

Edvantage Group (382 HK)

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Company Update

BUY

UNCHANGED

Close price: HK\$5.91

Target Price: HK\$10.50(+77.7%)

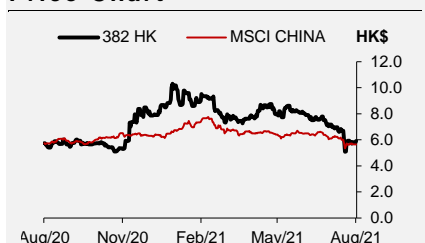
Prior TP: HK\$11.20

Key Data

HKEx code	382 HK
12 Months High (HK\$)	10.68
12 Month Low (HK\$)	4.80
3M Avg Dail Vol. (mn)	2.36
Issue Share (mn)	1,071.86
Market Cap (HK\$mn)	6,334.69
Fiscal Year	8/2020
Major shareholder (s)	Director Liu & Family (70.44%)

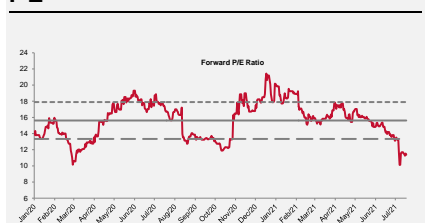
Source: Company data, Bloomberg, OP Research
Closing price are as of 09/08/2021

Price Chart



	1mth	3mth	6mth
Absolute %	-17.5	-27.9	-36.9
Rel. MSCI CHINA %	-10.0	-17.8	-11.0

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 four private higher education institutions in the PRC.

Promising growth to continue in FY22E

- Strong rev growth in 9M21 amid contribution from newly acquired Sichuan Schools
- Student is expected to increase by 22% in FY22E
- Management bought shares when market tumbled, pinpointing confidence on outlook
- Maintain BUY with TP of HK\$10.50 on 15.0x FY22E PER

Edvantage reported 9M21 rev, up 47.9% yoy to RMB901.3 mn with GPM widened 0.8 p.p. to 49.9%. The strong growth was mainly thanks to revenue contribution (RMB 152mn) of the newly acquired Sichuan Schools. We are comfortable that the Company could meet its rev guideline of RMB12.5bn in FY21.

Student expected to grow 22% in SY21/22. Haushang schools have been granted student enrolment quota of 18,346 (+23.9% yoy) in SY21/22. In particular, student quota for top-up degree in Guangzhou Huashang College (廣州華商學院) and student quota for Huashang Vocational College reached 4,133 and 9,000, up 2.3x and 20% respectively. Coupled with the newly acquired Sichuan Schools, we expect total enrolment/student to reach 26,005/76,240 in FY22E, up 100%/22% respectively.

More M&As are coming. We argue Edvantage has financial muscle to acquire more private higher schools thanks to: (1) strong free cash flow from FY22E (>RMB800 mn) and (2) room to increase gearing (~20% in FY21E). Besides, Sichuan Normal University may sell the entire stake (20%) in Sichuan Schools to Edvantage in near future, given that public school cannot own interest in for-profit schools under the new regulations on private education.

Maintain BUY with TP of HK\$10.50 on 15.0x FY22E PER. We reiterate our positive view on Edvantage that contribution from Sichuan Schools will boost EPS CAGR to 33.6% between FY20-23E. We believe Edvantage share price will see strong rebound when investors calm their nerves and realise private higher education companies actually benefit from the promotion of vocational education ([Our Report](#)).

