

Hope Education (1765 HK)

Several positive catalysts in 1-2 years

The Company hosted an investor presentation during its shareholder meeting last Friday. We see several positive catalysts ahead as the progress of independent colleges conversion is earlier than expectation and the Company looks for five acquisitions in 1-2 years. We forecast the Company to deliver 25.4% EPS CAGR in FY21-23E. If these catalysts materialize, the EPS CAGR should be even stronger. Maintain Buy and raise TP from HK\$3.41 to HK\$3.61, still at 25.4x FY21E P/E.

- Conversion of independent colleges.** The Company expects to complete conversion of its four independent colleges by 2021, earlier than previous expectation of each two in 2021 and 2022. In FY20, the Company paid RMB160mn management fees (28% of adj. NP) so the earnings impact by conversion is significant. We estimate conversion of four independent colleges could enhance 18% adj. NP in FY23E.
- M&A pipelines.** The Company had secured certain acquisition targets and plans to acquire three domestic universities and two highly value-for-money vocational colleges in 1-2 years. The Company had RMB3bn cash as at 31 Aug 2020 and received more than RMB1bn tuition fees afterwards. In addition to internal resources, it plans to arrange onshore and offshore loans financing for the acquisitions.
- Strong overseas study demand.** The Company admitted 18,000 students in 2020-21 school year for studying degree and master abroad in future, and targets to admit 30,000 students in 2021-22 school year. This should strongly supply Chinese students to Inti Education in future.
- Four vocational colleges to operate in 2021-22 school year.** The Company will begin to operate Gansu and Hebei colleges in Sep 2021 and operate Jiangxi and Chongqing colleges in Mar 2022. Apart from M&A, the Company also has organic growth drivers.
- Maintain Buy.** We lift our TP from HK\$3.41 to HK\$3.61 due to adjustment of HKD/RMB exchange rate from 0.88 to 0.83. Our TP is still based at 25.4x 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	3,095	3,590
YoY growth (%)	29	NA	57	25	16
Net profit (RMB mn)	490	456	785	1,053	1,278
Adj. net profit (RMB mn)	474	576	859	1,127	1,352
Adj. EPS (RMB)	0.071	0.086	0.119	0.156	0.187
YoY growth (%)	26	NA	39	31	20
Consensus EPS (RMB)	NA	NA	0.114	0.137	0.176
Adj. P/E (x)	32.9	28.0	18.5	14.1	11.8
Yield (%)	1.0	0.3	1.7	2.3	2.7
AROAE (%)	3.4	3.0	2.5	2.2	2.0
Net cash (RMB mn)	255	329	759	947	1,561

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$3.61
(Previous TP)	HK\$3.41
Up/Downside	+36%
Current Price	HK\$2.65

China Education Sector

Albert Yip, CFA
 (852) 3900 0838
 albertyip@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	19,278
Avg 3 mths t/o (HK\$ mn)	63.92
52w High/Low (HK\$)	3.03/ 1.37
Total Issued Shares (mn)	6,736.4

Source: Bloomberg

Shareholding Structure

Credit Suisse Trust	57.86%
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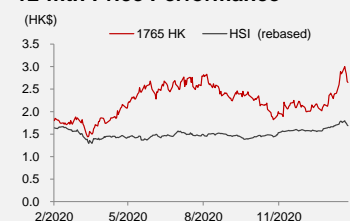
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	32.2%	21.8%
3-mth	41.3%	22.3%
6-mth	3.5%	-10.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: EY

Related Reports

- "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
- "Acquisition of Malaysia's Inti Education" – 3 Mar 2020
- "Reverse roadshow takeaways" – 21 Oct 2019

Figure 1: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	2,468	3,095	3,607	2,525	3,001	3,408	-2%	3%	6%
Gross Profit	1,312	1,684	1,995	1,315	1,589	1,843	0%	6%	8%
Operating Profit	998	1,301	1,568	1,077	1,343	1,741	-7%	-3%	-10%
Net profit	859	1,124	1,358	797	985	1,247	8%	14%	9%
Gross Margin	53.1%	54.4%	55.3%	52.1%	52.9%	54.1%	+1.0ppt	+1.5ppt	+1.2ppt
Operating Margin	40.4%	42.0%	43.5%	42.7%	44.8%	51.1%	-2.3ppt	-2.8ppt	-7.6ppt
Net Margin	34.8%	36.3%	37.7%	31.6%	32.8%	36.6%	+3.2ppt	+3.5ppt	+1.1ppt

