

Target Price Change

6 December 2019

BUY

65% ↑ side

Target price: HK\$7.24

Prior TP: HK\$5.49

382 HK

Price: HK\$4.40

TP basis: P/E

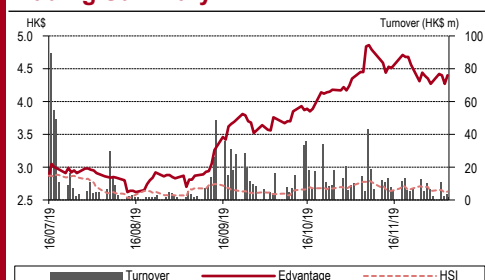
Sector rating: OVERWEIGHT

Forecast Revisions (%)

Year ended 31 Aug	20E	21E	22E
Revenue	0	0	0
Core EPS	0	0	0

Source: BOCI Research estimates

Trading Summary



(%)	YTD	1M	3M	12M
Absolute	-	(1.1)	56.6	-
Relative to HSI	-	4.4	58.4	-

Shares outstanding (m)	1,018
Free float (%)	26
Market cap. (HK\$ m)	4,481
3M avg. daily turnover (HK\$ m)	14
Net debt/equity (%) (2020E)	Net cash
Major shareholder (%)	
Debo Education Investments Holdings Ltd	74

Source: Company data, FactSet, BOCI Research

Closing prices are as of 5 December 2019

Edvantage Group

NDR takeaway

Edvantage held a post-results NDR recently. Key takeaway is the contribution of two new campuses. The one in Zhaoqing would contribute 3,000 new students annually in the four years starting from September 2020 while the other potential new campus will likely commence operation in September 2021. 67% of the planned new enrolments in Zhaoqing would be from vocational-to-bachelor track while only one third needs the approval of the admission quota. In addition, Edvantage targets to acquire one university every year. Similar to Yuhua, Edvantage shows strong financing expertise and deserves higher target multiple. We apply the same target multiple as Yuhua to derive the new TP for Edvantage. The new target multiple of 21.6x FY20E P/E represents 20% discount to that of China Education Group (CEG, 839 HK/BUY) while the previous target multiple is 16.3x FY20E P/E, representing 40% discount to CEG. New TP implies 65% upside, retain **BUY**.

Key Factors for Rating

- Edvantage held its first post-IPO results NDR, delivering a guidance of sustainable organic growth and potential acquisition growth. Edvantage clearly offers guidance of the top-line in FY20 and margin outlook. Excluding the contribution of any new campus, sales are guided at RMB826m in FY20, representing 17.3% YoY growth. Gross margin will further expand to 49-50% and adjusted net margin would be c.37%. Edvantage aims to complete one acquisition every year in fiscal year term. It has an experienced team in financing and acquisition to help get such plan off the drawing board.
- The new campus in Zhaoqing is confirmed to have the first batch of 3,000 new students from September 2020, which is in our enrolment estimate for FY21. Investors are worried whether the approval of the quota is confirmed. "Vocational-to-bachelor" track has been excluded from the quota of bachelor programme since 2019 in Guangdong province. 67% of the 3,000 new students enrolled annually would be contributed by the "vocation-to-bachelor" track while only one third needs the quota approval. Average tuition is RMB30,000, and the total 16,000 capacity in new campus will contribute RMB480m annual sales by September 2024. Edvantage is also proposing another new campus besides Zhaoqing.
- In the medium term, to transform from an independent college under a public university to a separate private university is something that will happen in two or three years. The transformation would help save around 20% management fee which is paid to public universities for using their logo.

Key Risks to Rating

- Regulation risk is the major risk for the whole education sector.

Valuation

- We keep our earnings estimate unchanged, but apply a higher target multiple same as **Yuhua Education** (Yuhua, 6169 HK/BUY) as Edvantage has a proven record in execution and financing. 21.6x FY20E P/E target multiple is the same as Yuhua, and 20% discount to CEG which is the market leader with flagship valuation. New TP of HK\$7.24 implies 65% upside, retain **BUY** rating.

