

# China East Education (667 HK)

## 1H19 results in line

1H19 net profit +44%, in line with its positive alert guidance. Adj. net profit rose 88% to RMB408mn, which represents 44% of our FY19E estimate (3Q is the peak season of a year). We think the results were on track with our FY19 estimates.

- 1H19 results in line.** Net profit rose 44% to RMB327mn, in line with CEE's profit alert guidance of 40%+ growth. If RMB76mn share-based expenses and RMB19mn listing fees are excluded, adj. net profit surged 88% to RMB408mn, equivalent to 44% of our FY19E adj. net profit estimate (vs 40% in 1H18). Revenue increased 27%, led by 14% growth of ASP and 11% growth of average students enrolled. The ASP growth was mainly led by 2ppt increase of short-term student mix (short-term courses usually have higher annualized tuition fee than long-term courses). Like-for-like ASP growth was around 3-5% in 1H19. GPM widened 7.9ppt to 60.8% (58.6% if impact from HKFRS 16 is excluded), because of ramp-up of newly established schools. SG&A expenses ratio (excluding RMB76mn share-based expenses) fell 4.7ppt thanks to ramp-up of newly established schools and less new schools opened during the period.
- 2H19E outlook.** Jul to Sep is the peak season for the Company. Management revealed the progress of new student enrollment in Jul and Aug was satisfactory. The expansion of vocational college student admission by 1mn does not affect the Company's new student enrollment because the target customers of vocational colleges and the Company are different (high school graduates looking for further study vs customers aged between 15 and 45 looking for a job). Number of new schools in 2H19 could reduce from 15 to 10 because certain school operation permits have not been received. We think the earnings impact of such delay is insignificant and keep our estimates unchanged.
- Commence beauty training.** The Company has been exploring the vocational training market for beauty, AI and healthcare industries. The Company plans to open one beauty training school in 2H19 and one more in 2020 to test market response before considering this segment's expansion plan of school network.
- Maintain Buy.** Our TP is based on 27.4x FY20E P/E, on par to the average of FY21E P/E of New Oriental Education and TAL Education. For cross-checking, our TP implies 18.3x/13.5x EV/EBITDA in FY19/20E, which is at 11%/11% discount compared to segment leaders' average of 20.6x/15.1x. This suggests our TP is not aggressive. **Catalyst:** Inclusion of the stock into the Shenzhen-Hong Kong Connect list in Sep 2019.

### Earnings Summary

(YE 31 Dec)	FY16A	FY17A	FY18A	FY19E	FY20E	FY21E
Revenues (RMB mn)	2,336	2,850	3,265	4,079	4,906	5,770
YoY growth (%)	na	22	15	25	20	18
Net profit (RMB mn)	587	661	515	765	1,085	1,339
Adj. net profit (RMB mn)	587	661	547	916	1,165	1,399
YoY change (%)	na	13	(17)	67	27	20
Adj. EPS (RMB)	na	na	na	0.419	0.533	0.64
YoY change (%)	na	na	na	na	27	20
Adj. P/E (x)	na	na	na	30.1	23.7	19.7
Ex-net cash adj. P/E (x)	na	na	na	23.6	17.7	13.8
P/B (x)	na	na	na	4.7	4.1	3.6
Yield (%)	na	na	na	0.8	1.2	1.5
Adj. ROAE (%)	na	49.5	44.1	27.2	18.6	19.4
Net cash (RMB mn)	1,530	1,826	986	5,972	7,003	8,290

Source: Company data, CMBIS estimates

## BUY (Maintain)

Target Price	HK\$16.3
Up/Downside	+16%
Current Price	HK\$14.06

### China Education Sector

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

#### Stock Data

Mkt Cap (HK\$ mn)	30,710
Avg 3 mths t/o (HK\$ mn)	67.20
52w High/Low (HK\$)	14.46/9.60
Total Issued Shares (mn)	2,184

Source: Bloomberg

#### Shareholding Structure

Wu Junbao	34.13%
-----------	--------

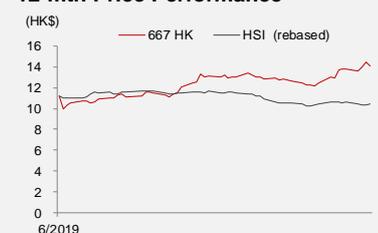
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	10.4%	22.4%
3-mth	na	na
6-mth	na	na

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

## 1H19 results review

Net profit rose 44% to RMB327mn, in line with CEE's profit alert guidance of 40%+ growth. Adjusted net profit surged 88% if RMB19mn listing fees and RMB76mn share-based expenses in 1H19 are excluded. If excluding around RMB20mn net expenses from adoption of HKFRS 16, adjusted net profit would jump by 97%.

