

Edvantage Group (382 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$2.35

Target Price: HK\$3.80(+61.7%)

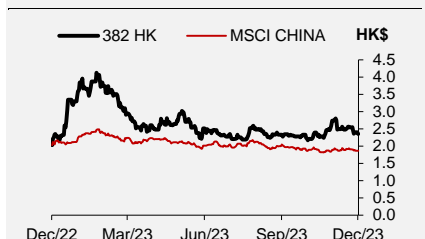
Prior TP: HK\$3.80

Key Data

HKEx code	382 HK
12 Months High (HK\$)	4.28
12 Month Low (HK\$)	2.11
3M Avg Dail Vol. (mn)	0.38
Issue Share (mn)	1,141.45
Market Cap (HK\$mn)	2,682.41
Fiscal Year	08/2023
Major shareholder (s)	Director Liu & Family (70.83%)

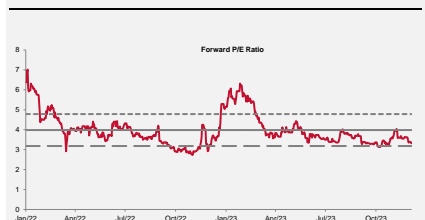
Source: Company data, Bloomberg, OP Research
Closing price are as of 4 Dec 2023

Price Chart



	1mth	3mth	6mth
Absolute %	-14.2	+3.5	-5.6
Rel. MSCI CHINA %	-12.7	+11.1	+2.5

PE



Company Profile

Edvantage Group is the largest private higher education group in the Greater Bay Area in terms of total student enrolment of business majors. It currently operates four private higher education institutions in the PRC.

FY23 earnings beats our expectation

- For FY23, profit attributable to shareholders rose 9.0% yoy to RMB 618.4mn, on the back of an 17.0% yoy increase in revenue to RMB1.97bn. Adjusted net profit was RMB 667.8mn, up 15.3% yoy.
- Final DPS was HK\$0.09. Full-year DPS of HK\$0.18, representing a dividend pay-out ratio of ~30%.
- Number of student enrolments for SY23/24 reached 95,000, up 16% yoy
- Maintain BUY and TP of HK\$3.80, representing 5.5x FY24E PER

FY23 earnings beats our expectation. Edvantage's adjusted net profit in FY23 exceeded our estimation by 6.5%. This is mainly driven by the positive surprise in GPM (rose 1.2 p.p. to 51.6%), combined with the higher revenue and the almost-zero effective tax rate. By segments, revenue from tuition fee/boarding fees/non-formal vocational education service fees amounted to RMB1.74bn/ RMB171.6mn/ 65.5mn, representing yoy change of +17.3%/+26.0%/-5.5%, respectively. The increase in tuition fees and boarding fees was mainly attributable to the increase in the number of students enrolled and the average tuition fees for all schools in China. Meanwhile, it explained that the decline in revenue from non-formal vocational education was due to its primarily focus on formal higher school businesses.

Steady student growth outlook. Edvantage previously disclosed that the number of new student admissions for SY2023/24 grew 23% yoy to 37,900. On 13 Oct 2023, the total number of students enrolled for schools in China reached 95,000, up 16% yoy. The company's initiatives to train talents that fit the latest employment market trends would boost its reputation and improve the tuition fee outlook. At the same time, the high utilisation rate of Edvantage's schools will limit student growth. The new capacity mainly comes from the new Jiangmen campus of Huashang Vocational College. We expect the growth of campus capacity to support students to grow at a mid-to-high single-digit rate in the next few years.

Earnings revision. We lift up our EPS (in HK\$) forecast for FY24E/FY25E by 0.1%/8.8%, on the back of an improvement of GPM and a lower tax expense. Without new M&A, we anticipate Edvantage to report a 5.4% CAGR in EPS (in HK\$) in the next three fiscal years due to the slowdown in student growth.

Maintain BUY and TP of HK\$3.80. The TP represents 5.5x P/E ratio in FY24E.

Risk: (1) policy uncertainty on private higher school, especially the tax impact for the implementation of the new private education law.

