

# Wisdom Education (6068 HK)

## Maintain Buy at attractive valuation

2020/21 school year total student enrollment for self-operated schools +12% to around 67,162. The figure was in line but the student mix was less favorable than expected. Dongguan Guangzheng student number just mildly increased due to capacity constraint. Its tuition fee is the second highest among all the schools of the Company. Trading at 9.7x FY21E P/E, the Company's valuation is lower than K12 peers' average of 15.6x. Its 0.4x PEG is far below peers' average of 0.7x. We think the Company's low valuation is attractive and unjustified. The recent share price volatility was due to policy concerns about VIE structure and not-for-profit nature of compulsory education. We believe such concerns have been factored in because they were addressed in the draft for comments version of the Law in Nov 2018. Maintain Buy.

- **Total student enrollment in line.** The Company reported total student enrollment of 71,362 at the commencement of 2020/21 school year. Excluding around 4,200 students from newly managed third-party schools, total student enrollment from self-operated schools rose 12% or increased by 7,046 students to around 67,162, in line with our estimates.
- **But student mix less favorable than expected.** Total student enrollment growth was led by strong growth in Huizhou school. Number of students at Huizhou school almost reached its maximum capacity of 14,000. That said, Dongguan Guangzheng student number only mildly increased due to capacity constraint. The Company has not received fire-fighting check approval from the authority for its newly-built campus buildings, which limits the dormitory capacity. Because tuition fee level of DGGZ is the second highest within the Company, the less favorable student mix slightly lowers ASP by 2%. We also trim FY22E total student enrollment by 2%.
- **School management services.** The Company (through WFOE) entered into management services agreement with around 10 kindergartens and primary schools in Dongguan. It will receive annual fixed fee from each managed school at around RMB1,000 per student for provision of teachers training, student admission training, school decoration advice. The Company targets 30% student growth in FY22E.
- **Maintain Buy.** We lower FY21/22E NP by 3%/7% as we trim revenue by 1%/3%. Our estimate for FY19-22E EPS CAGR is changed from 28% to 25% following earnings revision and dilution from share placement. Our TP is revised down from HK\$6.38 to HK\$5.61, representing on 17.4x FY21E P/E and still at 0.7x PEG. **Catalysts:** (1) gov't approval of vocational college project; (2) removal of policy overhang. **Risks:** (1) policy risks; (2) surge of teachers' costs.

### Earnings Summary

| (YE 31 Aug)         | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------|-------|-------|-------|-------|-------|
| Revenue (RMB mn)    | 1,247 | 1,682 | 1,799 | 2,358 | 2,749 |
| YoY growth (%)      | 27    | 35    | 7     | 31    | 17    |
| Net profit (RMB mn) | 310   | 359   | 465   | 616   | 728   |
| EPS (RMB)           | 0.152 | 0.172 | 0.227 | 0.283 | 0.334 |
| YoY growth (%)      | 38    | 13    | 32    | 25    | 18    |
| Consensus EPS (RMB) | N/A   | N/A   | 0.237 | 0.289 | 0.341 |
| P/E (x)             | 17.2  | 16.4  | 12.4  | 9.7   | 8.2   |
| Yield (%)           | 2.5   | 3.1   | 3.0   | 4.1   | 4.9   |
| P/B (x)             | 2.8   | 2.7   | 2.1   | 1.8   | 1.6   |
| Net gearing (%)     | 47    | 66    | 34    | 29    | 26    |

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

|               |           |
|---------------|-----------|
| Target Price  | HK\$5.61  |
| (Previous TP  | HK\$6.38) |
| Up/Downside   | +79%      |
| Current Price | HK\$3.14  |

### China Education Sector

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

### Stock Data

|                          |            |
|--------------------------|------------|
| Mkt Cap (HK\$ mn)        | 6,836      |
| Avg 3 mths t/o (HK\$ mn) | 33.03      |
| 52w High/Low (HK\$)      | 4.80/ 2.10 |
| Total Issued Shares (mn) | 2,047.2    |
| Source: Bloomberg        |            |

### Shareholding Structure

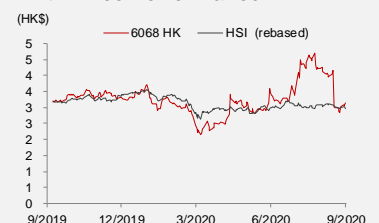
|                |        |
|----------------|--------|
| Mr. Liu Xuebin | 42.85% |
| Ms. Li Suwen   | 26.29% |
| Source: HKEx   |        |

### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -27.0%   | -25.6%   |
| 3-mth | -14.2%   | -15.5%   |
| 6-mth | 23.1%    | 14.8%    |

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: Deloitte

### Related Reports

1. "Wisdom Education – Tuition fees increase beat; lift TP to HK\$6.38" – 23 Jul 2020
2. "Wisdom Education – Explore new business opportunities" – 29 Apr 2020
3. "Wisdom Education – Explore asset-light model to enhance return" – 27 Nov 2019
4. "Wisdom Education – Student enrollment missed but organic growth still strong" – 9 Sep 2019

Figure 1: Earnings revision

| US\$ mn          | New   |       |       | Old   |       |       | Diff (%) |         |         |
|------------------|-------|-------|-------|-------|-------|-------|----------|---------|---------|
|                  | FY19E | FY20E | FY21E | FY19E | FY20E | FY21E | FY19E    | FY20E   | FY21E   |
| Revenue          | 1,799 | 2,358 | 2,749 | 1,799 | 2,381 | 2,846 | 0%       | -1%     | -3%     |
| Gross Profit     | 807   | 1,109 | 1,298 | 807   | 1,136 | 1,364 | 0%       | -2%     | -5%     |
| Operating Profit | 631   | 792   | 924   | 631   | 818   | 989   | 0%       | -3%     | -7%     |
| Net profit       | 466   | 616   | 728   | 465   | 637   | 782   | 0%       | -3%     | -7%     |
| Gross Margin     | 44.8% | 47.0% | 47.2% | 44.8% | 47.7% | 47.9% | flat     | -0.7ppt | -0.7ppt |
| Operating Margin | 35.1% | 33.6% | 33.6% | 35.1% | 34.3% | 34.8% | flat     | -0.7ppt | -1.2ppt |
| Net Margin       | 25.9% | 26.1% | 26.5% | 25.8% | 26.8% | 27.5% | +0.1ppt  | -0.7ppt | -1.0ppt |

Source: CMBIS estimates

Figure 2: CMBIS estimates vs consensus

| US\$ mn          | CMBIS |       |       | Consensus |       |       | Diff (%) |         |         |
|------------------|-------|-------|-------|-----------|-------|-------|----------|---------|---------|
|                  | FY19E | FY20E | FY21E | FY19E     | FY20E | FY21E | FY19E    | FY20E   | FY21E   |
| Revenue          | 1,799 | 2,358 | 2,749 | 1,889     | 2,340 | 2,711 | -5%      | 1%      | 1%      |
| Gross Profit     | 807   | 1,109 | 1,298 | 858       | 1,100 | 1,280 | -6%      | 1%      | 1%      |
| Operating Profit | 631   | 792   | 924   | 619       | 757   | 891   | 2%       | 5%      | 4%      |
| Net profit       | 466   | 616   | 728   | 491       | 606   | 715   | -5%      | 2%      | 2%      |
| Gross Margin     | 44.8% | 47.0% | 47.2% | 45.4%     | 47.0% | 47.2% | -0.6ppt  | flat    | flat    |
| Operating Margin | 35.1% | 33.6% | 33.6% | 32.8%     | 32.4% | 32.9% | +2.3ppt  | +1.2ppt | +0.7ppt |
| Net Margin       | 25.9% | 26.1% | 26.5% | 26.0%     | 25.9% | 26.4% | -0.1ppt  | +0.2ppt | +0.1ppt |

