

# Edvantage Group (382 HK)

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## Company Update

### BUY

UNCHANGED

Close price: HK\$2.52

Target Price: HK\$3.80 (+50.8%)

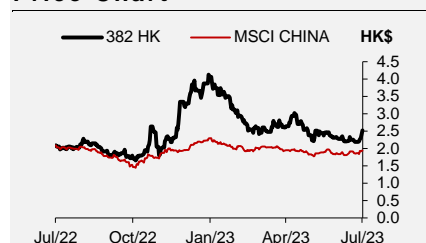
Prior TP: HK\$3.80

### Key Data

HKEx code	382 HK
12 Months High (HK\$)	4.28
12 Month Low (HK\$)	1.67
3M Avg Dail Vol. (mn)	0.52
Issue Share (mn)	1,141.30
Market Cap (HK\$mn)	2,867.09
Fiscal Year	8/2022
Major shareholder (s)	Director Liu & Family (70.83%)

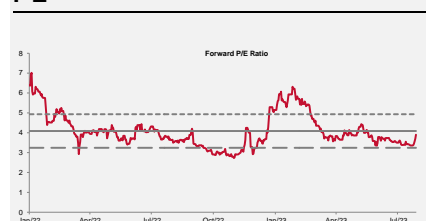
Source: Company data, Bloomberg, OP Research  
Closing price are as of 07/28/2023

### Price Chart



	1mth	3mth	6mth
Absolute %	+9.6	-4.6	-37.9
Rel. MSCI CHINA %	+5.4	-3.9	-22.3

### 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.

## 9M22/23 operating results in-line with expectation

- For the nine months ended May 2023, revenue rose 16.1% yoy to RMB1.46bn while gross profit rose 16.3% yoy to RMB735.7mn. GPM rose 0.1p.p. to 50.4%.
- Number of student enrolments at May 2023 reached 87,068, up 11.6% yoy.
- For SY23/24, the enrolment quota for undergraduates and higher vocational colleges increased by 19.4%.
- Maintain BUY and TP of HK\$3.80, which represents FY23/24E PER of 5.5x.

**Steady growth in the absence of new M&A.** We attribute the growth was mainly driven by the organic growth of student enrolment, and the gradual increase in tuition fees of its existing schools.

**More student admission in the next school year.** For SY23/24, the enrolment quota for undergraduates and higher vocational colleges increased by 19.4%, hitting a historical high. Edvantage is building more teaching facilities and accommodations to meet the latest admission plans. We now anticipate the Capex for FY22/23E to be around RMB750mn. This will be RMB150mn higher than the company's original CAPEX guideline (RMB600mn).

**The strong graduate employment rate of Edvantage schools has laid a solid foundation for the growth in student enrolment and tuition in the future.** Amongst, for 2022 graduates from Huashang Vocational College and Urban Vocational College, the graduate employment rate were 97.8% and 88.8%, respectively, which is a very high level. The company deepens the integration of industry and education, and cultivate high-quality talents in fields including artificial intelligence, information technology, intelligent manufacturing and healthcare that keep up with the top trends in the career market.

**Maintain BUY and TP of HK\$3.80.** The new TP represents PER of 5.5x for FY23/24E. We tune down FY23/24E EPS (in HK\$) forecast on Edvantage by 4.1% mainly to reflect the dilution from the issuance of stock dividends, and the recent RMB weakness. Meanwhile, we slightly increase the forecast on net profit in FY23/24E as we now expect the company to report a higher new student growth in the next student year.

Risks : (1) Higher than expected effective tax rate after the full implementation of the new private education law; (2) Policy risks on private education; (3) Execution risk in new campus expansions.

