

Minsheng Education (1569 HK)

Key NDR takeaways: Dianchi and Nanchang colleges are growth drivers

SUMMARY. During the post-results NDR, investors' main focus was on growth outlook, timetable for financial consolidation of acquisitions made and M&A. We think the stock's valuation is attractive given that it trades below its historical average P/E and sector average's PEG.

- **Dianchi College led the growth in 1H19.** The Company's adjusted net profit rose 42% YoY to RMB233mn. The college, which was financially consolidated in Aug 2018, contributed around RMB60-70mn net profit in 1H19, contributing most of the increase of the company's adjusted net profit. For 2019/20 school year, its admission quota jumped 11% to 7,890. We think it remains a major growth driver of the Company.
- **Nanchang College a new growth driver.** The college completed the upgrade to university in 1H19 and can offer undergraduate programs in Sep 2019. Total admission quota is jumped from 4,800 (junior college) to 8,000 (2,000 undergraduate + 6,000 junior college). While tuition fee of undergraduate is set at RMB18,000 - 22,000, the tuition fee of junior college is raised from RMB7,300-8,000 in 2018-19 school year to RMB9,500-12,000 in 2019-20 school year. Management expects this college can post 20-30% revenue CAGR in coming 2-3 years.
- **Timetable for financial consolidation of two acquisitions made uncertain.** Though the timetable for change of sponsor of Nanchang College is uncertain, the Company targets to complete entrusted management arrangement by end of 2019 and then book the college's net profit as management fee income. For Anhui Wonder University, the acquisition is going through the stage of debt restructuring of its sponsor with stage of sponsor change coming next.
- **M&A.** The Company is looking for one acquisition in 2H19 with preference on self-run university or vocational college which meets conditions for upgrade to university. The Company had RMB753mn cash on hand as at 30 Jun 2019. With around RMB1bn tuition and boarding fees coming in Sep and RMB10bn credit line from ICBC, we think the Company has sufficient cash to make acquisition.
- **Valuation.** According to Bloomberg estimates, the stock trades at 12.3x FY19E P/E, which is below its historical average of 14.6x. Its 0.65x PEG (at 19% EPS CAGR in FY20-21E) is lower than sector average of 0.73x.EPS. **Catalysts:** (1) policy overhang removed; (2) M&A; (3) complete entrusted management arrangement of Nanchang College.

Earnings Summary

(YE 31 Dec)	FY15A	FY16A	FY17A	FY18A
Revenue (RMB mn)	426	445	478	623
YoY growth (%)	6	4	7	30
Net profit (RMB mn)	203	243	260	333
Adj. net profit (RMB mn)	203	229	309	341
YoY growth (%)	9	13	35	10
EPS (RMB)	na	na	0.082	0.084
YoY growth (%)	na	na	na	4
P/E (x)	na	na	15.0	14.0
Yield (%)	na	na	0.0	0.0
ROE (%)	12.8	15.8	13.5	10.5
Net cash (RMB mn)	354	825	1,786	1,049

Source: Company data, CMBIS estimates

NOT RATED

Current Price

HK\$1.41

China Education Sector

Albert Yip, CFA

(852) 3900 0838

albertyip@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	5,665
Avg 3 mths t/o (HK\$ mn)	4.30
52w High/Low (HK\$)	2.04/1.20
Total Issued Shares (mn)	4,017.7

Source: Bloomberg

Shareholding Structure

Mr. Li Xuechun	74.67%
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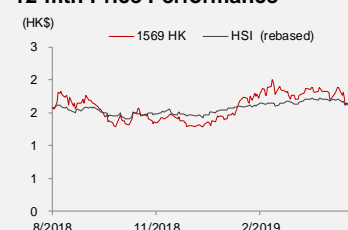
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	0.7%	10.3%
3-mth	-14.8%	-10.3%
6-mth	-16.3%	-8.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: EY

