

Edvantage Group (382 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$4.52

Target Price: HK\$6.50 (+44%)

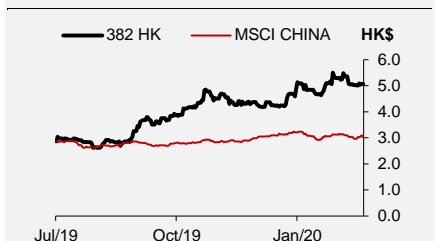
Prior TP: HK\$6.45

Key Data

HKEx code	382 HK
12 Months High (HK\$)	5.50
12 Month Low (HK\$)	2.56
3M Avg Dail Vol. (mn)	4.53
Issue Share (mn)	1,018.36
Market Cap (HK\$m)	4,603.00
Fiscal Year	31/08/2019
Major shareholder (s)	Director Liu & Family (73.65%)

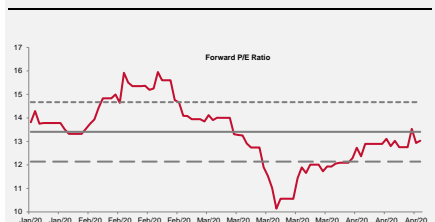
Source: Company data, Bloomberg, OP Research
Closing price are as of 22/04/2020

Price Chart



	1mth	3mth	6mth
Absolute %	22.4	-10.9	8.2
Rel. MSCI CHINA %	13.0	-0.9	6.1

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 two private higher education institutions in the PRC and one private vocational education institution in Australia.

License fee saving may come earlier

- Edvantage registered 43% yoy increase in 1H20 adjusted net earnings, beating our expectation thanks to more preferential effective tax rate.
- We revise up FY20E/21E adj. earnings estimates by 2.7%/0.8% to RMB294 mn/RMB360 mn respectively. We see 7%/13% further potential upside in FY22E/23E earnings given faster than expected progress in terminating the affiliative relationship with public university.
- Reiterate BUY with TP modified to HK\$6.50 from HK\$6.45 on same 16x FY21E PE. We expect sustainable margin improvement going forward.

1H20 results up to expectations. Edvantage registered 19% revenue yoy growth to RMB418 mn in 1H20/ thanks to: 1) 6%/12% growth of enrolment to 24,110/10,661, and 2) 11%/3% growth in avg. tuition fee for Huashang College/Huashang Vocational College respectively. Adj. net earnings attributable to the Company rose 43% yoy thanks to **reduced effective tax rate** to 4.8% from 11.6% in FY19, lower than our expectations thanks to much higher tax exemption according to preferential tax treatment for vocational education institutions sponsors. We expect such preferential rate to sustain for the full-year. It declares an interim dividend of HK\$4.9 cents per share, implying 30% pay-out.

We revise up our FY20E/21E adj. earnings estimates by 2.7%/0.8% to RMB294 mn/ 360 mn respectively. We fine tune our FY20E/21E staff cost by 9%/9% to RMB215 mn/ RMB249 mn, reflecting increased admin ratio by 3 ppt to 14.2%/14% respectively. We also cut our FY20E/21E estimated effective tax rate down to 6%/6% on better than expected preferential treatment. In light of the faster than expected progress of the proposed termination of affiliative relationship with Guangdong University of Finance and Economics, we now expect Huashang College to declare independence within the year. If the termination progresses smoothly, **we expect the cost saving of license fee to kick in from FY22E and bring 7%/13% potential upside to our current earnings estimation in FY22E/23E.**

Reiterate BUY with TP modified to HK\$6.50 from HK\$6.45 on same 16x FY21E PE, at 16% discount to China Education (839 HK). We expect continuous margin improving backed by 1) robust uplift trend of avg. tuition fee on proactive set-up of new majors/courses; 2) to-come detaching from public university.