Source: Bloomberg estimates, CMBIS estimates

Figure 3: Peers valuation table

|   | Ticker                          | Rating  | Mkt Cap<br>(US\$ m) | Price  | Year<br>end | FY1    | FY2  | FY3  | P/E (x) | FY1   | FY2 | FY3 | Adj. EPS growth (%) | FY1  | FY2  | FY3 | 2-yr PEG (x) | FY1 | FY1 | FY1 | FY2 | FY3 | Revenue growth (%) | FY1 | FY2 | FY3 |
|---|---------------------------------|---------|---------------------|--------|-------------|--------|------|------|---------|-------|-----|-----|---------------------|------|------|-----|--------------|-----|-----|-----|-----|-----|--------------------|-----|-----|-----|
| K12 tutoring services providers                   |                                 |         |                     |        |             |        |      |      |         |       |     |     |                     |      |      |     |              |     |     |     |     |     |                    |     |     |     |
|   | New Oriental Education          | EDU US  | NR                  | 24,567 | 154.40      | May-20 | 41.8 | 29.8 | 22.8    | 21    | 41  | 30  | 1.18                | 0.98 | 17   | 32  | 29           |     |     |     |     |     |                    |     |     |     |
|   | TAL Education                   | TAL US  | NR                  | 45,175 | 75.25       | Feb-20 | 91.5 | 52.3 | 35.9    | 8,120 | 75  | 46  | 1.53                | 0.11 | 33   | 44  | 37           |     |     |     |     |     |                    |     |     |     |
|   | Onesmart Education              | ONE US  | NR                  | 703    | 4.37        | Aug-19 | na   | 13.6 | 9.3     | (238) | na  | 46  | na                  | 0.06 | (15) | 47  | 20           |     |     |     |     |     |                    |     |     |     |
|   | Scholar Education               | 1769 HK | NR                  | 1,699  | 23.70       | Dec-19 | 70.2 | 48.7 | 36.5    | 8     | 44  | 33  | 1.82                | 1.77 | 27   | 43  | 39           |     |     |     |     |     |                    |     |     |     |
|   | Beststudy Education             | 3978 HK | Buy                 | 368    | 3.36        | Dec-19 | 18.1 | 11.6 | 9.3     | (14)  | 55  | 25  | 0.46                | 0.63 | (2)  | 30  | 20           |     |     |     |     |     |                    |     |     |     |
|   | Average                         |         |                     |        |             |        | 55.4 | 31.2 | 22.8    | 1,579 | 54  | 36  | 1.25                | 0.71 | 12   | 39  | 29           |     |     |     |     |     |                    |     |     |     |
| Non-formal vocational education services provider |                                 |         |                     |        |             |        |      |      |         |       |     |     |                     |      |      |     |              |     |     |     |     |     |                    |     |     |     |
|   | China East Education            | 667 HK  | Buy                 | 4,919  | 17.38       | Dec-19 | 35.6 | 26.1 | 22.7    | 7     | 36  | 15  | 1.41                | 1.40 | 4    | 25  | 14           |     |     |     |     |     |                    |     |     |     |
| K12 education services providers                  |                                 |         |                     |        |             |        |      |      |         |       |     |     |                     |      |      |     |              |     |     |     |     |     |                    |     |     |     |
|   | Tianli Education                | 1773 HK | NR                  | 2,161  | 8.07        | Dec-19 | 38.5 | 29.7 | 22.2    | 46    | 30  | 34  | 1.22                | 0.82 | 32   | 33  | 28           |     |     |     |     |     |                    |     |     |     |
|   | Maple Leaf                      | 1317 HK | NR                  | 935    | 2.42        | Aug-19 | 10.1 | 8.2  | 7.3     | (5)   | 22  | 12  | 0.58                | 0.89 | 6    | 30  | 12           |     |     |     |     |     |                    |     |     |     |
|   | Bright Scholar                  | BEDU US | NR                  | 832    | 6.92        | Aug-19 | 17.2 | 12.0 | 10.4    | 5     | 44  | 15  | 0.60                | 0.59 | 33   | 23  | 11           |     |     |     |     |     |                    |     |     |     |