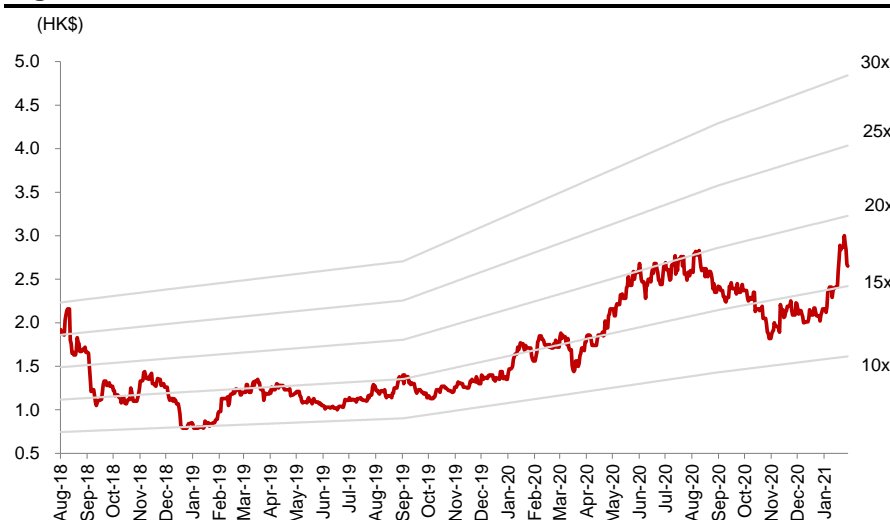
Source: Company data, CMBIS estimates

Figure 2: 9% 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	27,235	4%
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	10,574	4%
College of Science and Technology of Guizhou University *			9,959	10,986	11,425	11,882	3%
Yinchuan schools			15,569	18,622	22,022	25,322	11%
Inti Education				14,478	16,650	18,315	8%
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%
Jiangxi Zhangshu					1,500	3,000	na
Xingtai					1,500	3,000	na
Nanchang school					2,753	4,000	na
Chongqing Zhongxian						1,500	na
Gansu Baiyin						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	225,690	254,769	9%

Source: Company data, CMBIS estimates

*The school is financially consolidated by equity method.

Figure 3: P/E band chart

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Peers valuation table

	Ticker	Rating	Mkt Cap		TP	Year end	P/E (x)			Adj. EPS growth (%)			EPS CAGR (%)		PEG (x)		Revenue growth (%)		
			(US\$ m)	Price			FY1	FY2	FY3	FY1	FY2	FY3	FY1-3	FY1	FY2	FY3	FY1	FY2	FY3
Higher Education services providers																			
China Education	839 HK	NR	4,521	16.30	na	Aug-19	29.8	22.0	17.9	32	26	23	25	0.89	37	40	18		
Yuhua Education	6169 HK	NR	2,943	6.80	na	Aug-19	21.2	14.7	12.7	28	22	15	19	0.78	41	14	11		
Hope Education	1765 HK	Buy	2,486	2.65	3.41	Aug-19	28.0	18.5	14.1	na	46	31	38	0.48	na	57	25		
Kepei Education	1890 HK	NR	1,419	5.46	na	Dec-19	15.1	11.9	10.1	31	27	17	22	0.54	26	37	16		
Cahtay Media	1981 HK	NR	1,460	6.82	na	Dec-19	31.4	21.2	16.6	(9)	48	28	38	0.56	7	47	19		
Edvantage	382 HK	NR	1,202	8.70	na	Aug-19	25.9	17.3	12.5	0	37	39	38	0.45	14	46	34		
New Higher Education	2001 HK	NR	1,055	5.16	na	Aug-19	na	11.2	8.7	na	na	29	na	na	na	na	14		
JH Educational Tech	1935 HK	NR	780	3.78	na	Dec-19	20.9	16.5	14.9	11	27	11	18	0.90	17	20	17		
Minsheng Education	1569 HK	NR	762	1.40	na	Dec-19	15.5	8.5	7.3	(23)	81	17	46	0.19	16	37	13		
Xinhua Education	2779 HK	Buy	469	2.26	2.97	Dec-19	9.6	8.0	7.4	13	12	9	11	0.76	14	16	9		
Huali University	1756 HK	NR	460	2.97	na	Aug-19	9.7	7.1	5.8	41	17	23	20	0.36	13	21	18		
Neusoft Education	9616 HK	NR	442	5.14	na	Dec-19	16.6	12.4	9.8	na	33	27	30	0.41	21	23	19		
Average							20.4	14.1	11.5	14	34	22	28	0.58	20	33	18		
Weighted average							23.4	16.0	12.9										

