

# Hope Education (1765 HK)

## FY21E guidance maintained; more catalysts to come

The Company reported 43% growth adj. NP to RMB545mn in 1HFY21. Share price was volatile yesterday because the figure included RMB180mn reversal of impairment losses from the acquisition of Yichuan school. The Company used an impaired shareholder loan of Yichuan school to offset outstanding payment of the acquisition. Management explained that the Company also acquired certain schools from owners who are in debt crisis so such kind of gains could be recurring. Given that the Company will strictly control its expenses in 2HFY21E, it keeps FY21E adj. NP guidance of RMB800-850mn. We cut FY21-23E adj. NP by 6-11% and lowered TP from HK\$3.88 to HK\$3.54.

- **Results highlights.** Revenue +36% led by 19% growth from organic business and acquisition of Inti Education. It was below our expectation because the 29% organic student growth was driven by 115% growth of technician school students (with lower tuition fee). GPM widened 1.7ppt to 54.2%. Core operating profit (GP minus SG&A expenses) +45%. Finance cost +43% as the Company increased RMB1bn loan during 1HFY21. Effective tax rate increased 3.6ppt to 15.3%.
- **Recent acquisitions. (1) Inner Mongolia College:** MOE approved the Company to become the sponsor of the independent college in Mar 2021. When the operating permit is granted, the financial results of the college could be consolidated. The college reported around RMB10mn NP in FY20. The Company targets to grow its NP at 86% CAGR in 3 years. **(2) Jinken vocational college:** The Company agreed to buy the college with RMB25mn consideration. The college is in Jiangsu so the acquisition could generate synergy with the Company's Suzhou Top College in the province. The college around RMB3mn NP in FY20. The Company aims to grow its NP at 156% in 3 years. **(3) Shinawatra University:** The Company agreed to buy the Thailand university at US\$35mn (below replacement value) given that domestic students have strong overseas study demand. The university has 900-1,000 students and reported RMB35mn revenue in FY20. The Company targets to make RMB40mn NP in FY25E. The acquisition is subject to certain approvals.
- **Conversion of independent colleges ahead of schedule.** Management thinks its four original independent colleges can be converted by 2021. The conversion can enhance earnings and the colleges' admission quotas.
- **Maintain Buy.** We lowered our FY21-23E adj. NP by 6-11% to factor in lower revenue and margin assumptions of original businesses and the acquisitions of Inner Mongolia College and Jinken College. Our TP was reduced from HK\$3.88 to HK\$3.54, based at 21.0x FY22E P/E, which is still at 1x PEG (21% adj. EPS CAGR in FY20-23E). **Catalysts:** (1) M&A; (2) conversion of independent colleges; (3) policy overhang removed. **Risk:** surge of operating and teachers' costs.

**BUY (Maintain)**

<b>Target Price</b>	<b>HK\$3.54</b>
(Previous TP)	HK\$3.88
<b>Up/Downside</b>	<b>+30%</b>
<b>Current Price</b>	<b>HK\$2.72</b>

### China Education Sector

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### Stock Data

Mkt Cap (HK\$ mn)	21,689
Avg 3 mths t/o (HK\$ mn)	180.69
52w High/Low (HK\$)	3.47/ 1.79
Total Issued Shares (mn)	21,689

Source: Bloomberg

### Shareholding Structure

Credit Suisse Trust	57.86%
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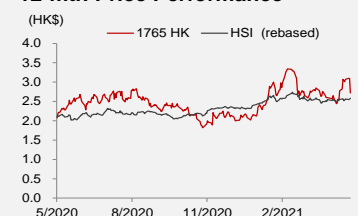
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	2.3%	-1.1%
3-mth	2.6%	-0.9%
6-mth	44.7%	21.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: EY

### Related Reports

- "Hope Education – Acquisition of Gongqing College" – 16 Feb 2021
- "Hope Education – Several positive catalysts in 1-2 years" – 1 Feb 2021
- "Hope Education – Strong organic growth outlook" – 1 Dec 2020
- "Hope Education – Acquisition to develop asset light model" – 15 Oct 2020
- "Hope Education – More optimistic on FY21E student enrollment" – 8 Jun 2020
- "Strong 1HFY20, multiple growth drivers" – 4 May 2020
- "Strong FY19 results" – 31 Mar 2020

