

New Oriental (EDU US)

Accelerating capacity expansion to address robust demand

New Oriental announced 3QFY24 financial results: total net revenue grew by 60.1% YoY to US\$1,207mn, 10% ahead of consensus estimate (US\$1,098mn); non-GAAP net income was up by 9.8% YoY to US\$105mn but below consensus estimate of US\$132mn, mainly due to the investment in East Buy and faster-than-expected capacity expansion which dragged the pace of margin expansion. 9MFY24 total revenue/non-GAAP net income grew by 48.6/74.9% YoY. The company guides 4QFY24 total revenue to grow by 28-31% YoY to US\$1,102-1,127mn, versus the consensus estimate of US\$1,096mn. We raise FY25-26E total revenue forecast by 8-10% but trim FY25-26E earnings forecast by 3-6%, as the accelerating capacity expansion supports revenue growth but drags margin in the short term. We fine-tuned our SOTP-derived target price to US\$102.5 (previous: US\$104.5). Maintain BUY.

- Educational business maintained strong momentum.** Overseas test prep and study consulting businesses recorded 52.6% and 25.7% YoY revenue growth in 3QFY24, together accounting for c.21% of total revenue, driven by the post-pandemic recovery of overseas test prep demand. Domestic test prep revenue was up 53.2% YoY and represented c.2% of total revenue in 3QFY24. New educational business initiatives maintained strong momentum, with its revenue up by 72.7% YoY and accounting for c.20% of total revenue in 3QFY24. The non-academic tutoring courses were offered in c.60 cities and attracted 355k student enrolments (+63% YoY) in 3QFY24. In terms of the segment outlook in 4QFY24E, we expect the overseas test prep/domestic test prep/new educational initiatives revenue to grow by 20%/25%/75% YoY.
- East Buy and Tourism business on track of healthy development.** New Oriental continued to step up investment in East Buy to foster private label product development and enhance supply chain management. This further drove expansion of East Buy customer base and improved its user engagement. For the tourism business, New Oriental pilots several premium tourism offerings across 25 provinces in 3QFY24, in order to expand its reach to all age groups including the middle-aged and elderly individuals.
- Accelerating capacity expansion to drive long-term growth.** Non-GAAP operating margin was largely flat YoY at 11.7% in 3QFY24, as the enhanced utilization rate and operating margin of educational business was largely offset by the investment in East Buy. Capacity expansion accelerated, with the total number of schools and learning centres up by 28% YoY to 911 as of end-3QFY24 (2QFY24/1QFY24: +19/12% YoY). The company raised its capacity expansion plan in FY24 and now expects to increase its capacity by c.30% YoY by the end of FY24E (previous: c.20% YoY). We expect the accelerating capacity expansion to facilitate the company to further take market share in the long term.

Earnings Summary

(YE 31 May)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	3,105	2,998	4,293	5,422	6,409
Adjusted net profit (US\$ mn)	(1,046.2)	258.9	456.1	633.8	832.7
EPS (Adjusted) (US\$)	(6.17)	1.54	2.76	3.83	5.03
Consensus EPS (US\$)	(6.17)	1.54	2.92	4.06	5.18
P/E (x)	ns	72.9	35.6	27.1	19.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$102.50**
 (Previous TP) US\$104.50
Up/Downside **33.0%**
Current Price **US\$77.08**

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Stock Data

Mkt Cap (US\$ mn)	12,814.5
Avg 3 mths t/o (US\$ mn)	99.7
52w High/Low (US\$)	96.31/36.00
Total Issued Shares (mn)	166.2

Source: FactSet

Shareholding Structure

Minhong Yu	12.2%
GIC	5.1%

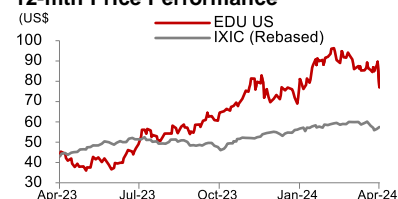
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-15.1%	-11.5%
3-mth	-4.9%	-6.1%
6-mth	19.3%	-2.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: New Oriental: forecast revision

US\$mn	Current			Previous			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,293.2	5,421.7	6,409.2	4,006.9	4,950.6	5,884.1	7.1%	9.5%	8.9%
Gross Profit	2,218.4	2,849.8	3,428.3	2,207.0	2,755.6	3,301.9	0.5%	3.4%	3.8%
Non-GAAP Net Income	456.1	633.8	832.7	511.4	669.8	864.5	-10.8%	-5.4%	-3.7%
Non-GAAP EPS (US\$)	2.8	3.8	5.0	3.1	4.0	5.2	-10.8%	-5.4%	-3.7%
Gross Margin	51.7%	52.6%	53.5%	55.1%	55.7%	56.1%	-3.4 ppt	-3.1 ppt	-2.6 ppt
Operating Margin	8.9%	10.9%	12.5%	11.0%	13.2%	14.6%	-2.1 ppt	-2.3 ppt	-2.1 ppt
Non-GAAP net margin	10.6%	11.7%	13.0%	12.8%	13.5%	14.7%	-2.1 ppt	-1.8 ppt	-1.7 ppt

