

New Higher Edu (2001 HK)

John Siah

+852 2135 0248

john.siah@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price: HK\$2.11

Target Price: HK\$3.80(+80.1%)

Prior TP: HK\$4.80

Key Data

HKEx code	2001 HK
12 Months High (HK\$)	4.42
12 Month Low (HK\$)	1.83
3M Avg Dail Vol. (mn)	1.03
Issue Share (mn)	1,555.25
Market Cap (HK\$mn)	3,281.58
Fiscal Year	08/2023
Major shareholder (s)	Mr. Li Xiaoxuan (48.70%)

Source: Company data, Bloomberg, OP Research
Closing price are as of 13 Dec 2023

Price Chart



	1mth	3mth	6mth
Absolute %	+2.9	-10.6	-13.1
Rel. MSCI CHINA %	+6.8	-2.8	+2.1

Company Profile

New Higher Edu currently invested and established eight schools (including four undergraduate colleges and four junior colleges) in seven provinces throughout China. The total number of enrolled students of all schools was around 140,000.

FY23 earnings in-line, emphasize high-quality application-based education

- Excluding FX loss of USD loans, adjusted profit to shareholders rose 10.1% yoy to RMB727.5mn, on the back of 10.3% yoy increase in revenue to RMB 2.12bn. Net profit to shareholders rose 13.4% yoy to RMB703.3mn.
- NHE proposed a final DPS of RMB0.096. Full year DPS amounted to RMB0.215, representing a near 50% DPS payout ratio.
- Maintain Buy with a new TP of HK\$3.80, representing 7.0x FY24E PER.

FY23 earnings in-line with our estimation. During the period, New Higher Edu ("NHE") continued to emphasize high-quality application-based education and increased investment in talents and teaching, which resulted in a lower GPM of 38.0% (down 1.0p.p. yoy). The school explores ancillary services and student support services, which partly offset the weaker gross profit. In FY23, other income and gains (including revenue from rental and training services) rose 19.7% yoy to RMB407.8mn, accounting for 19.2% of revenue. Finance costs climbed 25.2% yoy to RMB143.6mn, which was due to increase in the interest costs for a USD syndicated loans, which interest is calculated in floating rates. Overall financing cost declined 72bps. Meanwhile, NHE reduces the net gearing ratio to 29.4% (-7.3p.p. yoy) to curb finance expenses.

Emphasis on students' career success. NHE's schools consistently maintain a very high graduate employment rate. As of 31 Aug 2023, the initial employment rate of graduates in 2023 reached 90.65%. Among them, the number of students employed by renowned enterprises (i.e. world's Top 500 companies, the China's Top 100 companies and A-shares-listed companies) increased by 67% yoy. The significant increase in the proportion of cross-province admissions and the increase in admission cut-off scores suggested the growing reputation of NHE education brand.

Optimizing student structures. NHE reported that the total number of students for SY2023/24 was ~140,000, which is similar to the number in SY2022/23. In particular, new students rose 2.7% yoy. NHE is optimizing the structure of students. For SY2023/24, the proportion of undergraduate students rose 3.4p.p. Guizhou School is working to obtain the qualifications to grant bachelor's degrees. If success, it can enhance the school's reputation and the tuition fee prospect.

Earning revision. We cut NHE's EPS forecast (in HK\$) in FY24E/FY25E by 9.2%/10.4%. We project a lower gross profit margin for NHE in FY24E due to the higher depreciation and amortisation expenses when it continues to upgrade and renovate its campuses, especially for Guizhou School. We project NHE to spend Capex of RMB600mn in FY24E (FY23: RMB 745.7mn). We expect NHE's EPS (in HK\$) to grow at a CAGR of 7.0% in FY24E-26E, mainly driven by the optimisation of the student structure and the increase in tuition fees. The graduates' high-quality employment should favour organic growth in both the number of students and tuition in the long term.

Maintain Buy, cut TP to HK\$3.80. The new TP is based on the 7.0x PER for FY24E. In addition, NHE's relatively high dividend yield (12.8%/14.0% in FY24E/FY25E) would limit the stock's downside potential.

