

Edvantage Group (382 HK)

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Company Update

BUY

UNCHANGED

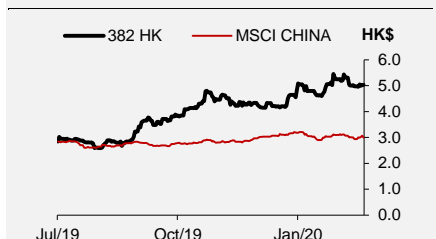
Close price: HK\$5.89
Target Price: HK\$8.57 (+46%)
Prior TP: HK\$8.38

Key Data

HKEx code	382 HK
12 Months High (HK\$)	6.73
12 Month Low (HK\$)	3.40
3M Avg Dail Vol. (mn)	2.15
Issue Share (mn)	1,018.36
Market Cap (HK\$mn)	5,998.15
Fiscal Year	31/08/2019
Major shareholder (s)	Director Liu & Family (73.71%)

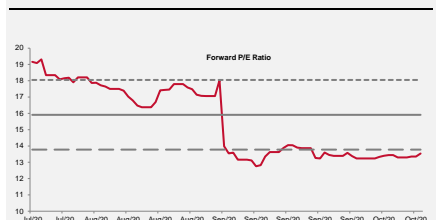
Source: Company data, Bloomberg, OP Research
Closing price are as of 14/10/2020

Price Chart



	1mth	3mth	6mth
Absolute %	-1.3	1.6	34.1
Rel. MSCI CHINA %	-6.9	-9.6	5.5

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

Room of more earnings surprise

- Edvantage is scheduled to announce FY20E results in mid-Nov. We forecast 30% adj. earnings growth and nudged up FY20E/21E adj. earnings by 3%/2% for higher part-time program income.
- Official detaching may be completed within the year as we see paced up government approvals.
- Reiterate BUY with TP revised up to HK\$8.57 on unchanged 25x/20x FY20E/FY21E PE, justified by 28% adj. earnings CAGR FY19-22E.

We expect 30% FY20E (end Aug) adj. net earnings growth to be released in mid-Nov, which is in-line with previous profit alert of 30%, as supported by 11%/4% tuition fee increment and 6%/12% growth in total enrolments for Huashang College/Huashang Vocational College respectively, accompanied with 2.6 ppt GPM expansion and 5 ppt tax rate optimization. We revise up our FY20E/21E adj. earnings estimates by 2.8%/2.3% to RMB301 mn/ RMB380 mn respectively to take into account of higher expected income from part-time programs.

New enrolments for 2020/2021 (FY21E) growth will be driven by vocational college. We estimate ~flat/30% growth of new enrolments for university/ vocational college in FY21E, as degree quotas are temporarily impacted due to an unified quota policy for just-detached independent colleges. We expect total enrolments speeding up from FY22E at CAGR of 10% to reach 52k by FY24E as degree quota normalises and benefited from nationwide quota expansion.

Detaching from public university may be completed within the year. Huashang College is approved by Guangdong government in Jul. to detach from public schools, with no extra fees expected, after the completion of which an est, 13% management fee of tuition will be saved following new enrolments. We forecast 6%/10%/14%/17% adj. profit upward adjustment for FY22E to FY25E if it is completed in FY21E, that will serve as extra earnings surprise.

Reiterate BUY with TP revised up to HK\$8.57 on unchanged 25x/20x FY20E/FY21E PE, on par with China Education Group (839 HK), justified by 28% FY19-22E adj. earnings CAGR that is peer-2nd -fastest. We noticed the sector is trading soft in recent months as dragged by placement concerns. We see less risks in the near term in Edvantage as it currently adopts light-asset expansion model and sits cash position of RMB823 mn by May, 2020, which is sufficient to pay its rest ~RMB500 mn of FY20E capex (totalled ~RMB800 mn for FY20E mainly for campus expansion). With utilization rate to stay below 90% in the next 5 years for Huashang College and Huashang Vocational College, we see possible use of funds for investment and expansion such as M&As. It is the only major player that has not acquired any domestic higher education schools yet.