Risks: (1) execution risk in new program/new campus expansion, (2) slower than expected ramp-up of student enrolments

Exhibit 1: Forecast and Valuation

Year to Aug. (RMB mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	636.4	704.2	827.0	981.4	1,133.3
Growth (%)	5.3	10.7	17.4	18.7	15.5
Adj. net profit	167.6	231.2	293.8	359.7	412.7
Growth (%)	29.5	37.9	27.1	22.5	14.7
Adj. diluted EPS (HK\$)	0.206	0.261	0.332	0.406	0.466
Adj. EPS growth (%)	29.5	26.9	27.1	22.5	14.7
Change to previous EPS (%)			2.7	0.8	
Consensus EPS (HK\$)			0.365	0.444	
ROE (%)	27.4	18.8	16.7	17.8	17.9
P/E (x)	22.0	17.3	13.6	11.1	9.7
P/B (x)	5.9	2.5	2.1	1.9	1.6
Yield (%)	0.0	0.2	2.2	2.7	3.1
DPS (HK\$)	0.000	0.010	0.100	0.122	0.140

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

(RMB mn)	FY20E			FY21E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	827	827	0.0	981	981	0.0	
Gross profit	412	412	(0.1)	502	503	(0.1)	
Gross margin	49.8%	49.8%	(0.0)	51.2%	51.2%	(0.0)	
Opex	(122)	(101)	21.2	(143)	(118)	21.0	Revise up staff cost on increased salary
EBIT	321	333	(3.8)	391	407	(4.0)	
Adj. net profits	294	286	2.7	360	357	0.8	Revise down effective tax rate to reflect the latest tax benefits
Diluted EPS (HK\$)	0.332	0.323	2.7	0.406	0.403	0.8	

Source: OP Research

Exhibit 3: If cost saving of license fee to kick in since FY22E, we estimate 7%/13% earnings upside in FY22E/23E

(Y.E. Aug. 31) RMB mn	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Huashang College tuition fee income (a)	391	406	432	495	587	727	868	1,006	1,130	1,166
License fee (b)*	51	53	56	64	76	94	113	130	147	151
License fee rate	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
Est. license fee cost saved from:										
new enrolments in FY22E(c)**							28	28	28	28
new enrolments in FY23E(c)**								33	33	33
new enrolments in FY24E(c)**									37	37
new enrolments in FY25E(c)**										38
Est. reduction in license fee costs							28	61	97	135
Est. reduction in license fee costs as % of our est. net income							7%	13%	21%	34%

*Huashang College agreed to pay an annual fee amounting to a fixed percentage of its tuition income, excluding any boarding, administrative or other fees, to Guangdong University of Finance and Economics every year for using its brand.

**equals to 25% of (b)

***We assume the cost saving will kick in from FY22E on the condition that the termination of affiliative relationship is done before 1 Sept 2021.

Source: OP Research

Exhibit 4: 1H20 results review

(RMB mn)	1H18	2H18	1H19	2H19	1H20A	1H20E	Act./est. %	OP Comments	FY19	FY20E	FY21E
Revenue	320	317	352	352	418	413	1.2%		704	827	981
COGS	(176)	(170)	(186)	(176)	(214)	(208)	3.2%		(362)	(415)	(479)
Gross profit	144	147	166	177	204	206	-0.9%		342	412	502
Other income & gains	14	18	26	26	15	11	35.8%		52	31	31
Selling exp	(5)	(4)	(3)	(4)	(4)	(2)	106.4%		(7)	(5)	(6)
Admin exp	(34)	(33)	(33)	(49)	(59)	(45)	30.6%	Due to raise in staff salary amid other business development expenditures	(82)	(117)	(137)
Other opex	0	(4)	(21)	(18)	0	0	n.a.		(39)	(2)	0
Operating profit (EBIT)	118	123	135	132	156	170	-8.2%		266	318	391
Provisions or other items	0	(0)	0	(0)	0	0	n.a.		(0)	0	0
Interest income	1	0	0	4	11	8	42.8%		5	23	26
Finance costs	(6)	(12)	(14)	(13)	(12)	(12)	-3.5%		(28)	(25)	(25)
Profit after financing costs	113	111	121	123	155	165	-6.2%		243	316	392
Associated cos	0	0	0	0	0	0	n.a.		0	0	0
Jointly controlled cos	0	0	0	0	0	0	n.a.		0	0	0
Pre-tax profit	113	111	121	123	155	165	-6.2%		243	316	392
Tax	(23)	(25)	(29)	1	(7)	(16)	-52.9%	Due to much higher tax exemption	(28)	(19)	(24)
Minority interests	(7)	(7)	(6)	0	0	(3)	-100.0%		(6)	(7)	(9)
Net profit	84	80	86	124	147	146	1.0%		209	290	360
Listing expenses	0	(4)	(21)	(18)	0	0	n.a.		(39)	(2)	0
Net exchange gain/loss	1	(1)	1	16	(2)	0	n.a.		17	0	0
Share-based payments	0	0	0	0	(1)	0	n.a.		0	(1)	0
Adjusted net profit	83	85	106	125	151	146	3.6%		231	294	360
HoH%											
Revenue		-1%	11%	0%	19%	17%					
Gross profit		2%	13%	7%	15%	16%					
Adjusted net profit		3%	24%	19%	20%	16%					
YoY%											
Revenue			10%	11%	19%	18%			10.7%	17.4%	18.7%
Gross profit			15%	20%	23%	24%			17.9%	20.2%	22.1%
Adjusted net profit			28%	48%	43%	38%			37.9%	27.1%	22.5%
Key ratios											
GPM	44.9%	46.4%	47.0%	50.2%	48.8%	49.8%	(1.01)		48.6%	49.8%	51.2%
Selling exp	1.5%	1.3%	0.8%	1.2%	1.0%	0.5%	0.52		1.0%	0.6%	0.6%
Admin exp	10.7%	10.5%	9.4%	13.8%	14.2%	11.0%	3.21		11.6%	14.2%	14.0%
EIT	20.1%	22.3%	24.4%	-1.0%	4.8%	9.5%	(4.73)		11.6%	6.0%	6.0%
Adjusted net margin	25.8%	26.8%	30.0%	35.6%	36.1%	35.2%	0.83		32.8%	35.5%	36.7%