|   | Virscent Education              | 1565 HK | NR                  | 957    | 2.40        | Dec-19 | 18.2 | 12.3 | 9.8     | (12)  | 48  | 26  | 1.27                | 0.68 | 20   | 25  | 19           |     |     |     |     |     |                    |     |     |     |
|   | Wisdom Education                | 6068 HK | Buy                 | 882    | 3.14        | Aug-19 | 12.4 | 9.7  | 8.2     | 32    | 25  | 18  | 0.58                | 0.39 | 7    | 31  | 17           |     |     |     |     |     |                    |     |     |     |
|   | Average                         |         |                     |        |             |        | 19.3 | 14.4 | 11.6    | 13    | 34  | 21  | 0.85                | 0.67 | 20   | 28  | 17           |     |     |     |     |     |                    |     |     |     |
|   | Sector average excluding Wisdom |         |                     |        |             |        | 21.0 | 15.6 | 12.4    | 9     | 36  | 22  | 0.92                | 0.74 | 23   | 28  | 18           |     |     |     |     |     |                    |     |     |     |
| Higher Education services providers               |                                 |         |                     |        |             |        |      |      |         |       |     |     |                     |      |      |     |              |     |     |     |     |     |                    |     |     |     |
|   | China Education                 | 839 HK  | NR                  | 3,951  | 14.24       | Aug-19 | 27.9 | 21.2 | 17.3    | 21    | 32  | 23  | 1.03                | 0.78 | 36   | 33  | 17           |     |     |     |     |     |                    |     |     |     |
|   | Yuhua Education                 | 6169 HK | NR                  | 2,887  | 6.70        | Aug-19 | 22.5 | 15.9 | 13.9    | 6     | 42  | 14  | 0.83                | 0.58 | 44   | 13  | 8            |     |     |     |     |     |                    |     |     |     |
|   | Hope Education                  | 1765 HK | Buy                 | 2,239  | 2.40        | Aug-19 | 24.6 | 17.8 | 14.0    | na    | 38  | 28  | 0.75                | 0.55 | na   | 39  | 27           |     |     |     |     |     |                    |     |     |     |
|   | Kepei Education                 | 1890 HK | NR                  | 1,638  | 6.30        | Dec-19 | 18.0 | 14.6 | 12.5    | 34    | 23  | 17  | 0.89                | 0.72 | 29   | 29  | 14           |     |     |     |     |     |                    |     |     |     |
|   | New Higher Education            | 2001 HK | NR                  | 1,068  | 5.37        | Dec-19 | 13.5 | 11.0 | 9.2     | 36    | 22  | 19  | 0.64                | 0.53 | 28   | 18  | 15           |     |     |     |     |     |                    |     |     |     |
|   | Cahtay Media                    | 1981 HK | NR                  | 1,043  | 4.87        | Dec-19 | 24.7 | 16.6 | 12.9    | (13)  | 49  | 29  | 0.64                | 0.43 | 9    | 34  | 21           |     |     |     |     |     |                    |     |     |     |
|   | Edvantage                       | 382 HK  | NR                  | 791    | 6.02        | Aug-19 | 17.8 | 13.9 | 11.3    | (2)   | 28  | 23  | 0.70                | 0.55 | 16   | 17  | 20           |     |     |     |     |     |                    |     |     |     |
|   | Minsheng Education              | 1569 HK | NR                  | 626    | 1.15        | Dec-19 | 9.3  | 7.9  | 7.0     | 10    | 18  | 13  | 0.62                | 0.52 | 17   | 14  | 11           |     |     |     |     |     |                    |     |     |     |
|   | Xinhua Education                | 2779 HK | Buy                 | 517    | 2.49        | Dec-19 | 11.2 | 10.1 | 9.3     | 8     | 11  | 9   | 1.12                | 1.01 | 14   | 11  | 9            |     |     |     |     |     |                    |     |     |     |
|   | Huali University                | 1756 HK | NR                  | 463    | 2.99        | Aug-19 | 10.2 | 8.2  | 6.5     | 21    | 25  | 25  | 0.41                | 0.32 | 18   | 18  | 18           |     |     |     |     |     |                    |     |     |     |
|   | Average                         |         |                     |        |             |        | 18.0 | 13.7 | 11.4    | 13    | 29  | 20  | 0.76                | 0.60 | 24   | 23  | 16           |     |     |     |     |     |                    |     |     |     |

