

China East Education (667 HK)

COVID-19 does not change long-term growth outlook

1H20 revenue and adj. NP fell 17% and 48% YoY, respectively, in line with profit alert's guidance range. The Company expects YTD no. of new students growth to recover from -20% YoY in 1H to flat at end of Sep, which is behind our expectation. That said, management is confident to achieve 10-15% YoY revenue growth and 15-20% YoY adj. NP growth in long term. Our TP was adjusted from HK\$21.10 to HK\$19.60, still at 31.7x FY21E P/E. Maintain Buy.

- 1H results in line.** Revenue dropped 17%, led by 4% decline of avg. students enrolled and 14% ASP drop. The drop of ASP was because (1) the 20% decline of avg. students enrolled in short-term courses (higher ASP) was larger than that of long-term courses (down 2%) and (2) the recognition of tuition fees of certain graduates was extended by 2-3 months given that these graduates need to complete practical training classes, which were suspended amid COVID-19. GPM narrowed 3.3ppt due to revenue decline.
- No. of new students is recovering but slower than expectation.** From mid-July to now, number of new students of different brands jumped 50-100% as Zhongkao ended. YTD no. of new students dropped 10% (vs -20% in 1H). The Company expects YTD no. of new students growth could be flat at end of Sep.
- Ramp-up of new beauty school better than expected.** The beauty training school opened in Chengdu has ~350 students now despite COVID-19 disruption to admission in 1H. As new student enrollment in Jul-Sep is the strongest in a year, no. of students of the schools could exceed target of 400-500 students in FY20E. The Company plans to open two new beauty training schools in Zhengzhou and Changsha in 2H20E. If the ramp-up of these two schools are strong, the Company could accelerate beauty training expansion.
- Network expansion.** The Company increased its schools by 17 to 194 in 1H20. The Company plans to add 20 in 2H20E. The strong expansion in FY20E is because some new school openings in FY19 was delayed. In future, the Company targets to add 20 new schools per year.
- Maintain Buy.** We revised down FY20/21/22E adj. NP by 18%/7%/5% mainly because the recovery is slower than our expectation. Our TP was changed from HK\$21.10 to HK\$19.60, still based on 31.7x FY21E adj. P/E which is at 15% discount to education sub-sector leaders' average of 37.3x. We forecast the Company to post 34% adj. EPS CAGR in FY20-22E. **Catalysts:** student enrollment beats, M&A. **Risk:** lower-than-expected student enrollment.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenues (RMB mn)	3,265	3,905	3,794	4,877	5,542
Net profit (RMB mn)	515	848	714	1,154	1,422
Adj. net profit (RMB)	547	900	790	1,214	1,422
Adj. EPS (RMB)	0.314	0.411	0.361	0.554	0.649
YoY change (%)	NA	30.9	(12)	54	17
Consensus EPS (RMB)	NA	NA	0.447	0.583	0.701
Adj. P/E (x)	NA	37.1	43.0	28.0	23.9
Ex-net cash adj. P/E (x)	NA	30.2	34.9	22.1	18.3
P/B (x)	NA	5.5	5.2	4.5	4.0
Yield (%)	NA	1.2	0.6	1.0	1.3
Adj. ROAE (%)	44.1	25.7	12.5	17.3	17.7
Net cash (RMB mn)	6,242	6,400	6,400	7,167	8,059

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$19.60
(Previous TP)	HK\$21.10
Up/Downside	+13%
Current Price	HK\$17.30

China Education Sector

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Stock Data

Mkt Cap (HK\$ mn)	37,946
Avg 3 mths t/o (HK\$ mn)	66.19
52w High/Low (HK\$)	20.30/ 10.62
Total Issued Shares (mn)	2,190.9

Source: Bloomberg

Shareholding Structure

Wu Junbao	34.13%
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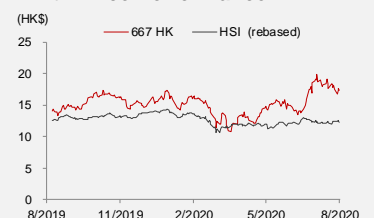
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.6%	-5.0%
3-mth	21.1%	17.3%
6-mth	8.6%	19.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- "China East Education – Fundamentals remain intact despite 1H20E profit affected by COVID-19" – 3 Aug 2020
- "China East Education – Earnings cut could be priced in" – 2 Apr 2020

