

# Beststudy Education (3978 HK)

## Key NDR takeaways

We hosted investors meetings with Beststudy mgmt. recently. Investors are interested in industry consolidation opportunities, operation performance and school reopening schedule. Despite a short-term business disruption by COVID-19, we expect this could speed up industry consolidation. The Company could gain market share and accelerate expansion by acquisitions. The Company will focus on Greater Bay Area expansion and move into OMO model. Maintain Buy.

- **Reopening schedule not fixed yet.** According to Guangdong's policy, primary and secondary schools will gradually reopen in May while the reopening schedule of kindergarten is not yet fixed. The reopening of K12 after school tutoring will be at the same time with kindergartens. The commencement of 2020 summer holiday is no later than 1 Aug, 2-3 weeks later than 2019's. That said, we think the Company could launch short-term courses in July to compensate shortened summer break tutoring hours.
- **Accelerating industry consolidation.** Firstly, many small industry players without online learning capability were closed due to operating cash flow issues. Guangdong's K12 after-school tutoring sector is fragmented with top five players accounting for 7.6% market share in 2018. There is room for leading players to gain market share. Secondly, the Company has been reviewing various potential acquisition targets (annual revenue up to ~RMB100mn) inside and outside Guangdong. Backed by strong balance sheet (RMB1.3bn cash and investments at end of FY19), the Company looks to cherry-pick targets with synergies such as operating in uncovered regions. Thirdly, shop rental has dropped and some institutions have cut teachers' salary or asked teachers to take no pay leave amid epidemic. We think the Company could pick prime locations to expand its school network and hire quality teachers at lower costs.
- **FY20E outlook.** While the conversion rates from offline winter-break classes to online and from winter-break classes to spring semester were satisfactory at 85% and 82%, respectively. The temporary shutdown of schools has affected acquisition of new customers. We forecast revenue to drop by high single-digit in 1H and rebound by 20%+ in 2H.
- **Maintain Buy.** Our TP of HK\$5.14 represents 18.7x average FY20E and FY21E EPS. **Catalysts:** (1) better-than-expected student enrollment; (2) M&A. **Risks:** (1) uncertainties from COVID-19; (2) 2H20E recovery weaker-than-expected; (3) government policies.

## Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,474	1,832	2,049	2,667	3,252
YoY growth (%)	29	24	12	30	22
Adj. net profit (RMB mn)	102	166	158	261	324
Adj. EPS (RMB)	0.15	0.20	0.19	0.31	0.38
YoY growth (%)	N/A	28	(4)	65	24
Consensus EPS (RMB)	N/A	N/A	0.23	0.30	0.38
Adj. P/E (x)	21.0	17.2	18.3	11.1	8.9
Yield (%)	N/A	1.8	1.6	2.7	3.4
P/B (x)	4.4	3.6	3.2	2.6	2.1

Source: Company data, Bloomberg, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$5.14
(Previous TP	HK\$5.14)
Up/Downside	+35%
Current Price	HK\$3.80

## China Education Sector

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## Stock Data

Mkt Cap (HK\$ mn)	3,229
Avg 3 mths t/o (HK\$ mn)	3.76
52w High/Low (HK\$)	5.05/ 1.70
Total Issued Shares (mn)	849.7

Source: Bloomberg

## Shareholding Structure

Junjing Tang	20.1%
Junying Tang	16.9%
Gui Zhou	16.7%

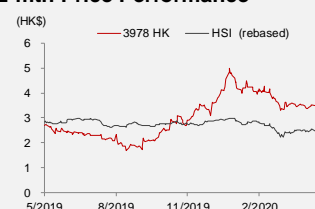
Source: HKEx

## Share Performance

	Absolute	Relative
1-mth	10.4%	11.0%
3-mth	-7.5%	6.1%
6-mth	30.4%	43.3%

Source: Bloomberg

## 12-mth Price Performance



Source: Bloomberg

## Auditor: EY

## Related Reports

1. "Benefit from accelerating industry consolidation" – 9 Apr 2020
2. "Takeaways from Investor Day" – 9 Jan 2020
3. "Worst behind; expect strong recovery in 2H19E" – 30 Sep 2019
4. "FY18 beat with network expansion accelerated" – 15 Mar 2019