Revenue increased 28%, led by 14% growth of ASP and 11% growth of average students enrolled. Average students enrolled was driven by 34% growth from short-term programs and 9% growth from long-term programs. The ASP growth was mainly led by 2ppt increase of short-term student mix (short-term courses usually have higher annualized tuition fee than long-term courses). Like-for-like ASP growth was around 3-5% in 1H19.

New East revenue increased by 16%, led by 18% ASP growth because of 1ppt increase in short-term program student mix to 8%. According to management, the growth of short-term program students was because more customers want to start up their catering businesses or learn cooking for leisure.

Omick revenue surged 90% on 80% growth of average student enrolled. Thanks to the ramp-up of newly schools established in 2017 and 2018, GPM rose from 23.1% in 1H18 to 51.0% in 1H19. Segment loss significantly narrowed from RMB25mn in 1H18 to RMB2mn in 1H19.

Xinhua Internet revenue jumped 38%, driven by 35% growth of average students enrolled. Management attributed its student growth to new courses introduced in 2018 and 1H19 such as AI, internet security, 5G etc.

Wisezone revenue increased 77%, led by 64% ASP growth. Such strong growth was due to introduction of more short-term programs which have higher annualized ASP.

Wontone revenue climbed 25% on 15% growth of average students enrolled and 9% ASP growth. GPM expanded from 39.6% in 1H18 to 53.7% in 1H19.

Cuisine Academy revenue rose 145% led by growth of average customers registered. The brand became profitable in gross profit level. That said, the business scale remains small (1% of total revenue in 1H19) since the brand started in 2017.

GPM jumped 7.9ppt to 60.8%. If excluding RMB40m rental expenses reduced due to adoption of HKFRS 16, GPM still widened 5.7ppt to 58.6% driven by ramp-up of newly established schools and centers (mostly Omick and Cuisine Academy) opened in FY17 and FY18.

SG&A expenses ratio fell 0.6ppt to 33.1% driven by ramp-up of newly established schools and less new schools opened during the period. Excluding the RMB76mn share-based expenses, SG&A expenses ratio would drop by 4.7ppt.

Figure 1: 1H19 results review

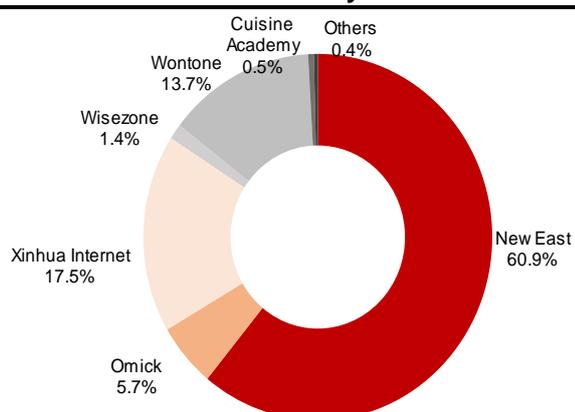
Y/E Dec (RMB mn)	1H19	1H18	change (%)	Remarks
<b>Revenue</b>	<b>1,821</b>	<b>1,439</b>	<b>27%</b>	<b>Average students enrolled +11%; ASP +14%</b>
New East	1,014	876	16%	Average students enrolled -2%; ASP +18%
Omick	155	82	90%	Average students enrolled +80%; ASP +6%
Xinhua Internet	349	252	38%	Average students enrolled +35%; ASP +2%
Wisezone	35	20	77%	Average students enrolled +8%; ASP +64%
Wontoine	246	197	25%	Average students enrolled +15%; ASP +9%
Cuisine Academy	19	8	145%	Average customers registered +76%; ASP +39%
Others	4	5	-22%	
Cost of sales	(714)	(677)	5%	Rental expenses reduced by RMB40mn due to HKFRS 16
Gross profit	1,107	762	45%	Ramp up of newly established schools and centers opened in FY17 and FY18
Other income	18	15	25%	
Other gains and losses	11	25	-55%	
Selling expenses	(319)	(299)	7%	
Administrative expenses	(284)	(185)	53%	RMB76mn share-based expenses, new schools
R&D expenses	(15)	(11)	35%	
Operating profit	518	306	70%	
Finance income	8	10	-16%	
Finance costs	(62)	0	na	Due to HKFRS 16
Listing expenses	(19)	0	na	
Profit before tax	446	316	41%	
Tax expense	(133)	(99)	35%	
<b>Net profit</b>	<b>312</b>	<b>217</b>	<b>44%</b>	
<b>Adj. net profit</b>	<b>408</b>	<b>217</b>	<b>88%</b>	RMB76mn share-based expenses and RMB19mn listing fees in 1H19
Adj. EPS (RMB)	0.23	na	na	
DPS (RMB)	na	na	na	
<b>Margin &amp; Ratio (%)</b>				
Gross margin	60.8	52.9	7.9	Ramp up of loss-making new brands (Omick and Cuisine Academy), ASP growth
Adj. Gross margin	58.6	52.9	5.7	Excluding impact from HKFRS 16
Operating margin	28.5	21.2	7.2	
SG&A expenses ratio	33.1	33.7	(0.5)	
Adj. SG&A expenses ratio	29.0	33.7	(4.7)	Excluding RMB76mn share-based expenses
Net margin	17.2	15.1	2.1	
Adj. net margin	22.4	15.1	7.3	
Effective tax rate	29.9	31.3	(1.5)	
Payout ratio (%)	na	na	na	
	<b>1H19</b>	<b>FY18</b>	<b>change (%)</b>	
Net cash (RMB mn)	5,694	986	477%	

