

Edvantage Group (382 HK)

A leading higher education provider in the Greater Bay Area

- The Group is a leading higher education player in the Greater Bay Area, where talent demand would rise and create more opportunities for the Group
- The Group offers international learning experience and professional-oriented courses to ensure education quality
- The new campus in Sihui, Zhaoqing, Guangdong, and new schools in the UK and Singapore would drive growth
- Initiate with **BUY**; current TP implies 15.06x/12.41x 20E/21E P/E or 2.40x/2.01x 20E/21E P/B

A leading higher education provider in the Greater Bay Area. The Greater Bay Area is expected to experience higher demand for talents as the economy expands amid favorable policy conditions, according to a report by Frost & Sullivan (F&S report). As a leading player in the region, the Group is well-positioned to capture the emerging opportunities.

International learning experience and profession-oriented courses to ensure education quality. The Group has established mutual credit-recognition programs with universities overseas, such as the UK and Australia. GBCA, which was established by the Group in Australia, also has cooperation programs with the Group's portfolio schools. The Group's course offerings are designed to provide practical training for students. The initial employment rates of Huashang College and Huashang Vocational College have been above 90% in the past few years.

Setting up new campuses. The Group would expand capacity by developing a new campus in Sihui, Zhaoqing, Guangdong. Enrollment in the new school is expected to be 3,000 in the 2020/21 school year, and the total capacity is ~16,000. Also, the Group plans to establish new schools in the UK and Singapore.

Revenue CAGR of 16.1% in FY19A-22E. We expect average student enrollment and average student revenue would expand at 6.9% and 8.6% CAGRs in FY19A-22E. Margins would be supported by higher average student revenue, effective cost management, and reduction of effective tax rate. GPM and total NPM (to shareholders of the Company) would increase from 48.6% and 30.8% in FY19 to 51.4% and 39.7% in FY22E.

Initiate with BUY; TP at HK\$ 5.01. We believe the Group's expansion plans and geographical location of portfolio schools would support its future growth. Initiate with **BUY**. Based on our DCF model, we set TP at HK\$ 5.01, which represents 15.06x/12.41x 20E/21E P/E or 2.40x/2.01x 20E/21E P/B. As of Jan 6, 2020, the average 20E/21E P/E of the PRC higher education players listed in HK is 12.94x/10.73x.

Risk factors: 1) Geographical concentration risk; 2) Growth risk; 3) Teaching staff cost risk; 4) Education quality risk; 5) Regulatory risk.

Results and Valuation

FY ended Aug 31	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	573	604	636	704	797	936	1,101
Change (YoY %)	N/A	5.52	5.33	10.66	13.18	17.40	17.67
Net Profit – to owners of the Company (RMB mn)	91	131	162	217	304	369	437
Change (YoY %)	N/A	44.16	23.18	34.11	40.18	21.33	18.66
Basic EPS (RMB cent)	N/A	N/A	21.55	27.68	29.84	36.20	42.96
Change (YoY %)	N/A	N/A	N/A	28.45	7.80	21.33	18.66
P/E (x)	N/A	N/A	17.57	13.68	12.69	10.46	8.81
BVPS (RMB cent)	N/A	N/A	N/A	157.67	187.51	223.71	266.67
P/B (x)	N/A	N/A	N/A	2.40	2.02	1.69	1.42
Dividend (HK\$ cent)	N/A	N/A	N/A	1.00	11.12	13.50	16.01
Dividend yield	N/A	N/A	N/A	0.24	2.64	3.20	3.79
ROAA (%)	N/A	10.00	8.63	8.06	9.28	9.72	9.81
ROAE (%)	N/A	29.48	27.08	19.42	17.29	17.61	17.52

Source(s): The Group, ABCI Securities estimates

Company Report

Initiation

Jan 7, 2020

Rating: **BUY**

TP: **HK\$ 5.01**

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Share price (HK\$)	4.22
52WK H/L (HK\$)	4.93/2.56
Est. share price return	18.69%
Est. dividend yield	3.36%
Est. total returns	22.05%
Previous rating/TP	N/A / N/A

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued shares (mn)	1,018.36
Mkt cap (HK\$ mn)	4,317.85
ADT since IPO (HK\$mn)	11.07
Shareholding (%)	
Debo Education Investment HLD	73.65
Ariana Capital Investment	7.27
Other public investors	19.08

Source(s): Bloomberg, the Group

Margin projections (%)

	FY20E	FY21E	FY22E
GPM	50.1	51.0	51.4
Pretax margin	42.8	43.7	44.1
NPM (owners of the Company)	38.1	39.4	39.7

Source(s): ABCI Securities estimates

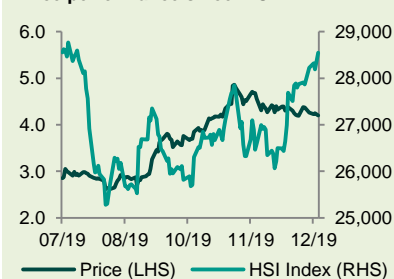
Price performance (%)

	Absolute	Relative*
1-mth	(2.31)	(8.84)
3-mth	12.23	2.60
6-mth	N/A	N/A

* Relative to HSI

Source(s): Bloomberg

Price performance since IPO



Source(s): Bloomberg, ABCI Securities

Note: Market data as of Jan 6, 2020



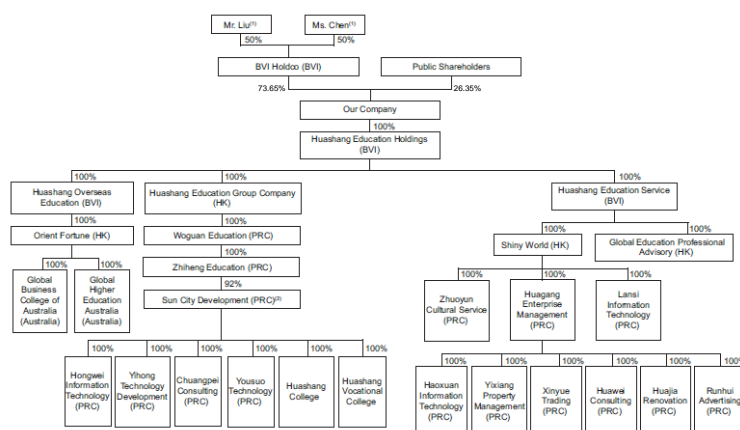
IPO at issue price of HK\$ 2.85

IPO raised ~HK\$ 681.6mn

The Group was listed on July 16, 2019 with an issue price of HK\$ 2.85, the mid-point of its initial price range of HK\$ 2.48 – 3.22. The over-allotment option was partially exercised and 18,362,000 of additional new shares were issued. Accounting for the overall-allotment option, the total number of shares issued was 243,362,000 and the total net proceeds received by the Group was ~HK\$ 681.6mn