Figure 1: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	2,049	2,667	3,252	2,132	2,702	3,305	-4%	-1%	-2%
Gross Profit	836	1,107	1,356	876	1,127	1,381	-5%	-2%	-2%
Operating Profit	211	323	393	217	321	432	-3%	1%	-9%
Net profit	158	261	324	170	270	334	-7%	-3%	-3%
Gross Margin	40.8%	41.5%	41.7%	41.1%	41.7%	41.8%	-0.3ppt	-0.2ppt	-0.1ppt
Operating Margin	10.3%	12.1%	12.1%	10.2%	11.9%	13.1%	+0.1ppt	+0.2ppt	-1.0ppt
Net Margin	7.7%	9.8%	10.0%	8.0%	10.0%	10.1%	-0.3ppt	-0.2ppt	-0.1ppt

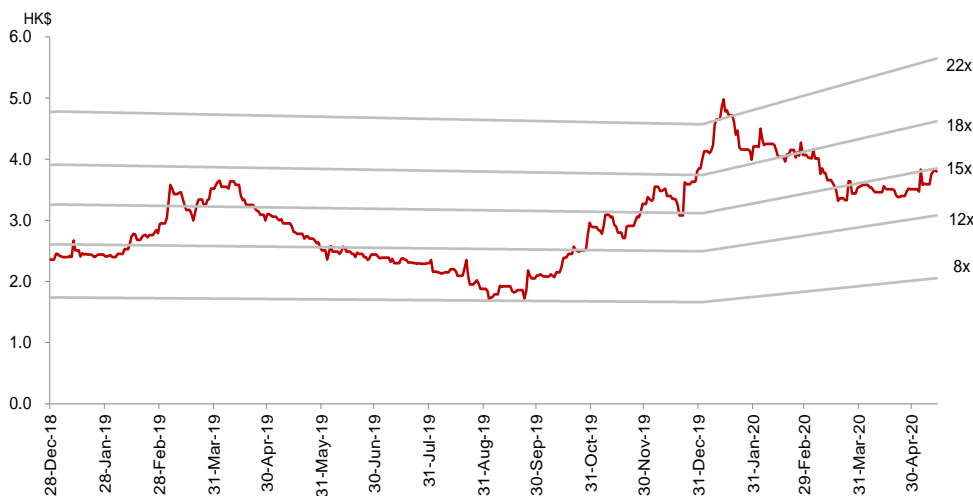
Source: Bloomberg, CMBIS estimates

Figure 2: Peers valuation

	Ticker	Rating	Mkt Cap		TP	Year end	P/E (x)			Adj. net profit growth (%)			Adj. EPS growth (%)			PEG (x)		Revenue growth (%)		
			(US\$ m)	Price			FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2
K12 tutoring services providers																				
New Oriental Education	EDU US	NR	19,116	120.66	na	May-20	27.5	20.8	13.4	42	32	57	40	32	55	0.64	29	28	26	
TAL Education	TAL US	NR	32,185	54.39	na	Feb-20	61.9	38.1	26.2	224	70	50	221	62	45	1.15	38	39	32	
Onesmart Education	ONE US	NR	809	5.00	na	Aug-19	18.5	12.9	9.7	26	45	34	1,977	43	34	0.48	18	24	18	
Scholar Education	1769 HK	NR	1,005	14.02	na	Dec-19	45.4	34.4	25.7	70	36	35	48	32	34	1.38	26	38	37	
Beststudy Education	3978 HK	Buy	417	3.80	5.14	Dec-19	18.2	10.7	8.7	(4)	69	24	(4)	69	24	0.40	12	30	22	
Average							34.3	23.4	16.7	72	50	40	457	48	39	0.81	25	32	27	
Average - excl Beststudy							38.3	26.6	18.7	90	46	44	572	42	42	0.91	28	32	28	
Non-formal vocational education services provider																				
China East Education	667 HK	Buy	3,885	13.74	15.80	Dec-19	25.7	20.1	17.3	17	28	16	17	28	16	1.17	12	19	13	
K12 education services providers																				
Wisdom Education	6068 HK	Buy	803	3.04	4.60	Aug-19	12.3	9.6	8.0	28	30	20	29	28	20	0.52	19	23	20	
Tianli Education	1773 HK	NR	1,207	4.51	na	Dec-19	21.7	19.7	17.2	32	24	18	51	11	14	1.75	29	25	16	
Maple Leaf	1317 HK	NR	827	2.14	na	Aug-19	8.5	7.5	7.3	1	16	15	4	13	4	1.02	7	14	12	
Average							14.2	12.3	10.8	20	23	18	28	17	13	1.10	18	21	16	
Higher Education services providers																				
China Education	839 HK	NR	3,451	13.24	na	Aug-19	26.4	22.3	18.7	28	20	18	24	18	19	1.41	36	15	13	
Yuhua Education	6169 HK	NR	3,021	7.01	na	Aug-19	23.9	17.6	15.5	33	17	13	10	36	14	0.99	46	10	8	
Hope Education	1765 HK	Buy	1,964	2.28	2.80	Aug-19	23.3	17.4	14.1	na	34	24	na	34	24	0.81	na	36	25	
Kepei Education	1890 HK	NR	1,340	5.19	na	Dec-19	15.8	13.1	11.5	33	20	17	31	21	14	0.91	27	22	14	