Investment Summary

Year ended 31 Aug	2018	2019	2020E	2021E	2022E
Revenue (RMB m)	636	704	837	1,003	1,196
Reported net profit (RMB m)	162	217	307	373	438
Core EPS (RMB)	0.216	0.277	0.301	0.366	0.430
Fully diluted EPS (RMB)	0.216	0.277	0.301	0.366	0.430
Consensus EPS (RMB)	-	-	0.290	0.357	0.430
Core P/E (x)	18.4	14.3	13.1	10.8	9.2
Fully diluted P/E (x)	18.4	14.3	13.1	10.8	9.2
EV/EBITDA (x)	NM	4.5	6.9	5.5	4.5
P/B (x)	4.7	2.5	2.2	1.9	1.7
DPS (RMB)	0	0.010	0.090	0.110	0.129
Yield (%)	0	0.3	2.3	2.8	3.3
ROE (%)	30.4	21.2	17.9	19.1	19.6

Source: Company data, BOCI Research estimates

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Important disclosures and certifications are located at the back of this research report.

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Edvantage held a post-results NDR, following strong results in FY19. Key takeaway is the contribution of the two new campuses and the good execution of financing team. New campus in Zhaoqing would contribute 3,000 new students annually in the four years starting from September 2020 while another potential new campus will likely commence operation in September 2021. 67% of the planned new student for the new campus in Zhaoqing would be from the “vocational-to-bachelor” track while only one third needs the approval of the admission quota. In addition Edvantage targets to acquire one university every year. Similar to Yuhua, Edvantage shows strong financing expertise and deserves higher target multiple. We apply the same target multiple as Yuhua to derive the new TP for Edvantage. The new target multiple of 21.6x FY20E P/E represents 20% discount to that of CEG while the previous target multiple is 16.3x FY20E P/E. New TP implies 65% upside, retain **BUY**.

Key Takeaways

Edvantage held its first results NDR post IPO listing, delivering guidance of a sustainable organic growth and potential acquisition growth. Edvantage clearly offers guidance of the top-line in FY20 and margin outlook. Excluding the contribution of any new campus, sales are guided at RMB826m in FY20, representing 17.3% YoY growth. Gross margin will further expand to 49-50% and adjusted net margin would be c.37% in FY20. In two years' time, Edvantage would be able to expand margins further. Tuition increase would be one of the major drivers for margin expansion. Average tuition would likely be RMB24,000 in FY20, representing 9.9% YoY increase. To increase tuition does not need the approval from regulator in Guangdong. Edvantage aims to reach 40% net profit margin three years from now.

New campus would be the major growth driver starting from FY21. The new campus of Huashang College in Zhaoqing is confirmed to have the first batch of 3,000 new students from September 2020, which is in the estimate of FY21. Investors are worried whether the approval of the quota is confirmed. “Vocational-to-bachelor” track has been excluded from the quota of bachelor programme since 2019 in Guangdong province. 67% of the 3,000 new students enrolled annually would be contributed by the “vocation-to-bachelor” track while only one third needs the quota approval.

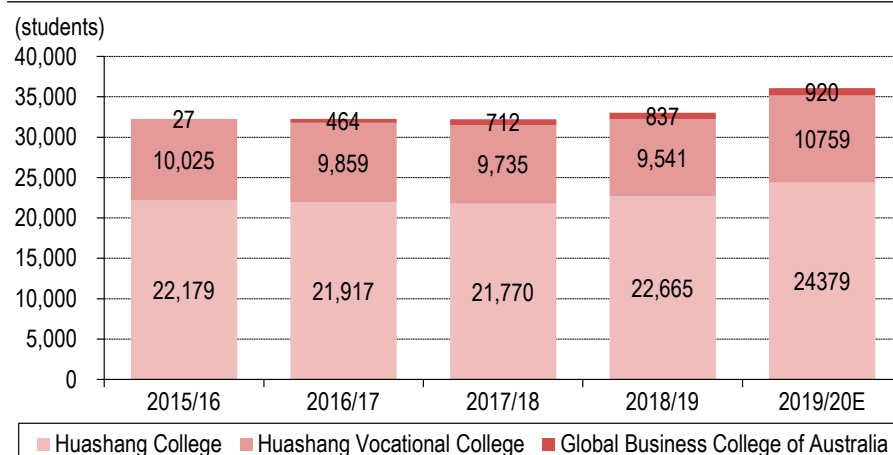
Having both vocational and bachelor programmes is the key competitive advantage of Edvantage. Removing the quota requirement of “Vocational-to-bachelor” track would allow Edvantage to admit more vocational students and more “Vocational-to-bachelor” students. Vocational programme usually takes three years while bachelor takes four. “Vocational-to-bachelor” programme allows qualified students to get enrolled in year three of the bachelor programme after completing all the vocational programmes. “3+2” mode is typical for “Vocational-to-bachelor” programme. In the past, such programme occupied the quota of bachelor admission, but it is no longer the case in Guangdong since 2019. Thus Edvantage benefits from the expansion of “Vocational-to-bachelor” programme in three aspects: more bachelor students coming from vocational programme, more admission of vocational students, and the five-year tuition collection period is longer than the three and four years respectively of vocational and bachelor programmes. Average tuition is RMB30,000, which means the total 16,000 capacity in new campus will contribute RMB480m annual sales by September 2024. Edvantage is also proposing another new campus besides Zhaoqing.

