

Edvantage Group (382 HK)

John Siah

+852 2135 0248

john.siah@oriental-patron.com.hk

Company Update

BUY

UNCHANGED

Close price: HK\$2.81

Target Price: HK\$3.80 (+35.2%)

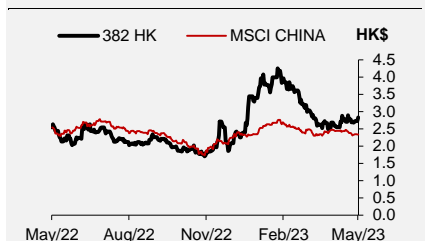
Prior TP: HK\$3.95

Key Data

HKEx code	382 HK
12 Months High (HK\$)	4.28
12 Month Low (HK\$)	1.67
3M Avg Dail Vol. (mn)	0.87
Issue Share (mn)	1,121.66
Market Cap (HK\$mn)	3,151.87
Fiscal Year	08/2022
Major shareholder (s)	Director Liu & Family (70.34%)

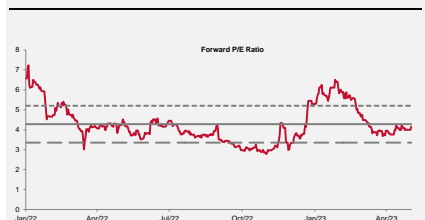
Source: Company data, Bloomberg, OP Research
Closing price are as of 05/03/2023

Price Chart



	1mth	3mth	6mth
Absolute %	+6.8	-29.0	+52.3
Rel. MSCI CHINA %	+12.1	-16.4	+32.6

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.

FY1H23 results showed strong organic growth

- For 1H23 ended Feb 2023, adjusted profit rose 15.3% yoy to RMB 304.4mn, on the back of an 18.3% yoy increase in revenue to RMB972.8mn.
- Number of student enrolments reached 85,603 in Feb 2023, up 12.2% yoy.
- The company declared an interim DPS of HK\$0.09, up 7.1% yoy.
- Maintain BUY with new TP of HK\$3.80, which is based on 6.0x FY23E PER

FY1H23's results showed strong organic growth. This was mainly driven by the growth of student enrolment, and the gradual increase in tuition fees. Among which, the higher vocational education segment grew 14.8% yoy to RMB809.4mn, contributing 83.2% of the total revenue. Gross profit margin rose 0.4p.p to 50.6%, which is expected to improve gradually in the future. Interim DPS amounted to HK\$0.09, up 7.1% yoy.

Solid student growth on the back of campuses expansion. Edvantage's total student enrolment reached 85,603 in Feb 2023. Among them, the total number of student enrolment for schools in Sichuan/Guangdong for SY22/23 increased by 3,500/5,400, or 13.3%/11.0% respectively. Edvantage continued to expand the capacity and enhance teaching facilities for schools in Guangdong and Sichuan. In particular, it is constructing new Xinhui campuses for Huashang Vocational College, while it is building new teaching facilities on Meishan Campus of Urban Vocational College.

Focus on connotation construction. The company further deepened the integration of industry and education to develop high-calibre technicians to train talents in hot career fields such as health, e-commerce, and digital economy.

Maintain BUY with new TP of HK\$3.80. The new TP is based on 6.0x PY23E P/E. We amend our EPS (in HK\$) forecast on Edvantage by -4.1%/+2.3% for FY23E/24E to reflect the EPS dilution by the stock dividends in FY22, and the expectation of lower tax expenses. Without new M&A, we anticipate Edvantage to report an 8.3% CAGR in adjusted profit between FY23-25E on the back of the campus expansion and the increase in tuition. In addition, Edvantage may continue to report fewer tax expenses in the next 1-2 years if the progress for Edvantage to convert its school into for-profit higher schools is slower-than-expected.

Exhibit 1: Forecast and Valuation

Year to Aug (RMB mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,252	1,686	1,930	2,175	2,435
Growth (%)	+56.4	+34.7	+14.5	+12.7	+12.0
Adj. net profit	460	577	626	713	732
Growth (%)	+48.7	+25.6	+8.4	+13.9	+2.8
Adj. diluted EPS (HK\$)	0.523	0.650	0.633	0.721	0.741
Adj. EPS growth (%)	+49.9	+24.1	-0.2	+13.9	+2.8
Change to previous EPS (%)			-4.1	+2.3	-4.8
Consensus EPS (HK\$)			0.673	0.745	0.826
ROE (%)	21.0	20.6	20.0	20.4	18.3
P/E (x)	5.4	4.4	4.4	3.9	3.8
P/B (x)	1.0	0.9	0.8	0.7	0.6
Yield (%)	4.9	7.0	6.8	7.7	7.9
DPS (HK\$)	0.139	0.196	0.190	0.216	0.222

Source: Bloomberg, OP Research

Exhibit 2: Earnings review (Interim result ended Feb 2023)

(Ended Feb)	1H23	1H22	Yoy %	OP Comments
Profitability Data (in RMB)				% to the original forecasted FY23E result
Revenue	972.8	822.6	+18.3%	50.6%
Gross profit	491.8	413.0	+19.1%	50.5%
Adjusted profit to shareholders	304.4	264.0	+15.3%	49.7%
Profitability Ratios (%)				Our original forecast for FY23E
GPM	50.6%	50.2%	+0.4p.p.	50.6%
NPM	31.3%	32.1%	-0.8p.p.	31.8%
Effective income tax rate	2.4%	2.8%	-0.4p.p.	10.0%
Operating ratio (% to revenue)				
Selling expenses	3.6%	2.8%	+0.8p.p.	2.6%
Administrative expenses	15.9%	18.0%	-2.1p.p.	13.0%

