



## Wisdom Education (6068 HK)

### Solid student enrollment for 17/18

- Student enrollment as of Sep 1, 2017 rose 29.5% YoY or 9,392; excluding the estimated 4,500 students at the Jieyang School, student enrollment grew 15.4% YoY or 4,892; the Group targeted a tuition growth of no less than 15% for Jieyang School, which would support the overall tuition growth
- Share prices have been increasing across the education sector, showing rising interest from investors; fundamental education providers continue to achieve higher valuation than higher education providers
- Revenue growth would be partially supported by student enrollment growth, which would be reflected in the next financial year (FY18)
- Maintain **BUY**; TP represents 33.36x/23.49x FY17E/18E P/E, or 4.12x/3.50x FY17E/18E P/B

**Solid student enrollment for 17/18 school year.** Student enrollment as of Sep 1, 2017 was 41,180, up 29.5% YoY (+9,392) compared to 31,788 in 2016. The notable increase can be partly attributed to the inclusion of Huanan Shida Yuedong Preparatory School (Jieyang School) acquired by the Group in June this year. Based on the Group's previous disclosure, the Jieyang School targeted to have 4,500 enrolled students for the 2017/18 school year. Excluding the Jieyang School, the Group's student enrollment increased by 15.4% YoY – an indication of the Group's capability in attracting new students.

**Tuition at Jieyang School to grow at higher rate.** The newly acquired schools may also boost overall tuition growth, as the targeted growth of tuition fees would be at least 15% for incoming students, according to previous disclosure. In FY15 and FY16, the tuition per student grew at 5.31% YoY and 3.25% YoY. Therefore, the Jieyang School would provide strong support for the tuition growth at least in the 2017/18 school year.

**Elevated sector valuation shows increasing interest.** Share prices of companies in the education sector have gone up recently, which indicates growing interest from investors. The sector's average valuation rose from 22.64x 17E P/E (as of June 23, 2017) to 26.43x 17E P/E (as of Sep 25, 2017). The fundamental education providers continue to achieve a higher average 17E P/E of 30.16x, while that of the higher education providers is 18.98x.

**Revenue growth would be supported by tuition and student enrollment growth.** With the enrollment growth as stated above, FY18 revenue would be supported. We project that the CAGR growth for student enrollment and tuition for FY16-FY19E would be 18.40% and 23.87%; in FY16-FY19E, revenue would grow at 27.61% CAGR, GPM and NPM (to owners of the company) would improve from 47.1% and 22.0% to 47.6% and 26.8%.

**Main BUY; TP at HK\$ 4.35.** We raise TP to reflect the increase in sector valuation as well as our confidence on the Group's ability to raise tuition and attract new students. Current TP represents 33.36x/23.49x FY17E/18E P/E, or 4.12x/3.50x FY17E/18E 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	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue (RMB mn)	569	701	912	1,184	1,456
Chg (% YoY)	26.13	23.21	30.15	29.79	23.01
Net Profit (RMB mn)	182	154	225	319	390
Chg (% YoY)	100.52	(15.32)	45.54	42.01	22.17
Basic EPS (RMB)	0.12	0.10	0.11	0.16	0.19
Chg (% YoY)	100.00	(16.67)	10.18	42.01	22.17
P/E (x)	27.74	33.29	30.22	21.28	17.42
BVPS (RMB)	0.44	0.54	0.89	1.05	1.24
P/B (x)	7.49	6.19	3.73	3.17	2.68
DPS(HKD)	0.000	0.000	0.039	0.056	0.068
Yield (%)	0.00	0.00	1.18	1.67	2.04
ROAA (%)	6.45	5.69	8.27	9.85	10.15
ROAE (%)	30.74	20.50	16.95	16.11	16.70

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Sep 25, 2017

Rating: BUY

TP: HK\$ 4.35

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Share price (HK\$)	3.94
52Wk H/L(HK\$)	4.48/1.61
Est. share price return	10.41%
Est. dividend yield	1.18%
Est. total return	11.58%
Previous rating & TP	BUY; HK \$3.20
Previous report date	Jun 23, 2017

Source(s): ABCI Securities

#### Key Data

Issued shares (mn)	2,039.15
Mkt cap (HK\$ mn)	8,013.88
3-mth days ADT (HK\$mn)	19.47

Shareholding (%)	
Liu Xuebin	45.61
Li Suwen	27.95

Source(s): Bloomberg, HKEX

% to total revenue	FY17E
Tuition fees	64.32
Boarding fees	8.20
Ancillary services	27.48

Source(s): ABCI Securities estimates

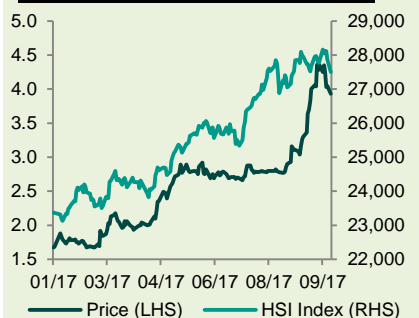
#### Price Performance (%)