Source: OP Research

Financial Summary

Year to Aug.	FY18	FY19	FY20E	FY21E	FY22E	Year to Aug.	FY18	FY19	FY20E	FY21E	FY22E
Income Statement (RMB mn)						Ratios					
Huashang College	469	534	632	782	928	Gross margin (%)	45.6	48.6	49.8	51.2	51.1
Huashang Vocational College	157	160	186	191	196	Operating margin (%)	37.9	37.8	38.8	39.8	39.2
GBCA	11	10	8	9	9	Net margin (%)	25.7	29.7	35.4	36.7	36.4
Turnover	636	704	827	981	1,133	Selling & dist'n exp/Sales (%)	1.4	1.0	0.6	0.6	0.6
YoY%	5	11	17	19	15	Admin exp/Sales (%)	10.6	11.6	14.2	14.0	14.0
COGS	(346)	(362)	(415)	(479)	(554)	Payout ratio (%)	0.0	3.8	30.0	30.0	30.0
Gross profit	290	342	412	502	579	Effective tax (%)	21.2	11.6	6.0	6.0	6.0
Gross margin	45.6%	48.6%	49.8%	51.2%	51.1%	Total debt/equity (%)	222.0	77.3	65.7	57.5	50.4
Other income	32	52	31	31	31	Net debt/equity (%)	198.2	Net cash	Net cash	Net cash	Net cash
Selling & distribution	(9)	(7)	(5)	(6)	(7)	Current ratio (x)	1.1	1.7	1.9	2.1	2.3
Admin	(67)	(82)	(117)	(137)	(159)	Quick ratio (x)	1.1	1.7	1.9	2.1	2.3
R&D	0	0	0	0	0	Inventory T/O (days)	1	0	0	0	0
Other opex	(4)	(39)	0	0	0	AR T/O (days)	13	16	16	16	16
Total opex	(81)	(128)	(122)	(143)	(166)	AP T/O (days)	9	7	7	7	7
Operating profit (EBIT)	242	266	321	391	445	Cash conversion cycle (days)	5	10	10	10	10
Operating margin	37.9%	37.8%	38.8%	39.8%	39.2%	Asset turnover (x)	0.3	0.3	0.3	0.3	0.3
Provisions	(0)	(0)	0	0	0	Financial leverage (x)	3.4	2.5	1.9	1.8	1.7
Interest Income	1	5	23	26	30	EBIT margin (%)	37.9	37.8	38.8	39.8	39.2
Finance costs	(18)	(28)	(25)	(25)	(25)	Interest burden (x)	0.9	0.9	1.0	1.0	1.0
Profit after financing costs	225	243	319	392	450	Tax burden (x)	0.7	0.9	0.9	0.9	0.9
Associated companies & JVs	0	0	0	0	0	Return on equity (%)	27.4	18.8	16.7	17.8	17.9
Pre-tax profit	225	243	319	392	450	ROIC (%)	0.0	13.9	20.4	24.0	26.4
Tax	(48)	(28)	(19)	(24)	(27)						
Minority interests	(14)	(6)	(7)	(9)	(10)	Year to Aug.	FY18	FY19	FY20E	FY21E	FY22E
Net profit	163	209	292	360	413	Balance Sheet (RMB mn)					
YoY%	25	28	40	23	15	Fixed assets	1,176	1,225	1,277	1,341	1,414
Adjusted net profit	168	231	294	360	413	Intangible assets & goodwill	54	199	199	199	199
YoY%	29	38	27	22	15	Associated companies & JVs	0	0	0	0	0
