

Edvantage Group (382 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$2.68

Target Price: HK\$4.70(+75.3%)

Prior TP: HK\$9.55

Key Data

HKEx code	382 HK
12 Months High (HK\$)	8.90
12 Month Low (HK\$)	1.99
3M Avg Dail Vol. (mn)	2.43
Issue Share (mn)	1,071.86
Market Cap (HK\$mn)	2,872.58
Fiscal Year	8/2021
Major shareholder (s)	Director Liu & Family (70.36%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 28/04/2022

Price Chart



	1mth	3mth	6mth
Absolute %	-6.3	-20.5	-46.1
Rel. MSCI CHINA %	+4.0	+0.2	-16.3

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.

1H22 earnings remains robust despite higher costs

- Adjusted net profit rose 32.0% yoy to RMB264.0mn on the back of 48.4% yoy increase in revenue to RMB822.6mn.
- Interim DPS amounted to HK\$0.084, up 52.7% yoy. Edvantage will maintain a 30% DPS payout ratio in future.
- More diversified businesses to fuel long-term growth
- Maintain BUY with new TP of HK\$4.70, which is based on 8.0x FY22E PER

Earnings remain robust despite higher operating costs. The strong growth was mainly thanks to (1) the contribution from Sichuan Schools acquired in Jan 2021 and (2) the newly acquired Huashang Technical School in early 2022. In 1H22, GPM remained stable (+0.2p.p. to 50.2%) but the proportion of selling and administrative expenses to revenue has increased 5.9p.p. to 20.9%. Edvantage explained the increased cost was due to the inclusion of Sichuan Schools and the higher business development related expenses.

More diversified businesses to boost long-term growth. Edvantage recently acquired Huashang Technical School from the connected persons at the consideration of RMB150mn. It is a rapid growing secondary vocational training school in Guangdong with total student growing 63% yoy to 5,200 students in SY21/22. Meanwhile, revenue from other vocational education services rose 56.7% to RMB32.5mn in 1H22. Huashang Technical School and vocational training services will become a new growth driver for Edvantage. We expect they will contribute >10% of total revenue (~RMB280mn) by FY24E.

Benefit from policy tailwinds. Edvantage's application-oriented education matches with China's stance to promote vocational education. The Company will benefit from the new Vocational Education Law (effective from May 2022) that (1) it will have more sources of student and (2) it will receive tax concessions and other incentives for the industry-education integration programs.

Maintain BUY with new TP of HK\$4.70. We tune down Edvantage's EPS forecast by -8.1%/-9.8% in FY22E/23E and we assign the new TP based on the FY22E PER of 8.0x. We expect Edvantage's GPM will maintain at a similar level to FY21. The increasing investments to enhance teaching quality will offset the cost-savings from the conversion of Huashang College. Robust student growth is the main growth driver. We project Edvantage's EPS to grow at a CAGR of 14.5% in FY22-24E on the back of 16.8% CAGR in student enrolment in the same period. The newly acquired Huashang Technical School and the massive campus expansion will meet the strong demand for high quality education in the Greater Bay Area.

Exhibit 1: Forecast and Valuation

Year to Aug (RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	800	1,252	1,651	2,008	2,252
Growth (%)	+13.6	+56.4	+31.9	+21.6	+12.1
Adj. net profit	309	464	512	619	694
Growth (%)	+30.5	+50.1	+10.2	+21.1	+12.0
Adj. diluted EPS (HK\$)	0.349	0.528	0.585	0.697	0.781
Adj. EPS growth (%)	+30.5	+51.3	+10.8	+19.1	+12.0
Change to previous EPS (%)			-8.1	-9.8	-4.4
Consensus EPS (HK\$)			0.65	0.79	0.88
ROE (%)	16.9	17.1	15.4	16.8	16.5
P/E (x)	7.7	5.1	4.6	3.8	3.4
P/B (x)	1.3	0.9	0.9	0.8	0.7
Yield (%)	3.7	5.2	6.6	7.8	8.7
DPS (HK\$)	0.098	0.139	0.176	0.209	0.234

Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

Year ended Aug (RMB mn)	FY22E			FY23E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	1,651	1,634	+1.1	2,008	1,907	+5.3	We expect the increasing investments to enhance teaching quality will offset the cost-savings from the conversion of Huashang College
Gross profit	834	855	-2.6	1,014	1,027	-1.3	
Gross margin	50.5%	52.4%	-1.9p.p.	50.5%	53.9%	-3.4 p.p.	
Adj. net profits	512	559	-8.5	619	679	-8.8	Due to the higher operating expenses
Diluted EPS (HK\$)	0.59	0.64	-8.1	0.70	0.77	-9.8	

