

# Wisdom Education (6068 HK)

## Student enrollment missed but organic growth still strong

Student enrollment as of 1 Sep increased 17% YoY to 60,116, 4% below our estimates. The Company targets to admit transferred students in second semester and boost ancillary services revenue to improve revenue growth in FY20E. We lowered FY20/21E net profit estimates by 6%/4% and TP from HK\$5.40 to HK\$4.60.

- **Student enrollment missed.** WE reported student enrollment of 60,116 as of 1 Sep 2019, +17% from 51,520 students as of 1 Sep 2018. The student number is below the Company's target of 62,000-63,000 and our FY20E estimate of 62,516 (4% below).
- **Reasons for the miss.** We attribute the miss to the following reasons: (1) student enrollment of Jieyang school and Weifang school stayed flat after the schools raised tuition fees by ~30% (from primary to high schools) and 22-24% (middle and high schools), respectively; (2) student enrollment of Dongguan Guangming branch school was flattish because certain construction work was delayed. That said, student enrollment of Dongguan Guangzheng school was better than our expectation though its high school tuition fees was lifted by 42%. WE also commenced operation of a new school in Bazhong, Sichuan and its student enrollment was satisfactory at 500-600.
- **Measures to boost revenue growth.** WE plans to admit transferred students in the second semester of 2019/20 school year, especially in the three new schools (Foshan, Bazhong and Yunfu) to boost FY20E student enrollment. Also, it targets to increase ancillary services revenue by offering more services (such as extra-curricular activities) and increasing prices.
- **Valuation.** We lowered FY20/21E net profit estimates by 6%/4% to mainly factor in 4% drop of student enrollment estimates in FY20/21E. Our TP is cut from HK\$5.40 to HK\$4.60, based on 18x FY20E P/E (vs 19x previously). We continue to like WE's organic growth potential given its Guangdong-focused expansion strategy and its maximum capacity of existing schools and pipeline projects (129,370 students) equals 115% of current student enrollment. **Catalysts:** (1) better-than-expected student enrolment or tuition fee growth; (2) more new projects in Guangdong. **Risks:** (1) policy risks; (2) lower-than-expected student enrollment or tuition fee growth; (3) surge of teachers' costs.

### Earnings Summary

(YE 31 Aug)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	979	1,247	1,746	2,068	2,546
YoY growth (%)	40	27	40	18	23
Net profit (RMB mn)	200	310	418	477	645
YoY growth (%)	30	55	33	14	33
EPS (RMB)	0.110	0.152	0.202	0.229	0.306
YoY growth (%)	NA	38	33	14	33
P/E (x)	27.8	19.1	15.5	13.7	10.2
Yield (%)	1.6	2.3	2.8	3.1	4.2
P/B (x)	3.6	3.1	2.9	2.4	2.1
Net gearing (%)	Net cash	47	44	24	15

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$4.60
(Previous TP	HK\$5.40)
Up/Downside	+32%
Current Price	HK\$3.49

### China Education Sector

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### Stock Data

Mkt Cap (HK\$ mn)	7,145
Avg 3 mths t/o (HK\$ mn)	9.06
52w High/Low (HK\$)	7.48/2.65
Total Issued Shares (mn)	2,043.0

Source: Bloomberg

### Shareholding Structure

Mr. Liu Xuebin	45.5%
Ms. Li Suwen	27.9%

Source: HKEX

### Share Performance

	Absolute	Relative
1-mth	6.2%	4.8%
3-mth	-7.9%	-6.6%
6-mth	-3.0%	6.0%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Deloitte

### Related Reports

1. "Wisdom Education – 2019/20 school year tuition fees in line; Reiterate Buy" – 9 Jul 2019
2. "Wisdom Education – Upside potential on tuition fee level" – 15 May 2019
3. "China Education Sector – Undemanding valuation; higher education segment more preferred" – 22 Mar 2019

