

New Higher Edu (2001 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$5.08

Target Price: HK\$7.80(+53.5%)

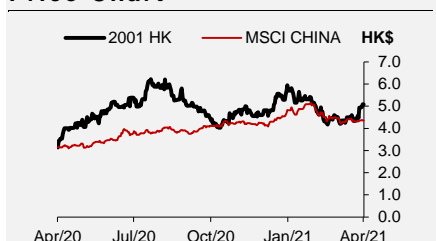
Prior TP: HK\$7.20

Key Data

HKEx code	2001 HK
12 Months High (HK\$)	6.48
12 Month Low (HK\$)	3.11
3M Avg Dail Vol. (mn)	4.24
Issue Share (mn)	1,585.56
Market Cap (HK\$mn)	8,054.65
Fiscal Year	08/2020
Major shareholder (s)	Mr. Li Xiaoxuan(47.40%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 21/4/2021

Price Chart



	1mth	3mth	6mth
Absolute %	+12.6	-10.9	+20.4
Rel. MSCI CHINA %	+17.5	-1.2	+14.4

PE



Company Profile

New Higher Edu currently invested and established eight schools (including four undergraduate colleges and four junior colleges) in seven provinces throughout China. As at Oct 2020, the total number of enrolled students of all schools reached 125,692.

More visible growth path

- Kicking off another round of expansion. Zhengzhou School could contribute ~8% net profit in long run
- Successful conversion of independent colleges and consolidation of Gansu School erased uncertainties
- Net profit expected to grow at CAGR of 24.8% between FY21E-23E solely based on organic growth
- Maintain BUY with TP lift up HK\$7.80 on 19.8x/15.3x FY21E/FY22E PE

Zhengzhou School is a good addition to the NHE. NHE won bid for City University of Zhengzhou in Apr 21 at total consideration of RMB 673.5 mn. NHE expects its net profit to reach RMB 70 mn with student increasing to 18,000 from 12,000 in the next three years. We reckon these targets are well achievable given that Zhengzhou School's new student in SY20/21 reached 5,600 while the targeted net profit only represents ~40% NPM. We believe it will not face major obstacles to complete this transaction. We project Zhengzhou School will contribute ~8% of group profit in long run.

Successful conversion of Central China School and Gansu School to unlock long-term profitability. NHE has obtained approval from Ministry of Education ("MOE") in Mar 21 to convert the above 2 schools into full private universities. The conversion will improve profit margins and these schools will also benefit from (1) MOE's concessionary policy on student enrolment, and (2) higher discretion in setting tuition.

M&A execution risk eased given that NHE recently completed M&A of Gansu School after 3 years of regulatory procedures and its financials will then be fully consolidated. We expect Gansu School will lift NHE's top-line revenue by 10% from FY22E.

We keep our "BUY" rating on New Higher Edu and lift target price to HK\$ 7.80 based on 15.3x FY22E P/E. We reckon the successful consolidation of Gansu School and the conversion of independent colleges could narrow the current discount of >40% toward the top-tier peers like CEG (839 HK).

Risks: (1) Policy risk, (2) slower than expected increase of student enrolments.

Exhibit 1: Forecast and Valuation

Year (RMB mn)	FY19A	FY20(8M)	FY21E	FY22E	FY23E
Date end	Dec 31	Aug 31	Aug 31	Aug 31	Aug 31
Revenue	1,089	722	1,541	1,883	2,140
Growth (%)	94.0	n.a.	n.a.	22.2	13.7
Net Profit	386	175	567	734	882
Growth (%)	83.7	n.a.	n.a.	29.5	20.2
Diluted EPS (HK\$)	0.282	0.124	0.394	0.510	0.614
EPS growth (%)	61.4	n.a.	n.a.	29.5	20.2
Change to previous EPS (%)			(1.3)	5.4	6.0
Consensus EPS (HK\$)			0.446	0.578	0.691
ROE (%)	14.8	6.4	21.0	23.3	23.6
P/E (x)	18.0	41.1	12.9	10.0	8.3
P/B (x)	2.8	3.0	2.3	2.1	1.8
Yield (%)	1.50	0.93	2.33	3.01	3.62
DPS (HK\$)	0.076	0.047	0.118	0.153	0.184