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Figure 1: 1H20 results review

Y/E Dec (RMB mn)	1H20	1H19	change (%)	Remarks
Revenue	1,517	1,821	-17%	Avg. no. of students fell 4%. ASP fell 14% led by 20% drop of avg. short-term students and extended course period
New East	833	1,014	-18%	Avg. no of student fell 8%
Omick	116	155	-25%	Avg. no of students fell 17%
Xinhua Internet	324	349	-7%	Avg. no of students rose 8%
Wisezone	14	35	-59%	Avg. no of students fell 65%
Wontoine	195	246	-21%	Avg. no of students fell 5%
Cuisine Academy	22	19	17%	Avg. no of students fell 29%
Others	12	4	204%	
Cost of sales	(645)	(714)	-10%	
Gross profit	872	1,107	-21%	
Other income	45	18	148%	received RMB23m COVID-19 rent concession
Other gains and losses	87	11	685%	RMB68mn exchange gain
Selling expenses	(368)	(319)	15%	increase of new schools
Administrative expenses	(266)	(284)	-6%	decrease of equity-settled share-based payment from RMB76mn to RMB38mn
R&D expenses	(18)	(15)	21%	
Operating profit	353	518	-32%	
Finance income	63	8	648%	
Finance costs	(70)	(62)	na	
Listing expenses	0	(19)	na	
Profit before tax	346	446	-22%	
Tax expense	(103)	(133)	-22%	
Net profit	243	312	-22%	
Adj. net profit	212	408	-48%	
Adj. EPS (RMB)	0.10	0.23	-58%	
DPS (RMB)	na	na	na	
Margin & Ratio (%)				
Gross margin	57.5	60.8	(3.3)	due to decrease of revenue
Operating margin	23.3	28.5	8.5	
SG&A expenses ratio	41.8	33.1	(0.7)	
Net margin	16.0	17.2	(1.2)	
Adj. net margin	14.0	22.4	(8.4)	
Effective tax rate	29.9	29.9	0.0	
Payout ratio (%)	na	na	na	
	1H20	FY19	change (%)	
Net cash (RMB mn)	5,746	6,242	-8%	Paid >RMB400mn dividend

Source: Company data

Figure 2: Changes of our estimates

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	3,794	4,877	5,542	4,074	5,085	5,773	-7%	-4%	-4%
Gross Profit	2,189	2,930	3,369	2,395	3,084	3,545	-9%	-5%	-5%
EBIT Profit	918	1,487	1,755	1,095	1,552	1,861	-16%	-4%	-3%
Net profit	790	1,214	1,378	959	1,308	1,504	-18%	-7%	-5%
Gross Margin	57.7%	60.1%	60.8%	58.8%	60.6%	61.4%	-1.1ppt	-0.5ppt	-0.6ppt
EBIT Margin	24.2%	30.5%	31.7%	26.9%	30.5%	32.2%	-2.7ppt	flat	+0.5ppt
Net Margin	20.8%	24.9%	24.9%	23.5%	25.7%	26.0%	-2.7ppt	-0.6ppts	-0.3ppt

