

New Oriental (EDU US)

Macro uncertainty to impact revenue growth and margin outlook

New Oriental announced 2QFY25 results on 21 Jan: net revenue was up by 19% YoY to US\$1,039mn (+31% YoY if excluding revenue from East Buy), in line with our/consensus estimate; non-GAAP net income declined by 29% YoY to US\$36mn, below our/consensus estimate of US\$43/45mn, primarily due to the impact of East Buy adjustment and investment in tourism business. For 3QFY25E, management guided net revenue (excluding revenue from East Buy) to grow by 18-21% YoY to US\$1.01-1.03bn, also below our expectation as macro uncertainty impacts the high-end businesses and competition intensifies. That said, management noted that New Oriental is still gaining market share. We trim FY25-27E total revenue forecast by 2-3% in view of the softer-than expected revenue guidance. We lower our SOTP-derived target price to US\$80.0 (previous: US\$87.0). Maintain BUY.

- **Educational businesses to decelerate in 3QFY25E.** Overseas test prep and overseas study consulting business revenue grew by 21% YoY and 31% YoY in 2QFY25, together accounting for c.24% of total revenue. Domestic test prep revenue was up by 35% YoY and accounted for c.9% of total revenue in 2QFY25. New educational business initiatives revenue recorded robust growth of 43% YoY in 2QFY25 (c.30% of total revenue), primarily fuelled by the growth of both non-academic tutoring (student enrolment +26% YoY) and intelligent learning system businesses (active paid users +44% YoY). Looking ahead in 3QFY25E, we estimate overseas-related/domestic test prep/new educational initiatives/high-school tutoring revenue to increase by 15%/20%/40%/20% YoY respectively, with overseas-related business decelerating due to macro uncertainty.
- **East Buy is set for new development stage.** East Buy registered a 9% YoY decline in revenue, and recorded a net loss of US\$13.5mn in 1HFY25, primarily due to the disposal of Time with Yuhui. If excluding the impact of the disposal, East Buy recorded a net income of US\$4.6mn in 1HFY25. Looking ahead, East Buy will continue to focus on improving product quality, growing its self-operated app, and enriching product varieties to better serve household needs. Tourism business continued to make progress, with its revenue up by 233% YoY in 2QFY25.
- **Expect margin pressure in 2HFY25E.** Excluding the impact from East Buy, non-GAAP OPM was largely flat YoY at 3.2% in 2QFY25, as margin improvement in core educational business was offset by investment in new businesses. For 2HFY25E, management expected the OPM to face pressure due to the slower overseas-related business growth and investment in tourism business. Total number of schools and learning centres was up by 5% QoQ in 2QFY25, with a slower pace of expansion as New Oriental continues to balance profitability and revenue growth.

Earnings Summary

(YE 31 May)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	2,998	4,314	5,081	6,027	6,725
Adjusted net profit (US\$ mn)	258.9	381.1	439.4	612.4	829.8
EPS (Adjusted) (US\$)	1.54	2.30	2.65	3.70	5.01
Consensus EPS (US\$)	1.54	2.30	3.23	4.16	5.29
P/E (x)	57.6	32.5	25.4	18.2	13.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$80.00
 (Previous TP US\$87.00)
Up/Downside 31.5%
Current Price US\$60.84

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Ye TAO, CFA
 franktao@cmbi.com.hk

Joanna Ma
 (852) 3761 8838
 joannama@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	10,069.8
Avg 3 mths t/o (US\$ mn)	81.9
52w High/Low (US\$)	96.31/55.05
Total Issued Shares (mn)	165.5

Source: FactSet

Shareholding Structure

Minhong Yu	12.2%
GIC	5.1%

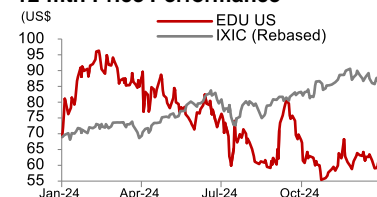
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-0.7%	-1.0%
3-mth	-10.5%	-15.5%
6-mth	-17.8%	-25.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: New Oriental: forecast revision

US\$mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	5,080.9	6,027.0	6,725.3	5,216.1	6,199.3	6,908.4	-2.6%	-2.8%	-2.7%
Gross profit	2,721.0	3,312.0	3,769.3	2,829.8	3,439.4	3,923.5	-3.8%	-3.7%	-3.9%
Non-GAAP net income	439.4	612.4	829.8	516.9	718.2	928.1	-15.0%	-14.7%	-10.6%
Non-GAAP EPS (US\$)	2.7	3.7	5.0	3.1	4.3	5.6	-15.0%	-14.7%	-10.6%
Gross margin	53.6%	55.0%	56.0%	54.3%	55.5%	56.8%	-0.7 ppt	-0.5 ppt	-0.7 ppt
Operating margin	9.1%	11.5%	13.5%	9.7%	12.0%	14.3%	-0.7 ppt	-0.5 ppt	-0.7 ppt
Non-GAAP net margin	8.6%	10.2%	12.3%	9.9%	11.6%	13.4%	-1.3 ppt	-1.4 ppt	-1.1 ppt