Exhibit 1.: Forecast and Valuation

Fiscal year to Aug (RMB mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,922	2,119	2,399	2,629	2,888
Growth (%)	+28.3	+10.3	+13.2	+9.6	+9.9
Net profit	661	728	765	841	924
Growth (%)	+16.4	+10.1	+5.2	+9.9	+9.8
Diluted and adjusted EPS (HK\$)	0.499	0.530	0.539	0.592	0.650
Adjusted EPS growth (%)	+20.3	+6.3	+1.5	+9.9	+9.8
Change to previous EPS (%)			-9.2	-10.4	
Consensus EPS (HK\$)			0.563	0.627	0.654
ROE (%)	21.4	21.7	20.1	19.5	19.1
P/E (x)	4.2	4.0	3.9	3.6	3.2
P/B (x)	0.9	0.8	0.7	0.7	0.6
Yield (%)	11.8	11.2	12.8	14.0	15.4
DPS (HK\$)	0.249	0.237	0.269	0.296	0.325

Source: Bloomberg, OP Research

Exhibit 2.: FY23 Earnings review

	FY23 (Actual)	FY23 (Forecasted)	FY22 (Actual)	Diff with forecast	Yoy%	Remarks
Profitability Data (in RMB mn)						
Revenue	2,119	2,150	1,922	-1.4%	+10.3%	
Gross Profit	806	839	750	-3.9%	+7.4%	
Adjusted profit attributable to shareholders	728	733	661	-0.7%	+10.1%	
Profitability ratio (%)						
GPM	38.0%	39.0%	39.0%	-1.0p.p.	-1.0p.p.	
NPM(Adjusted)	34.3%	34.1%	34.4%	+0.2p.p.	-	
Operating ratio (%)						
Selling and admin expenses to revenue	6.2%	5.7%	6.1%	+0.5p.p.	+0.1p.p.	
Effective tax rate	16.9%	15.7%	15.7%	+1.2p.p.	+1.2p.p.	

Sources: The Company, OP research

Exhibit 3.: Earnings revision

(Period ended Aug) (RMB mn)	FY24E			FY25E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	2,399	2,375	+1.0	2,629	2,600	+1.1	
Gross profit	876	926	-5.4	959	1,014	-5.4	
Gross margin(%)	36.5%	39.0%	-2.5p.p.	36.5%	39.0%	-2.5p.p.	We anticipate a decline in GPM, which is due to higher depreciation and amortisation expenses amid investment in school campuses.
Net profit	765	816	-6.2	841	908	-7.3	
Diluted EPS (HK\$)	0.539	0.593	-9.2	0.592	0.661	-10.4	Due to the change in FX assumption.

Source: OP Research

Exhibit 4.: Key assumptions

Total number of student		Unit	SY2023/24E	SY2024/25E
New		student	140,000	140,500
Old		student	140,500	140,500
Change (%)			-0.4%	0%
Average revenue per student			FY24E	FY25E
New		RMB	17,137	18,701
Old		RMB	16,906	18,502
Change (%)			+1.4%	+1.1%

Sources: Company, OP Research

Exhibit 5.: Positive catalysts and risks

Positive catalysts	Risks
<ul style="list-style-type: none"> ■ Growth of tuition ■ Possible accreditation from MOE to allow Guizhou School to offer bachelor degree programs in the long term 	<ul style="list-style-type: none"> ■ Policy risk especially for the full implementation of the new private education law. ■ Temporary decline of students for its schools, especially for Guizhou School

