

## New Oriental (EDU US / 9901 HK) Upgrade to BUY on revitalized prospects

- FY23 revenue declined by 3.5% YoY, but 3Q23 revenue was up 22.8% YoY in 3Q23 and 64.2% YoY in 4Q23, indicating new business initiatives in education business and livestreaming e-commerce have come to fruition
- Margin profile weakened in 2Q23 but improved in subsequent quarters, showing the Group is completing the transition process; more margin improvement can be expected
- Rating & TP are updated to **BUY** and US\$ 65.8/HK\$51.3; which represents 29.05x/25.62x 24E/25E P/E, or 2.77x/2.50x 24E/25E P/B

**Revenue growth momentum to extend in FY24E.** FY23 revenue declined by 3.5% YoY on drops in 1Q/2Q23 but 3Q/4Q23 revenue rose 22.8%/64.2% YoY, attributable to the Group's further development in businesses unrelated to academic subject tutoring. According to the Group, in 4Q23, overseas test preparation grew ~52% YoY, domestic test preparation business targeting adults and university students grew ~34% YoY, and non-academic tutoring courses attracted 629k student enrollment. In addition, East Buy, the Group's new business in live-streaming e-commerce, helped boost revenue. In 1H23, East Buy's GMV hit RMB 4.8bn, gained 35.2mn of followers on Douyin, and generated RMB 1,765.8mn revenue from private label products and livestreaming e-commerce segment, which represented ~ 18% of the Group's net revenue during the same period (USD/RMB: 7.0924). For 1Q24, the Group expects 32%-35% YoY in revenue growth, showing the demonstrated success of new growth initiatives amid tightened regulatory environment in the education industry would be able to continue. We expect FY24E revenue growth to be 19.6% YoY. FY23-26E revenue CAGR would be 16.8%.

**Diversifying business to ramp up profitability improvement.** OPM and NPM (to shareholders of the Company) were 6.3% and 7.9% in FY23 vs. -31.6% and -39.3% in FY22. The Group's margin profile dipped in 2Q23 but recovered in subsequent quarters. Its ability to return to profit shows the Group is completing the transition process originally necessitated by the tightening of regulations in the education sector, as well as success of the new growth drivers. We expect margin profile to stabilize further in the future as profit contributions of the new business initiatives expand. We expect FY24E OPM and NPM (to shareholders of the Company) to reach 6.5% and 9.9%.

**Upgrade to BUY; TP at US\$65.8/HK\$51.3.** Upgrade to **BUY** on the Group's proven ability to cultivate new growth drivers in the education industry and livestreaming e-commerce. We update our DCF-derived TP mainly due to the turnaround in its business outlook and change in ADS/share ratio. Current TP represents 29.05x/25.62x 24E/25E P/E, or 2.77x/2.50x 24E/25E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Regulatory risk; 3) Demographic risk; 4) Education quality risk; 5) Risk of operating non-education business; 6) Non-GAAP financial metrics; 7) Lack of dividend payout.

### Results and Valuation

FY ended May 30	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	3,105	2,998	3,585	4,276	4,778
Chg (% YoY)	(27.4)	(3.5)	19.6	19.3	11.7
Net profit ( US\$ mn) <sup>(1)</sup>	(1,188)	177	380	431	488
Chg (% YoY)	(455.2)	114.9	114.3	13.4	13.2
EPS ( US\$)	(0.70)	0.11	0.23	0.26	0.29
Chg (% YoY)	(444.5)	115.7	105.9	13.4	13.2
BVPS (US\$)	2.2	2.1	2.4	2.6	2.9
Chg (% YoY)	(26.8)	(1.7)	10.5	10.8	11.0
P/E (x) – US	(7.73)	49.23	23.91	21.08	18.63
P/E (x) – HK	(7.88)	50.16	24.36	21.48	18.98
P/B (x)– US	2.48	2.52	2.28	2.06	1.85
P/B (x) – HK	2.53	2.57	2.32	2.10	1.89
ROAA (%)	(14.7)	3.8	5.0	5.0	5.0
ROAE (%)	(27.6)	4.9	10.0	10.3	10.5
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 Aug 3, 2023

Rating (US): BUY  
 Rating (HK): BUY  
 TP (US): US\$ 65.8  
 TP (HK): HK\$ 51.3

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Price (US/HK)	US\$ 54.15/HK\$ 43
Est. price return (US/HK)	17.39%/16.68%
Est. dividend yield (US/HK)	0%/0%
Est. total return (US/HK)	17.39%/16.68%
Last Rating & TP (US/HK)	HOLD; US\$1.97/ HK\$15.4
Previous Report Date	Aug 23, 2021

