



New Oriental (EDU US / 9901 HK) Diversification strengthens leading position

- 3Q24 revenue growth performance further proves ability to generate growth in new business initiatives
- Margin profile would be under pressure as a result of new business expansion
- Maintain **BUY**; TP represents 37.6x/27.5x 24E/25E P/E, or 3.6x/3.2x 24E/25E P/B

Revenue growth to be supported by further business diversification. 3Q24 revenue grew by 60.1% YoY and exceeded the Group's guidance (US\$ 1,070.9mn - US\$ 1,093.5mn). Subsegments within the education business also saw strong growth. New education initiatives, which achieved revenue growth of 72.7% YoY in 3Q24, remained the fastest growing segment. In addition, East Buy also saw sustainable growth due to the development of private label products. Overall revenue size continued to dominate the market thanks to the expanding new business initiatives. According to the Group, 4Q24 revenue growth is expected to be between US\$ 1,101.5mn and US\$ 1,127.3mn, representing growth between 28% YoY and 31% YoY. Based on the 4Q24 revenue guidance and the 3Q24 performance, we revise up our FY24E revenue growth projection to 43.2% YoY vs. 37.1% YoY in previous report. FY23-26E revenue CAGR is also revised up to 30.4%.

New business initiatives added to cost pressure. Margin in 3Q24 continued to suffer from the higher costs associated with the new businesses. Operating costs and expenses grew by 59.1% YoY in 3Q24, mainly due to East Buy's expansion in private label products and its e-commerce business. As a result, in 3Q24, non-GAAP OPM was flat at 11.7%, while non-GAAP NPM⁽¹⁾ was down by 3.9ppt to 8.7%. We expect margin profile to be pressured in the short-term as new non-education businesses continue to expand. For FY24E, we project OPM and NPM⁽¹⁾ to be 8.6% and 8.1%; Non-GAAP OPM and Non-GAAP NPM⁽¹⁾ are expected to be 11.8%% and 12.2%. We expect the margin profile would continue to improve in coming years as the operating efficiency of the education business improves and the margins of new non-education businesses enhances.

Maintain BUY; TP at US\$ 88.1/HK\$ 68.9. Maintain **BUY** on the strong overall growth performance, strengthening leadership position in the education industry, and further diversification of business portfolio. FY23-FY26E basic EPS CAGR is expected to be 53.1%. We revise up our DCF-derived TP to reflect increase in revenue and profit projections. Current TP represents 37.6x/27.5x 24E/25E P/E, or 3.6x/3.2x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3) Demographic risk; 4) Education quality risk; 5) Seasonality of business; 6) Concentration risk; 7) Expansion into non-education businesses; 8) Non-GAAP financial metrics; 9) Lack of dividend payout.

Results and Valuation

As of May 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	3,105	2,998	4,294	5,504	6,646
Chg (% YoY)	(27.4)	(3.5)	43.2	28.2	20.8
Net profit (US\$ mn) ⁽¹⁾	(1,188)	177	386	529	652
Chg (% YoY)	(455.2)	(114.9)	117.9	37.0	23.3
EPS (US\$)	(0.70)	0.11	0.23	0.32	0.40
Chg (% YoY)	(444.5)	(115.7)	112.8	37.0	23.3
BVPS (US\$)	2.2	2.1	2.4	2.8	3.2
Chg (% YoY)	(26.8)	(1.7)	13.4	13.2	14.3
P/E (x) – US	(11.20)	71.26	33.50	24.46	19.84
P/E (x) – HK	(11.42)	72.66	34.15	24.94	20.23
P/B (x)– US	3.59	3.65	3.22	2.84	2.49
P/B (x) – HK	3.66	3.72	3.28	2.90	2.54
ROAA (%)	(14.7)	3.8	4.9	6.1	6.7
ROAE (%)	(27.6)	4.9	10.1	12.4	13.4
DPS (US\$)	0	0	0	0	0
Yield (%) - US	0.0	0.0	0.0	0.0	0.0
Yield (%) - HK	0.0	0.0	0.0	0.0	0.0