**Figure 1: 2019/20 school year tuition and boarding fees changes**

Schools	Annual tuition and boarding fee		Change (%)
	2018/19 school year	2019/20 school year	
Dongguan Guangming High School	36,800	43,800	19%
Dongguan Guangzheng High School	30,800	43,800	42%
Jieyang Jiedong Guangzheng High School	15,000	19,600	31%
Jieyang Jiedong Guangzheng Middle School	13,600	18,000	32%
Jieyang Jiedong Guangzheng Primary School	12,400	16,000	29%
Weifang Guangzheng High School	18,600	23,000	24%
Weifang Guangzheng Middle School	16,600	20,200	22%
Weifang Weizhou Foreign Language School	12,800	13,200	3%
Yunfu Guangming High School	na	26,000	na
Yunfu Guangming Middle School	na	31,200	na
Yunfu Guangming Primary School	na	33,200	na
Foshan Guangzheng High School	na	51,400	na
Foshan Guangzheng Middle School	na	43,800	na
Foshan Guangzheng Middle School	na	42,000	na

Source: Company data

**Figure 2: Current student number and expected maximum capacity of existing schools**

School/location	Year of opening	Student number in	Estimated capacity	Expected max. capacity	Heavy-asset
		2018/19	in 2018/19	capacity	
Dongguan Guangming Secondary and Primary Schools	2003	17,358	18,300	18,300	Y
Dongguan Guangzheng Preparatory School	2013	12,645	15,000	18,000	Y
Huizhou Guangzheng Preparatory School	2014	8,413	8,500	10,500	Y
Panjin Guangzheng Preparatory School	2014	3,119	4,000	6,200	Y
Weifang Guangzheng Preparatory School	2016	2,133	4,000	8,000	Y
Jieyang, Guangdong	2017	5,375	7,000	18,000	Y
Weifang Weizhou School	2017	2,318	2,200	2,200	Y
Guang'an, Sichuan	2018	159	1,000	9,280	Y
Zhang Pu Longcheng Schools	2018	2,900	3,000	3,500	Y
<b>Total</b>		<b>54,420</b>	<b>63,000</b>	<b>93,980</b>	

Source: Company data, CMBIS

**Figure 3: New projects provide at least 35,390 student capacity**

Location	Expected year of opening	Target max. capacity
	opening	capacity
Yunfu, Guangdong	2019	10,680
Foshan, Guangdong	2019	9,210
Chaozhou, Guangdong	TBC	8,000
Jiangmen, Guangdong	TBC	7,500
Guangzhou, Guangdong	TBC	TBC
Zhaoqing, Guangdong	TBC	TBC
<b>Total</b>		<b>35,390</b>

Source: Company data, CMBIS

**Figure 4: 12% CAGR of student enrolment in FY20-21E**

School year	2016/17	2017/18	2018/19	2019/20E	2020/21E	2-yr CAGR
Dongguan Guangming Secondary and Primary Schools	16,483	16,477	17,358	17,358	17,957	2%
Dongguan Guangzheng Preparatory School	9,094	10,620	12,645	14,921	16,861	15%
Huizhou Guangzheng Preparatory School	3,903	6,011	8,413	10,000	10,450	11%
Panjin Guangzheng Preparatory School	1,590	2,170	3,119	3,919	4,719	23%
Weifang Guangzheng Preparatory School	718	1,401	2,133	2,033	2,333	5%
Jieyang School		4,501	5,375	5,100	5,500	1%
Weifang Weizhou School		2,050	2,318	2,318	2,318	0%
Guang'an Guangzheng Preparatory School			159	400	750	117%
Zhang Pu Longcheng Scholls			2,900	2,970	2,970	1%
Yunfu School				550	1,350	na
Foshan School				47	700	na
Bazhong School				500	1,050	na
Kaiping School					700	na
Chaozhou School					700	na
<b>Total</b>	<b>31,788</b>	<b>43,230</b>	<b>54,420</b>	<b>60,116</b>	<b>68,358</b>	<b>12%</b>

