

# Edvantage Group (382 HK)

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## Company Update

**BUY**

UNCHANGED

Close price: HK\$3.34

Target Price: HK\$3.95 (+18.2%)

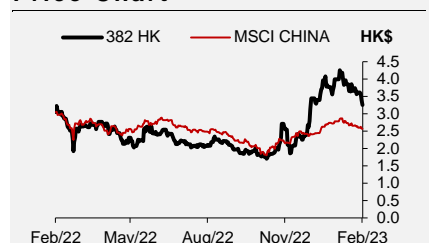
Prior TP: HK\$3.15

### Key Data

HKEx code	382 HK
12 Months High (HK\$)	4.28
12 Month Low (HK\$)	1.67
3M Avg Dail Vol. (mn)	3.15
Issue Share (mn)	1,082.41
Market Cap (HK\$mn)	3,617.24
Fiscal Year	8/2022
Major shareholder (s)	Director Liu & Family (70.35%)

Source: Company data, Bloomberg, OP Research  
Closing price are as of 02/23/2023

### Price Chart



	1mth	3mth	6mth
Absolute %	-16.3	+58.7	+53.1
Rel. MSCI CHINA %	-7.8	+40.8	+53.5

### 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.

## FY23Q1 operations on track

- For FY23Q1 ended Nov 2022, revenue/gross profit were RMB 472mn/ RMB238mn, up 19.9%/20.9% yoy, respectively.
- The company maintained its revenue guidance of RMB1.9bn for FY23E, suggesting a slowing growth.
- Maintain BUY with new TP of HK\$3.95, which is based on 6.0x FY23E PER

**Robust growth in FY23Q1.** We see the nearly 20% revenue growth in FY23Q1 was due to the combined contributions of (1) the increase in student enrolment for its schools in China, and (2) the earnings from Huashang Technical School, which it was not consolidated into the group during the same period last fiscal year. The company maintains its revenue guidance of RMB1.9bn for FY23E, representing 12.7% yoy growth. The slowdown in growth is due to the belief that there will be no sizable M&A contributions. Gross profit margin rose 0.4p.p. to 50.4%. We expect it to have a mild improvement in FY23E.

**Solid student growth prospect.** Edvantage's total student grew 8.7% to 84,404 in Nov 2022 from 77,628 in Aug 2022. This is mainly driven by the number of enrolled students in its schools in China. Among all, the number of enrollments in Urban Technician College of Sichuan grew by about 2,200 or 20.2% in SY22/23. We believe the company could deliver solid student growth through the expansion of campuses in Guangdong and better utilisation of existing campuses. The company said the utilisation for schools in Guangdong and Sichuan were 81% and 85%, respectively.

**Continuous brand building.** Edvantage enhances education quality through school-enterprise cooperation, industry-education integration, and the construction of teaching facilities. Huashang schools joined hands with industry leaders such as CMGE, Kingdee, Lansee (遠信集團) to train industry-oriented talents in areas such as digital creativity, digitalisation, and aesthetic medicine, etc. With respect to practical training facilities, the company has officially put into use the laboratory building of Medicine & Health Science College of Guangzhou Huashang College and Huashang Simulation Hospital, occupying an area of over 18,000m<sup>2</sup>, to meet the growing demand for the development of health-related disciplines.

**Maintain BUY with new TP of HK\$3.95.** The new TP is based on 6.0x PY23E P/E, which is to reflect investors' reduced worry about policy risk relating to the private higher education sector. We fine-tuned our net profit forecast by 0.9%/0.5% in FY23E/24E to RMB612mn/RMB653mn, and we revised up our FY23E/24E EPS forecasts to HK\$0.660/0.705 respectively. We anticipate more moderate growth in the absence of M&A contributions. The tuition fee increase and the campus expansion are the growth drivers for Edvantage.