Risks: (1) execution risk in new program/new campus expansion, (2) slower than expected ramp-up of student enrolments (3) policy/regulation updates

Exhibit 1: Forecast and Valuation

Year to Aug. (RMB mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	636.4	704.2	786.5	983.2	1,199.4
Growth (%)	5.3	10.7	11.7	25.0	22.0
Adj. net profit	167.6	231.2	301.4	379.6	479.0
Growth (%)	29.5	37.9	30.4	25.9	26.2
Adj. diluted EPS (HK\$)	0.206	0.261	0.340	0.429	0.541
Adj. EPS growth (%)	29.5	26.9	30.4	25.9	26.2
Change to previous EPS (%)			2.8	2.3	
Consensus EPS (HK\$)			0.339	0.435	
ROE (%)	27.4	18.8	17.1	18.6	20.2
P/E (x)	28.6	22.6	17.3	13.7	10.9
P/B (x)	7.7	3.2	2.8	2.4	2.0
Yield (%)	0.0	0.2	1.7	2.2	2.8
DPS (HK\$)	0.000	0.010	0.102	0.129	0.162

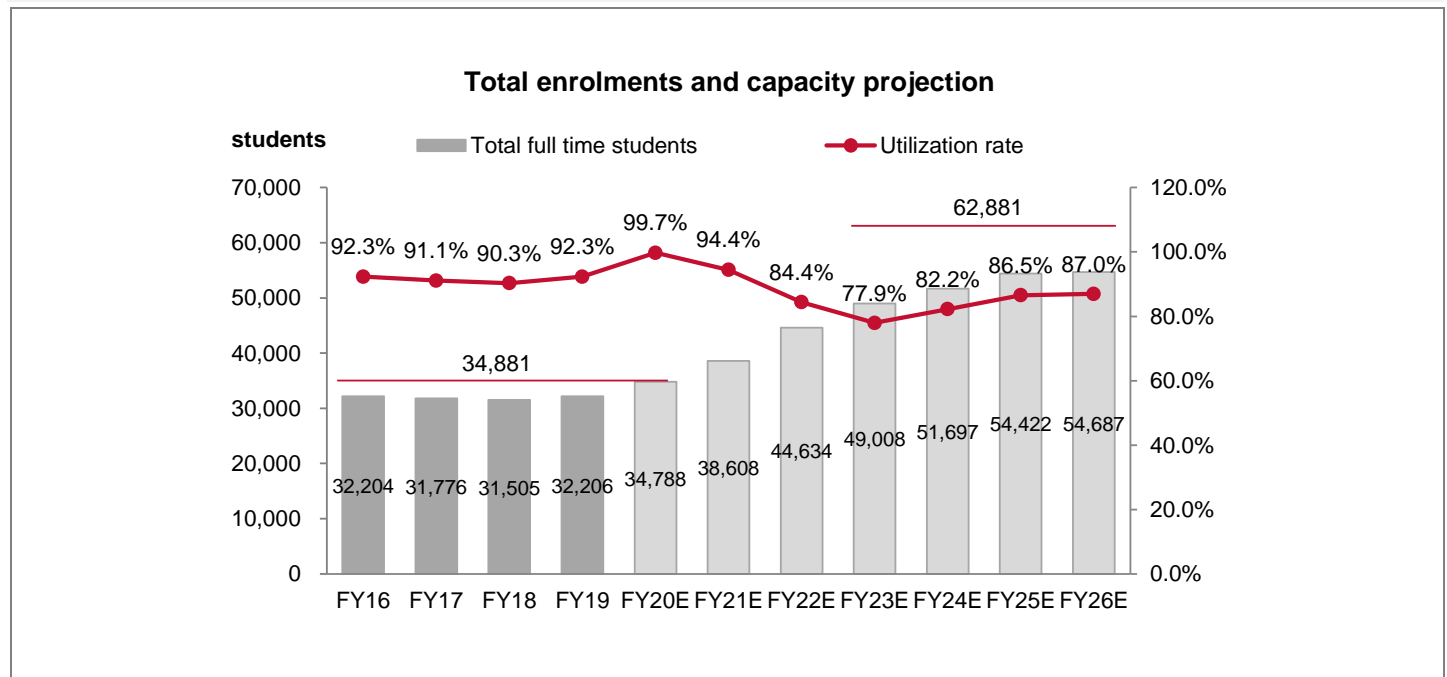
Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