Source: CMBIGM estimates

Figure 2: New Oriental: CMBIGM estimates vs consensus

US\$mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	4,293.2	5,421.7	6,409.2	4,148.0	5,117.8	6,123.5	3.5%	5.9%	4.7%
Gross Profit	2,218.4	2,849.8	3,428.3	2,277.7	2,838.3	3,377.5	-2.6%	0.4%	1.5%
Non-GAAP Net Income	456.1	633.8	832.7	483.6	671.2	858.1	-5.7%	-5.6%	-3.0%
Non-GAAP EPS (US\$)	2.8	3.8	5.0	2.9	4.1	5.2	-5.7%	-5.6%	-3.0%
Gross Margin	51.7%	52.6%	53.5%	54.9%	55.5%	55.2%	-3.2 ppt	-2.9 ppt	-1.7 ppt
Operating Margin	8.9%	10.9%	12.5%	12.3%	14.1%	15.4%	-3.4 ppt	-3.3 ppt	-2.9 ppt
Non-GAAP net margin	10.6%	11.7%	13.0%	11.7%	13.1%	14.0%	-1.0 ppt	-1.4 ppt	-1.0 ppt

Source: CMBIGM estimates

Valuation

We use sum-of-the-parts (SOTP) valuation methodology with a 10% holdco. discount to value New Oriental at US\$102.5, comprising:

1) US\$91.6 for the educational and consulting business (89% of total valuation), based on 30x FY25E PE, which is a premium to the sector average (26x PE) and reflects New Oriental's strong leadership in China's educational service market.

2) US\$6.8 for East Buy (7% of total valuation), based on 20x FY25E PE, which is at a premium to the sector average (8x PE) and reflects its relatively strong earnings growth outlook (FY24-26E CAGR of 21%).

3) US\$4.2 for the Tourism and others business (4% of total valuation), based on 20x 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	4,007.4	29%	563.7	30	100%	16,912.1	89%
East Buy	1,018.3	21%	114.0	20	55%	1,252.0	7%
Tourism and others	396.0	62%	38.9	20	100%	778.1	4%
Total valuation (US\$mn)						18,942.3	
Holdco discount						10%	
Total valuation (US\$mn)						17,048.0	
No. of ADS						166.2	
Valuation per ADS (US\$)						102.5	

Source: Company data, CMBIGM estimates

Figure 4: Education: valuation comparison

Companies	Ticker	Price (LC)	PE (x)		PS (x)		EPS CAGR 23-25E
			2024E	2025E	2024E	2025E	
Education							
TAL	TAL US	12.2	NA	43.2	5.4	4.2	NA
Youdao	DAO US	3.6	NA	20.8	0.5	0.5	NA
Gaotu	GOTU US	7.0	NA	NA	3.0	2.2	NA
Fenbi	2469 HK	4.2	16.4	12.5	2.4	2.1	50%
Average			16.4	25.5	2.8	2.2	
E-commerce							
Alibaba Group	BABA US	72.5	8.4	7.4	1.3	1.2	6%
Pinduoduo	PDD US	128.0	15.0	11.4	3.3	2.5	40%
JD.com	JD US	27.6	9.2	8.1	0.3	0.2	9%
VIPShop	VIPS US	15.8	6.4	5.9	0.5	0.5	9%
*Kuaishou	1024 HK	49.1	12.7	9.2	1.6	1.5	53%
Average			10.3	8.4	1.4	1.2	

Source: Bloomberg, CMBIGM

Note: data are as of 23 Apr 2024 *Covered by Sophie Huang

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 May (US\$ mn)						
Revenue	4,277	3,105	2,998	4,293	5,422	6,409
Cost of goods sold	(2,037)	(1,754)	(1,409)	(2,075)	(2,572)	(2,981)
Gross profit	2,240	1,351	1,588	2,218	2,850	3,428
Operating expenses	(2,122)	(2,333)	(1,398)	(1,836)	(2,261)	(2,628)
Selling expense	(601)	(467)	(445)	(631)	(786)	(897)
Admin expense	(1,490)	(1,867)	(954)	(1,205)	(1,475)	(1,730)
Operating profit	117	(983)	190	382	589	801
Other income	202	(35)	119	89	0	0
Gain/loss on financial assets at FVTPL	(4)	(15)	(1)	0	0	0
Pre-tax profit	315	(1,032)	309	471	589	801
Income tax	(84)	(136)	(66)	(113)	(118)	(160)
Others	(1)	(51)	(7)	0	0	0
After tax profit	230	(1,220)	235	358	471	640
Minority interest	104	33	(58)	0	0	0
Net profit	334	(1,188)	177	358	471	640
Adjusted net profit	389	(1,046)	259	456	634	833