Immediately after the issuance of over-allotment shares, public shareholders held ~26.35% of issued shares. The Group secured Ariana Capital Investment Limited (ACI) as a cornerstone investor. ACI subscribed shares amounting to HK\$ 210,934,800, which represents ~7.27% of total shares issued. The post-IPO shareholding structure is as follows.

Exhibit 1: Post IPO corporate structure



Note:

1) Mr. Liu is the spouse of Ms. Chen.

2) Sun City Development is owned by Zhiheng Education, Ms. Liao Xiaorong (廖笑容), who is Mr. Liu's elder sister, and Mr. Yang Ganbiao (楊淦標), who is Mr. Liu's nephew, as to 92%, 7.2% and 0.8%, respectively

Source(s): The Group

After the IPO, the Group's cash position and leverage has improved. As of end-FY19, the Group's cash and cash equivalent was RMB 1,352mn, increasing from RMB 149mn by end-FY18. As a result, the Group's D/E ratio decreased from 111.8% by end-FY18 to 34.6% by end-FY19.



Planned use of proceeds

Exhibit 2: Planned use of proceeds and progress

#	Item	% of total net proceeds	Net proceeds (RMB mn)	Utilized amount during the period from the Listing Date to Aug 31 2019 (RMB mn)	Unutilized amount at 31 Aug 2019 (RMB mn)	Expected timeline for intended use of unutilized amount at Aug 31, 2019
1)	Establishment and development of Huashang College Sihui Campus	30%	174.9	3.8	171.1	Sep-20
2)	Construction of a science and technology center	7%	40.8	0.1	40.7	Sep-20
3)	Construction of an international conference center	3%	17.4	9.1	8.3	Dec-19
4)	Investments in new education institutions or acquisitions of other education institutions	30%	174.9	0	174.9	Note
5)	Supporting existing overseas operations in Australia and other overseas expansions	10%	58.3	0.2	58.1	N/A
6)	Establishment of the education institutions in the United Kingdom	5%	29.2	0	29.2	Early 2020
7)	Establishment of the education institutions in Singapore	5%	29.2	0	29.2	Mid 2020
8)	Working capital and for general corporate purposes	10%	58.3	48	10.3	N/A
Total		100%	583	61.2	521.8	

Note: As of Nov 5, 2019, no legal binding agreement in respect of the investments in new education institutions or acquisitions of other education institutions has been entered into by the Group

Source(s): The Group, ABCI Securities

The Group plans to use 30% of the IPO proceeds for the development of the Huashang College Sihui Campus and 20% for the investment in overseas schools in Australia, Singapore, and the UK. From the listing date till Aug 31, 2019, the Group utilized 61.2% of the total proceeds, or ~85% of the proceeds (excluding the amount reserved for investment or acquisition of other education institutions). We believe additional financing will be needed if further expansion is intended.

FY19 results review: maintaining a steady growth momentum

In FY19, the Group's total revenue grew by 10.7% YoY, mainly driven by 11.6% YoY growth in tuition income. By school, Huashang College's revenue growth was 14.0% YoY, while revenue of the Huashang Vocational College grew by 2.3% YoY. However, GBCA's revenue declined by 10.5% YoY. The Group's performance is highly reliant on Huashang College, its core school that accounted for 75.8% of total FY19 revenue.

Overall student enrollment in the 2018/19 school year increased by 2.6% YoY. Student enrollment in Huashang College and GBCA increased by 4.2% YoY and 17.6% YoY, while that of Huashang Vocational College declined by 2.0% YoY. Nearing its maximum capacity, the Group would need to execute its expansion plans.

Margin improvement was seen in FY19. The Group's GPM and NPM (to shareholders of the Company) increased from 45.6% and 25.4% in FY18 to 48.6% and 30.8% in FY19, demonstrating the Group's ability to enhance cost efficiency.



Investment highlights

1. Leading player in the Greater Bay Area

According to F&S report, the Group is the largest private higher education group in the Guangdong-Hong Kong-Macau Greater Bay Area (Greater Bay Area) by student enrollment in business majors (21.8k) in the 2017/18 school year. The Group's total student enrollment of 31.5k in the 2017/18 school year was ranked second among the top five private higher education providers in the Greater Bay Area.

Exhibit 3: Top higher education groups in the Greater Bay Area

Top Five Private Higher Education Providers ⁽¹⁾ (Student Enrolment)		
Rank	Market Players	Student Enrollment (k)
1	Group A	33.7
2	The Group	31.5
3	Group B	31.2
4	Group C	26.4
5	Group D	26.3
Top Five Private Higher Education Providers ⁽²⁾ (Student Enrolment of Business Majors) ⁽³⁾		
Rank	Market Players	Student Enrollment (k)
1	The Group	21.8
2	Group A	16.1
3	Group E	14.7
4	Group B	14.2
5	Group F	12.6

Note:

- 1) The top five private higher education providers (student enrollment) refer to the top five private higher education providers in terms of student enrollment in the 2017/2018 school year in the Greater Bay Area
- 2) The top five private higher education providers (student enrollment of business majors) refer to the top five private higher education providers in terms of student enrollment of business majors in the 2017/2018 school year in the Greater Bay Area.
- 3) According to F&S report, business majors refer to majors falling into six disciplines: economics, management, finance and commerce, tourism, exhibition, and public management and service; these disciplines are stipulated by the Ministry of Education (MOE)

Source(s): F&S report, the Group, ABCI Securities

According to the F&S report, the Greater Bay Area is expected to achieve a nominal GDP of RMB 15.6tr and an urbanization rate of 88.5% (national average: 63.6%) in 2022E, and per capita personal disposable income of the region is expected to reach RMB 89.2k in 2022E. The strong local economy and policies to further promote the development of Greater Bay Area would create higher demand for talents in the region. In addition, the value added of the tertiary industry in Guangdong Province increased from RMB 3,050.3bn in 2013 to RMB 4,808.6bn in 2017, and the proportion of the tertiary industry over the regional GDP in terms of value added continued to increase from 48.8% in 2013 to 53.6% in 2017.