Source: Bloomberg estimates, CMBIS estimates

**Figure 4: 2019/20 school year tuition and boarding fees changes**

| Schools                                   | Annual tuition and boarding fee |                     |            |
|---|---------------------------------|---------------------|------------|
|   | 2018/19 school year             | 2019/20 school year | Change (%) |
| 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, CMBIS estimates

**Figure 5: Current student number and expected maximum capacity of existing schools**

| School/location                                  | Year of opening | Student number in 2018/19 | Student number in 2019/20 | Growth (%) | Estimated capacity in 2018/19 | Expected max. capacity | Heavy-asset |
|--|-----------------|---------------------------|---------------------------|------------|-------------------------------|------------------------|-------------|
|  |                 |                           |                           |            |                               |                        |             |
| Dongguan Guangming Secondary and Primary Schools | 2003            | 17,358                    | 17,623                    | 2%         | 18,300                        | 18,300                 | Y           |
| Dongguan Guangzheng Preparatory School           | 2013            | 12,645                    | 14,773                    | 17%        | 17,000                        | 20,000                 | Y           |
| Huizhou Guangzheng Preparatory School            | 2014            | 8,413                     | 9,694                     | 15%        | 10,500                        | 12,000                 | Y           |
| Panjin Guangzheng Preparatory School             | 2014            | 3,119                     | 4,070                     | 30%        | 4,000                         | 6,200                  | Y           |
| Weifang Guangzheng Preparatory School            | 2016            | 2,133                     | 2,522                     | 18%        | 4,000                         | 8,000                  | Y           |
| Jieyang, Guangdong                               | 2017            | 5,375                     | 4,769                     | -11%       | 7,000                         | 18,000                 | Y           |
| Weifang Weizhou School                           | 2017            | 2,318                     | 2,195                     | -5%        | 2,200                         | 2,200                  | Y           |
| Guang'an, Sichuan                                | 2018            | 159                       | 598                       | 276%       | 1,000                         | 9,280                  | Y           |
| Zhang Pu Longcheng Schools                       | 2018            | 2,900                     | 2,894                     | 0%         | 3,000                         | 3,500                  | Y           |
| Bazhong Guangzheng Preparatory School            | 2019            | na                        | 488                       | na         | 1,500                         | 10,000                 | Y           |
| Yunfu Guangming Foreign Language School          | 2019            | na                        | 445                       | na         | 1,500                         | 10,680                 | Y           |
| Shunde Guangzheng Preparatory School             | 2019            | na                        | 45                        | na         | na                            | 9,210                  | Y           |
| <b>Total</b>                                     |                 | <b>54,420</b>             | <b>60,116</b>             | <b>10%</b> | <b>70,000</b>                 | <b>127,370</b>         |             |

Source: Company data, CMBIS estimates

**Figure 6: New projects provide at least 15,500 student capacity**

| Location                               | Expected year of opening | Target max. capacity |
|--|--------------------------|----------------------|
| Dongguan/Foshan (light asset projects) | Sep-20                   | TBC                  |
| Chaozhou, Guangdong                    | Sep-21                   | 8,000                |
| Jiangmen, Guangdong                    | Sep-21                   | 7,500                |
| Guangzhou, Guangdong                   | TBC                      | TBC                  |
| Zhaoqing, Guangdong                    | TBC                      | TBC                  |
| <b>Total</b>                           |                          | <b>15,500</b>        |

