

Hope Education (1765 HK)

Acquisition of Gongqing College

The Company agreed to acquire 100% equity interest of Gongqing College of Nanchang University at a consideration of RMB500mn. We lift FY22/23E adj. NP by 2/3%. The Company is confident to acquire three universities and two vocational colleges in 1-2 years. We anticipate several catalysts in 1-2 years, including conversion of independent colleges and acquisitions. Maintain Buy and raise TP from HK\$3.61 to HK\$3.88.

- **Low acquisition cost.** The College recorded ~RMB100mn revenue and RMB23mn in FY20. The Company expects the conversion, at RMB200-300mn termination fee, to be completed by 2021. Total consideration of RMB700-800mn is less than estimated replacement cost of RMB900mn. EV/student is estimated at RMB93,000 – 106,000, given that we expect the Company can increase the College's student enrollment notably after the acquisition. This EV/student valuation is low compared to industry's acquisition cost for a university (>RMB100,000).
- **Synergies with other Jiangxi schools.** The College will be the Company's third college in Jiangxi. The acquisition could provide synergies through student admission, teacher resources and regional school administration.
- **Strong growth potential.** Jiangxi's higher education gross enrollment rate (49%) was less than China's average of 51.9% in 2019. The College could benefit from Jiangxi's 55% gross enrollment target in 2025E. The College has 7,515 students with capacity of 11,000 students. The site area could support a maximum 20,000+ capacity. The Company will improve the College's teaching quality, raise tuition fees and get more admission quota after the conversion. The Company targets to double its student and grow its NP at 40% CAGR in five years.
- **M&A target secured.** Management is confident to achieve its target of three universities and two vocational colleges acquisitions in 1-2 years. The Company has secured a large university as acquisition target, whose revenue is even greater than the Company's Hope College (the largest university of the Company in China in terms of revenue).
- **Maintain Buy.** We lifted our FY22/23E adj. NP by 2%/3% to factor in the acquisition of Gongqing College. Our TP is raised from HK\$3.61 to HK\$3.88, based at 27.3x FY21E P/E, which is still at 1x PEG. **Catalysts:** (1) M&A; (2) unpeg of independent colleges; (3) policy overhang removed. **Risk:** surge of teachers' costs.

Earnings Summary

(YE 31 Dec/31 Aug)	FY19A-D	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,331	1,568	2,468	3,223	3,760
YoY growth (%)	29	NA	57	31	17
Net profit (RMB mn)	490	456	783	1,080	1,320
Adj. net profit (RMB mn)	474	576	857	1,154	1,394
Adj. EPS (RMB)	0.071	0.086	0.118	0.158	0.191
YoY growth (%)	26	NA	38	34	21
Consensus EPS (RMB)	NA	NA	0.115	0.143	0.183
Adj. P/E (x)	32.9	28.0	23.5	17.5	14.5
Yield (%)	1.0	0.3	1.4	1.8	2.2
AROAE (%)	3.4	3.0	14.2	16.9	18.1
Net cash (RMB mn)	255	329	634	921	1,680

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$3.88
(Previous TP	HK\$3.61
Up/Downside	+16%
Current Price	HK\$3.34

China Education Sector

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Stock Data

Mkt Cap (HK\$ mn)	24,355
Avg 3 mths t/o (HK\$ mn)	79.14
52w High/Low (HK\$)	3.36/ 1.37
Total Issued Shares (mn)	6,736.4

Source: Bloomberg

Shareholding Structure

Credit Suisse Trust	57.86%
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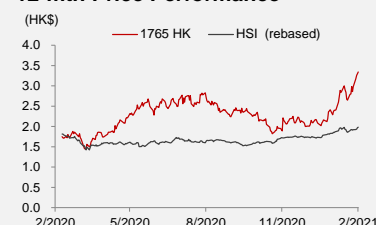
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	36.9%	27.1%
3-mth	71.0%	49.7%
6-mth	16.6%	-5.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: EY