## Earnings Summary

(YE 31 Dec/31 Aug)	FY19A-D	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,331	1,568	2,241	3,140	3,607
YoY growth (%)	29	NA	43	40	15
Net profit (RMB mn)	490	456	720	918	1,117
Adj. net profit (RMB mn)	474	576	811	1,010	1,209
Adj. EPS (RMB)	0.071	0.086	0.107	0.127	0.152
YoY growth (%)	26	NA	25	19	20
Consensus EPS (RMB)	NA	NA	0.113	0.140	0.178
Adj. P/E (x)	32.9	28.0	21.1	17.8	14.9
Yield (%)	1.0	0.3	1.4	1.8	2.1
AROE (%)	3.4	3.0	11.9	12.2	13.4
Net cash (RMB mn)	255	329	128	135	595

Source: Company data, Bloomberg, CMBIS estimates

**Figure 1: 1HFY21 results review**

Y/E Aug (RMB mn)	1HFY21	1HFY20	change (%)	Remarks
<b>Revenue</b>	<b>1,183</b>	<b>871</b>	<b>36%</b>	Total student enrollment +40% to 196,747. Revenue from organic business (excl. Inti Education) +19%
Cost of sales	(542)	(413)	31%	
Gross profit	641	457	40%	
Other income	262	107	144%	RMB180mn reversal of impairment losses from acq. of Yinchuan increase in staff and ad; acq. of Inti Education mainly from the acq. of Inti Education
Selling expenses	(82)	(30)	173%	
Administrative expenses	(148)	(116)	28%	
Other expenses	(30)	(11)	160%	
Operating profit	644	408	58%	
Finance income	56	65	-13%	RMB1bn increase in loan; accrued cost from payment to acquisitions
Finance costs	(146)	(102)	43%	
Share profit of associates	9	8	24%	
Profit before tax	564	378	49%	
Tax expense	(86)	(44)	96%	
Profit after tax	478	334	43%	
Non-controlling interests	(0)	0	na	
<b>Net profit</b>	<b>478</b>	<b>334</b>	<b>43%</b>	
<b>Adj. net profit</b>	<b>547</b>	<b>383</b>	<b>43%</b>	
<b>Margin &amp; Ratio (%)</b>				
Gross margin	54.2	52.5	1.7	
Adj. gross margin	56.1	55.2	0.9	
Operating margin	54.4	46.8	7.6	
SG&A expense/revenue	19.4	16.7	2.7	
Net margin	40.4	38.3	2.0	
Adj. net margin	46.2	44.0	2.2	
Effective tax rate	15.3	11.7	3.6	
			<b>change</b>	
Net cash (RMB mn)	Feb-21 (1,585)	Aug-20 329	-582%	

Source: Company data, CMBIS estimates

**Figure 2: Changes of our estimates**

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	2,241	3,140	3,607	2,468	3,095	3,590	-9%	1%	0%
Gross Profit	1,159	1,680	1,948	1,312	1,684	1,985	-12%	0%	-2%
EBIT	831	1,269	1,498	998	1,301	1,561	-17%	-2%	-4%
Adj. Net Profit	811	1,010	1,209	859	1,127	1,352	-6%	-10%	-11%
Gross Margin	51.7%	53.5%	54.0%	53.1%	54.4%	55.3%	-1.4ppt	-0.9ppt	-1.3ppt
EBIT Margin	37.1%	40.4%	41.5%	40.4%	42.0%	43.5%	-3.3ppt	-1.6ppt	-2.0ppt
Adj. Net Margin	36.2%	32.1%	33.5%	34.8%	36.4%	37.7%	-1.4ppt	-4.3ppt	-4.2ppt

Source: Company data, CMBIS estimates

**Figure 3: CMBIS estimates vs consensus**

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	2,241	3,140	3,607	2,511	3,046	3,510	-11%	3%	3%
Gross Profit	1,159	1,680	1,948	1,308	1,621	1,923	-11%	4%	1%
EBIT	831	1,269	1,498	1,059	1,371	1,799	-22%	-7%	-17%
Adj. Net Profit	811	1,010	1,209	807	1,017	1,326	1%	-1%	-9%
Gross Margin	51.7%	53.5%	54.0%	52.1%	53.2%	54.8%	-0.4ppt	+0.3ppt	-0.8ppt
EBIT Margin	37.1%	40.4%	41.5%	42.2%	45.0%	51.3%	-5.1ppt	-4.6ppt	-9.8ppt
Adj. Net Margin	36.2%	32.1%	33.5%	32.1%	33.4%	37.8%	+4.1ppt	+1.3ppt	-4.3ppt

