

China Education Sector

Policy risk on private higher education eased

Background:

Ministry of Education of PRC officially unveiled "Implementation of the Law for Promoting Private Education of the PRC (民辦教育促進法實施條例)" ("the New Law") (the [Document](#)) on 14 May 21 that will come to effect from Sep 21.

Our Comment:

No big surprise/shock to the market. In a nutshell, the New Law follows the rationale behind the draft of review by the Ministry of Justice (民辦教育促進法實施條例 (修訂草案) (送審稿)) in Aug 18. Under this latest version, **while China removes regulatory overhang for private investment in higher education, it holds clearer and more restrictive stance on compulsory education ("K9")**. In addition, it also encourages more private sector engagement in vocational education.

The New Law eased investors' worries on private higher education. The New Law does not explicitly prohibit private higher education operators to: (1) acquire new schools, (2) become an education group with multiple schools, and (3) control schools via VIE structure. In addition, the New Law gives a nod on private higher education in the sense that: (1) removal of minimum capital requirement to establish a higher school, (2) more flexibility to retain net profit for development fund and (3) concessionary policies in terms of land and taxation.

Negative outlook for private K12 education. Under the New Law, K9 must be non-profit and is prohibited for M&A and related party transactions. Private K-12 education group may have to dispose K9 business unless exemptions from local governments. They may have to adopt new business models, such as to become 3rd party education service provider, to maintain their presence in K12 education.

Private higher education groups could enjoy a re-rating. We are positive over the outlook of private higher education segment. We think M&A and campus expansions will still be the main theme for the sub-sector. China Edu Group (839 HK), Yuhua Edu (6169 HK), New Higher Edu (2001 HK), Edvantage Group (382 HK) are our top picks. Meanwhile, we advise investors to stay away from private K-12 operators amid uncertain outlook.

Equity Research
Education/ China

John Siah

+852 2135 0248

john.siah@oriental-patron.com.hk

OP Express

Positive

For Private higher Edu Group

Negative

For private K12 Edu Group

Our rating and target price on private higher education groups

Name	Stock code	Rating	TP(HK\$)
Edvantage	382 HK	BUY	11.20
China Edu Group	839 HK	BUY	21.80
New Higher Edu	2001 HK	BUY	7.80

Source: OP Research

Exhibit 1: Q&A for “the implementation of the Law for Promoting Private Education of the PRC”

Question	Level of Education		Section referred
	Higher Edu	K12	
Can overseas listed companies control private schools?	Yes (Foreign investors could participate under Foreign Investment Laws)	Entities controlled by foreigners cannot establish, participate and control private schools for K9	5
Can overseas listed companies control more than one private school and M&A?	Yes. The Law clearly stated procedures to change ownership of private schools. Also, regulators should process the application for the change of ownership within a specified time frame.	No for M&A No entity is allowed to control private K9 school / non-profit preschool in any way such as M&A, VIE and etc.	12,13
Can private schools involved in related party transaction(s)?	Yes, but it should be on fair and reasonable pricing. Also, decision must be regulated	No for K9	45
Can private schools adopt tailor-made teaching curriculum?	Yes	They have some discretion on the basis of China's teaching curriculum, of which <u>K9 is not allowed to use overseas textbooks</u>	29
Is there any geographical restrictions for student recruitment?	No	Yes. For K9, they can only recruit students within the district where the school located For high-school(K10-12), they can recruit students outside the city if it meets requirements of the local education authority	31

Source: MOE, OP research

Exhibit 2: Comparisons between the “the implementation of the Law for Promoting Private Education of the PRC” and the draft of review issued by Ministry of Justice