Related Reports

1. "Hope Education – Several positive catalysts in 1-2 years" – 1 Feb 2021
2. "Hope Education – Strong organic growth outlook" – 1 Dec 2020
3. "Hope Education – Acquisition to develop asset light model" – 15 Oct 2020
4. "Hope Education – More optimistic on FY21E student enrollment" – 8 Jun 2020
5. "Strong 1HFY20, multiple growth drivers" – 4 May 2020
6. "Strong FY19 results" – 31 Mar 2020
7. "Acquisition of Malaysia's Inti Education" – 3 Mar 2020

Figure 1: Changes of our estimates

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	2,468	3,223	3,760	2,468	3,095	3,590	0%	4%	5%
Gross Profit	1,312	1,739	2,076	1,312	1,684	1,985	0%	3%	5%
EBIT	998	1,335	1,618	998	1,301	1,561	0%	3%	4%
Adj. Net Profit	857	1,154	1,394	859	1,127	1,352	0%	2%	3%
Gross Margin	53.1%	54.0%	55.2%	53.1%	54.4%	55.3%	flat	-0.4ppt	-0.1ppt
EBIT Margin	40.4%	41.4%	43.0%	40.4%	42.0%	43.5%	flat	-0.6ppt	-0.5ppt
Adj. Net Margin	34.7%	35.8%	37.1%	34.8%	36.4%	37.7%	-0.1ppt	-0.6ppt	-0.6ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	2,468	3,223	3,760	2,438	3,003	3,481	1%	7%	8%
Gross Profit	1,312	1,739	2,076	1,287	1,620	1,929	2%	7%	8%
EBIT	998	1,335	1,618	1,037	1,343	1,741	-4%	-1%	-7%
Adj. Net Profit	857	1,154	1,394	805	1,017	1,326	6%	13%	5%
Gross Margin	53.1%	54.0%	55.2%	52.8%	54.0%	55.4%	+0.3ppt	flat	-0.2ppt
EBIT Margin	40.4%	41.4%	43.0%	42.5%	44.7%	50.0%	-2.1ppt	-3.3ppt	-7.0ppt
Adj. Net Margin	34.7%	35.8%	37.1%	33.0%	33.9%	38.1%	+1.7ppt	+1.9ppt	-1.0ppt

Source: Company data, CMBIS estimates

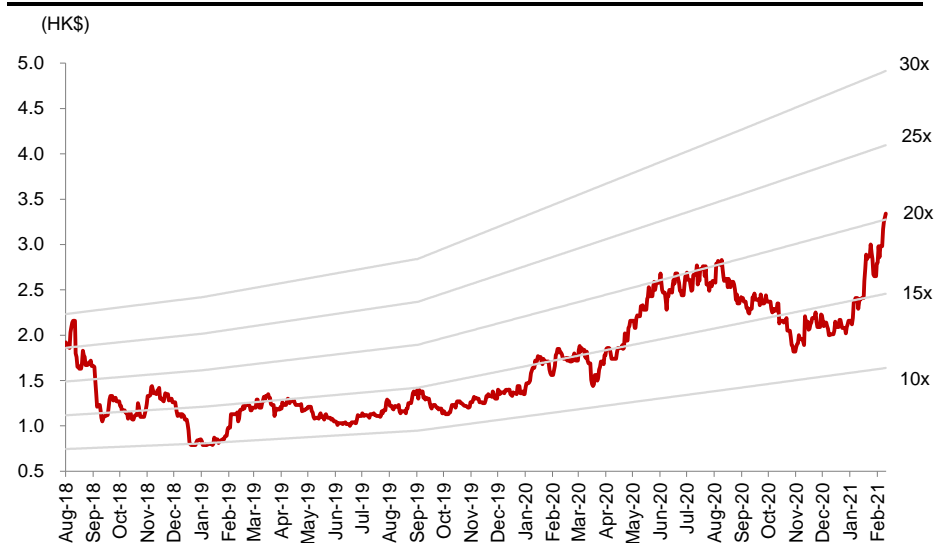
Figure 3: 11% CAGR of student enrolment from 2020/21 to 2022/23 school year