Source(s): The Group, ABCI Securities estimates

Company Report May 2, 2024

Rating (US/ HK): BUY/ BUY
TP (US/HK): US\$ 88.1/ HK\$ 68.9

Analyst : Paul Pan
Tel: (852) 2147 8829
paulpan@abci.com.hk

Price (US/HK)	US\$ 78.39/HK\$ 62.55
Est. price return (US/HK)	12.4%/10.2%
Est. dividend yield (US/HK)	0%/0%
Est. total return (US/HK)	12.4%/10.2%
Previous Rating &TP (US/HK)	BUY; US\$84.6/ HK\$66.1
Previous Report Date	Jan 31, 2024

Source(s): Bloomberg, ABCI Securities estimate

Key Data

52Wk H/L (US\$) (US shr)	98.2/35.7
52Wk H/L (HK\$) (HK shr)	77.05/28.25
Total issued shares (mn)	1,655.1
Issued US shr (mn)	1,645.3
Issued HK shr(mn)	9.8
US-shr market cap (US\$ bn)	12.90
H-shr market cap (HK\$ mn)	613
3-mth avg daily turnover (US\$ mn) (US shr)	155.9
3-mth daily turnover (HK\$ mn) (HK shr)	271.9
Major shareholder(s) (%): Minhong Yu	3.2

Source(s): Bloomberg, ABCI Securities

Price performance – US (%)

	Absolute	Relative*
1-mth	(9.7)	(5.2)
3-mth	2.3	(1.3)
6-mth	19.7	0.0

*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

Price performance – HK (%)

	Absolute	Relative*
1-mth	(9.0)	(17.4)
3-mth	0.6	(9.9)
6-mth	19.5	17.4

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

- refers to net profit to shareholders of the Company;
- US\$/HK\$= 7.8255;
- Market data as of May 1, 2024;
- US share price & TP are on per-ADS basis; HK share price & TP are on per-share basis; 1 ADS = 10 common shares.



Exhibit 1: Changes in assumptions and valuations

As of May 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
Assumptions					
D/E (%)	0.3	0.3	0.3	0.3	
D/A (%)	0.2	0.2	0.2	0.2	Adjusted based on 3Q24 figures
Tax rate (%)	21.3	21.3	21.1	21.7	
Valuations					
TP (US\$)	88.1		84.6		
TP (HK\$)	68.9		66.1		Revise up TP due to higher revenue and profit projections
P/E (x)	37.6	27.5	36.5	26.65	
P/B (x)	3.6	3.2	3.48	3.08	

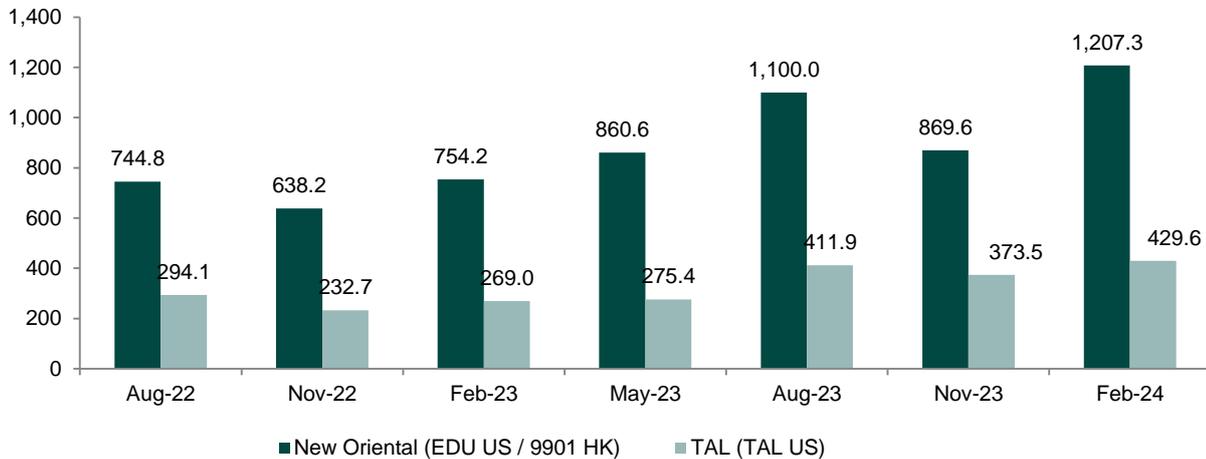
Note: please refer to the cover page for previous report publication date; US TP is on per-ADS basis; HK TP is on per-share basis; 1ADS = 10 common shares.
Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of May 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (US\$ mn)	4,294	5,504	6,646	4,111	5,198	6,148	4.5	5.9	8.1
Net profit (to shareholders of the Company) (US\$ mn)	386	529	652	383	524	651	0.9	1.0	0.2
EPS - basic (US\$)	0.23	0.32	0.40	0.23	0.32	0.39	1.8	0.2	1.3

