cap (HK\$ mn)	9,634.24
3-month ADT (HK\$mn)	46.42
Shareholding (%)	
Debo Education Investment HLD	70.06
Source(s): Bloomberg, ABCI Securities	

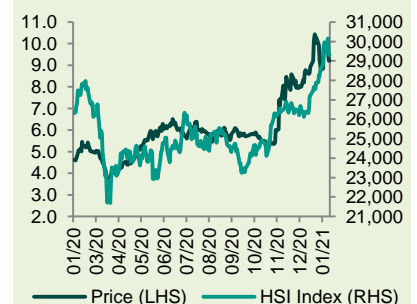
### Price performance (%)

	Absolute	Relative*
1-mth	0.78	(5.07)
3-mth	73.89	54.18
6-mth	48.60	30.54

\* Relative to HSI

Source(s): Bloomberg, ABCI Securities

### 1-yr price performance



Source(s): Bloomberg, ABCI Securities

Note: Market data as of Jan 28, 2021  
RMB/HKD=1.1965



### Exhibit 1: Changes in assumptions and valuations

Exhibit 1: Changes in assumptions and valuations					
As of Aug 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
D/E (%)	37.3	33.3	37.3	33.3	N/A
D/A (%)	17.0	17.3	16.8	17.1	
Tax rate (%)	7.9	7.9	7.9	7.9	N/A
Revenue growth (YoY %)	53.7	35.7	53.7	35.7	N/A
Valuations					
TP (HK\$)	13.1		12.1		Increase in TP and valuation due to higher margins projected resulting in overall valuation increase
P/E (x)	25.66	17.44	22.83	15.70	
P/B (x)	4.99	3.88	4.55	3.53	

Note: Previous report was published on Dec 23, 2020

Source(s): The Group, ABCI Securities estimates

### Exhibit 2: Changes in major forecasts

As of Aug 31	Current report			Previous report			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,230	1,669	1,958	1,230	1,669	1,958	0.00	0.00	0.00
Net profit (to owners of the Company) (RMB mn)	457	672	837	457	664	823	0.0	1.2	1.7
EPS (RMB cent)	42.64	62.73	78.08	44.84	65.21	80.97	(4.9)	(3.8)	(3.6)

Source(s): ABCI Securities estimates



## Financial statements

### Consolidated income statement

As of Aug 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>704</b>	<b>800</b>	<b>1,230</b>	<b>1,669</b>	<b>1,958</b>
- Tuition fees	647	763	1,116	1,513	1,773
- Boarding fees & other services	57	37	114	156	185
Cost of sales	(362)	(404)	(602)	(774)	(862)
<b>Gross profit</b>	<b>342</b>	<b>396</b>	<b>628</b>	<b>895</b>	<b>1,096</b>
Selling expenses	(7)	(8)	(12)	(16)	(19)
Admin expenses	(82)	(110)	(146)	(197)	(232)
Others	17	46	46	68	84
Finance costs	(28)	(16)	(20)	(20)	(20)
<b>Pretax profit</b>	<b>243</b>	<b>308</b>	<b>496</b>	<b>730</b>	<b>909</b>
Tax	(28)	(16)	(39)	(57)	(72)
<b>Net profit (continuing operation)</b>	<b>215</b>	<b>291</b>	<b>457</b>	<b>672</b>	<b>837</b>
- Owners	209	291	457	672	837
- MI	6	0	0	0	0
<b>Net profit/losses from discontinued operations</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
- Owners	7	0	0	0	0
- MI	(0)	0	0	0	0
<b>Total net profit</b>	<b>223</b>	<b>291</b>	<b>457</b>	<b>672</b>	<b>837</b>
- Owners	217	291	457	672	837
- MI	6	0	0	0	0
<b>Dividend (HK\$ k)</b>	<b>10</b>	<b>96</b>	<b>164</b>	<b>241</b>	<b>300</b>
<b>EPS (RMB cent)</b>					
- Basic	27.68	28.66	42.64	62.73	78.08
- Diluted	27.68	28.62	42.64	62.73	78.08
<b>DPS (HK cent)</b>	<b>1.00</b>	<b>9.80</b>	<b>18.31</b>	<b>26.94</b>	<b>33.53</b>