### Exhibit 1: Forecast and Valuation

Year to Aug (RMB mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,252	1,686	1,923	2,158	2,392
Growth (%)	+56.4	+34.7	+14.0	+12.2	+10.8
Adj. net profit	460	577	612	653	722
Growth (%)	+48.7	+25.6	+6.1	+6.7	+10.4
Adj. diluted EPS (HK\$)	0.523	0.650	0.660	0.705	0.778
Adj. EPS growth (%)	+49.9	+24.1	+1.7	+6.7	+10.4
Change to previous EPS (%)			+5.4	+5.0	+4.4
Consensus EPS (HK\$)			0.650	0.711	0.776
ROE (%)	21.0	20.6	19.6	18.8	18.4
P/E (x)	6.2	5.0	4.9	4.6	4.2
P/B (x)	1.1	1.0	0.9	0.8	0.7
Yield (%)	4.3	6.0	6.1	6.5	7.2
DPS (HK\$)	0.139	0.196	0.198	0.211	0.233

Source: Bloomberg, OP Research

## Exhibit 2: Earnings revision

Year ended Aug (RMB mn)	FY23E			FY24E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	1,923	1,913	+0.5	2,158	2,154	+0.2	To reflect the slightly better RMB trend recently
Gross margin	50.6%	50.6%	-	50.8%	50.8%	-	
Adj. net profits	612	607	+0.9	653	650	+0.5	
Diluted EPS (HK\$)	0.660	0.626	+5.5	0.705	0.671	+5.0	

Source: OP Research

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

Student enrollments(China)		Unit	SY22/23E	SY23/24E	SY24/25E
New		student	83,400	88,500	94,100
Old		student	83,000	89,000	94,500
Change (%)			+0.5%	-0.6%	-0.4%
Average tuition fee(China)			FY23E	FY24E	FY25E
New		RMB	21,601	22,543	23,275
Old		RMB	21,502	22,377	23,086
Change (%)			+0.5%	+0.7%	+0.2%

Source: OP Research

## Exhibit 4: Positive catalysts and risks

<b>Positive catalysts</b>	■	New campuses in Guangdong to boost student growth	<b>Risks</b>	■	Higher than expected in effective tax rate after the full implementation of the new private education law.
	■	Policy support for private participation in the vocational education		■	Policy risks on private education
				■	Execution risk in new campus expansions

Source: OP research

## Exhibit 5: Peer Group Comparison

Company	Ticker	Price	3-mth		3-Yr					P/B Hist		ROE	ROE	Sh px	Sh px
			Mkt cap	avg t/o	PER	PER FY1	PER FY2	EPS	PEG (x)	(x)	(x)	Hist (%)	FY1 (%)	1-mth %	3-mth %
Edvantage Group	382 HK	3.34	461	1.1	5.0	4.9	4.6	6.2	0.8	1.0	0.9	20.6	19.6	-16.3	+58.7
HSI		20,351.35			10.9	11.0	9.6	8.0	1.4	1.2	1.2	10.6	10.6	-7.7	+16.1
HSCEI		6,859.95			9.2	9.3	8.2	7.9	1.2	1.0	1.1	11.3	11.5	-8.3	+15.4
CSI300		4,103.65			14.4	14.4	12.2	10.4	1.4	1.8	1.8	12.6	12.3	-1.9	+8.7
<b>Adjusted sector avg*</b>					<b>7.4</b>	<b>5.1</b>	<b>4.7</b>	<b>16.7</b>	<b>0.3</b>	<b>1.0</b>	<b>0.9</b>	<b>12.6</b>	<b>14.5</b>	<b>-14.8</b>	<b>+11.8</b>
China Edu Group	839 HK	9.61	3,125	25.8	11.0	10.1	9.0	11.9	0.9	1.4	1.3	14.8	13.3	-27.7	+20.1
China Kepei Edu	1890 HK	1.11	509	0.6	4.1	3.0	2.8	12.9	0.2	0.7	0.6	11.1	26.1	-	-8.3
Hope Education G	1765 HK	0.70	716	12.3	11.1	6.7	5.7	30.4	0.2	0.6	0.6	5.6	9.3	-15.7	-2.8
China New Higher	2001 HK	3.15	809	1.8	7.9	6.6	6.0	13.8	0.5	1.5	1.3	20.1	18.3	-13.7	42.5
China Yuhua Edu	6169 HK	3.23	640	2.5	7.3	6.3	5.5	13.7	0.5	1.4	1.2	20.0	20.8	-22.9	+31.3
Cathay Media And	1981 HK	1.22	257	0.3	26.8	5.7	6.1	76.5	0.1	0.7	0.6	4.8	11.2	-10.9	2.5
Minsheng Edu	1569 HK	0.47	253	0.3	3.0	2.3	2.1	17.2	0.1	0.4	0.3	11.7	14.1	-13.0	-3.1
China Xinhua Edu	2779 HK	1.04	213	0.1	4.1	3.2	2.8	18.8	0.2	0.5	N/A	10.5	N/A	2.0	20.9