Source: Company data, CMBIS estimates

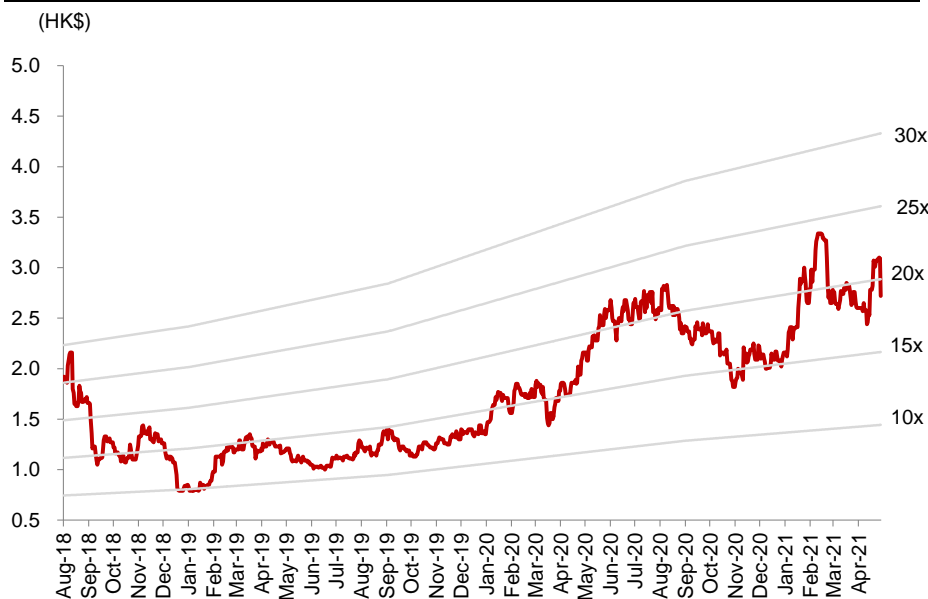
**Figure 4: 13% CAGR of student enrolment from 2020/21 to 2022/23 school year**

Student enrolment (school year)	2017/2018	2018/2019	2019/2020E	2020/2021E	2021/2022E	2022/2023E	2-yr CAGR
<b>Universities (not incl Guizhou Univ)</b>							
Southwest Jiaotong University Hope College	15,123	17,268	20,454	23,749	25,741	27,686	5%
Business College of Guizhou University of Finance and Econon	14,356	15,548	18,128	21,733	24,341	26,532	7%
Jinci College of Shanxi Medical University	4,801	5,953	7,149	9,220	9,773	10,555	5%
College of Science and Technology of Guizhou University *			9,959	10,986	11,425	12,339	4%
Yinchuan schools			15,569	18,622	21,922	25,222	11%
Inti Education				14,478	16,650	18,315	8%
Gongqing College					9,081	10,831	na
Inner Mongolia College					8,811	9,515	na
<b>Junior colleges</b>							
Sichuan Tianyi University	11,765	10,971	11,521	12,890	15,468	17,788	11%
Sichuan Hope Automotive Vocational College	4,559	4,373	6,563	9,500	11,210	11,771	7%
Sichuan Vocational College of Culture&Cummunication	7,371	8,920	10,349	13,682	14,777	15,515	4%
Guizhou Vocational Institute of Technology	2,989	5,903	8,021	12,465	13,462	14,135	4%
Sichuan TOP IT Vocational Institute	12,548	12,869	13,731	14,174	14,883	15,627	3%
Hebi Automotive College			5,434	6,881	8,881	10,881	17%
Suzhou Top Institute			5,012	8,440	11,440	14,440	20%
Gansu Baiyin					1,500	3,000	na
Xingtai					1,500	3,000	na
Nanchang school					2,753	4,000	na
Jinken					8,597	8,855	na
Chongqing Zhongxian						1,500	na
Jiangxi Zhangshu						1,500	na
<b>Technician colleges</b>							
Sichuan Hope Automotive Technician College	2,127	4,193	8,235	17,734	20,394	23,453	10%
<b>Total students</b>	<b>75,639</b>	<b>86,033</b>	<b>140,125</b>	<b>196,747</b>	<b>252,609</b>	<b>286,462</b>	<b>13%</b>
<b>Total students - degree colleges</b>	<b>30,012</b>	<b>33,550</b>	<b>63,405</b>	<b>88,735</b>	<b>98,492</b>	<b>108,494</b>	<b>7%</b>
<b>Total students - others</b>	<b>45,627</b>	<b>52,448</b>	<b>76,720</b>	<b>105,819</b>	<b>123,375</b>	<b>141,766</b>	<b>10%</b>

Source: Company data, CMBIS estimates

\*The school is financially consolidated by equity method.