(RMB mn)	FY20E			FY21E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	787	793	(0.8)	983	1,011	(2.7)	Modified new enrollments impacted by unified degree quota requirements for detaching
Gross profit	403	395	2.0	494	518	(4.6)	
Gross margin	51.2%	49.8%	1.4	50.2%	51.2%	(1.0)	Factored in increased depreciation from FY21E onwards
Opex	(91)	(107)	(15.0)	(128)	(146)	(12.4)	We trimmed down overheads costs as saved from pandemic periods.
EBIT	334	320	4.5	427	403	5.9	Lifted rev of part time programs estimates that are booked in "other income" item
Adj. net profits	301	293	2.9	380	371	2.3	
Diluted EPS (HK\$)	0.340	0.331	2.8	0.429	0.419	2.3	

Source: OP Research

Exhibit 3: Utilization rate to stay below 90% in coming years for Huashang College and Vocation College



Source: Company, OP Research

* Assuming Xinhui campus only construct phase 1.

Exhibit 4: Government paces up approval process

		Lisco	GD DoE approval	MoE approval	Remarks
1	Guangzhou College of Commerce	N.A.	2013	May 2014	1st detach in GD
2	Cunjin College of Guangdong Ocean University Library	N.A.	19th Feb. 2019	-	
3	Guangdong Polytechnic Normal University Tianhe College	N.A.	10th Sep. 2019	Jul. 2020	2nd detach in GD
4	South China Institute of Software Engineering, Guangzhou University	N.A.	10th Sep. 2019	-	Canceled
5	Huashang College GD University of Finance & Economics	382 HK	20th Jul. 2020	-	
6	Guangzhou University Songtian College	839 HK	20th Jul. 2020	-	
7	Nanfeng College of Sun Yat-Sen University	N.A.	20th Jul. 2020	-	
4	South China Institute of Software Engineering, Guangzhou University	N.A.	20th Jul. 2020	-	2nd application
8	Zhuhai College of Jilin University	N.A.	9th Oct. 2020	-	
9	Xinhua College of Sun Yat-Sen University	N.A.	9th Oct. 2020	-	

Source: Guangdong Department of Education, Ministry of Education, OP Research

* Total 17 independent colleges in Guangdong

Financial Summary

Year to Aug.	FY18	FY19	FY20E	FY21E	FY22E
Income Statement (RMB mn)					
Huashang College	469	534	604	729	876
Huashang Vocational College	157	160	176	244	312
GBCA	11	10	7	10	11
Turnover	636	704	787	983	1,199
YoY%	5	11	12	25	22
COGS	(346)	(362)	(384)	(489)	(590)
Gross profit	290	342	403	494	610
Gross margin	45.6%	48.6%	51.2%	50.2%	50.8%
Other income	32	52	22	61	79
Selling & distribution	(9)	(7)	(5)	(6)	(7)
Admin	(67)	(82)	(86)	(122)	(148)
R&D	0	0	0	0	0
Other opex	(4)	(39)	0	0	0
Total opex	(81)	(128)	(91)	(128)	(155)
Operating profit (EBIT)	242	266	334	427	534
Operating margin	37.9%	37.8%	42.5%	43.4%	44.5%
Provisions	(0)	(0)	0	0	0
Interest Income	1	5	17	12	13
Finance costs	(18)	(28)	(25)	(25)	(25)
Profit after financing costs	225	243	327	414	522
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	225	243	327	414	522
Tax	(48)	(28)	(20)	(25)	(31)
Minority interests	(14)	(6)	(7)	(9)	(12)
Net profit	163	209	300	380	479
YoY%	25	28	43	27	26
Adjusted net profit	168	231	301	380	479
YoY%	29	38	30	26	26
Adjusted net margin	26.3%	32.8%	38.3%	38.6%	39.9%
EBITDA	304	326	403	524	663
EBITDA margin	47.8%	46.3%	51.2%	53.3%	55.3%
EPS (RMB)	0.165	0.227	0.296	0.373	0.470
YoY%	29	27	30	26	26
DPS (HK\$)	0.000	0.010	0.102	0.129	0.162
Year to Aug.	FY18	FY19	FY20E	FY21E	FY22E
Cash Flow (RMB mn)					
EBITDA	304	326	403	524	663
Chg in working cap	62	130	9	23	25
Others	(15)	(23)	0	0	0
Operating cash	351	434	412	547	687
Interest received	7	18	17	12	13
Tax	(13)	(11)	(40)	(20)	(25)
Net cash from operations	345	441	390	539	675
Capex	(133)	(102)	(830)	(710)	(90)
Investments	1	(149)	0	0	0
Dividends received	0	0	0	0	0
Sales of assets	0	0	0	0	0
Interests paid	(27)	(37)	(25)	(25)	(25)
Others	(713)	666	0	0	0
Investing cash	(873)	378	(855)	(735)	(115)
FCF	(528)	819	(465)	(196)	561
Issue of shares	(0)	629	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Dividends paid	0	(9)	(10)	(90)	(114)
Net change in bank loans	488	(227)	0	0	0
Others	(28)	(24)	0	0	0
Financing cash	459	369	(10)	(90)	(114)
Net change in cash	(69)	1,188	(475)	(286)	447
Exchange rate or other Adj	1	16	0	0	0
Opening cash	216	149	1,352	877	590
Closing cash	149	1,352	877	590	1,037
CFPS (HK\$)	0.423	0.498	0.440	0.609	0.763