Source(s): Bloomberg, ABCI Securities estimate

### Key Data

52Wk H/L (US\$) (US shr)	57.73/17.01
52Wk H/L (HK\$) (HK shr)	46.15/14.92
Total issued shares (mn)	1,678.3
Issued US shr (mn)	1,668.5
Issued HK shr(mn)	9.8
US-shr market cap (US\$ bn)	9.03
H-shr market cap (HK\$ mn)	421
3-mth avg daily turnover (US\$ mn) (US shr)	73.8
3-mth avg daily turnover (HK\$ mn) (HK shr)	115.6
Major shareholder(s) (%):	
Baupost	3.2

Source(s): Bloomberg, ABCI Securities

### Price performance – US (%)

	Absolute	Relative*
1-mth	33.0	31.5
3-mth	28.5	18.9
6-mth	25.9	17.9

\*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

### Price performance – HK (%)

	Absolute	Relative*
1-mth	31.9	31.4
3-mth	30.3	31.2
6-mth	22.3	33.4

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

- refers to net profit to shareholders of the Company ;
- US\$/HK\$= 7.7936;
- Market data as of Aug 2, 2023
- 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	
<b>Assumptions</b>					
D/E (%)	0.4	0.3	N/A	N/A	N/A
D/A (%)	0.2	0.2	N/A	N/A	N/A
Tax rate (%)	21.1	21.6	N/A	N/A	N/A
<b>Valuations</b>					
TP (US\$)	65.8		1.97		TP is upgraded due to turnaround in business outlook and change in ADS/share ratio
TP (HK\$)	51.3		15.4		
P/E (x)	29.05	25.62	7.25	7.67	
P/B (x)	2.77	2.50	0.67	0.61	

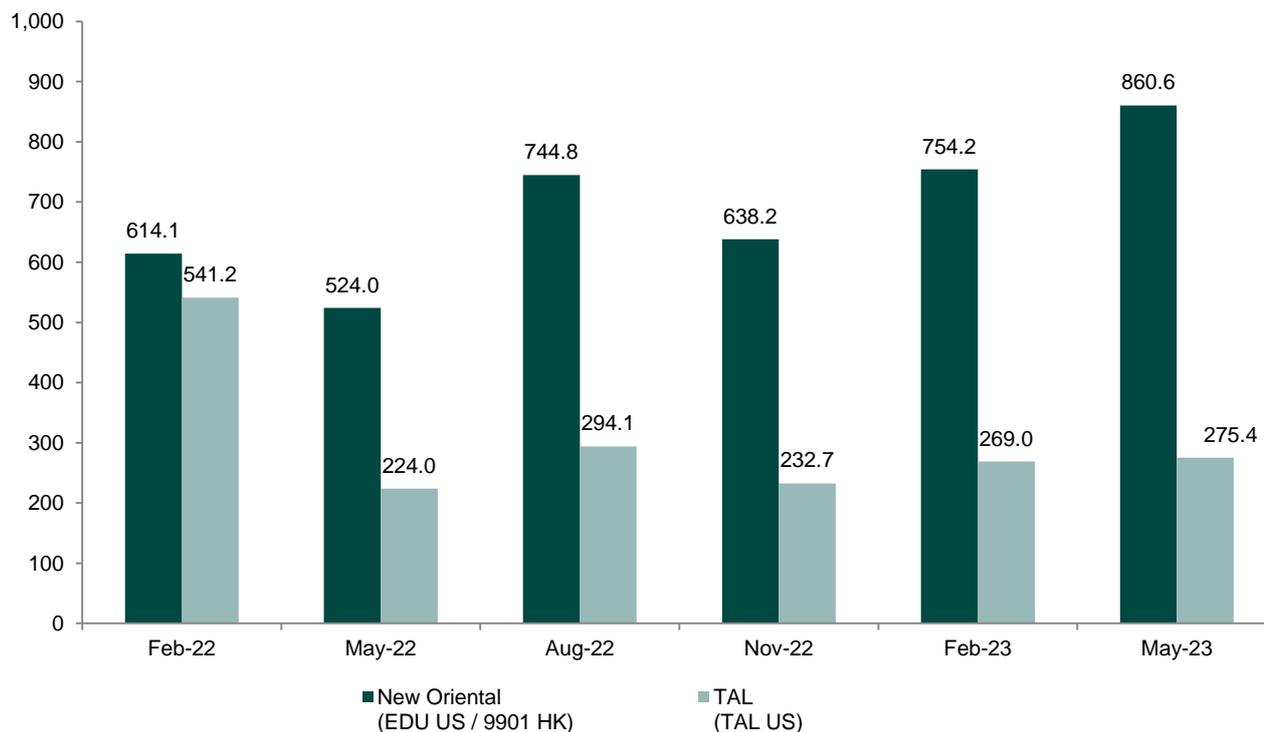
Note: Previous report was published on Aug 23, 2021; valuation metrics in previous report were for FY21&FY22; current US TP is on per-ADS basis; current HK TP is on per-share basis; 1 ADS = 10 common shares; previous US & HK TPs were on per-share basis