Adjusted net margin	26.3%	32.8%	35.5%	36.7%	36.4%	Long-term investments	3	2	2	2	2
EBITDA	304	326	389	469	536	Other non-current assets	5	5	5	5	5
EBITDA margin	47.8%	46.3%	47.0%	47.8%	47.3%	Non-current assets	1,238	1,432	1,484	1,548	1,621
EPS (RMB)	0.165	0.227	0.288	0.353	0.405	Inventories	0	0	1	1	1
YoY%	29	27	27	22	15	AR	23	32	37	44	51
DPS (HK\$)	0.000	0.010	0.100	0.122	0.140	Prepayments & deposits	2	5	6	7	9
						Other current assets	984	305	305	305	305
Year to Aug.	FY18	FY19	FY20E	FY21E	FY22E	Cash	149	1,352	1,582	1,819	2,080
Cash Flow (RMB mn)						Current assets	1,158	1,695	1,931	2,176	2,446
EBITDA	304	326	389	469	536	AP	8	7	8	9	10
Chg in working cap	62	130	13	16	16	Tax	28	40	19	24	27
Others	(15)	(23)	0	0	0	Accruals & other payables	83	106	125	148	171
Operating cash	351	434	402	485	552	Bank loans & leases	782	848	848	848	848
Interest received	7	18	23	26	30	CB & othe debts	40	3	3	3	3
Tax	(13)	(11)	(40)	(19)	(24)	Other current liabilities	81	15	15	15	15
Net cash from operations	345	441	385	492	559	Current liabilities	1,024	1,019	1,018	1,047	1,074
Capex	(133)	(102)	(120)	(143)	(165)	Bank loans & leases	568	390	390	390	390
Investments	1	(149)	0	0	0	CB & othe debts	0	0	0	0	0
Dividends received	0	0	0	0	0	Deferred tax & others	106	113	113	113	113
Sales of assets	0	0	0	0	0	MI	73	0	7	16	26
Interests paid	(27)	(37)	(25)	(25)	(25)	Non-current liabilities	746	502	509	518	528
Others	(713)	666	0	0	0	Total net assets	626	1,606	1,888	2,159	2,464
Investing cash	(873)	378	(145)	(167)	(189)	Shareholder's equity	626	1,606	1,888	2,159	2,464
FCF	(528)	819	240	325	370	Share capital	0	70	70	70	70
Issue of shares	(0)	629	0	0	0	Reserves	626	1,536	1,818	2,089	2,394
Buy-back	0	0	0	0	0						
Minority interests	0	0	0	0	0	BVPS (HK\$)	0.77	1.81	2.13	2.44	2.78
Dividends paid	0	(9)	(10)	(88)	(108)	Total debts	1,390	1,241	1,241	1,241	1,241
Net change in bank loans	488	(227)	0	0	0	Net cash/(debts)	(1,241)	161	391	628	889
Others	(28)	(24)	0	0	0						
Financing cash	459	369	(10)	(88)	(108)						
Net change in cash	(69)	1,188	229	237	262						
Exchange rate or other Adj	1	16	0	0	0						
Opening cash	216	149	1,352	1,582	1,819						
Closing cash	149	1,352	1,582	1,819	2,080						
CFPS (HK\$)	0.423	0.498	0.434	0.556	0.631						