Source: Company data

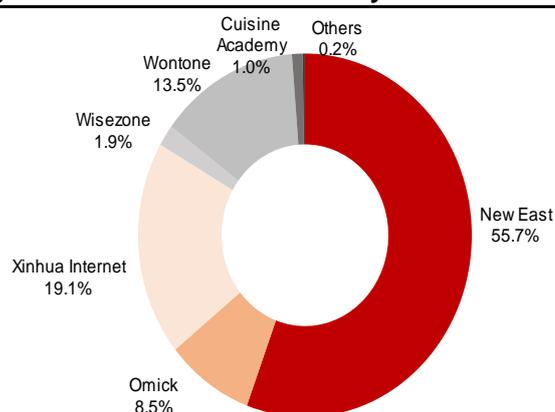
**Figure 2: Performance by brand**

Y/E Dec (RMB mn)	1H19	1H18	change (%)
<b>Revenue</b>			
New East	1,014	876	16%
Omick	155	82	90%
Xinhua Internet	349	252	38%
Wisezone	35	20	77%
Wontone	246	197	25%
Cuisine Academy	19	8	145%
<b>Gross profit</b>			
New East	652	528	24%
Omick	79	19	319%
Xinhua Internet	150	236	-36%
Wisezone	5	(8)	-166%
Wontone	132	78	70%
Cuisine Academy	2	(5)	-137%
<b>GPM (%)</b>			
New East	64.3	60.2	4.1
Omick	51.0	23.1	27.9
Xinhua Internet	67.6	59.4	8.2
Wisezone	15.0	(40.4)	55.4
Wontone	53.7	39.6	14.1
Cuisine Academy	9.7	(65.3)	75.0
<b>Segment profit margin (%)</b>			
New East	40.9	36.9	4.0
Omick	(1.6)	(30.2)	28.6
Xinhua Internet	39.8	22.7	17.1
Wisezone	(58.8)	(208.2)	149.3
Wontone	7.6	(8.3)	16.0
Cuisine Academy	(60.4)	(10.3)	(50.1)

Source: Company data

**Figure 3: Revenue breakdown by brand in 1H18**

Source: Company data

**Figure 4: Revenue breakdown by brand in 1H19**

Source: Company data

**Figure 5: Revenue estimates**

Revenue (RMB mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E	3-yr CAGR
<b>Schools</b>	<b>2,320</b>	<b>2,839</b>	<b>3,232</b>	<b>4,028</b>	<b>4,835</b>	<b>5,679</b>	<b>21%</b>
New East	1,432	1,739	1,900	2,134	2,420	2,745	13%
Omick	0	75	213	413	632	838	58%
Xinhua Internet	481	542	604	829	985	1,149	24%
Wisezone	53	64	70	77	85	94	10%
Wontone	354	419	444	575	713	854	24%
<b>Centers - Cuisine Academy</b>	<b>0</b>	<b>0</b>	<b>21</b>	<b>35</b>	<b>50</b>	<b>64</b>	<b>46%</b>
<b>Other Miscellaneous services</b>	<b>16</b>	<b>11</b>	<b>12</b>	<b>16</b>	<b>20</b>	<b>26</b>	<b>30%</b>
<b>Total</b>	<b>2,336</b>	<b>2,850</b>	<b>3,265</b>	<b>4,079</b>	<b>4,906</b>	<b>5,770</b>	<b>21%</b>

