

Beststudy Education (3978 HK)

Takeaways from Investor Day

We joined the Company's Investor Day on 6 Jan. We are positive on outlook as personnel training programs, IT systems and incentives scheme are in place to support further expansion (organic and M&A). Exam reform could also increase demand for Chinese tutorials. We lifted TP to HK\$5.16 as we raised FY19-21E adj. net profit estimates by 5-16% and target P/E to 18.7x.

- **Business strategies.** Beststudy outlined three key strategies: (1) Further penetrate the Greater Bay Area and expand regional network coverage. (2) Optimize product portfolio to maintain its niche in Chinese tutorials. (3) Establish ecosystem to provide one-stop services for kid's development and develop quality education business (self-operating and investment). Beststudy has established solid teachers and management personnel training programs and IT systems (易、智、云大平台: sales & operation system, E-education system, back office systems) to expand its businesses.
- **Improving performance in Shenzhen.** Student enrollment has picked up since Beststudy appointed its Marketing Director as the Head of Shenzhen branch and the grant of restricted shares in 2H19. Besides Guangzhou (accounts for ~80% of revenue), management sees Shenzhen (accounts for 4-5% of revenue) as another key market in the Greater Bay Area (both cities had 2mn K12 students in 2018). The Company plans to add 6-10 new learning centers in Shenzhen each year in coming 2-3 years. We think Shenzhen could become a key growth driver.
- **Accelerate M&A.** The Company is looking for targets that have good synergies and are located in southern, eastern and southwestern region to accelerate its expansion. In the past, the Company had successfully established its presences in Shanghai, Jiangsu and Zhuhai through acquisitions and more than doubled its revenue in these cities since then.
- **Exam reform is positive.** MOE stated it will cancel the exam outlines (考试大纲) of Zhongkao (beginning 2021) and Gaokao (by 2022). This will increase the difficulty of the exams because students should study the whole syllabus instead of the outlines. We expect Beststudy should benefit from the increase of demand for Chinese tutorials (contributes around 30% of total revenue) given its strong brand name in Chinese tutorials.
- **Lower tax rate.** A subsidiary has been approved as a high-tech enterprise so its tax rate could lower from 25% to 15%. We lower our effective tax rate estimates from 17% to 15% in FY19-21E.
- **Maintain Buy.** We lifted FY19/20/21E adj. net profit estimates by 16%/5%/6% to reflect better student enrollment and lower effective tax rate. Our TP is raised from HK\$3.41 to HK\$5.16, representing 18.7x FY20E P/E (vs 13x previously) as we changed our valuation benchmark to K12 after school tutoring peers (40% discount to peers' average 31.2x FY20E P/E) from education sector. Current valuation is undemanding compared to 32% adj. EPS CAGR from FY19E to FY21E. **Catalysts:** (1) better-than-expected student enrollment; (2) M&A. **Risks:** (1) fierce competition; (2) teacher cost pressure; (3) government policies.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	1,142	1,474	1,820	2,264	2,762
YoY growth (%)	22	37	23	24	22
Adj. net profit (RMB mn)	90	102	151	210	263
Adj. EPS (RMB)	N/A	0.15	0.18	0.25	0.31
YoY growth (%)	N/A	N/A	17	39	25
Adj. P/E (x)	N/A	23.4	21.3	15.3	12.3
Yield (%)	N/A	0.0	1.4	1.8	2.4
P/B (x)	N/A	4.9	3.9	3.3	2.7
Net cash (RMB mn)	162	470	725	1,060	1,449

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$5.16
(Previous TP	HK\$3.41
Up/Downside	+22%
Current Price	HK\$4.23

China Education Sector

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Stock Data

Mkt Cap (HK\$ mn)	3,594
Avg 3 mths t/o (HK\$ mn)	5.06
52w High/Low (HK\$)	4.33/ 1.70
Total Issued Shares (mn)	848.0

Source: Bloomberg

Shareholding Structure

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

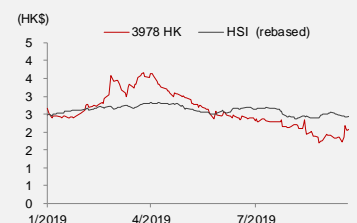
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	16.3%	8.8%
3-mth	98.6%	81.0%
6-mth	72.8%	75.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: EY

Related Reports

1. "Beststudy Education – Worst behind; expect strong recovery in 2H19E" – 30 Sep 2019
2. "Beststudy Education – FY18 beat with network expansion accelerated" – 15 Mar 2019
3. "Beststudy Education – Regional K12 tutoring leader surfing on booming demand" – 19 Feb 2019