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)	3,585	4,276	4,778	N/A	N/A	N/A	N/A	N/A	N/A
Net profit (to owners of the Company) (US\$ mn)	380	431	488	N/A	N/A	N/A	N/A	N/A	N/A
EPS (US\$)	0.23	0.26	0.29	N/A	N/A	N/A	N/A	N/A	N/A

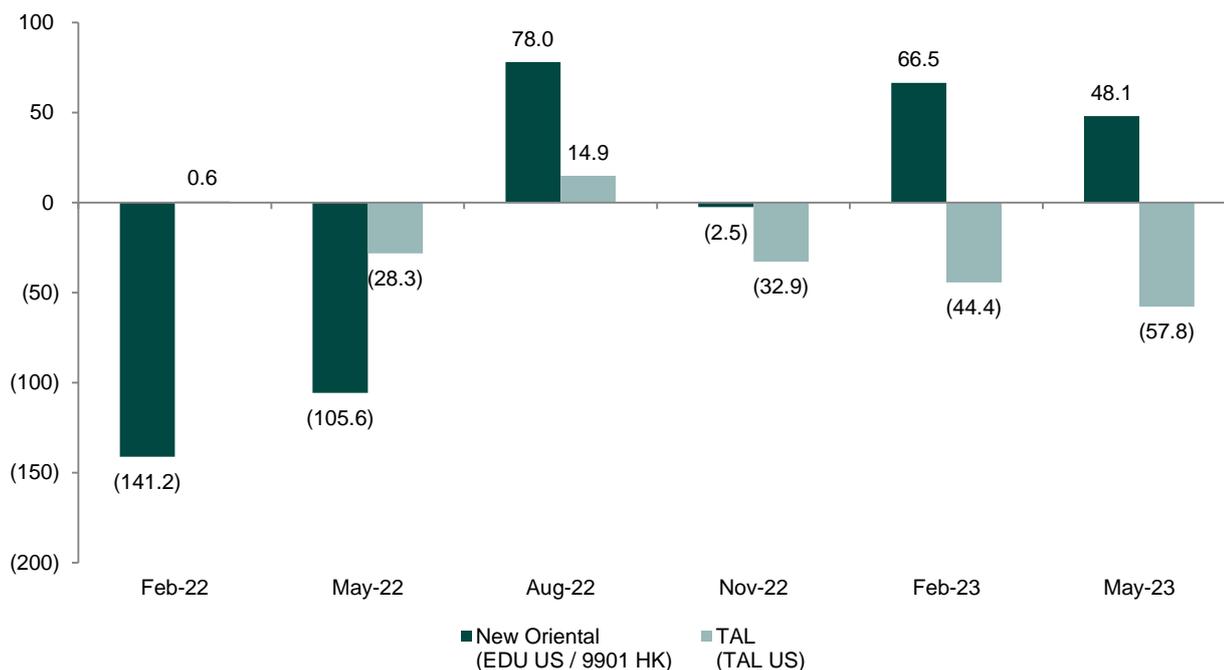
Source(s): ABCI Securities estimates

**Exhibit 3: Comparison of revenue with leading peer (US\$ mn)**


Note: figures are for each quarter ended on the month indicated

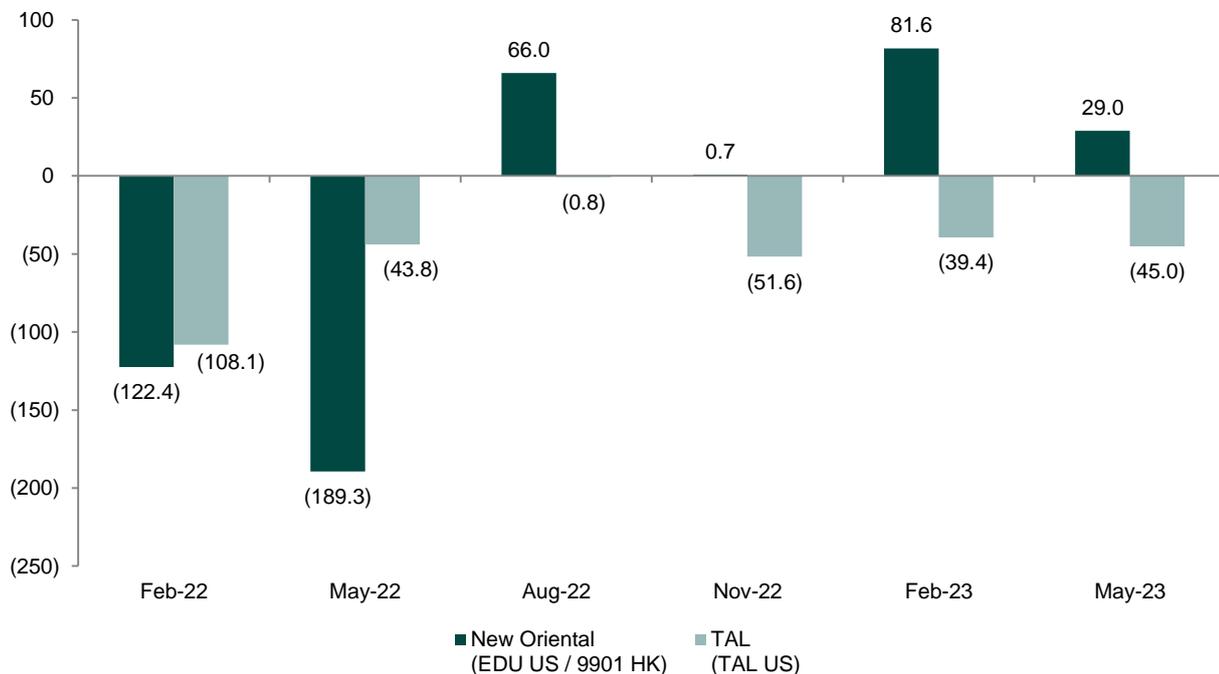
Source(s): Companies, ABCI Securities

**Exhibit 4: Comparison of operating profit with leading peer (US\$ mn)**



Note: figures are for each quarter ended on the month indicated  
Source(s): Companies, ABCI Securities

**Exhibit 5: Comparison of net profit with leading peer (US\$ mn)**



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

## Financial statements

### Consolidated income statement

As of May 31 (US\$ mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Net revenue</b>	<b>3,105</b>	<b>2,998</b>	<b>3,585</b>	<b>4,276</b>	<b>4,778</b>