Source: Company, OP Research

Exhibit 5: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER	PER	PER	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld		P/B		EV/		Net gearing Hist (%)	Gross margin Hist (%)	Net margin Hist (%)	ROE		Sh px	
					Hist (x)	FY1 (x)	FY2 (x)					Hist (%)	FY1 (%)	Hist (x)	FY1 (x)	Ebitda Hist	Ebitda Cur Yr				Hist (%)	FY1 (%)	1-mth %	3-mth %
Edvantage Group	382 HK	4.52	594	2.7	17.3	13.6	11.1	27.1	22.5	21.3	0.64	0.2	2.2	2.49	2.12	13.6	10.8	Net cash	48.6	29.7	18.8	16.7	23.5	(10.3)
HSI		23,893.36			9.5	10.3	9.3	(8.5)	11.0	4.0	2.61	3.9	4.0	1.01	0.96						10.7	9.3	4.8	(15.7)
HSCEI		9,670.20			7.7	8.2	7.4	(7.1)	10.9	4.6	1.78	3.9	4.0	1.01	0.94						13.2	11.5	6.0	(13.5)
CSI300		3,839.38			13.7	11.7	10.3	17.5	13.7	13.1	0.9	2.2	2.7	1.7	1.5						12.7	13.1	5.1	(7.1)
Adjusted sector avg*					16.4	11.6	9.7	34.8	14.9	21.7	0.6	1.8	2.8	2.0	1.8	10.5	8.2	10.4	54.3	34.8	12.0	14.2	12.8	(2.1)
China Education	839 HK	10.76	2,805	4.4	33.5	21.7	18.9	54.4	14.8	28.5	0.8	1.7	1.2	3.0	2.8	19.6	15.2	1.6	57.4	30.3	N/A	12.6	12.8	(1.6)
China Kepei Educ	1890 HK	4.47	1,154	2.6	17.8	13.6	11.2	30.9	21.6	21.7	0.6	2.2	2.9	2.9	2.5	13.9	10.8	0.0	67.5	63.9	21.6	19.1	28.1	(0.7)
Hope Education G	1765 HK	1.86	1,601	2.8	23.3	17.9	13.9	30.1	28.4	26.8	0.7	0.9	1.9	2.5	2.3	14.1	11.0	1.2	50.7	36.8	11.2	13.0	19.2	6.9
Minsheng Educati	1569 HK	1.04	539	0.4	11.2	8.4	7.4	32.9	14.2	18.1	0.5	N/A	2.7	1.0	0.9	6.0	4.8	0.0	51.4	34.0	9.5	10.8	5.1	(22.4)
China Xinhua Edu	2779 HK	2.08	432	0.4	11.3	8.8	8.1	28.3	9.3	14.6	0.6	2.6	3.3	1.2	1.1	6.6	5.4	0.0	59.7	61.8	10.8	11.2	(1.0)	(12.2)
China New Higher	2001 HK	3.50	696	2.2	12.3	9.3	8.1	31.9	14.9	20.4	0.5	1.8	2.8	2.0	1.7	9.4	8.5	40.7	49.8	35.5	17.8	17.8	70.7	18.6
Jh Educational T	1935 HK	1.65	341	0.2	12.1	N/A	N/A	N/A	N/A	N/A	N/A	4.5	N/A	0.1	N/A	6.4	N/A	0.0	53.2	36.2	13.0	N/A	1.9	(5.2)
China Chunlai Ed	1969 HK	1.54	238	N/A	10.1	11.7	N/A	(14.3)	N/A	N/A	N/A	N/A	3.3	1.4	1.4	8.2	8.9	68.5	58.1	24.4	13.8	14.9	0.0	0.0
China Gingko Edu	1851 HK	2.43	157	0.0	37.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.2	N/A	28.7	N/A	39.5	40.8	19.4	7.8	N/A	36.5	26.6

