



## CEG (839 HK) Expansion in Greater Bay Area

- 1H20 (ended at Feb 29, 2020) revenue increased by 41.8% YoY and student enrollment reached 181,826 by end-1H20; 1H20 GPM was stable at 57.6% (1H19: 57.8%); NPM (shareholders of the Company) increased from 32.3% in 1H19 to 37.8% in 1H20
- Interim dividend at HK13.4 cents, representing a payout ratio of 49.9%
- The Group announced a land acquisition in Zhaoqing, Guangdong, for the new campus development of Guangzhou University Songtian College
- Expect FY19-22E revenue CAGR of 23.1%, supported by 6.1% student enrollment CAGR and 16.1% per student revenue CAGR
- Maintain **BUY**, current TP represents 32.42X/24.26X 20E/21E P/E, or 3.98x/3.57x 20E/21E P/B

**1H20 performance was steady.** 1H20 revenue grew by 41.8% YoY. Student enrollment rose 23.3% to reach 181,826. Revenue from higher education segment was up 45.6% YoY while that from vocational education was up 14.2% YoY. With the acquired schools overseas, revenue of the newly-added global education segment was RMB 67.9mn. However, consolidation of newly acquired schools affected margin. Excluding the impact of acquisition, the Group's GPM and NPM increased from 57.8% and 46.4% in 1H19 to 59.8% and 48.1% in 1H20. The Group also announced interim dividend of HK 13.4 cents, representing a payout ratio of 49.9%.

**Expanding presence in the Greater Bay Area.** The Group announced a land acquisition in Zhaoqing, Guangdong, for the new campus development of Guangzhou University Songtian College. The new campus will occupy 1,500mu of land with a designed capacity for 30,000 students, equivalent to 16.5% of the total student enrollment as of end-1H20. Phase I development will cover an area of ~243.9k sq.m. The Group plans to start construction two months after land delivery and the school will kick start in Sep 2021. We project this new campus would not be at capacity in the first few years of operation and the revenue contribution from this new campus would reach 4.6% in FY22E.

**Expect FY19-22E revenue CAGR of 23.1%.** The Group has been conducting acquisitions since IPO to ramp up its operation scale and coverage, and the new land acquisition in Zhaoqing would fuel growth. Impact of the COVID-19 pandemic has not been substantial so far, though an upsurge in refund of boarding fees, which contributed to 7.9%/6.8% of total FY19/1H20 revenue, is possible. We expect FY19-22E revenue CAGR to be supported by 6.1% student enrollment CAGR and 16.1% per student revenue CAGR. Our growth forecast only factor in the existing portfolio schools. We estimate GPM and NPM (to shareholders of the Group) would increase from 57.4% and 30.3% in FY19 to 58.0% and 39.9% in FY22E.

**Maintain BUY, TP at HK\$ 15.2.** We revise up our DCF-derived TP by 8.6% on increasing operational scale as a result of recent acquisitions. Current TP represents 32.42X/24.26X 20E/21E P/E, or 3.98x/3.57x 20E/21E P/B.

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

### Results and Valuation

FY ended Aug 31	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,294	1,955	2,618	3,165	3,650
Chg (YoY %)	N/A	51.08	33.91	20.91	15.31
Total Net Profit – to shareholders of the Company (RMB mn)	500	593	866	1,157	1,454
Chg (% YoY)	N/A	18.61	46.07	33.63	25.73
Basic EPS (RMB cents)	28.68	29.33	43.06	57.55	72.35
Change (YoY %)	1.85	2.27	46.83	33.63	25.73
P/E (x)	42.54	41.60	28.33	21.20	16.86
BVPS (RMB cents)	319.88	346.91	371.43	411.71	462.36
P/B (x)	3.81	3.52	3.28	2.96	2.64
Dividend (HK cents)	7.40	12.50	20.21	18.82	23.66
Dividend yield	0.61	1.02	1.66	1.54	1.94
ROAA (%)	N/A	5.71	5.55	7.04	8.34
ROAE (%)	N/A	9.30	12.66	15.44	17.31

Source(s): Prospectus, ABCI Securities estimates

## Company Report May 6, 2020 Rating: BUY TP: HK\$ 15.2

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Share price (HK\$)	13.30
52WK H/L (HK\$)	13.58/8.9
Est. share price return	14.45%
Est. dividend yield	1.66%
Est. total returns	16.10%
Previous rating&TP	BUY/HK\$ 14.0
Previous report date	Jun 27, 2019

Source(s): Bloomberg, ABCI Securities estimates

### Key data

Issued shares (mn)	2,020.20
Mkt cap (HK\$ mn)	26,868.69
3-mth avg ADT (HK\$mn)	40.45
Shareholding (%)	
Yu Guo	37.125
Xie Ketao	37.125
Matthews Intl. Capital	2.40

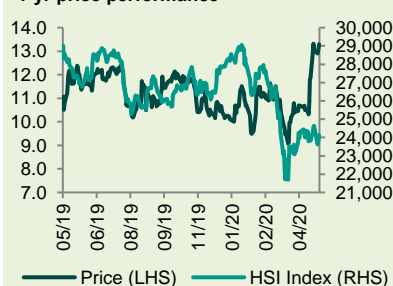
Source(s): Bloomberg, the Group, ABCI Securities

