

Hope Education (1765 HK)

More optimistic on FY21E student enrollment

We raised FY21/22E adj. NP by 3%/6% as we lifted student enrollment estimates by 3%/4%. Our TP is lifted to HK\$3.17 from HK\$2.80, based on 32.4x FY20E P/E, still at 1x PEG. We forecast Hope Education to deliver 32.4% adj. EPS CAGR from FY20-22E, stronger than sector's average of 19%. Current 0.8x PEG valuation is undemanding compared to China Education (839 HK, NR) (1.4x PEG) and Yuhua (6169 HK, NR) (1.0x PEG). Hope Education remains our sector top pick. Maintain Buy.

- **More optimistic on FY21E student enrollment.** It is because of the following: (1) The two universities in Guizhou saw degree quota (incl. diploma-to-degree) growth rates at 30-35%. (2) Sichuan increased its diploma-to-degree quota from 12,000 to 32,000 (+167% YoY). We think Hope College could benefit. (3) News reported Sichuan's number of students applied for independent recruitment exams (单独招生考试) increased by more than 30,000 to >200,000. The Company could benefit because it had 30% of total students coming from vocational colleges in the province in FY19.
- **Tianye College's quota surged in 2020-21 school year.** Its quota for independent recruitment exams surged 69% to 7,200. If its quota for Gaokao unified recruitment remains the same as last year (4,752), its total quota in 2020-21 school year (11,952) would exceed its total students in 2019-20 school year (11,521). The college launches an innovative school-enterprise cooperation program (工学结合班) this year. Students can have at least three months of work practice and earn income of ~RMB12,000 per school year. Part of the tuition fees is born by enterprises. Such job income is greater than students' tuition fees payable. Students also could enjoy employment priority after graduation. We think such program is attractive to students.
- **Two independent colleges could be converted in FY22E at earliest.** MOE released a notice to accelerate the conversion of independent colleges into universities on 18 May. In principle, independent colleges sponsored by public universities jointly founded by provincial governments and ministries (部省合建高校) should complete conversion in priority. Given that Guizhou University belonged to this kind of public university, College of Science and Technology of Guizhou University may become one of the Company's four independent colleges to finish conversion. Also, Jinci College already submitted its conversion plan. We estimate the mgmt. fees of these two universities represents 6% of FY22E adj. NP.
- **Catalysts.** (1) 2020-21 student enrollment beat; (2) M&A; (3) unpeg of independent colleges; and (4) removal of policy overhang.

Earnings Summary

(YE 31 Dec/Aug)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,030	1,331	1,607	2,235	2,847
YoY growth (%)	37	29	na	39	27
Net profit (RMB mn)	168	490	528	731	950
Adj. net profit (RMB mn)	320	474	585	807	1,027
Adj. EPS (RMB)	0.056	0.071	0.088	0.121	0.154
YoY growth (%)	na	26	na	38	27
Consensus EPS (RMB)	na	na	0.093	0.121	0.136
Adj. P/E (x)	37.0	30.6	25.3	18.3	14.4
Yield (%)	0.7	1.0	1.1	1.6	2.1
Adj. ROAE (%)	13.3	10.9	13.1	16.5	18.5
Net cash (RMB mn)	907	255	1,192	935	1,317

Source: Bloomberg, Company data, CMBIS estimates, *FY18/19A with YE 31 Dec

BUY (Maintain)

Target Price	HK\$3.17
(Previous TP	HK\$2.80)
Up/Downside	+28%
Current Price	HK\$2.47

China Education Sector

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Stock Data

Mkt Cap (HK\$ mn)	16,494
Avg 3 mths t/o (HK\$ mn)	53.27
52w High/Low (HK\$)	2.73/ 1.00
Total Issued Shares (mn)	6,666.7
Source: Bloomberg	

Shareholding Structure

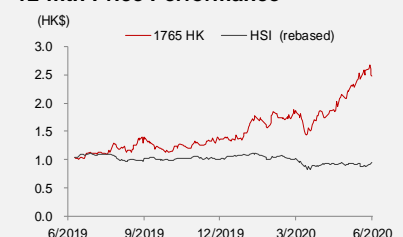
Hope Education Investment	62.75%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	20.2%	16.5%
3-mth	37.4%	47.8%
6-mth	85.2%	98.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: EY

Related Reports

1. "Strong 1HFY20, multiple growth drivers" – 4 May 2020
2. "Strong FY19 results" – 31 Mar 2020
3. "Acquisition of Malaysia's Inti Education" – 3 Mar 2020
4. "Reverse roadshow takeaways" – 21 Oct 2019