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

Source: Bloomberg, OP Research

## Financial Summary

Year to Aug	FY21	FY22	FY23E	FY24E	FY25E
<b>Income Statement (RMB mn)</b>					
<b>Turnover</b>	<b>1,252</b>	<b>1,686</b>	<b>1,923</b>	<b>2,158</b>	<b>2,392</b>
YoY%	+56.4	+34.7	+14.0	+12.2	+10.8
COGS	-621	-836	-949	-1,062	-1,171
<b>Gross profit</b>	<b>631</b>	<b>850</b>	<b>974</b>	<b>1,095</b>	<b>1,220</b>
Gross margin	50.4%	50.4%	50.6%	50.8%	51.0%
Other income	39	88	97	97	97
Selling & distribution	-20	-48	-50	-54	-60
Admin	-157	-236	-250	-270	-299
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>-300</b>	<b>-324</b>	<b>-359</b>
<b>Operating profit (EBIT)</b>	<b>483</b>	<b>649</b>	<b>770</b>	<b>868</b>	<b>958</b>
Operating margin	38.6%	38.5%	40.1%	40.2%	40.1%
Interest Income <sup>1</sup>	10	6	6	6	6
Finance costs	-18	-6	-25	-25	-25
<b>Profit after financing costs</b>	<b>484</b>	<b>653</b>	<b>751</b>	<b>849</b>	<b>939</b>
Associated companies & JVs	0	0	0	0	0
<b>Pre-tax profit</b>	<b>484</b>	<b>653</b>	<b>751</b>	<b>849</b>	<b>939</b>
Tax	-14	-8	-75	-127	-141
Minority interests	-56	-78	-64	-68	-76
<b>Net profit</b>	<b>414</b>	<b>567</b>	<b>612</b>	<b>653</b>	<b>722</b>
YoY%	+41.9	+35.7	7.9	6.7	10.4
<b>Adjusted net profit</b>	<b>460</b>	<b>577</b>	<b>612</b>	<b>653</b>	<b>722</b>
YoY%	+48.7	+25.6	+6.1	+6.7	+10.4
Adjusted net margin	36.7%	34.2%	31.8%	30.3%	30.2%
<b>EBITDA</b>	<b>605</b>	<b>824</b>	<b>960</b>	<b>1,068</b>	<b>1,162</b>
EBITDA margin	48.3%	48.9%	49.9%	49.5%	48.6%
<b>Adjusted EPS (HK\$)</b>	<b>0.43</b>	<b>0.66</b>	<b>0.660</b>	<b>0.705</b>	<b>0.778</b>
YoY%	+49.9	+25.0	+1.7	+6.7	+10.4
<b>DPS (HK\$)</b>	<b>0.139</b>	<b>0.196</b>	<b>0.198</b>	<b>0.211</b>	<b>0.233</b>
Year to Aug	FY21	FY22	FY23E	FY24E	FY25E
<b>Cash Flow (RMB mn)</b>					
EBITDA	624	818	960	1,068	1,162
Chg in working cap	321	143	423	224	213
Others	13	-15	0	0	0
<b>Cash flows from operation</b>	<b>958</b>	<b>946</b>	<b>1,383</b>	<b>1,292</b>	<b>1,375</b>
Tax	-2	-2	-75	-127	-141
<b>Net cash from operations</b>	<b>956</b>	<b>944</b>	<b>1,308</b>	<b>1,165</b>	<b>1,234</b>
Capex	-625	-562	-600	-350	-350
Acquisition	-706	-137	0	0	0
Interests received	10	5	6	6	6
Sales of assets	0	0	0	0	0
Others	-428	178	0	0	0
<b>Investing cash</b>	<b>-1,748</b>	<b>-516</b>	<b>-594</b>	<b>-344</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	-67	-67	-67
Dividends paid	-93	-128	-174	-184	-196
Net change in bank loans	212	313	0	0	0
Others	-36	-8	0	0	0
<b>Financing cash</b>	<b>401</b>	<b>94</b>	<b>-241</b>	<b>-251</b>	<b>-263</b>
<b>Net change in cash</b>	<b>-402</b>	<b>523</b>	<b>472</b>	<b>569</b>	<b>627</b>
Exchange rate or other Adj	0	-4	0	0	0
Opening cash	1,186	795	1,318	1,790	2,375
<b>Closing cash</b>	<b>795</b>	<b>1,318</b>	<b>1,790</b>	<b>2,360</b>	<b>3,002</b>
<b>CFPS (HK\$)</b>	<b>1.09</b>	<b>1.32</b>	<b>1.41</b>	<b>1.26</b>	<b>1.33</b>