Figure 5: P/E band chart



Source: Company data, Bloomberg, CMBIS estimates

Figure 6: Peers valuation table

	Ticker	Rating	Mkt Cap (US\$ m)	CCY	Price	Year end	P/E (x)			Adj. EPS growth (%)			EPS CAGR (%)	PEG (x)
							FY1	FY2	FY3	FY1	FY2	FY3	FY0-3	FY1
<b>Higher Education services providers</b>														
China Education	839 HK	NR	5,405	HKD	18.46	Aug-20	25.2	20.1	17.4	25	26	16	22	0.91
Yuhua Education	6169 HK	NR	3,163	HKD	7.32	Aug-20	15.7	13.6	12.3	24	16	10	16	0.83
Hope Education	1765 HK	Buy	2,794	HKD	2.72	Aug-20	21.1	17.8	14.9	25	19	20	21	1.00
Kepei Education	1890 HK	NR	1,519	HKD	5.85	Dec-20	12.8	10.5	8.8	25	22	19	22	0.47
Cahtay Media	1981 HK	NR	1,439	HKD	6.73	Dec-20	21.5	15.9	13.2	7	35	20	20	0.79
Edvantage	382 HK	NR	1,180	HKD	8.55	Aug-20	17.1	12.3	9.8	38	39	25	34	0.36
New Higher Education	2001 HK	NR	1,254	HKD	6.14	Aug-20	13.8	10.5	8.7	32	31	20	28	0.38
JH Educational Tech	1935 HK	NR	794	HKD	3.85	Dec-20	16.9	15.3	na	12	11	na	na	na
Minsheng Education	1569 HK	NR	755	HKD	1.39	Dec-20	8.0	6.8	5.7	36	19	19	24	0.28
Xinhua Education	2779 HK	Buy	470	HKD	2.27	Dec-20	7.9	6.3	5.3	20	25	18	21	0.30
Huali University	1756 HK	NR	368	HKD	2.38	Aug-20	6.2	5.1	4.3	7	22	18	16	0.33
Neusoft Education	9616 HK	NR	489	HKD	5.69	Dec-20	12.3	9.8	8.2	(7)	25	20	12	0.82
<b>Average</b>							<b>14.9</b>	<b>12.0</b>	<b>9.9</b>	<b>20</b>	<b>24</b>	<b>19</b>	<b>22</b>	<b>0.59</b>

Source: Bloomberg estimates, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec/Aug (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>1,331</b>	<b>1,568</b>	<b>2,241</b>	<b>3,140</b>	<b>3,607</b>
Tuition fees	1,093	1,317	1,859	2,671	3,102
Boarding fees	103	102	147	194	213
Others	136	149	235	275	292
Cost of sales	(657)	(791)	(1,082)	(1,460)	(1,659)
Gross profit	675	777	1,159	1,680	1,948
Other income	130	260	142	198	225
Selling expenses	(45)	(61)	(139)	(182)	(202)
Administrative expenses	(152)	(195)	(269)	(339)	(372)
Other expenses	(16)	(52)	(63)	(88)	(101)
EBIT	591	728	831	1,269	1,498
Finance income	94	na	105	105	106
Finance costs	(171)	(209)	(281)	(306)	(298)
Share of JV	5	10	18	21	24
Non-operating items	36	8	190	10	10
Pre-tax profit	556	537	862	1,099	1,341
Income tax	(66)	(81)	(142)	(181)	(224)
Less: Minority interests	0	0	0	0	0
<b>Net profit</b>	<b>490</b>	<b>456</b>	<b>720</b>	<b>918</b>	<b>1,117</b>
<b>Adjusted net profit</b>	<b>474</b>	<b>576</b>	<b>811</b>	<b>1,010</b>	<b>1,209</b>