Source: OP research

Exhibit 6.: Peer Group Comparison

Company	Ticker	Price	3-mth		PER	PER	PER	3-Yr		P/B	P/B	ROE	ROE	Sh px	
			Mkt cap	avg t/o				EPS	Cagr					1-mth	3-mth
			(US\$m)	(US\$m)	Hist (x)	FY1 (x)	FY2 (x)	(%)	PEG (x)	Hist (x)	FY1 (x)	Hist (%)	FY1 (%)	%	%
New Higher Edu	2001 HK	2.11	420	0.3	4.0	3.9	3.6	7.0	0.6	0.8	0.7	21.7	20.1	+2.9	-10.6
HSI		16,228.75			8.9	8.3	7.6	8.8	0.9	0.9	0.9	10.6	11.2	-6.9	-9.9
HSCEI		5,550.90			7.5	7.5	6.8	7.6	1.0	0.8	0.9	11.2	11.5	-7.3	-11.0
CSI300		3,369.61			12.2	12.0	10.3			1.4	1.4	11.7	11.6	-5.9	-9.8
Adjusted sector avg*					6.2	3.6	3.2	27.4	0.2	0.5	0.4	14.5	13.1	-10.9	-18.9
China Edu Group	839 HK	4.56	1,489	5.2	7.6	4.9	4.3	23.2	0.2	0.7	0.6	11.4	12.6	-27.4	-31.5
China Yuhua Educ	6169 HK	0.50	231	0.5	1.4	1.9	1.8	(8.8)	N/A	0.4	0.2	22.3	12.3	-21.9	-30.6
Hope Edu	1765 HK	0.38	400	0.8	13.4	3.3	2.8	76.5	0.0	0.3	0.3	5.3	10.1	-10.6	-24.0
China Kepei Edu	1890 HK	1.19	307	0.4	3.1	2.6	2.6	8.5	0.3	0.5	0.5	19.7	19.5	-38.3	-43.6
Cathay Media And	1981 HK	0.78	165	0.0	12.1	5.1	4.3	54.9	0.1	0.5	0.3	(7.1)	5.7	-3.7	-7.1
Edvantage Group	382 HK	2.42	354	0.1	4.0	3.4	3.1	10.2	0.3	0.7	0.6	19.0	18.4	-2.8	+5.2
Minsheng Edui	1569 HK	0.24	132	0.0	1.9	N/A	N/A	N/A	N/A	0.2	N/A	9.2	N/A	+1.2	-0.8
China Xinhua Edu	2779 HK	0.52	107	0.0	3.3	N/A	N/A	N/A	N/A	0.2	N/A	7.5	N/A	-7.1	-10.3

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

Source: Bloomberg, OP Research

Financial Summary

Fiscal year ended Aug	FY22A	FY23A	FY24E	FY25E	FY26E
Income Statement (RMB mn)					
Turnover	1,922	2,119	2,399	2,629	2,888
YoY%	+28.3	+10.3	+13.2	+9.6	+9.9
COGS	-1,171	-1,313	-1,523	-1,670	-1,833
Gross profit	750	806	876	959	1,055
Gross margin	39.0%	38.0%	36.5%	36.5%	36.5%
Other gain/losses	319	386	407	431	457
Selling expenses	-29	-36	-41	-45	-49
Admin expenses	-88	-96	-108	-116	-127
Other expenses	-112	-93	-99	-104	-110
Total opex	-229	-224	-248	-265	-286
Operating profit (EBIT)	840	968	1,036	1,126	1,226
Operating margin	43.7%	45.7%	43.2%	42.8%	42.5%
Interest Income	22	22	22	22	22
Change in FV of CB	0	0	0	0	1
Finance costs	-115	-144	-130	-127	-127
Pre-tax profit	748	846	928	1,020	1,120
Tax	-117	-143	-162	-178	-196
Minority interests	-10	0	0	0	0
Net profit	620	703	765	841	924
YoY%	+9.2	+13.4	+8.8	+9.9	+9.8
Adjusted net profit	661	728	765	841	924
YoY%	+16.4	+10.1	+5.2	+9.9	+9.8
Adjusted net margin	34.4%	34.3%	31.9%	32.0%	32.0%
EBITDA	1,079	1,249	1,335	1,432	1,541
EBITDA margin	56.2%	59.0%	55.6%	54.5%	53.3%
EPS (HK\$)	0.499	0.529	0.539	0.592	0.650
YoY%	+20.3	+6.1	+1.5	+9.9	+9.8
DPS (HK\$)	0.249	0.237	0.269	0.296	0.325

