



TAL (TAL US) 1H21 revenue grew 26.9% YoY

- 2Q21 net revenue (FY ends in Feb) increased by 20.8% YoY, in-line with guidance (18%-21% YoY); overall, 1H21 net revenue grew 26.9% YoY, similar to growth in 1H20; total student enrollment of normal priced long-term course increased by 65.0% YoY in 2Q21
- 2Q21 GPM was 52.8%, similar to that in 1Q21; S&D and G&A expenses slashed OPM and NPM (to shareholders) to -4.5% and 1.1% in 2Q21
- Maintain **BUY**; current TP represents 178.39x/83.97x 21E/22E P/E, or 17.27x/14.32x 21E/22E P/B

2Q21 net revenue grew 20.8% YoY. 2Q21 net revenue growth was in-line with guidance (18%-21% YoY) but lower than 35.2% YoY in 1Q21. Total student enrollment of normal priced long-term course increased by 65.0% YoY in 2Q21 to 5,632.2k. Online courses and growth of the Xueersi Peiyao Business supported growth. We attribute the slower revenue growth in 2Q21 to the lingering effect of COVID-19. 1H21 net revenue grew by 26.9% YoY, similar to 1H20.

Mixed margin performance. The Group's 2Q21 GPM reached 52.7%, similar to the 52.8% in 1Q21. However, the Group's OPM and NPM (to shareholders of the Company) declined from 3.9% and 9.0% in 1Q21 to -4.5% and 1.4% in 2Q20. Non-GAAP OPM and Non-GAAP NPM (to shareholders of the Company) declined from 7.6% and 12.6% in 1Q21 to -1.1% and 4.7% in 2Q21. The drop in margins was caused by S&D expenses and G&A expenses, which increased by 44.3% YoY and 33.5% YoY in 2Q21 vs. 41.0% YoY and 31.6% YoY in 1Q21; S&D expenses/net revenue and G&A expenses/net revenue were 34.4% and 23.0% in 2Q21, compared to 24.1% and 25.4% in 1Q21. Net finance income and other non-operating income help pushed the Group's net margin to positive level.

Maintain BUY; TP at US\$ 80.0/ADS. The Group expects 3Q21 net revenue to increase by 28%-32% YoY to US\$ 1,061.1mn - US\$ 1,094.3mn. Based on the top-end of the 3Q21 guidance, net revenue growth would be ~28.7% YoY in 9M21 vs. 31.5% YoY in 9M20. We believe the Group will be recovering from impact of COVID-19 in the coming quarters. We maintain our FY20-23E revenue CAGR of 38.7%, and expect FY21E revenue growth to be 35.1% YoY. However, based on the first two quarters in FY21, we lower our FY21E GPM and NPM (to shareholders of the Company) to 55.2% (from 55.7% previously estimated) and 6.1% (from 7.5% previously estimated); FY21E net profit (to shareholders of the Company) is now 18.4% lower than our previous forecast; we revise up the Group's S&D expense/net revenue and G&A expense/net revenue to 27.6% and 22.7% (26.7% and 22.4% in previous forecast). Maintain **BUY** on decent growth prospect. Our current TP represents 178.39x/83.97x 21E/22E P/E, or 17.27x/14.32x 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.

Results and Valuation

FY-end Feb	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	2,563	3,273	4,423	6,390	8,737
Chg (YoY %)	49.4	27.7	35.1	44.5	36.7
Net Profit – to shareholders of the Company (US\$ mn)	367	(110)	270	573	863
Change (% YoY)	85.1	(130.0)	N/A	112.4	50.6
Basic net profit per common share (US\$)	1.93	(0.56)	1.35	2.86	4.30
Change (YoY %)	70.8	(129.0)	N/A	112.4	50.6
Basic net profit per ADS (US\$)	0.64	(0.19)	0.45	0.95	1.43
Change (YoY %)	68.4	(129.7)	N/A	112.4	50.6
P/E (x)	103.66	(349.16)	147.94	69.63	46.24
BVPS (US\$)	13.08	12.69	13.90	16.76	21.06
P/B (x)	15.22	15.68	14.32	11.88	9.45
Dividend (US\$)	0	0	0	0	0
Dividend yield (%)	0	0	0	0	0
ROAA (%)	10.7	(2.7)	3.8	6.1	6.9
ROAE (%)	17.9	(4.4)	10.2	18.6	22.8