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	3,095	3,590
Tuition fees	1,093	1,317	2,062	2,625	3,076
Boarding fees	103	102	172	207	237
Others	136	149	234	263	277
Cost of sales	(657)	(791)	(1,157)	(1,411)	(1,605)
Gross profit	675	777	1,312	1,684	1,985
Other income	130	260	187	230	258
Selling expenses	(45)	(61)	(99)	(121)	(133)
Administrative expenses	(152)	(195)	(321)	(390)	(431)
Other expenses	(16)	(52)	(81)	(102)	(118)
EBIT	591	728	998	1,301	1,561
Finance income	94	na	103	107	111
Finance costs	(171)	(209)	(191)	(176)	(170)
Share of JV	5	10	18	21	23
Non-operating items	36	8	10	10	10
Pre-tax profit	556	537	937	1,262	1,535
Income tax	(66)	(81)	(152)	(208)	(256)
Less: Minority interests	0	0	0	0	0
Net profit	490	456	785	1,053	1,278
Adjusted net profit	474	576	859	1,127	1,352

Cash flow summary

YE 31 Dec/Aug (RMB mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Profit before tax	556	166	785	1,053	1,278
Depreciation and amortization	218	178	335	372	401
Change in working capital	(47)	(358)	2,138	502	470
Others	(41)	(23)	(152)	(208)	(256)
Tax paid	12	96	5	210	260
Net cash from operating	697	59	3,112	1,929	2,153
Capex & investments	(279)	(537)	(900)	(900)	(900)
Acquisitions	(447)	(325)		(385)	(93)
Others	(1,139)	921	25	12	2
Net cash from investing	(1,865)	60	(2,111)	(1,273)	(991)
Equity raised	-	1,153	-	-	-
Change of borrowings	313	511	(100)	-	-
Dividend paid	(105)	(152)	(60)	(275)	(360)
Others	(272)	(97)	(208)	(194)	(188)
Net cash from financing	(65)	1,415	(369)	(468)	(547)
Net change in cash	(1,232)	1,533	633	188	614
Cash at the beginning of the year	3,039	1,394	2,894	3,527	3,715
Exchange difference	1,806	2,928	3,527	3,715	4,328
Cash at the end of the year	1,690	2,894	3,527	3,715	4,328

Balance sheet

YE 31 Dec/Aug (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	7,348	8,458	10,476	11,038	11,546
PPE	4,564	5,065	6,649	7,267	7,862
Prepaid lease payments	1,163	1,319	1,251	1,178	1,098
JV	196	196	214	234	258
Others	1,425	1,877	2,361	2,358	2,329
Current assets	3,508	3,958	4,611	4,821	5,459
Cash	1,690	2,894	3,527	3,715	4,328
Prepayments	252	202	222	244	268
Others	1,565	847	847	847	847
Current liabilities	3,143	3,368	5,296	5,384	5,719
Contract liabilities	806	404	2,549	2,982	3,366
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	3,284	3,178
Deferred income	1,073	1,253	1,197	1,129	1,050
Borrowings	1,594	1,670	1,770	1,770	1,770
Others	482	439	412	385	358
Total net assets	4,565	5,686	6,411	7,190	8,108
Shareholders' equity	4,562	5,683	6,408	7,187	8,104
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	84.8	85.7
Ancillary services	7.7	6.5	7.0	6.7	6.6
Others	10.2	9.5	9.5	8.5	7.7
Total	100.0	100.0	100.0	100.0	100.0
P&L ratios (%)					
Gross profit margin	50.7	49.6	53.1	54.4	55.3
EBIT margin	44.4	46.4	40.4	42.0	43.5
Effective tax rate	11.8	15.1	16.2	16.5	16.7
Adj. net profit margin	35.6	35.0	34.8	36.4	37.7
Payout ratio	31.7	11.0	32.0	32.0	32.0
Balance sheet ratios					
Current ratio (x)	1.1	1.2	0.9	0.9	1.0
Asset turnover (x)	0.1	0.1	0.2	0.2	0.2
Net cash (RMB mn)	255	329	759	947	1,561
Returns (%)					
Adj. ROAE	10.9	11.5	14.2	16.6	17.7
Adj. ROAA	4.9	3.8	6.2	7.3	8.2
Per share data					
Adj. EPS (RMB)	0.071	0.086	0.119	0.156	0.187
DPS (RMB)	0.023	0.008	0.038	0.050	0.060
BVPS (RMB)	0.684	0.786	0.886	0.993	1.120

Source: Company data, CMBIS estimates

Year-end is changed to Aug from FY20E onwards

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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