

## Education

Buy (Maintain)

Target: 6.6 HKD

Price: 3.7 HKD

Upward  
potential: 79%

## Market Data

Date 2018.10.5

Closing Price (HKD)	3.70
Total shares (billions)	32.65
Market Cap (billions HKD)	121
Net asset (billions RMB)	34.5
Total asset (billions RMB)	52.6
Net asset/share (RMB)	1.06

Source: Wind

## Related report

&lt;Hunan University merged over expectation&gt;20180504

&lt;Acquired Hunan University, started an off-site expansion&gt;20180105

&lt;Students enrollment increased steadily, tuition fee rose smoothly&gt;20170918

## Overseas Education Sector

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06169.HK China Yuhua Education

SZ-HK Stock Connect

Enrollment beyond expectation on new academic year,  
Outstanding teaching quality secures performance

2018.10.08

## Key Financials

Financial Year	2017A	2018E	2019E	2020E
Revenue(millions)	846	1,239	1,644	1,865
YOY (%)	8.3	46.4	32.7	13.5
Adj-Net income(millions)	429.9	582.3	807.4	983.8
YOY (%)	33.5	35.5	38.7	21.9
Gross profit margin (%)	51.5	63.7	63.8	63.3
Net profit margin (%)	37.1	43.7	50.4	55.0
ROE (%)	12.7	22.0	28.5	29.7
Adj-EPS(Yuan)	0.17	0.18	0.25	0.30
Dividend Per share (HKD)	0.08	0.09	0.13	0.17

Source: Company materials, Industrial Securities

## Investment highlights

**Maintain "BUY", TP 6.6HKD:** the company's overall enrollment exceed our expectation during 2018/19 academic year, and the universities' performance is even more prominent. Both universities' tuition fee has been increased on a range of 10%-30%, and the new high rate of enrollment has not been affected by the increase in fees. K-12 tuition fees and the freshmen enrollment has been increased steadily, at the same time, the "985211" rate has reached new high again. Based on the number of students enrolled and the adjustment of tuition fees exceeding expectations, we upgraded the company's profit forecast by 67 million RMB and 110 million RMB respectively, resulting in net profit of 580 million RMB, 811 million RMB and 980 million RMB in fiscal year 2018-2020, an increase of 35.5%, 38.7% and 21.9% respectively. Maintain the "buy" rating and maintain the target price of HK \$6.6. There is 79% room for improvement over the closing price of October 5, 2018, corresponding to 32x, 23x and 19x PE for fiscal year 2018-2020, and 1x the three-year compound growth rate of PEG for fiscal year 2018-2020.

**Zhengzhou university enrollment exceeded expectation:** enrollment of Zhengzhou university reached 96% in the 2018/19 academic year, exceeding the previous 92%-94% average. Freshmen enrollment exceeded 10,000 and the total number of school students exceeded 30,000, the employment rate of 2018 graduates reached above 95% and the graduate entrance examination rate reached 14.7%. Zhengzhou university ranked first in China's Alumni Association's private university list in Henan Province, and the seventh place in the country.

**Hunan university tuition rose significantly:** the tuition fees for freshmen of Hunan university rose by 5,000 yuan to 20,000-22,700 yuan per year, and the tuition fees for junior college students rose by 2,000 yuan to 11,200-13,400 yuan per year in 2018/19 academic year. At the same time, Hunan university's enrollment rate reached 96%, a record high, and the total number of students in schools was over 30,000.

**K-12 awards higher Gaokao achievements:** In 2018, eight students from Yuhua schools were admitted to Tsinghua University and Peking University. Among them, there are seven students from Zhengzhou Yuhua School were admitted to Tsinghua University and Peking University, and one student from Jiaozuo Yuhua School was admitted to Peking University. The company's "985211" key university rate reached 26.4%, compared with the average "985211" rate in Henan Province is less than 4%; the company's first-batch-university rate reached more than 40%, whereas Henan Province's average rate is 10.7%.

**K-12 enrollment went steadily and tuition fees increased smoothly:** the enrollment of freshmen students in K-12 school increased more than the same period last year, and tuition fees kept a steady 5% annual average growth rate.

**Risk tips:** 1) changes in the national education policy; 2) company acquisition, self-construction and other expansion process under expectation; 3) students, parents unsatisfied in teaching quality; 4) VIE structure policy risk.



## Context

- **Zhengzhou university enrollment exceeded expectation:** enrollment of Zhengzhou university reached 96% in the 2018/19 academic year, exceeding the previous 92%-94% average. Freshmen enrollment exceeded 10,000 and the total number of school students exceeded 30,000, the employment rate of 2018 graduates reached above 95% and the graduate entrance examination rate reached 14.7%. Zhengzhou university ranked first in China's Alumni Association's private university list in Henan Province, and the seventh place in the country.
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## C1、Admission list of Zhengzhou Yuhua experimental school in 2018



The image shows a large red banner with the title "宇华实验学校2018年高考录取金榜(部分)" (Yuhua Experimental School 2018 Gaokao Admission Golden List (Part)). Below the title, there are several small portraits of students and a large table listing their names, the universities they were admitted to, and their scores. The table is organized in columns, with each column representing a different university or group of students. The names of the students are written in Chinese characters, and the universities are listed in both Chinese and English. The scores are also provided for each student.