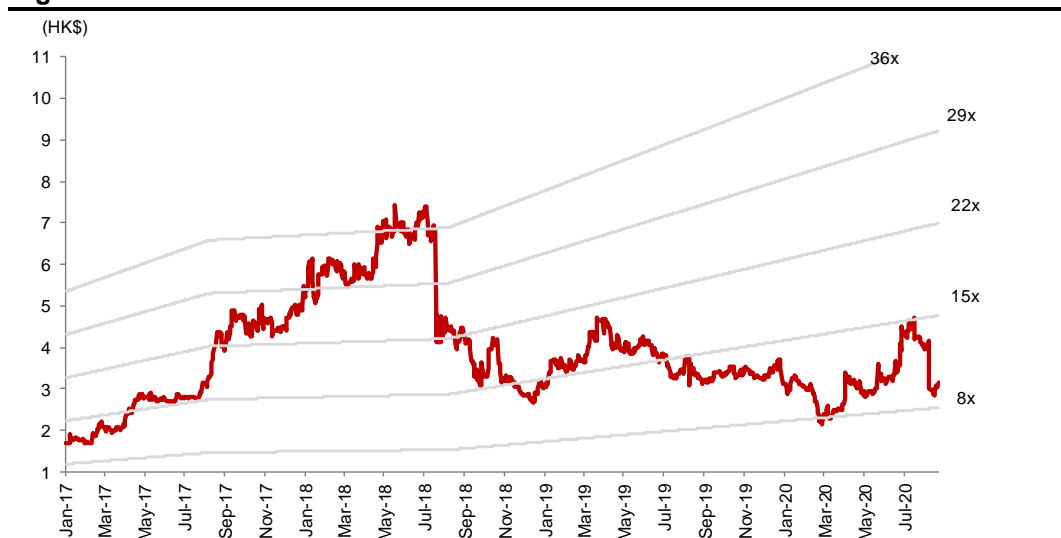
Source: Company data, CMBIS

Figure 7: 11% CAGR of student enrolment from FY20E to FY22E

| School year                                      | 2016/17       | 2017/18       | 2018/19       | 2019/20       | 2020/21E      | 2021/22E      | 2-yr CAGR  |
|--|---------------|---------------|---------------|---------------|---------------|---------------|------------|
| Dongguan Guangming Secondary and Primary Schools | 16,483        | 16,477        | 17,358        | 17,623        | 17,697        | 17,747        | 0%         |
| Dongguan Guangzheng Preparatory School           | 9,094         | 10,620        | 12,645        | 14,773        | 14,843        | 16,476        | 6%         |
| Huizhou Guangzheng Preparatory School            | 3,903         | 6,011         | 8,413         | 9,694         | 13,640        | 13,840        | 19%        |
| Panjin Guangzheng Preparatory School             | 1,590         | 2,170         | 3,119         | 4,070         | 4,300         | 4,700         | 7%         |
| Weifang Guangzheng Preparatory School            | 718           | 1,401         | 2,133         | 2,522         | 2,975         | 3,375         | 16%        |
| Jieyang School                                   |               | 4,501         | 5,375         | 4,769         | 4,439         | 4,589         | -2%        |
| Weifang Weizhou School                           |               | 2,050         | 2,318         | 2,195         | 2,125         | 2,125         | -2%        |
| Guang'an Guangzheng Preparatory School           |               |               | 159           | 598           | 1,128         | 1,678         | 68%        |
| Zhang Pu Longcheng Scholls                       |               |               | 2,900         | 2,894         | 3,440         | 3,440         | 9%         |
| Yunfu School                                     |               |               |               | 445           | 1,115         | 1,815         | 102%       |
| Foshan School                                    |               |               |               | 45            | 430           | 850           | 335%       |
| Bazhong School                                   |               |               |               | 488           | 1,030         | 1,600         | 81%        |
| 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>67,162</b> | <b>73,635</b> | <b>11%</b> |

Source: Company data, CMBIS estimates

Figure 8: P/E band



Source: Bloomberg, Company data, CMBIS estimates

**Figure 9: Key assumptions**

| Year-end Aug 31 (RMB mn)               | FY18         | FY19         | FY20E        | FY21E        | FY22E        |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Total revenue</b>                   | <b>1,247</b> | <b>1,682</b> | <b>1,799</b> | <b>2,358</b> | <b>2,749</b> |
| <i>growth %</i>                        | 27.3%        | 34.9%        | 7.0%         | 31.1%        | 16.5%        |
| <i>Tuition and boarding fees</i>       | 841          | 1,145        | 1,308        | 1,668        | 1,969        |
| <i>growth %</i>                        | 25.3%        | 36.2%        | 14.2%        | 27.6%        | 18.0%        |
| <i>Others</i>                          | 406          | 536          | 492          | 690          | 780          |
| <i>growth %</i>                        | 31.7%        | 32.1%        | -8.3%        | 40.5%        | 13.0%        |
| Gross profit margin                    | 43.7%        | 44.1%        | 44.8%        | 47.0%        | 47.2%        |
| Selling expenses ratio                 | 1.6%         | 1.5%         | 1.2%         | 1.1%         | 1.1%         |
| Administrative expenses ratio          | 17.7%        | 15.0%        | 14.8%        | 14.1%        | 14.1%        |
| Operating profit margin                | 28.9%        | 29.5%        | 35.1%        | 33.6%        | 33.6%        |
| Effective tax rate                     | 11.1%        | 13.6%        | 16.0%        | 14.0%        | 14.0%        |
| <b>Net profit</b>                      | <b>310</b>   | <b>359</b>   | <b>466</b>   | <b>616</b>   | <b>728</b>   |
| <i>growth %</i>                        | 55.0%        | 15.8%        | 29.5%        | 32.3%        | 18.1%        |
| Payout ratio                           | 43.5%        | 39.4%        | 40.0%        | 40.0%        | 40.0%        |
| Average tuition and boarding fee (RMB) | 19,893       | 21,049       | 21,754       | 24,837       | 26,735       |
| <i>growth %</i>                        | -5.8%        | 8.2%         | 3.4%         | 14.2%        | 7.6%         |
| Student enrollment                     | 43,230       | 54,420       | 60,116       | 67,162       | 73,635       |
| <i>growth %</i>                        | 36.0%        | 25.9%        | 10.5%        | 11.7%        | 9.6%         |