### Cash flow summary

YE 31 Dec/Aug (RMB mn)	FY19A	8M20	FY21E	FY22E	FY23E
<b>Profit before tax</b>	<b>556</b>	<b>166</b>	720	918	1,117
Depreciation and amortization	218	178	320	398	426
Change in working capital	(47)	(358)	1,298	367	378
Others	(41)	(23)	(142)	(181)	(224)
Tax paid	12	96	278	385	416
<b>Net cash from operating</b>	<b>697</b>	<b>59</b>	<b>2,474</b>	<b>1,886</b>	<b>2,112</b>
Capex & investments	(279)	(537)	(900)	(900)	(900)
Acquisitions	(447)	(325)		(385)	(93)
Others	(1,139)	921	(386)	1	(9)
<b>Net cash from investing</b>	<b>(1,865)</b>	<b>60</b>	<b>(3,627)</b>	<b>(1,284)</b>	<b>(1,002)</b>
Equity raised	-	1,153	1,625	-	-
Change of borrowings	313	511	1,000	-	-
Dividend paid	(105)	(152)	(60)	(260)	(323)
Others	(272)	(97)	1,965	(335)	(327)
<b>Net cash from financing</b>	<b>(65)</b>	<b>1,415</b>	<b>4,529</b>	<b>(594)</b>	<b>(650)</b>
<b>Net change in cash</b>	<b>(1,232)</b>	<b>1,533</b>	<b>3,376</b>	<b>7</b>	<b>460</b>
Cash at the beginning of the year	3,039	1,394	2,894	6,271	6,278
Exchange difference	1,806	2,928	-	-	-
<b>Cash at the end of the year</b>	<b>1,690</b>	<b>2,894</b>	<b>6,271</b>	<b>6,278</b>	<b>6,738</b>

### Balance sheet

YE 31 Dec/Aug (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>7,348</b>	<b>8,458</b>	<b>12,465</b>	<b>12,988</b>	<b>13,48</b>
PPE	4,564	5,065	7,089	7,682	8,251
Prepaid lease payments	1,163	1,319	1,396	1,323	1,243
JV	196	196	639	659	683
Others	1,425	1,877	3,341	3,325	3,308
<b>Current assets</b>	<b>3,508</b>	<b>3,958</b>	<b>7,785</b>	<b>7,871</b>	<b>8,418</b>
Cash	1,690	2,894	6,271	6,278	6,738
Prepayments	252	202	789	868	955
Others	1,565	847	710	710	710
<b>Current liabilities</b>	<b>3,143</b>	<b>3,368</b>	<b>5,526</b>	<b>5,587</b>	<b>5,958</b>
Contract liabilities	806	404	2,578	2,984	3,405
Other payables	1,176	1,345	1,328	983	933
Borrowings	1,003	1,443	1,443	1,443	1,443
Current income tax	65	88	88	88	88
Others	91	88	88	88	88
<b>Non-current liabilities</b>	<b>3,149</b>	<b>3,361</b>	<b>6,754</b>	<b>6,644</b>	<b>6,523</b>
Deferred income	1,073	1,253	1,356	1,286	1,206
Borrowings	1,594	1,670	2,670	2,670	2,670
Others	482	439	2,728	2,687	2,647
<b>Total net assets</b>	<b>4,565</b>	<b>5,686</b>	<b>7,971</b>	<b>8,629</b>	<b>9,423</b>
<b>Shareholders' equity</b>	<b>4,562</b>	<b>5,683</b>	<b>7,967</b>	<b>8,625</b>	<b>9,419</b>
<b>Minority Interest</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>4</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Tuition & boarding fees	82.1	84.0	83.0	85.1	86.0
Ancillary services	7.7	6.5	6.5	6.2	5.9
Others	10.2	9.5	10.5	8.8	8.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>P&amp;L ratios (%)</b>					
Gross profit margin	50.7	49.6	51.7	53.5	54.0
EBIT margin	44.4	46.4	37.1	40.4	41.5
Effective tax rate	11.8	15.1	16.5	16.5	16.7
Adj. net profit margin	35.6	35.0	36.2	32.1	33.5
Payout ratio	31.7	11.0	32.0	32.0	32.0
<b>Balance sheet ratios</b>					
Current ratio (x)	1.1	1.2	1.4	1.4	1.4
Asset turnover (x)	0.1	0.1	0.1	0.2	0.2
Net cash (RMB mn)	255	329	128	135	595
<b>Returns (%)</b>					
Adj. ROAE	10.9	11.5	11.9	12.2	13.4
Adj. ROAA	4.9	3.8	5.0	4.9	5.7
<b>Per share data</b>					
Adj. EPS (RMB)	0.071	0.086	0.107	0.127	0.152
DPS (RMB)	0.023	0.008	0.033	0.041	0.049
BVPS (RMB)	0.684	0.786	0.999	1.082	1.181

Source: Company data, CMBIS estimates

Year-end is changed to Aug from FY20E onwards

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**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

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