Edvantage Group (382 HK)
Xinhui land acquisition to develop new campus

- The Group announced land acquisition in Xinhui, Jiangmen, Guangdong, for new campus development. The cost is RMB 190.01mn (~HK$ 207.11mn), and the Group will fund the purchase with internal resrouces
- The new campus will support the expansion of Huashang Vocational College and is expected to commence operation in Sep 2021; we estimate revenue contribution of the new campus to be 3.8% in FY22E
- Expect revenue CAGR of 19.8% in FY19A-22E, supported by student enrollment and average student revenue CAGRs of 11.0% and 7.9%
- Maintain **BUY**; current TP implies 19.39x/15.48x 20E/21E P/E, or 3.34x/2.75x 20E/21E P/B

Company Report
Jun 10, 2020
Rating: BUY
TP: HK$ 6.96

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Land acquisition in Xinhui to develop new campus. The Group announced to acquire a site located in Xiangshan, Shuibeicun, Yamen (崖門鎮水背村象山) of the Xinhui District in Jiangmen, Guangdong. The site area is ~455,652 sqm with a GFA of ~318,956 sqm to 683,478 sqm. The Group will fund the land acquisition with internal resources. As of end-Feb 2020, the Group's cash level was at ~RMB 742.32mn.

Expanded capacity to drive revenue growth. The acquired site will mainly support the new campus development for Huashang Vocational College, one of the Group's portfolio schools. According to the Group, the new campus would commence operation in Sep 2021. The planned new campus in Xinhui has a designed capacity of 12k students. The capacity of the Huashang Vocational College in 2018/19 school year was 11,044, meaning the capacity increase brought by the Xinhui new campus would be over 100%. In addition, the Xinhui campus' capacity represents 23.6% of our estimated domestic capacity (~50.9k) in 2020/21 school year. We expect utilization of the Xinhui new campus would increase gradually, and estimate new student enrollment in 2021/22 school year would be 2.5k. In addition, tuition level of the new campus would be on par with that of Huashang Vocational College. Based on our projections, the new campus would start contributing to 3.8%.of the Group's revenue in FY22E.

Revenue CAGR of 19.8% in FY19A-22E. The new Xinhui campus would elevate the Group's growth. We expect revenue CAGR in FY19A-22E to be 19.8% (previous projection: 18.3%), supported by enrollment CAGR of 11.0% and average revenue per student CAGR of 7.9% for FY19A-22E.

Maintain BUY; TP at HK$ 6.96. We believe continuous expansion would further support growth in coming years. Maintain **BUY**. We raise the DCF-derived TP to reflect the additional growth to be derived from the Xinhui new campus. Current TP represents 19.39x/15.48x 20E/21E P/E, or 3.34x/2.75x 20E/21E P/B.

Risk factors: 1) Geographical concentration risk; 2) Growth risk; 3) Teaching staff cost risk; 4) Fluctuation in education quality; 5) Regulatory risk; 6) Impacts of prolonged COVID-19 pandemic; 7) Failure to maintain a favorable effective tax rate.

Results and Valuation

FY ended Aug 31	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	636	704	829	992	1,211
Change (YoY %)	5.3	10.7	17.7	19.6	22.1
Net Profit – to owners of the Company (RMB mn)	162	217	334	418	522
Change (YoY %)	23.2	34.1	54.1	25.2	24.9
Basic EPS (RMB cent)	21.55	27.68	32.83	41.09	51.31
Change (YoY %)	N/A	28.4	18.6	25.2	24.9
P/E (x)	25.99	20.24	17.06	13.63	10.92
BVPS (RMB cent)	N/A	157.67	190.48	231.57	282.88
P/B (x)	N/A	3.55	2.94	2.42	1.98
DPS (HK cent)	N/A	1.0	11.8	14.8	18.4
Dividend yield	N/A	0.16	1.92	2.41	3.01
ROAA (%)	8.6	8.1	10.3	11.4	11.8
ROAE (%)	27.1	19.4	18.9	19.5	19.9

Source(s): The Group, ABCI Securities estimates

Share price (HK$)	6.13
52WK H/L (HK$)	6.41/2.56
Est. share price return	13.56%
Est. dividend yield	1.92%
Est. total returns	15.49%
Previous report date	Apr 28, 2020
Previous rating/TP	BUY / HK$ 5.75