Student enrolment (school year)	2017/2018	2018/2019	2019/2020E	2020/2021E	2021/2022E	2022/2023E	2-yr CAGR
Universities (not incl Guizhou Univ)							
Southwest Jiaotong University Hope College	15,123	17,268	20,454	24,016	25,907	27,882	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	9,500	10,070	10,876	5%
College of Science and Technology of Guizhou University *			9,959	10,986	11,425	12,339	4%
Yinchuan schools			15,569	18,622	22,022	25,322	11%
Inti Education				14,478	16,650	18,315	8%
Gongqing College					9,081	10,631	na
Junior colleges							
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&Communication	7,371	8,920	10,349	13,682	14,777	15,515	4%
Guizhou Vocational Institute of Technology	2,989	5,903	8,021	17,652	19,064	20,017	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
Chongqing Zhongxian						1,500	na
Jiangxi Zhangshu						1,500	na
Technician colleges							
Sichuan Hope Automotive Technician College	2,127	4,193	8,235	12,000	13,800	15,870	10%
Total students	75,639	86,033	140,125	194,554	234,771	266,805	11%

Source: Company data, CMBIS estimates

*The school is financially consolidated by equity method.

Figure 4: P/E band chart



Source: Company data, Bloomberg, CMBIS estimates

Figure 5: Peers valuation table

	Ticker	Rating	Mkt Cap (US\$ m)	Price	Year end	P/E (x)			Adj. EPS growth (%)			EPS CAGR (%)	PEG (x)	Revenue growth (%)		
						FY1	FY2	FY3	FY1	FY2	FY3	FY1-3	FY2	FY1	FY2	FY3
Higher Education services providers																
China Education	839 HK	NR	4,983	17.00	Aug-19	31.3	23.4	18.8	32	24	25	24	0.96	37	40	18
Yuhua Education	6169 HK	NR	3,068	7.09	Aug-19	22.2	15.4	13.3	28	22	15	19	0.82	41	14	11
Hope Education	1765 HK	Buy	3,141	3.34	Aug-19	36.5	23.5	17.5	na	45	34	39	0.60	na	57	31
Kepei Education	1890 HK	NR	1,518	5.84	Dec-19	16.3	12.8	10.9	31	27	17	22	0.58	26	37	16
Cahtay Media	1981 HK	NR	1,627	7.60	Dec-19	35.2	23.7	18.6	(9)	48	28	38	0.63	7	47	19
Edvantage	382 HK	NR	1,299	9.40	Aug-19	27.9	19.1	13.5	0	35	41	38	0.50	14	46	34
New Higher Education	2001 HK	NR	1,086	5.31	Aug-19	na	11.7	9.1	na	na	28	na	na	na	na	14
JH Educational Tech	1935 HK	NR	960	4.65	Dec-19	25.8	20.4	18.4	11	27	11	18	1.11	17	20	17
Minsheng Education	1569 HK	NR	881	1.62	Dec-19	18.0	9.9	8.5	(23)	81	17	46	0.22	16	37	13
Xinhua Education	2779 HK	Buy	473	2.28	Dec-19	9.7	8.1	7.4	13	12	9	11	0.77	14	16	9
Huali University	1756 HK	NR	449	2.90	Aug-19	9.5	6.9	5.6	41	17	23	20	0.35	13	21	18
Neusoft Education	9616 HK	NR	439	5.11	Dec-19	16.5	12.4	9.8	na	33	27	30	0.41	23	23	20
Average						22.6	15.6	12.6	14	34	23	28	0.63	21	33	18
Weighted average						25.9	17.8	14.1								

Source: Bloomberg estimates, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec/Aug (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,331	1,568	2,468	3,223	3,760
Tuition fees	1,093	1,317	2,062	2,740	3,229
Boarding fees	103	102	172	216	248
Others	136	149	234	267	283
Cost of sales	(657)	(791)	(1,157)	(1,484)	(1,684)
Gross profit	675	777	1,312	1,739	2,076
Other income	130	260	187	237	268
Selling expenses	(45)	(61)	(99)	(126)	(139)
Administrative expenses	(152)	(195)	(321)	(409)	(463)
Other expenses	(16)	(52)	(81)	(106)	(124)
EBIT	591	728	998	1,335	1,618
Finance income	94	na	101	105	110
Finance costs	(171)	(209)	(191)	(176)	(176)
Share of JV	5	10	18	21	24
Non-operating items	36	8	10	10	10
Pre-tax profit	556	537	935	1,294	1,585
Income tax	(66)	(81)	(151)	(214)	(265)
Less: Minority interests	0	0	0	0	0
Net profit	490	456	783	1,080	1,320
Adjusted net profit	474	576	857	1,154	1,394