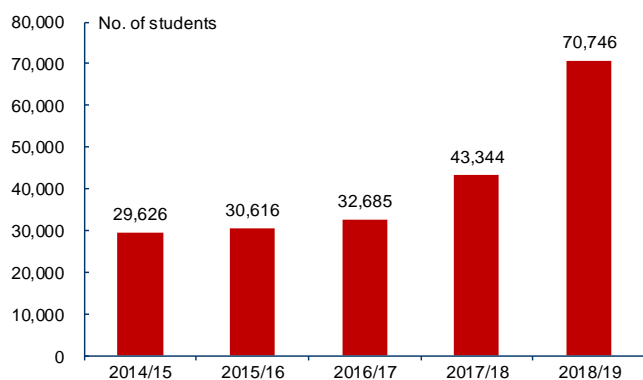
Related Reports

"Minsheng Education – Key NDR takeaways; M&A driven growth story" – 20 Mar 2019

Figure 1: 1H19 results review

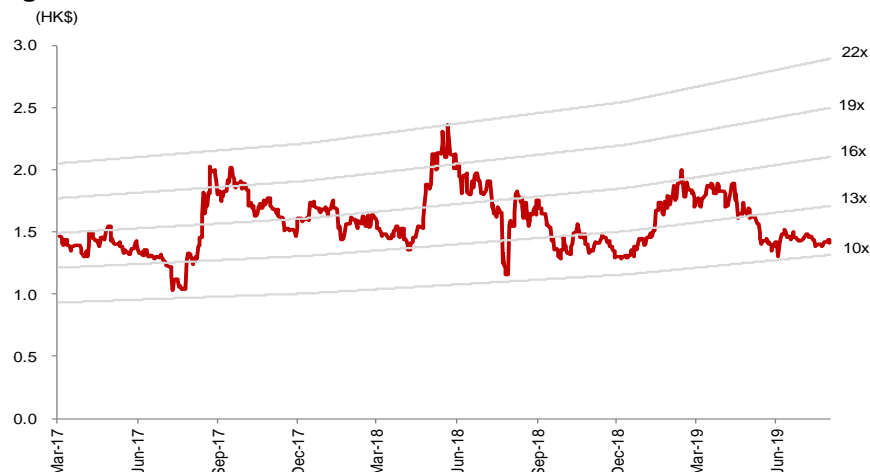
Y/E Dec (RMB mn)	1H19	1H18	% change
Revenue	526	316	66%
Cost of sales	(220)	(128)	72%
Gross profit	307	189	63%
Other income	29	35	-16%
Selling and distribution expenses	(6)	(6)	-14%
Administrative expenses	(83)	(55)	51%
Operating profit	247	162	53%
Finance income	10	10	-2%
Finance costs	(37)	(2)	1463%
Others	(10)	57	-117%
Share profit of associates	(0)	(0)	774%
Profit before tax	210	227	-7%
Tax expense	(7)	(6)	20%
Profit after tax	204	221	-8%
Non-controlling interests	(3)	3	-212%
Net profit	207	218	-5%
Adj. net profit	233	164	42%
Adj. EPS (RMB)	0.058	0.041	42%
DPS (RMB)	na	na	na
Margin & Ratio (%)			
Gross margin	58.2	59.6	(1.4)
Operating margin	46.9	51.2	(4.2)
SG&A expense/revenue	16.8	19.4	(2.6)
Net margin	39.3	68.9	(29.6)
Adj. net margin	44.2	51.8	(7.6)
Effective tax rate	3.2	2.5	0.7
Payout ratio	na	na	na
	1H19	FY18	change (%)
Net cash (RMB mn)	162	1,049	-85%

Source: Company data

Figure 2: Full-time student enrolment of the Company

Source: Company data

Figure 3: P/E band chart



Source: Bloomberg estimates, Company data

Figure 4: Peers valuation table

		Mkt Cap		Year	P/E (x)			EV/EBITDA		Adj. net profit growth (%)			EPS growth (%)			PEG (x)	Revenue growth (%)		
	Ticker	(US\$ m)	Price	end	FY1	FY2	FY3	FY1	FY2	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY1	FY2	FY3
Higher Education services providers																			
China Education	839 HK	2,808	10.90	Aug-18	25.7	20.8	17.4	17.8	14.4	na	22	21	na	24	19	1.19	na	22	15
Yuhua Education	6169 HK	1,605	3.83	Aug-18	16.3	13.3	11.3	10.9	8.6	19	28	16	12	22	18	0.82	38	28	9
Hope Education	1765 HK	1,012	1.19	Dec-18	15.8	12.2	9.7	8.0	5.5	43	29	24	22	29	24	0.60	23	23	16
Minsheng Education	1569 HK	723	1.41	Dec-18	12.3	10.1	8.7	7.7	6.3	22	19	14	24	21	17	0.65	59	22	13
Kepei Education	1890 HK	924	3.62	Dec-18	15.7	13.4	11.7	13.0	11.2	20	19	16	(10)	17	14	1.00	23	18	15
Xinhua Education	2779 HK	538	2.62	Dec-18	13.0	11.1	9.5	4.9	3.9	12	17	16	5	17	16	0.80	18	18	15
New Higher Education	2001 HK	542	2.76	Dec-18	10.0	7.8	6.7	6.5	5.0	27	25	17	25	27	18	0.44	83	25	10
Chunlai Education	1969 HK	251	1.64	Aug-18	12.4	8.2	6.7	9.3	6.9	(4)	54	24	(14)	50	22	0.35	15	33	13
Average					15.1	12.1	10.2	9.7	7.7	20	27	18	9	26	18	0.73	37	24	13

Source: Bloomberg estimates, CMBIS estimates, Company data

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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