Source: Company data, CMBIS estimates

**Figure 5: P/E band**

Source: Bloomberg, Company data, CMBIS estimates

Figure 6: Key assumptions

Year-end Aug 31 (RMB mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Total revenue</b>	<b>979</b>	<b>1,247</b>	<b>1,746</b>	<b>2,068</b>	<b>2,546</b>
growth %	39.7%	27.3%	40.1%	18.4%	23.1%
<b>Tuition and boarding fees</b>	<b>671</b>	<b>841</b>	<b>1,165</b>	<b>1,362</b>	<b>1,702</b>
growth %	22.0%	25.3%	38.4%	16.9%	25.0%
<b>Others</b>	<b>308</b>	<b>406</b>	<b>582</b>	<b>707</b>	<b>844</b>
growth %	104.5%	31.7%	43.4%	21.5%	19.4%
Gross profit margin	45.9%	43.7%	45.5%	45.2%	46.6%
Selling expenses ratio	1.7%	1.6%	1.7%	1.5%	1.4%
Administrative expenses ratio	12.8%	17.7%	15.9%	15.3%	14.6%
Operating profit margin	29.8%	28.9%	31.5%	29.4%	31.5%
Effective tax rate	25.9%	11.1%	14.5%	14.5%	14.5%
<b>Net profit</b>	<b>200</b>	<b>310</b>	<b>418</b>	<b>477</b>	<b>645</b>
growth %	29.7%	55.0%	34.7%	14.0%	35.2%
Payout ratio	41.0%	43.5%	43.5%	43.5%	43.5%
Average tuition and boarding fee (RMB)	21,114	19,893	21,402	22,649	24,905
growth %	6.1%	-5.8%	10.0%	5.8%	10.0%
Student enrollment	31,788	43,230	54,420	60,116	68,358
growth %	15.0%	36.0%	25.9%	10.5%	13.7%
Utilization rate	95.9%	86.8%	86.4%	83.5%	82.2%

Source: Company data, CMBIS estimates

Figure 71: Peers valuation table

		Mkt Cap			Year	P/E (x)			EV/EBITDA		Adj. net profit growth (%)			EPS growth (%)			PEG (x)		Revenue growth (%)		
	Ticker	(US\$ m)	Cnrcy	Price	end	FY1	FY2	FY3	FY1	FY2	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY1	FY2	FY3	
K12 tutoring services providers																					
New Oriental Education	EDU US	17,896	USD	112.77	May-19	33.4	25.3	20.1	24.8	18.4	31	32	28	31	32	26	1.16	28	25	22	
TAL Education	TAL US	21,125	USD	35.70	Feb-19	50.9	32.9	23.3	40.2	26.5	(9)	61	44	(5)	55	41	1.06	35	34	33	
Onesmart Education	ONE US	1,193	USD	7.43	Aug-18	22.8	16.9	12.6	14.5	10.3	54	35	36	na	34	35	0.66	40	34	26	
Beststudy Education	3978 HK	194	HKD	1.79	Dec-18	9.3	7.1	5.5	5.0	4.0	156	26	27	na	32	30	0.30	25	23	21	
Average						29.1	20.6	15.4	21.1	14.8	58	39	34	13	38	33	0.80	32	29	25	
Non-formal vocational education services provider																					
China East Education	667 HK	3,874	HKD	13.90	Dec-18	29.7	23.4	19.1	14.9	10.9	67	27	20	na	27	20	1.26	25	20	18	
K12 education services providers																					
Wisdom Education	6068 HK	911	HKD	3.49	Aug-18	15.5	13.7	10.0	10.6	9.0	35	14	35	33	14	33	0.67	40	18	23	
Tianli Education	1773 HK	834	HKD	3.15	Dec-18	21.5	16.4	13.0	16.2	11.5	28	37	32	na	32	26	0.75	36	36	34	
Maple Leaf	1317 HK	1,020	HKD	2.67	Aug-18	11.3	9.5	8.0	9.2	7.8	18	19	18	13	19	19	0.60	22	19	18	
Bright Scholar	BEDU US	1,096	USD	8.80	Aug-18	21.2	16.8	16.5	10.8	8.8	42	33	15	47	26	2	1.57	40	35	13	
Virscend Education	1565 HK	859	HKD	2.18	Dec-18	12.8	9.4	7.1	12.4	9.5	20	52	32	29	35	33	0.37	28	27	25	
Average						16.5	13.1	10.9	11.9	9.3	28	31	27	30	25	23	0.79	33	27	23	
Higher Education services providers																					
China Education	839 HK	2,886	HKD	11.20	Aug-18	27.1	22.0	18.4	18.8	15.2	na	22	20	na	23	20	1.26	na	21	13	
Yuhua Education	6169 HK	1,802	HKD	4.30	Aug-18	18.2	14.7	12.7	12.5	9.9	19	28	15	13	23	16	0.92	38	29	8	
Hope Education	1765 HK	1,174	HKD	1.38	Dec-18	17.4	12.6	9.9	9.9	6.8	50	38	25	28	38	25	0.55	29	34	15	
Minsheng Education	1569 HK	753	HKD	1.47	Dec-18	13.0	10.7	9.0	9.7	8.0	22	18	19	22	21	18	0.65	58	23	16	
Kepei Education	1890 HK	1,062	HKD	4.16	Dec-18	17.5	14.8	12.8	13.0	11.1	24	19	16	(6)	18	16	1.03	23	18	15	
Xinhua Education	2779 HK	573	HKD	2.79	Dec-18	14.4	9.9	8.3	11.6	5.5	12	17	16	1	45	18	0.47	18	18	15	
New Higher Education	2001 HK	680	HKD	3.46	Dec-18	12.2	9.6	8.2	10.3	8.6	32	27	17	29	27	18	0.55	89	25	14	
Chunlai Education	1969 HK	246	HKD	1.61	Aug-18	12.2	8.1	6.6	9.2	6.8	(4)	54	24	(14)	50	22	0.34	15	33	13	
Average						16.5	12.8	10.7	11.9	9.0	22	28	19	10	31	19	0.72	39	25	14	
Education sector average						19.5	14.7	11.9	14.1	10.4	33	31	25	17	31	23	0.76	35	27	19	