Source: OP Research

Exhibit 3: Key assumptions on students and tuition fee

Student enrollments		Unit	SY21/22E	SY22/23E	SY23/24E
New		student	75,500	88,300	96,800
Old		student	74,630	85,790	85,790
Change (%)			+1.2%	+2.9%	+12.8%
Average tuition fee			FY22E	FY23E	FY24E
New		RMB	20,043	19,986	19,744
Old		RMB	21,373	22,419	22,910
Change (%)			-6.2%	-10.9%	-13.8%

Source: OP Research

Exhibit 4: Positive catalysts and risks

Positive catalysts	<ul style="list-style-type: none"> Strong organic growth of student thanks to new campuses of Huashang schools 	Risks	<ul style="list-style-type: none"> Policy risks on private education Execution risk in new campus expansions Damage on reputation
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Source: OP research

Exhibit 5: Peer Group Comparison

Company	Ticker	Price	3-mth		PER	PER FY1	PER FY2	3-Yr		P/B Hist	P/B FY1	ROE	ROE	Sh px	Sh px
			Mkt cap	avg t/o				EPS	PEG (x)						
			(US\$m)	(US\$m)	Hist (x)	(x)	(x)	Cagr (%)	(x)	(x)	(x)	Hist (%)	FY1 (%)	1-mth %	3-mth %
Edvantage Group	382 HK	2.68	366	0.9	5.1	4.6	3.8	14.4	0.3	0.9	0.9	17.1	15.4	-6.3	-20.5
HSI		20,276.17			7.6	10.0	8.8	-0.9	-10.8	0.8	1.0	10.6	10.4	-6.5	-13.9
HSCEI		6,918.62			6.6	8.1	7.3	1.0	8.3	0.7	1.0	10.9	11.8	-6.5	-15.7
CSI300		3,921.11			14.2	11.8	10.2	25.0	0.5	1.8	1.6	12.6	13.6	-5.5	-14.1
Adjusted sector avg*					5.7	3.4	3.3	21.3	0.1	0.9	0.7	16.5	15.4	-16.9	-15.9
China Edu Group	839 HK	6.41	1,952	13.7	8.3	7.1	6.2	13.6	0.5	1.1	1.0	14.8	15.0	-3.9	-8.7
China Yuhua Edu	6169 HK	1.31	600	6.1	4.6	2.9	2.7	24.9	0.1	1.0	0.7	22.3	30.1	-32.1	-22.5
Hope Education G	1765 HK	0.47	481	9.3	4.9	3.5	2.9	23.0	0.2	0.0	0.4	7.7	11.2	-43.4	-53.5
China Kepei Edu	1890 HK	2.05	527	0.5	6.1	4.0	3.4	22.5	0.2	1.0	0.9	20.5	21.7	-9.7	-19.6
China New Higher	2001 HK	2.59	516	1.3	6.1	N/A	5.0	12.4	N/A	1.1	N/A	20.4	N/A	2.4	2.0
Cathay Media And	1981 HK	1.22	258	0.7	25.7	3.8	3.2	75.7	0.1	0.7	0.5	2.2	13.1	-18.1	-34.8
Minsheng Edu	1569 HK	0.69	371	0.2	4.2	2.9	2.4	31.3	0.1	0.5	0.4	13.4	16.2	-13.8	-11.5
China Xinhua Edu	2779 HK	1.32	271	0.0	5.0	3.4	3.0	N/A	N/A	0.6	0.5	12.0	14.2	15.8	5.6

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

Source: Bloomberg, OP Research

Financial Summary

Year to Aug	FY20	FY21	FY22E	FY23E	FY24E
Income Statement (RMB mn)					
Turnover	800	1,252	1,651	2,008	2,252
YoY%	+13.6	+56.4	+31.9	+21.6	+12.1
COGS	-404	-621	-817	-994	-1,115
Gross profit	396	631	834	1,014	1,137
Gross margin	49.5%	50.4%	50.5%	50.5%	50.5%
Other income	26	39	59	59	59
Selling & distribution	-8	-20	-33	-40	-45
Admin	-110	-157	-264	-301	-338
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	-118	-177	-297	-341	-383
Operating profit (EBIT)	304	483	595	732	813
Operating margin	38.1%	38.6%	36.1%	36.4%	36.1%
Interest Income	20	10	10	10	10
Finance costs	-16	-18	-20	-20	-20
Profit after financing costs	308	484	585	722	803
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	308	484	585	722	803
Tax	-16	-14	-29	-40	-44
Minority interests	0	-56	-69	-87	-89
Net profit	291	414	487	595	669
YoY%	+39.3	+41.9	+16.5	+22.1	+12.5
Adjusted net profit	309	460	512	619	694
YoY%	+30.5	+48.7	+10.2	+21.1	+12.0
Adjusted net margin	38.6%	36.7%	31.0%	30.8%	30.8%
EBITDA	377	605	765	908	1,000
EBITDA margin	47.1%	48.3%	46.4%	45.2%	44.4%
Adjusted EPS (RMB)	0.30	0.43	0.48	0.58	0.65
YoY%	+30.5	+49.9	+10.8	+19.1	+12.0
DPS (HK\$)	0.098	0.139	0.176	0.209	0.234