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

(RMB mn)	FY21E			FY22E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	1,541	1,501	2.7	1,883	1,704	10.5	Due to consolidation of Gansu School since Apr 21
Gross profit	783	764	2.5	971	882	10.1	
Gross margin	50.8%	50.9%	(0.1)	51.6%	51.7%	(0.3)	Mainly due to the expected detachment cost arising from conversion of independent colleges.
Opex	(185)	(155)	18.9	(217)	(171)	26.6	
EBIT	780	788	(1.1)	971	919	5.7	
Adj. net profits	567	574	(1.3)	734	696	5.4	
Diluted EPS (HK\$)	0.394	0.401	(1.8)	0.510	0.487	4.8	

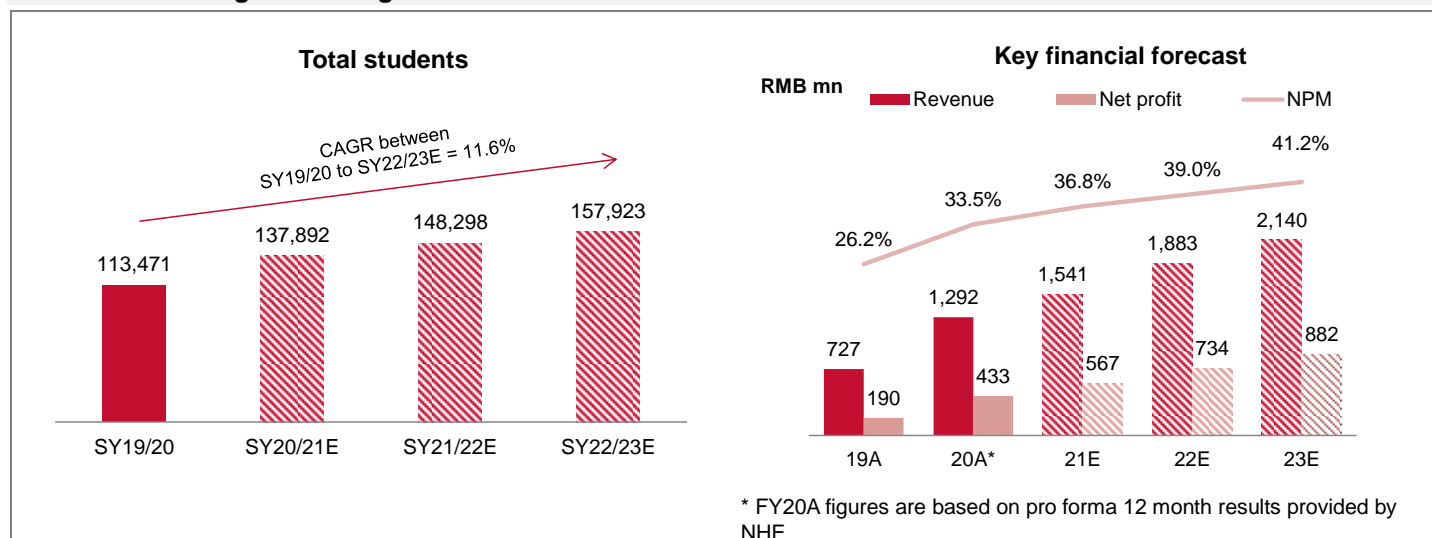
Source: OP Research

Exhibit 3: Profile of City University of Zhengzhou (鄭州城市職業學院), latest M&A by New Higher Edu