Edvantage aims to complete one acquisition every year, in fiscal year term. Edvantage has an experienced team in financing and acquisition to help materialise such plan. Edvantage's financing team has an extensive experience in investment banking. Financing, investor expectation management, information disclosure, and acquisition execution would be well run by Edvantage.

For overseas expansion, Edvantage is expanding its diploma programmes in Australia, Singapore and London. Students in Huashang College and Vocational College would have the chance to study short-term diploma programme. Tuition will be increased to include the overseas programmes, which would boost both margin and admission. Students can study abroad in the above three cities every year, three times before graduation. Expansion in overseas is a light-asset model as leasing needs little CAPEX.

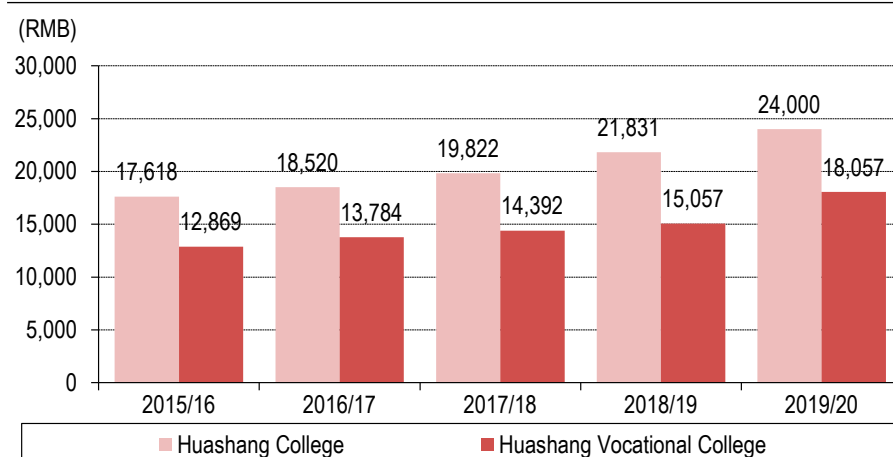
In medium term, to transform from an independent college under a public university to a separate private university is something that will happen in two or three years. The transformation would help save around 20% management fee which is paid to public universities for using their logo. To save the management fee would help increase the margins in the long term.