Source: CMBIGM estimates

Figure 2: New Oriental: CMBIGM estimates vs consensus

US\$mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	5,080.9	6,027.0	6,725.3	5,172.9	6,271.3	7,444.3	-1.8%	-3.9%	-9.7%
Gross profit	2,721.0	3,312.0	3,769.3	2,774.3	3,405.6	4,079.3	-1.9%	-2.7%	-7.6%
Non-GAAP net income	439.4	612.4	829.8	535.1	688.8	875.0	-17.9%	-11.1%	-5.2%
Non-GAAP EPS (US\$)	2.7	3.7	5.0	3.2	4.2	5.3	-17.9%	-11.1%	-5.2%
Gross margin	53.6%	55.0%	56.0%	53.6%	54.3%	54.8%	-0.1 ppt	0.6 ppt	1.3 ppt
Operating margin	9.1%	11.5%	13.5%	10.6%	12.2%	13.3%	-1.6 ppt	-0.7 ppt	0.3 ppt
Non-GAAP net margin	8.6%	10.2%	12.3%	10.3%	11.0%	11.8%	-1.7 ppt	-0.8 ppt	0.6 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

1) US\$77.1 for the educational and consulting business (96% of total valuation), based on 28x FY25E PE, which is on par with the educational sector average.

2) US\$1.6 for East Buy (2% of total valuation), based on 8x FY25E PE, which is on par with the e-commerce sector average.

3) US\$1.3 for the Tourism and others business (2% of total valuation), based on 10x FY25E PE.

Figure 3: New Oriental: SOTP valuation

SOTP valuation							
(US\$mn)	Revenue (FY25E)	Revenue CAGR (FY24-26E)	Earnings (FY25E)	PE (x)	% Holding	Valuation	As % of total Valuation
Educational & consulting	3,826.2	27%	508.7	28	100%	14,242.6	96%
East Buy	818.2	10%	66.7	8	55%	292.9	2%
Tourism and others	436.4	67%	23.8	10	100%	238.2	2%
Total valuation (US\$mn)						14,773.7	
Holdco discount						10%	
Total valuation (US\$mn)						13,296.3	
No. of ADS						165.5	
Valuation per ADS (US\$)						80.0	

Source: Company data, CMBIGM estimates

Figure 4: Education: valuation comparison

Companies	Ticker	Price (LC)	PE (x)		PS (x)		EPS CAGR 24-26E
			2025E	2026E	2025E	2026E	
Education							
TAL	TAL US	9.9	33.3	20.0	2.9	2.2	NA
Youdao	DAO US	7.1	43.4	21.7	1.0	0.9	NA
Gaotu	GOTU US	2.1	NA	NA	0.7	0.6	NA
Fenbi	2469 HK	2.5	8.3	6.7	1.5	1.3	40%
Average			28.4	16.1	1.5	1.3	
E-commerce							
Alibaba Group	BABA US	85.1	8.8	7.8	1.4	1.3	7%
Pinduoduo	PDD US	105.6	8.2	6.8	2.2	1.8	43%
JD.com	JD US	39.0	9.1	8.2	0.4	0.4	14%
VIPShop	VIPS US	13.5	6.0	5.6	0.5	0.5	3%
Kuaishou	1024 HK	41.4	7.9	6.6	1.2	1.1	43%
Average			8.0	7.0	1.1	1.0	

Source: Bloomberg, CMBIGM

Note: data are as of 20 Jan 2025

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Revenue	3,105	2,998	4,314	5,081	6,027	6,725
Cost of goods sold	(1,754)	(1,409)	(2,051)	(2,360)	(2,715)	(2,956)
Gross profit	1,351	1,588	2,263	2,721	3,312	3,769
Operating expenses	(2,333)	(1,398)	(1,912)	(2,261)	(2,622)	(2,858)
Selling expense	(467)	(445)	(661)	(831)	(934)	(1,009)
Admin expense	(1,867)	(954)	(1,252)	(1,430)	(1,688)	(1,849)
Operating profit	(983)	190	350	460	690	911
Other income	(35)	119	124	70	0	0
Gain/loss on financial assets at FVTPL	(15)	(1)	19	(9)	0	0
Pre-tax profit	(1,032)	309	494	521	690	911
Income tax	(136)	(66)	(110)	(122)	(138)	(182)
Others	(51)	(7)	(59)	(6)	0	0
After tax profit	(1,220)	235	325	393	552	729
Minority interest	33	(58)	(16)	3	0	0
Net profit	(1,188)	177	310	396	552	729
Adjusted net profit	(1,046)	259	381	439	612	830

