

Equity Research Report



Education

Outperform (Maintain)

Target Price: 6.00 HKD

Current Price: 3.28HKD

Projected
Growth: 83%

Market Data

Date	2018.11.5
Closing Price(HKD)	3.28
Total Shares (Mn)	2,043
Market Cap (HKD/Mn)	6,701
Net Assets (CNY/Mn)	1,977
Total Assets (CNY/Mn)	5,472
BVPS(CNY)	0.97

Source: Wind

Related Report

"2018FY Interim Results in line with expectation, continue expanding steadily"20181204

"Clear operating mode, strong growing motivation"20180206

"High growth rate of revenue, steady position of finance"20171127

"High-quality private education K-12 company, inner and outer expansion as performance drivers"20170808

"Entered another city in Guangdong, accelerating expanding speed"20170622

"Achieved school admission target, the number of students maintains stable"20170914

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06068.HK Wisdom Education International

FY 2018 Performance beyond Expectation,
New School Reserves Sufficient for Continuing GrowthDec 6th, 2018

Key Financial Indicators

FY	FY2018A	FY2019E	FY2020E	FY2021E
Revenue (Mn/CNY)	1,247	1,630	2,027	2,571
YoY (%)	27.3	30.7	24.3	26.9
Core Net Profit (Mn/CNY)	322.0	419.3	523.3	665.9
YoY (%)	29.6	30.2	24.8	27.2
Gross Margin (%)	43.7	43.8	44.0	44.2
Net Profit Margin (%)	24.9	24.8	25.1	25.3
ROE (%)	11.5	15.7	18.2	20.1
EPS (CNY)	0.15	0.20	0.25	0.31
Dividend Per Share (CNY)	0.07	0.08	0.10	0.13

Source: Company Materials, Industrial Securities

Investment Highlight

- **Our Comments:** Wisdom EDU has reached outstanding performance in FY 2018 by improving the utilization rate of Weifang Guangzheng Preparatory School and purchasing Jieyang and Weifang Weizhou Schools. Based on the consolidation of Zhangzhou Schools and the opening of 5 new self-built schools in FY2019E/FY2020E, we expect company's high growth rate to maintain. We expect the revenues in FY2019E/FY2020E/FY2021E to be CNY 1630M, 2027M and 2571M, up by 30.7%, 24.3% and 26.9% y-o-y. The core net profits are estimated to be CNY 419M, 523M, and 666M, up by 30.2%, 24.8%, and 27.2% y-o-y. We maintain rating with "Ourperform", adjusting TP to 6 HKD, representing 25X, 20X, and 16X PE in FY2019E/FY2020E/FY2021E.
- **FY2018 performance beyond expectation:** Company has achieved revenue of CNY 1247M in FY2018, up by 27.3% y-o-y, 2.5% high above our expectation. Tuition and boarding fees income and ancillary services income respectively consist 67.5% and 32.5% of the revenue. The net profit in FY2018 is CNY 307M, up by 55% y-o-y, 13.1% high above our expectation. Core net profit amounts to CNY 322M, up by 29.6% y-o-y, 18.4% high above our expectation.
- **GPM decreases slightly due to school expansion; effective tax rate decreases significantly:** Company built new Guangan Guangzheng School by itself, purchased a school for the representative Dongguang Guangming School, and expanded Dongguan Guangzheng, Huizhou Guangzheng, Panjin Guangzheng and Weifang Guangzheng Preparatory Schools in FY2018. Expansion and purchase brought depreciation and led GPM to decrease. However, company still maintains a higher GPM comparing to peers. Company has completed the change of nature to be "Non-profit school". Effective tax rate decreases significantly to 11.1%, and the low tax rate will be maintained.
- **The number of students steadily grows:** Company focuses on Greater Bay Area. Among the 11 schools operated, 6 were located in Guangdong province, and the new schools opening in the future also mainly locates in Guangdong. The purchase of Jieyang and Weifang Weizhou Schools increased total student numbers to 43230 by the end of Aug, up by 36% y-o-y. With elimination of the effect of purchase, the number of total students amounted to 36679, up by 15.4% y-o-y. Student capacity rose to 92000 by Sep 1st, up by 85.5% y-o-y. Company reversed sufficient new school sources that can lead student number to grow steadily. We expect CAGR of student number to be 20.4% from FY2019E to FY2021E.