**YoY growth rate (%)**

New East	na	21%	9%	12%	13%	13%
Omick	na	na	185%	94%	53%	33%
Xinhua Internet	na	13%	11%	37%	19%	17%
Wisezone	na	21%	9%	10%	10%	10%
Wontone	na	18%	6%	29%	24%	20%
Cuisine Academy	na	na	6145%	70%	43%	28%
<b>Total</b>		<b>22%</b>	<b>15%</b>	<b>25%</b>	<b>20%</b>	<b>18%</b>

**Revenue breakdown**

New East	61%	61%	58%	52%	49%	48%
Omick	0%	3%	7%	10%	13%	15%
Xinhua Internet	21%	19%	19%	20%	20%	20%
Wisezone	2%	2%	2%	2%	2%	2%
Wontone	15%	15%	14%	14%	15%	15%
Cuisine Academy	0%	0%	1%	1%	1%	1%
Other Miscellaneous services	1%	0%	0%	0%	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company data, CMBIS estimates

**Figure 6: Number of schools and centers estimates**

Number of schools/centers	FY16	FY17	FY18	FY19E	FY20E	FY21E	3-yr CAGR
<b>Schools</b>	<b>90</b>	<b>126</b>	<b>145</b>	<b>165</b>	<b>180</b>	<b>196</b>	<b>11%</b>
New East	41	46	50	59	63	69	11%
Omick	0	17	23	29	34	38	18%
Xinhua Internet	19	21	24	26	29	32	10%
Wisezone	16	20	22	22	22	22	0%
Wontone	14	22	26	29	32	35	10%
<b>Centers</b>							
Cuisine Academy	0	6	18	18	20	24	10%

Source: Company data, CMBIS estimates

**Figure 7: Number of average student enrolled/customer registered estimates**

Average student	FY16	FY17	FY18	FY19E	FY20E	FY21E	3-yr CAGR
<b>Average students enrolled</b>	<b>105,095</b>	<b>116,540</b>	<b>123,957</b>	<b>142,214</b>	<b>156,779</b>	<b>170,337</b>	<b>11%</b>
New East	62,122	71,180	69,141	71,907	75,502	79,277	5%
Omick	na	1,114	3,106	5,901	8,852	11,508	55%
Xinhua Internet	23,764	24,981	31,023	39,399	43,339	46,806	15%
Wisezone	1,138	1,165	1,364	1,432	1,504	1,579	5%
Wontone	18,071	18,100	19,323	23,574	27,582	31,167	17%
<b>Average number of customers registered</b>							
Cuisine Academy	na	63	577	981	1,373	1,717	44%
<b>YoY growth rate (%)</b>	<b>na</b>	<b>11%</b>	<b>6%</b>	<b>15%</b>	<b>10%</b>	<b>9%</b>	
New East	na	15%	-3%	4%	5%	5%	
Omick	na	na	179%	90%	50%	30%	
Xinhua Internet	na	5%	24%	27%	10%	8%	
Wisezone	na	2%	17%	5%	5%	5%	
Wontone	na	0%	7%	22%	17%	13%	
Cuisine Academy	na	na	816%	70%	40%	25%	

Source: Company data, CMBIS estimates

Note: Average students enrolled for a year represents the sum of the number of students enrolled at all schools at the end of each month divided by the number of months during such period without taking into account any transfer or withdrawal. Average number of customers registered for a year represents the sum of the number of customers registered at Cuisine Academy at the end of each month divided by the number of months during such period, without taking into account any withdrawal.