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	1,820	2,264	2,762	1,798	2,209	2,672	1%	2%	3%
Gross Profit	748	924	1,124	730	895	1,079	2%	3%	4%
Operating Profit	191	275	341	170	258	319	12%	7%	7%
Adj. net profit	151	210	263	131	200	249	16%	5%	6%
Gross Margin	41.1%	40.8%	40.7%	40.6%	40.5%	40.4%	+0.5ppt	+0.3ppt	+0.3ppt
Operating Margin	10.5%	12.2%	12.3%	9.4%	11.7%	12.0%	+1.1ppt	+0.5ppt	+0.3ppt
Adj. Net Margin	8.3%	9.3%	9.5%	7.3%	9.1%	9.3%	+1.0ppt	+0.2ppt	+0.2ppt

Source: Company data, CMBIS estimates

Figure 2: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	1,820	2,264	2,762	1,798	2,194	2,651	1%	3%	4%
Gross Profit	748	924	1,124	725	878	1,055	3%	5%	7%
Operating Profit	191	275	341	178	246	309	7%	12%	10%
Adj. Net profit	151	210	263	138	183	230	10%	15%	15%
Gross Margin	41.1%	40.8%	40.7%	40.3%	40.0%	39.8%	+0.8ppt	+0.8ppt	+1.9ppt
Operating Margin	10.5%	12.2%	12.3%	9.9%	11.2%	11.7%	+0.6ppt	+1.0ppt	+0.6ppt
Adj. Net Margin	8.3%	9.3%	9.5%	7.7%	8.3%	8.7%	+0.6ppt	+1.0ppt	+0.8ppt

Source: Company data, CMBIS estimates

Figure 3: Key assumptions

Total tutoring hours ('000)	FY17	FY18	FY19E	FY20E	FY21E	FY19-21E CAGR
Premium learning program	10,753	13,013	15,275	18,439	21,816	19%
Small group tutoring	8,725	10,728	12,638	15,389	18,313	20%
Individualized tutoring	2,028	2,285	2,638	3,050	3,503	15%
Elite talent program	426	550	700	813	903	18%
Total	11,180	13,563	15,975	19,253	22,719	19%
Revenue (RMB mn)	FY17	FY18	FY19E	FY20E	FY21E	FY19-21E CAGR
Premium Learning Program	1,013	1,302	1,623	2,044	2,518	25%
Small group tutoring	555	750	954	1,232	1,539	27%
Individualized tutoring	459	552	669	812	979	21%
Elite Talent Program	27	40	54	66	77	25%
Full-time Test Preparation Program	100	130	139	151	163	8%
Others	2	3	3	3	3	6%
Total	1,142	1,474	1,820	2,264	2,762	23%
YoY growth						
Premium Learning Program	29%	28%	25%	26%	23%	
Small group tutoring	33%	35%	27%	29%	25%	
Individualized tutoring	25%	20%	21%	21%	21%	
Elite Talent Program	95%	48%	36%	23%	17%	
Full-time Test Preparation Program	3%	30%	8%	8%	8%	
Others		77%	20%	0%	0%	
Total	27%	29%	23%	24%	22%	
Share						
Premium Learning Program	89%	88%	89%	90%	91%	
Small group tutoring	49%	51%	52%	54%	56%	
Individualized tutoring	40%	37%	37%	36%	35%	
Elite Talent Program	2%	3%	3%	3%	3%	
Full-time Test Preparation Program	9%	9%	8%	7%	6%	
Others	0%	0%	0%	0%	0%	
Total	100%	100%	100%	100%	100%	
Average tuition fee per hour (RMB)	FY17	FY18	FY19E	FY20E	FY21E	FY19-21E CAGR
Premium Learning Program						
Small group tutoring	64	70	76	80	84	6%
YoY Growth (%)	5%	9%	8%	6%	5%	
Individualized tutoring	226	241	253	266	279	5%
YoY Growth (%)	7%	7%	5%	5%	5%	
Elite Talent Program	63	72	77	82	86	6%
YoY Growth (%)	11%	14%	7%	6%	5%	
Average tuition fee per student (RMB)						
Full-time Test Preparation Program	20,632	23,892	24,490	25,224	25,981	3%
YoY Growth (%)	1%	16%	2%	3%	3%	