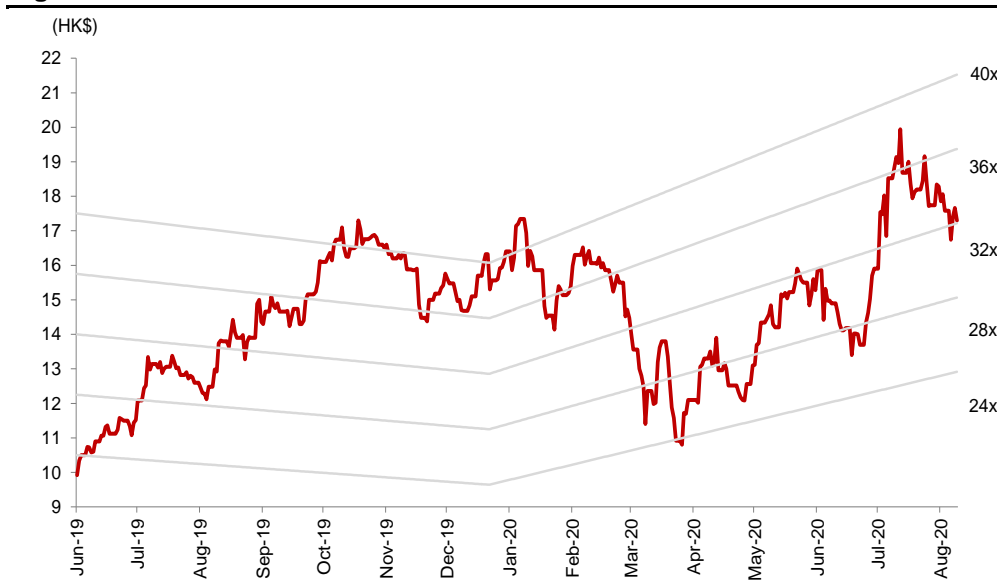
Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	3,794	4,877	5,542	4,267	5,302	6,350	-11%	-8%	-13%
Gross Profit	2,189	2,930	3,369	2,463	3,137	3,790	-11%	-7%	-11%
EBIT Profit	918	1,487	1,755	1,150	1,556	2,014	-20%	-4%	-10%
Net profit	790	1,214	1,378	980	1,277	1,537	-19%	-5%	-7%
Gross Margin	57.7%	60.1%	60.8%	57.7%	59.2%	59.7%	flat	+0.9ppt	+1.1ppt
EBIT Margin	24.2%	30.5%	31.7%	27.0%	29.3%	31.7%	-2.8ppt	+1.2ppt	+1.0ppt
Net Margin	20.8%	24.9%	24.9%	23.0%	24.1%	24.2%	-2.2ppt	+0.8ppt	+1.5ppt

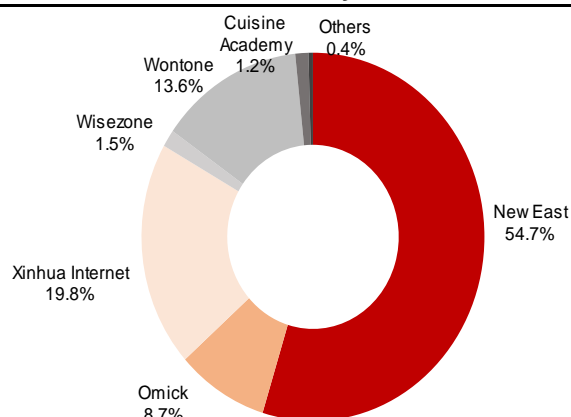
Source: Company data, CMBIS estimates

Figure 4: P/E band chart



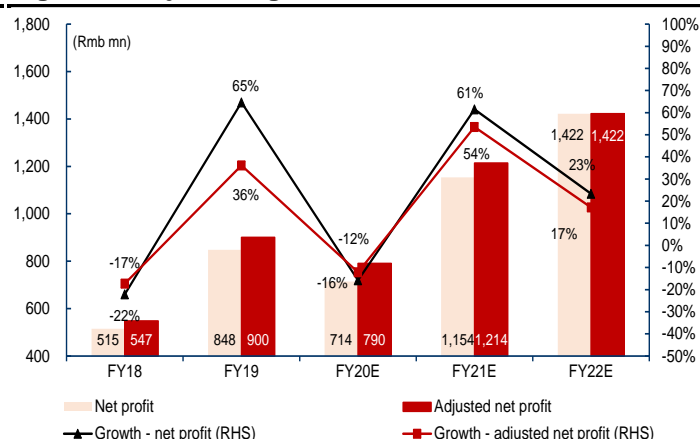
Source: Company data, Bloomberg, CMBIS estimates