Source(s): ABCI Securities estimates

Exhibit 3: Revenue comparison with TAL Education Group (TAL) (US\$ mn)

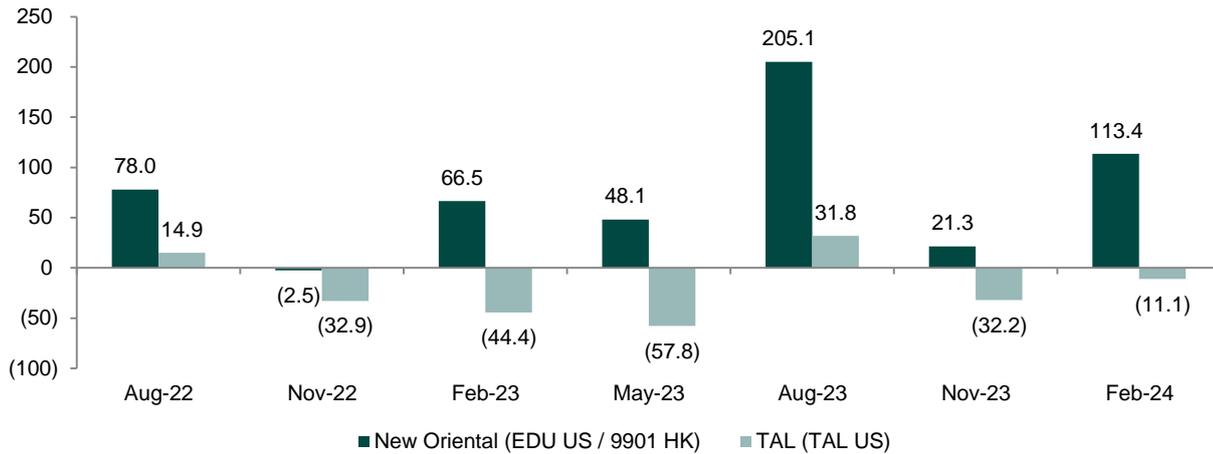


Note: Figures are for each quarter ended on the month indicated.