Figure 1. Student Enrolment



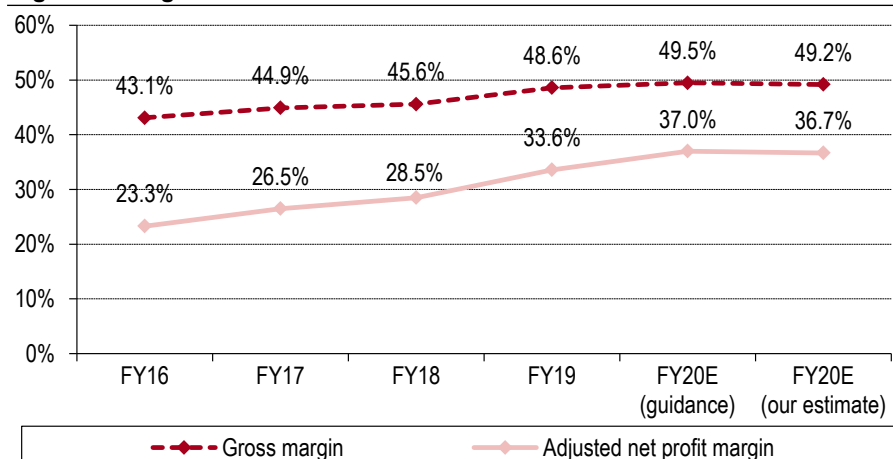
Source: Company data, BOCI Research

Figure 2. Average Tuition



Source: Company data, BOCI Research

Figure 3. Margins



Source: Company data, BOCI Research

Valuation

We keep our earnings estimate unchanged, but apply a higher target multiple same as Yuhua as Edvantage has a proven record in execution and an experienced financing team. 21.6x FY20E P/E target P/E multiple is the same as Yuhua, and 20% discount to CEG which is the market leader with flagship valuation. Previously we applied 16.3x FY20E P/E to evaluate Edvantage, 40% discount to CEG's target valuation multiple. CEG is the market leader and leading benchmark in the education sector, especially in the private university segment. In the past, other peers traded at deep discount to CEG due to the gap in operation, execution in acquisition. With more proven record of good execution in acquisition, financing, or investor relations, other peers can narrow the valuation discount to CEG. Similar to Yuhua, Edvantage can also narrow the valuation discount to CEG to 20%. New TP of HK\$7.24 implies 65% upside, retain **BUY** rating.