Figure 5: Revenue breakdown by brand in FY19



Source: Company data

Figure 6: Adj. NP to grow at 34% CAGR in FY20-22E



Source: Company data, CMBIS estimates

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	3,265	3,905	3,794	4,877	5,542
Cost of sales	(1,560)	(1,625)	(1,605)	(1,947)	(2,173)
Gross profit	1,705	2,280	2,189	2,930	3,369
Other income	38	45	68	51	54
Other gains and losses	58	131	45	45	45
Selling expenses	(648)	(698)	(778)	(878)	(1,009)
Administrative expenses	(438)	(576)	(576)	(622)	(604)
R&D expenses	(28)	(31)	(30)	(39)	(44)
EBIT	687	1,151	918	1,487	1,811
Net finance income	24	(60)	(17)	(32)	(17)
Listing expenses	(24)	(22)	0	0	0
Profit before tax	687	1,070	901	1,455	1,794
Income tax expenses	(172)	(222)	(186)	(301)	(371)
Net profit	515	848	714	1,154	1,422
Net profit	515	848	714	1,154	1,422
Net forex loss	0	(85)	0	0	0
Listing expenses	24	22	0	0	0
Share-based expenses	8	116	76	60	0
Adjusted net profit	547	900	790	1,214	1,422

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	682	1,070	901	1,455	1,794
D&A	360	543	557	580	598
Change in working capital	182	108	226	183	212
Others	(245)	(124)	(313)	(422)	(567)
Net cash from operating	980	1,596	1,370	1,795	2,037
Capex	(666)	(371)	(750)	(750)	(750)
Others	93	(2,265)	175	160	175
Net cash from investing	(573)	(2,637)	(575)	(590)	(575)
Equity raised	1	4,289	0	0	0
Dividend paid	(874)	(34)	(413)	(214)	(346)
Change of borrowings	0	0	0	0	0
Others	(582)	(347)	(224)	(224)	(224)
Net cash from financing	(1,456)	3,908	(637)	(439)	(570)
Net change in cash	296	2,868	158	767	892
Cash at the beginning of the year	1,739	986	3,883	4,041	4,808
Exchange difference	0	29	0	0	0
Cash at the end of the year	2,035	3,883	4,041	4,808	5,700

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	3,066	3,180	3,929	4,511	5,075
PPE	1,361	1,406	1,875	2,353	2,832
Right-of-use assets	1,675	1,712	1,987	2,087	2,168
Prepayments for rental	0	24	28	30	33
Others	30	38	39	41	42
Current assets	1,165	6,498	6,650	7,484	8,417
Cash	986	3,883	4,041	4,808	5,700
Time deposits	0	1,892	1,892	1,892	1,892
Receivables	140	203	197	254	288
Others	39	520	520	531	538
Current liabilities	2,031	2,272	2,534	2,841	3,141
Contract liabilities	1,233	1,383	1,549	1,766	1,978
Payables	478	443	478	535	590
Tax payables	108	138	138	138	138
Lease liabilities	178	307	368	401	434
Others	34	0	0	0	0
Non-current liabilities	1,327	1,285	1,547	1,657	1,778
Lease liabilities	1,267	1,207	1,445	1,575	1,705
Others	60	79	102	82	73
Total net assets	873	6,120	6,498	7,497	8,573
Shareholders' equity	873	6,120	6,498	7,497	8,573

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
New East	58.2	54.7	51.9	49.7	48.2
Omick	6.5	8.7	9.6	11.2	12.4
Xinhua Internet	18.5	19.8	21.3	21.4	21.5
Wisezone	2.2	3.2	1.0	1.1	1.0
Wontone	13.6	13.6	14.0	14.3	14.2
Cuisine Academy	0.6	1.2	1.5	1.6	1.7
Others	0.4	0.4	0.6	0.7	0.9
P&L ratios (%)					
Gross profit margin	52.2	58.4	57.7	60.1	60.8
EBIT margin	21.0	29.5	24.2	30.5	32.7
Effective tax rate	25.0	20.7	20.7	20.7	20.7
Net profit margin	15.8	21.7	18.8	23.7	25.7
Adj. net profit margin	16.8	23.0	20.8	24.9	25.7
Payout ratio	NA	48.7	30.0	30.0	30.0
Balance sheet ratios					
Current ratio (x)	0.6	2.9	2.6	2.6	2.7
Average inv. turnover days	7.8	10.0	11.7	10.6	11.0
Asset turnover (x)	0.8	0.4	0.4	0.4	0.4
Total asset/total equity (x)	4.8	1.6	1.6	1.6	1.6
Net cash (RMB mn)	986	6,242	6,400	7,167	8,059
Returns (%)					
Adjusted ROAE	44.1	25.7	12.5	17.3	17.7
Adjusted ROAA	14.1	12.9	7.8	10.8	11.2

Source: Company data, CMBIS estimates

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