Exhibit 1.: Forecast and Valuation

Fiscal year to Aug (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,686	1,973	2,220	2,414	2,594
Growth (%)	+34.7	+17.0	+12.5	+8.7	+7.4
Adj. net profit	579	668	727	802	819
Growth (%)	+26.0	+15.3	+8.9	+10.3	+2.1
Adj. diluted EPS (HK\$)	0.650	0.664	0.692	0.763	0.779
Adj. EPS growth (%)	+24.1	+4.7	+4.1	+10.3	+2.1
Change to previous EPS (%)			+0.1	+8.8	
Consensus EPS (HK\$)			0.709	0.781	0.779
ROE (%)	20.6	19.0	18.7	17.8	16.1
P/E (x)	3.8	3.6	3.5	3.1	3.1
P/B (x)	0.7	0.7	0.6	0.5	0.5
Yield (%)	8.2	7.5	8.7	9.6	9.7
DPS (HK\$)	0.196	0.180	0.208	0.229	0.234

Source: Bloomberg, OP Research

Exhibit 2.: FY23 Earnings review

	FY23 (Actual)	FY23 (Forecast)	FY22 (Actual)	Diff with forecast	Yoy%	Remarks
Profitability Data (in RMB mn)						
Revenue	1,973	1,943	1,686	+1.5%	+17.0%	
Gross Profit	1,018	979	850	+4.0%	+19.9%	
Adjusted profit attributable to shareholders	668	626	579	+6.5%	+15.3%	
Profitability ratio (%)						
GPM	51.6%	50.4%	50.4%	+1.2p.p.	+1.2p.p.	
Adjusted net profit margin	33.8%	32.2%	34.4%	+0.6p.p.	-0.6p.p.	
Operating ratio (%)						
Selling and admin expenses to revenue	17.8%	17.6%	16.8%	+0.2p.p.	+0.9p.p.	
Effective tax rate	0.2%	2.4%	1.2%	-2.2p.p.	-1.0p.p.	

Sources: The Company, OP research

Exhibit 3.: Earnings revision

Fiscal year ended Aug (RMB mn)	FY24E			FY25E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	2,220	2,271	-2.2	2,414	2,499	-3.4	
Gross margin	51.8%	50.5%	+1.3p.p.	52.0%	50.6%	+1.4p.p.	We tune up the GPM forecast on based on the better GPM in FY23.
Adj. net profits	727	727	-	802	737	+8.8	We lift the EPS forecast for FY25E. We anticipate Edvantage to enjoy a lower tax rate for a longer time.
Diluted EPS (HK\$)	0.692	0.691	+0.1	0.763	0.701	+8.8	

Source: OP Research

Exhibit 4.: Key assumptions on students and tuition fee

Student enrollments(China)		Unit	SY23/24E	SY24/25E
New		student	95,000	100,000
Old		student	93,600	96,800
Change (%)			+1.5%	+3.3%
Average revenue(China)			FY24E	FY25E
New		RMB	22,607	23,307
Old		RMB	22,790	23,085
Change (%)			-0.8%	+1.0%

Source: OP Research

Exhibit 5.: Peer Group Comparison

														Sh px	Sh px
			3-mth			3-Yr							1-mth	3-mth	
			Mkt cap	avg t/o	PER	PER	PER	EPS		P/B Hist	P/B FY1	ROE	ROE		
Company	Ticker	Price	(US\$m)	(US\$m)	Hist (x)	FY1 (x)	FY2 (x)	Cagr (%)	PEG (x)	(x)	(x)	Hist (%)	FY1 (%)	%	%
Edvantage Group	382 HK	2.35	343	0.1	3.6	3.5	3.1	5.4	0.7	0.7	0.6	19.0	18.7	-14.2	+3.5
HSI		16,646.05			9.2	8.4	7.7	9.3	0.9	1.0	0.9	10.6	11.2	-5.8	-11.7
HSCEI		5,703.33			7.8	7.6	6.9	8.1	0.9	0.9	0.9	11.2	11.5	-5.8	-12.7
CSI300		3,460.14			12.6	12.0	10.3	11.9	1.0	1.5	1.4	11.6	11.6	-3.5	-10.1
Adjusted sector avg					5.2	3.7	3.3	28.1	0.2	0.5	0.5	14.8	13.6	-11.4	-22.0
China Edu Group	839 HK	4.54	1,482	4.7	7.5	4.8	4.3	23.2	0.2	0.6	0.6	11.4	12.8	-31.4	-34.6
China Kepei Edu	1890 HK	1.34	346	0.3	3.5	2.7	2.6	14.2	0.2	0.6	0.5	19.7	20.4	-33.7	-37.4
Hope Educ	1765 HK	0.41	426	0.8	14.2	3.4	3.0	77.3	0.0	0.3	0.3	5.3	10.2	-10.0	-23.6
China New Higher	2001 HK	2.13	424	0.3	4.3	3.8	3.4	10.1	0.4	0.9	0.8	21.0	19.9	+7.0	-9.7
China Yuhua Edu	6169 HK	0.55	254	0.7	1.6	2.1	2.0	-11.1	N/A	0.4	0.2	22.3	12.9	-16.7	-35.3
Cathay Media	1981 HK	0.81	172	0.0	12.5	5.3	4.5	54.9	0.1	0.5	0.3	-7.1	5.7	+1.2	-6.9
Minsheng Edu	1569 HK	0.25	134	0.0	1.9	N/A	N/A	N/A	N/A	0.2	N/A	9.2	N/A	+3.3	-6.4
China Xinhua Edu	2779 HK	0.53	109	0.0	3.3	N/A	N/A	N/A	N/A	0.2	N/A	7.5	N/A	-7.0	-20.9