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

| YE 31 Aug (RMB mn)       | FY18A        | FY19A        | FY20E        | FY21E        | FY22E        |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>           | <b>1,247</b> | <b>1,682</b> | <b>1,799</b> | <b>2,358</b> | <b>2,749</b> |
| Tuition & boarding fees  | 841          | 1,145        | 1,308        | 1,668        | 1,969        |
| Ancillary services       | 406          | 536          | 492          | 690          | 780          |
| Cost of sales            | (702)        | (940)        | (992)        | (1,249)      | (1,451)      |
| <b>Gross profit</b>      | <b>545</b>   | <b>742</b>   | <b>807</b>   | <b>1,109</b> | <b>1,298</b> |
| Other income             | 54           | 33           | 60           | 30           | 30           |
| Other gains and losses   | 2            | (1)          | 52           | 10           | 15           |
| Selling expenses         | (19)         | (26)         | (22)         | (26)         | (30)         |
| Administrative expenses  | (221)        | (253)        | (266)        | (332)        | (388)        |
| <b>EBIT</b>              | <b>360</b>   | <b>496</b>   | <b>631</b>   | <b>792</b>   | <b>924</b>   |
| Finance costs, net       | (11)         | (87)         | (95)         | (98)         | (104)        |
| Listing expenses         | 0            | 0            | 0            | 0            | 0            |
| FV change of inv. prop.  | (3)          | 1            | 0            | 0            | 0            |
| Pre-tax profit           | 346          | 409          | 536          | 693          | 821          |
| Income tax               | (38)         | (56)         | (86)         | (97)         | (115)        |
| Less: Minority interests | (3)          | (6)          | (15)         | (20)         | (22)         |
| <b>Net profit</b>        | <b>310</b>   | <b>359</b>   | <b>466</b>   | <b>616</b>   | <b>728</b>   |

### Cash flow summary

| YE 31 Aug (RMB mn)                 | FY18A          | FY19A          | FY20E        | FY21E        | FY22E        |
|------------------------------------|----------------|----------------|--------------|--------------|--------------|
| <b>Profit before tax</b>           | <b>346</b>     | <b>409</b>     | <b>536</b>   | <b>719</b>   | <b>886</b>   |
| Depreciation and amortization      | 106            | 149            | 171          | 176          | 193          |
| Change in working capital          | 191            | (1)            | 267          | 245          | 282          |
| Others                             | (19)           | 19             | (49)         | 3            | (41)         |
| <b>Net cash from operating</b>     | <b>623</b>     | <b>577</b>     | <b>926</b>   | <b>1,143</b> | <b>1,320</b> |
| Capex & investments                | (743)          | (904)          | (750)        | (750)        | (750)        |
| Acquisitions                       | (267)          | (70)           | 0            | 0            | 0            |
| Others                             | (338)          | (32)           | 160          | 19           | (81)         |
| <b>Net cash from investing</b>     | <b>(1,349)</b> | <b>(1,006)</b> | <b>(590)</b> | <b>(731)</b> | <b>(831)</b> |
| Equity raised                      | 3              | 3              | 481          | 0            | 0            |
| Change of borrowings               | 1,485          | 462            | (305)        | 100          | 100          |
| Dividend paid                      | (122)          | (155)          | (174)        | (219)        | (283)        |
| Others                             | (118)          | (141)          | (128)        | (133)        | (138)        |
| <b>Net cash from financing</b>     | <b>1,248</b>   | <b>169</b>     | <b>(125)</b> | <b>(251)</b> | <b>(321)</b> |
| <b>Net change in cash</b>          | <b>522</b>     | <b>(260)</b>   | <b>210</b>   | <b>161</b>   | <b>168</b>   |
| Cash at the beginning of the year  | 378            | 911            | 662          | 873          | 1,033        |
| Exchange difference                | 11             | 11             | 0            | 0            | 0            |
| <b>Cash at the end of the year</b> | <b>911</b>     | <b>662</b>     | <b>873</b>   | <b>1,033</b> | <b>1,201</b> |

