

China Education Sector

CMBI Virtual Corporate Day takeaways

We hosted CMBI Education Virtual Corporate Day with 11 HK-listed companies last week. Overall, admission quotas of higher education companies in 2020-21 school year saw decent growth (15-64%), except Huali University. Degree quotas (excl. diploma to degree) of private universities in Guangdong unexpectedly dropped this year, particularly independent colleges. We believe this is an one-off impact as Guangdong's gross enrollment rate is far below advanced provinces and will continue to rise. Looking into FY21E NP consensus, we think Kepei, New Higher Education and China Education have upside potential, while Huali University has downside risk. Hope Education remains our sector top pick.

- **Admission quotas saw 15-64% growth.** Higher education sector is boosted by policies of increasing number of students admitted by diploma to degree program and vocational colleges. For the five companies released quotas figures, Kepei led the growth with 64%, followed by China Education (+27%), Minsheng (+17%) and Edvantage (+15%). However, quotas of Huali Education unexpectedly fell 12%. Hope Education saw 100-260% growth for its three newly acquired colleges, 30-35% growth for two universities in Guizhou, and 30%+ growth in self-admission quotas for its seven vocational colleges. New Higher Education's growth of degree quotas was impressively stronger than diploma (Figure 1).
- **Independent colleges in Guangdong suffered.** According to Kepei's management, certain degree quotas of private universities (particularly independent colleges) in Guangdong were allocated to new public universities in 2020-21 school year. The drop of degree quotas (excl. diploma to degree) of the independent colleges of Edvantage and Huali University was greater than Kepei's university. That said, management thinks this is an one-off impact. Quotas of private universities in Guangdong will increase given that Guangdong's higher education enrollment rate (46%+) is still lower than advanced provinces like Jiangsu, Zhejiang and Shandong (>50%). Quotas of independent colleges could recover after unpeg.
- **Upside/downside potential of consensus.** We think the consensus NP estimates of Kepei, New Higher Education and China Education in FY21E could be underestimated. On the contrary, we think there is downside risk on the consensus NP estimate of Huali Education in FY21E. For Hope Education, we think the quota growth figures released so far are encouraging. For Minsheng Education, we think there is significant upside in FY21E NP if two potential catalysts (complete of sponsor change of Nanchang College and complete conversion of Pass College) can be materialized.

Valuation Table

Name	Ticker	Rating	Mkt Cap (USD mn)	Price (LC)	TP (LC)	Up/Down -side	P/E (x) FY20E FY21E	P/B (x) FY20E FY21E	ROE
Hope Edu	1765 HK	Buy	2,209	2.55	3.17	24%	26.1 18.9	3.3 13.1	
China East Ed	667 HK	Buy	4,056	14.34	15.80	10%	26.8 21.0	4.2 16.3	
Wisdom Edu	6068 HK	Buy	869	3.29	4.60	40%	13.3 10.4	2.3 18.9	
Xinhua Edu	2779 HK	Buy	533	2.57	2.85	11%	11.6 10.4	1.3 11.7	
Beststudy Ed	3978 HK	Buy	388	3.54	5.14	45%	16.9 10.0	3.0 18.8	

Source: Bloomberg, CMBIS estimates,

OUTPERFORM
(Maintain)

China Education Sector

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1. "Hope Education (1765 HK) – More optimistic on FY21E student enrollment" – 8 Jun 2020
2. "Beststudy Education (3978 HK) – Key NDR takeaways" – 15 May 2020
3. "Hope Education (1765 HK) – Strong 1H FY20; multiple growth drivers" – 4 May 2020
4. "Wisdom Education (6068 HK) – Explore new businesses opportunities" – 29 Apr 2020

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Hope Educaton (1765 HK, BUY, TP HK\$3.17)

Admission quotas increased strongly

We hosted an investor call with mgmt. during our Education Corporate Day. Overall, we think quota growth was strong, particularly the newly acquired colleges saw 100%+ quota growth. Our TP HK\$3.17 is 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 22%. Current 0.8x PEG valuation is undemanding compared to China Education (839 HK, NR) (1.2x PEG). Hope Education remains our sector top pick. Maintain Buy.

Admission quotas achieved strong growth

The quota of vocational colleges divides into two parts, namely self-admission (“單獨招生”) quota and Gaokao unification (“高考統招”) quota. Self-admission quota increased by more than 30% for all seven vocational colleges. For the two Guizhou universities, the growth of degree quotas (including diploma to degree quotas) increased by 30-35% (vs 20%+ growth last year). Sichuan education authority has not released the Gaokao unification quotas.