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Current assets	4,474	4,414	5,389	5,888	6,623	7,393
Cash & equivalents	1,149	1,663	1,389	1,785	2,419	3,114
Restricted cash	0	111	177	177	177	177
Account receivables	16	33	30	70	83	92
Inventories	28	53	93	103	134	162
Prepayment	215	211	309	362	419	457
ST bank deposits	1,140	856	1,320	1,320	1,320	1,320
Financial assets at FVTPL	1,902	1,478	2,066	2,066	2,066	2,066
Other current assets	23	9	4	4	4	4
Non-current assets	1,561	1,979	2,143	2,351	2,593	2,856
PP&E	403	360	508	716	958	1,221
Right-of-use assets	531	440	654	654	654	654
Deferred income tax	20	56	73	73	73	73
Investment in JVs & assos	438	400	356	356	356	356
Intangibles	3	25	19	19	19	19
Goodwill	71	106	104	104	104	104
Other non-current assets	95	593	430	430	430	430
Total assets	6,035	6,392	7,532	8,238	9,216	10,249
Current liabilities	1,710	2,251	3,001	3,280	3,645	3,848
Account payables	22	70	106	123	149	170
Tax payable	76	118	140	122	138	182
Lease liabilities	169	156	200	200	200	200
Contract liabilities	933	1,338	1,781	1,931	2,110	2,153
Accrued expenses	510	569	775	904	1,049	1,143
Non-current liabilities	531	327	482	482	482	482
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	531	327	482	482	482	482
Total liabilities	2,241	2,578	3,483	3,762	4,127	4,330
Total shareholders equity	3,706	3,604	3,776	4,206	4,818	5,648
Minority interest	88	210	273	271	271	271
Total equity and liabilities	6,035	6,392	7,532	8,238	9,216	10,249

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Operating						
Profit before taxation	(1,032)	309	494	521	690	911
Depreciation & amortization	192	117	101	46	59	74
Tax paid	(136)	(66)	(110)	(122)	(138)	(182)
Change in working capital	(1,154)	538	519	176	264	127
Others	850	74	119	28	60	101
Net cash from operations	(1,280)	971	1,123	650	935	1,031
Investing						
Capital expenditure	(310)	(310)	(310)	(310)	(310)	(310)
Acquisition of subsidiaries/ investments	0	1	0	0	0	0
Net proceeds from disposal of short-term investments	1,447	117	(793)	0	0	0
Others	31	154	(52)	56	8	(27)
Net cash from investing	1,169	(37)	(1,154)	(254)	(301)	(336)
Financing						
Net borrowings	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(231)	(247)	(160)	0	0	0
Net cash from financing	(231)	(247)	(160)	0	0	0
Net change in cash						
Cash at the beginning of the year	1,612	1,149	1,663	1,389	1,785	2,419
Exchange difference	(121)	(61)	(25)	0	0	0
Cash at the end of the year	1,149	1,774	1,447	1,785	2,419	3,114
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
Revenue	(27.4%)	(3.5%)	43.9%	17.8%	18.6%	11.6%
Gross profit	(39.7%)	17.6%	42.5%	20.3%	21.7%	13.8%
Operating profit	na	na	84.4%	31.4%	49.9%	32.0%
Net profit	na	na	74.6%	27.8%	39.5%	32.0%
Adj. net profit	na	na	47.2%	15.3%	39.4%	35.5%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
Gross profit margin	43.5%	53.0%	52.5%	53.6%	55.0%	56.0%
Operating margin	(31.6%)	6.3%	8.1%	9.1%	11.5%	13.5%
Adj. net profit margin	(33.7%)	8.6%	8.8%	8.6%	10.2%	12.3%
Return on equity (ROE)	(27.6%)	4.9%	8.4%	9.9%	12.2%	13.9%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
Current ratio (x)	2.6	2.0	1.8	1.8	1.8	1.9
Receivable turnover days	1.9	4.0	2.5	5.0	5.0	5.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
P/E	ns	57.6	32.5	25.4	18.2	13.8
P/E (diluted)	ns	57.8	32.7	25.6	18.3	13.9
P/B	2.8	2.8	2.7	2.4	2.1	1.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.