Source: Company, OP Research

Year to Aug	FY21	FY22	FY23E	FY24E	FY25E
<b>Ratios</b>					
Gross margin (%)	50.4	50.4	50.6	50.8	51.0
Operating margin (%)	38.6	38.5	40.1	40.2	40.1
Adjusted net margin (%)	36.7	33.7	31.8	30.3	30.2
Selling & dist'n exp/Sales (%)	1.6	2.9	2.6	2.5	2.5
Admin exp/Sales (%)	12.5	14.0	13.0	12.5	12.5
Payout ratio (%)	30.0	33.6	30.0	30.0	30.0
Effective tax (%)	2.9	1.2	10.0	15.0	15.0
Total debt/equity (%)	81.6	81.9	86.2	80.8	75.6
Net debt/equity (%)	43.5	41.0	37.1	24.1	12.2
Current ratio (x)	0.7	0.7	0.8	0.9	1.0
Quick ratio (x)	0.7	0.7	0.8	0.9	1.0
Inventory T/O (days)	2	4	4	4	4
AR T/O (days)	41	23	23	23	23
AP T/O (days)	6	11	11	11	11
Cash conversion cycle (days)	36	16	16	16	16
Asset turnover (x)	0.3	0.3	0.3	0.3	0.3
Financial leverage (x)	2.2	2.4	2.4	2.4	2.4
EBIT margin (%)	39.3	38.5	40.1	40.2	40.1
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
<b>Return on equity (%)</b>	<b>21.0</b>	<b>20.6</b>	<b>19.6</b>	<b>18.8</b>	<b>18.4</b>
Year Ended Aug	FY21	FY22	FY23E	FY24E	FY25E
<b>Balance Sheet (RMB mn)</b>					
Fixed assets	3,593	4,166	4,507	4,682	4,852
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>5,984</b>	<b>6,158</b>	<b>6,328</b>
Inventories	3	9	11	12	13
AR	141	108	123	138	153
Prepayments & deposits	0	0	12	12	12
Other current assets	368	140	140	140	140
Cash	795	1,318	1,790	2,360	3,002
<b>Current assets</b>	<b>1,307</b>	<b>1,575</b>	<b>2,076</b>	<b>2,661</b>	<b>3,320</b>
AP	11	26	30	33	37
Tax	76	89	8	75	127
Accruals & other payables	228	268	350	393	435
Bank loans & leases	282	492	492	492	492
Contract liabilities	1,141	1,256	1,726	1,897	2,080
Other current liabilities	33	40	40	40	40
<b>Current liabilities</b>	<b>1,770</b>	<b>2,171</b>	<b>2,646</b>	<b>2,931</b>	<b>3,211</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>3,934</b>	<b>4,409</b>	<b>4,957</b>
<b>Shareholder's equity</b>	<b>2,533</b>	<b>2,975</b>	<b>3,278</b>	<b>3,685</b>	<b>4,157</b>
Share capital	73	74	74	74	74
Reserves	2,460	2,901	3,204	3,611	4,082
MI	513	592	656	724	801
<b>BVPS (HK\$)</b>	<b>2.88</b>	<b>3.41</b>	<b>3.54</b>	<b>3.98</b>	<b>4.49</b>