We believe that the strong local economy, increasing manpower demand in tertiary industry, and the favorable policy environment would attract more students to attend the higher education institutions in the area. The Group has a long history of operating higher education institutions in the Greater Bay Area and has established its reputation in business education. We believe it is well-positioned to capture the opportunities arising from the cross-regional development.



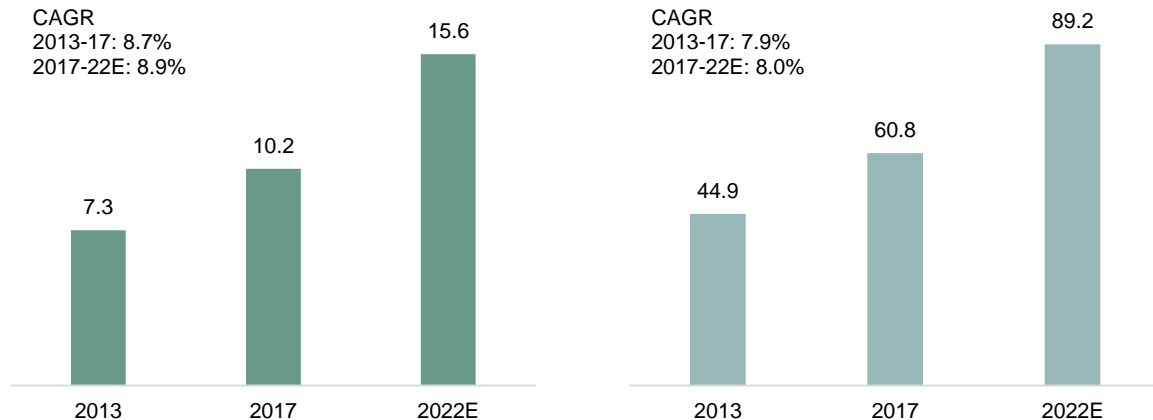
Exhibit 4: Nominal GDP and personal disposable income of the Greater Bay Area

Nominal GDP (RMB tr)

Per capita personal disposable income (RMB k)

CAGR
2013-17: 8.7%
2017-22E: 8.9%

CAGR
2013-17: 7.9%
2017-22E: 8.0%



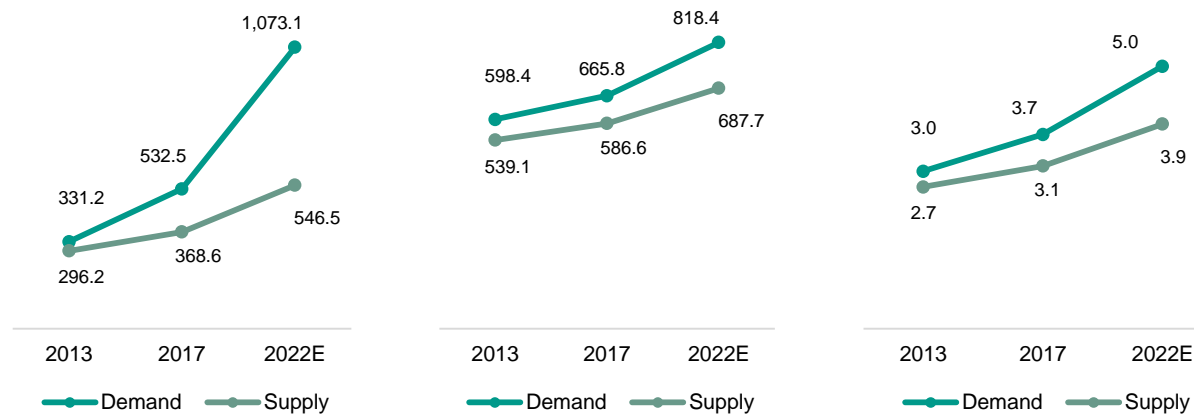
Source(s): F&S report, ABCI Securities

Exhibit 5: Talent demand and supply in specific tertiary industries in Guangdong

Accounting
(k ppl)

Financial services
(k ppl)

International trade
(mn ppl)



Source(s): F&S report, ABCI Securities

2. Integrated international learning experience enables flexibility tuition growth

The Group has developed multiple partnerships with higher education institutions overseas. Huashang College offers the “2+2” and “3+1” mutual credit-recognition programs through its cooperation with the University of Canberra located in Canberra, Australia and the University of Huddersfield located in Huddersfield, UK, among others. Huashang Vocational College also offers programs with similar partnership structures.

In 2015, it established and began independently operating GBCA (Global Business College of Australia), a vocational educational institution accredited by the ASQA with diploma-granting programs. Currently, one of the “2+1” mutual credit-recognition programs offered by Huashang College is conducted through its cooperation with GBCA.

We believe the integrated international learning experiences would be able to garner interest from prospective and current students. By leveraging these international programs, the Group would be able to increase tuition fees in the future.



3. Profession-oriented course offerings and simulation training facilities ensure high initial employment rate

The curriculum of the Group's portfolio schools focuses on profession-oriented and practical skill-based training. Programs are committed to deepening collaborations and relationships with enterprises. The Group strategically focuses on business-related programs, such as accounting, finance, economics, and business English, to cater to the increasing demand for talents in these majors in the Greater Bay Area.

Besides, the Group provides multiple practical training facilities tailored to different programs and disciplines and focuses on cooperating with various enterprises to establish on-campus and off-campus training centers for students. It has also entered into cooperative relationships with reputable private enterprises to establish training centers that provide valuable semester-long internship opportunities.

The Group's course design has helped students seek employment. For the 2015/2016, 2016/2017, and 2017/2018 school years, the initial employment rates of Huashang College were 98.3%, 97.4%, and 96.2%, respectively, and those of Huashang Vocational College were 97.9%, 98.4% and 97.6%, respectively.