Exhibit 1: Forecast and Valuation

Year to Aug (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	704	800	1,251	1,729	2,069
Growth (%)	10.7	13.6	56.3	38.3	19.6
Adj. net profit	237	309	435	625	775
Growth (%)	41.3	30.5	40.6	43.7	24.1
Adj. diluted EPS (HK\$)	0.268	0.349	0.487	0.700	0.868
Adj. EPS growth (%)	30.0	30.5	39.4	43.7	24.1
Change to previous EPS (%)			+0.9	+2.3	+2.6
Consensus EPS (HK\$)			0.505	0.700	0.876
ROE (%)	18.2	16.9	16.9	17.4	18.3
P/E (x)	22.1	16.9	12.1	8.4	6.8
P/B (x)	3.3	2.9	1.9	1.6	1.3
Yield (%)	0.2	1.7	2.3	3.3	4.1
DPS (HK\$)	0.010	0.098	0.137	0.197	0.244

Source: Bloomberg, OP Research

Exhibit 2: Earnings revision

(RMB mn)	FY21E			FY22E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	1,251	1,249	+0.1	1,729	1,701	+1.7	To reflect higher-than expected enrolment quota
Gross profit	627	629	-0.4	917	900	+1.9	
Gross margin	50.1%	50.4%	-0.3p.p.	53.0%	52.9%	+0.1 p.p.	
EBIT	512	507	+1.1	749	737	+1.8	
Adj. net profits	435	433	+0.5	625	614	+1.7	
Diluted EPS (HK\$)	0.487	0.482	+0.9	0.700	0.684	+2.3	

Source: OP Research

Exhibit 3: Key assumptions on students and tuition fee

Student enrollments	Unit	FY20	FY21E	FY22E	FY23E
New	student	35,408	62,450	76,240	88,400
Old	student	35,408	62,564	74,630	85,790
Change (%)			-	+2.2%	+3.0%
Average tuition fee					
New	RMB	22,677	20,130	22,816	23,448
Old	RMB	22,677	20,064	22,914	23,432
Change (%)			+0.3%	-0.4%	+0.1%

Source: OP Research

Exhibit 4: Positive and negative catalysts

Positives	■	Strong organic growth of student thanks to (1) new campuses of Huashang schools and (2) expansion of Top-up degree programs	Negatives	■	Policy risks on private education
	■	Cost saving from the conversion of independent colleges		■	Execution risk in new campus expansions
	■	Potential acquisitions of minority shareholder of Sichuan Schools		■	Damage on reputation

Source: OP research

Exhibit 5: Peer Group Comparison

Company	Ticker	Price	3-mth							P/B Hist	P/B FY1	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
			Mkt cap (US\$m)	avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	3-Yr EPS Cagr (%)	PEG (x)						
Edvantage Group	382 HK	5.91	814	2.1	16.9	12.1	8.4	33.6	0.3	2.9	1.9	16.9	16.9	-17.5	-25.8
HSI		26,283.40			10.9	12.6	11.2	2.8	4.5	1.0	1.2	9.6	9.8	-3.9	-8.1
HSCEI		9,313.97			11.4	10.2	9.0	12.4	0.8	1.0	1.2	8.6	12.0	-5.8	-12.9
CSI300		4,985.56			17.7	15.3	13.5	13.8	1.1	2.3	2.1	12.8	13.6	-1.7	-0.2
Adjusted sector avg*					25.6	10.8	8.4	44.1	0.3	2.0	1.8	12.8	17.3	-17.9	-25.2
China Edu Group	839 HK	14.42	4,211	18.2	28.7	19.9	14.3	29.7	0.6	3.0	2.3	8.0	11.3	-14.2	-19.8
China Yuhua Edu	6169 HK	4.68	2,017	13.1	64.9	9.8	8.5	103.1	0.1	3.2	3.1	26.7	32.7	-28.1	-34.4
Hope Education G	1765 HK	1.45	1,487	15.2	19.1	11.6	9.3	36.1	0.3	1.4	1.4	11.2	12.6	-17.6	-37.0
China Kepei Edu	1890 HK	4.46	1,155	2.4	13.2	9.6	7.8	25.5	0.4	2.4	2.0	18.9	21.4	-18.2	-19.6
China New Higher	2001 HK	4.21	858	3.6	N/A	10.8	7.6	28.8	0.4	2.5	2.0	6.4	20.7	-14.9	-26.5
Cathay Media And	1981 HK	3.69	787	3.2	14.0	11.9	9.0	23.4	0.5	1.9	1.6	15.9	13.4	-23.9	-34.1
Minsheng Edu	1569 HK	1.23	667	0.4	32.2	7.1	6.0	86.4	0.1	1.1	0.9	3.4	13.8	-8.0	-8.0
China Xinhua Edu	2779 HK	1.72	355	0.3	7.1	6.0	4.8	20.1	0.3	0.8	0.7	12.0	12.3	-18.5	-22.2