Source: Bloomberg estimates, CMBIS estimates

**Figure 8: Earnings revision**

US\$ mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	1,746	2,068	2,546	1,731	2,122	2,604	1%	-3%	-2%
Gross Profit	795	935	1,186	786	980	1,225	1%	-4%	-3%
Operating Profit	550	609	802	545	649	840	1%	-6%	-4%
Net profit	418	477	645	414	508	673	1%	-6%	-4%
Gross Margin	45.5%	45.2%	46.6%	45.4%	46.1%	47.0%	+0.1ppt	-0.9ppt	-0.4ppt
Operating Margin	31.5%	29.4%	31.5%	31.5%	30.6%	32.3%	flat	-1.2ppt	-0.8ppt
Net Margin	23.9%	23.1%	25.3%	23.9%	23.9%	25.8%	flat	-0.8ppt	-0.5ppt

Source: CMBIS estimates

**Figure 9: CMBI estimates vs consensus**

US\$ mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	1,746	2,068	2,546	1,697	2,056	2,438	3%	1%	4%
Gross Profit	795	935	1,186	790	958	1,139	1%	-2%	4%
Operating Profit	550	609	802	509	623	753	8%	-2%	6%
Net profit	418	477	645	414	511	630	1%	-7%	2%
Gross Margin	45.5%	45.2%	46.6%	46.6%	46.6%	46.7%	-1.1ppt	-1.4ppt	-0.1ppt
Operating Margin	31.5%	29.4%	31.5%	30.0%	30.3%	30.9%	+1.5ppt	-0.9ppt	+0.6ppt
Net Margin	23.9%	23.1%	25.3%	24.4%	24.9%	25.8%	-0.5ppt	-1.8ppt	-0.5ppt

Source: Bloomberg estimates, CMBIS estimates

## Financial Summary

### Income statement

YE 31 Aug (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>979</b>	<b>1,247</b>	<b>1,746</b>	<b>2,068</b>	<b>2,546</b>
Tuition & boarding fees	671	841	1,165	1,362	1,702
Ancillary services	308	406	582	707	844
Cost of sales	(529)	(702)	(952)	(1,133)	(1,361)
<b>Gross profit</b>	<b>450</b>	<b>545</b>	<b>795</b>	<b>935</b>	<b>1,186</b>
Other income	11	54	39	21	23
Other gains and losses	(27)	2	24	1	0
Selling expenses	(17)	(19)	(30)	(31)	(36)
Administrative expenses	(126)	(221)	(278)	(317)	(371)
<b>EBIT</b>	<b>291</b>	<b>360</b>	<b>550</b>	<b>609</b>	<b>802</b>
Finance costs, net	(11)	(11)	(68)	(61)	(50)
Listing expenses	(10)	0	0	0	0
FV change of inv. prop.	0	(3)	0	0	0
Pre-tax profit	270	346	482	548	752
Income tax	(70)	(38)	(70)	(80)	(109)
Less: Minority interests	(0)	(3)	(6)	(8)	(2)
<b>Net profit</b>	<b>200</b>	<b>310</b>	<b>418</b>	<b>477</b>	<b>645</b>