4. Planned expansion enables more room for growth

The Group's portfolio schools are operating at near capacity. The utilization rate of Huashang College has exceeded 90% while that of Huashang Vocational College has been ~90%.

However, the Group has already planned to develop a new campus for Huashang College in Sihui, Zhaoqing, Guangdong. The new campus is estimated to cover a gross site area of ~0.53mn sq.m with a maximum student capacity of 16,000. The Group expects the Sihui Campus to start operating in the 2020/21 school year, with an initial student intake of 3,000; new student enrollment is expected to be ~3000 per year after that.

The Group also plans to expand internationally. Currently, it is targeting the UK and Singapore for new international schools. For more details, please see Exhibit 6. We believe that the international schools would elevate the tuition growth through the cooperation programs with the domestic schools.



Exhibit 6: Details of expansion plan

School/Campus	Land/GFA	Expected total investment	Facilities	Expected timeline	Expected payback period ⁽¹⁾	Expected breakeven period ⁽²⁾	Potential impact
Huashang College Sihui Campus	Expected to encompass ~0.53 mn sq.m.; The Group has acquired land use right for ~24,437.65 sq.m. and is in the process of acquiring the land use right for ~0.50 mn sq.m.	~RMB 800mn Phase 1: ~RMB 520mn Phase 2: ~RMB 280mn	Full range of teaching and living facilities including, teaching buildings, student dormitories, staff dormitories, libraries, cafeteria, libraries, laboratories and other teaching and practical training facilities	Sep 2020 (Phase 1) Sep 2023 (Phase 2)	~8 years	~4 years	The Group expects that the Huashang College Sihui campus will start recruiting students in 2020. The new campus is expected to recruit ~3,000 students for the 2020/2021 school year, and ~3,000 students for each of the following three school years, subject to the relevant quota approved by applicable education authorities
Zengcheng District Campus ⁽¹⁾	The Group plans to construct a science and technology center with a total GFA of ~69,000 sq.m. The Group plans to construct an international conference center with a total GFA of ~28,000 sq.m.	~RMB 200mn ~RMB 75mn	A science and technology center, mainly consisting of teaching and training facilities An international conference center with conference rooms, offices, other teaching facilities, and a gymnasium	Jul 2020 Dec 2019	N/A N/A	N/A N/A	The Group expects Zengcheng District campus improvement projects to enhance the learning experience of students and improve the infrastructure and teaching facilities shared by Huashang College and Huashang Vocational College (collectively "PRC Operating Schools")
Education institution in the UK	The Group plans to lease properties with a total GFA of ~5,000 sq.m. for the planned education institution in the UK.	~RMB 25mn	Full range of teaching facilities, including classrooms and library, and offices	Early 2020	N/A ⁽⁴⁾	N/A ⁽⁴⁾	The Group plans to finalize location selection process and finish developing academic programs offered at overseas school location in the UK by Aug 2019. The new school is expected to recruit ~150 students mainly from PRC Operating Schools for the 2020/2021 school year
Education institution in Singapore	The Group plans to lease properties with a total GFA of ~5,000 sq.m. for the planned education institution in Singapore	~RMB 25mn	Full range of teaching facilities, including classrooms and library, and offices	Mid 2020	N/A ⁽⁴⁾	N/A ⁽⁴⁾	The Group plans to finalize location selection process and finish developing academic programs offered at overseas school location in Singapore by Sep 2019. The new school is expected to recruit ~100 students mainly from PRC operating schools in 2020

Note:

1) Expected payback period refers to the time required to recover expected total investment. It is the period of time during which the total future net cash flow generated from operating activities equal to the expected total investment.

2) Expected breakeven period refers to the time required for a school to generate revenue equal to its cost of sales and other operating expenses for the first time.

3) Huashang Vocational College holds currently effective land ownership titles to lands upon which the Huashang academic exchange center and Huashang science and technology park are planned to be constructed. These facilities are expected to be utilized and shared by students, faculties and administrative staff from its PRC operating schools.

4) The Group expects the education institutions in UK and Singapore, as an extension of its international education platform, to offer mainly short-term international programs to its students at our PRC Operating Schools. Considering the Group's schools as a whole, it believes the expected payback and breakeven periods are not indicative of these new schools' expected financial performance

Source(s): The Group, ABCI Securities



5. Strong management team

The Group's management team is comprised of experienced professionals in the private education industry. Mr. Liu Yung Chau (廖榕就), the founder and chairman of the Group, has more than 15 years of experience in the private education industry. He also has held various positions, including council member of the China Vocational Education Association (中華職業教育社理事), executive vice-president of the Guangdong Private Education Association (廣東民辦教育協會) and vice-president of the Guangdong Association of Management Accountants (廣東省管理會計師學會) in the education sector in the PRC. Ms. Liu Yi Man, the executive director and chief executive officer, of the Group, has extensive knowledge and experience in managing private educational institutions and has a deep understanding of the PRC and international private higher education industry. Ms. Liu led the expansion of the Group's first overseas platform, GBCA. We believe the management expertise would enable the Group to expand domestically and internationally.



Growth and profitability outlook

Revenue to rise by 16.1% CAGR in 2019-22E

In our estimates, the Group's revenue would increase at 16.1% CAGR in FY19A-22E; enrollment and revenue per student would increase at 6.9% and 8.6% CAGRs during the same period. The higher enrollment would be mainly supported by new student enrollment in the Sihui campus in Zhaoqing, Guangdong, while the integration of international programs would drive up growth in the average revenue per student.

As for specific schools, we expect the average tuition fee of Huashang College to increase at 11.8% CAGR in FY19-22E, while that of Huashang Vocational College and GBCA would grow at ~5% CAGR. The average boarding fees of Huashang College and Huashang Vocational College would increase at 4.4% and 6.0% CAGRs in FY19A-22E.