Source(s): The Company, ABCI Securities estimates

### Consolidated balance sheet

As of Aug 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Bank balances and cash	1,352	1,186	970	943	1,462
Financial assets at fair value through profit or loss	253	88	93	99	105
Trade receivables, deposits, prepayments and other receivables	32	58	82	106	115
Others	58	4	1	1	1
<b>Current assets</b>	<b>1,695</b>	<b>1,336</b>	<b>1,146</b>	<b>1,150</b>	<b>1,683</b>
PP&E	1,180	1,660	3,120	3,677	4,541
Prepaid lease payments	199	0	0	0	0
Others	53	533	894	1,010	1,192
<b>Non-current assets</b>	<b>1,432</b>	<b>2,193</b>	<b>4,014</b>	<b>4,687</b>	<b>5,734</b>
<b>Total assets</b>	<b>3,127</b>	<b>3,528</b>	<b>5,160</b>	<b>5,836</b>	<b>7,416</b>
Contracted liabilities	682	623	1,345	1,136	1,645
ST Borrowing	166	290	254	297	320
Others	171	178	321	371	453
<b>Current liabilities</b>	<b>1,019</b>	<b>1,092</b>	<b>1,920</b>	<b>1,803</b>	<b>2,418</b>
Deferred tax liabilities	113	119	220	245	297
LT Borrowing	390	457	623	710	772
LT lease liabilities	0	26	49	57	71
<b>Non-current liabilities</b>	<b>502</b>	<b>601</b>	<b>891</b>	<b>1,012</b>	<b>1,140</b>
Shareholders' equity	1,606	1,835	2,349	3,021	3,858
MI	0	0	0	0	0
<b>Equity</b>	<b>1,606</b>	<b>1,835</b>	<b>2,349</b>	<b>3,021</b>	<b>3,858</b>
<b>Total liabilities and equity</b>	<b>3,127</b>	<b>3,528</b>	<b>5,160</b>	<b>5,836</b>	<b>7,416</b>

Source(s): The Company, ABCI Securities estimates



### Consolidated cash flow statement

As of Aug 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit for the period	223	291	457	672	837
Depreciation and amortization	64	58	85	98	106
Change in working capital	130	(83)	828	(232)	587
Others	6	38	44	57	67
<b>Cash flow from operating activities</b>	<b>423</b>	<b>305</b>	<b>1,414</b>	<b>595</b>	<b>1,597</b>
Change in PP&E	(102)	(321)	(950)	(485)	(609)
Others	534	(220)	(744)	7	7
<b>Cash flow from investing activities</b>	<b>433</b>	<b>(541)</b>	<b>(1,693)</b>	<b>(479)</b>	<b>(603)</b>
Change in borrowing	(227)	191	129	130	86
Others	559	(114)	(66)	(272)	(564)
<b>Cash flow from financing activities</b>	<b>332</b>	<b>78</b>	<b>63</b>	<b>(142)</b>	<b>(479)</b>
<b>Net change in cash</b>	<b>1,188</b>	<b>(158)</b>	<b>(216)</b>	<b>(26)</b>	<b>516</b>
Cash and cash equivalent - beg	149	1,352	1,186	970	943
ForEx impact	16	(8)	0	(0)	2
<b>Cash and cash equivalent - end</b>	<b>1,352</b>	<b>1,186</b>	<b>970</b>	<b>943</b>	<b>1,462</b>

Source(s): The Company, ABCI Securities estimates

### Key operating and financial ratios

As of Aug 31	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Growth (YoY %)</b>					
Revenue	10.7	13.6	53.7	35.7	17.3
- Tuition fees	11.6	17.8	46.3	35.6	17.2
- Boarding fees	0.8	(34.5)	205.0	36.9	18.3
Gross profit	17.9	15.7	58.4	42.5	22.5
Pretax profit	8.2	26.6	61.0	47.1	24.6
Total net profit (to shareholders of the company)	34.1	34.5	56.8	47.1	24.5
<b>Profitability ratios (%)</b>					
GPM	48.6	49.5	51.0	53.6	56.0
Pretax profit	34.5	38.5	40.3	43.7	46.4
Total NPM (to shareholders of the company)	30.8	36.4	37.2	40.3	42.7
<b>Return ratios (%)</b>					
ROAA	8.1	8.8	10.5	12.2	12.6
ROAE	19.4	18.9	21.8	25.0	24.3
<b>Liquidity ratio (x)</b>					
Current ratio	1.7	1.2	0.6	0.6	0.7
Cash ratio	1.3	1.1	0.5	0.5	0.6
<b>Leverage ratios (%)</b>					
Total debt to Equity	34.6	40.7	37.3	33.3	28.3
Total debt to Total assets	17.8	21.2	17.0	17.2	14.7
Net debt to Equity	(49.6)	(23.9)	(4.0)	2.1	(9.6)
Net debt to Total assets	(25.5)	(12.4)	(1.8)	1.1	(5.0)

Source(s): The Company, ABCI Securities estimates



## Disclosures

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### Definition of equity rating

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

Notes: 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 (For reference: HSI total return index 2008-20CAGR at 9.2%)

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

**Tel:** (852) 2868 2183