Year to Aug	FY20	FY21	FY22E	FY23E	FY24E
Cash Flow (RMB mn)					
EBITDA	377	624	765	908	1,000
Chg in working cap	-83	321	422	226	200
Others	12	13	0	0	0
Cash flows from operation	306	958	1,187	1,134	1,199
Interest received	0	0	0	0	0
Tax	-1	-2	-76	-14	-30
Net cash from operations	305	956	1,112	1,120	1,170
Capex	-770	-625	-500	-300	-300
Investments	-9	-706	-150	0	0
Interests received	20	10	10	10	10
Sales of assets	1	0	0	0	0
Others	219	-428	0	0	0
Investing cash	-541	-1,748	-640	-290	-290
FCF	-236	-792	472	830	880
Issue of shares	0	385	0	0	0
Buy-back	-17	0	0	0	0
Minority interests	0	0	0	0	0
Interest paid	-25	-67	-67	-67	-67
Dividends paid	-63	-93	-122	-153	-186
Net change in bank loans	191	212	0	0	0
Others	-8	-36	0	0	0
Financing cash	78	401	-190	-221	-253
Net change in cash	-158	-402	282	609	627
Exchange rate or other Adj	-8	0	0	0	0
Opening cash	1,352	1,186	795	1,077	1,686
Closing cash	1,186	795	1,077	1,686	2,313
CFPS (HK\$)	0.34	1.09	1.27	1.26	1.32

Source: Company, OP Research

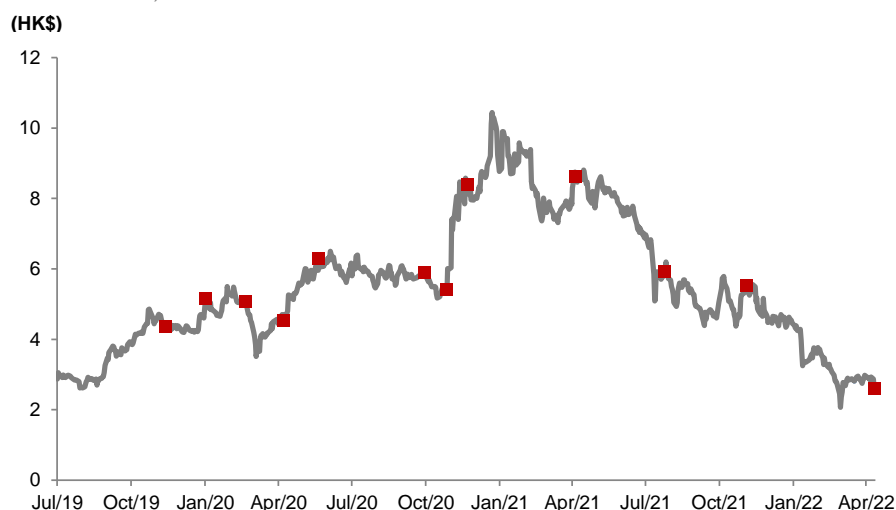
Year to Aug	FY20	FY21	FY22E	FY23E	FY24E
Ratios					
Gross margin (%)	49.5	50.4	50.5	50.5	50.5
Operating margin (%)	38.1	38.6	36.1	36.4	36.1
Adjusted net margin (%)	38.6	36.7	31.0	30.8	30.8
Selling & dist'n exp/Sales (%)	0.9	1.6	2.0	2.0	2.0
Admin exp/Sales (%)	13.8	12.5	16.0	15.0	15.0
Payout ratio (%)	28.1	30.0	30.0	30.0	30.0
Effective tax (%)	5.4	2.9	5.0	5.5	5.5
Total debt/equity (%)	74.7	81.6	90.1	82.9	77.9
Net debt/equity (%)	10.1	43.5	45.7	28.6	15.6
Current ratio (x)	1.2	0.7	0.7	0.9	1.1
Quick ratio (x)	1.2	0.7	0.7	0.9	1.1
Inventory T/O (days)	1	2	2	2	2
AR T/O (days)	26	41	41	41	41
AP T/O (days)	4	6	6	6	6
Cash conversion cycle (days)	23	36	36	36	36
Asset turnover (x)	0.2	0.3	0.3	0.3	0.3
Financial leverage (x)	1.9	2.0	2.1	2.1	2.0
EBIT margin (%)	38.1	38.6	36.1	36.4	36.1
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
Return on equity (%)	16.9	17.1	15.4	16.8	16.5
Date	31/8	31/8	31/8	31/8	31/8
Balance Sheet (RMB mn)					
Fixed assets	1,660	3,593	3,947	4,094	4,231
Investment properties	46	79	79	79	79
Intangible assets & Goodwills	9	182	182	182	182
Right of use assets	459	808	808	808	808
Deposits paid	14	88	97	97	97
Other non-current assets	5	110	110	110	110
Non-current assets	2,193	4,859	5,222	5,370	5,506
Inventories	1	3	3	4	5
AR	58	141	186	226	254
Prepayments & deposits	0	0	12	12	12
Other current assets	91	368	375	375	375
Cash	1,186	795	1,077	1,686	2,313
Current assets	1,336	1,307	1,654	2,304	2,959
AP	5	11	14	17	19
Tax	48	76	14	29	40
Accruals & other payables	105	228	300	365	410
Bank loans & leases	290	282	282	282	282
Contracted liabilities	623	1,141	1,606	1,801	2,016
Other current liabilities	21	33	32	32	32
Current liabilities	1,092	1,770	2,249	2,527	2,799
Bank loans & leases	457	1,062	1,062	1,062	1,062
CB & other debts	0	0	0	0	0
Deferred tax & others	145	288	288	288	288
Non-current liabilities	601	1,350	1,350	1,350	1,350
Total net assets	1,835	3,046	3,277	3,796	4,315
Shareholder's equity	1,835	2,533	2,695	3,127	3,557
Share capital	70	73	73	73	73
Reserves	1,765	2,460	2,622	3,053	3,484
MI	0	513	582	669	758
BVPS (HK\$)	2.07	2.88	3.09	3.52	4.01