### Price performance (%)

	Absolute	Relative (HSI)*
1-mth	27.15	25.49
3-mth	28.18	40.22
6-mth	12.67	25.19

Source(s): Bloomberg

### 1-yr price performance



Source(s): Bloomberg, ABCI Securities

Note: market data as of May 6, 2020  
RMB/HKD= 1.0901



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

FY ends at Aug 31	Current report		Previous report		Rationale
	FY20E	FY21E	FY20E	FY21E	
<b>Assumptions</b>					
GPM (%)	57.5	57.8	55.7	56.1	The consolidation of acquired schools is expected to bring down the Group's pretax margins and NPM
Pretax margin (%)	34.5	38.0	44.4	44.3	
NPM (to shareholders of the Company) (%)	33.1	36.6	43.1	42.9	
D/E (%)	58.6	51.8	30.6	25.3	Adjusted based on 1H20 ratio
D/A (%)	27.5	25.3	18.3	15.5	
Tax rate (%)	3.6	3.3	2.5	2.7	Adjusted based on 1H20 rate
Revenue growth (YoY %)	33.9	20.9	32.6	14.1	Higher growth projection is mainly due to the larger scale of the Group after acquisition
- Tuition fees	33.5	20.8	31.9	12.7	
- Boarding fees	6.6	19.8	30.8	14.3	
- Ancillary services	212.5	24.8	57.1	46.8	
<b>Projections</b>					
ROAA (%)	5.6	7.1	8.6	9.3	Lower return ratios on acquisitions
ROAE (%)	12.7	15.5	15.6	15.9	
EPS (RMB cent)	43.01	55.55	54.11	61.51	Lower margins translate into lower EPS
<b>Valuations</b>					
TP (HK\$)	15.2		14.0		Recent acquisitions are likely to lower margins in the next two years, but the enlarged scale and higher growth resulted from these acquisitions would drive up FCFF and valuation
P/E (x)	32.42	24.26	22.78	20.04	
P/B (x)	3.98	3.57	3.38	3.03	

Note: Previous report was published on Jun 27, 2019

Source(s): The Group, ABCI Securities estimates



## Financial statement of the Group

### Consolidated income statement

FY ends at Aug 31 (RMB mn)	FY18E	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>1,294</b>	<b>1,955</b>	<b>2,618</b>	<b>3,165</b>	<b>3,650</b>
- Tuition fees	1,172	1,774	2,369	2,863	3,298
- Boarding fees	101	153	164	196	224
- Ancillary services	22	27	85	107	128
COGS	(497)	(833)	(1,113)	(1,337)	(1,534)
<b>Gross profit</b>	<b>797</b>	<b>1,121</b>	<b>1,505</b>	<b>1,828</b>	<b>2,116</b>
Selling expenses	(21)	(53)	(125)	(152)	(168)
Admin expenses	(212)	(353)	(366)	(443)	(498)
Others	34	56	156	220	257
Finance costs	(31)	(104)	(267)	(251)	(202)
<b>Pretax profit</b>	<b>567</b>	<b>668</b>	<b>902</b>	<b>1,202</b>	<b>1,505</b>
Tax	13	19	(32)	(40)	(43)
<b>Net profit</b>	<b>579</b>	<b>687</b>	<b>870</b>	<b>1,163</b>	<b>1,462</b>
- Profit attributable to shareholders	500	593	866	1,157	1,454
- Minority interest	43	95	4	6	7
Dividend	137	232	375	349	439
EPS (RMB cents)					
- Basic	28.68	29.33	43.06	57.55	72.35
- Diluted	28.55	29.16	42.86	57.28	72.01
DPS (HK cents)	7.40	12.50	20.21	18.82	23.66

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

Source(s): The Group, ABCI Securities estimates

### Consolidated balance sheet

FY ends at Aug 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Bank balances and cash	1,738	3,497	1,694	1,620	1,598
Trade receivables, deposits, prepayments and other receivables	130	571	580	672	728
Others	190	839	904	926	966
<b>Current assets</b>	<b>2,059</b>	<b>4,906</b>	<b>3,178</b>	<b>3,218</b>	<b>3,291</b>
PP&E	3,259	5,851	7,175	7,841	8,454
LT Prepaid lease payment	63	1,051	0	0	0
Goodwill	917	1,566	1,566	1,566	1,566
Intangible assets	994	1,708	1,759	1,812	1,867
Others	1,442	257	2,327	2,583	2,845
<b>Non-current assets</b>	<b>6,675</b>	<b>10,433</b>	<b>12,827</b>	<b>13,803</b>	<b>14,732</b>
<b>Total assets</b>	<b>8,733</b>	<b>15,339</b>	<b>16,005</b>	<b>17,021</b>	<b>18,024</b>
ST Contracted liabilities	1,038	1,617	1,939	2,368	2,595
ST Borrowing	107	285	129	125	121
Trade payables, other payables and accrued expenses	546	1,530	1,530	1,561	1,441
Others	36	59	323	96	104
<b>Current liabilities</b>	<b>1,728</b>	<b>3,491</b>	<b>3,921</b>	<b>4,149</b>	<b>4,262</b>
LT Borrowing	130	1,838	2,159	2,106	1,961
Convertible bonds	0	2,144	2,112	2,080	2,049
Others	394	620	309	369	411
<b>Non-current liabilities</b>	<b>524</b>	<b>4,602</b>	<b>4,580</b>	<b>4,555</b>	<b>4,421</b>
Equity to owners of the Company	6,143	6,595	7,086	7,894	8,909
Minority interest	319	414	418	424	431
<b>Equity</b>	<b>6,462</b>	<b>7,008</b>	<b>7,504</b>	<b>8,317</b>	<b>9,341</b>
<b>Total liabilities and equity</b>	<b>8,714</b>	<b>15,101</b>	<b>16,005</b>	<b>17,021</b>	<b>18,024</b>