Source(s): Companies, ABCI Securities



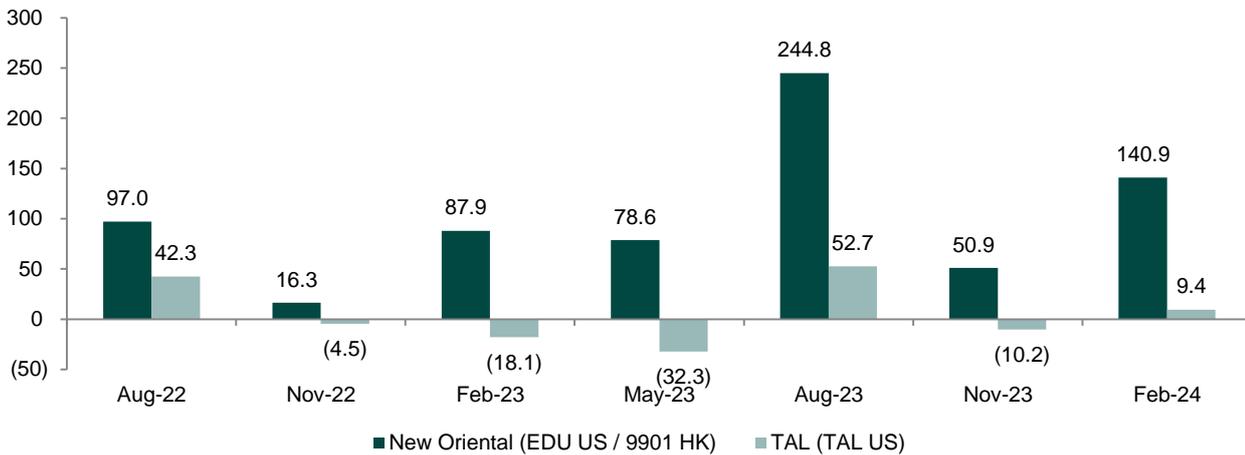
Exhibit 4: Operating profit comparison with TAL Education Group (TAL) (US\$ mn)



Note: Figures are for each quarter ended on the month indicated.

Source(s): Companies, ABCI Securities

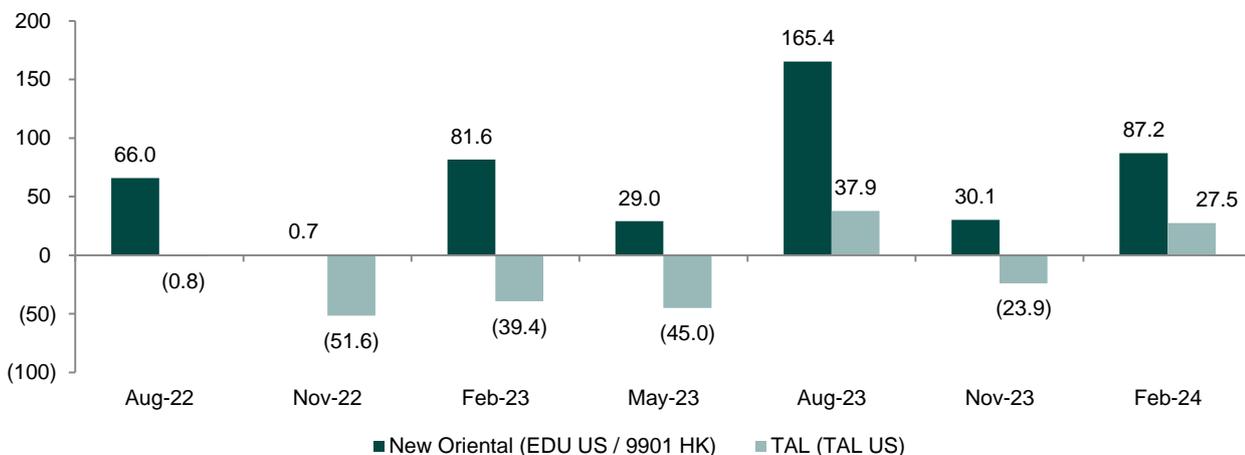
Exhibit 5: Non-GAAP Operating profit comparison with TAL Education Group (TAL) (US\$ mn)



Note: Figures are for each quarter ended on the month indicated.

Source(s): Companies, ABCI Securities

Exhibit 6: Net profit* comparison with TAL Education Group (TAL) (US\$ mn)