Source: Company, OP Research

Year to Aug.	FY18	FY19	FY20E	FY21E	FY22E
Ratios					
Gross margin (%)	45.6	48.6	51.2	50.2	50.8
Operating margin (%)	37.9	37.8	42.5	43.4	44.5
Net margin (%)	25.7	29.7	38.2	38.6	39.9
Selling & dist'n exp/Sales (%)	1.4	1.0	0.6	0.6	0.6
Admin exp/Sales (%)	10.6	11.6	10.9	12.4	12.3
Payout ratio (%)	0.0	3.8	30.0	30.0	30.0
Effective tax (%)	21.2	11.6	6.0	6.0	6.0
Total debt/equity (%)	222.0	77.3	65.5	56.8	48.7
Net debt/equity (%)	198.2	Net cash	16.6	27.5	6.0
Current ratio (x)	1.1	1.7	1.2	0.9	1.3
Quick ratio (x)	1.1	1.7	1.2	0.9	1.3
Inventory T/O (days)	1	0	0	0	0
AR T/O (days)	13	16	16	16	16
AP T/O (days)	9	7	7	7	7
Cash conversion cycle (days)	5	10	10	10	10
Asset turnover (x)	0.3	0.3	0.2	0.3	0.3
Financial leverage (x)	3.4	2.5	1.9	1.8	1.7
EBIT margin (%)	37.9	37.8	42.5	43.4	44.5
Interest burden (x)	0.9	0.9	1.0	1.0	1.0
Tax burden (x)	0.7	0.9	0.9	0.9	0.9
Return on equity (%)	27.4	18.8	17.1	18.6	20.2
ROIC (%)	0.0	13.9	17.1	16.0	18.1
Year to Aug.	FY18	FY19	FY20E	FY21E	FY22E
Balance Sheet (RMB mn)					
Fixed assets	1,176	1,225	1,795	2,416	2,386
Intangible assets & goodwill	54	199	386	377	369
Associated companies & JVs	0	0	0	0	0
Long-term investments	3	2	2	2	2
Other non-current assets	5	5	5	5	5
Non-current assets	1,238	1,432	2,188	2,801	2,763
Inventories	0	0	0	1	1
AR	23	32	36	44	54
Prepayments & deposits	2	5	10	10	10
Other current assets	984	305	305	305	305
Cash	149	1,352	877	590	1,037
Current assets	1,158	1,695	1,228	950	1,407
AP	8	7	7	9	11
Tax	28	40	20	25	31
Accruals & other payables	83	106	119	149	181
Bank loans & leases	782	848	848	848	848
CB & othe debts	40	3	3	3	3
Other current liabilities	81	15	15	15	15
Current liabilities	1,024	1,019	1,011	1,048	1,089
Bank loans & leases	568	390	390	390	390
CB & othe debts	0	0	0	0	0
Deferred tax & others	106	113	113	113	113
MI	73	0	7	16	28
Non-current liabilities	746	502	509	519	530
Total net assets	626	1,606	1,896	2,185	2,550
Shareholder's equity	626	1,606	1,896	2,185	2,550
Share capital	0	70	70	70	70
Reserves	626	1,536	1,826	2,115	2,480
BVPS (HK\$)	0.77	1.81	2.14	2.47	2.88
Total debts	1,390	1,241	1,241	1,241	1,241
Net cash/(debts)	(1,241)	161	(314)	(601)	(154)
Net cash/(debts)	(1,241)	161	(314)	(601)	(154)
Key assumptions (RMB)					
Avg. tuition fee of uni	19,821	21,831	24,324	26,913	28,965
Avg. tuition fee of vocation	14,392	15,057	15,633	16,571	17,406
No. of university st.	21,770	22,665	24,126	25,347	28,420
No. of vocational st.	9,735	9,541	10,662	13,261	16,214