### Balance sheet

| YE 31 Dec (RMB mn)             | FY18A        | FY19A        | FY20E        | FY21E        | FY22E        |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Non-current assets</b>      | <b>4,003</b> | <b>4,676</b> | <b>5,648</b> | <b>6,222</b> | <b>6,779</b> |
| PPE                            | 2,492        | 3,036        | 3,658        | 4,266        | 4,853        |
| Prepaid lease payments         | 502          | 781          | 0            | 0            | 0            |
| Deposits                       | 520          | 631          | 631          | 631          | 631          |
| Others                         | 489          | 228          | 182          | 176          | 172          |
| <b>Current assets</b>          | <b>1,468</b> | <b>1,595</b> | <b>1,217</b> | <b>1,412</b> | <b>1,708</b> |
| Cash                           | 911          | 662          | 391          | 551          | 718          |
| Pledged deposit                | 282          | 499          | 499          | 499          | 499          |
| Prepayments                    | 162          | 97           | 104          | 137          | 164          |
| Others                         | 113          | 337          | 224          | 225          | 327          |
| <b>Current liabilities</b>     | <b>1,643</b> | <b>2,480</b> | <b>2,300</b> | <b>2,592</b> | <b>2,891</b> |
| Borrowings                     | 282          | 1,108        | 629          | 629          | 629          |
| Contract liabilities           | 617          | 751          | 982          | 1,182        | 1,411        |
| Trade and other payables       | 616          | 503          | 546          | 627          | 709          |
| Others                         | 128          | 118          | 118          | 129          | 118          |
| <b>Non-current liabilities</b> | <b>1,851</b> | <b>1,545</b> | <b>2,035</b> | <b>2,110</b> | <b>2,186</b> |
| Borrowings                     | 1,847        | 1,540        | 1,740        | 1,840        | 1,940        |
| Deferred revenue               | 0            | 0            | 0            | 0            | 0            |
| Others                         | 4            | 4            | 4            | 4            | 4            |
| <b>Total net assets</b>        | <b>1,977</b> | <b>2,247</b> | <b>2,530</b> | <b>2,932</b> | <b>3,410</b> |
| <b>Shareholders' equity</b>    | <b>1,911</b> | <b>2,161</b> | <b>2,460</b> | <b>2,882</b> | <b>3,382</b> |
| <b>Minority Interest</b>       | <b>66</b>    | <b>86</b>    | <b>71</b>    | <b>51</b>    | <b>29</b>    |

### Key ratios

| YE 31 Dec                   | FY18A        | FY19A        | FY20E        | FY21E        | FY22E        |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales mix (%)</b>        |              |              |              |              |              |
| Tuition & boarding fees     | 67.5         | 68.1         | 72.7         | 71.3         | 72.1         |
| Ancillary services          | 32.5         | 31.9         | 27.3         | 28.7         | 27.9         |
| <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         | 43.7         | 44.1         | 44.8         | 47.7         | 47.9         |
| EBIT margin                 | 28.9         | 29.5         | 35.1         | 34.3         | 34.8         |
| Effective tax rate          | 11.1         | 13.6         | 16.0         | 14.0         | 14.0         |
| Net profit margin           | 24.9         | 21.4         | 25.9         | 26.8         | 27.5         |
| Payout ratio                | 43.5         | 39.4         | 40.0         | 40.0         | 40.0         |
| <b>Balance sheet ratios</b> |              |              |              |              |              |
| Current ratio (x)           | 0.9          | 0.6          | 0.7          | 0.7          | 0.8          |
| Asset turnover (x)          | 0.2          | 0.3          | 0.2          | 0.3          | 0.3          |
| Net gearing ratio (%)       | 47           | 66           | 39           | 32           | 25           |
| <b>Returns (%)</b>          |              |              |              |              |              |
| ROAE                        | 17.0         | 17.7         | 20.2         | 23.9         | 25.0         |
| ROAA                        | 7.0          | 6.0          | 6.6          | 8.0          | 8.9          |
| <b>Per share</b>            |              |              |              |              |              |
| EPS (RMB)                   | 0.15         | 0.17         | 0.23         | 0.29         | 0.36         |
| DPS (HK\$)                  | 0.08         | 0.10         | 0.10         | 0.13         | 0.16         |
| BVPS (RMB)                  | 0.94         | 1.06         | 1.13         | 1.32         | 1.55         |

Source: Company data, CMBIS estimates



# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

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

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

## CMB International Securities Limited

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

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.