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 May (US\$ mn)						
Current assets	6,574	4,474	4,414	5,265	6,226	7,202
Cash & equivalents	1,612	1,149	1,663	2,398	3,224	4,093
Restricted cash	0	0	111	111	111	111
Account receivables	9	16	33	59	74	88
Inventories	31	28	53	80	113	147
Prepayment	269	215	211	275	362	420
ST bank deposits	1,214	1,140	856	856	856	856
Financial assets at FVTPL	3,435	1,902	1,478	1,478	1,478	1,478
Other current assets	4	23	9	9	9	9
Non-current assets	3,577	1,561	1,979	2,155	2,377	2,636
PP&E	865	403	360	536	759	1,017
Right-of-use assets	1,858	531	440	440	440	440
Deferred income tax	104	20	56	56	56	56
Investment in JVs & assos	538	438	400	400	400	400
Intangibles	5	3	25	25	25	25
Goodwill	73	71	106	106	106	106
Other non-current assets	135	95	593	593	593	593
Total assets	10,151	6,035	6,392	7,420	8,604	9,838
Current liabilities	3,471	1,710	2,251	2,823	3,372	3,774
Account payables	38	22	70	102	134	163
Tax payable	84	76	118	113	118	160
Lease liabilities	514	169	156	156	156	156
Contract liabilities	1,926	933	1,338	1,718	2,061	2,244
Accrued expenses	908	510	569	735	904	1,051
Non-current liabilities	1,661	531	327	327	327	327
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	1,661	531	327	327	327	327
Total liabilities	5,133	2,241	2,578	3,150	3,699	4,101
Total shareholders equity	4,913	3,706	3,604	4,060	4,694	5,527
Minority interest	105	88	210	210	210	210
Total equity and liabilities	10,151	6,035	6,392	7,420	8,604	9,838

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 May (US\$ mn)						
Operating						
Profit before taxation	315	(1,032)	309	471	589	801
Depreciation & amortization	226	192	117	38	49	62
Tax paid	(84)	(136)	(66)	(113)	(118)	(160)
Change in working capital	529	(1,154)	538	455	415	295
Others	144	850	74	98	163	192
Net cash from operations	1,130	(1,280)	971	949	1,097	1,190
Investing						
Capital expenditure	(310)	(310)	(310)	(310)	(310)	(310)
Acquisition of subsidiaries/ investments	(13)	0	1	0	0	0
Net proceeds from disposal of short-term investments	(1,709)	1,447	117	0	0	0
Others	(147)	31	154	95	38	(11)
Net cash from investing	(2,178)	1,169	(37)	(215)	(271)	(320)
Financing						
Net borrowings	297	0	0	0	0	0
Share repurchases	(20)	0	0	0	0	0
Others	1,377	(231)	(247)	0	0	0
Net cash from financing	1,654	(231)	(247)	0	0	0
Net change in cash						
Cash at the beginning of the year	915	1,612	1,149	1,663	2,398	3,224
Exchange difference	91	(121)	(61)	0	0	0
Cash at the end of the year	1,612	1,149	1,774	2,398	3,224	4,093
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 May						
Revenue	19.5%	(27.4%)	(3.5%)	43.2%	26.3%	18.2%
Gross profit	12.6%	(39.7%)	17.6%	39.7%	28.5%	20.3%
Operating profit	(70.6%)	na	na	101.0%	54.2%	35.9%
Net profit	(19.1%)	na	na	101.9%	31.6%	35.9%
Adj. net profit	(20.9%)	na	na	76.2%	39.0%	31.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 May						
Gross profit margin	52.4%	43.5%	53.0%	51.7%	52.6%	53.5%
Operating margin	2.7%	(31.6%)	6.3%	8.9%	10.9%	12.5%
Adj. net profit margin	9.1%	(33.7%)	8.6%	10.6%	11.7%	13.0%
Return on equity (ROE)	8.7%	(27.6%)	4.9%	9.3%	10.8%	12.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 May						
Current ratio (x)	1.9	2.6	2.0	1.9	1.8	1.9
Receivable turnover days	0.7	1.9	4.0	5.0	5.0	5.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 May						
P/E	37.7	ns	72.9	35.6	27.1	19.9
P/E (diluted)	37.8	ns	73.3	35.8	27.2	20.0
P/B	2.6	3.5	3.6	3.1	2.7	2.3

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

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