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<https://euromoney.com/brokers>

Figure 1: Quota of Tianye College and two universities in Guizhou

School	Quota (school year)		Growth (%)	Students (school year)		Growth (%)
	2019/20	2020/21E		2019/20	2020/21E	
Sichuan Tianyi College (through independent recruitment exam)	4,250	7,200	69%	11,521	14,401	25%
Sichuan Tianyi College (through Gaokao)	4,752	na	na			
Business College of Guizhou University of Finance and Economics	6,000	8,000	33%	18,128	20,847	15%
College of Science and Technology of Guizhou University	2,500	3,250	30%	9,959	10,606	6%

Source: Company data, CMBIS estimates

Figure 2: Quota of Tianye College and two universities in Guizhou

Student enrolment (school year)	2017/2018	2018/2019	2019/2020E	2020/2021E	2021/2022E	3-yr CAGR
Universities						
Southwest Jiaotong University Hope College	15,123	17,268	20,454	23,481	25,344	14%
<i>Bachelor's degree program</i>	10,855	12,049	13,391	14,864	15,607	9%
<i>Junior college diploma program</i>	4,268	5,219	7,063	8,617	9,737	23%
Business College of Guizhou University of Finance and Econon	14,356	15,548	18,128	20,847	22,202	13%
Jinci College of Shanxi Medical University	4,801	5,953	7,149	8,221	8,715	14%
College of Science and Technology of Guizhou University *			9,959	10,606	11,031	na
Yinchuan schools			15,569	17,969	20,369	na
Inti Education				16,557	17,716	na
Junior colleges						
Sichuan Tianyi University	11,765	10,971	11,521	14,401	16,561	15%
Sichuan Hope Automotive Vocational College	4,559	4,373	6,563	8,860	10,455	34%
Sichuan Vocational College of Culture&Communication	7,371	8,920	10,349	11,384	12,295	11%
Guizhou Vocational Institute of Technology	2,989	5,903	8,021	9,465	10,222	20%
Sichuan TOP IT Vocational Institute	12,548	12,869	13,731	14,418	15,138	6%
Hebi Automotive College			5,434	6,200	7,000	na
Suzhou Top Institute			5,012	6,012	7,012	na
Jiangxi Zhangshu					1,500	na
Chongqing Zhongxian					1,500	na
Gansu Baiyin					1,500	na
Technician education services						
Sichuan Hope Automotive Technician College	2,127	4,193	8,235	10,706	12,311	43%
Total students	75,639	86,033	140,125	179,127	200,871	33%
Total students - degree	30,012	33,550	64,196	89,065	95,640	42%
Total students - others	45,627	52,448	75,929	90,062	105,231	26%

Source: Company data, CMBIS estimates

*College of Science and Technology of Guizhou University is a JV

Figure 3: Changes of our estimates

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,607	2,235	2,847	1,607	2,190	2,735	0%	2%	4%
Gross Profit	808	1,176	1,527	808	1,148	1,461	0%	2%	5%
Operating Profit	675	905	1,148	675	880	1,087	0%	3%	6%
Net profit	585	807	1,027	585	783	969	0%	3%	6%
Gross Margin	50.3%	52.6%	53.7%	50.3%	52.4%	53.4%	flat	+0.2ppt	+0.3ppt
Operating Margin	42.0%	40.5%	40.3%	42.0%	40.2%	39.8%	flat	+0.3ppt	+0.5ppt
Net Margin	36.4%	36.1%	36.1%	36.4%	35.8%	35.4%	flat	+0.3ppt	+0.7ppt

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,607	2,235	2,847	1,717	2,299	2,787	-6%	-3%	2%
Gross Profit	808	1,176	1,527	881	1,175	1,453	-8%	0%	5%
Operating Profit	675	905	1,148	760	974	1,233	-11%	-7%	-7%
Net profit	585	807	1,027	609	823	994	-4%	-2%	3%
Gross Margin	50.3%	52.6%	53.7%	51.3%	51.1%	52.1%	-1.0ppt	+1.5ppt	+1.6ppt
Operating Margin	42.0%	40.5%	40.3%	44.3%	42.4%	44.2%	-2.3ppt	-1.9ppt	-3.9ppt
Net Margin	36.4%	36.1%	36.1%	35.4%	35.8%	35.7%	+1.0ppt	+0.3ppt	+0.4ppt