Aspect	Related section in the New Law	The implementation of the Law for Promoting Private Education of the PRC(May 21)[New] (the Document)	The draft of review issued by Ministry of Justice (“MOJ”) (Aug 18)[Old] (the Document)	Compared to MOJ’s draft, will the New Law more in favour of...	
				Higher School	K12
Ownership	5	Basically the same to the MOJ’s draft. (Based on China’s 2020 new negative list for foreign investment, foreign investors can participate in private pre-school, high school and higher school. However, the majority of board member and key personnel of the school must be Chinese citizens)	Entities controlled by foreigner is prohibited to establish, participate and control private school for K9 For other level of education, the owner must comply with regulation related to foreign investment	-	-
Vocational education	7,9	Private sector can invest and/or cooperate with public vocational school Encourages private participants in vocational education	-	✓ (for vocational school)	
M&A	12,13	In addition to the MOJ’s draft. (1) It removed description that “Education group(集團化辦學) is prohibited to control non-profit school(s). (2) It added the following descriptions a. Owner of non-profit school is not allowed to pocket earnings of the school b. No entity is allowed to control private K9 school / non-profit preschool in any way such as M&A and VIE contracts	Education group is prohibited to control non-profit school(s) in any way such as M&A, VIE and etc.	✓	✗
Minimum capital requirement to establish a private school	21	No strict requirement	Higher school: RMB 200mn Others:RMB10mn	✓	✓
Board member	25,26	In addition to the MOJ’s draft, the section stated that board members/ members in executive unit/ key personnel in K9 must be Chinese citizens and there must have representative from the regulatory authority in the board/executive units	The representative of board member/ executive unit must be (1) Chinese citizen ,(2) live in China, (3) have full political and civil rights,(4) good credit record, (5)no criminal records and, (6) no misconduct in education sector	N/A	✗
Teaching materials	29	In addition to the MOJ’s draft, K9 is not allowed to use overseas textbook	For K12, the teaching curriculum must be on the basis of China’s teaching curriculum	N/A	✗
Related party transaction(“RPT”)	45	It specified RPT in K9 is prohibited In addition to fair and no harm of interest, it also specified RPT (1) must be at reasonable price and (2) decision making process must be regulated	RPT must be fair, no harm to the interest of the country, school and student	-	✗
Minimum net profit that must be contributed to the development fund (For-profit school only)	46	10%	25%	✓	✓ (No for K9)

Source: MOE, MOJ ,OP research

Exhibit 3: Peer Group Comparison

Company	Ticker	Price	3-mth		PER	PER	PER	EPS FY1	EPS FY2	3-Yr		P/B Hist	P/B FY1	EV/		Net gearing	Gross margin	Net		ROE	ROE	Sh px	Sh px
			Mkt cap	avg t/o																			
			(US\$m)	(US\$m)	Hist (x)	FY1 (x)	FY2 (x)	YoY%	YoY%	Cagr(%)	PEG (x)	(x)	(x)	Ebitda Hist	Ebitda Cur Yr	Hist (%)	Hist (%)	Hist (%)	Hist (%)	Hist (%)	FY1 (%)	1-mth %	3-mth %
Higher Education Group																							
China Edu Group	839 HK	19.86	5,813	15.0	52.6	25.9	21.3	103.3	21.7	42.2	0.6	3.5	3.5	37.4	20.1	10.7	59.8	23.6	11.0	14.7	12.1	20.8	
China Yuhua Educ	6169 HK	8.19	3,539	11.1	113.1	17.4	15.0	551.7	16.1	102.9	0.2	5.6	5.2	33.4	12.9	0.0	61.0	8.5	26.7	31.9	14.9	15.4	
Hope Education G	1765 HK	2.51	2,579	26.0	33.0	19.6	15.8	68.0	24.5	37.8	0.5	2.7	2.3	N/A	13.5	6.4	49.6	29.1	11.2	12.7	(18.2)	(23.2)	
China Kepei Educ	1890 HK	6.01	1,560	1.6	17.7	13.1	10.7	35.1	22.3	25.2	0.5	3.2	2.6	14.3	10.4	0.0	69.9	65.1	18.9	20.7	2.7	2.0	
China New Higher	2001 HK	6.40	1,307	4.0	20.4	14.3	10.8	42.7	31.8	31.6	0.5	3.3	3.0	14.2	10.8	40.7	49.8	35.5	17.5	21.0	25.7	24.0	
Edvantage Group	382 HK	8.47	1,169	3.3	24.5	16.5	11.9	48.6	38.3	37.2	0.4	3.2	3.0	21.3	14.8	0.0	49.5	36.4	15.2	19.4	(1.9)	(8.3)	
Jh Educational T	1935 HK	4.72	973	0.7	23.5	20.6	18.6	14.4	10.5	N/A	N/A	3.5	2.8	15.0	12.9	0.0	59.6	47.4	15.5	14.4	29.7	5.4	
Minsheng Educati	1569 HK	1.38	750	0.6	36.0	7.9	6.7	352.8	18.8	85.5	0.1	1.2	1.0	12.2	4.9	0.0	51.2	11.9	3.4	13.8	3.8	(22.9)	
China Xinhua Edu	2779 HK	2.30	476	0.1	9.4	8.0	6.4	17.7	25.2	20.1	0.4	1.1	0.9	7.2	5.6	0.0	65.0	67.9	12.0	12.3	0.0	1.8	
China Chunlai Ed	1969 HK	1.45	224	0.1	10.0	N/A	N/A	N/A	N/A	N/A	N/A	0.9	N/A	8.0	N/A	110.2	52.6	20.1	15.7	N/A	0.0	10.7	
K-12 Education Group																							
Tianli Education	1773 HK	5.03	1,403	10.9	22.5	17.2	11.9	30.9	44.0	38.7	0.4	2.7	2.4	17.0	11.6	0.0	43.3	29.2	13.2	14.1	(37.1)	(49.1)	
Wisdom Education	6068 HK	2.47	693	2.5	8.2	6.8	6.0	20.0	14.0	16.7	0.4	1.4	1.3	8.7	7.9	58.8	48.4	28.6	20.7	20.3	(40.3)	(36.3)	
Mapleleaf Edu	1317 HK	1.65	636	4.4	8.0	6.9	5.8	17.0	17.6	16.1	0.4	0.9	0.8	10.6	8.8	54.2	46.7	33.1	10.3	12.3	(23.6)	(29.5)	