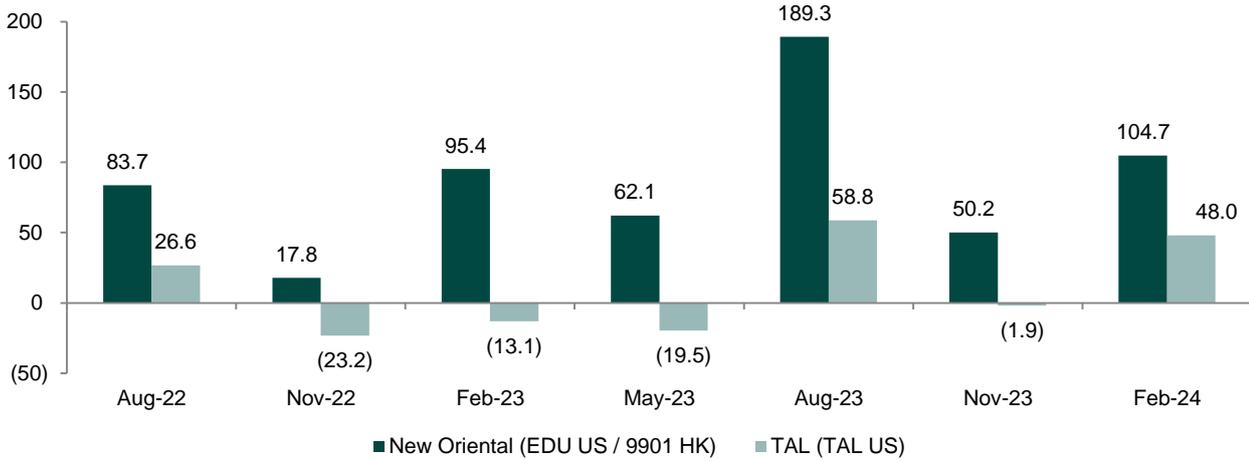


Note: Net profit refers net profit attributable to shareholders of the Company; figures are for each quarter ended on the month indicated.

Source(s): Companies, ABCI Securities

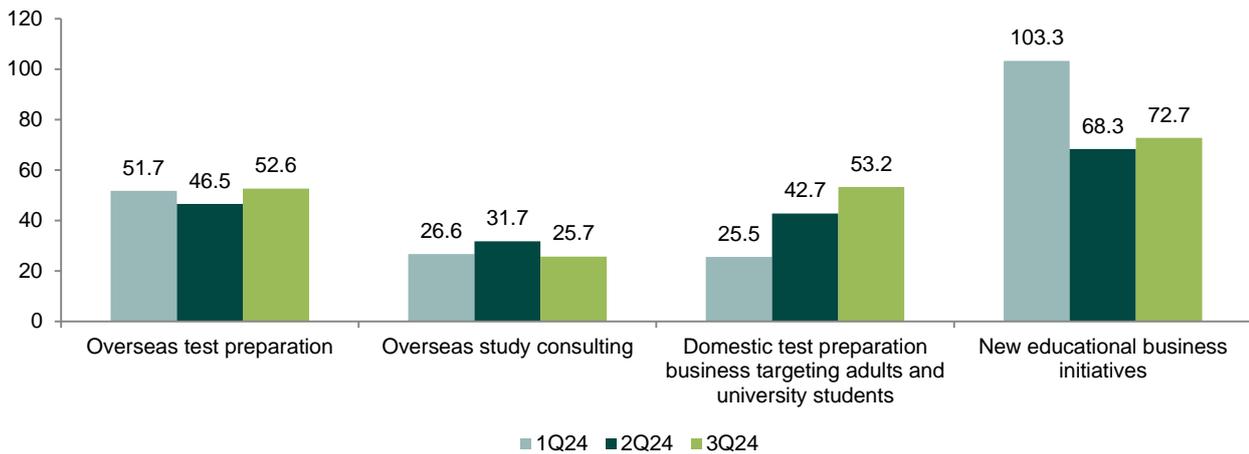


Exhibit 7: Non-GAAP net profit* comparison with TAL Education Group (TAL) (US\$ mn)



Note: Net profit refers net profit attributable to shareholders of the Company; figures are for each quarter ended on the month indicated.
Source(s): Companies, ABCI Securities

Exhibit 8: Revenue growth of major education businesses (YoY %)