* Outliners and "N/A" entries are excl. from the calculation of averages

Sources: Bloomberg, OP Research

Financial Summary

Fiscal year to Aug	22A	23A	24E	25E	26E
Income Statement (RMB mn)					
Turnover	1,686	1,973	2,220	2,414	2,594
YoY%	+34.7	+17.0	+12.5	+8.7	+7.4
COGS	-836	-955	-1,070	-1,159	-1,240
Gross profit	850	1,018	1,150	1,255	1,354
Gross margin	50.4%	51.6%	51.8%	52.0%	52.2%
Other income	88	65	86	95	109
Selling & distribution	-48	-56	-60	-63	-65
Admin	-236	-294	-322	-343	-363
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	-284	-351	-382	-406	-428
Operating profit (EBIT)	653	733	854	944	1,035
Operating margin	38.8%	37.1%	38.5%	39.1%	39.9%
Interest Income	6	14	14	14	14
Finance costs	-6	-26	-10	-10	-10
Profit after financing costs	653	720	858	948	1,039
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	653	720	858	948	1,039
Tax	-8	-1	-26	-28	-104
Minority interests	-78	-100	-105	-118	-116
Net profit	567	618	727	802	819
YoY%	+35.7	+9.0	+17.6	+10.3	+2.1
Adjusted net profit	579	668	727	802	819
YoY%	+26.0	+15.3	+8.9	+10.3	+2.1
Adjusted net margin	34.2%	33.8%	32.8%	33.2%	31.6%
EBITDA	817	928	1,072	1,166	1,261
EBITDA margin	48.4%	47.0%	48.3%	48.3%	48.6%
Adjusted EPS (HK\$)	0.650	0.664	0.692	0.763	0.779
YoY%	+24.1	+4.7	+4.1	+10.3	+2.1
DPS (HK\$)	0.196	0.180	0.208	0.229	0.234
Fiscal year to Aug	22A	23E	24E	25E	26E
Cash Flow (RMB mn)					
EBITDA	818	928	1,072	1,166	1,261
Chg in working cap	143	258	189	176	97
Others	-15	0	0	0	0
Cash flows from operation	946	1,186	1,261	1,342	1,359
Tax	-2	-8	-1	-26	-28
Net cash from operations	944	1,179	1,260	1,316	1,330
Capex	-569	-651	-400	-350	-350
Investments	-137	0	0	0	0
Interests received	5	6	14	14	14
Sales of assets	0	0	0	0	0
Others	185	154	0	0	0
Investing cash	-516	-492	-386	-336	-336
Issue of shares	0	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Interest paid	-83	-83	-87	-87	-87
Dividends paid	-128	-71	-143	-215	-238
Net change in bank loans	313	153	0	0	0
Others	-7	-1	0	0	0
Financing cash	94	-2	-230	-303	-325
Net change in cash	523	685	643	677	669
Exchange rate or other Adj	0	0	0	0	0
Opening cash	795	1,318	2,003	2,646	3,323
Closing cash	1,318	2,003	2,646	3,323	3,992
CFPS (HK\$)	1.06	1.17	1.20	1.25	1.27