School info		Acquisition info	
Location	Zhengzhou, Henan	Total consideration	~RMB673mn
Level of course provided	Junior degree(高職)	Total consideration (including borrowing and other costs)	~RMB780mn
Number of students(SY20/21)	12,000	Total consideration/ students	RMB 65,000
Tuition for new student (SY20/21)	RMB 8,500-8,800	P/E of M&A (FY20E)	~35x
		3 years targets	Student: 18,000(CAGR=14%) Tuitons : 10% CAGR Net profit: RMB 70mn (CAGR=45%)

Source: Company, Zhengzhou School

Exhibit 4: New Higher Edu's growth forecast



Source: Company, OP Research

Financial Summary

Year	FY19	20(8M)	FY21E	FY22E	FY23E
End month	Dec	Aug	Aug	Aug	Aug
Income Statement (RMB mn)					
Turnover	1,089	722	1,541	1,883	2,140
YoY%	94.0	n.a.	n.a.	22.2	13.7
COGS	(547)	(433)	(758)	(912)	(995)
Gross profit	543	289	783	971	1,145
Gross margin	49.8%	40.0%	50.8%	51.6%	53.5%
Other gain/losses	153	65	181	217	237
Selling expenses	(14)	(10)	(22)	(26)	(30)
Admin expenses	(85)	(42)	(108)	(132)	(150)
Other expenses	(27)	(11)	(55)	(59)	(61)
Total opex	(126)	(63)	(185)	(217)	(241)
Operating profit (EBIT)	570	290	780	971	1,142
Operating margin	52.3%	40.2%	50.6%	51.6%	53.3%
Interest Income	10	10	10	10	10
Change in FV of CB	0	0	0	0	0
Finance costs	(94)	(76)	(124)	(123)	(123)
Pre-tax profit	486	224	665	857	1,028
Tax	(56)	(27)	(80)	(103)	(123)
Minority interests	(44)	(22)	(19)	(20)	(22)
Net profit	386	175	567	734	882
Net margin	35.5%	24.2%	36.8%	39.0%	41.2%
YoY%	83.7%	n.a.	n.a.	29.5%	20.2%
EBITDA	717	403	941	1,145	1,328
EBITDA margin	65.8%	55.8%	61.0%	60.8%	62.1%
Adj. EPS (HK\$)	0.282	0.124	0.394	0.510	0.614
YoY%	61%	-56.2%	218.7%	29.5%	20.2%
DPS (HK\$)	0.076	0.047	0.118	0.153	0.184
Year	FY19	20(8M)	FY21E	FY22E	FY23E
End month	Dec	Aug	Aug	Aug	Aug
Cash Flow (RMB mn)					
EBITDA	717	386	941	1,145	1,328
Chg in working cap	44	(329)	1,145	417	134
Others	59	(17)	0	0	0
Operating cash	820	40	2,086	1,562	1,463
Interest received	14	10	10	10	10
Tax	(2)	(4)	(27)	(80)	(103)
Net cash from operations	831	46	2,070	1,492	1,370
Capex	(338)	(131)	(600)	(550)	(550)
Others	(265)	93	(794)	(40)	0
Investing cash	(604)	(38)	(1,394)	(590)	(550)
FCF	227	8	676	902	820
Issue of shares	336	0	209	0	0
Proceeds from convertible	0	0	673	(673)	0
Dividends paid	(83)	(114)	(73)	(170)	(220)
Interest paid	(72)	(51)	(115)	(124)	(123)
Net change in loans	128	400	0	0	0
Acquisitions of MI	0	(297)	(240)	0	0
Others	(327)	103	(22)	0	0
Financing cash	(18)	41	433	(986)	(364)
Net change in cash	209	49	1,109	(84)	456
Exchange rate or other Adj	0	0	0	0	0
Opening cash	350	559	608	1,717	1,634
Closing cash	559	608	1,717	1,634	2,089
CFPS (HK\$)	0.153	0.036	0.771	(0.058)	0.317