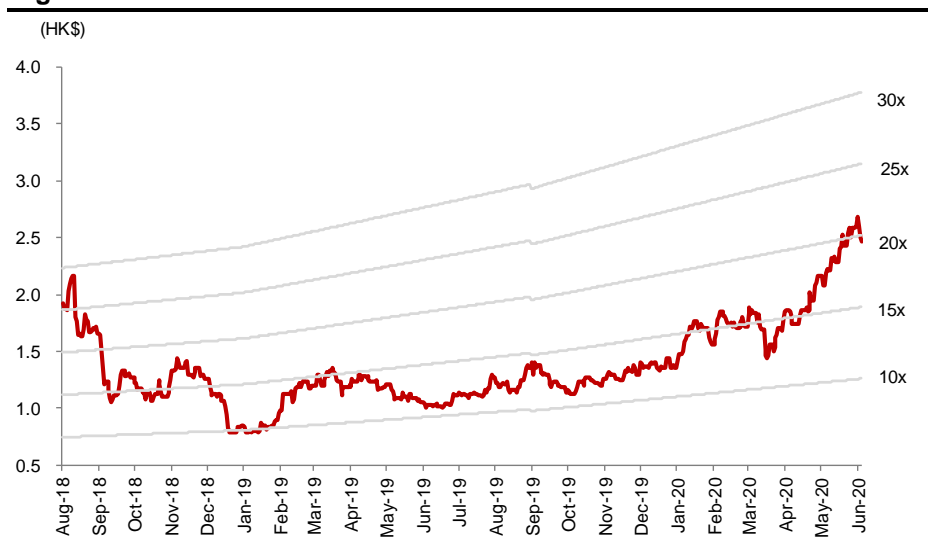
Source: Company data, CMBIS estimates, Bloomberg

Figure 5: Peers valuation table

	Ticker	Rating	Mkt Cap (US\$ m)	Price	TP	Price YTD	Year end	FY1	FY2	FY3	P/E (x)	Adj. net profit growth (%)			Adj. EPS growth (%)			PEG (x)
												FY1	FY2	FY3	FY1	FY2	FY3	FY1
Higher Education services providers																		
China Education	839 HK	NR	3,493	13.40	na	31	Aug-19	26.6	22.5	18.9	28	21	18	25	18	19	1.43	
Yuhua Education	6169 HK	NR	3,038	7.05	na	34	Aug-19	24.5	17.6	15.8	28	22	12	7	39	12	0.99	
Hope Education	1765 HK	Buy	2,128	2.47	3.17	83	Aug-19	25.3	18.3	14.4	na	38	27	na	38	27	0.77	
Kepei Education	1890 HK	NR	1,683	6.52	na	73	Dec-19	19.7	16.2	14.3	33	20	16	33	21	14	1.13	
New Higher Education	2001 HK	NR	907	4.56	na	50	Dec-19	12.6	10.7	9.2	35	20	16	30	18	16	0.75	
Edvantage	382 HK	NR	825	6.28	na	48	Aug-19	18.9	15.2	12.4	28	23	22	0	25	22	0.81	
Minsheng Education	1569 HK	NR	638	1.23	na	(11)	Dec-19	10.3	9.0	8.0	11	14	11	11	15	12	0.77	
Xinhua Education	2779 HK	Buy	540	2.60	2.85	(11)	Dec-19	11.7	10.5	9.7	8	11	9	8	11	9	1.17	
Huali University	1756 HK	NR	511	3.30	na	73	Aug-19	11.9	9.2	7.4	20	30	25	20	29	25	0.44	
Average						41		17.9	14.4	12.2	24	22	18	17	24	17	0.92	

Source: Bloomberg estimates, CMBIS estimates

Figure 6: P/E band chart



Source: Company data, CMBIS estimates

Figure 7: Tianyi College quota for independent recruitment exams jumped to 7,200. Part of tuition fee of school-enterprise cooperation program is born by the enterprise.