	Absolute	Relative*
1-mth	26.37	26.96
3-mth	40.86	31.84
6-mth	91.78	75.31

\* 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-Sep 25, 2017



**Exhibit 1: Projected level and growth of the Group's student enrollment, tuition and other fees per student**

	FY15	FY16A	FY17E	FY18E	FY19E
Total enrollment (no. of students)	27,644	31,788	41,180	46,277	52,757
<i>Growth (YoY %)</i>	<u>21.05</u>	<u>14.99</u>	<u>29.55</u>	<u>12.38</u>	<u>14.00</u>
Tuition (RMB k per student)	17.15	17.71	18.45	18.80	20.11
<i>Growth (YoY %)</i>	<u>5.31</u>	<u>3.25</u>	<u>4.20</u>	<u>1.86</u>	<u>6.97</u>
Boarding fees (RMB k per student)	2.21	2.19	2.35	2.44	2.65
<i>Growth (YoY %)</i>	<u>17.54</u>	<u>(1.02)</u>	<u>7.44</u>	<u>3.63</u>	<u>8.85</u>
Ancillary services fee (RMB k per student)	5.54	5.45	7.88	7.51	8.70
<i>Growth (YoY %)</i>	<u>8.00</u>	<u>(1.63)</u>	<u>44.70</u>	<u>(4.76)</u>	<u>15.92</u>

Source(s): The Group, ABCI Securities estimates

**Exhibit 2: 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	30.22	21.28	3.73	3.17	1.18	1.67	8.27	9.85	16.95	16.11
1317 HK	Mapleleaf	枫叶教育	31-Aug	24.35	19.96	4.18	3.73	1.56	1.91	10.97	11.16	17.64	18.88
6169 HK	Yuhua	宇华教育	31-Aug	28.30	20.85	3.72	3.35	2.05	2.49	9.78	11.41	16.49	15.99
1565 HK	Virscend	成实外教育	31-Dec	37.77	25.92	4.57	4.12	1.39	1.66	9.06	12.27	11.44	15.20
1569 HK	Minsheng Edu	民生教育	31-Dec	17.87	14.83	1.72	1.54	0.67	0.81	10.86	10.00	14.97	10.42
2001 HK	China New Higher Edu	中国新高教	31-Dec	20.08	16.01	2.74	2.42	1.38	1.96	9.92	10.25	17.74	16.89
<i>Average of Wisdom, Maple Leaf, Yuhua, and Virscend</i>				<u>30.16</u>	<u>22.00</u>	<u>4.05</u>	<u>3.59</u>	<u>1.54</u>	<u>1.93</u>	<u>9.52</u>	<u>11.17</u>	<u>15.63</u>	<u>16.55</u>
<i>Average of all peers</i>				<u>26.43</u>	<u>19.81</u>	<u>3.44</u>	<u>3.06</u>	<u>1.37</u>	<u>1.75</u>	<u>9.81</u>	<u>10.82</u>	<u>15.87</u>	<u>15.58</u>

\* As of end-Sep 25, 2017

Source(s): Bloomberg, ABCI Securities estimates

**Consolidated income statement (FY15A-FY19E)**

FY ends at Aug 31 (RMB mn, except per share data)	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Revenue</b>	<b>569</b>	<b>701</b>	<b>912</b>	<b>1184</b>	<b>1456</b>
- Tuition	392	490	587	774	930
- Boarding fees	51	61	75	100	123
- Ancillary services	126	151	251	309	403
COGS	(289)	(370)	(477)	(615)	(763)
<b>Gross profit</b>	<b>280</b>	<b>330</b>	<b>435</b>	<b>568</b>	<b>693</b>
S&D expenses	(8)	(13)	(17)	(22)	(27)
Admin expenses	(76)	(94)	(120)	(157)	(193)
Listing expenses	0	(24)	(7)	0	0
Others	6	1	8	8	9
<b>Operating profit</b>	<b>201</b>	<b>200</b>	<b>300</b>	<b>397</b>	<b>482</b>
Net finance cost	11	(6)	(27)	(14)	(13)
Pretax profit	212	195	273	383	469
Tax	(30)	(40)	(48)	(64)	(80)
<b>Net profit</b>	<b>182</b>	<b>154</b>	<b>225</b>	<b>319</b>	<b>390</b>
- Owners of the company	182	154	225	319	390
- Minority interest	(0)	(0)	0	0	0
Dividend	0	0	67	96	117
<b>EPS (RMB)</b>	<b>0.12</b>	<b>0.10</b>	<b>0.11</b>	<b>0.16</b>	<b>0.19</b>
<b>DPS (HKD)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.04</b>	<b>0.06</b>	<b>0.07</b>