Source: Company, OP Research

Year	FY19	20(8M)	FY21E	FY22E	FY23E
End month	Dec	Aug	Aug	Aug	Aug
Ratios					
Gross margin (%) - blended	49.8	40.0	50.8	51.6	53.5
Operating margin (%)	52.3	40.2	50.6	51.6	53.3
Net margin (%)	35.5	24.2	36.8	39.0	41.2
Selling exp/sales (%)	1.3	1.5	1.4	1.4	1.4
Admin exp/sales (%)	7.8	5.9	7.0	7.0	7.0
Payout ratio (%)	27.0	38.1	30.0	30.0	30.0
Effective tax (%)	11.4	11.9	12.0	12.0	12.0
Total debt/equity (%)	50.4	75.7	89.2	55.4	46.7
Net debt/equity (%)	31.4	51.4	29.7	7.7	Net cash
Current ratio (x)	0.5	0.6	0.6	0.6	0.7
Quick ratio (x)	0.5	0.6	0.6	0.6	0.7
Inventory T/O (days)	0	0	0	0	0
AR T/O (days)	35	47	35	35	35
AP T/O (days)	0	0	0	0	0
Cash conversion cycle (days)	35	47	35	35	35
Asset turnover (x)	0.2	0.1	0.2	0.2	0.2
Financial leverage (x)	2.0	2.2	2.6	2.6	2.4
EBIT margin (%)	52.3	40.2	50.6	51.6	53.3
Interest burden (x)	0.9	0.8	0.9	0.9	0.9
Tax burden (x)	0.8	0.8	0.9	0.9	0.9
Return on equity (%)	14.8	6.4	21.0	23.3	23.6
Year	FY19	20(8M)	FY21E	FY22E	FY23E
End date	31/12	31/8	31/8	31/8	31/8
Balance Sheet (RMB mn)					
Net PPE	3,090	3,101	4,221	4,604	4,974
Goodwills	225	242	242	242	242
Intangible assets	21	23	19	15	12
Deferred tax	0	0	0	0	0
Other non-current assets	1,513	1,353	1,350	1,346	1,343
Non-current assets	4,850	4,719	5,832	6,208	6,571
Inventories	0	0	0	0	0
Receivables, prepayments	104	140	148	181	205
Other current assets	489	390	390	390	390
Cash	559	608	1,717	1,634	2,089
Current assets	1,152	1,138	2,255	2,204	2,684
AP	0	0	0	0	0
Accruals & other payables	645	1,020	1,020	1,020	1,020
Tax	44	27	40	80	103
Bank loans & leases	699	728	728	728	728
Deferred revenue	725	274	1,426	1,857	2,037
Convertible bonds	0	0	680	0	0
Other current liabilities	11	9	9	9	9
Current liabilities	2,125	2,058	3,903	3,694	3,897
Bank loans	788	1,168	1,168	1,168	1,168
Other non-current liabilities	137	128	128	128	128
Non-current liabilities	925	1,296	1,296	1,296	1,296
Total net assets	2,952	2,503	2,888	3,422	4,062
Total Equity	2,952	2,503	2,888	3,422	4,062
Shareholder's equity	2,486	2,320	2,842	3,356	3,973
Share capital	1	1	1	1	1
Reserves	2,484	2,319	2,841	3,355	3,972
NCI	466	183	46	66	89
BVPS (HK\$)	1.82	1.69	2.14	2.33	2.76
Year	FY19	20(8M)	FY21E	FY22E	FY23E
End month	Dec	Aug	Aug	Aug	Aug
Key assumption					
Number of student('000)	101.8	113.5	137.9	148.3	157.9
% change	+87	+12	+22	8	6
Revenue per student('000)	7.8	11.4	11.2	12.7	13.5
% change		+46	-2	14	7