招生代码: 5193		民办四川天一学院				计划数 7200			
普高专业代码	专业名称	单招总计划数	普通类	普高类计划数	中职类	中职考生专业代码	中职类计划数	学费标准(元/年)	工学结合班个人缴费(生/年)
01	护理	1700	文理兼收	500	医药卫生类、财经商贸类、公共管理与服务类、旅游服务一类、轻纺食品类、教育类、文化艺术类、旅游服务二类。	29	1200	11000	7000
02	中药学	500	文理兼收	200	医药卫生类、财经商贸类、公共管理与服务类、旅游服务一类、轻纺食品类、教育类、文化艺术类、旅游服务二类。	30	300	11000	7000
03	康复治疗技术	300	文理兼收	100	医药卫生类、财经商贸类、公共管理与服务类、旅游服务一类、轻纺食品类、教育类、文化艺术类、旅游服务二类。	31	200	11000	7000
04	家政服务与管理	160	文理兼收	60	公共管理与服务类、医药卫生类、财经商贸类、旅游服务一类、农林牧渔类、旅游服务二类、文化艺术类	32	100	9000	4000
05	工程造价	180	文理兼收	60	土木水利类、材料类、加工制造类、财经商贸类、公共管理与服务类、汽车类	33	120	9900	6000
06	建设工程监理	180	文理兼收	60	土木水利类、材料类、加工制造类、财经商贸类、公共管理与服务类、汽车类	34	120	9900	6000
07	工程测量技术	180	文理兼收	60	土木水利类、材料类、加工制造类、财经商贸类、公共管理与服务类、汽车类	35	120	9900	6000
08	建筑工程技术	200	文理兼收	85	土木水利类、材料类、加工制造类、财经商贸类、公共管理与服务类、汽车类	36	115	9900	6000
09	软件技术	185	文理兼收	65	信息技术一类、信息技术二类、公共管理与服务类、财经商贸类、教育类、汽车类	37	120	9900	6000
10	计算机应用技术	185	文理兼收	65	信息技术一类、信息技术二类、公共管理与服务类、财经商贸类、教育类、汽车类	38	120	9900	4000
11	汽车运用与维修	180	文理兼收	50	加工制造类、汽车类、旅游服务一类、旅游服务二类、财经商贸类、信息技术一类	39	130	9900	4000
12	电子商务	220	文理兼收	120	不限类别	40	100	9000	4000
13	会计	300	文理兼收	100	不限类别	41	200	9000	5000
14	财务管理	300	文理兼收	100	财经商贸类、医药卫生类、公共管理与服务类、教育类、旅游服务一类、旅游服务二类	42	200	9000	5000
15	市场营销	200	文理兼收	80	不限类别	43	120	9000	4000
16	工商企业管理	200	文理兼收	80	公共管理与服务类、财经商贸类、医药卫生类、教育类、旅游服务一类、旅游服务二类	44	120	9000	4000
17	物流管理	185	文理兼收	65	不限类别	45	120	9000	4000
18	旅游管理	220	文理兼收	100	旅游服务一类、旅游服务二类、财经商贸类、医药卫生类、公共管理与服务类、教育类	46	120	9000	4000
19	烹调工艺与营养	200	文理兼收	80	不限类别	47	120	9000	5000
20	体育运营与管理	200	文理兼收	100	公共管理与服务类、旅游服务一类、旅游服务二类、财经商贸类、教学类、医药卫生类	48	100	9000	5000
21	空中乘务	100	文理兼收	50	文化艺术类、财经商贸类、医药卫生类、公共管理与服务类、教育类、信息一类、信息二类	49	50	9000	5000
22	艺术设计	150	文理兼收	100	文化艺术类、财经商贸类、医药卫生类、公共管理与服务类、教育类、信息一类、信息二类	50	50	12000	8000
23	环境艺术设计	200	文理兼收	100	土木水利类、文化艺术类、教育类、财经商贸类、公共管理与服务类、旅游服务二类、信息技术一类、信息技术二类	51	100	12000	8000
24	建筑装饰工程技术	235	文理兼收	100	不限类别	52	135	9900	4000
25	酒店管理	130	文理兼收	50	文化艺术类、公共管理与服务类、旅游服务一类、旅游服务二类、财经商贸类、加工制造类	53	80	9000	4000
26	社会体育	130	文理兼收	50	文化艺术类、公共管理与服务类、旅游服务一类、旅游服务二类、财经商贸类、加工制造类	54	80	9000	5000
27	休闲体育	130	文理兼收	50	文化艺术类、公共管理与服务类、旅游服务一类、旅游服务二类、财经商贸类、加工制造类	55	80	9000	5000
28	商务日语	150	文理兼收	70	不限类别	56	80	9000	6000
合计		7200							
备注: 普高、中职各专业计划数可相互调剂。						学院地址: 绵阳市二环路东段88号			

Source: The college's website <http://www.tianyi.edu.cn/p/html/zsw/list.html?HType=2&CId=1146&NId=18920>