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	5.89	774	1.6	22.6	17.3	13.7	30.4	25.9	27.5	0.63	0.2	1.7	3.25	2.75	17.7	15.7	Net cash	48.6	29.7	18.8	17.1	(1.3)	(0.8)
HSI		24,667.09			13.1	13.0	10.8	1.2	20.3	11.7	1.11	3.1	2.9	1.06	1.05						8.1	8.1	0.7	(4.3)
HSCEI		9,920.77			9.4	9.6	8.4	(1.5)	13.6	7.9	1.20	3.5	3.5	1.09	1.04						11.6	10.9	1.7	(6.2)
CSI300		4,807.10			18.8	16.5	14.0	14.1	17.7	15.3	1.1	1.8	1.9	2.2	2.0						11.5	12.1	3.4	0.0
Adjusted sector avg*					19.2	14.4	11.6	27.7	24.6	21.8	0.7	1.9	2.4	2.0	2.2	15.5	11.9	13.0	53.5	35.4	12.2	14.1	(5.7)	(4.7)
China Education	839 HK	13.92	3,862	15.7	41.3	27.3	20.4	51.4	33.3	35.5	0.8	1.6	1.6	3.6	3.4	26.9	20.1	1.6	57.4	30.3	12.0	12.8	(3.9)	7.9
China Kepei Educ	1890 HK	5.90	1,534	2.5	22.3	16.8	13.6	33.0	23.2	24.5	0.7	1.7	2.3	3.7	3.1	19.6	14.6	0.0	67.5	63.9	21.6	19.4	(2.0)	0.2
Hope Education G	1765 HK	2.13	1,988	11.9	25.4	20.6	14.9	23.3	37.8	25.4	0.8	1.2	1.7	2.7	2.5	17.3	14.4	22.1	50.7	36.8	13.1	12.5	(12.0)	(16.8)
Minsheng Educati	1569 HK	1.12	610	0.7	11.5	9.0	7.7	27.1	17.6	18.9	0.5	2.5	3.3	1.0	0.9	6.7	5.5	0.0	51.4	34.0	9.6	10.7	(1.8)	0.0
China Xinhua Edu	2779 HK	2.36	490	0.4	12.2	10.2	8.9	20.0	13.9	16.2	0.6	2.3	3.1	1.2	1.1	7.9	6.4	0.0	59.7	61.8	10.4	11.3	(2.9)	3.1
China New Higher	2001 HK	4.70	961	5.0	15.7	11.7	9.7	33.8	21.3	24.6	0.5	1.8	2.5	2.5	2.1	11.4	9.4	40.7	49.8	35.5	17.5	19.2	(13.1)	(9.1)
Jh Educational T	1935 HK	3.38	698	0.2	23.7	18.4	14.7	28.9	25.0	21.0	0.9	2.2	0.5	0.2	2.2	15.3	12.7	0.0	53.2	36.2	13.0	12.8	5.6	34.1
China Chunlai Ed	1969 HK	1.54	238	N/A	9.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.2	N/A	10.2	N/A	81.3	52.5	29.4	14.1	N/A	0.0	0.0
China Gingko Edu	1851 HK	2.30	148	0.0	33.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.0	N/A	24.1	N/A	39.5	40.8	19.4	7.8	N/A	(9.8)	(23.1)