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

Source: Bloomberg, OP Research

Financial Summary

Year to Aug	FY19	FY20	FY21E	FY22E	FY23E
Income Statement (RMB mn)					
Huashang College	534	611	725	914	1,118
Huashang Vocational College	160	178	251	361	415
Sichuan Schools	0	0	205	367	433
Overseas Schools and other vocational education services	10	12	70	87	103
Turnover	704	800	1,251	1,729	2,069
YoY%	11	14	56	38	20
COGS	(362)	(404)	(624)	(813)	(941)
Gross profit	342	397	627	917	1,128
Gross margin	48.6%	49.5%	50.1%	53.0%	54.5%
Other income	52	26	47	47	47
Selling & distribution	(7)	(8)	(11)	(16)	(19)
Admin	(82)	(110)	(150)	(199)	(238)
R&D	0	0	0	0	0
Other opex	(39)	0	0	0	0
Total opex	(128)	(118)	(161)	(214)	(257)
Operating profit (EBIT)	266	305	512	749	919
Operating margin	37.8%	38.1%	41.0%	43.3%	44.4%
Provisions	0	0	0	0	0
Interest Income	5	20	20	27	38
Finance costs	(28)	(16)	(30)	(40)	(46)
Profit after financing costs	243	308	502	737	910
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	243	308	502	737	910
Tax	(28)	(16)	(28)	(41)	(50)
Minority interests	(6)	0	(40)	(72)	(85)
Net profit	209	291	435	625	775
YoY%	28	39	49	44	24
Adjusted net profit	237	309	435	625	775
YoY%	41	30	41	44	24
Adjusted net margin	32.8%	38.6%	34.8%	36.1%	37.5%
EBITDA	338	377	633	883	1,059
EBITDA margin	48.0%	47.1%	50.7%	51.0%	51.2%
Adjusted EPS (RMB)	0.227	0.303	0.406	0.583	0.723
YoY%	27	34	39	44	24
DPS (HK\$)	0.010	0.098	0.137	0.196	0.244
Year to Aug.	FY19	FY20	FY21E	FY22E	FY23E
Cash Flow (RMB mn)					
EBITDA	338	377	633	883	1,059
Chg in working cap	130	(83)	744	296	102
Others	(35)	12	0	0	0
Cash flows from operation	434	306	1,377	1,179	1,161
Interest received	0	0	0	0	0
Tax	(11)	(1)	(48)	(16)	(28)
Net cash from operations	423	305	1,329	1,163	1,133
Capex	(255)	(770)	(700)	(300)	(300)
Investments	4	(9)	(750)	0	0
Interests received	5	20	20	20	27
Sales of assets	0	1	0	0	0
Others	679	219	0	0	0
Investing cash	433	(541)	(1,430)	(280)	(273)
FCF	856	(236)	(101)	883	861
Issue of shares	672	0	460	0	0
Buy-back	0	(17)	0	0	0
Minority interests	0	0	0	0	0
Interest paid	(37)	(25)	(30)	(40)	(46)
Dividends paid	(9)	(63)	(50)	(122)	(175)
Net change in bank loans	(227)	191	0	0	0
Others	(67)	(8)	0	0	0
Financing cash	332	78	380	(162)	(222)
Net change in cash	1,188	(158)	279	721	639
Exchange rate or other Adj	16	(8)	0	0	0
Opening cash	149	1,352	1,186	1,464	2,185
Closing cash	1,352	1,186	1,464	2,185	2,824
CFPS (HK\$)	0.478	0.344	1.488	1.302	1.269