Source: Company data, CMBIS estimates

Figure 4: Peers valuation

	Ticker	Rating	Mkt Cap (US\$ m)	Cnrcy	Price	Year end	P/E (x)			Adj. net profit growth (%)			Adj. EPS growth (%)			PEG (x)	Revenue growth (%)		
							FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY1	FY2	FY3
K12 tutoring services providers																			
New Oriental Education	EDU US	NR	20,453	USD	129.10	May-19	37.6	28.5	22.0	35	33	27	33	32	30	1.22	27	27	24
TAL Education	TAL US	NR	30,362	USD	51.31	Feb-19	82.8	46.2	31.8	(28)	112	43	(16)	79	46	1.35	36	35	33
Onesmart Education	ONE US	NR	1,121	USD	6.93	Aug-18	533.1	20.6	15.3	(0)	52	36	na	2,462	35	1.09	40	25	20
Scholar Education	1769 HK	NR	759	HKD	10.62	Dec-18	47.4	29.6	23.7	85	32	27	na	60	25	1.14	43	55	29
Beststudy Education	3978 HK	Buy	462	HKD	4.23	Dec-18	21.3	15.3	12.0	48	39	25	na	39	25	0.67	23	24	22
Average							144.4	28.1	20.9	28	54	32	8	534	32	1.09	34	33	26
Average - excl Beststudy							175.2	31.2	23.2	23	57	33	8	658	34	1.20	36	35	26
Non-formal vocational education services provider																			
China East Education	667 HK	Buy	4,490	HKD	15.94	Dec-18	34.1	26.8	21.9	67	27	20	na	27	20	1.45	25	20	18
K12 education services providers																			
Wisdom Education	6068 HK	Buy	897	HKD	3.41	Aug-18	17.8	13.8	10.6	16	28	30	13	29	28	0.63	35	19	23
Tianli Education	1773 HK	NR	899	HKD	3.37	Dec-18	21.8	16.0	12.8	28	42	37	na	36	25	0.71	38	35	34
Maple Leaf	1317 HK	NR	1,182	HKD	3.07	Aug-18	12.4	10.7	9.2	21	15	16	16	15	16	0.78	17	20	16
Bright Scholar	BEDU US	NR	1,049	USD	8.70	Aug-18	23.6	18.9	15.8	(2)	55	26	28	24	19	1.09	49	58	13
Virscend Education	1565 HK	NR	790	HKD	1.99	Dec-18	11.5	8.5	6.3	20	52	32	29	35	33	0.33	28	27	25
Average							17.4	13.6	10.9	16	38	28	21	28	24	0.71	33	32	22
Higher Education services providers																			
China Education	839 HK	NR	2,800	HKD	10.78	Aug-18	26.2	21.0	18.0	17	55	19	9	24	17	1.30	na	34	13
Yuhua Education	6169 HK	NR	2,427	HKD	5.74	Aug-18	23.8	17.2	15.3	18	40	15	13	38	13	0.96	40	41	8
Hope Education	1765 HK	Buy	1,354	HKD	1.58	Dec-18	19.9	14.5	11.3	50	38	25	28	38	25	0.63	29	34	15
Minsheng Education	1569 HK	NR	708	HKD	1.37	Dec-18	11.9	9.9	8.4	21	20	21	22	19	19	0.62	59	23	18
Kepei Education	1890 HK	NR	1,003	HKD	3.90	Dec-18	15.2	13.5	11.6	23	19	16	(1)	12	17	1.05	22	19	15
Xinhua Education	2779 HK	Buy	525	HKD	2.54	Dec-18	13.1	9.0	7.5	12	17	16	1	45	18	0.43	18	18	15
New Higher Education	2001 HK	NR	581	HKD	2.93	Dec-18	10.4	8.0	6.9	30	30	16	26	29	17	0.46	91	26	15
Edvantage	382 HK	NR	596	HKD	4.55	Aug-18	13.5	14.0	11.3	34	37	22	na	(4)	23	1.51	11	17	18
Chunlai Education	1969 HK	NR	238	HKD	1.54	Aug-18	11.5	7.6	6.2	(4)	54	24	(14)	50	22	0.32	15	33	13
Average							16.2	12.8	10.7	22	35	19	11	28	19	0.81	36	27	15
Education sector average							49.4	17.5	13.9	25	40	25	13	155	24	0.89	34	29	19
Education sector average - Excl Beststudy							50.9	17.6	14.0	23	40	25	13	161	24	0.90	35	30	19