**Figure 8: Average tuition fee estimates**

Average tuition fee	FY16	FY17	FY18	FY19E	FY20E	FY21E	3-yr CAGR
<b>Average tuition fee per student</b>	<b>22,076</b>	<b>24,363</b>	<b>26,075</b>	<b>28,326</b>	<b>30,841</b>	<b>33,341</b>	<b>9%</b>
New East	23,053	24,427	27,482	29,680	32,055	34,619	8%
Omick	na	67,180	68,659	70,033	71,433	72,862	2%
Xinhua Internet	20,221	21,706	19,483	21,041	22,725	24,543	8%
Wisezone	46,738	55,055	51,375	53,944	56,641	59,473	5%
Wontone	19,604	23,168	22,994	24,373	25,836	27,386	6%
<b>Average service fee per customer</b>							
Cuisine Academy	0	5,286	36,043	36,043	36,764	37,499	1%
<b>YoY growth rate (%)</b>	<b>na</b>	<b>10%</b>	<b>7%</b>	<b>9%</b>	<b>9%</b>	<b>8%</b>	
New East	na	6%	13%	8%	8%	8%	
Omick	na	na	2%	2%	2%	2%	
Xinhua Internet	na	7%	-10%	8%	8%	8%	
Wisezone	na	18%	-7%	5%	5%	5%	
Wontone	na	18%	-1%	6%	6%	6%	
Cuisine Academy	na	na	582%	0%	2%	2%	

Source: Company data, CMBIS estimates

Note: Average tuition/service fee is calculated by dividing revenue generated from tuition or service fees by average students enrolled/customers registered in the corresponding year

**Figure 9: Peers valuation table**

	Ticker	Mkt Cap		Price	Year end	P/E (x)			EV/EBITDA		Adj. net profit growth (%)			EPS growth (%)			PEG (x)			Revenue growth (%)		
		(US\$ m)	Crcncy			FY1	FY2	FY3	FY1	FY2	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3
<b>Non-formal vocational education services provider</b>																						
China East Education	667 HK	3,914	HKD	14.06	Dec-18	30.1	23.7	19.3	15.1	11.0	67	27	20	na	27	20	1.28	25	20	18		
<b>K12 tutoring services providers</b>																						
New Oriental Education	EDU US	17,624	USD	111.06	May-19	32.9	24.9	19.8	24.1	17.9	32	32	27	31	32	26	1.14	28	25	22		
TAL Education	TAL US	21,007	USD	35.50	Feb-19	50.6	32.8	23.1	39.6	26.1	(8)	61	43	(5)	54	42	1.06	35	34	32		
Onesmart Education	ONE US	1,239	USD	7.72	Aug-18	23.8	17.7	13.1	15.2	10.8	54	35	36	na	34	35	0.69	40	34	26		
Beststudy Education	3978 HK	204	HKD	1.88	Dec-18	9.8	7.4	5.7	1.8	1.5	161	26	28	na	32	30	0.32	25	23	22		
<b>Average</b>						<b>29.3</b>	<b>20.7</b>	<b>15.5</b>	<b>20.2</b>	<b>14.1</b>	<b>60</b>	<b>39</b>	<b>34</b>	<b>13</b>	<b>38</b>	<b>33</b>	<b>0.80</b>	<b>32</b>	<b>29</b>	<b>25</b>		
<b>K12 education services providers</b>																						
Wisdom Education	6068 HK	955	HKD	3.66	Aug-18	16.5	13.5	10.1	11.2	9.0	33	23	32	31	22	31	0.62	39	23	23		
Tianli Education	1773 HK	899	HKD	3.40	Dec-18	24.8	18.4	14.2	17.1	12.1	29	37	29	na	34	30	0.77	37	38	32		
Maple Leaf	1317 HK	928	HKD	2.43	Aug-18	10.3	8.7	7.3	7.9	6.7	18	19	18	13	19	20	0.53	22	21	16		
Bright Scholar	BEDU US	1,108	USD	8.90	Aug-18	21.5	17.0	16.7	11.0	8.9	42	33	15	47	26	2	1.60	40	35	13		
Virscend Education	1565 HK	925	HKD	2.35	Dec-18	13.8	10.2	7.6	13.3	10.1	20	52	32	29	35	33	0.40	28	27	25		
<b>Average</b>						<b>17.4</b>	<b>13.6</b>	<b>11.2</b>	<b>12.1</b>	<b>9.4</b>	<b>28</b>	<b>33</b>	<b>25</b>	<b>30</b>	<b>27</b>	<b>23</b>	<b>0.79</b>	<b>33</b>	<b>29</b>	<b>22</b>		
<b>Higher Education services providers</b>																						
China Education	839 HK	3,002	HKD	11.66	Aug-18	28.0	22.5	18.8	19.3	15.6	na	23	21	na	24	20	1.27	na	22	15		
Yuhua Education	6169 HK	1,809	HKD	4.32	Aug-18	18.5	15.1	12.9	12.5	9.9	19	28	16	12	22	18	0.93	38	28	9		
Hope Education	1765 HK	1,173	HKD	1.38	Dec-18	18.3	14.2	11.2	9.5	6.8	43	29	24	22	29	24	0.70	23	23	16		
Minsheng Education	1569 HK	758	HKD	1.48	Dec-18	13.2	10.9	9.1	8.2	6.8	22	18	19	21	22	19	0.65	58	23	16		
Kepei Education	1890 HK	979	HKD	3.84	Dec-18	16.6	13.9	12.0	11.9	10.1	23	19	16	(8)	19	16	0.95	23	18	15		
Xinhua Education	2779 HK	556	HKD	2.71	Dec-18	14.0	9.7	8.0	11.2	5.3	12	17	16	1	45	18	0.45	18	18	15		
New Higher Education	2001 HK	644	HKD	3.28	Dec-18	12.0	9.4	7.9	9.8	8.0	31	26	17	25	28	18	0.52	86	26	10		
Chunlai Education	1969 HK	251	HKD	1.64	Aug-18	12.5	8.3	6.8	9.3	6.9	(4)	54	24	(14)	50	22	0.35	15	33	13		
<b>Average</b>						<b>16.6</b>	<b>13.0</b>	<b>10.8</b>	<b>11.5</b>	<b>8.7</b>	<b>21</b>	<b>27</b>	<b>19</b>	<b>8</b>	<b>30</b>	<b>19</b>	<b>0.73</b>	<b>37</b>	<b>24</b>	<b>14</b>		
<b>Education sector average</b>						<b>19.8</b>	<b>15.0</b>	<b>12.0</b>	<b>13.7</b>	<b>10.1</b>	<b>33</b>	<b>31</b>	<b>24</b>	<b>16</b>	<b>31</b>	<b>24</b>	<b>0.76</b>	<b>35</b>	<b>27</b>	<b>19</b>		
<b>Segment leaders' average</b>						<b>29.4</b>	<b>21.8</b>	<b>17.6</b>	<b>20.6</b>	<b>15.1</b>	<b>23</b>	<b>36</b>	<b>25</b>	<b>21</b>	<b>32</b>	<b>23</b>	<b>1.13</b>	<b>35</b>	<b>30</b>	<b>20</b>		