Fiscal year ended Aug	FY22A	FY23A	FY24E	FY25E	FY26E
Cash Flow (RMB mn)					
EBITDA	1,061	1,249	1,335	1,432	1,541
Chg in working cap	510	427	582	198	171
Others	8	0	0	0	0
Operating cash	1,578	1,676	1,917	1,629	1,711
Interest received	18	18	18	18	18
Tax	-62	-143	-162	-178	-196
Net cash from operations	1,534	1,552	1,773	1,469	1,533
Capex	-727	-746	-600	-600	-600
Others	-2	44	0	0	0
Investing cash	-729	-702	-600	-600	-600
FCF	805	850	1,173	869	933
Issue of shares	0	0	0	0	0
Proceeds/repayment of CB	-647	0	0	0	0
Dividends paid	-297	-310	-168	-336	-383
Interest paid	-182	-155	-178	-130	-127
Net change in loans	999	-612	0	0	0
Acquisitions of MI	-290	0	0	0	0
Others	-84	0	0	0	0
Financing cash	-500	-1,076	-346	-466	-510
Net change in cash	305	-226	827	403	423
Exchange rate or other Adj	0	0	0	0	0
Opening cash	776	1,081	855	1,682	2,085
Closing cash	1,081	855	1,682	2,085	2,509
CFPS (HK\$)	0.233	-0.165	0.582	0.284	0.298

Fiscal year ended Aug	FY22A	FY23A	FY24E	FY25E	FY26E
Ratios					
Gross margin (%) - blended	39.0	38.0	36.5	36.5	36.5
Operating margin (%)	43.7	45.7	43.2	42.8	42.5
Net margin (%)	34.4	34.3	31.9	32.0	32.0
Selling exp/sales (%)	1.5	1.7	1.7	1.7	1.7
Admin exp/sales (%)	4.6	4.5	4.5	4.4	4.4
Payout ratio (%)	50.0	47.8	50.0	50.0	50.0
Effective tax (%)	15.7	16.9	17.5	17.5	17.5
Total debt/equity (%)	104.5	76.7	66.5	59.2	53.0
Net debt/equity (%)	70.5	52.5	25.2	13.6	3.9
Current ratio (x)	0.5	0.3	0.5	0.5	0.6
Quick ratio (x)	0.5	0.3	0.5	0.5	0.6
Inventory T/O (days)	0	0	0	0	0
AR T/O (days)	23	25	25	25	25
AP T/O (days)	0	0	0	0	0
Cash conversion cycle (days)	23	25	25	25	25
Asset turnover (x)	0.2	0.2	0.2	0.2	0.3
Financial leverage (x)	2.7	2.7	2.6	2.5	2.4
EBIT margin (%)	43.7	45.7	43.2	42.8	42.5
Interest burden (x)	0.9	0.9	0.9	0.9	0.9
Tax burden (x)	0.9	0.9	0.8	0.8	0.8
Return on equity (%)	21.4	21.7	20.1	19.5	19.1

On 31 Aug	FY22A	FY23A	FY24E	FY25E	FY26E
Balance Sheet (RMB mn)					
Net PPE	4,883	5,441	5,781	6,106	6,418
Goodwill	752	752	752	752	752
Intangible assets	76	83	58	41	29
Right-of-use Assets	1,110	1,078	1,078	1,078	1,078
Other non-current assets	775	696	682	667	653
Non-current assets	7,597	8,050	8,351	8,645	8,931
Inventories	0	0	0	0	0
Receivables, prepayments	119	143	164	180	198
Other current assets	276	195	195	195	195
Cash	1,081	855	1,682	2,085	2,509
Current assets	1,476	1,193	2,042	2,461	2,902
AP	0	0	0	0	0
Accruals & other payables	958	976	976	976	976
Tax	80	149	143	162	178
Bank loans & leases	1,130	1,154	1,154	1,154	1,154
Contract liabilities	973	1,356	1,972	2,166	2,339
Convertible bonds	0	0	0	0	0
Other current liabilities	23	21	21	21	21
Current liabilities	3,163	3,656	4,265	4,479	4,669
Bank loans	2,190	1,555	1,555	1,555	1,555
Other non-current liabilities	543	499	499	499	499
Non-current liabilities	2,733	2,054	2,054	2,054	2,054
Total net assets	3,177	3,533	4,075	4,573	5,110
Total Equity	3,177	3,533	4,075	4,573	5,110
Shareholder's equity	3,177	3,533	4,075	4,573	5,110
Share capital	1	1	1	1	1
Reserves	3,176	3,532	4,073	4,572	5,109
NCI	0	0	0	0	0
BVPS (HK\$)	2.42	2.58	2.87	3.22	3.60