Note: FY ends on the last day of Feb

Source(s): The Group, ABCI Securities estimates

Company Report Oct 23, 2020 Rating: BUY TP: US\$ 80.0

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Share price (HK\$)	66.34
52WK H/L (HK\$)	83.675/36.12
Est. share price return	20.58%
Est. dividend yield	0.00%
Est. total returns	20.58%
Previous rating & TP	BUY
Previous report date	US\$ 85.7

Source(s): Bloomberg, ABCI Securities estimates

Key data

# of ADS – Class A (mn)	399.50
Class A mkt cap (US\$ mn)	39,825.71
3-mth avg ADT (US\$mn)	201.86
Major shareholders (%)	
Bright Unison Limited	24.0

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

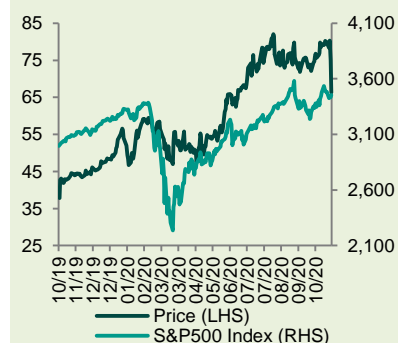
Price performance (%)

	Absolute	Relative*
1-mth	(10.00)	(14.28)
3-mth	(15.29)	(21.15)
6-mth	30.80	6.32

Note: relative to S&P 500 Index

Source(s): Bloomberg

1-yr price performance



Source(s): Bloomberg, ABCI Securities

Note: 1) Market data as of Oct 22, 2020; 2) Three ADSs represent one Class A common Share; 3) non-GAAP financial metrics exclude the impact of share-based compensation expenses on operating costs and expenses



Exhibit 1: Changes in assumptions and valuations

	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
GPM (%)	55.2	56.6	55.7	56.7	Lower margin projections as we adjust the operating expenses forecasts based on 1Q21 & 2Q21 performance
OPM (%)	5.2	8.8	6.9	10.0	
NPM (to shareholders of the Company) (%)	6.1	9.0	7.5	10.0	
D/E (%)	10.0	9.8	10.0	9.8	N/A
D/A (%)	3.3	3.1	3.4	3.2	
Tax rate (%)	19.5	19.7	19.5	19.7	N/A
Revenue growth (YoY %)	35.1	44.5	35.1	44.5	N/A
Valuations					
TP (HK\$)	80.0		87.5		Lower TP due to the lower margin estimates
P/E (x)	178.39	83.97	155.55	80.56	
P/B (x)	17.27	14.32	18.06	14.75	

Note: Previous report was published on Aug 24, 2020; FY ends on the last day of Feb

Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

	Current report			Previous report			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY20E	FY21E	FY22E
Revenue (US\$ mn)	4,423	6,390	8,737	4,423	6,390	8,737	0	0	0
Net profit (to owners of the Company) (US\$ mn)	270	573	863	330	638	995	(18.4)	(10.2)	(13.3)
Basic net profit per ADS (US\$)	1.35	2.86	4.30	1.65	3.19	4.98	(18.6)	(10.4)	(13.5)

Note: Previous report was published on Aug 24, 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
Net revenue	2,563	3,273	4,423	6,390	8,737
Cost of revenue	(1,164)	(1,469)	(1,983)	(2,776)	(3,755)
Gross profit	1,399	1,805	2,440	3,614	4,982
Selling and marketing expenses	(484)	(853)	(1,219)	(1,688)	(2,284)
General and admin expenses	(580)	(795)	(1,003)	(1,380)	(1,868)
Others	7	(20)	12	18	24
Operating profit	342	137	230	564	854
Net financial expenses	42	61	97	149	203
Other gains/(losses)	74	(249)	14	20	41
Pretax profit	457	(51)	342	733	1,098
Tax	(77)	(69)	(67)	(145)	(209)
Loss from equity method investments	(16)	(8)	(10)	(9)	(9)
Net profit	365	(128)	265	579	881
- Owners	367	(110)	270	573	863
- MI	(3)	(17)	(4)	6	18
Net profit per common share (US\$)					
- Basic	1.93	(0.56)	1.35	2.86	4.30
- Diluted	1.83	(0.56)	1.29	2.75	4.14
Net profit per common ADS (US\$)					
- Basic	0.64	(0.19)	0.45	0.95	1.43
- Diluted	0.61	(0.19)	0.43	0.92	1.38