Figure 4. Valuation Comparison

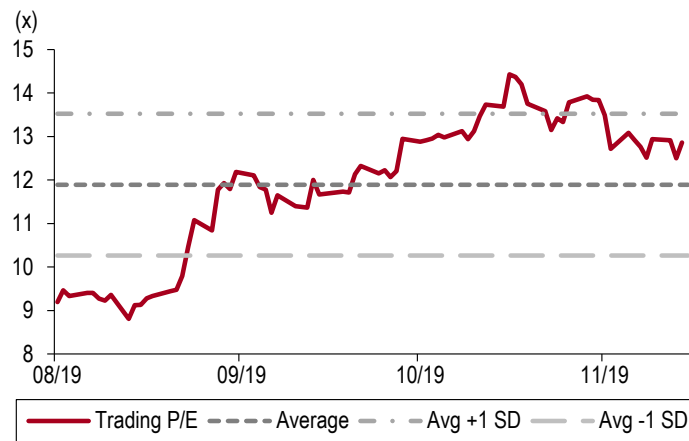
Code	Company	Financial year end	Closing price (local ccy)	Market cap (US\$ m)	P/E (x)				P/B (x)			ROE (%)			EV/EBITDA (x)		
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E
382 HK	Edvantage Group	Aug	4.40	572	18.4	14.4	13.2	10.9	4.8	2.5	2.2	27.1	19.4	17.9	NA	4.5	6.9
TAL US	TAL Education Group	Feb	44.24	26,178	106.5	59.9	52.6	37.8	16.1	10.7	9.0	17.5	17.9	9.5	68.7	40.3	41.2
EDU US	New Oriental Education	May	119.85	18,988	53.6	46.0	35.1	28.1	9.5	8.3	6.8	16.1	10.6	14.5	37.0	27.4	27.7
1317 HK	China Maple Leaf Educational	Aug	2.66	1,018	11.6	10.3	9.0	7.7	2.0	1.7	1.5	17.9	16.8	17.4	19.1	7.5	6.8
6068 HK	Wisdom Education Int'l	Aug	3.37	881	20.0	17.7	11.7	9.9	3.2	2.9	2.6	17.0	17.7	19.7	19.4	15.0	10.9
839 HK	China Education Group	Aug	10.46	2,699	34.3	32.2	19.5	16.1	3.1	2.9	2.6	8.7	9.3	11.1	21.6	21.3	13.0
2779 HK	China Xinhua Education Grp	Dec	2.50	514	13.3	12.7	11.5	10.3	1.4	1.4	1.3	10.7	11.0	11.3	2.4	4.9	3.8
6169 HK	China Yuhua Education Corp	Aug	5.38	2,260	29.3	32.4	15.3	13.5	4.5	4.3	3.8	17.8	13.6	24.5	15.4	13.0	11.3
Average					35.9	28.2	21.0	16.8	5.6	4.3	3.7	16.6	14.5	15.7	26.2	16.7	15.2
H-share education (consensus)																	
382 HK	Edvantage Group	Aug	4.40	572	14.8	17.5	13.6	11.1	4.8	2.7	2.1	27.1	16.6	17.1	NA	8.6	7.0
1317 HK	China Maple Leaf Educational	Aug	2.66	1,018	11.6	11.2	9.4	8.0	2.0	1.7	1.5	17.9	16.0	16.9	19.1	7.5	6.2
6068 HK	Wisdom Education Int'l	Aug	3.37	881	20.0	14.9	12.7	10.7	3.2	2.8	2.5	17.0	20.0	20.1	19.4	13.2	11.0
839 HK	China Education Group	Aug	10.46	2,699	34.3	25.6	21.0	17.6	3.1	2.8	2.5	8.7	11.1	12.7	21.6	18.4	14.8
2779 HK	China Xinhua Education Grp	Dec	2.50	514	13.3	11.6	9.0	7.8	1.4	1.4	1.3	10.7	12.0	14.1	2.4	6.4	5.1
6169 HK	China Yuhua Education	Aug	5.38	2,260	29.3	22.5	16.8	14.7	4.5	3.9	3.6	17.8	18.5	23.3	15.4	16.7	12.2
2001 HK	China New Higher Education	Dec	2.65	522	11.6	9.5	7.3	6.3	1.6	1.6	1.3	15.2	16.8	18.8	12.7	8.6	7.1
1565 HK	Virscend Education	Dec	1.54	608	10.9	8.9	6.6	4.9	1.6	1.4	1.2	14.7	14.7	19.5	9.6	9.3	7.1
1773 HK	Tianli Education Int'l	Dec	3.14	832	6.9	21.7	16.0	12.0	2.5	2.4	2.1	12.4	10.6	13.6	21.0	16.8	12.0
1765 HK	Hope Education Group	Dec	1.37	1,167	29.8	18.1	13.4	10.6	1.9	1.8	1.6	11.7	10.0	12.7	13.5	10.9	8.4
1569 HK	Minsheng Education	Dec	1.33	683	14.9	11.5	9.6	8.1	1.3	1.3	1.1	10.3	11.0	11.9	13.1	8.6	7.2
1890 HK	Kepei Education	Dec	3.81	974	14.9	14.9	13.4	11.5	NA	2.6	2.3	22.7	20.1	19.1	15.0	11.6	9.9
Average					17.7	15.7	12.4	10.3	2.5	2.2	1.9	15.5	14.8	16.7	14.8	11.4	9.0
A-share education (consensus)																	
600661 CH	Shanghai Xin Nanyang Co Ltd	Dec	17.55	714	NA	27.4	21.9	18.9	4.7	3.5	3.1	6.8	11.3	12.7	NA	NA	NA
603377 CH	Eastern Pioneer Driving School	Dec	17.62	1,472	45.9	43.7	40.5	37.7	6.1	5.3	4.7	13.0	11.9	11.9	22.5	35.8	30.2
300359 CH	Qtone Education Group	Dec	5.63	507	NA	NA	NA	NA	2.7	NA	NA	NA	NA	NA	NA	NA	NA
Average					45.9	35.6	31.2	28.3	4.5	4.4	3.9	9.9	11.6	12.3	22.5	35.8	30.2
US education (consensus) *																	
Tutoring																	
TAL US	TAL Education Group	Feb	44.24	26,178	106.5	67.9	75.1	40.1	16.1	12.6	9.5	17.5	20.4	11.4	68.7	62.8	51.3
EDU US	New Oriental Education	May	119.85	18,988	53.6	45.7	34.6	26.2	9.5	8.4	6.7	16.1	12.5	18.9	37.0	39.0	26.9
CHGG US	Chegg Inc	Dec	38.28	4,631	NA	45.1	39.3	29.4	9.9	9.5	8.8	16.6	25.7	26.8	57.8	38.7	28.9
ONE US	OneSmart International	Aug	7.17	1,152	NA	21.1	20.6	16.2	297.0	6.6	5.8	143.8	34.6	34.6	11.1	14.0	10.4
REDU US	RISE Education	Dec	6.99	398	44.1	16.6	15.1	12.5	5.1	4.5	3.5	40.1	26.4	23.2	11.5	10.4	8.9
FEDU US	Four Seasons Education	Feb	1.89	94	67.2	9.4	NA	NA	0.8	0.9	NA	18.9	11.4	NA	4.4	4.9	NA
Private schools																	
LOPE US	Grand Canyon Education	Dec	87.63	4,226	15.9	16.0	15.0	13.9	3.1	NA	NA	20.3	19.2	17.4	14.0	14.3	12.9
LAUR US	Laureate Education	Dec	16.57	3,623	NA	6.4	13.1	10.9	1.3	1.4	1.2	13.4	43.0	12.1	8.8	8.6	7.6
ATGE US	Adtalem Global Education	Jun	33.16	1,790	12.2	11.7	13.4	11.2	1.4	NA	NA	4.3	10.0	10.0	8.3	8.4	9.4
BEDU US	Bright Scholar Education	Aug	9.40	1,170	33.9	22.7	20.7	17.3	3.0	NA	NA	12.9	12.3	13.7	19.3	13.8	8.4
RYB US	RYB Education	Dec	5.55	159	NA	55.5	18.5	13.7	1.7	1.4	1.3	4.0	4.9	8.0	31.7	18.5	10.3
Professional education																	
APEI US	American Public Education	Dec	25.09	386	19.7	23.0	22.2	17.6	1.3	NA	NA	8.3	3.1	5.5	3.7	5.2	5.5
TEDU US	Tarena International Inc	Dec	0.77	41	NA	NA	NA	NA	0.3	NA	NA	(36.0)	(46.0)	NA	NA	NA	NA
Average					44.1	28.4	26.1	19.0	27.0	5.7	5.2	21.5	13.7	16.5	23.0	19.9	16.4