Source: Bloomberg, CMBIS estimates

Figure 5: P/E band chart



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	1,142	1,474	1,820	2,264	2,762
Premium Learning	1,013	1,302	1,623	2,044	2,518
Elite Talent	27	40	54	66	77
Full-time Test Preparation	100	130	139	151	163
Others	2	3	3	3	3
Cost of sales	(659)	(876)	(1,072)	(1,340)	(1,638)
Gross profit	483	598	748	924	1,124
Other income	20	7	16	14	18
Selling expenses	(95)	(130)	(144)	(199)	(260)
Administrative expenses	(178)	(186)	(207)	(254)	(301)
R&D expenses	(140)	(171)	(178)	(204)	(235)
Other expenses	(6)	(44)	(44)	(6)	(6)
Operating profit	83	74	191	275	341
Fair value gains	33	35	39	34	34
Finance costs	-	-	(48)	(50)	(51)
Share of asso and JVs	(4)	(1)	(6)	(16)	(16)
Pre-tax profit	113	108	176	244	309
Income tax	(37)	(35)	(26)	(34)	(45)
Less: Minority interests	17	19	(1)	(1)	1
Net profit	49	55	146	192	253
Adjusted net profit	90	102	151	210	263

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before tax	103	109	171	226	299
Depreciation and amortization	26	44	69	78	82
Change in working capital	138	119	122	129	139
Others	(29)	(70)	195	202	175
Net cash from operating	238	202	557	636	695
Capex	(74)	(152)	(100)	(100)	(100)
Change of investments	(377)	52	(12)	29	29
Others	51	39	(34)	(0)	(0)
Net cash from investing	(401)	(61)	(146)	(71)	(71)
Equity raised	-	258	44	-	-
Dividend paid	(220)	(100)	-	(44)	(58)
Others	28	(1)	(200)	(186)	(178)
Net cash from financing	(192)	158	(157)	(230)	(235)
Net change in cash	(354)	298	255	335	389
Cash at the beginning	526	170	468	723	1,058
Exchange difference	(3)	0	0	0	0
Cash at the end	170	468	723	1,058	1,447
Cash at balance sheet	162	468	723	1,058	1,447
Cash at discontinued op.	8	N/A	171	226	299

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	171	302	1,272	1,237	1,206
PPE	56	161	194	218	238
Right-of-use assets	-	-	910	869	836
Asso & JV	22	21	49	34	18
Others	94	121	119	116	114
Current assets	868	1,137	1,413	1,765	2,172
Cash	162	468	723	1,058	1,447
Short-term investments	572	518	569	574	579
Prepayments	77	148	118	130	143
Others	57	4	4	4	4
Current liabilities	686	776	1,092	1,235	1,391
Contract liabilities	517	563	673	791	918
Other payables	128	192	191	214	240
Tax payables	15	21	21	21	21
Others	26	-	207	209	212
Non-current liabilities	15	41	777	785	799
Lease liabilities	-	-	777	785	799
Rental payables	15	41	-	-	-
Total net assets	338	622	816	982	1,188
Shareholders' equity	255	623	818	984	1,190
Minority Interest	83	(1)	(2)	(2)	(2)

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Premium Learning	88.8	88.3	89.2	90.3	91.2
Elite Talent	2.3	2.7	3.0	2.9	2.8
Full-time Test Preparatory	8.8	8.8	7.7	6.7	5.9
Others	0.1	0.2	0.2	0.1	0.1
P&L ratios (%)					
Gross profit margin	42.3	40.6	41.1	40.8	40.7
OP margin	7.3	5.0	10.5	12.2	12.3
Effective tax rate	33.1	32.2	15.0	15.0	15.0
Adj. net profit margin	7.9	6.9	8.3	9.3	9.5
Payout ratio	N/A	N/A	30.0	30.0	30.0
Balance sheet ratios					
Current ratio (x)	1.3	1.5	1.3	1.4	1.6
Asset turnover (x)	1.1	1.0	0.7	0.8	0.8
Net cash (RMB mn)	162	470	725	1,060	1,449
Returns (%)					
Adj. ROAE	27.9	23.3	21.0	23.3	24.2
Adj. ROAA	8.9	8.2	7.3	7.4	8.3
Per share data					
Adj. EPS (RMB)	N/A	0.15	0.18	0.25	0.31
DPS (RMB)	N/A	N/A	0.05	0.07	0.09
BVPS (RMB)	N/A	0.73	0.96	1.16	1.40

Source: Company data, CMBIS estimates

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