Note: 1) The Group changed its FY-end to Aug 31 from Dec 31 in 2018

Source(s): The Group, ABCI Securities estimates



### Consolidated cash flow statement

FY ends at Aug 31 (RMB mn)	FY18E	FY19A	FY20E	FY21E	FY22E
Net profit for the period	579	668	870	1,163	1,462
Depreciation	127	236	459	337	449
Change in working capital	481	44	257	79	262
Others	71	193	347	169	273
<b>Cash flow from operating activities</b>	<b>1,258</b>	<b>1,141</b>	<b>1,933</b>	<b>1,747</b>	<b>2,445</b>
Capex	(205)	(808)	(943)	(918)	(916)
Others	(2,582)	(1,460)	(2,284)	(215)	(732)
<b>Cash flow from investing activities</b>	<b>(2,787)</b>	<b>(2,268)</b>	<b>(3,227)</b>	<b>(1,133)</b>	<b>(1,648)</b>
Change in borrowings	86	4,030	133	(88)	(180)
Interest paid	(31)	(32)	(267)	(251)	(202)
Others	(31)	(1,188)	(375)	(349)	(439)
<b>Cash flow from financing activities</b>	<b>24</b>	<b>2,810</b>	<b>(509)</b>	<b>(688)</b>	<b>(820)</b>
<b>Net change in cash</b>	<b>(1,505)</b>	<b>1,758</b>	<b>(1,802)</b>	<b>(74)</b>	<b>(22)</b>
Cash and cash equivalent - beg	3,243	1,738	3,497	1,694	1,620
ForEx impact	22	74	87	57	48
<b>Cash and cash equivalent - end</b>	<b>1,738</b>	<b>3,497</b>	<b>1,694</b>	<b>1,620</b>	<b>1,598</b>

Note: 1) The Group changed its FY-end to Aug 31 from Dec 31 in 2018 and did not disclose FY18 cash flow data adjusted for the new FY-end  
Source(s): The Group, ABCI Securities estimates

### Key operating and financial ratios

FY ends at Aug 31	FY18E	FY19E	FY20E	FY21E	FY22E
<b>Growth (YoY %)</b>					
Revenue	N/A	51.1	33.9	20.9	15.3
- Tuition fees	N/A	51.3	33.5	20.8	15.2
- Boarding fees	N/A	51.5	6.6	19.8	14.3
- Ancillary services	N/A	25.4	212.5	24.8	20.0
Gross profit	N/A	40.7	34.2	21.5	15.8
Pretax profit	N/A	17.9	35.0	33.3	25.1
Total net profit (to owners of the Company)	N/A	18.6	46.1	33.6	25.7
<b>Profitability ratios (%)</b>					
GPM	61.6	57.4	57.5	57.8	58.0
Pretax margin	43.8	34.2	34.5	38.0	41.2
Total NPM (to shareholders of the Company)	38.6	30.3	33.1	36.5	39.8
<b>Revenue contribution (%)</b>					
Tuition fees	90.6	90.7	90.5	90.4	90.4
Boarding fees	7.8	7.9	6.2	6.2	6.1
Ancillary services	1.7	1.4	3.3	3.4	3.5
<b>Return ratios (%)</b>					
ROAA	N/A	5.7	5.6	7.0	8.3
ROAE	N/A	9.3	12.7	15.4	17.3
<b>Liquidity ratio (x)</b>					
Current ratio	1.2	1.4	0.8	0.8	0.8
Cash ratio	1.0	1.0	0.4	0.4	0.4
<b>Leverage ratios (%)</b>					
Total debt to Equity	3.7	60.9	58.6	51.8	44.2
Total debt to Total assets	2.7	27.8	27.5	25.3	22.9
Net debt/(cash) to Equity	(23.2)	11.0	36.1	32.4	27.1
Net debt/(cash) to total assets	(17.2)	5.0	16.9	15.8	14.1

Note: 1) The Group changed its FY-end to Aug 31 from Dec 31 in 2018 and did not disclose FY17 figures  
Source(s): The Group, ABCI Securities estimates



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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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