Source: Bloomberg estimates, CMBIS estimates

Note: We select New Oriental Education, TAL Education, Bright Scholar, Tianli Education, China Education and Yuhua Education as segment leaders. Segment leaders are the top two names in their respective segments in terms of market capitalization and P/E. Price is closing price as of 29 Aug 2019.

**Income statement**

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>2,850</b>	<b>3,265</b>	<b>4,079</b>	<b>4,906</b>	<b>5,770</b>
Cost of sales	(1,281)	(1,560)	(1,851)	(2,181)	(2,515)
Gross profit	1,569	1,705	2,228	2,724	3,255
Other income	17	38	51	61	73
Other gains and losses	60	58	59	72	81
Selling expenses	(457)	(648)	(708)	(868)	(1,037)
Administrative expenses	(350)	(438)	(629)	(684)	(752)
R&D expenses	(24)	(28)	(33)	(39)	(46)
EBIT	815	687	969	1,267	1,575
Net finance income	17	24	66	97	103
Listing expenses	0	(24)	(31)	0	0
Profit before tax	832	687	1,003	1,364	1,678
Income tax expenses	(171)	(172)	(239)	(280)	(339)
<b>Net profit</b>	<b>661</b>	<b>515</b>	<b>765</b>	<b>1,085</b>	<b>1,339</b>
Net profit	661	515	765	1,085	1,339
Listing expenses	0	24	31	0	0
Share-based expenses	0	8	120	80	60
<b>Adjusted net profit</b>	<b>661</b>	<b>547</b>	<b>916</b>	<b>1,165</b>	<b>1,399</b>