Source(s): the Group, ABCI Securities



Exhibit 9: Quarterly performance

As of May 31	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Revenue and profit (US\$ mn, excluding per ADS amounts that are in US\$)							
Net revenue	744.8	638.2	754.2	860.6	1,100.0	869.6	1,207.3
Operating profit/(loss)	78.0	(2.5)	66.5	48.1	205.1	21.3	113.4
Non-GAAP operating profit/(loss)	97.0	16.3	87.9	78.6	244.8	50.9	140.9
Net profit	66.0	0.7	81.6	29.0	165.4	30.1	87.2
Non-GAAP net profit	83.7	17.8	95.4	62.1	189.3	50.2	104.7
Net profit per ADS - basic	0.39	0.00	0.49	0.18	1.00	0.18	0.53
Growth (YoY %)							
Net revenue	(43.1)	(3.1)	22.8	64.2	47.7	36.3	60.1
Operating profit/(loss)	140.5	(99.7)	147.1	145.5	163.0	957.8	70.6
Non-GAAP operating profit/(loss)	28.3	102.2	179.0	202.2	152.2	212.2	60.3
Net profit	9.0	100.1	166.7	115.3	150.6	4007.4	6.8
Non-GAAP net profit	(24.7)	102.0	199.9	138.7	126.2	182.6	9.8
Net profit per ADS - basic	8.7	100.1	167.8	115.7	158.1	4092.1	7.7
Margins (%)							
OPM	10.5	(0.4)	8.8	5.6	18.6	2.5	9.4
Non-GAAP OPM	13.0	2.6	11.7	9.1	22.3	5.9	11.7
NPM	8.9	0.1	10.8	3.4	15.0	3.5	7.2
Non-GAAP NPM	11.2	2.8	12.6	7.2	17.2	5.8	8.7

Note:

1) net profit and per ADS measures are attributable to shareholders of the Company;

2) 1ADS = 10 common shares;

3) Non-GAAP financial measure definition: net income excluding share-based compensation expenses and (loss) / gain from fair value change of investments, operating income excluding share-based compensation expenses, operating cost and expenses excluding share-based compensation expenses, general and administrative expenses excluding share-based compensation expenses, operating margin excluding share-based compensation expenses, and basic and diluted net income per ADS and per share excluding share-based compensation expenses and (loss) / gain from fair value change of investments.

Source(s): the Group, ABCI Securities



Financial statements

Consolidated income statement

As of May 31 (US\$ mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Net revenue	3,105	2,998	4,294	5,504	6,646
Cost of revenue	(1,754)	(1,409)	(2,106)	(2,636)	(3,117)
Gross profit	1,351	1,588	2,188	2,868	3,530
Selling and marketing expenses	(467)	(445)	(581)	(746)	(906)
General and admin expenses	(1,867)	(954)	(1,238)	(1,582)	(1,906)
Gain/loss on disposal of subsidiaries	0	0	0	0	0
Operating profit	(983)	190	370	540	718
Other income, net	(50)	118	92	143	164
Profit before tax provision and gain(loss) from investments	(1,032)	309	462	683	881
Tax	(136)	(66)	(98)	(146)	(188)
Income/(Loss) from equity method investments	(51)	(7)	(15)	(17)	(17)
Net profit	(1,220)	235	349	520	676
- Owners	(1,188)	177	386	529	652
- MI	(33)	(58)	(37)	(9)	24
Net profit per common share/ADS (US\$)					
- Basic	(0.70)	0.11	0.23	0.32	0.40
- Diluted	(0.70)	0.10	0.23	0.32	0.39

Note: Each ADS represents one common share; figures may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