Cash flow summary

YE 31 Dec/Aug (RMB mn)	FY19A	8M20	FY21E	FY22E	FY23E
Profit before tax	556	166	783	1,080	1,320
Depreciation and amortization	218	178	335	397	419
Change in working capital	(47)	(358)	2,275	488	516
Others	(41)	(23)	(151)	(214)	(265)
Tax paid	12	96	45	279	327
Net cash from operating	697	59	3,287	2,030	2,317
Capex & investments	(279)	(537)	(900)	(900)	(900)
Acquisitions	(447)	(325)	(1,536)	(385)	(93)
Others	(1,139)	921	25	9	(2)
Net cash from investing	(1,865)	60	(2,411)	(1,276)	(995)
Equity raised	-	1,153	-	-	-
Change of borrowings	313	511	(100)	-	-
Dividend paid	(105)	(152)	(60)	(274)	(369)
Others	(272)	(97)	(208)	(194)	(194)
Net cash from financing	(65)	1,415	(369)	(468)	(563)
Net change in cash	(1,232)	1,533	508	287	759
Cash at the beginning of the year	3,039	1,394	2,894	3,402	3,689
Exchange difference	1,806	2,928	3,402	3,689	4,448
Cash at the end of the year	1,690	2,894	3,402	3,689	4,448

Balance sheet

YE 31 Dec/Aug (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	7,348	8,458	10,710	11,234	11,739
PPE	4,564	5,065	6,749	7,343	7,919
Prepaid lease payments	1,163	1,319	1,251	1,178	1,098
JV	196	196	214	234	258
Others	1,425	1,877	2,496	2,480	2,463
Current assets	3,508	3,958	4,486	4,795	5,579
Cash	1,690	2,894	3,402	3,689	4,448
Prepayments	252	202	222	244	268
Others	1,565	847	847	847	847
Current liabilities	3,143	3,368	5,408	5,533	5,980
Contract liabilities	806	404	2,660	3,130	3,627
Other payables	1,176	1,345	1,328	983	933
Borrowings	1,003	1,443	1,243	1,243	1,243
Current income tax	65	88	88	88	88
Others	91	88	88	88	88
Non-current liabilities	3,149	3,361	3,379	3,281	3,171
Deferred income	1,073	1,253	1,197	1,126	1,043
Borrowings	1,594	1,670	1,770	1,770	1,770
Others	482	439	412	385	358
Total net assets	4,565	5,686	6,410	7,216	8,167
Shareholders' equity	4,562	5,683	6,406	7,212	8,163
Minority Interest	3	3	3	4	4

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Tuition & boarding fees	82.1	84.0	83.5	85.0	85.9
Ancillary services	7.7	6.5	7.0	6.7	6.6
Others	10.2	9.5	9.5	8.3	7.5
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross profit margin	50.7	49.6	53.1	54.0	55.2
EBIT margin	44.4	46.4	40.4	41.4	43.0
Effective tax rate	11.8	15.1	16.2	16.5	16.7
Adj. net profit margin	35.6	35.0	34.7	35.8	37.1
Payout ratio	31.7	11.0	32.0	32.0	32.0
Balance sheet ratios					
Current ratio (x)	1.1	1.2	0.8	0.9	0.9
Asset turnover (x)	0.1	0.1	0.2	0.2	0.2
Net cash (RMB mn)	255	329	634	921	1,680
Returns (%)					
Adj. ROAE	10.9	11.5	14.2	16.9	18.1
Adj. ROAA	4.9	3.8	6.2	7.4	8.4
Per share data					
Adj. EPS (RMB)	0.071	0.086	0.118	0.158	0.191
DPS (RMB)	0.023	0.008	0.038	0.051	0.061
BVPS (RMB)	0.684	0.786	0.878	0.989	1.119

Source: Company data, CMBIS estimates

Year-end is changed to Aug from FY20E onwards

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