Exhibit 7: Average tuition and boarding fees projection

As of Aug 31	2015/16A	2016/17A	2017/18A	2018/19A	2019/20E	2020/21E	2021/22E
Average tuition (RMB)							
Huashang College	17,618	18,520	19,822	21,831	24,379	27,250	30,541
Huashang Vocational College	12,869	13,784	14,392	15,057	15,771	16,546	17,424
GBCA*	10,444	22,293	15,371	11,706	12,291	12,906	13,551
Sihui Campus	N/A	N/A	N/A	N/A	N/A	18,000	19,800
Average boarding fees (RMB)							
Huashang College	1,640	1,644	1,702	1,786	1,862	1,947	2,033
Huashang Vocational College	1,613	1,645	1,720	1,839	1,945	2,068	2,192
Sihui Campus	N/A	N/A	N/A	N/A	N/A	2,007	2,113

Note: GBCA data is tuition revenue divided by student enrollment

Source(s): The Group, ABCI Securities estimates

Exhibit 8: Student enrollment projection (ppl)

As of Aug 31	2015/16A	2016/17A	2017/18A	2018/19A	2019/20E	2020/21E	2021/22E
Total	32,231	32,230	32,217	33,043	34,022	37,124	40,343
Huashang College	22,179	21,917	21,770	22,665	23,018	23,013	23,069
Huashang Vocational College	10,025	9,859	9,735	9,541	10,084	10,099	10,161
GBCA	27	454	712	837	921	1,013	1,114
Sihui Campus	0	0	0	0	0	3,000	6,000

Source(s): The Group, ABCI Securities estimates

Higher average student revenue, elimination of non-core businesses, and reduction of tax rate support margin improvement

We believe margins would improve on the higher average student revenue, in particular, the tuition, when more international programs are integrated. The reduction of effective tax rate and higher operating cost efficiency would help improve profitability as well. We expect GPM and NPM from continuing operation (to shareholders of the Company) to increase from 48.6% and 29.7% in FY19 to 51.4% and 39.7% in FY22E.

Exhibit 9: Margin projections (%)

FY ends at Aug 31	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
GPM	43.1	44.9	45.6	48.6	50.1	51.0	51.4
Pretax margin	28.9	32.8	35.3	34.5	42.8	43.7	44.1
NPM - continuing operation (to shareholders of the Company)	15.9	21.6	25.7	29.7	38.1	39.4	39.7
Total NPM (to shareholders of the Company)	15.9	21.7	25.4	30.8	38.1	39.4	39.7

Source(s): The Group, ABCI Securities estimates



Valuation

DCF-derived TP at HK\$ 5.01

Assumptions in our DCF model include:

- A beta of 1.19, which is the average beta of the listed higher education companies in HK;
- A risk-free rate of 3.2%;
- An expected market return of 11.78%;
- Terminal growth rate at 4%;
- Based on the current leverage situation, we assume the Group's total debt-to-asset ratio to be 30%

Based on our DCF model, we set the TP at HK\$ 5.01, which represents 15.06x/12.41x 20E/21E P/E or 2.40x/2.01x 20E/21E P/B.

Peer valuation analysis

In the HK market, the formal education peers' average 20E/21E P/E is 12.69x/10.38x. The higher education peers' average 20E/21E P/E is 12.94x/10.73x, as of Jan 6, 2020. The Group's share price as of Jan 6, 2020 represents 20E/21E P/E of 12.69x/10.46x, slight lower than the higher education peer average. We believe the Group's future expansion plans and strategic location in the Greater Bay Area would bring in above-peer-average returns to investors, which would support valuation growth.

Exhibit 10: Peer valuation comparison

Ticker	ENG name	CHI name	P/E(x)		P/B (x)		Yield (%)		ROAA (%)		ROAE (%)	
			20E	21E	20E	21E	20E	21E	20E	21E	20E	21E
Fundamental edu peers												
6068 HK	Wisdom	睿見教育	12.71	10.49	2.47	2.19	3.11	3.83	7.63	8.74	20.40	21.62
1317 HK	Maple Leaf	楓葉教育	10.69	9.19	1.77	1.60	3.76	4.35	9.53	11.01	16.95	17.50
1565 HK	Virscend	成實外教育	8.12	6.09	1.50	1.29	4.28	5.63	11.46	13.13	19.45	22.66
1773 HK	Tianli	天立教育	17.19	12.95	2.22	1.90	2.10	3.02	7.52	9.08	13.64	16.57
Higher edu peers												
839 HK	CEG	中教控股	19.85	16.87	2.40	2.16	1.50	1.82	6.36	7.15	12.68	13.78
1765 HK	Hope	希望教育	14.44	11.45	1.75	1.57	2.03	2.41	6.62	7.79	12.87	14.24
1569 HK	Minsheng	民生教育	10.21	8.61	1.11	0.96	0.48	0.72	6.72	7.18	11.86	12.47
2001 HK	CNHE	中國新高教	8.14	6.92	1.48	1.29	3.50	4.03	8.75	9.22	18.79	18.78
6169 HK	Yuhua	宇華教育	16.32	14.47	3.57	3.17	2.95	3.49	10.80	11.47	23.38	23.62
2779 HK	Xinhua	新華教育	9.72	8.46	1.30	1.16	2.99	3.42	11.26	12.10	13.80	14.61
1969 HK	Chunlai	春來教育	11.52	7.68	1.38	1.26	3.33	4.56	7.08	8.13	14.92	17.11
1890 HK	Kepei	科培教育	13.34	11.43	2.31	1.92	2.63	1.95	12.25	12.20	19.13	19.05
382 HK	Edvantage	中匯集團	12.69	10.46	2.02	1.69	2.64	3.20	9.28	9.72	17.29	17.61
Average – HK-listed PRC peers			12.69	10.38	1.94	1.71	2.72	3.27	8.83	9.77	16.49	17.67
Average – HK-listed PRC fundamental education peers			12.18	9.68	1.99	1.74	3.32	4.21	9.03	10.49	17.61	19.59
Average – HK-listed PRC higher education peers			12.94	10.73	1.91	1.69	2.43	2.80	8.73	9.40	15.93	16.71

Note: Data as of Jan 6, 2020

Source(s): Bloomberg, ABCI Securities estimates



Risk factors

Macroeconomic risk and growth risk

As the economic growth in China is trending down, the impact on the personal disposable income should not be ignored. In addition, the Greater Bay area or the Guangdong province may not be immune to a sustained economic growth slowdown. The Group's advantages in program offering and geographics would dissipate.