Cost of revenue	(1,754)	(1,409)	(1,665)	(1,979)	(2,210)
<b>Gross profit</b>	<b>1,351</b>	<b>1,588</b>	<b>1,920</b>	<b>2,297</b>	<b>2,568</b>
Selling and marketing expenses	(467)	(445)	(518)	(618)	(696)
General and admin expenses	(1,867)	(954)	(1,171)	(1,398)	(1,561)
Gain/loss on disposal of subsidiaries	0	0	0	0	0
<b>Operating profit</b>	<b>(983)</b>	<b>190</b>	<b>231</b>	<b>281</b>	<b>311</b>
Other income, net	(50)	120	239	276	323
<b>Profit before tax provision and gain(loss) from investments</b>	<b>316</b>	<b>(1,032)</b>	<b>310</b>	<b>470</b>	<b>557</b>
Tax	(136)	(66)	(99)	(121)	(137)
Income/(Loss) from equity method investments	(51)	(7)	(16)	(21)	(24)
<b>Net profit/(loss)</b>	<b>(1,220)</b>	<b>235</b>	<b>355</b>	<b>416</b>	<b>473</b>
- Owners	(1,188)	177	380	431	488
- MI	(33)	(58)	(25)	(15)	(15)
<b>Net profit per common share (US\$)</b>					
- Basic	(0.70)	0.11	0.23	0.26	0.29
- Diluted	(0.70)	0.10	0.23	0.26	0.29