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
28/04/2022	New Higher Edu	2001	Mixed 1H22 results amid investments to deliver quality education	BUY	John Siah
08/04/2022	Tian Lun Gas	1600	Strong gas sales offsetting by weak dollar margin, more details for rural solar development	BUY	John Siah
06/06/2022	Truly's Int'l	732	Mixed outlook for FY22E	BUY	John Siah
06/04/2022	HK Tech Venture	1137	Compelling growth story despite weak near-term profit	BUY	John Siah
29/03/2022	361 Degrees	1361	FY21 earnings beat on strong GPM	BUY	John Siah
29/03/2022	AAC Tech	2018	Earnings challenges remain in FY22E	HOLD	John Siah
29/03/2022	Greentown Mgmt	9979	Aligning with new trends in China property market	BUY	John Siah
02/03/2022	Xinyi Energy	3868	Ambitious expansion plan for FY22E	BUY	John Siah
25/02/2022	Tsaker Chem	1986	Battery business started to bear fruit	NR	John Siah
27/01/2022	Greentown Mgmt	9979	Resilient against headwinds	BUY	John Siah
21/01/2022	361 Degrees	1361	4Q21 retail sales beat expectation	BUY	John Siah
14/12/2021	Tian Lun Gas	1600	Embracing green energy, ambitious target for gas sales	BUY	John Siah
06/12/2021	New Higher Edu	2001	Aim for quality growth	BUY	John Siah
29/11/2021	China Edu Group	839	FY21 results in-line, expecting more M&A	BUY	John Siah
18/11/2021	Edvantage Group	382	FY21 results slightly beat our expectation	BUY	John Siah
26/10/2021	Truly Int'l	732	More added value of automotive display as a new earnings catalyst	BUY	John Siah
19/10/2021	China Edu Sector	-	Encourage private participation in vocational education	-	John Siah
11/10/2021	AAC Tech	2018	Sluggish 3Q21 earnings on weak smartphone market	BUY	John Siah
03/09/2021	HK Tech Venture	1137	Striving to become a global technology enabler	BUY	John Siah
31/08/2021	Tian Lun Gas	1600	Mixed 21H1 results, expecting margins to improve in 21H2E	BUY	John Siah
27/08/2021	AAC Tech	2018	Optics segment stood strong against headwinds in 21Q2	BUY	John Siah
25/08/2021	361 Degrees	1361	Strong earnings expected to continue in 21H2E	BUY	John Siah
09/08/2021	Edvantage Group	382	Promising growth to continue in FY22E	BUY	John Siah
09/08/2021	China Edu Group	839	Another landmark M&A	BUY	John Siah
09/08/2021	New Higher Edu	2001	SY21/22 growth on track	BUY	John Siah
06/08/2021	Innovent Bio	1801	Sintilimab on track to become RMB10 bn drug	BUY	Kevin Tam
05/08/2021	Greentown Mgmt	9979	Safe sail inside the Storm	BUY	John Siah

Historical recommendations and target price: Edvantage (382 HK)

(as of 28/04/2022)



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

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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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