Figure 8: Tianyi College launches school-enterprise cooperation program

四川天一學院

四川天一學院工学结合告知承诺书

亲爱的 2020 级同学：

单招正在进行志愿填报，感谢已填报我院的同学对天一学院的信任，也请相信自己正确的选择，我院本着“明德、精业、求实、创新”校训，致力于为求学路上的你营造一个良好的学习环境，让你能学以致用、学有所成。我院为了维护同学们就读期间的合法权益，减轻学生家庭经济压力，创建和谐校园，保证培养质量，顺利完成学业，拓展升学前景，成就辉煌人生，2020 级新生可根据自身情况自愿选择就读我院工学结合班，现针对我院工学结合班的学生做如下郑重承诺：

一、工学结合班概念：采取工学结合方式培养学生，是一种创新的人才培养模式。学院依托长三角和珠三角的产业优势，与优质企业紧密合作，根据实际工作岗位需求，实施学校企业——双元教学，共同设计人才培养计划和课程体系。在校三年期间通过工学结合、工学交替循环式学习，达到“理论—实践”紧密结合，努力培养专业理论、专业技能兼优，有竞争力的高素质技术技能人才。

二、工学结合班目的：工学结合班学生除直接享有学院的各种教育资源和专业学习时数、获得同等国家学历和相应的职业

— 1 —

Source: The college's website

Figure 9: Student can earn around RMB12,000 per school year in school-enterprise cooperation program

技能证书，还额外享有（1）在企业实践期间获得相应的补贴（约4200元/月），一部分用于抵缴部分学费，一部分作为生活补贴，减轻家庭负担；（2）作为企业骨干员工、储备干部优先培养；采取工学结合这一培养模式有利于培养学生艰苦奋斗、自强不息的精神，在减轻学生家庭经济负担的同时，学生还可优先获得优质企业的就业岗位。为此，校方将工学结合班的学费分成两个部分，即：工学结合班学费=学生个人缴费+企业实践补贴缴费部分；其中学生个人缴费部分，在学生每年到校报到当天，一次性缴纳；企业实践补贴缴费部分，在学生参加企业实践获得补贴费后，拿出部分或全部金额缴纳。

三、学院确保学生在参加工学结合顶岗实践后的教学计划课时量不低于国家要求的课时量；

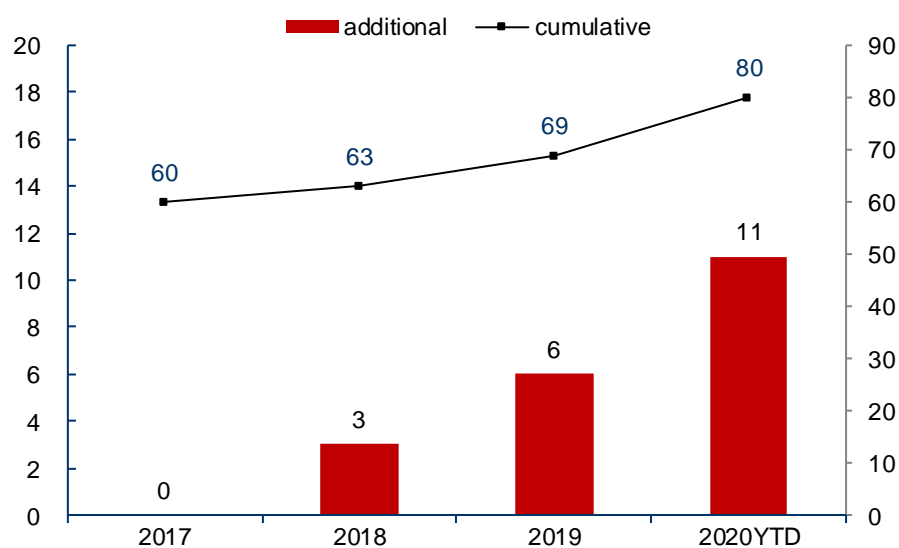
四、校方承诺平均每年为工学结合班学生提供不低于3个月的工学结合实践机会，收入约12000元/年。