New Higher Education	2001 HK	NR	815	4.10	na	Dec-19	10.9	9.3	8.4	34	19	15	34	17	12	0.76	27	16	12	
Edvantage	382 HK	NR	736	5.60	na	Aug-19	16.8	13.3	11.1	40	22	21	1	26	20	0.73	18	19	17	
Minsheng Education	1569 HK	NR	638	1.23	na	Dec-19	10.3	8.9	8.0	11	14	11	11	16	12	0.75	21	14	8	
Xinhua Education	2779 HK	Buy	515	2.48	2.85	Dec-19	11.2	10.0	9.2	8	11	9	8	11	9	1.11	14	11	9	
Huali University	1756 HK		486	3.14	na	Aug-19	11.4	8.8	7.0	20	30	25	20	29	25	0.42	19	18	17	
Average							16.7	13.4	11.5	26	21	17	18	23	17	0.88	26	18	14	

Source: Bloomberg, CMBIS estimates

Figure 3: P/E band chart



Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>1,474</b>	<b>1,832</b>	<b>2,049</b>	<b>2,667</b>	<b>3,252</b>
Premium Learning	1,302	1,617	1,806	2,386	2,934
Elite Talent	40	56	62	79	92
Full-time Test Preparation	130	157	179	201	224
Others	3	2	2	2	2
Cost of sales	(876)	(1,064)	(1,213)	(1,560)	(1,896)
Gross profit	598	768	836	1,107	1,356
Other income	7	19	14	19	25
Selling expenses	(130)	(163)	(213)	(296)	(390)
Administrative expenses	(186)	(212)	(246)	(307)	(377)
R&D expenses	(171)	(165)	(180)	(200)	(221)
Other expenses	(44)	(45)	0	0	0
Operating profit	74	201	211	323	393
Fair value gains	35	37	31	31	31
Finance costs	0	(48)	(46)	(39)	(35)
Share of asso and JVs	(1)	(3)	(10)	(10)	(10)
Pre-tax profit	108	187	185	305	379
Income tax	(35)	(22)	(26)	(43)	(53)
Less: Minority interests	19	(1)	1	2	2
<b>Net profit</b>	<b>55</b>	<b>136</b>	<b>158</b>	<b>261</b>	<b>324</b>
<b>Adjusted net profit</b>	<b>102</b>	<b>166</b>	<b>158</b>	<b>261</b>	<b>324</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Profit before tax	109	157	185	305	379
Depreciation and amortization	44	271	80	77	72
Change in working capital	119	177	190	210	224
Others	(70)	23	183	136	112
<b>Net cash from operating</b>	<b>202</b>	<b>628</b>	<b>638</b>	<b>728</b>	<b>787</b>
Capex	(152)	(99)	(60)	(80)	(80)
Change of investments	52	(552)	31	31	31
Others	39	(86)	0	0	0
<b>Net cash from investing</b>	<b>(61)</b>	<b>(737)</b>	<b>(29)</b>	<b>(49)</b>	<b>(49)</b>
Equity raised	258	44	0	0	0
Dividend paid	(100)	-	(57)	(48)	(78)
Others	(1)	(212)	(211)	(184)	(171)
<b>Net cash from financing</b>	<b>158</b>	<b>(168)</b>	<b>(268)</b>	<b>(231)</b>	<b>(249)</b>
<b>Net change in cash</b>	<b>298</b>	<b>(277)</b>	<b>341</b>	<b>448</b>	<b>489</b>
Cash at the beginning	170	468	884	1,225	1,672
Exchange difference	0	5	0	0	0
<b>Cash at the end</b>	<b>468</b>	<b>196</b>	<b>1,225</b>	<b>1,672</b>	<b>2,161</b>
Cash at balance sheet	468	196	1,225	1,672	2,161
Cash at discontinued op.	0	0	0	0	0