Source: Company, OP Research

Fiscal year to Aug	22A	23A	24E	25E	26E
Ratios					
Gross margin (%)	50.4	51.6	51.8	52.0	52.2
Operating margin (%)	38.5	37.1	38.5	39.1	39.9
Adjusted net margin (%)	34.4	33.8	32.8	33.2	31.6
Selling & dist'n exp/Sales (%)	2.9	2.8	2.7	2.6	2.5
Admin exp/Sales (%)	14.0	14.9	14.5	14.2	14.0
Payout ratio (%)	33.6	27.1	30.0	30.0	30.0
Effective tax (%)	1.2	0.2	3.0	3.0	10.0
Total debt/equity (%)	81.9	79.0	69.5	63.8	57.7
Net debt/equity (%)	41.0	31.4	16.8	5.2	Net cash
Current ratio (x)	0.7	0.8	1.1	1.2	1.4
Quick ratio (x)	0.7	0.8	1.1	1.2	1.4
Inventory T/O (days)	4	4	4	4	4
AR T/O (days)	23	18	18	18	18
AP T/O (days)	11	21	21	21	21
Cash conversion cycle (days)	16	1	1	1	1
Asset turnover (x)	0.3	0.3	0.2	0.2	0.2
Financial leverage (x)	2.4	2.4	2.3	2.2	2.1
EBIT margin (%)	38.5	37.1	38.5	39.1	39.9
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.9	0.9	0.8	0.8	0.8
Return on equity (%)	20.6	19.0	18.7	17.8	16.1
Aug	22A	23A	24E	25E	26E
Balance Sheet (RMB mn)					
Fixed assets	4,166	4,929	5,134	5,286	5,433
Investment properties	147	146	146	146	146
Intangible assets & Goodwills	331	332	332	332	332
Right of use assets	787	774	774	774	774
Deposits paid	58	34	34	34	34
Other non-current assets	153	157	157	157	157
Non-current assets	5,643	6,371	6,577	6,728	6,875
Inventories	9	10	11	12	13
AR	108	99	112	121	130
Prepayments & deposits	0	0	0	0	0
Other current assets	140	12	12	12	12
Cash	1,318	2,003	2,646	3,323	3,992
Current assets	1,575	2,124	2,781	3,469	4,148
AP	26	53	61	67	72
Tax	89	98	1	26	28
Accruals & other payables	268	375	353	383	412
Bank loans & leases	492	478	478	478	478
Contract liabilities	1,256	1,526	1,690	1,816	1,887
Other current liabilities	40	42	42	42	42
Current liabilities	2,171	2,572	2,625	2,811	2,919
Bank loans & leases	1,171	1,337	1,337	1,337	1,337
Other debts	0	0	0	0	0
Deferred tax & others	309	350	350	350	350
Non-current liabilities	1,480	1,688	1,688	1,688	1,688
Total net assets	3,568	4,235	5,045	5,699	6,417
Shareholder's equity	2,975	3,542	4,247	4,783	5,385
Share capital	74	78	78	78	78
Reserves	2,901	3,464	4,169	4,704	5,307
MI	592	693	798	916	1,032
BVPS (HK\$)	3.41	3.57	4.09	4.61	5.19