The Group's business is highly sensitive to changes in tuition fees income. If the Group's portfolio schools are unable to increase or have to decrease its tuition fees in the future as a result of lower disposable household income, reputational damage or price-regulating policy promulgated by relevant authorities, the Group's net profit would suffer. According to the Group, a 10%/5% decline in tuition fees income would have resulted in RMB ~45.7mn/~22.8mn or 26.0%/13.0% decline in FY18 net profit.

Exhibit 11: Sensitivity analysis of tuition fees income

FY ends at Aug 31	FY16	FY17	FY18
Change in tuition income	Change in net profit (RMB K)		
(10%)	(41,913)	(44,175)	(45,692)
(5%)	(20,956)	(22,088)	(22,846)
5%	20,956	22,088	22,846
10%	41,913	44,175	45,692
Change in tuition fees income	Change in net profit/net profit for the FY (%)		
(10%)	(31.4)	(27.5)	(26.0)
(5%)	(15.7)	(13.7)	(13.0)
5%	15.7	13.7	13.0
10%	31.4	27.5	26.0

Source(s): The Group, ABCI Securities

Staff cost risk

The Group is susceptible to the change in staff costs. In FY19, total staff cost was RMB 209.5mn, which increased by 29.9% YoY and accounted for 29.8% of total revenue or 86.1% of pretax profit. If total staff cost were to increase/decrease by 10%, pretax profit would reduce/increase by 8.6%, assuming other items remain unchanged.



Education quality risk

The Group's portfolio schools would suffer from student dropouts if it fails to maintain education quality. We believe that the inability to develop courses that meet market demand, failure to cultivate more corporate partnerships, as well as inadequate career services would decrease student employment or increase student dropout. The table below shows the student dropouts in the past few years.

Exhibit 12: Number of dropouts for the school year⁽¹⁾

(Ppl)	2015/16	2016/17	2017/18	2018/19 ⁽⁴⁾
Huashang College ⁽²⁾ (higher education programs)	51	47	63	22
Huashang Vocational College ⁽²⁾ (higher education programs)	16	25	26	10
GBCA (vocational education training programs) ⁽³⁾	1	6	26	13

Note:

1) Dropouts refer to students who have enrolled in the Group's schools but dropped out during the school year. As a school year typically ends in late June or early July for the schools, we present the number of dropouts as of Aug 31 for the 2015/2016, 2016/2017 and 2017/2018 school years and Feb 28, 2019 for the 2018/2019 school year

2) Huashang College and Huashang Vocational College did not offer vocational education programs during the period shown

3) The Group treats each student who had registered for one particular vocational education training program and subsequently dropped out as a separate student during a given school year

4) 2018/19 figures are as of Feb 28, 2019

Source(s): The Group, ABCI Securities

Exhibit 13: Tuition and boarding fees refund

(RMB)	FY16	FY17	FY18
Huashang College	242,107	136,130	257,220
Huashang Vocational College	128,640	215,600	203,120
GBCA	9,542	127,684	560,344

Source(s): The Group, ABCI Securities

Regulatory risk

The private education industry in the PRC is subject to regulations in various aspects.

(1) Currently, the Decision on Amendment of the Law for Promoting Private Education of the PRC (《关于修改中华人民共和国民办教育促进法的规定》) and the Draft Revision of the Regulations on the Implementation of the Law for Promoting Private Education of the PRC (the Draft for Examination and Approval)(《中华人民共和国民办教育促进法实施条例(修订草案)(送审稿)》)(the "MOJ Draft for Comments") still cast uncertainties on the future policy of the education industry in China;

(2) The Implementation Opinions of the Guangdong Province Government on Encouraging Private Entities and Individuals to Operate Schools and Promote Healthy Development of Private Education (Yue Fu [2018] No. 36)] (《廣東省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》(粵府[2018]36 號)) does not provide the deadline for private schools to register as for-profit or non-profit schools;

(3) the Implementing Measures of Classification Registration for Private Schools (《廣東省教育廳廣東省人力資源和社會保障廳廣東省民政廳中共廣東省委機構編制委員會辦公室廣東省市場監督管理局關於民辦學校分類登記的實施辦法》)(the "Guangdong Implementing Measures"), which was issued on Nov 8, 2018, did not provide a deadline for existing private schools to register as for-profit or non-profit schools;



(4) As for the MOJ Draft for Comments, it is uncertain if the final version would include the newly added clause prohibiting the acquisition of non-profit schools, which would significantly reduce the number of available schools for the Group to acquire in the future.

Market liquidity risk

The Group's daily turnover has been low since IPO debut. The average daily turnover since its IPO is HK\$ 11.07mn, lower than the average of PRC higher education players, which may deter investors.

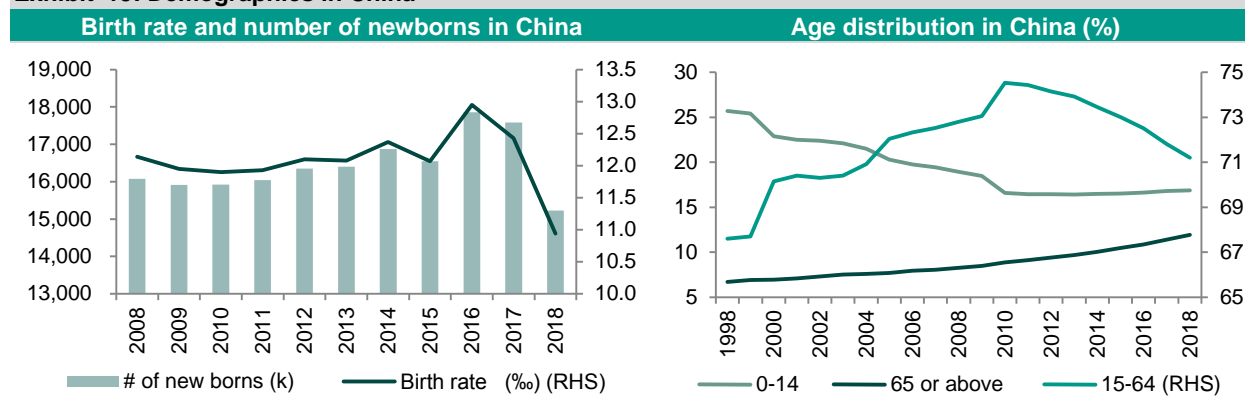
Exhibit 14: Daily turnover of H-listed PRC education peers on Jan 6, 2019 (HK\$ mn)

Edvantage	5.07
Avg – PRC fundamental education peers	<u>21.78</u>
Avg – PRC higher education peers	<u>10.96</u>

Source(s): Bloomberg, ABCI Securities

Demographic risk

Exhibit 15: Demographics in China



Source(s): NBS, ABCI Securities

The birth rate in China is declining in recent years and the population is aging. Number of newborns has also been declining. In the long term, if such a trend continues, the domestic education market may face lower number of students, which can affect the Group's enrollment growth.