### Cash flow summary

YE 31 Aug (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Profit before tax</b>	<b>270</b>	<b>346</b>	<b>482</b>	<b>548</b>	<b>752</b>
Depreciation and amortization	73	106	141	173	191
Change in working capital	17	191	300	303	271
Others	36	(19)	56	19	(1)
<b>Net cash from operating</b>	<b>396</b>	<b>623</b>	<b>978</b>	<b>1,043</b>	<b>1,212</b>
Capex & investments	(531)	(743)	(1,035)	(750)	(750)
Acquisitions	0	(267)	(183)	0	0
Others	29	(338)	181	49	19
<b>Net cash from investing</b>	<b>(503)</b>	<b>(1,349)</b>	<b>(1,037)</b>	<b>(701)</b>	<b>(731)</b>
Equity raised	808	3	0	0	0
Change of borrowings	(363)	1,485	0	(176)	100
Dividend paid	(49)	(122)	(159)	(193)	(242)
Others	1	(118)	(88)	(80)	(69)
<b>Net cash from financing</b>	<b>397</b>	<b>1,248</b>	<b>(247)</b>	<b>(449)</b>	<b>(211)</b>
<b>Net change in cash</b>	<b>290</b>	<b>522</b>	<b>(306)</b>	<b>(107)</b>	<b>270</b>
Cash at the beginning of the year	104	378	911	605	499
Exchange difference	(16)	11	0	0	0
<b>Cash at the end of the year</b>	<b>378</b>	<b>911</b>	<b>605</b>	<b>499</b>	<b>769</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>2,728</b>	<b>4,003</b>	<b>4,662</b>	<b>5,239</b>	<b>5,798</b>
PPE	1,779	2,492	3,125	3,728	4,311
Prepaid lease payments	299	502	769	751	733
Deposits	163	520	578	578	578
Others	486	489	189	181	176
<b>Current assets</b>	<b>604</b>	<b>1,468</b>	<b>1,438</b>	<b>1,345</b>	<b>1,679</b>
Cash	378	911	605	499	769
Account receivable	178	282	550	550	550
Prepayments	26	162	227	269	331
Others	23	113	56	27	29
<b>Current liabilities</b>	<b>1,094</b>	<b>1,643</b>	<b>2,433</b>	<b>2,375</b>	<b>2,764</b>
Borrowings	155	282	704	282	282
Contract liabilities	423	617	764	951	1,086
Trade and other payables	393	616	835	994	1,194
Others	122	128	129	147	202
<b>Non-current liabilities</b>	<b>493</b>	<b>1,851</b>	<b>1,429</b>	<b>1,429</b>	<b>1,529</b>
Borrowings	467	1,847	1,425	1,425	1,525
Deferred revenue	14	0	0	0	0
Others	12	4	4	4	4
<b>Total net assets</b>	<b>1,746</b>	<b>1,977</b>	<b>2,238</b>	<b>2,780</b>	<b>3,184</b>
<b>Shareholders' equity</b>	<b>1,746</b>	<b>1,911</b>	<b>2,178</b>	<b>2,728</b>	<b>3,134</b>
<b>Minority Interest</b>	<b>(0)</b>	<b>66</b>	<b>60</b>	<b>52</b>	<b>50</b>

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Tuition & boarding fees	68.5	67.5	66.7	65.8	66.9
Ancillary services	31.5	32.5	33.3	34.2	33.1
<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	45.9	43.7	45.5	45.2	46.6
Operating profit margin	29.8	28.9	31.5	29.4	31.5
Effective tax rate	25.9	11.1	14.5	14.5	14.5
Net profit margin	20.4	24.9	23.9	23.1	25.3
Payout ratio	41.0	43.5	43.5	43.5	43.5
<b>Balance sheet ratios</b>					
Current ratio (x)	0.6	0.9	0.6	0.6	0.6
Asset turnover (x)	0.3	0.2	0.3	0.3	0.3
Net gearing ratio (%)	(8)	47	44	24	15
<b>Returns (%)</b>					
ROAE	15.5	17.0	20.5	19.4	22.0
ROAA	6.9	7.0	7.1	7.4	9.1
<b>Per share</b>					
EPS (RMB)	0.11	0.15	0.20	0.23	0.31
DPS (HK\$)	0.06	0.08	0.10	0.11	0.15
BVPS (RMB)	0.86	0.94	1.06	1.29	1.49

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

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