Exhibit 5: Peer Group Comparison

			3-mth													EV/	EV/	Net	Gross	Net		Sh px	Sh px		
			Mkt cap	avg t/o	PER Hist	PER FY1	PER FY2	EPS FY1	EPS FY2	3-Yr EPS	P/B	P/B FY1	Div yld	Div yld	EBITDA	EBITDA	gearing	margin	margin	ROE Hist	ROE FY1				
Company	Ticker	Price	(US\$m)	(US\$m)	(x)	(x)	(x)	YoY%	YoY%	Cagr (%)	PEG (x)	Hist (x)	(x)	Hist (%)	FY1 (%)	Hist	Cur Yr	Hist (%)	Hist (%)	Hist (%)	(%)	(%)	1-mth %	3-mth %	
China New Higher	2001 HK	5.08	1,038	2.7	41.1	12.9	10.0	n.a.	29.5	n.a.	0.48	3.01	2.31	0.93	2.33	22.6	9.2	51.4	40.0	24.2%	6.4	21.0	12.6	(10.9)	
HSI		28,621.92			14.8	12.9	11.4	14.5	14.0	13.7	0.94	1.20	1.25	1.16	1.06						8.1	9.6	(1.3)	(4.4)	
HSCEI		10,888.52			15.3	10.8	9.6	42.2	12.5	21.9	0.49	1.25	1.29	1.18	1.05						8.2	12.0	(3.5)	(8.4)	
CSI300		5,098.75			18.8	14.2	13.2	32.3	7.4			2.28	1.82	1.64	1.30						12.2	12.8	1.8	(8.4)	
Domestic peers																									
Adjusted sector avg*					30.5	16.5	13.5	100.5	19.2	54.8	0.4	3.1	3.1	0.9	2.2	10.4	7.4	1.1	55.1	26.1	10.8	16.1			
China Education	839 HK	17.44	5,105	20.3	46.7	24.3	19.4	91.8	25.5	40.0	0.6	3.4	3.2	0.9	1.8	12.9	9.2	10.7	59.8	23.6	8.3	13.7	16.0	2.1	
China Yuhua Educ	6169 HK	6.85	2,960	9.2	95.5	14.9	12.9	540.0	15.4	100.4	0.1	5.2	4.4	3.0	3.2	7.8	6.8	0.0	61.0	8.5	5.6	30.1	7.7	(9.7)	
Hope Education G	1765 HK	3.04	3,122	23.0	40.3	22.5	18.2	79.1	23.9	41.3	0.5	3.0	2.9	0.0	1.4	13.2	8.2	6.4	49.6	29.1	8.9	13.6	7.4	7.0	
China Kepei Educ	1890 HK	5.80	1,506	1.7	17.2	12.7	10.5	35.7	20.6	25.1	0.5	3.1	2.6	2.1	2.9	10.3	7.0	0.0	69.9	65.1	18.9	21.2	11.3	(3.2)	
Edvantage Group	382 HK	8.51	1,175	4.3	24.8	17.2	12.3	44.8	39.8	36.2	0.5	3.3	3.1	1.4	1.8	10.9	7.2	0.0	49.5	36.4	15.2	20.2	9.7	(13.1)	
Jh Educational T	1935 HK	3.65	753	0.8	18.4	16.1	14.5	14.4	10.5	N/A	N/A	2.7	2.2	0.0	0.6	7.4	6.0	0.0	59.6	47.4	15.5	14.4	(0.8)	(8.3)	
Minsheng Educati	1569 HK	1.36	739	0.8	35.8	8.2	6.9	337.1	19.4	85.5	0.1	1.2	1.0	0.8	3.6	3.8	2.1	0.0	51.2	11.9	3.4	13.4	0.0	(19.0)	