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued shares (mn)	1,018.36
Mkt cap (HK$ mn)	6,242.56
3-month ADT(HK$mn)	17.53
Shareholding (%)	
Debo Education Investment HLD	73.65
Ariana Capital Investment	7.27
Other public investors	19.08

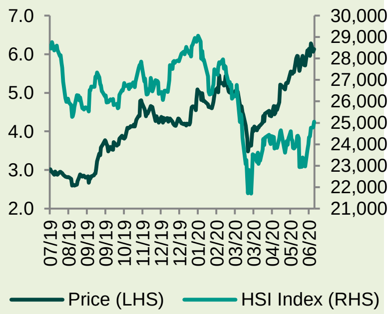
Source(s): Bloomberg, the Group

Price performance (%)

	Absolute	Relative*
1-mth	15.53	11.16
3-mth	30.95	29.72
6-mth	41.08	45.32

* Relative to HSI
Source(s):Bloomberg

Price performance since IPO



Source(s):Bloomberg, ABCI Securities
Note: Market data as of June 9, 2020
RMB/HKD=1.0943

Exhibit 1: Changes in assumptions and valuations

FY ends at Aug 31	Current report FY20E	Current report FY21E	Previous report FY20E	Previous report FY21E	Rationale
Assumptions					
GPM (%)	50.1	51.2	50.1	51.2	
Pretax margin (%)	43.7	45.8	43.8	45.8	N/A
NPM (to shareholders of the Company) (%)	40.3	42.2	40.3	42.2	
D/E (%)	18.3	17.3	18.3	17.3	Lower D/A ratio due to the increase in non-current assets as a result of the new campus construction in Xinhui
D/A (%)	10.6	10.2	11.0	10.2	
Tax rate (%)	7.9	7.9	7.9	7.9	N/A
Revenue growth (YoY %)	17.7	19.6	17.7	19.6	
- - Tuition fees	19.2	18.5	19.2	18.5	N/A
- - Boarding fees	(1.7)	36.5	(1.7)	36.5	
Projections					
ROAA (%)	10.3	11.4	10.5	11.6	Changes in return ratio is also impacted by the new campus construction in Xinhui
ROAE (%)	18.9	19.5	18.9	19.5	
Valuations					
TP (HK$)	6.96		5.75		Increase in TP due to the additional growth from the new Xinhui campus
P/E (x)	19.39	15.48	16.02	12.80	
P/B (x)	3.34	2.75	2.76	2.27	

Note: Previous report was published on Apr 28, 2020
Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report FY20E	Current report FY21E	Current report FY22E	Previous report FY20E	Previous report FY21E	Previous report FY22E	Change (%) FY20E	Change (%) FY21E	Change (%) FY22E
Revenue (RMB mn)	829	992	1,211	829	992	1,165	0	0	3.95
Net profit (to owners of the Company) (RMB mn)	334	418	522	334	418	502	0	0	3.98
EPS (RMB cent)	32.81	41.09	51.31	32.81	41.09	49.25	0	0	4.18

Source(s): ABCI Securities estimates

Financial statement of the Group

Consolidated income statement

FY ends at Aug 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**636**	**704**	**829**	**992**	**1,211**
- Tuition fees	580	647	772	915	1,117
- Boarding fees & other services	57	57	57	77	93
Cost of sales	(346)	(362)	(414)	(484)	(584)
Gross profit	**290**	**342**	**415**	**508**	**627**
Selling expenses	(9)	(7)	(10)	(11)	(14)
Admin expenses	(67)	(82)	(91)	(108)	(128)
Others	28	17	63	75	93
Finance costs	(18)	(28)	(14)	(10)	(10)
Pretax profit	**225**	**243**	**363**	**454**	**567**
Tax	(48)	(28)	(29)	(36)	(45)
Net profit (continuing operation)	**177**	**215**	**334**	**418**	**522**
- Owners	163	209	334	418	522
- MI	14	6	0	0	0
Net profit/losses from discontinued operations	**(2)**	**7**	**0**	**0**	**0**
- Owners	(2)	7	0	0	0
- MI	0	(0)	0	0	0
Total net profit	**175**	**223**	**334**	**418**	**522**
- Owners	162	217	334	418	522
- MI	14	6	0	0	0
EPS (RMB cent)					
- Basic	21.55	27.68	32.83	41.09	51.31
- Diluted	N/A	27.68	32.83	41.09	51.31
DPS (HK cent)	0	1.00	11.78	14.76	18.43

