



Rating  
**Buy**

Asia  
China

Consumer  
Education Services

Company  
**Wisdom**

Reuters 6068.HK    Bloomberg 6068 HK    Exchange HSI    Ticker 6068

Date  
22 November 2018

**Breaking News**

Price at 21 Nov 2018 (HKD)	3.24
Price target - 12mth (HKD)	8.30
52-week range (HKD)	7.44 - 3.08
HANG SENG INDEX	25,971

## Adding new school in Zhangzhou

**What's new? acquiring a school in Fujian province**

On 21 Nov-2018, Wisdom announced the acquisition of a private school (Grade 1 to 12) in Zhangzhou city, Fujian province. In detail:

- Wisdom acquired a PRC investment company, which holds Zhang Pu Longcheng School (including primary/middle and high school, Grade 1 to 12) and obtained the operation of these schools at a total consideration of RMB183 million (for the entire interests in the schools and the land occupied by the schools).
- Student enrollment: c.2,900 students; Capacity: c.3,000 students. After consolidation, their total student enrollment increased by 6% to 54,420 students currently (from 51,520 as at 1 Sep 2018).
- Average annual tuition and boarding fees per student: c.RMB13,000
- Expected total revenue for FY2019: c.RMB 60 million (including a large portion of ancillary services). Expected net margin:>20%. Although the impact of earnings is less than 5%, Wisdom will explore opportunities to acquire more land use rights adjacent to these schools in order to expand their capacity.
- In addition, Zhangzhou city is close to East Guangdong where they operate a private school in Jieyang city and they plan to open a new school in Chaozhou city in the future.

**Our take - fundamentals continue to be strong; acquisition may boost market's confidence**

- Investors previously had concerns on private school acquisition (section 12), especially of Grade 1 to 9 schools, which are required to be not-for-profit. Wisdom's acquisition echoes our view that it can be feasible to acquire shares of organizer/shareholders of the not-for-profit private schools. We believe Wisdom's acquisition may further boost investor's confidence in the K12 school sector, which has been overshoot by the updated education promotion law, in our view.
- In addition, we want to remind investors that Wisdom does not operate any kindergartens. Stock price of Kindergarten listed names (such as RYB and BEDU, not covered) dropped by c.40% after the State Council revealed in a policy document on Nov 15 that it plans to ban private pre-

**Valuation & Risks**

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**Price/price relative**

Performance (%)	1m	3m	12m
Absolute	5.2	-31.9	-29.6
HANG SENG INDEX	1.6	-6.4	-12.9

*Source: Deutsche Bank*

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schools from listing independently or as part of a portfolio and prevent for-profit kindergartens from raising funds from listed companies.

- As the leading private school provider, Wisdom's strategy is to leverage its high school students' performance for brand and reputation, which in turn drives up its middle/primary school enrollments. Wisdom had earlier expected growth in tuition and boarding revenue to be higher than 25.1% in FY2019, as the tuition and boarding fees has increased for newly enrolled students for 2018/19 academic year.
- Robust expected growth of total student enrollment in FY2019 implies another year of high revenue growth. We are confident in our FY2019E revenue growth of 31% (DB estimates: FY2018E/19E revenue growth of 25%/31% and core net profit growth of 33%/43%).
- Wisdom is currently trading at 10x PER on our CY2019 EPS vs. CAGR of 34% from 2018-20E. We view current valuation attractive given that the fundamentals remain strong.

Forecasts and ratios

Year End Aug 31	2016A	2017A	2018E	2019E	2020E
Sales (CNY)	700.7	979.1	1,226.9	1,608.9	2,045.9
EBITDA (CNY)	248.2	362.4	449.7	639.9	796.5
Reported NPAT (CNY)	154.4	200.2	283.1	426.3	548.2
Reported EPS FD (CNY)	0.10	0.11	0.16	0.23	0.30
DB EPS FD (CNY)	0.12	0.14	0.16	0.23	0.30
PER (x)	-	15.4	18.5	12.3	9.5
EV/EBITDA (x)	-	11.4	12.4	8.1	5.9
DPS (net) (CNY)	0.00	0.00	0.00	0.00	0.00
Yield (net) (%)	-	0.0	0.0	0.0	0.0

Source: Deutsche Bank estimates, company data



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Wisdom	6068.HK	3.24 (HKD) 21 Nov 2018	NA

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## Historical recommendations and target price. Wisdom (6068.HK)

(as of 11/21/2018)



### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

- 05/15/2018 Buy, Target Price Change HKD 8.30 Tallan Zhou



Equity Rating Key

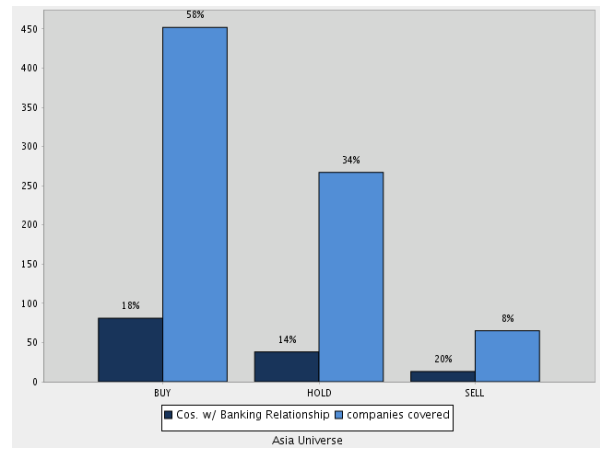
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