Source: Company, OP Research

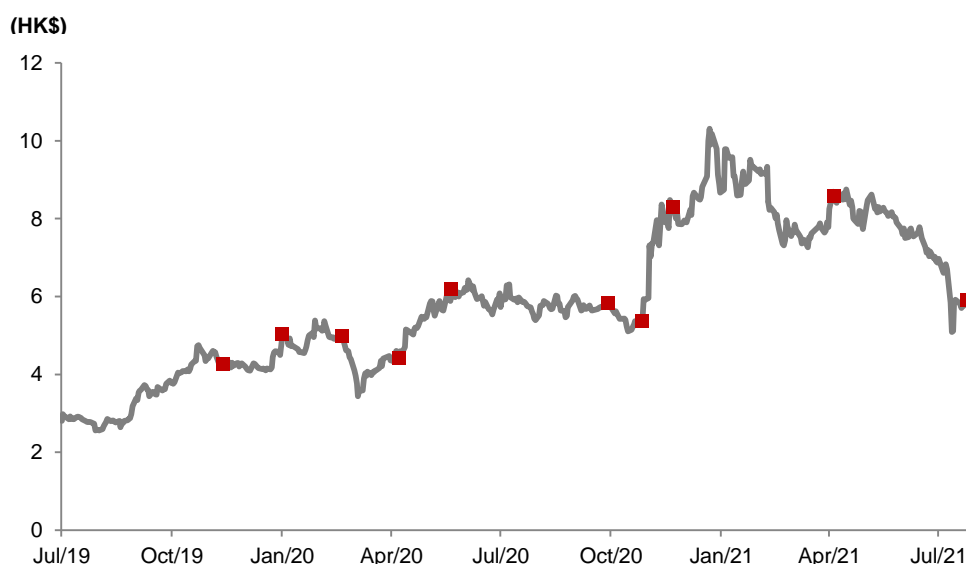
Year to Aug	FY19	FY20	FY21E	FY22E	FY23E
Ratios					
Gross margin (%)	48.6	49.5	50.1	53.0	54.5
Operating margin (%)	37.8	38.1	41.0	43.3	44.4
Net margin (%)	29.7	36.4	34.8	36.1	37.5
Selling & dist'n exp/Sales (%)	1.0	0.9	0.9	0.9	0.9
Admin exp/Sales (%)	11.6	13.8	12.0	11.5	11.5
Payout ratio (%)	3.8	28.1	28.1	28.1	28.1
Effective tax (%)	11.6	5.4	5.5	5.5	5.5
Total debt/equity (%)	77.3	74.7	64.3	61.8	54.3
Net debt/equity (%)	Net cash	10.1	20.1	5.6	Net cash
Current ratio (x)	1.7	1.2	0.9	1.1	1.3
Quick ratio (x)	1.7	1.2	0.9	1.1	1.3
Inventory T/O (days)	0	1	2	2	2
AR T/O (days)	16	26	26	26	26
AP T/O (days)	7	4	4	4	4
Cash conversion cycle (days)	10	23	24	24	24
Asset turnover (x)	0.3	0.2	0.3	0.3	0.3
Financial leverage (x)	2.4	1.9	1.8	1.7	1.7
EBIT margin (%)	37.8	38.1	41.0	43.3	44.4
Interest burden (x)	0.9	1.0	1.0	1.0	1.0
Tax burden (x)	0.9	0.9	0.9	0.8	0.9
Return on equity (%)	18.2	16.9	16.9	17.3	18.3
Year to Aug	FY19	FY20	FY21E	FY22E	FY23E
Balance Sheet (RMB mn)					
Fixed assets	1,180	1,660	2,973	3,140	3,299
Investment properties	45	46	77	77	77
Intangible assets & Goodwills	0	9	182	182	182
Right of use assets	199	459	825	825	825
Deposits paid	2	14	14	14	14
Other non-current assets	5	5	66	66	66
Non-current assets	1,432	2,193	4,138	4,304	4,464
Inventories	0	1	3	3	4
AR	32	58	90	125	150
Prepayments & deposits	5	0	12	12	12
Other current assets	305	91	91	91	91
Cash	1,352	1,186	1,464	2,185	2,824
Current assets	1,695	1,336	1,660	2,417	3,080
AP	7	5	7	9	11
Tax	40	48	16	28	41
Accruals & other payables	106	105	164	227	271
Bank loans & leases	166	290	290	290	290
Contracted liabilities	682	623	1,383	1,655	1,735
Other current liabilities	18	21	21	21	21
Current liabilities	1,019	1,092	1,882	2,230	2,368
Bank loans & leases	390	457	457	457	457
CB & other debts	0	0	0	0	0
Deferred tax & others	113	145	145	145	145
Non-current liabilities	502	601	601	601	601
Total net assets	1,606	1,835	3,315	3,890	4,575
Shareholder's equity	1,606	1,835	2,827	3,330	3,931
Share capital	70	70	73	73	73
Reserves	1,536	1,765	2,753	3,257	3,857
MI	0	0	488	560	645
BVPS (HK\$)	1.81	2.07	3.17	3.73	4.40