Quotas of acquired colleges more than doubled

Hope Education showed its strong capabilities to improve growth outlook of acquired targets again. Quota of Yinchuan University of Energy (degree and diploma) doubled to 8,000. Quota of Suzhou Top Institute jumped 243% to 4,800. Quota of Hebi College surged 260% to near 5,000. Tuition fee of Hebi College also doubled to RMB9,000.

Four independent colleges submitted conversion application

MOE released a notice to accelerate the conversion of independent colleges into universities on 18 May. The four independent colleges had independent campuses and met site area of 500mu, which satisfied basic requirements of conversion. The four independent colleges have submitted conversion applications. We think Jinci College and College of Science and Technology of Guizhou University (jointly sponsored with a 985 & 211 public university) could become the first two independent colleges to be converted. We estimate the mgmt. fees of these two universities represents 6% of FY22E adj. NP.

Inti Education acquisition progress on track

Management believes the approval progress of the acquisition of Inti Education is on track and such acquisition could be completed by Oct 2020. Number of overseas students in Inti Education is around 1,800, 11% of total students. Therefore, we think the impact of epidemic on student enrollment in 2020-21 school year is insignificant.

China Education (839 HK, NR)

Number of admission quotas jumped 27%

We hosted an investor call with mgmt. during our Education Corporate day. We think its 27% growth of quota was decent led by 292% growth of diploma to degree quota. Most quotas came from universities suggests student enrollment growth in FY21E could be more certain. We estimate the Company achieved mid-teens organic revenue growth in 1HFY20 based on 13% quota growth. Therefore, we think 15% consensus revenue growth in FY21E could be conservative as quota growth accelerated to 27%.

Total number of admission quotas jumped 27% to 37,600

The growth rate was higher than the 13% growth in 2019-20 school year. Because most of covered schools are universities, we think the growth of student in FY21E could be more certain (degree programs usually have >90% registration rates). The strong growth was led by 292% quota growth of diploma to degree to 8,350. Baiyuan and Songtian universities have a total 3,200 diploma to degree quota. Because of many applicants and Guangdong's flexible enrollment policy, the number of student enrollment of these two universities might exceed quota limit. To recap, the number of diploma to degree students enrolled by Baiyun and Songtian universities in 2019-20 school year exceeded original quotas.

Adding 31,400 capacity in Guangdong by Sep 2021

Phase 1 of Baiyun University (8,000 capacity) commenced operation in Sep 2019. The construction works of Phase 2 of Baiyun University and Phase 1 of Songtian University are expected to complete by Sep 2021, providing a total 31,400 capacity. Management expects quota of these universities will increase when new campuses commence operation.

Impact of boarding fees refund minimal

The colleges have gradually reopened since May 2020. During COVID-19, no catering income was booked but utility cost was saved. Management estimated two to three months of boarding fees are required to refund, only representing less than 2% of total revenue.

Submitted conversion applications for three independent colleges

Chongqing Translators University, Songtian University and Shandong Quancheng University submitted conversion application in early 2020. Chongqing authority approved the conversion plan and passed the application to MOE for approval. Management targets to finish its conversion by end of 2020. For the remaining two independent colleges, management targets to complete conversion by end of 2021. Regarding termination fees, management expects the amount would not exceed the college's management fees paid in five years (<RMB100mn each independent college).

M&A

The Company is working for domestic acquisitions for both itself and the acquisition fund with Value Partners. The Company had RMB2.7bn cash and financial assets as well as RMB4.3bn borrowings as at 29 Feb 2020. Management thinks 50% net gearing ratio is an optimal level, implying room to increase RMB2bn borrowings. In addition, the fund size of the acquisition fund is RMB5bn. Regarding the acquisition strategy of itself and the fund, management said the fund has preferential rights to invest in targets below RMB1bn valuation. On the other hand, the Company has preferential rights to acquire targets above RMB1bn valuation.

Revenue growth guidance

The Company targets to achieve 15% organic revenue growth per year in two to five years, led by 10% growth of student and 5% ASP growth.

Yuhua Education (6169 HK, NR)

FY20E earnings affected by COVID-19

We hosted an investor call with mgmt. during our Education Corporate day. The earnings impact of COVID-19 is around RMB93mn in FY20E (9% of consensus NP in FY20E). Looking into 2020-21 school year, management said Yingcai University released 900 diploma to degree quota and other quotas are not available yet. Both Yingcai University and Hunan International Economics University plans to raise tuition fees. For M&A, the Company will focus on domestic higher education institutions in coming three to five years and is negotiating with two to three targets currently.

COVID-19 impact on business

In China, the Company estimates a reduction of RMB93mn revenue in FY20E due to refunding around 5 months of boarding fees and catering fees. Because of immaterial costs savings, the impact on NP would be roughly similar to RMB93mn.