Geographical concentration risk

As the majority of the Group's portfolio schools are in the Greater Bay Area, in particular, Guangdong, its business performance is heavily influenced by the local economy in Guangdong. If the Guangdong economy deteriorates, the growth in student enrollment and tuition fees may decrease.



Financial statement of the Group

Consolidated income statement

FY ends at Aug 31 (RMB mn)	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	573	604	636	704	797	936	1,101
- Tuition fees	520	548	580	647	732	861	1,015
- Boarding fees	53	52	54	56	62	72	82
- Fees from university cooperation program	0	3	3	1	3	3	4
Cost of sales	(326)	(333)	(346)	(362)	(398)	(458)	(536)
Gross profit	247	271	290	342	399	477	565
Selling expenses	(3)	(7)	(9)	(7)	(10)	(10)	(13)
Admin expenses	(69)	(64)	(67)	(82)	(87)	(103)	(123)
Others	10	13	28	17	60	71	84
Finance costs	(19)	(14)	(18)	(28)	(22)	(25)	(28)
Pretax profit	166	198	225	243	341	409	485
Tax	(32)	(39)	(48)	(28)	(37)	(41)	(48)
Net profit (continuing operation)	134	160	177	215	304	369	437
- Owners	91	130	163	209	304	369	437
- MI	43	30	14	6	0	0	0
Net profit/losses from discontinued operations	0	1	(2)	7	0	0	0
- Owners	0	1	(2)	7	0	0	0
- MI	(0)	0	0	(0)	0	0	0
Total net profit	134	161	175	223	304	369	437
- Owners	91	131	162	217	304	369	437
- MI	43	30	14	6	0	0	0
EPS (RMB cent)							
- Basic	0	0	21.55	27.68	29.84	36.20	42.96
- Diluted	0	0	N/A	27.68	29.84	36.20	42.96
DPS (HK\$ cent)	N/A	N/A	N/A	1.00	11.12	13.50	16.01

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Aug 31 (RMB mn)	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Bank balances and cash	196	216	149	1,352	1,651	2,159	2,539
Financial assets at fair value through profit or loss	162	264	869	253	268	284	301
Trade receivables, deposits, prepayments and other receivables	23	8	23	32	9	42	17
Others	12	21	117	58	2	3	3
Current assets	393	509	1,158	1,695	1,931	2,488	2,860
PP&E	1,091	1,097	1,176	1,180	1,375	1,545	1,753
Prepaid lease payments	55	56	54	199	67	74	85
Others	9	7	8	53	53	56	56
Non-current assets	1,155	1,159	1,238	1,432	1,495	1,675	1,894
Total assets	1,548	1,668	2,396	3,127	3,426	4,163	4,754
Contracted liabilities	436	457	568	682	588	806	807
ST Borrowing	176	266	214	166	189	207	244
Others	161	209	241	171	177	218	244
Current liabilities	774	932	1,024	1,019	954	1,231	1,294
Deferred tax liabilities	65	82	106	113	112	146	161
LT Borrowing	234	28	568	390	450	509	583
Non-current liabilities	299	110	673	502	562	655	744
Shareholders' equity	323	568	626	1,606	1,910	2,278	2,716
MI	153	59	73	0	0	0	0
Equity	476	627	699	1,606	1,910	2,278	2,716
Total liabilities and equity	1,548	1,668	2,396	3,127	3,426	4,163	4,754

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Aug 31 (RMB mn)	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Profit for the period	134	161	175	223	304	369	437
Depreciation and amortization	71	66	64	64	83	90	97
Change in working capital	35	82	62	130	(10)	177	94
Others	37	37	37	6	36	41	47
Cash flow from operating activities	277	346	338	423	413	676	676
PP&E	(159)	(69)	(132)	(102)	(274)	(436)	(290)
Others	(88)	(110)	(706)	534	18	17	18
Cash flow from investing activities	(248)	(179)	(839)	433	(256)	(419)	(272)
Change in borrowing	1	(116)	488	(227)	83	77	110
Others	(80)	(31)	(56)	559	55	173	(137)
Cash flow from financing activities	(79)	(148)	432	332	138	251	(27)
Net change in cash	(49)	19	(69)	1,188	296	509	378
Cash and cash equivalent - beg	245	196	216	149	1,352	1,651	2,159
ForEx impact	1	1	1	16	3	(1)	1
Cash and cash equivalent - end	196	216	149	1,352	1,651	2,159	2,539

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Aug 31	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
Growth (YoY %)							
Revenue	N/A	5.5	5.3	10.7	13.2	17.4	17.7
- Tuition fees	N/A	5.5	5.7	11.6	13.0	17.7	17.9
- Boarding fees	N/A	(0.5)	3.0	4.1	11.6	14.8	14.1
- Fees from university cooperation program	N/A	N/A	(19.3)	(62.9)	194.7	(10.4)	36.4
Gross profit	N/A	9.8	7.1	17.9	16.6	19.5	18.5
Net profit - continuing operation (to shareholders of the company)	N/A	43.3	25.4	28.1	45.2	21.3	18.7
Total net profit (to shareholders of the company)	N/A	44.2	23.2	34.1	40.2	21.3	18.7
Profitability ratios (%)							
GPM	43.1	44.9	45.6	48.6	50.1	51.0	51.4
Pretax profit	28.9	32.8	35.3	34.5	42.8	43.7	44.1
NPM - continuing operation (to shareholders of the company)	15.9	21.6	25.7	29.7	38.1	39.4	39.7
Total NPM (to shareholders of the company)	15.9	21.7	25.4	30.8	38.1	39.4	39.7
Return ratios (%)							
ROAA	N/A	10.0	8.6	8.1	9.3	9.7	9.8
ROAE	N/A	29.5	27.1	19.4	17.3	17.6	17.5
Liquidity ratio (x)							
Current ratio	0.5	0.5	1.1	1.7	2.0	2.0	2.2
Cash ratio	0.3	0.2	0.1	1.3	1.7	1.8	2.0
Leverage ratios (%)							
Total debt to Equity	86.2	46.9	111.8	34.6	33.5	31.5	30.5
Total debt to Total assets	26.5	17.6	32.6	17.8	18.7	17.2	17.4
Net debt to Equity	44.9	12.3	90.5	(49.6)	(53.0)	(63.3)	(63.0)
Net debt to Total assets	13.8	4.6	26.4	(25.5)	(29.5)	(34.7)	(36.0)