Source: Company, OP Research

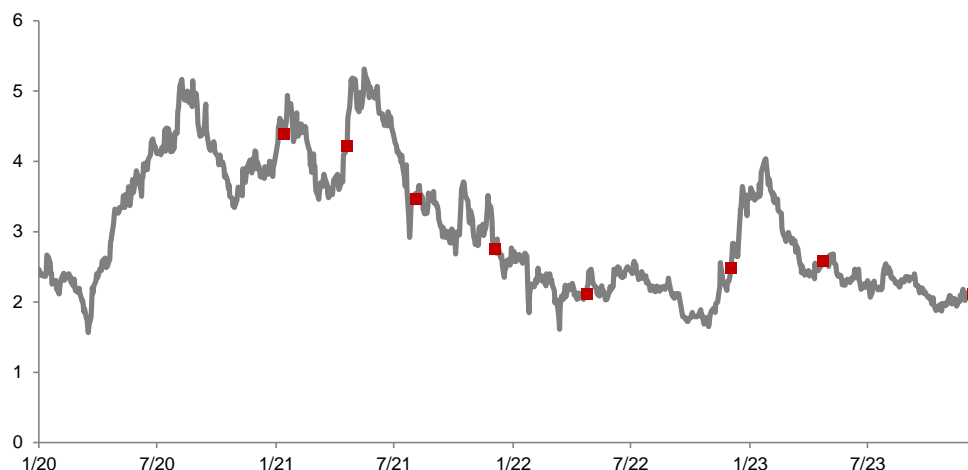
Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
05/12/2023	Edvantage Group	382	FY23 earnings beats our expectation	BUY	John Siah
05/12/2023	China Water Affairs	855	FY1H24 earnings missed, improvement expected in FY2H24E	BUY	John Siah
04/09/2023	Newborn Town	9911	1H23 results beats, Blued as a new growth engine	BUY	John Siah
18/08/2023	361 Degrees	1361	1H23 net profit rose 27.7%, resumes dividend payout	BUY	John Siah
04/08/2023	361 Degrees	1361	1H23 net profit grows by more than 25%	BUY	John Siah
04/08/2023	Xinyi Energy	3868	1H23 net profit in-line, dividend payout ratio cut to 49%	HOLD	John Siah
04/08/2023	Greentown Mgmt	9979	Impressive results in 1H23 backed by strong contracts growth	BUY	John Siah
31/07/2023	Edvantage Group	382	9M22/23 operating results in-line with expectation	BUY	John Siah
03/07/2023	China Water Affairs	855	FY22/23 earnings slightly declined, pipeline direct drinking water shines	BUY	John Siah
22/05/2023	Newborn Town	9911	Fine-tuning content ecology to further monetize new social networking products	BUY	John Siah
05/05/2023	China Edu Group	839	FY1H23 results up to expectations	BUY	John Siah
04/05/2023	Edvantage Group	382	FY1H23 results showed the strong organic growth	BUY	John Siah
27/04/2023	New Higher Edu	2001	FY1H23 results in-line	BUY	John Siah
19/04/2023	361 Degrees	1361	2023Q1 sales bounced as expected	BUY	John Siah
24/03/2023	Micro Connect	-	Releasing the investment value of SMEs in China through technological innovation(中/ENG)	NR	John Siah

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

(as of 13 Dec 2023)

(HK\$)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 15 Jan 2021	BUY	HK\$ 7.20	HK\$ 5.29	6 05 Dec 2022	BUY	HK\$ 4.00	HK\$ 2.53
2 21 Apr 2021	BUY	HK\$ 7.80	HK\$ 5.08	7 27 Apr 2023	BUY	HK\$ 4.80	HK\$ 2.76
3 09 Aug 2021	BUY	HK\$ 6.70	HK\$ 4.21	8 14 Dec 2023	BUY	HK\$ 3.80	HK\$ 2.11
4 06 Dec 2021	BUY	HK\$ 5.30	HK\$ 3.28				
5 28 Apr 2022	BUY	HK\$ 4.00	HK\$ 2.55				

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 © 2017 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

Suites 2704-8, 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