In Thailand, the student mix of local students and overseas students of Stamford International University is around 60% and 40%, respectively. Due to epidemic, number of overseas students could drop in 2020-21 school year. The university does not plan to increase tuition fee this year. The university contributed US\$22mn revenue (12% of total) and US\$1mn net profit (1% of total) in 1HFY20.

Yingcai University released diploma to degree quota for the first time

Yingcai University received its diploma to degree quota for the first time this year. The number of quota is 900. According to management, other quotas of Yingcai University as well as quotas of Zhengzhou Technology and Business University and Hunan International Economics University are not received yet.

Expect to increase tuition fees of Hunan and Shandong universities

Management expects to increase tuition fees of Yingcai University and Hunan International Economics University in 2020-21 school year. Tuition fee of some peers in Hunan reaches RMB26,000-28,000. Management thinks there is upside potential of Hunan University's tuition fee. On the other hand, tuition fee of Zhengzhou Technology and Business University is at Henan province's cap level (RMB18,000) on university tuition fee. Management does not expect the province to raise the cap this year.

K12 revenue is targeted to grow by high single-digit

For its K12 business, management maintains to grow its average tuition fee by 5% and student enrollment by 3% per year.

M&A direction focuses on domestic higher education segment

In coming three to five years, the Company would only seek acquisitions of domestic higher education targets. Overseas institutions and K12 targets would not be considered. The Company is negotiating with two to three domestic higher education targets.

New Higher Education (2001 HK, NR)

Growth of degree quotas greater than diploma quotas

We hosted an investor call with mgmt. during our Education Corporate day. Growth of quotas for 2020-21 was in line with the Company's expectation and growth of degree quotas was impressively higher than diploma quota. Management is confident of achieving 30% NP growth in FY20E and targets 25-30% NP growth in FY21E (current consensus estimates 21% growth).

Growth of degree quotas impressively higher than diploma quotas

The Company operates four universities and three vocational colleges in China. Management thinks the total number of quotas received is in line with expectation. Quotas for diploma to degree saw double-digit growth because this year the number of universities receiving such quotas increased from one to four. Because degree has higher registration rate and tuition fee, the Company asks for more degree quotas this year. Growth of degree quotas was higher than diploma.

Target to double average tuition fee in five years

All the higher education schools are located in provinces requiring tuition fee filing only ("备案制"), which means the increase of tuition fee of schools does not require approval from local authority. Management targets to double its average tuition fee in five years led by raising graduates' salary to drive tuition fee increase and having more degree student mix.

Conversion of independent colleges

The Company has two independent colleges. The application for conversion of Gansu school is pending for MOE approval. For Hubei school, the application for conversion was submitted to local education authority. The Company wishes the conversion of both schools could be completed by 1H21. We estimate management fees represent 7% of adj. NP in FY19.

M&A strategy

The Company announced to acquire remaining 40% equity interest of its Henan school in May 2020. Because of improved net gearing (15% in FY19) and unused credit facilities, the Company will look for acquisitions of mid-size (10,000-20,000 students) domestic higher education institutions in regions where gross enrollment rate is low and number of population is high, such as Henan, Sichuan, Hebei and Greater Bay Area.

Teaching quality significantly enhanced

In 2019, the high-quality employment rate reached 38.5%. The professional counterpart rate of high-paying (annual salary of RMB80,000) pilot classes was nearly 100%. Currently, Yunnan, Guizhou and Northeast schools offer these "Yingcai Class" and "Excellent College". Going forward, the Company will replicate these classes to other schools. We think this will enhance brand equity of its schools, providing solid foundation to raise tuition fees because tuition fees of such classes are higher than normal classes.

Confident to meet FY20E guidance

Management is confident to meet its guidance of 20% revenue growth (>5% student growth and 10% ASP growth) and 30%+ NP growth in FY20E. Looking into FY21E, the Company targets to achieve 25-30% NP growth (current consensus estimates 21% growth).

China Kepei (1890 HK, NR)

The admission quotas winner in Guangdong

We hosted an investor call with mgmt. during our Education Corporate day. Quota growth of Kepei (+64%) was greater than that of Edvantage (+15%) and Huali (-12%). Guangdong Polytechnic College plans to lift degree and diploma tuition fee by 12% and 5%, respectively, in 2020-21 school year. Kepei plans to make one acquisition every year and tries to have one in 2H20E. Management targets to achieve RMB570mn/750mn NP in FY20/21E. The FY21E NP target is 5% above consensus.