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

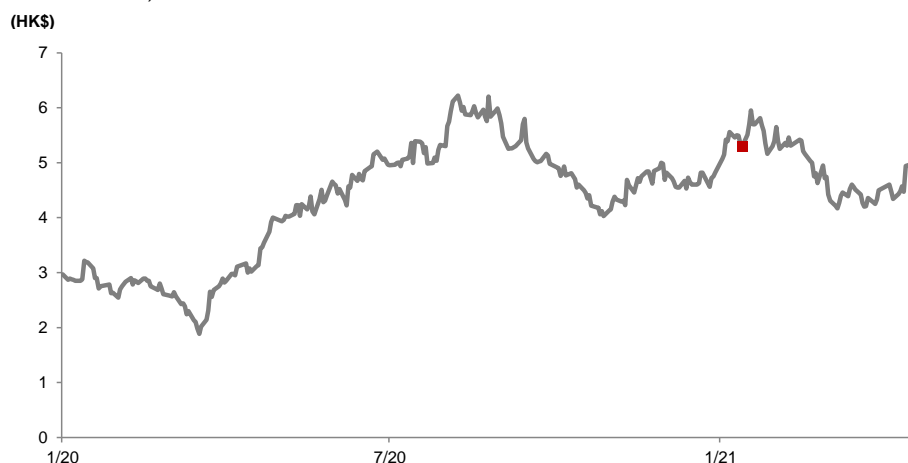
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
22/04/2021	Edvantage Group	382	Fascinating growth story set to take off	BUY	John Siah
21/04/2021	Innovent Bio	1801	More convincing pipeline development	BUY	Kevin Tam
15/04/2021	AAC Tech	2018	Optical segment beginning to shine	BUY	John Siah
31/03/2021	HKTv	1137	FY20 bottom line fell short on fulfillment cost	BUY	Kevin Tam
29/03/2021	361 Degrees	1361	Encouraging recovery in 2H20, visible growth for FY21E	BUY	Kevin Tam
25/03/2021	Greentown Mgmt	9979	Pure cash cow with surprise on dividend	BUY	John Siah
23/03/2021	Yeahka	9923	Payment driven growth thesis remains compelling	BUY	Kevin Tam
17/03/2021	Yidu Tech	2158	Digging the healthcare big data goldmine	BUY	Kevin Tam
22/02/2021	Razer	1337	A year of harvest	NR	John Siah
04/02/2021	HKTv	1137	Flat Jan GMV, but still upbeat on growth prospect	BUY	Kevin Tam
19/01/2021	Yeahka	9923	More conviction on marketing services driven growth	BUY	Kevin Tam
18/01/2021	Xtep Intl	1368	Channel inventory improvement on track	BUY	Megan Jin
15/01/2021	New Higher Edu	2001	More visible and stellar growth	BUY	John Siah
15/01/2021	Anta Sports	2020	More positive Anta brand FY21E outlook	HOLD	Megan Jin
06/01/2021	HKTv	1137	E commerce solution business moving forward	BUY	Kevin Tam/Megan Jin
30/12/2020	New Oriental Edu	9901	Tutoring elephant continues to fly	BUY	Kevin Tam
23/12/2020	Anta Sports	2020	Precor disposal in plan of Amer brands restructuring	HOLD	Megan Jin
21/12/2020	Scholar Edu	1769	Extraordinary growth expected to continue	NR	John Siah
14/12/2020	CG Services	6098	Placement for strategic deployment	BUY	Megan Jin
09/12/2020	Edvantage Group	382	Expansion begins	BUY	Megan Jin
08/12/2020	HKTv	1137	Satisfactory November GMV	BUY	Kevin Tam/Megan Jin
26/11/2020	China Edu Group	839	Robust growth outlook on surging new students	BUY	John Siah
20/11/2020	China Edu Group	839	A fast rising education giant grabbing ample opportunities in China education market	BUY	John Siah
19/11/2020	Ausnutria Dairy	1717	More to expect from FY21E	BUY	Megan Jin
11/11/2020	Edvantage Group	382	Robust organic growth with more boosters ahead	BUY	Megan Jin
10/11/2020	HKTv	1137	All fronts speeding up	BUY	Kevin Tam/Megan Jin
05/11/2020	TCL Electronics	1070	Falcom Network as a cream on top	BUY	Kevin Tam

Historical recommendations and target price: New Higher Edu (2001 HK)

(as of 21/4/2021)



	Date	Rating	TP	Close
1	15 Jan 2021	BUY	HKD7.20	HKD 5.29
2	21 Apr 2021	BUY	HKD7.80	HKD 5.08

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Rating and Related Definitions

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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