* ROAA = Total net profit / average total assets of previous and current fiscal year

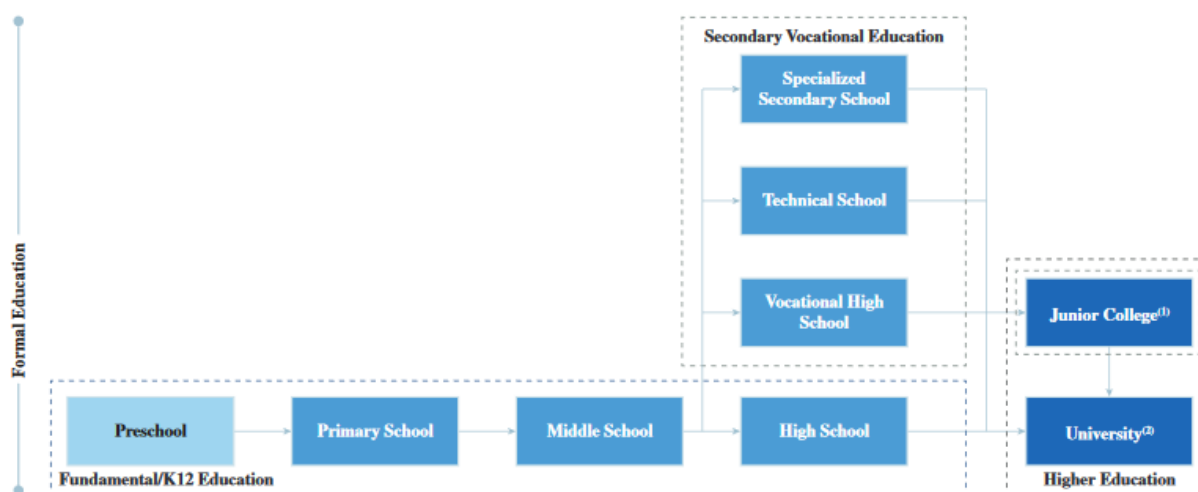
** ROAE = Total net profit attributable to shareholders / average equity attributable to shareholders of previous and current fiscal year

Source(s): The Group, ABCI Securities estimates



Appendix I: Formal education system in China

Illustration of China's Formal Education System



Note:

- 1) Schools with a school education level of higher vocational college are considered as junior colleges
- 2) University includes both regular university and independent colleges. Schools with undergraduate school education level (where junior college and higher vocational education programs may also be offered) are considered as universities

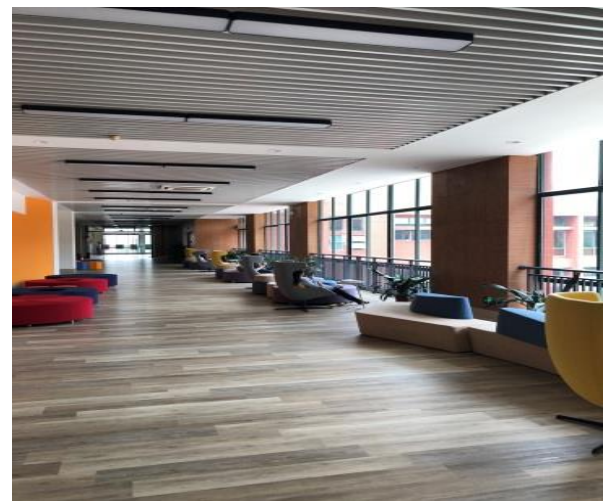
Source(s): F&S report

Appendix II: Management profile

Name	Age	Position	Responsibilities	Relationship with other Director(s) and the senior management
Mr. Liu Yung Chau (廖榕就)	65	Executive Director and Chairman of the Board	Overseeing corporate development and strategic planning	Spouse of Ms. Chen Yuan Rita; Father of Ms. Liu Yi Man; Brother of Mr. Liu Yung Kan
Ms. Chen Yuan, Rita (陳練瑛)	64	Executive Director	Monitoring overall management and strategic planning of the Group	Spouse of Mr. Liu Yung Chau; Sister-in-law of Mr. Liu Yung Kan; Mother of Ms. Liu Yi Man
Ms. Liu Yi Man (廖伊曼)	39	Executive Director and chief executive officer	Strategic development, overall operational management and major decision making	Daughter of Mr. Liu and Ms. Chen Yuan, Rita; Niece of Mr. Liu Yung Kan
Mr. Liu Yung Kan (廖榕根)	58	Non-executive Director	Advising on corporate development and business operations	Brother of Mr. Liu and brother-in-law of Ms. Chen Yuan, Rita; Uncle of Ms. Liu Yi Man
Mr. Xu Gang (徐剛)	64	Independent non-executive Director	Supervising and providing independent judgment to the Board	N/A
Mr. Lo Chi Chiu (盧志超)	45	Independent non-executive Director	Supervising and providing independent judgment to the Board	N/A
Mr. Li Jiatong (李加彤)	46	Independent non-executive Director	Supervising and providing independent judgment to the Board	N/A
Ms. Liu Wenqi (劉文琦)	46	Chief operating officer	Overseeing day-to-day operation of the Group's schools	N/A
Mr. Wong Shing Mun (黃成滿)	43	Chief financial officer and company secretary	Overseeing financial management, overall corporate governance and company secretarial work	N/A

Source(s): The Group, ABCI Securities

Appendix III: Snapshots of the Group's schools



Source(s): The Group, ABCI Securities



Disclosures

Analyst Certification

I, PAN Hongxing, Paul, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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