Quotas of Guangdong Polytechnic College jumped 64% to 17,785

The strong growth was led by 11 times growth of diploma to degree quota to 3,600 (number of intake students depends on exam passing rate) and 143% growth of diploma quota growth to 6,572. Though degree quota (excl. diploma to degree) slightly fell 3% to 7,613, it is much better than Edvantage (-17%) and Huali University (-47%). Total quota growth of the college is also stronger than Guangdong peers, Edvantage (+15%) and Huali University (-12%). In addition, the college recently registered 12,000 off-campus adult college program students (+51% YoY). That means, total student of off-campus adult education would increase 76% to ~26,200 in 2020-21 school year. Quota number of Harbin Institute of Petroleum, the acquisition is pending for MOE approval but its NP will be booked as management fee income, was flat this year due to limited beds.

Why degree quota dropped in private universities in Guangdong?

Management said this year China plans to increase degree quota by 50,000 and around 1,500 is allocated to Guangdong. Because Guangdong has new public universities this year, quota is given to new universities and some quota is taken from private universities (especially independent colleges). That said, Guangdong's higher education gross enrollment rate was 46%+, still lower than other advance provinces like Shandong, Zhejiang and Jiangsu. Management expects the catch up of gross enrollment rate would drive student growth growing forward.

Why degree quota growth better than other Guangdong peers?

Management attributed its stronger-than-peers student growth over past few years to three reasons: (1) highest employment rate (97.8%) in Guangdong; (2) sufficient capacity; (3) most of the college's majors are engineering related, which saw strong employment demand in Guangdong.

To increase tuition fee in 2020-21 school year

Guangdong Polytechnic College plans to lift degree and diploma tuition fee by 12% and 5%, respectively. Harbin Institute of Petroleum plans to increase degree tuition fee by 10%. Zhaoqing school plans to lift tuition fee by 10%.

Target one acquisition per year

Management wishes to make one acquisition in 2H20E. The Company had net cash of RMB1.3bn at end of FY19. With around RMB1.2bn tuition fees to be received in Sep 2020, the Company could have around RMB500mn operating cash flow after paying RMB200mn for dividend, RMB300mn opex and RMB150-200mn capex. Also, the Company has RMB2.3bn credit line from Pudong Bank.

FY20/21E guidance

Management targets to achieve NP of RMB570mn and RMB750mn in FY20E and FY21E, respectively. FY21E NP target is 5% above consensus estimates.

Edvantage Group (382 HK, NR)

Guidance maintained though degree quotas dropped unexpectedly

We hosted an investor call with mgmt. during our Education Corporate day. Despite degree quota unexpectedly dropped in 2020-21 school year, management maintains its target of 30% adj. NP growth in FY21E, led by student growth (diploma to degree, diploma and adult education) and average tuition fee growth. Management expects the conversion of Huashang College could be completed by end of 2020.

Total quota increased by 15% despite degree quota dropped

Total quota of Huashang College and Huashang VC grew by 15% to 14,600, led by 100% growth of diploma to degree quota to 1,800 and 37% growth of diploma quota to 7,500, but partly offset by 17% drop of degree quota to 5,300. The reason for the decline of degree quota is due to independent college status. In Guangdong, number of diploma to degree student registered could exceed quota number because Guangdong authority allows the colleges to adjust its quota number when diploma to degree qualifying exam results are available. In 2019-20 school year, Huashang College admitted 1,784 diploma to degree students, greater than original quota of 900. In 2020-21 school year, number of applicants for diploma to degree program exceeds 6,000.

Profit growth guidance maintained

Despite refunding boarding fees, management is still confident to achieve 30% adj. NP profit growth in FY20E. Looking into FY21E, management targets to raise revenue by 25% to RMB1bn, led by 8% student growth (degree and diploma) with remaining portion from ASP growth. Tuition fee of degree and diploma is expected to increase by 5% and 5-7%, respectively. In addition, number of adult education is expected to increase from 2,300 in FY20E to 4,000-5,000 in FY21E. Adj NP is targeted to grow by 30%.

Develop adult education segment

As Sihui new campus begins to operate in Sep 2020, management thinks it is time to expand adult education business and its quality full-time education quality (Huashang College ranked 26th among all independent colleges in China) could attract part-time students. In 2020 spring semester, the Company enrolled around 2,300 students, management targets to grow student enrollment to around 5,000 in Oct 2020. Tuition fee for off-campus student is around RMB3,000-4,000.

Conversion of independent college

Huashang College has submitted application to Guangdong authority. When evaluation process is completed, Guangdong authority will pass the conversion application to MOE for approval. Management targets to complete conversion by end of 2020.

Huali University (1756 HK, NR)

An one-off setback

We hosted an investor call with mgmt. during our Education Corporate day. Total number of quotas unexpectedly dropped in 2020-21 school year. The Company plans to lift degree and diploma tuition fee by 10% and 5%. We think there is downside risk to consensus estimates in FY21E. The Company targets to submit conversion plan of Huali College by end of 2020. Management expects the number of quotas would resume uptrend when its independent college is unpegged.