### Exhibit 1: Forecast and Valuation

Year to Aug (RMB mn)	FY20/21	FY21/22	FY22/23E	FY23/24E	FY24/25E
Revenue	1,252	1,686	1,943	2,271	2,499
Growth (%)	+56.4	+34.7	+15.2	+16.9	+10.0
Adj. net profit	460	577	626	727	737
Growth (%)	+48.7	+25.6	+8.5	+16.1	+1.4
Adj. diluted EPS (HK\$)	0.523	0.635	0.623	0.691	0.701
Adj. EPS growth (%)	+49.9	+21.3	-1.9	+11.0	+1.4
Change to previous EPS (%)			-1.6	-4.1	-5.4
Consensus EPS (HK\$)			0.650	0.719	0.791
ROE (%)	21.0	20.6	20.5	21.3	18.5
P/E (x)	4.8	4.0	4.0	3.6	3.6
P/B (x)	0.9	0.8	0.8	0.7	0.6
Yield (%)	5.5	7.8	7.4	8.2	8.3
DPS (HK\$)	0.139	0.196	0.187	0.207	0.210

Source: Bloomberg, OP Research

## Exhibit 2: Earnings revision

Year ended Aug (RMB mn)	FY22/23E			FY23/24E			Reason for revision
	New	Old	% Chg	New	Old	% Chg	
Revenue	1,943	1,930	+0.7	2,271	2,175	+4.4	The revision was due to the expectation that Edvantage would report a higher growth of new students for SY23/24.
Gross profit	979	976	+0.3	1,147	1,105	+3.8	
Gross margin	50.4%	50.6%	- 0.2p.p.	50.5%	50.8%	-0.3 p.p.	The revision is due to (1) the dilution impact on the issuance of stock dividends, and (2) the recent weakness of RMB against HKD.
Adj. net profits	626	626	+0.0	727	713	+1.9	
Diluted EPS (HK\$)	0.623	0.633	-1.6	0.691	0.721	- 4.1	

Source: OP Research

## Exhibit 3: Key assumptions on students and tuition fee

Student enrollments(China)		Unit	SY23/24E	SY24/25E
New		student	93,600	96,800
Old		student	90,300	95,500
Change (%)			+3.7%	+1.4%
Average revenue /student(China)			FY23/24E	FY24/25E
New		RMB	22,790	23,085
Old		RMB	22,291	23,166
Change (%)			+2.2%	-0.3%

Source: OP Research

## Exhibit 4: Peer Group Comparison

Company	Ticker	Price	3-mth		PER	PER	PER	3-Yr		P/B Hist	P/B FY1	ROE	ROE	Sh px	3-mth
			Mkt cap	avg t/o				EPS	Cagr						
			(US\$m)	(US\$m)	Hist (x)	FY1 (x)	FY2 (x)	(%)	PEG (x)	(x)	(x)	Hist (%)	FY1 (%)	1-mth %	%
Edvantage Group	382 HK	2.52	369	0.2	4.0	4.0	3.6	3.4	1.2	0.8	0.8	20.6	20.5	+9.6	-4.6
HSI		19,916.56			10.0	9.8	8.9	6.4	1.5	1.1	1.1	10.7	11.0	3.9	0.1
HSCEI		6,808.47			8.9	8.9	8.0	6.4	1.4	1.0	1.0	11.1	11.4	4.4	1.6
CSI300		3,992.74			14.1	12.4	10.7	13.8	0.9	1.7	1.6	11.7	12.5	4.0	-0.9
Adjusted sector avg					5.9	5.1	5.2	13.8	0.2	0.7	0.7	12.9	15.0	+8.5	-10.5
China Edu Group	839 HK	7.05	2,307	7.4	8.4	7.9	7.0	10.6	0.8	1.0	1.0	11.4	12.9	+11.2	+1.3
China Kepei Edu	1890 HK	2.57	664	0.3	6.7	5.2	4.9	16.3	0.3	1.2	1.0	19.7	20.4	+9.8	+0.0
Hope Educ	1765 HK	0.57	601	2.0	9.4	5.3	4.8	32.1	0.2	0.5	0.5	5.3	9.9	+5.6	-5.0
China New Higher	2001 HK	2.60	519	0.4	6.1	5.2	4.7	13.6	0.4	1.0	1.0	19.7	21.1	+11.6	-4.4
China Yuhua Edu	6169 HK	0.98	453	1.9	2.8	3.3	3.9	-5.5	N/A	0.5	0.5	20.2	19.7	11.4	-24.0
Cathay Media	1981 HK	1.13	240	0.1	17.5	7.1	5.9	57.2	0.1	0.7	0.6	3.9	9.3	-11.0	-27.6
Minsheng Edu	1569 HK	0.28	149	0.1	2.2	1.8	1.6	15.7	0.1	0.2	0.2	10.4	11.6	+1.3	-13.7
China Xinhua Edu	2779 HK	0.78	161	0.0	4.9	3.3	3.0	21.1	0.2	0.4	0.3	7.5	10.0	+2.6	-3.7