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

Source: Bloomberg, OP Research, Closing price are as of 18/5/2021

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
17/05/2021	AAC Tech	2018	Acoustic and optics led strong rebound in 21Q1	BUY	John Siah
12/05/2021	HKTV	1137	Convincing long term prospect despite sluggish near term GMV	BUY	Kevin Tam
30/04/2021	China Edu Group	839	Ready for more M&A	BUY	John Siah
22/04/2021	New Higher Edu	2001	More visible growth path	BUY	John Siah
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

TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

By accepting this report, you represent and warrant that you are entitled to receive such report in accordance with the restrictions set forth below and agree to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law or termination of such services provided to you.

Disclaimer

Research distributed in Hong Kong is intended only for institutional investors whose ordinary business activities involve investing in shares, bonds and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not an institutional investor must not rely on this communication.

The information and material presented herein are not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Oriental Patron Securities Limited ("OPSL") and/or its associated companies and/or its affiliates (collectively "Oriental Patron") to any registration or licensing requirement within such jurisdiction.

The information and material presented herein are provided for information purposes only and are not to be used or considered as an offer or a solicitation to sell or an offer or solicitation to buy or subscribe for securities, investment products or other financial instruments, nor to constitute any advice or recommendation with respect to such securities, investment products or other financial instruments.

This research report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not to be relied upon in substitution for the exercise of independent judgment. Oriental Patron may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them. You should independently evaluate particular investments and you should consult an independent financial adviser before making any investments or entering into any transaction in relation to any securities mentioned in this report.

Information and opinions presented in this report have been obtained or derived from sources believed by Oriental Patron to be reliable, but Oriental Patron makes no representation as to their accuracy or completeness and Oriental Patron accepts no liability for loss arising from the use of the material presented in this report where permitted by law and/or regulation. Further, opinions expressed in this report are subject to change without notice. Oriental Patron does not accept any liability whatsoever whether direct or indirect that may arise from the use of information contained in this report.

The research analyst(s) primarily responsible for the preparation of this report confirm(s) that (a) all of the views expressed in this report accurately reflects his or their personal views about any and all of the subject securities or issuers; and (b) that no part of his or their compensation was, is or will be, directly or indirectly, related to the specific recommendations or views he or they expressed in this report.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Oriental Patron, its directors, officers and employees may have investments in securities or derivatives of any companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.

General Disclosure

Oriental Patron, its directors, officers and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. Oriental Patron may, to the extent permitted by law, act upon or use the information presented herein, or the research or analysis on which they are based, before the material is published. One or more directors, officers and/or employees of Oriental Patron may be a director of the issuers of the securities mentioned in this report. Oriental Patron may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment or investment banking service to the issuers of the securities mentioned in this report.

Regulatory Disclosures as required by the Hong Kong Securities and Futures Commission

Oriental Patron (inclusive of OPSL) which are carrying on a business in Hong Kong in investment banking, proprietary trading or market making or agency broking are not a market maker in the securities of the subject companies mentioned in this report. Unless otherwise specified, Oriental Patron does not have any investment banking relationship with the companies mentioned in this report within the last 12 months. As at the date of this report, Oriental Patron do not have any interests in the subject company(ies) aggregating to an amount equal to or more than 1% of the subject company(ies) market capitalization.

Analyst Certification:

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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.

Copyright © 2014 Oriental Patron Financial Group. All Rights Reserved

This report is being supplied to you strictly on the basis that it will remain confidential. Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of Oriental Patron. Oriental Patron accepts no liability whatsoever for the actions of third parties in this respect.

CONTACT

27/F, Two Exchange Square,

8 Connaught Place, Central, Hong Kong

www.oriental-patron.com.hk

john.siah@oriental-patron.com.hk

Tel: (852) 2135 0248

Fax: (852) 2135 0295