Number of admission quotas fell 12% led by degree quotas

Though diploma to degree quota increased 155% to 1,400, degree quota unexpectedly fell 47% to 2,930. Management thinks the drop of degree quota is due to its independent college status. In Guangdong, intake of diploma to degree students could exceed quota number depending on applicants' passing rate of qualifying exam. Diploma quota (self-admission and Gaokao unified allocation) was maintained at 9,000. Self-admission enrollment process finished with registered students tripled to 3,680 students. We think overall registration rate of diploma could improve from 80% last year.

To lift tuition fee in 2020-21 school year

The Company plans to lift degree and diploma tuition fee by 10% and 5%. Tuition fee of technician college remains unchanged.

COVID-19 impact on financials

Due to refund of boarding fees, management expects revenue to reduce by RMB20mn+. However, the savings of staff expenses and other operating expenses could mostly offset the negative impact.

Revenue is expected to grow in FY21E despite fall in degree quota

Total degree quota (incl. diploma to degree) was 4,330 this year. Assuming 90% of registration rate, number of intake students would be 3,897, which is greater than number of graduates in 2019-20 school year (intake students 3,645 in 2016-17 school year). Also, the tuition fee for new student in 2020-21 (10% increase on RMB25,500-29,000 in 2019-20 school year) will be significantly higher than that in 2016-17 school year (RMB19,000-22,000).

Plan to finalize conversion schedule by end of 2020

The Company is still negotiating the conversion plan with public university sponsor. Management targets to finalize the conversion plan and submit application to Guangdong authority by end of 2020.

Minsheng Education (1569 HK, NR)

Two potential catalysts to accelerate NP growth in FY21E

We hosted an investor call with mgmt. during our Education Corporate day. Growth of admission quotas improved from 14.8% in 2019-20 school year to 17.2% in 2020-21 school year, led by diploma to degree quotas. Chongqing authority had replied to support the conversion of Pass College. Management expects the conversion could be completed in by end of 2020. Looking into FY21E, management thinks NP could achieve very strong growth, if the two catalysts can be materialized: (1) complete sponsor change of Nanchang College and (2) conversion of Pass College.

17.2% admission quotas growth in 2020-21 school year

The growth was, which was higher than 14.8% in 2019-20 school year, mainly led by 35% growth of diploma to degree quota to 5,400, followed by 22% growth of diploma quota to 13,922, 1% growth of degree quota to 13,198 and 200% growth of secondary vocational school quota to 3,900. Degree quota growth was slowed from 3% last year mainly because the growth of independent colleges is limited by the authority.

Conversion of independent colleges

Pass College submitted conversion application to Chongqing authority in beginning 2020. The authority had replied to support the conversion. Management expects the conversion could be completed by end of 2020. The termination fee is around RMB50mn. For Dianchi College, management targets to submit conversion application in 2H20E. In FY19, management fee paid by two independent colleges to public university sponsors was around RMB50mn, equivalent to 13% of adj. NP in FY19.

Updates on acquired projects

There are more newly acquired projects: (1) TCL education: The acquisition was completed in Mar 2020. FY19 NP was RMB25mn. (2) Nanchang College: In FY20E, the guidance of revenue and NP is around RMB200mn and RMB40-50mn. Quotas of the college increased by 14% to 8,100 in 2020-21 school year. In FY21E, the guidance of revenue and NP is RMB230-240mn and RMB60-70mn, respectively. Management targets NP to grow by 30-40% per year in coming few years driven by expand of degree student enrollment. Management targets the acquisition to be completed by end of 2020. (3) Wonder College: Both degree and diploma quota saw single-digit growth, while quota of diploma to degree increased by three times. Management targets the acquisition to be finished in 2021.

Online education businesses saw notable growth in 1H20 due to epidemic

GMV of Mingshi online increased by 30-40% in 4M20. For 50% owned Open Edutainment, number of paid users of imooc.com increased from 200,000 to 300,000. Management will focus on cost saving of the business and improving synergies with its offline education business to improve the NPM of the online education segment.

M&A

The Company had RMB1.4bn cash on hand at end of FY19. After securing RMB750mn low-cost (3.5%p.a.), 8-year loan from IFC, cash on hand is around RMB2.1bn. The Company will look for value-for-money domestic university targets.

FY20 guidance

The Company targets to achieve 20% revenue growth and adj. NP of RMB440-470mn (excluding consolidation of Nanchang College) in FY20E.