Resource: company materials, Industrial Securities

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expectations, we upgraded the company's profit forecast by 67 million RMB and 110 million RMB respectively, resulting in net profit of 580 million RMB, 811 million RMB and 980 million RMB in fiscal year 2018-2020, an increase of 35.5%, 38.7% and 21.9% respectively. Maintain the "buy" rating and maintain the target price of HK \$6.6. There is 79% room for improvement over the closing price of October 5, 2018, corresponding to 32x, 23x and 19x PE for fiscal year 2018-2020, and 1x the three-year compound growth rate of PEG for fiscal year 2018-2020.

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**Attachment**

<b>Balance Sheet</b>		In millions RMB			
<b>FY</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	
<b>Current Asset</b>	1,641	1,975	2,671	3,365	
Cash and equivalents	643	969	1,658	2,348	
Receivables	13	20	27	31	
<b>Non-current Asset</b>	1,733	1,809	1,882	1,950	
Prepaid land lease payments	236	236	236	236	
Property, plant and equipment	1,477	1,554	1,626	1,695	
Intangible assets	2	2	2	2	
Other non-current asset	18	18	18	18	
<b>Total asset</b>	3,375	3,785	4,552	5,315	
<b>Current liability</b>	897	1,236	1,559	1,773	
Account payable and other	266	185	244	281	
Deferred revenue	632	991	1,315	1,492	
Borrowing	0	60	0	0	
<b>Non-current liability</b>					
Borrowing	0	80	80	80	
Other non-current liability	0	0	0	0	
Deferred revenue	0	0	0	0	
<b>Total liability</b>	897	1,316	1,639	1,853	
Share premium	1,318	1,029	1,029	1,029	
capital reserve	517	517	517	517	
retained earnings	642	895	1,279	1,756	
<b>Total shareholder equity</b>	2,477	2,464	2,908	3,457	
<b>Total liability and shareholder equity</b>	3,375	3,780	4,547	5,310	

<b>Cash flow statement</b>		In millions RMB			
<b>FY</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	
Net income	314	555	828	1,026	
Depreciation& Amortization	70	74	78	81	
Prepaid expense and account receivable	526	895	1,247	1,258	
Net finance charge	(5)	9	(35)	(60)	
Deferred Revenue	23	359	324	177	
<b>Net operating cash flow</b>	516	860	1,239	1,252	
Interest income	1	26	43	66	
CapEx	(88)	(150)	(150)	(150)	
<b>Net investing cash flow</b>	(1,076)	(1,339)	(107)	(84)	
Dividend	(97)	(253)	(384)	(477)	
<b>Net financing cash flow</b>	913	806	(444)	(477)	
Net change in Cash	353	327	689	690	
Cash-beginning	305	643	969	1,658	
Cash-end	643	969	1,658	2,348	

<b>Income Statement</b>		In millions RMB			
<b>FY</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	
<b>Revenue</b>	846	1,239	1,644	1,865	
Cost	410	450	594	684	
Gross Margin	436	789	1,049	1,181	
Selling expense	4	49	43	29	
Management expense	147	201	245	221	
Other income	24	25	31	35	
<b>Operating profit</b>	309	564	793	966	
Finance cost	(5)	9	(35)	(60)	
<b>Income before tax</b>	314	555	828	1,026	
Tax	0	14	0	0	
<b>Net income</b>	314	541	828	1,026	
Minority interest	0	35	61	72	
Net income attribute to shareholder	314	506	767	955	
<b>Adjusted EPS (Yuan)</b>	0.17	0.18	0.25	0.30	

<b>Key financial ratio</b>					
<b>FY</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	
<b>Growth (%)</b>					
Revenue	8.3	46.4	32.7	13.5	
Net income attribute to shareholder	33.5	35.5	38.7	21.9	
<b>Profit Margin (%)</b>					
Gross Margin	51.5	63.7	63.8	63.3	
Net Margin	37.1	43.7	50.4	55.0	
<b>Solvency test (%)</b>					
Current ratio	182.9	159.8	171.3	189.8	
Quick ratio	71.6	78.4	106.3	132.4	
<b>Operation(times)</b>					
Accounts payable turnover	1.5	2.4	2.4	2.4	
Accounts receivable turnover	65.4	60.8	60.8	60.8	
<b>Per share (RMB)</b>					
Net operating cash per share	0.19	0.26	0.38	0.38	
Net asset per share	0.94	0.76	0.89	1.06	
<b>Multiple(x)</b>					
PE	23	21	15	12	
PB	2.9	3.6	3.0	2.6	

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**Industry Investment Rating:** When measuring the difference between the markup of the industry index and that of the market's benchmarks (HSI, Hang Seng Index) within twelve months after the release of the report, we define the terms as follows:

- Overweight: Industry performs better than that of the whole market;
- Neutral: Industry performs about the same as that of the whole market;
- Underweight: Industry performs worse than that of the whole market

**Company Investment Rating:** When measuring the difference between the markup of the company stock price and that of the market's benchmarks (HSI, Hang Seng Index) within twelve months after the release of this report, we define the terms as follows:

- Buy: With a markup more than 15% better than that of the market;
- Outperform: With a markup 5% to 15% better than that of the market;
- Neutral: With a markup less than 5% better or worse than that of the market;
- Underperform: With a markup more than 5% worse than that of the market

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