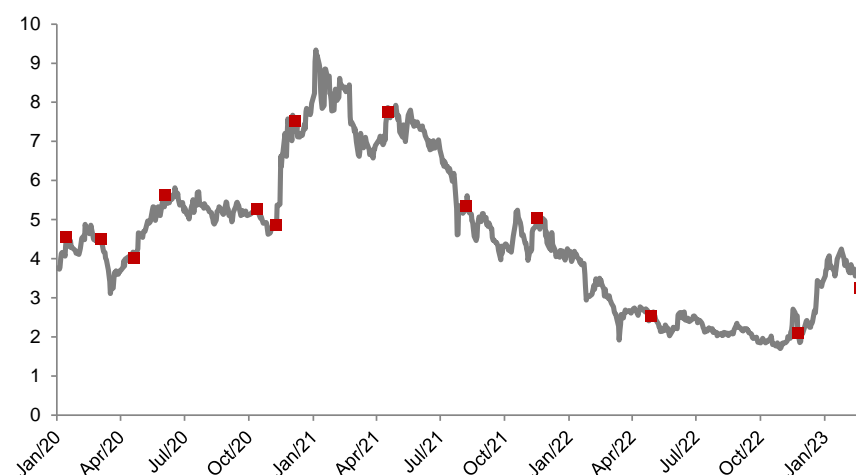
## Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
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
31/08/2022	AAC Tech	2018	Headwinds likely to persist in 2H22E	HOLD	John Siah
31/08/2022	Truly Int'l	732	1H22 earnings decline as expected, negatives priced in	BUY	John Siah
26/08/2022	361 Degrees	1361	1H22 earnings beats, strong growth in e-commerce and kids' wear	BUY	John Siah
03/08/2022	Xinyi Energy	3868	Flat earnings growth in 1H22, slowing M&A pace due to high prices	BUY	John Siah
01/08/2022	Greentown Mgmt	9979	Impressive growth trajectory in 1H22 despite industry headwinds	BUY	John Siah
20/07/2022	361 Degrees	1361	Retail sales in 2Q2022 remained robust, even under COVID lockdown	BUY	John Siah
11/07/2022	Truly Int'l	732	Automotive display missed in 1H22 on weak car sales	BUY	John Siah
07/07/2022	EVA Holdings	838	Kicking off a new growth cycle	BUY	John Siah
04/05/2022	China Edu Group	839	1H22 results showed strong organic growth of higher schools	BUY	John Siah

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

(as of 02/23/2023)

(HK\$)



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\$ 3.34
7 11 Nov 2020	BUY	HK\$ 8.60	HK\$ 5.39				
8 07 Dec 2020	BUY	HK\$ 11.21	HK\$ 8.35				

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