China East Education (667 HK, BUY, TP HK\$15.80)

Fundamental remains intact despite short-term COVID-19 disruption

We hosted an investor call with mgmt. during our Education Corporate day. Number of new student enrolled fell 15% YoY in 1H20 because the period of COVID-19 is longer than expected. That said, total number of new student enrolled and pre-registered applications increased 5% in 1H20. Number of new student enrolled would ramp up after Zhongkao ends. When COVID-19 ends, management is confident to achieve >10% revenue growth and >15% net profit growth per year. Our TP HK\$15.80 is based on 26.0x average FY20E and FY21E EPS.

Number of new student enrolled affected by COVID-19

As at the end of Apr, May and Jun 2020, the percentage of schools re-opened were 30%, 50% and 90%, respectively. In 1H20, total number of new student enrolled decreased by 15% because the period of COVID-19 has been longer than expected. By brand, Omick and Cuisine Academy saw 10% and 5-10% because of higher percentage of school re-opened. On the other hand, New East and Xinhua Internet saw around 20% decline due to their nationwide network. That said, total number of new student enrolled and pre-registered applications increased 5% in 1H20. Management expects more pre-registered applicants will sign up at schools when Zhongkao ends in mid Jul.

School opened plan maintained

There are around 30 new school opening project teams working currently. Management expects to open 24 new schools in FY20E and around 20 new schools each in FY21/22E.

Development of beauty vocational training

Management thinks the beauty sector now is similar to the catering sector ten years ago. At that time, there were very few nationwide players. The training of new comer mostly depended on master-apprentice relationship, which cannot ensure the quality of training. Currently, the beauty sector lacks nationwide players. Most beauty training schools provide short-term training courses, which cannot guarantee training quality. Nationwide beauty players need to training staff by itself. Most beauty sector new workers are young people, who graduated from middle schools and high schools. Their learning capabilities are not high in general. The Company aims at providing long-term training courses to ensure training quality is good. The Company also could provide employment opportunities for graduates through its nationwide network and brand equity. These are the comparative advantages of the Company in beauty vocational training.

The Company plans to open two more beauty training schools in Changsha and Zhengzhou in 2H20E. If the ramp-up period of the three new schools is fast, management may consider make acquisitions to accelerate its development in beauty vocational training segment.

FY20E outlook

Because the period of COVID-19 has been longer than expected, there are uncertainties to achieve >10% revenue growth and >15% net profit growth in FY20E. That said, management thinks it can achieve these targets in long term when epidemic ends.

Wisdom Education (6068 HK, BUY, TP HK\$4.60)

Tuition fees increases in 2020-21 school year are encouraging

We hosted an investor call with mgmt. during our Education Corporate day. Management maintains 20-25% adj. NP growth in FY20E despite COVID-19 impact. The tuition fees increases in 2020-21 school year so far have been encouraging, led by 10-15% growth in Dongguan schools (>60% of total revenue). Our TP HK\$4.60 is still based on 18x FY20E P/E.

FY20E guidance update

The epidemic has caused refund of two to three months of boarding fees and temporary closure of school canteens. Therefore, management expects revenue growth to be less than original target of 20%. That said, management maintains its adj. NP 20-25% growth target because of lower opex ratio on cost savings.

Target a mid to high single-digit average tuition fee growth in FY21E

Management said the following schools are approved to increase tuition fees: (1) Dongguan schools: primary and middle schools +15%, high schools +10%; (2) Jieyang school: primary school +40%, middle and high schools +30%; (3) Panjin school +10%; (4) Weifang Guangzheng school: high school +10%; (5) Weifang Weizhou School +10%. The application of tuition fee increase for Huizhou school is pending for local government's reply.

New schools pipeline

The Company is working to open an asset-light school each in Foshan and Dongguan. The earliest commencement date is Sep 2021. Coupled with Chanzhao, Jiangmen, Zengcheng, Zhaoqing and Zhongshan projects, management is confident to open an average of two new schools each year in coming three to five years. Capex is around RMB700-800mn per year.

New businesses updates

Management provided updates on the three new businesses: (1) Online education: the Company provided online education courses (language and mathematics concept training) to students and parents. This business recorded around RMB10mn revenue between Mar and Jun 2020. (2) School management: The Company is negotiating with a few kindergartens and primary schools. If agreed, these schools could supply G1 and G7 students to the Company. (3) Higher education: Some local governments could provide land for setting up both K12 school and higher education institution. Also, the Company thinks the entering into higher education could diversify its business risks. Finding renowned college as a partner or acquiring higher education college are possible options.