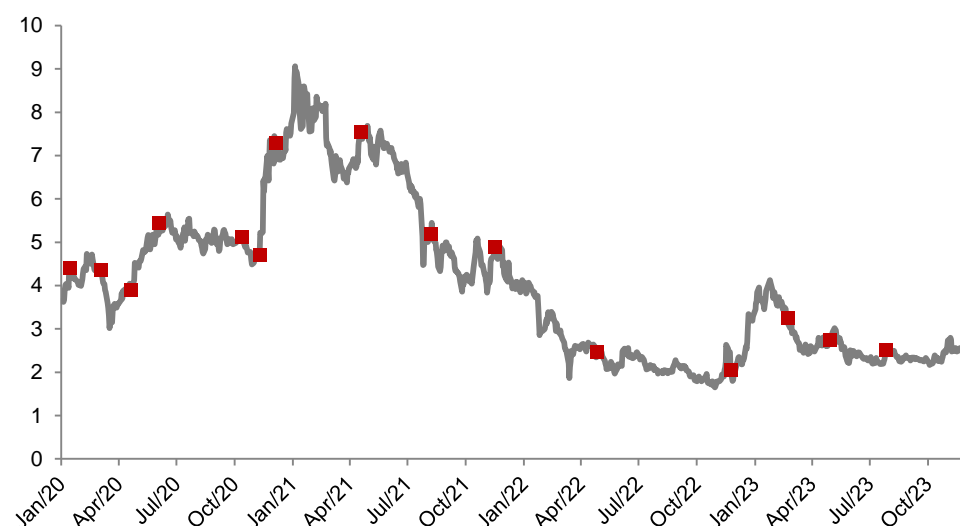
Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
04/09/2023	Newborn Town	9911	1H23 results beats, Blued as a new growth engine	BUY	John Siah
18/08/2023	361 Degrees	1361	1H23 net profit rose 27.7%, resumes dividend payout	BUY	John Siah
04/08/2023	Greentown Mgmt	9979	Impressive results in 1H23 backed by strong contracts growth	BUY	John Siah
04/08/2023	Xinyi Energy	3868	1H23 net profit in-line, dividend payout ratio cut to 49%	HOLD	John Siah
04/08/2023	361 Degrees	1361	1H23 net profit grows by more than 25%	BUY	John Siah
31/07/2023	Edvantage Group	382	9M22/23 operating results in-line with expectation	BUY	John Siah
03/07/2023	China Water Affairs	855	FY22/23 earnings slightly declined, pipeline direct drinking water shines	BUY	John Siah
22/05/2023	Newborn Town	9911	Fine-tuning content ecology to further monetize new social networking products	BUY	John Siah
05/05/2023	China Edu Group	839	FY1H23 results up to expectations	BUY	John Siah
04/05/2023	Edvantage Group	382	FY1H23 results showed the strong organic growth	BUY	John Siah
27/04/2023	New Higher Edu	2001	FY1H23 results in-line	BUY	John Siah
19/04/2023	361 Degrees	1361	2023Q1 sales bounced as expected	BUY	John Siah
24/03/2023	Micro Connect	-	Releasing the investment value of SMEs in China through technological innovation(中/ENG)	NR	John Siah
02/03/2023	Xinyi Energy	3868	FY22 results miss, expecting a rebound for FY23E	BUY	John Siah
24/02/2023	Edvantage Group	382	FY23Q1 operations on track	BUY	John Siah

Historical recommendations and target price: Edvantage Group(382 HK)

(as of 4 Dec 2023)

(HK\$)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 28 Nov 2019	BUY	HK\$ 5.70	HK\$ 4.28	11 18 Nov 2021	BUY	HK\$ 9.55	HK\$ 5.52
2 16 Jan 2020	BUY	HK\$ 6.45	HK\$ 5.06	12 29 Apr 2022	BUY	HK\$ 4.70	HK\$ 2.68
3 06 Mar 2020	BUY	HK\$ 6.45	HK\$ 5.00	13 29 Nov 2022	BUY	HK\$ 3.15	HK\$ 1.93
4 22 Apr 2020	BUY	HK\$ 6.45	HK\$ 4.46	14 24 Feb 2023	BUY	HK\$ 3.95	HK\$ 3.25
5 05 Jun 2020	BUY	HK\$ 8.38	HK\$ 6.25	15 3 May 2023	BUY	HK\$ 3.80	HK\$ 2.81
6 14 Oct 2020	BUY	HK\$ 8.57	HK\$ 5.86	16 31 Jul 2023	BUY	HK\$ 3.80	HK\$ 2.52
7 11 Nov 2020	BUY	HK\$ 8.60	HK\$ 5.39	17 5 Dec 2023	BUY	HK\$ 3.80	HK\$ 2.35
8 07 Dec 2020	BUY	HK\$ 11.21	HK\$ 8.35				
9 21 Apr 2021	BUY	HK\$ 11.20	HK\$ 8.63				
10 9 Aug 2021	BUY	HK\$ 10.50	HK\$ 5.91				

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Buy (B)	We expect this stock outperform the relevant benchmark greater than 15% over the next 12 months.
Hold (H)	We expect this stock to perform in line with the relevant benchmark over the next 12 months.
Sell (S)	We expect this stock to underperform the relevant benchmark greater than 15% over the next 12 month.
Relevant Benchmark	Represents the stock closing price as at the date quoted in this report.

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