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
06/08/2021	Innovent Bio	1801	Sintilimab on track to become RMB10 bn drug	BUY	Kevin Tam
05/08/2021	Greentown Mgmt	9979	Safe sail inside the Storm	BUY	John Siah
05/08/2021	Xinyi Energy	3868	More M&A coming in 21H2E	BUY	John Siah
30/07/2021	SF REIT	2191	First logistics REITs in HK, riding the e-commerce wave	NR	John Siah
27/07/2021	China Edu Sector	-	Private Higher Edu will not be the next K12 tutoring	-	John Siah
13/07/2021	HKTv	1137	Edging up GMV with enabler business kicking off	BUY	Kevin Tam
07/07/2021	Xinyi Energy	3868	Fast growing solar farms with promising dividend outlook	BUY	John Siah
02/07/2021	Yidu Tech	2158	Getting closer to breakeven	BUY	Kevin Tam
24/06/2021	Greentown Mgmt	9979	21H1 net profit expected to up more than 70% YoY	BUY	John Siah
11/06/2021	TCL Electronics	1070	Turnaround possible in 2H21E	BUY	Kevin Tam
09/06/2021	Tian Lun Gas	1600	Zhuhai Port (000507.SZ) becomes new major shareholder	BUY	John Siah
03/06/2021	Tian Lun Gas	1600	Attractively valued with solid outlook	BUY	John Siah
25/05/2021	Yeahka	9923	Narrowed valuation premium on revised growth outlook	HOLD	Kevin Tam
20/05/2021	China Edu Sector	-	Policy risk on private higher education eased	-	John Siah
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

Historical recommendations and target price: Edvantage (382 HK)

(as of 09/08/2021)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 28 Nov 2019	BUY	HK\$ 5.70	HK\$ 4.28	6 14 Oct 2020	BUY	HK\$ 8.57	HK\$ 5.86
2 16 Jan 2020	BUY	HK\$ 6.45	HK\$ 5.06	7 11 Nov 2020	BUY	HK\$ 8.60	HK\$ 5.39
3 06 Mar 2020	BUY	HK\$ 6.45	HK\$ 5.00	8 07 Dec 2020	BUY	HK\$ 11.21	HK\$ 8.35
4 22 Apr 2020	BUY	HK\$ 6.45	HK\$ 4.46	9 21 Apr 2021	BUY	HK\$ 11.20	HK\$ 8.63
5 05 Jun 2020	BUY	HK\$ 8.38	HK\$ 6.25	10 9 Aug 2021	BUY	HK\$ 10.50	HK\$ 5.91

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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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