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.



Attachment

Balance Sheet		In millions CNY			
FY	FY2018A	FY2019E	FY2020E	FY2021E	
Current Asset	1468.3	1326.1	1225.6	1265.1	
Cash and cash equivalents	911.4	836.0	603.0	681.7	
Inventory	5.5	12.4	6.5	14.6	
Prepaid expense, deposit and other Account receivable	162.2	87.9	223.1	171.4	
Prepaid Lease Payments	12.4	13.0	16.2	20.6	
Non-current Asset	4003.3	4504.7	5149.8	5813.9	
Property and equipment, net	2492.4	3007.1	3533.1	4033.8	
Prepaid Lease Payments	502.1	488.9	608.0	771.3	
Total asset	5471.7	5830.9	6375.5	7078.9	
Current liability	1643.3	1759.7	1999.1	2311.8	
Deferred revenue	617.0	733.4	972.8	1285.5	
Accounts payable	616.2	616.2	616.2	616.2	
Income Tax Payable	128.1	128.1	128.1	128.1	
Borrowing	282.0	282.0	282.0	282.0	
Non-current liability	1851.0	1851.0	1851.0	1851.0	
Borrowing	1425.3	1425.3	1425.3	1425.3	
Total liability	3494.3	3610.7	3850.1	4162.8	
Reserves	1893.0	2135.6	2440.6	2831.0	
Total shareholder equity	1977.3	2220.2	2525.4	2916.1	
Total liability and shareholder equity	5471.7	5830.9	6375.5	7078.9	

Cash flow statement		In millions CNY			
FY	FY2018A	FY2019E	FY2020E	FY2021E	
Net income	345.6	449.5	565.0	707.7	
Depreciation& Amortization	60.0	97.4	118.8	141.3	
Inventory	3.3	-6.9	5.9	-8.1	
Account payable	222.9	0.0	0.0	0.0	
Deferred Revenue	180.2	116.4	239.4	312.7	
Paid Income Tax	-32.7	-45.0	-56.5	-56.6	
Net operating cash flow	652.0	757.6	808.3	1257.5	
Net investing cash flow	-871.3	-592.1	-760.3	-804.9	
Net financing cash flow	886.4	-240.8	-281.0	-373.9	
Net change in Cash	637.4	-75.4	-233.0	78.7	
Cash-beginning	555.6	1193.0	1117.6	884.6	
Cash-End	1193.0	1117.6	884.6	963.3	

Income statement		In millions CNY			
FY	FY2018A	FY2019E	FY2020E	FY2021E	
Revenue	1246.9	1629.8	2026.6	2571.0	
Operating cost	702.1	915.9	1134.9	1434.6	
Selling expense	19.5	24.4	30.4	33.4	
Management expense	220.9	220.0	273.6	334.2	
Finance cost	57.5	79.1	77.7	113.6	
Income before tax	345.6	449.5	565.0	707.7	
Tax	38.4	45.0	56.5	56.6	
Net income	307.2	404.6	508.5	651.1	
Minority interest	0.0	0.0	0.0	0.0	
Net income attribute to shareholder	310.4	404.4	508.3	650.7	
Core net profit	322.0	419.3	523.3	665.9	
EPS (Cent)	15.0	19.5	24.6	31.4	

Key financial ratio

FY	FY2018A	FY2019E	FY2020E	FY2021E
Growth (%)				
Revenue	27.3	30.7	24.3	26.9
Operating profit	26.7	46.1	22.0	28.4
Net income	29.6	30.2	24.8	27.2
Profit Margin (%)				
Gross Profit Margin	43.7	43.8	44.0	44.2
Net Profit Margin	24.9	24.8	25.1	25.3
ROE	15.7	18.2	20.1	22.3
Solvency test (%)				
Debt ratio	63.9	61.9	60.4	58.8
Current ratio	0.9	0.8	0.6	0.5
Quick ratio	0.8	0.7	0.5	0.5
Operation(times)				
Total assets turnover	0.2	0.3	0.3	0.4
Accounts receivable turnover	2.1	2.0	1.7	1.5
Per share (CNY)				
EPS	0.2	0.2	0.2	0.3
Net assets per share	0.9	1.0	1.2	1.4
Multiple(x)				
PE	18.1	13.9	11.1	8.7
PB	2.9	2.6	2.3	2.0

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- 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

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