附件：四川天一学院校企合作班个人缴费标准

四川天一学院
2020年3月15日

— 2 —

Source: The college's website

Figure 10: Number of independent colleges approved to convert into universities

Source: MOE

Financial Summary

Income statement

YE 31 Dec/Aug (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1,030	1,331	1,607	2,235	2,847
Tuition fees	854	1,093	1,358	1,852	2,411
Boarding fees	85	103	97	153	178
Others	90	136	151	231	257
Cost of sales	(562)	(657)	(798)	(1,059)	(1,319)
Gross profit	467	675	808	1,176	1,527
Other income	101	130	156	170	208
Selling expenses	(21)	(45)	(59)	(103)	(142)
Administrative expenses	(111)	(152)	(220)	(329)	(433)
Other expenses	(5)	(16)	(10)	(10)	(12)
EBIT	431	591	675	905	1,148
Finance income	79	94	98	90	91
Finance costs	(201)	(171)	(200)	(193)	(193)
Share of JV	(2)	5	13	17	21
Non-operating items	(148)	36	13	10	10
Pre-tax profit	159	556	599	829	1,078
Income tax	8	(66)	(71)	(98)	(127)
Less: Minority interests	(1)	0	0	0	0
Net profit	168	490	528	731	950
Adjusted net profit	320	474	585	807	1,027

Cash flow summary

YE 31 Dec/Aug (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	159	556	528	731	950
Depreciation and amortization	161	218	294	357	413
Change in working capital	249	(47)	87	385	319
Others	233	(29)	12	103	71
Net cash from operating	802	697	921	1,576	1,753
Capex & investments	(624)	(279)	(500)	(500)	(500)
Acquisitions	(15)	(447)	(56)	(936)	(401)
Others	(130)	(1,139)	1,055	(19)	(28)
Net cash from investing	(769)	(1,865)	499	(1,455)	(929)
Equity raised	2,705	-	5	-	-
Change of borrowings	259	313	299	-	-
Dividend paid	-	(105)	(150)	(169)	(234)
Others	(595)	(272)	124	(208)	(208)
Net cash from financing	2,369	(65)	278	(377)	(442)
Net change in cash	2,402	(1,232)	1,697	(257)	382
Cash at the beginning of the year	181	3,039	829	2,526	2,270
Exchange difference	2,584	1,806	2,526	2,270	2,651
Cash at the end of the year	3,039	1,690	2,526	2,270	2,651

Balance sheet

YE 31 Dec/Aug (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	5,119	7,348	7,775	8,815	8,923
PPE	3,448	4,564	4,903	5,664	5,838
Prepaid lease payments	590	1,163	1,122	1,055	984
JV	-	196	210	227	248
Others	1,081	1,425	1,540	1,869	1,853
Current assets	3,172	3,508	3,934	3,708	4,124
Cash	3,039	1,690	2,526	2,270	2,651
Prepayments	129	252	310	341	376
Others	4	1,565	1,097	1,097	1,097
Current liabilities	1,851	3,143	4,057	4,385	4,275
Contract liabilities	591	806	1,803	2,157	2,418
Other payables	637	1,176	1,148	1,121	751
Borrowings	527	1,003	981	981	981
Current income tax	34	65	65	65	65
Others	62	91	60	60	60
Non-current liabilities	2,280	3,149	3,031	2,956	2,873
Deferred income	658	1,073	1,051	1,004	948
Borrowings	1,605	1,594	1,515	1,515	1,515
Others	17	482	466	438	410
Total net assets	4,160	4,565	4,620	5,182	5,899
Shareholders' equity	4,157	4,562	4,616	5,178	5,895
Minority Interest	3	3	4	4	4

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Tuition & boarding fees	83.0	82.1	84.5	82.8	84.7
Ancillary services	8.3	7.7	6.1	6.8	6.3
Others	8.7	10.2	9.4	10.3	9.0
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross profit margin	45.4	50.7	50.3	52.6	53.7
EBIT margin	41.9	44.4	42.0	40.5	40.3
Effective tax rate	31.1	35.6	11.8	11.8	11.8
Adj. net profit margin	(4.9)	11.8	36.4	36.1	36.1
Payout ratio	31.3	31.7	32.0	32.0	32.0
Balance sheet ratios					
Current ratio (x)	1.7	1.1	1.0	0.8	1.0
Asset turnover (x)	0.1	0.1	0.1	0.2	0.2
Net cash (RMB mn)	907	255	1,192	935	1,317
Returns (%)					
Adj. ROAE	13.3	10.9	13.1	16.5	18.5
Adj. ROAA	4.6	4.9	5.3	6.7	8.0
Per share data					
Adj. EPS (RMB)	0.056	0.071	0.088	0.121	0.154
DPS (RMB)	0.015	0.023	0.025	0.035	0.046
BVPS (RMB)	0.624	0.684	0.692	0.776	0.884

Source: Company data, CMBIS estimates

Year-end is changed to Aug from FY20E onwards

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