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

Source: Bloomberg, OP Research

## Financial Summary

Year to Aug	20/21A	21/22A	22/23E	23/24E	24/25E
<b>Income Statement (RMB mn)</b>					
<b>Turnover</b>	<b>1,252</b>	<b>1,686</b>	<b>1,943</b>	<b>2,271</b>	<b>2,499</b>
YoY%	+56.4	+34.7	+15.2	+16.9	+10.0
COGS	-621	-836	-964	-1,124	-1,234
<b>Gross profit</b>	<b>631</b>	<b>850</b>	<b>979</b>	<b>1,147</b>	<b>1,264</b>
Gross margin	50.4%	50.4%	50.4%	50.5%	50.6%
Other income	39	87	114	126	138
Selling & distribution	-20	-48	-70	-77	-80
Admin	-157	-236	-272	-295	-300
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
<b>Total opex</b>	<b>-177</b>	<b>-284</b>	<b>-342</b>	<b>-372</b>	<b>-380</b>
<b>Operating profit (EBIT)</b>	<b>483</b>	<b>653</b>	<b>751</b>	<b>900</b>	<b>1,023</b>
Operating margin	38.6%	38.8%	38.7%	39.6%	40.9%
Interest Income	10	6	6	6	6
Finance costs	-18	-6	-9	-9	-9
<b>Profit after financing costs</b>	<b>484</b>	<b>653</b>	<b>748</b>	<b>896</b>	<b>1,019</b>
Associated companies & JVs	0	0	0	0	0
<b>Pre-tax profit</b>	<b>484</b>	<b>653</b>	<b>748</b>	<b>896</b>	<b>1,019</b>
Tax	-14	-8	-18	-45	-153
Minority interests	-56	-78	-104	-125	-129
<b>Net profit</b>	<b>414</b>	<b>567</b>	<b>626</b>	<b>727</b>	<b>737</b>
YoY%	+41.9	+35.7	+10.3	+16.1	+1.4
<b>Adjusted net profit</b>	<b>460</b>	<b>577</b>	<b>626</b>	<b>727</b>	<b>737</b>
YoY%	+48.7	+25.6	+8.5	+16.1	+1.4
Adjusted net margin	36.7%	34.2%	32.2%	32.0%	29.5%
<b>EBITDA</b>	<b>605</b>	<b>817</b>	<b>947</b>	<b>1,115</b>	<b>1,242</b>
EBITDA margin	48.3%	48.4%	48.7%	49.1%	49.7%
<b>Adjusted EPS (HK\$)</b>	<b>0.43</b>	<b>0.650</b>	<b>0.623</b>	<b>0.691</b>	<b>0.701</b>
YoY%	+49.9	+24.1	-1.9	+11.0	+1.4
<b>DPS (HK\$)</b>	<b>0.139</b>	<b>0.196</b>	<b>0.187</b>	<b>0.207</b>	<b>0.210</b>
Year to Aug	20/21A	21/22A	22/23E	23/24E	24/25E
<b>Cash Flow (RMB mn)</b>					
EBITDA	624	818	947	1,115	1,242
Chg in working cap	321	143	244	180	148
Others	13	-15	0	0	0
<b>Cash flows from operation</b>	<b>958</b>	<b>946</b>	<b>1,191</b>	<b>1,295</b>	<b>1,390</b>
Tax	-2	-2	-8	-18	-45
<b>Net cash from operations</b>	<b>956</b>	<b>944</b>	<b>1,183</b>	<b>1,277</b>	<b>1,345</b>
Capex	-625	-569	-750	-600	-350
Investments	-706	-137	0	0	0
Interests received	10	5	6	6	6
Sales of assets	0	0	0	0	0
Others	-428	185	0	0	0
<b>Investing cash</b>	<b>-1748</b>	<b>-516</b>	<b>-744</b>	<b>-594</b>	<b>-344</b>
Issue of shares	385	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Interest paid	-67	-83	-83	-80	-80
Dividends paid	-93	-128	-71	-148	-215
Net change in bank loans	212	313	0	0	0
Others	-36	-7	0	0	0
<b>Financing cash</b>	<b>401</b>	<b>94</b>	<b>-154</b>	<b>-228</b>	<b>-295</b>
<b>Net change in cash</b>	<b>-402</b>	<b>523</b>	<b>285</b>	<b>454</b>	<b>706</b>
Exchange rate or other Adj	0	0	0	0	0
Opening cash	1198	795	1,318	1,603	2,057
<b>Closing cash</b>	<b>795</b>	<b>1,318</b>	<b>1,603</b>	<b>2,057</b>	<b>2,763</b>
<b>CFPS (HK\$)</b>	<b>1.09</b>	<b>1.06</b>	<b>1.18</b>	<b>1.21</b>	<b>1.28</b>