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>302</b>	<b>1,476</b>	<b>1,319</b>	<b>1,233</b>	<b>1,162</b>
PPE	161	202	185	190	200
Right-of-use assets	0	894	766	688	619
Asso & JV	21	76	66	56	46
Others	121	305	302	300	298
<b>Current assets</b>	<b>1,137</b>	<b>1,289</b>	<b>1,636</b>	<b>2,091</b>	<b>2,588</b>
Cash	468	196	537	985	1,473
Short-term investments	518	880	880	880	880
Prepayments	148	140	147	154	162
Others	4	72	72	72	72
<b>Current liabilities</b>	<b>776</b>	<b>1,235</b>	<b>1,447</b>	<b>1,670</b>	<b>1,906</b>
Contract liabilities	563	775	986	1,191	1,406
Other payables	192	200	224	262	302
Tax payables	21	34	34	34	34
Others	0	226	203	183	165
<b>Non-current liabilities</b>	<b>41</b>	<b>733</b>	<b>608</b>	<b>540</b>	<b>483</b>
Lease liabilities	0	733	608	540	483
Rental payables	41	0	0	0	0
<b>Total net assets</b>	<b>622</b>	<b>797</b>	<b>900</b>	<b>1,114</b>	<b>1,362</b>
<b>Shareholders' equity</b>	<b>623</b>	<b>797</b>	<b>899</b>	<b>1,112</b>	<b>1,358</b>
<b>Minority Interest</b>	<b>(1)</b>	<b>(1)</b>	<b>0</b>	<b>2</b>	<b>4</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Premium Learning	88.3	88.3	88.2	89.4	90.2
Elite Talent	2.7	3.1	3.0	3.0	2.8
Full-time Test Preparatory	8.8	8.5	8.7	7.5	6.9
Others	0.2	0.1	0.1	0.1	0.1
<b>P&amp;L ratios (%)</b>					
Gross profit margin	40.6	41.9	40.8	41.5	41.7
OP margin	5.0	11.0	10.3	12.1	12.1
Effective tax rate	32.2	14.0	14.0	14.0	14.0
Adj. net profit margin	6.9	9.0	7.7	9.8	10.0
Payout ratio	N/A	41.8	30.0	30.0	30.0
<b>Balance sheet ratios</b>					
Current ratio (x)	1.5	1.0	1.1	1.3	1.4
Asset turnover (x)	1.0	0.7	0.7	0.8	0.9
Net cash (RMB mn)	470	252	592	1,040	1,529
<b>Returns (%)</b>					
Adj. ROAE	23.3	23.3	18.7	25.9	26.2
Adj. ROAA	8.2	7.9	5.5	8.3	9.2
<b>Per share data</b>					
Adj. EPS (RMB)	0.15	0.20	0.19	0.31	0.38
DPS (RMB)	N/A	0.06	0.06	0.09	0.11
BVPS (RMB)	0.73	0.94	1.06	1.31	1.60

Source: Company data, CMBIS estimates

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