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	2,063	2,320	3,388
ST investments	1,902	1,478	1,231	1,134	1,079
Others	1,423	1,162	1,812	2,116	2,576
<b>Current assets</b>	<b>4,474</b>	<b>4,414</b>	<b>5,106</b>	<b>5,570</b>	<b>7,043</b>
PP&E	403	360	536	582	642
LT investments	438	400	396	359	336
Right-of-use assets	531	440	1,126	1,222	1,348
Others	189	780	750	862	852
<b>Non-current assets</b>	<b>1,561</b>	<b>1,979</b>	<b>2,808</b>	<b>3,025</b>	<b>3,178</b>
<b>Total assets</b>	<b>6,035</b>	<b>6,392</b>	<b>7,914</b>	<b>8,595</b>	<b>10,221</b>
Deferred revenue	933	1,338	1,576	1,513	1,810
Others	777	913	1,153	1,381	1,484
<b>Current liabilities</b>	<b>1,710</b>	<b>2,251</b>	<b>2,729</b>	<b>2,894</b>	<b>3,294</b>
LT borrowing	65	15	15	15	15
Deferred tax liabilities	446	288	965	1,047	1,797
Non-current lease liabilities	19	24	23	33	29
<b>Non-current liabilities</b>	<b>531</b>	<b>327</b>	<b>1,002</b>	<b>1,095</b>	<b>1,841</b>
Shareholders' capital	3,706	3,604	3,984	4,416	4,903
MI	88	210	198	190	183
<b>Total equity</b>	<b>3,794</b>	<b>3,815</b>	<b>4,182</b>	<b>4,606</b>	<b>5,086</b>
<b>Total liabilities and equity</b>	<b>6,035</b>	<b>6,392</b>	<b>7,914</b>	<b>8,595</b>	<b>10,221</b>

Source(s): The Group, ABCI Securities estimates

**Consolidated cash flow statement**

As of May 31 (US\$ mn)	FY22A	FY23E	FY24E	FY25E	FY26E
Net profit	(1,220)	235	355	416	473
Depreciation and amortization	194	108	88	142	152
Change in working capital	696	1,411	357	1,021	884
Others	(951)	(783)	119	136	133
<b>Cash flow from operating activities</b>	<b>(1,280)</b>	<b>971</b>	<b>919</b>	<b>1,715</b>	<b>1,642</b>
Change in PP&E and land use right	(140)	(126)	(297)	(405)	(422)
Change in investments	1,430	463	251	133	78
Others	(122)	(374)	(699)	(193)	(535)
<b>Cash flow from investing activities</b>	<b>1,169</b>	<b>(37)</b>	<b>(745)</b>	<b>(465)</b>	<b>(879)</b>
Change in borrowing	0	(51)	0	0	0
Others	(231)	(196)	86	(998)	304
<b>Cash flow from financing activities</b>	<b>(231)</b>	<b>(247)</b>	<b>86</b>	<b>(998)</b>	<b>304</b>
Effect of foreign exchange rate changes	(95)	(76)	5	5	6
Net change in cash, cash equivalent, and restricted cash	267	(438)	611	265	257
<b>cash, cash equivalent, and restricted cash - end</b>	<b>1,195</b>	<b>1,805</b>	<b>2,071</b>	<b>2,328</b>	<b>3,400</b>

Source(s): The Group, ABCI Securities estimates

**Key operating and financial ratios**

As of May 31	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (YoY %)</b>					
Net revenue	(27.4)	(3.5)	19.6	19.3	11.7
Gross profit	(39.7)	17.6	20.9	19.6	11.8
Operating profit	(937.8)	119.3	21.7	21.6	10.7
Net profit (to shareholders of the Company)	(455.2)	114.9	114.3	13.4	13.2
<b>Profitability ratios (%)</b>					
GPM	43.5	53.0	53.6	53.7	53.7
OPM	(31.6)	6.3	6.5	6.6	6.5
NPM (to owners of the Company)	(39.3)	7.9	9.9	9.7	9.9
Non-GAAP OPM	(27.4)	9.3	7.8	7.8	7.8
Non-GAAP NPM (to owners of the Company)	(33.7)	8.6	11.9	11.3	11.5
<b>Return ratios (%)</b>					
ROAA	(14.7)	3.8	5.0	5.0	5.0
ROAE	(27.6)	4.9	10.0	10.3	10.5
<b>Liquidity ratio (x)</b>					
Current ratio	2.6	2.0	1.9	1.9	2.1
Cash ratio	1.3	1.2	1.3	1.4	1.7
<b>Leverage ratios (%)</b>					
Total debt to Equity	1.7	0.4	0.4	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)	(86.2)	(88.0)	(111.2)
Net debt/(cash) to Total assets	(36.8)	(40.9)	(45.5)	(47.2)	(55.3)

Source(s): The Group, ABCI Securities estimates

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Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 9\%$ )
Hold	- Market return rate ( $\sim 9\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim 9\%$ )
Sell	Stock return $<$ - Market return ( $\sim 9\%$ )

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 2006 (HSI total return index 2006-22 averaged at 8.4%)

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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