**Cash flow summary**

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Profit before tax</b>	<b>813</b>	<b>682</b>	<b>1,003</b>	<b>1,364</b>	<b>1,678</b>
D&A	242	360	452	580	685
Change in working capital	171	182	247	265	278
Others	(228)	(245)	(245)	(370)	(464)
<b>Net cash from operating</b>	<b>997</b>	<b>980</b>	<b>1,458</b>	<b>1,840</b>	<b>2,177</b>
Capex	(644)	(666)	(892)	(750)	(750)
Others	43	93	126	171	186
<b>Net cash from investing</b>	<b>(601)</b>	<b>(573)</b>	<b>(766)</b>	<b>(579)</b>	<b>(564)</b>
Equity raised	0	1	4,329	0	0
Dividend paid	(100)	(874)	(34)	(229)	(325)
Change of borrowings	0	0	0	0	0
Others	0	(582)	0	0	0
<b>Net cash from financing</b>	<b>(100)</b>	<b>(1,456)</b>	<b>4,294</b>	<b>(229)</b>	<b>(325)</b>
<b>Net change in cash</b>	<b>296</b>	<b>(1,048)</b>	<b>4,986</b>	<b>1,031</b>	<b>1,287</b>
Cash at the beginning of the year	1,739	2,035	986	5,972	7,003
Exchange difference	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>2,035</b>	<b>986</b>	<b>5,972</b>	<b>7,003</b>	<b>8,290</b>

**Balance sheet**

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>1,259</b>	<b>1,545</b>	<b>1,993</b>	<b>2,168</b>	<b>2,240</b>
PPE	1,060	1,361	1,804	1,977	2,045
Prepaid lease payments	126	123	120	118	115
Prepayments for rental	32	18	20	22	24
Others	41	43	48	52	57
<b>Current assets</b>	<b>2,259</b>	<b>1,270</b>	<b>6,324</b>	<b>7,424</b>	<b>8,783</b>
Cash	2,035	986	5,972	7,003	8,290
Receivables	191	242	303	364	428
Others	34	42	49	57	64
<b>Current liabilities</b>	<b>1,871</b>	<b>1,883</b>	<b>2,388</b>	<b>2,813</b>	<b>3,234</b>
Contract liabilities	1,090	1,233	1,479	1,738	2,008
Payables	471	508	571	641	716
Tax payables	102	108	108	108	108
Dividend payable	0	34	229	325	402
Others	209	0	0	0	0
<b>Non-current liabilities</b>	<b>40</b>	<b>60</b>	<b>72</b>	<b>84</b>	<b>96</b>
Government grant	4	4	4	4	4
Contract liabilities	36	56	68	80	92
<b>Total net assets</b>	<b>1,607</b>	<b>873</b>	<b>5,856</b>	<b>6,696</b>	<b>7,693</b>
<b>Shareholders' equity</b>	<b>1,607</b>	<b>873</b>	<b>5,856</b>	<b>6,696</b>	<b>7,693</b>

**Key ratios**

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
New East	61.0	58.2	52.3	49.3	47.6
Omick	2.6	6.5	10.1	12.9	14.5
Xinhua Internet	19.0	18.5	20.3	20.1	19.9
Wisezone	2.3	2.2	1.9	1.7	1.6
Wontone	14.7	13.6	14.1	14.5	14.8
Cuisine Academy	0.0	0.6	0.9	1.0	1.1
Others	0.4	0.4	0.4	0.4	0.5
<b>P&amp;L ratios (%)</b>					
Gross profit margin	55.0	52.2	54.6	55.5	56.4
EBIT margin	28.6	21.0	23.7	25.8	27.3
Effective tax rate	20.5	25.0	23.8	20.5	20.2
Net profit margin	23.2	15.8	18.7	22.1	23.2
Adj. net profit margin	23.2	16.8	22.5	23.7	24.2
Payout ratio	na	na	30.0	30.0	30.0
<b>Balance sheet ratios</b>					
Current ratio (x)	1.2	0.7	2.6	2.6	2.7
Average inv. turnover days	8.1	7.8	8.0	8.0	8.1
Asset turnover (x)	0.8	1.2	0.5	0.5	0.5
Total asset/total equity (x)	2.2	3.2	1.4	1.4	1.4
Net cash (RMB mn)	1,826	986	5,972	7,003	8,290
<b>Returns (%)</b>					
Adjusted ROAE	49.5	44.1	27.2	18.6	19.4
Adjusted ROAA	21.4	17.3	16.5	13.0	13.6

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

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

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : 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.

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

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.

## Notes:

**CMB International Securities Limited and/or more of its affiliates performed investment banking services to China East Education (667 HK) over the past 12 months.**