Source: Data of various companies, Bloomberg, BOCI Research estimates

Note: Closing prices are as of 5 December 2019

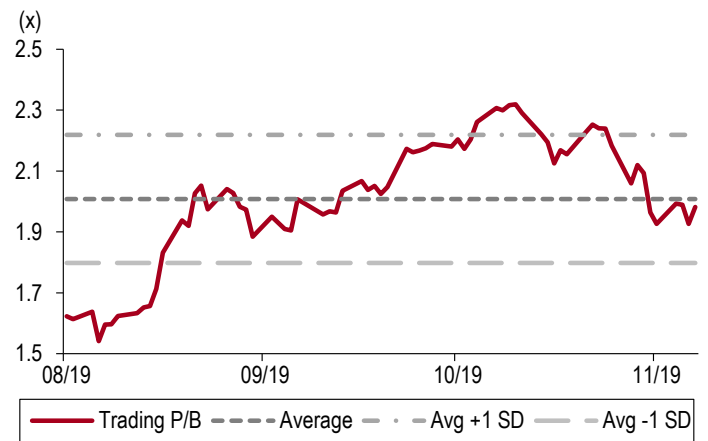
* Closing prices are as of 4 December 2019 for US peers

Figure 5. Edvantage's P/E Range



Source: Bloomberg, BOCI Research

Figure 6. Edvantage's P/B Range



Source: Bloomberg, BOCI Research

Income Statement (RMB m)

Year ended 31 Aug	2018	2019	2020E	2021E	2022E
Revenue	636	704	837	1,003	1,196
Cost of sales	(346)	(362)	(425)	(510)	(608)
Operating exp.	(49)	(76)	(54)	(66)	(100)
EBITDA	306	340	427	501	566
Depr & amortisation	64	74	69	73	77
Operating profit (EBIT)	241	266	357	427	489
Net interest inc./(exp.)	(18)	(28)	(23)	(23)	(22)
Other gains/(losses)	1	5	5	8	17
Pre-tax profit	225	243	339	412	483
Tax on profit	(48)	(28)	(32)	(39)	(45)
Min. int./others	(16)	2	0	0	0
Net profit	162	217	307	373	438
Core net profit	181	237	307	373	438
EPS (RMB)	0.216	0.277	0.301	0.366	0.430
Core EPS (RMB)	0.216	0.277	0.301	0.366	0.430
DPS (RMB)	0	0.010	0.090	0.110	0.129
Revenue YoY %	5.3	10.7	18.8	19.9	19.2
EBIT YoY %	13.8	10.3	34.2	19.5	14.4
EBITDA YoY %	9.9	11.3	25.3	17.3	13.0
Core net profit YoY%	13.5	30.6	29.6	21.5	17.4
Fully diluted EPS YoY%	23.2	28.4	8.9	21.5	17.4