Beststudy Education (3978 HK, BUY, TP HK\$5.14)

COVID-19 could speed up industry consolidation

We hosted an investor call with mgmt. during our Education Corporate day. Around 95% of schools re-opened since 1 Jun 2020. We think the disruption by COVID-19 could speed up industry consolidation. The Company could gain market share and accelerate expansion by acquisitions. The Company will focus on Greater Bay Area expansion and move into OMO model. Maintain Buy. Our TP of HK\$5.14 represents 18.7x average FY20E and FY21E EPS.

Revenue to drop by 10%+ in 1H20E due to COVID-19

Currently around 95% of schools have resumed operations since 1 Jun 2020. The financial impact of COVID-19 are: (1) Some impact on ASP of winter-break courses due to discounts provided to encourage conversion from autumn semester courses; (2) The beginning of spring semester delayed to Apr; (3) Tuition fee per hour of 1-on-1 tutorials are higher than other classes in general. 1-on-1 tutorial hours were reduced because parents think quality of online 1-on-1 tutorial is lower than offline 1-on-1. To increase revenue source, the Company launched short-term courses in Jun for parents who want to catch up their children's learning progress.

Summer-break courses conversion around 80-90% so far

Due to COVID-19, the beginning of summer holiday of full-time schools is delayed to 21 Jul. Therefore, the term of summer-break courses is reduced by 1 week. Tuition fee growth of such courses is flat. So far the conversion rate from spring semester courses to summer-break courses is around 80-90%.

M&A opportunities

COVID-19 accelerated the industry consolidation of K12 after-school tutoring sector. The Company could make acquisitions to expand its school network thanks to its strong cash position (RMB1.3bn cash and investments at end of FY19). The Company is negotiating with some targets in uncovered cities in Guangdong, provinces around Guangdong, Jiangsu, Zhejiang etc.

Figure 1: Quota growth of higher education names in 2020-21 school year

	Number of total quotas	YoY growth (%)	Number of quotas			YoY growth (%)		
			Degree	Diploma to degree	Diploma	Degree	Diploma to degree	Diploma
China Kepei *	17,785	64%	7,613	3,600	6,572	-3%	1100%	143%
China Education	37,600	27%	na	8,350	na	na	292%	na
Minsheng Education	37,520	17%	na	5,400	na	1%	35%	22%
Edvantage	14,600	15%	5,300	1,800	7,500	-17%	100%	37%
Huali University	13,330	-12%	2,930	1,400	9,000	-47%	155%	0%
New Higher Education	na	na	na	na	na	dd growth	dd growth	slower than degree
Hope Education #	na	na	na	na	na	30-35%	na	30%+
Yuhua Education	na	na	na	na	na	na	na	na

Source: Company data, CMBIS estimates

* Quota number only includes Guangdong Polytechnic College and excludes Harbin Institute of Petroleum

Degree quota (incl. diploma to degree quota) growth covers two Guizhou universities, diploma quota growth covers self-admission quotas of seven vocational colleges

Figure 2: Earnings impact of management fees paid by independent colleges of higher education names

Companies	No of independent colleges	Mgmt. fee paid in FY19 (RMBm)	FY19 Adj. NP (RMBmn)	Mgmt. fee/Adj. NP	Remarks
Hope Education	4	150	474	32%	Jinci College filed application to local authority; joint sponsor of College of Science and Technology of Guizhou University is a 985/211 university. Conversion of this college is required to
Edvantage	1	64	217	30%	Filed application to local authority
Huali University	1	55	253	22%	To finalize conversion plan by end of 2020
Minsheng Education	2	50	394	13%	Pass College pending MOE approval, preparing conversion plan for Dianchi College
New Higher Education	2	27	386	7%	Gansu school pending for MOE approval, preparing conversion plan for Hubei school
China Education	3	39	747	5%	All three colleges are pending for MOE approval
China Kepei	0	na	450	na	
Yuhua Education	0	na	793	na	

Source: Company data, CMBIS estimates

Figure 3: Gearing ratio comparison among higher education names

(RMBmn)	Cash	Investment	Borrowings	CB	Net cash/(debt)	Total Equity	Net gearing (%)	Date
Yuhua Education	1,868	0	302	2,026	(460)	4,199	11%	Feb-20
Hope Education	1,256	1,014	2,496	0	(226)	4,571	5%	Feb-20
China Education	2,769	0	2,157	2,144	(1,532)	7,117	22%	Feb-20
Minsheng Education	1,308	97	651	0	754	3,871	-19%	Dec-19
China Kepei	1,112	272	100	0	1,284	2,790	-46%	Dec-19
New Higher Education	1,047	0	1,487	0	(439)	2,952	15%	Dec-19
Edvantage	742	104	330	0	517	1,737	-30%	Feb-20
Huali University	939	0	1,059	0	(121)	2,570	5%	Feb-20