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

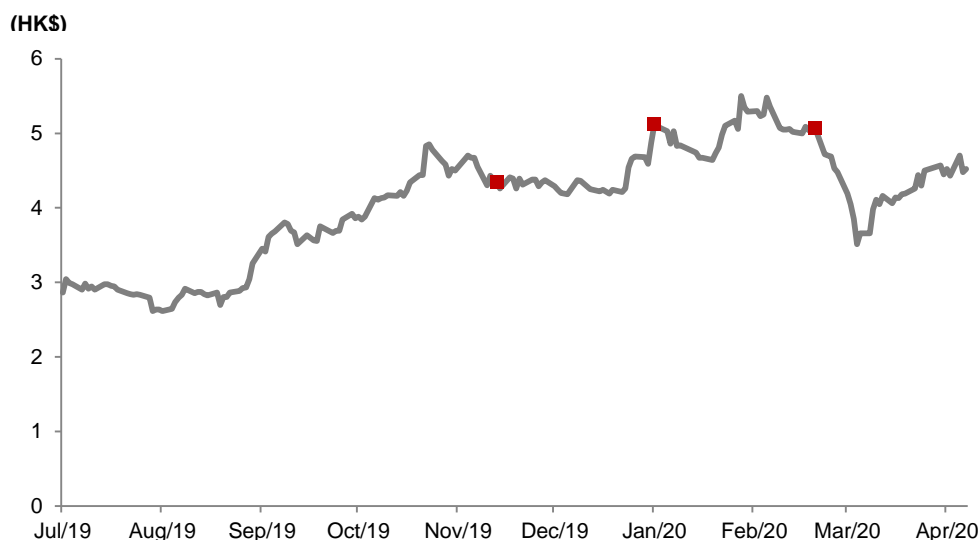
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
22/04/2020	361 Degrees Intl	1361	1Q20 retail sales in line	BUY	Megan Jin
21/04/2020	Xtep Intl	1368	1Q20 sales performance better than feared	BUY	Megan Jin/Dallas Cai
20/04/2020	Li-Ning	2331	1Q20 delivered satisfactory retail sales	BUY	Megan Jin/Dallas Cai
16/04/2020	Anta Sports	2020	Robust online FILA sales to drive 1Q20 sales beat	BUY	Dallas Cai/Megan Jin
15/04/2020	China Youzan	8083	FY19 GMV saw growth acceleration	BUY	Dallas Cai
02/04/2020	Greentown Services	2869	FY19 results largely in line	HOLD	Dallas Cai
31/03/2020	TCL Electronics	1070	FY19 results up to expectations	BUY	Dallas Cai
30/03/2020	Li-Ning	2331	A head start in FY20E with resilient operation	BUY	Dallas Cai/Megan Jin
27/03/2020	CH Display OPT	334	Lower order visibility ahead in FY20E	HOLD	Dallas Cai
27/03/2020	ChinaSoft Int'l	354	Cloud business ready to accelerate in FY20E	BUY	Dallas Cai
25/03/2020	Anta Sports	2020	FY20E strive for positive growth	BUY	Dallas Cai/Megan Jin
25/03/2020	China Overseas PPT	2669	FY19 results up to expectations	HOLD	Dallas Cai
23/03/2020	CG Services	6098	FY19 saw solid set of results	BUY	Dallas Cai
20/03/2020	Kingdee Int'l	268	Ambitious cloud target to weigh on FY20E earnings	HOLD	Dallas Cai
20/03/2020	Xtep Intl	1368	FY19 results in line with expectations	BUY	Dallas Cai/Megan Jin
19/03/2020	A-Living	3319	Unfolding a new 3-year plan	BUY	Dallas Cai
19/03/2020	Ausnutria Dairy	1717	Robust growth momentum to keep up in FY20E	BUY	Dallas Cai/Megan Jin
19/03/2020	361 Degrees Intl	1361	FY19 results up to expectations	BUY	Megan Jin
18/03/2020	Sunny Optical	2382	FY19 results clean beat on GPM	BUY	Dallas Cai
10/03/2020	Q Tech	1478	FY19 results beat on better CCM product mix	BUY	Dallas Cai
09/03/2020	Edvantage Group	382	1H20/21E positive profit alert - BUY	BUY	Dallas Cai/Megan Jin
24/02/2020	361 Degrees Intl	1361	COVID-19 impact to be inevitable on 1H20E	BUY	Megan Jin
20/02/2020	Ausnutria Dairy	1717	FY19E cow IMF growth beat expectations	BUY	Dallas Cai/Megan Jin
18/02/2020	Anta Sports	2020	Concrete yet manageable impacts from COVID-19	BUY	Dallas Cai/Megan Jin
13/02/2020	CH Display OPT	334	Better than feared coronavirus impacts, for now	HOLD	Dallas Cai
10/02/2020	TCL Electronics	1070	FY19E earnings beat expectations	BUY	Dallas Cai
05/02/2020	Xtep Intl	1368	4Q19 in line with expectations	BUY	Dallas Cai/Megan Jin

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

(as of 22/04/2020)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 29 Nov 2019	BUY	HK\$5.70	HK\$4.35				
2 17 Jan 2019	BUY	HK\$6.45	HK\$5.17				
7 09 Mar 2019	BUY	HK\$6.45	HK\$5.07				
8							
9							

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