Source(s): Company, ABCI Securities estimates

**Consolidated balance sheet (FY15A-FY19E)**

FY ends at Aug 31 (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Cash and cash equivalent	12	104	526	377	479
Inventories	2	5	5	7	8
Others	1,517	587	53	62	79
<b>Current assets</b>	<b>1,532</b>	<b>695</b>	<b>583</b>	<b>446</b>	<b>565</b>
PP&E	1,007	1,344	1,748	2,161	2,654
Investment property	18	20	24	27	29
Investment in new schools (Jieyang School)	0	0	31	233	242
Others	408	399	586	640	684
<b>Non-current assets</b>	<b>1,433</b>	<b>1,763</b>	<b>2,389</b>	<b>3,060</b>	<b>3,609</b>
<b>Total assets</b>	<b>2,965</b>	<b>2,458</b>	<b>2,972</b>	<b>3,507</b>	<b>4,175</b>
Trade payables	25	40	72	54	113
ST borrowings	538	142	86	111	92
Other payables and accruals	204	208	267	331	406
Others	779	763	460	586	748
<b>Current liabilities</b>	<b>1,546</b>	<b>1,153</b>	<b>884</b>	<b>1,083</b>	<b>1,359</b>
LT borrowings	738	465	249	255	256
Others	6	9	9	16	14
<b>Non-current liabilities</b>	<b>744</b>	<b>475</b>	<b>258</b>	<b>271</b>	<b>271</b>
Shareholders' equity	675	831	1,820	2,139	2,529
Minority interest	0	0	0	0	0
<b>Total equity</b>	<b>675</b>	<b>831</b>	<b>1,820</b>	<b>2,139</b>	<b>2,529</b>
<b>Total liabilities and equity</b>	<b>2,965</b>	<b>2,458</b>	<b>2,963</b>	<b>3,493</b>	<b>4,159</b>

Source(s): Company, ABCI Securities estimates

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

FY ends at Aug 31 (RMB mn)	FY15A	FY16A	FY17E	FY18E	FY19E
Pretax profit	212	195	273	383	469
Depreciation	41	49	70	96	129
Change in working capital	78	98	(471)	151	241
Others	(12)	(5)	18	(14)	(30)
<b>Cash flow from operating activities</b>	<b>319</b>	<b>338</b>	<b>(110)</b>	<b>617</b>	<b>810</b>
CapEx	(211)	(200)	(636)	(769)	(708)
Others	(98)	451	693	(2)	36
<b>Cash flow from investing activities</b>	<b>(309)</b>	<b>251</b>	<b>56</b>	<b>(771)</b>	<b>(673)</b>
Bank borrowing	6	(668)	(273)	32	(18)
Others	(17)	171	749	(26)	(17)
<b>Cash flow from financing activities</b>	<b>(11)</b>	<b>(497)</b>	<b>476</b>	<b>6</b>	<b>(35)</b>
<b>Net change in cash and cash equivalent</b>	<b>(1)</b>	<b>91</b>	<b>422</b>	<b>(149)</b>	<b>102</b>
ForEx effect	0	0	0	0	0
<b>Cash and cash equivalent at the end of FY</b>	<b>12</b>	<b>104</b>	<b>526</b>	<b>377</b>	<b>479</b>

Source(s): Company, ABCI Securities estimates

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

FY ends at Aug 31	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Growth (YoY %)</b>					
Revenue	26.13	23.21	30.15	29.79	23.01
Gross profit	32.35	18.20	31.71	30.58	22.04
EBIT	44.62	12.09	33.10	30.38	21.77
EBITDA	42.91	13.41	34.94	31.36	24.23
Pretax Profit	89.14	(8.39)	40.10	40.60	22.49
Net profit (to owners of the company)	100.52	(15.32)	45.54	42.01	22.17
<b>Profitability ratios (%)</b>					
GPM	49.1	47.1	47.7	48.0	47.6
OPM	35.2	32.0	32.7	32.9	32.5
EBITDA margin	42.0	38.7	40.1	40.6	41.0
Pretax margin	37.3	27.8	29.9	32.4	32.2
NPM (to owners of the company)	32.1	22.0	24.6	27.0	26.8
<b>Revenue contribution (%)</b>					
Tuition	68.87	69.86	64.32	65.39	63.90
Boarding fees	8.89	8.64	8.20	8.48	8.44
Ancillary services fees	22.24	21.50	27.48	26.12	27.66
<b>Return ratios (%)</b>					
ROAA	6.45	5.69	8.27	9.85	10.15
ROAE	30.74	20.50	16.95	16.11	16.70
<b>Liquidity ratio (x)</b>					
Current ratio	0.99	0.60	0.66	0.41	0.42
Quick ratio	0.99	0.60	0.65	0.41	0.41
Cash ratio	0.01	0.09	0.59	0.35	0.35
<b>Cash conversion cycle (days)</b>					
Days of outstanding receivable	0	0	0	0	0
Days of inventory on hand	2	3	4	3	3
Days of outstanding payable	25	32	43	37	40
CCC	(23)	(29)	(39)	(34)	(37)
<b>Leverage ratios (%)</b>					
Total debt/Equity	188.89	73.15	18.40	17.15	13.79
Total debt/Total assets	43.02	24.72	11.27	10.46	8.35

Source(s): Company, 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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