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	149	1,352	1,188	1,467	1,903
Financial assets at fair value through profit or loss	869	253	268	284	301
Trade receivables, deposits, prepayments and other receivables	23	32	48	45	70
Others	117	58	1	1	1
Current assets	**1,158**	**1,695**	**1,504**	**1,796**	**2,275**
PP&E	1,176	1,180	1,340	1,608	1,938
Prepaid lease payments	54	199	0	0	0
Others	8	53	513	579	648
Non-current assets	**1,238**	**1,432**	**1,853**	**2,187**	**2,586**
Total assets	**2,396**	**3,127**	**3,357**	**3,983**	**4,861**
Contracted liabilities	568	682	705	809	973
ST Borrowing	214	166	105	118	139
Others	241	171	211	226	317
Current liabilities	**1,024**	**1,019**	**1,022**	**1,153**	**1,428**
Deferred tax liabilities	106	113	121	152	185
LT Borrowing	568	390	251	290	331
LT lease liabilities	0	0	25	29	36
Non-current liabilities	**673**	**502**	**396**	**472**	**552**
Shareholders' equity	626	1,606	1,940	2,358	2,881
MI	73	0	0	0	0
Equity	**699**	**1,606**	**1,940**	**2,358**	**2,881**
Total liabilities and equity	**2,396**	**3,127**	**3,357**	**3,983**	**4,861**

Source(s): The Group, ABCI Securities estimates

Consolidated cash flow statement

FY ends at Aug 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit for the period	175	223	334	418	522
Depreciation and amortization	64	64	67	71	73
Change in working capital	62	130	80	98	228
Others	37	6	23	23	29
Cash flow from operating activities	**338**	**423**	**505**	**610**	**853**
PP&E	(132)	(102)	(415)	(756)	(420)
Others	(706)	534	18	17	18
Cash flow from investing activities	**(839)**	**433**	**(396)**	**(739)**	**(402)**
Change in borrowing	488	(227)	(200)	52	62
Others	(56)	559	(71)	355	(78)
Cash flow from financing activities	**432**	**332**	**(272)**	**408**	**(17)**
Net change in cash	**(69)**	**1,188**	**(163)**	**280**	**434**
Cash and cash equivalent - beg	216	149	1,352	1,188	1,467
ForEx impact	1	16	(2)	(0)	2
Cash and cash equivalent - end	**149**	**1,352**	**1,188**	**1,467**	**1,903**

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Aug 31	FY18A	FY19A	FY20E	FY21E	FY22E
Growth (YoY %)					
Revenue	5.3	10.7	17.7	19.6	22.1
- Tuition fees	5.7	11.6	19.2	18.5	22.2
- Boarding fees	3.0	4.1	(1.7)	36.5	19.9
Gross profit	7.1	17.9	21.3	22.4	23.4
Pretax profit	13.3	8.2	49.1	25.2	24.9
Total net profit (to shareholders of the company)	23.2	34.1	54.1	25.2	24.9
Profitability ratios (%)					
GPM	45.6	48.6	50.1	51.2	51.8
Pretax profit	35.3	34.5	43.7	45.8	46.8
Total NPM (to shareholders of the company)	25.7	29.7	40.3	42.2	43.2
Return ratios (%)					
ROAA	8.6	8.1	10.3	11.4	11.8
ROAE	27.1	19.4	18.9	19.5	19.9
Liquidity ratio (x)					
Current ratio	1.1	1.7	1.5	1.6	1.6
Cash ratio	0.1	1.3	1.2	1.3	1.3
Leverage ratios (%)					
Total debt to Equity	111.8	34.6	18.3	17.3	16.3
Total debt to Total assets	32.6	17.8	10.6	10.2	9.7
Net debt to Equity	90.5	(49.6)	(42.9)	(44.9)	(49.8)
Net debt to Total assets	26.4	(25.5)	(24.8)	(26.6)	(29.5)

Source(s): The Group, ABCI Securities estimates

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (10%)
Hold	- Market return rate (-10%) ≤ 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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