Source: Company, OP Research

Year to Aug	20/21A	21/22A	22/23E	23/24E	24/25E
<b>Ratios</b>					
Gross margin (%)	50.4	50.4	50.4	50.5	50.6
Operating margin (%)	38.6	38.5	38.7	39.6	40.9
Adjusted net margin (%)	36.7	33.7	32.2	32.0	29.5
Selling & dist'n exp/Sales (%)	1.6	2.9	3.6	3.4	3.2
Admin exp/Sales (%)	12.5	14.0	14.0	13.0	12.0
Payout ratio (%)	30.0	33.6	30.0	30.0	30.0
Effective tax (%)	2.9	1.2	2.4	5.0	15.0
Total debt/equity (%)	81.6	81.9	91.0	80.2	71.1
Net debt/equity (%)	43.5	41.0	45.5	31.4	15.5
Current ratio (x)	0.7	0.7	0.7	0.8	1.0
Quick ratio (x)	0.7	0.7	0.7	0.8	1.0
Inventory T/O (days)	2	4	4	4	4
AR T/O (days)	41	23	20	20	20
AP T/O (days)	6	11	11	11	11
Cash conversion cycle (days)	36	16	13	13	13
Asset turnover (x)	0.3	0.3	0.3	0.3	0.3
Financial leverage (x)	2.2	2.4	2.5	2.5	2.3
EBIT margin (%)	39.3	38.5	38.7	39.6	40.9
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.9	0.9	0.8	0.8	0.7
<b>Return on equity (%)</b>	<b>21.0</b>	<b>20.6</b>	<b>20.5</b>	<b>21.3</b>	<b>18.5</b>
Year Ended Aug	20/21A	21/22A	22/23E	23/24E	24/25E
<b>Balance Sheet (RMB mn)</b>					
Fixed assets	3,593	4,166	4,651	5,060	5,215
Investment properties	79	147	147	147	147
Intangible assets & Goodwills	182	331	331	331	331
Right of use assets	808	787	787	787	787
Deposits paid	88	58	58	58	58
Other non-current assets	110	153	153	153	153
<b>Non-current assets</b>	<b>4,859</b>	<b>5,643</b>	<b>6,128</b>	<b>6,537</b>	<b>6,691</b>
Inventories	3	9	11	13	14
AR	141	108	106	124	137
Prepayments & deposits	0	0	12	12	12
Other current assets	368	140	140	140	140
Cash	795	1,318	1,603	2,057	2,763
<b>Current assets</b>	<b>1,307</b>	<b>1,575</b>	<b>1,872</b>	<b>2,346</b>	<b>3,066</b>
AP	11	26	30	35	38
Tax	76	89	8	18	45
Accruals & other payables	228	268	309	361	397
Bank loans & leases	282	492	492	492	492
Contract liabilities	1,141	1,256	1,817	1,949	2,044
Other current liabilities	33	40	40	40	40
<b>Current liabilities</b>	<b>1,770</b>	<b>2,171</b>	<b>2,695</b>	<b>2,895</b>	<b>3,057</b>
Bank loans & leases	1,062	1,171	1,171	1,171	1,171
Other debts	0	0	0	0	0
Deferred tax & others	288	309	309	309	309
<b>Non-current liabilities</b>	<b>1,350</b>	<b>1,480</b>	<b>1,480</b>	<b>1,480</b>	<b>1,480</b>
<b>Total net assets</b>	<b>3,046</b>	<b>3,568</b>	<b>3,826</b>	<b>4,509</b>	<b>5,221</b>
<b>Shareholder's equity</b>	<b>2,533</b>	<b>2,975</b>	<b>3,130</b>	<b>3,688</b>	<b>4,270</b>
Share capital	73	74	74	74	74
Reserves	2,460	2,901	3,055	3,613	4,196
MI	513	592	696	821	950
<b>BVPS (HK\$)</b>	<b>2.88</b>	<b>3.41</b>	<b>3.15</b>	<b>3.55</b>	<b>4.12</b>

## Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
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
13/02/2023	Newborn Town	9911	More social apps expecting to begin bearing fruit	BUY	John Siah
02/02/2023	China Water Affairs	855	Tapping into opportunities in the direct drinking water market	BUY	John Siah
18/01/2023	361 Degrees	1361	The worst has likely passed	BUY	John Siah
05/12/2022	China Edu Group	839	Higher vocational education leads the growth	BUY	John Siah
05/12/2022	New Higher Edu	2001	FY22 results slightly beat, emphasis on quality education	BUY	John Siah
29/11/2022	Edvantage Group	382	FY22 earnings beat, moderate growth ahead	BUY	John Siah
20/10/2022	361 Degrees	1361	Lockdown may impact sales in Q4	BUY	John Siah
20/10/2022	Greentown Mgmt	9979	Impressive new contracts growth in Q3 under severe headwinds	BUY	John Siah
16/09/2022	EVA Holdings	838	Decent earnings outlook supported by strong order backlogs	BUY	John Siah
02/09/2022	Tian Lun Gas	1600	1H22 results missed, tough near-term outlook	HOLD	John Siah
02/09/2022	HK Tech Venture	1137	1H22 results beats amid better costs management	BUY	John Siah

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

(as of 28/07/2023)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 28 Nov 2019	BUY	HK\$ 5.70	HK\$ 4.28	9 21 Apr 2021	BUY	HK\$ 11.20	HK\$ 8.63
2 16 Jan 2020	BUY	HK\$ 6.45	HK\$ 5.06	10 9 Aug 2021	BUY	HK\$ 10.50	HK\$ 5.91
3 06 Mar 2020	BUY	HK\$ 6.45	HK\$ 5.00	11 18 Nov 2021	BUY	HK\$ 9.55	HK\$ 5.52
4 22 Apr 2020	BUY	HK\$ 6.45	HK\$ 4.46	12 29 Apr 2022	BUY	HK\$ 4.70	HK\$ 2.68
5 05 Jun 2020	BUY	HK\$ 8.38	HK\$ 6.25	13 29 Nov 2022	BUY	HK\$ 3.15	HK\$ 1.93
6 14 Oct 2020	BUY	HK\$ 8.57	HK\$ 5.86	14 24 Feb 2023	BUY	HK\$ 3.95	HK\$ 3.25
7 11 Nov 2020	BUY	HK\$ 8.60	HK\$ 5.39	15 3 May 2023	BUY	HK\$ 3.80	HK\$ 2.83
8 07 Dec 2020	BUY	HK\$ 11.21	HK\$ 8.35	16 31 Jul 2023	BUY	HK\$ 3.80	HK\$ 2.52

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