Source: Company data, BOCI Research estimates

Cash-flow Statement (RMB m)

Year ended 31 Aug	2018	2019	2020E	2021E	2022E
Pre-tax profit	225	243	339	412	483
Depr. & amortisation	64	74	69	73	77
Net interest expenses	18	28	23	23	22
Chg. in working capital	62	231	(4)	(5)	(5)
Tax paid	(13)	(28)	(32)	(39)	(45)
Other operating activ's	(17)	36	32	39	45
CF from operations	338	583	428	504	577
CAPEX	(132)	(250)	(150)	(150)	(150)
Decr./ (incr.) in invest.	1	0	0	0	0
Other investing activ's	(707)	200	20	20	20
CF from investing	(839)	(50)	(130)	(130)	(130)
Net incr. in equity	0	688	-	-	-
Net incr. in debt	488	(150)	50	0	0
Dividends paid	0	(10)	(92)	(112)	(131)
Other financing activ's	(56)	(56)	15	(62)	(68)
CF from financing	432	472	(28)	(174)	(199)
Change in cash	(69)	1,006	270	200	248
Cash at start of year	216	149	1,154	1,424	1,624
Free cash flow to firm	(500)	533	298	374	447
Free cash flow to equity	(40)	356	325	351	425

Source: Company data, BOCI Research estimates

Balance Sheet (RMB m)

As at 31 Aug	2018	2019	2020E	2021E	2022E
Cash & cash equiv.	1,018	1,655	1,707	1,887	2,115
Receivables	23	32	38	45	54
Inventories	0	0	1	1	1
Total current assets	1,158	1,695	1,753	1,940	2,178
Fixed assets	1,176	1,353	1,436	1,514	1,588
Intangible assets	0	0	0	0	0
Other long term assets	63	79	205	204	202
Total long-term assets	1,238	1,432	1,641	1,718	1,790
Total assets	2,396	3,127	3,394	3,658	3,968
Creditors	8	7	8	9	11
Short-term debt	214	166	166	166	166
Other current liabs.	802	846	847	849	850
Total current liabs.	1,024	1,019	1,021	1,024	1,028
Long-term borrowings	568	390	440	440	440
Other long-term liabs.	106	113	113	113	113
Share capital	0	70	70	70	70
Reserves/others	626	1,536	1,751	2,012	2,318
Shareholders' equity	626	1,606	1,821	2,082	2,388
M.I./Pref. shr/Oth	73	0	0	0	0
Total liabs. & equity	2,396	3,127	3,394	3,658	3,968
Per share (RMB)					
Book value	0.8	1.6	1.8	2.0	2.3
Tangible assets	0.8	1.6	1.8	2.0	2.3
Net debt/(cash)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, BOCI Research estimates

Key Ratios

Year ended 31 Aug	2018	2019	2020E	2021E	2022E
Profitability (%)					
EBITDA margin	48.1	48.3	51.0	49.9	47.3
EBIT margin	37.9	37.8	42.7	42.6	40.8
Pre-tax margin	35.3	34.5	40.5	41.1	40.4
Net profit margin	25.4	30.8	36.7	37.2	36.6
Liquidity (x)					
Current ratio	1.1	1.7	1.7	1.9	2.1
Interest coverage	13.7	9.6	15.7	18.4	22.0
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Quick ratio	1.1	1.7	1.7	1.9	2.1
Valuation (x)					
P/E	18.4	14.3	13.1	10.8	9.2
Core P/E	18.4	14.3	13.1	10.8	9.2
Core P/E @ target price	30.2	23.5	21.6	17.8	15.2
P/B	4.7	2.5	2.2	1.9	1.7
P/FCF	14.4	12.1	14.5	11.4	9.4
EV/EBITDA	NM	4.5	6.9	5.5	4.5
Activity ratios					
Inventory days	1.0	0.5	0.4	0.4	0.4
Accounts receivables days	8.7	14.1	15.2	15.1	15.2
Accounts payables days	7.6	3.8	3.2	3.1	3.1
Returns (%)					
Dividend payout ratios	0	4.7	30.0	30.0	30.0
Return on equity	30.4	21.2	17.9	19.1	19.6
Return on assets	9.4	8.5	9.9	11.0	11.6
Return on capital employed	20.1	14.6	15.6	16.7	17.2

Source: Company data, BOCI Research estimates

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