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

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

(US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash, cash equivalents, and restricted cash	1,247	1,874	2,755	3,816	5,763
ST investments	268	345	408	452	368
Others	230	276	403	502	730
Current assets	1,746	2,496	3,565	4,771	6,862
Property and equipment	288	367	638	798	1,214
Goodwill	414	379	379	379	379
Intangible assets	75	59	120	179	231
Operating lease right-of-use assets	0	1,244	2,106	2,632	4,008
Others	1,212	1,027	1,545	1,971	2,249
Non-current assets	1,989	3,075	4,787	5,959	8,081
Total assets	3,735	5,571	8,353	10,730	14,943
ST Deferred revenue	434	780	1,597	2,223	2,575
ST Operating lease liabilities	0	305	531	663	1,010
Others	750	721	1,413	1,988	3,464
Current liabilities	1,184	1,807	3,541	4,874	7,049
LT borrowing	0	262	280	331	393
LT Operating lease liabilities	0	950	1,653	2,067	3,146
Others	21	9	70	69	85
Non-current liabilities	21	1,220	2,003	2,467	3,624
Shareholders' capital	2,484	2,516	2,785	3,358	4,221
MI	47	28	24	30	49
Total equity	2,530	2,544	2,809	3,388	4,269
Total liabilities and equity	3,735	5,571	8,353	10,730	14,943

Note: FY ends on the last day of Feb

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

(US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	365	(128)	265	579	881
Depreciation and amortization	89	118	143	222	328
Change in working capital	(272)	442	1,017	742	1,029
Others	13	423	317	342	557
Cash flow from operating activities	194	856	1,742	1,886	2,795
Change in property and equipment	(137)	(178)	(279)	(403)	(548)
Change in investments	283	(86)	(164)	(70)	135
Others	(313)	(76)	(124)	(119)	(141)
Cash flow from investing activities	(167)	(339)	(567)	(591)	(554)
Change in borrowing	(15)	61	52	62	79
Others	490	71	(383)	(302)	(422)
Cash flow from financing activities	475	131	(331)	(240)	(343)
Effect of foreign exchange rate changes	33	3	16	10	52
Net change in cash, cash equivalent, and restricted cash	267	536	651	844	1,055
cash, cash equivalent, and restricted cash - end	1,264	1,915	2,775	3,839	5,788

Note: FY ends on the last day of Feb

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (YoY %)					
Net revenue	49.4	27.7	35.1	44.5	36.7
Gross profit	68.0	29.0	35.2	48.1	37.8
Operating profit	63.7	(59.8)	67.4	145.0	51.6
Net profit (to shareholders of the Company)	85.1	(130.0)	(344.6)	112.4	50.6
Non-GAAP operating profit	63.8	(39.0)	49.0	102.7	47.1
Non-GAAP net profit (to shareholders of the Company)	81.0	(98.3)	5,320.3	85.8	46.4
Profitability ratios (%)					
GPM	54.6	55.1	55.2	56.6	57.0
OPM	13.3	4.2	5.2	8.8	9.8
NPM (to owners of the Company)	14.3	(3.4)	6.1	9.0	9.9
Non-GAAP OPM	16.3	7.8	8.6	12.1	13.0
Non-GAAP NPM (to owners of the Company)	17.3	0.2	9.5	12.2	13.1
Return ratios (%)					
ROAA	10.7	(2.7)	3.8	6.1	6.9
ROAE	17.9	(4.4)	10.2	18.6	22.8
Liquidity ratio (x)					
Current ratio	1.5	1.4	1.0	1.0	1.0
Cash ratio	1.1	1.1	0.8	0.8	0.8
Leverage ratios (%)					
Total debt to Equity	8.5	10.3	10.0	9.8	9.2
Total debt to Total assets	5.8	4.7	3.3	3.1	2.6
Net debt/(cash) to Equity	(41.4)	(65.0)	(88.8)	(103.5)	(126.4)
Net debt/(cash) to Total assets	(28.1)	(29.7)	(29.9)	(32.7)	(36.1)

Note: FY ends on the last day of Feb

Source(s): The Group, ABCI Securities estimates



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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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