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

Source: Bloomberg, OP Research

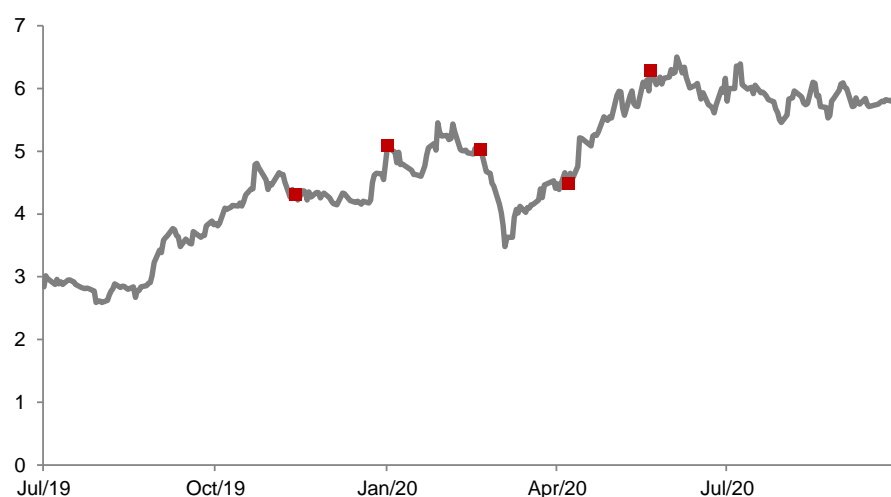
Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
08/10/2020	Innovent	1801	PD-1 front runner setting off	BUY	Kevin Tam
01/09/2020	Yeahka	9923	1H20 soft patch, but still encouraging growth in technology services	HOLD	Kevin Tam
31/08/2020	Xtep Intl	1368	More confident on new brands and 2H20E recovery	BUY	Megan Jin
28/08/2020	HKTv	1137	Management vision beyond domestic e commerce	BUY	Kevin Tam
27/08/2020	CG Services	6098	Leader aims higher	BUY	Megan Jin
26/08/2020	Anta Sports	2020	Less foreseeable catalysts	HOLD	Megan Jin
24/08/2020	GT Services	2869	1H20 steady on track	HOLD	Megan Jin
21/08/2020	A-Living	3319	Undervalued acquisition synergies	BUY	Megan Jin
20/08/2020	Sunny Optical	2382	Less convincing earnings outlook	HOLD	Kevin Tam
17/08/2020	Ausnutria Dairy	1717	2Q20 fluctuations to be under control by 4Q20	BUY	Megan Jin
17/08/2020	Li-Ning	2331	Well positioned to capture consumption recovery	BUY	Megan Jin
12/08/2020	China Youzan	8083	Robust momentum kept up	BUY	Megan Jin
14/08/2020	S-Enjoy Service	1755	3rd party expansion speeding up	BUY	Megan Jin
30/07/2020	Viva Biotech	1873	Biotech PE model to reap more long term return	NR	Kevin Tam
22/07/2020	Xtep Intl	1368	Uncertainties on new brands remain but worst is seen	BUY	Megan Jin
21/07/2020	361 Degrees Intl	1361	Slow recovery in 2Q20 retail sales	BUY	Megan Jin
16/07/2020	Anta Sports	2020	More visible outlook of full revival	BUY	Megan Jin
10/07/2020	Digital China	861	Thrive on data servicing capabilities	NR	Kevin Tam
02/07/2020	S-Enjoy Service	1755	New share incentives with strong commitment	BUY	Megan Jin
02/07/2020	TCL Electronics	1070	Inject smartphone business at start of 5G replacement cycle	BUY	Dallas Cai
30/06/2020	Yeahka	9923	From payment to Fintech	BUY	Kevin Tam
19/06/2020	Powerlong CM	9909	Moving into the fast lane	NR	Dallas Cai
11/06/2020	Xtep Intl	1368	More promising prospect from FY21E	BUY	Megan Jin
08/06/2020	Edvantage Group	382	Campus capacity enlarged further	BUY	Megan Jin
04/06/2020	S-Enjoy Service	1755	Robust expansion continues	BUY	Megan Jin
04/06/2020	Greentown Services	2869	Placing for new growth initiatives - city services most likely	HOLD	Dallas Cai
28/05/2020	A-Living	3319	Positive read-across from April property sales	BUY	Dallas Cai

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

(as of 14/10/2020)

(HK\$)



	Date	Rating	TP	Close		Date	Rating	TP	Close
1	29 Nov 2019	BUY	HK\$5.70	HK\$4.35					
2	17 Jan 2020	BUY	HK\$6.45	HK\$5.17					
7	09 Mar 2020	BUY	HK\$6.45	HK\$5.07					
8	23 Apr 2020	BUY	HK\$6.50	HK\$4.52					
9	08 Jun 2020	BUY	HK\$8.38	HK\$6.28					

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