Source: Company data, CMBIS estimates

Figure 4: Peers valuation table

	Ticker	Rating	Mkt Cap (US\$ m)	Cnncy	Price	TP	Price YTD	Year end	FY1	FY2	FY3	P/E (x) FY1	P/E (x) FY2	P/E (x) FY3	EV/EBITDA FY1	EV/EBITDA FY2	Adj. net profit growth (%) FY1	Adj. net profit growth (%) FY2	Adj. net profit growth (%) FY3	Adj. EPS growth (%) FY1	Adj. EPS growth (%) FY2	Adj. EPS growth (%) FY3	PEG (x) FY1
K12 tutoring services providers																							
New Oriental Education	EDU US	NR	21,478	USD	135.57	na	12	May-20	31.9	23.9	15.1	37.1	25.3	39	33	60	37	34	58	0.70			
TAL Education	TAL US	NR	43,782	USD	72.93	na	51	Feb-20	82.5	47.0	34.9	69.6	39.6	222	72	48	8,740	76	35	1.53			
Onesmart Education	ONE US	NR	665	USD	4.10	na	(39)	Aug-19	na	12.7	9.0	56.3	9.4	(107)	(2,279)	43	(215)	na	42	na			
Scholar Education	1769 HK	NR	1,197	HKD	16.70	na	57	Dec-19	53.5	40.6	30.3	33.8	26.3	70	36	35	48	32	34	1.62			
Beststudy Education	3978 HK	Buy	388	HKD	3.54	5.14	(8)	Dec-19	16.9	10.0	8.1	0.0	0.0	(4)	69	24	(4)	69	24	0.38			
Average							15		46.2	26.8	19.5	39.4	20.1	44	-414	42	1,721	53	39	1.06			
Non-formal vocational education services provider																							
China East Education	667 HK	Buy	4,056	HKD	14.34	15.80	(12)	Dec-19	26.8	21.0	18.0	15.8	11.6	17	28	16	17	28	16	1.23			
K12 education services providers																							
Wisdom Education	6068 HK	Buy	869	HKD	3.29	4.60	(0)	Aug-19	13.3	10.4	8.7	9.0	7.3	28	30	20	29	28	20	0.56			
Tianli Education	1773 HK	NR	1,593	HKD	5.95	na	94	Dec-19	30.8	25.7	22.5	na	na	32	24	18	39	20	14	1.80			
Maple Leaf	1317 HK	NR	1,082	HKD	2.80	na	(12)	Aug-19	11.8	9.9	9.0	10.2	8.1	(3)	20	15	(3)	19	11	0.80			
Bright Scholar	BEDU US	NR	948	USD	7.88	na	(11)	Aug-19	19.6	14.3	12.6	11.6	9.7	27	39	18	10	36	14	0.79			
Average							18		18.9	15.1	13.2	10.3	8.4	21	28	18	19	26	15	0.99			
Higher Education services providers																							
China Education	839 HK	NR	3,238	HKD	12.42	na	22	Aug-19	24.6	20.5	17.1	18.0	15.3	28	22	19	24	20	20	1.24			
Yuhua Education	6169 HK	NR	2,835	HKD	6.58	na	25	Aug-19	23.9	16.4	14.3	17.0	12.1	26	25	13	2	46	14	0.82			
Hope Education	1765 HK	Buy	2,209	HKD	2.55	3.19	89	Aug-19	26.1	18.9	14.8	14.7	11.5	na	38	28	na	38	28	0.80			
Kepei Education	1890 HK	NR	1,562	HKD	6.05	na	61	Dec-19	18.0	14.9	13.1	15.2	13.1	33	20	16	34	21	14	1.04			
New Higher Education	2001 HK	NR	996	HKD	5.01	na	65	Dec-19	13.8	11.4	9.8	10.8	9.4	35	21	17	29	21	16	0.75			
Edvantage	382 HK	NR	754	HKD	5.74	na	35	Aug-19	17.2	13.5	11.1	12.1	9.9	27	26	22	0	27	22	0.70			
Minsheng Education	1569 HK	NR	620	HKD	1.14	na	(17)	Dec-19	9.6	8.1	7.3	5.8	5.2	10	17	13	10	18	11	0.67			
Xinhua Education	2779 HK	Buy	533	HKD	2.57	2.85	(17)	Dec-19	11.6	10.4	9.6	10.7	5.0	8	11	9	8	11	9	1.15			
Huali University	1756 HK		526	HKD	3.40	na	61	Aug-19	12.2	9.4	7.5	8.8	7.0	20	30	25	20	29	25	0.45			
Average							36		17.4	13.7	11.6	12.6	9.8	23	23	18	16	26	18	0.85			

Source: Bloomberg estimates, CMBIS estimates

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