As of May 31 (US\$ mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash, cash equivalents, and restricted cash	1,149	1,774	1,721	2,347	2,983
ST investments	1,902	1,478	1,725	1,759	1,825
Others	1,423	1,162	1,744	2,241	2,859
Current assets	4,474	4,414	5,190	6,347	7,666
PP&E	403	360	614	763	906
LT investments	438	400	396	359	336
Right-of-use assets	531	440	676	801	951
Others	189	780	962	1,028	1,161
Non-current assets	1,561	1,979	2,648	2,952	3,354
Total assets	6,035	6,392	7,838	9,299	11,020
Deferred revenue	933	1,338	1,804	2,440	3,067
Others	777	913	1,324	1,434	1,743
Current liabilities	1,710	2,251	3,127	3,875	4,811
LT borrowing	65	15	14	14	14
Deferred tax liabilities	446	288	430	611	725
Non-current lease liabilities	19	24	32	40	47
Non-current liabilities	531	327	476	665	786
Shareholders' capital	3,706	3,604	4,021	4,550	5,202
MI	88	210	214	209	221
Total equity	3,794	3,815	4,234	4,759	5,424
Total liabilities and equity	6,035	6,392	7,838	9,299	11,020

Note: Figures may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

As of May 31 (US\$ mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit	(1,220)	235	349	520	676
Depreciation and amortization	194	123	139	239	289
Change in working capital	696	538	829	831	794
Others	(951)	75	190	193	197
Cash flow from operating activities	(1,280)	971	1,507	1,782	1,955
Change in PP&E and land use right	(140)	(140)	(312)	(460)	(526)
Change in investments	1,430	411	(244)	4	(43)
Others	(122)	(309)	(441)	(472)	(479)
Cash flow from investing activities	1,169	(37)	(997)	(928)	(1,048)
Change in borrowing	0	0	(0)	0	0
Others	(231)	(247)	(587)	(238)	(272)
Cash flow from financing activities	(231)	(247)	(587)	(238)	(272)
Effect of foreign exchange rate changes	(95)	(76)	(2)	11	3
Net change in cash, cash equivalent, and restricted cash	(438)	611	(78)	628	638
cash, cash equivalent, and restricted cash - end	1,195	1,805	1,727	2,355	2,993

Note: Figures may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

As of May 31	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY %)					
Net revenue	(27.4)	(3.5)	43.2	28.2	20.8
Gross profit	(39.7)	17.6	37.8	31.0	23.1
Operating profit	(937.8)	(119.3)	94.7	45.9	32.9
Net profit (to shareholders of the Company)	(455.2)	(114.9)	117.9	37.0	23.3
Profitability ratios (%)					
GPM	43.5	53.0	51.0	52.1	53.1
OPM	(31.6)	6.3	8.6	9.8	10.8
NPM (to owners of the Company)	(39.3)	7.9	8.1	9.5	10.2
Non-GAAP OPM	(27.4)	9.3	11.8	12.4	13.3
Non-GAAP NPM (to owners of the Company)	(33.7)	8.6	12.2	12.2	12.4
Return ratios (%)					
ROAA	(14.7)	3.8	4.9	6.1	6.7
ROAE	(27.6)	4.9	10.1	12.4	13.4
Liquidity ratio (x)					
Current ratio	2.6	2.0	1.7	1.6	1.6
Cash ratio	1.3	1.2	1.0	1.1	1.1
Leverage ratios (%)					
Total debt to Equity	1.7	0.4	0.3	0.3	0.3
Total debt to Total assets	1.1	0.2	0.2	0.2	0.1
Net debt/(cash) to Equity	(58.6)	(68.5)	(70.9)	(86.2)	(96.2)
Net debt/(cash) to Total assets	(36.8)	(40.9)	(38.3)	(44.1)	(47.3)

Note:

1) Figures may not sum up due to rounding

2) Non-GAAP financial measure definition: net income excluding share-based compensation expenses and (loss) / gain from fair value change of investments, operating income excluding share-based compensation expenses, operating cost and expenses excluding share-based compensation expenses, general and administrative expenses excluding share-based compensation expenses, operating margin excluding share-based compensation expenses, and basic and diluted net income per ADS and per share excluding share-based compensation expenses and (loss) / gain from fair value change of investments.

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 ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim +7\%$)
Sell	Stock return $<$ - Market return ($\sim 7\%$)

Notes: 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 2005 (2005-23 HSI total return index averages at 7.4%)

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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183