Source: OP Research

Exhibit 3: Earnings revision

Year ended Aug (RMB mn)	FY23E			FY24E			Reason for revision
	New	Old	% Chg	New	Old	% Chg	
Revenue	1,930	1,923	+0.4	2,175	2,158	+0.8	
Gross profit	976	974	+0.3	1,105	1,095	+0.9	
Gross margin	50.6%	50.6%	-	50.8%	50.8%	-	
Adj. net profits	626	612	+2.2	713	653	+8.2	Tax expenses may stay low for a longer period if the conversion of Edvantage schools into for-profit schools is slower than expected.
Diluted EPS (HK\$)	0.633	0.660	-4.1	0.721	0.705	+2.3	We factored in the share dilution due to the stock dividend in FY22.

Source: OP Research

Exhibit 4: Key assumptions on students and tuition fee

Student enrollments(China)		Unit	SY22/23E	SY23/24E	SY24/25E
New		student	84,400	90,300	95,500
Old		student	83,200	90,000	95,500
Change (%)			+1.4%	+0.3%	+0.0%
Average revenue /student(China)			FY23E	FY24E	FY25E
New		RMB	21,546	22,291	23,166
Old		RMB	21,619	22,466	23,205
Change (%)			+0.2%	-0.4%	+0.3%

Source: OP Research

Exhibit 5: Positive catalysts and risks

Positive catalysts	Risks
<ul style="list-style-type: none"> ■ New campuses in Guangdong to boost student growth ■ Policy support for private participation in the vocational education 	<ul style="list-style-type: none"> ■ Higher than expected effective tax rate after all of its schools convert into for-profit schools. ■ Policy risks on private education ■ Execution risk in new campus expansions

Source: OP research

Exhibit 6: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth		PER Hist (x)	PER FY1 (x)	PER FY2 (x)	3-Yr EPS		P/B Hist (x)	P/B FY1 (x)	ROE Hist (%)	ROE FY1 (%)	Sh px 1-mth %	Sh px 3-mth %
				avg t/o (US\$m)					Cagr (%)	PEG (x)						
Edvantage Group	382 HK	2.81	402	0.3		4.4	4.4	3.9	5.3	0.8	0.9	0.8	20.6	20.0	+6.8	-29.0
HSI		19,699.16				11.1	9.6	8.7	12.7	0.8	1.2	1.0	10.6	10.9	-3.5	-9.1
HSCEI		6,589.35				8.9	8.6	7.6	10.3	0.8	1.1	1.0	11.9	11.3	-5.1	-10.8
CSI300		4,029.09				14.6	12.3	10.7	15.2	0.8	1.7	1.6	11.7	12.8	-0.5	-4.0
Adjusted sector avg						5.9	4.8	4.4	13.3	0.3	0.8	0.7	13.9	14.2	-7.3	-27.3
China Edu Group	839 HK	6.93	2,252	11.6		7.9	7.3	6.5	12.0	0.6	1.0	0.9	14.8	13.2	-7.6	-40.8
China Kepei Edu	1890 HK	2.50	642	0.5		6.3	5.2	4.8	14.0	0.4	1.2	1.0	20.1	18.3	-5.7	-31.3
Hope Educ	1765 HK	0.58	593	3.5		9.2	5.6	4.7	30.0	0.2	0.5	0.5	7.7	9.5	-6.5	-25.6
China New Higher	2001 HK	2.68	531	0.8		6.1	5.2	4.6	14.1	0.4	1.2	1.0	20.4	21.0	+3.9	-31.6
China Yuhua Edu	6169 HK	1.07	492	3.4		2.9	3.2	3.7	-1.4	N/A	0.5	0.5	20.2	20.4	-20.1	-3.6
Cathay Media	1981 HK	1.60	337	0.2		23.8	10.1	8.5	54.9	0.2	0.9	0.7	3.9	6.1	+30.1	+16.8
Minsheng Edu	1569 HK	0.36	193	0.2		2.7	2.4	2.1	11.3	0.2	0.3	0.3	10.4	11.1	-7.7	-30.8
China Xinhua Edu	2779 HK	0.77	158	0.0		4.6	3.1	2.8	21.1	0.1	0.3	0.3	7.5	10.0	-9.4	-26.0

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

Source: Bloomberg, OP Research

Financial Summary

Year to Aug	FY21	FY22	FY23E	FY24E	FY25E
Income Statement (RMB mn)					
Turnover	1,252	1,686	1,930	2,175	2,435
YoY%	+56.4	+34.7	+14.5	+12.7	+12.0
COGS	-621	-836	-954	-1,070	-1,193
Gross profit	631	850	976	1,105	1,242
Gross margin	50.4%	50.4%	50.6%	50.8%	51.0%
Other income	39	87	113	125	138
Selling & distribution	-20	-48	-69	-74	-78
Admin	-157	-236	-270	-283	-292
R&D	0	0	0	0	0
Other opex	0	0	0	0	0
Total opex	-177	-284	-340	-357	-370
Operating profit (EBIT)	483	653	750	873	1,010
Operating margin	38.6%	38.8%	38.9%	40.2%	41.5%
Interest Income	10	6	6	6	6
Finance costs	-18	-6	-9	-9	-9
Profit after financing costs	484	653	747	870	1,007
Associated companies & JVs	0	0	0	0	0
Pre-tax profit	484	653	747	870	1,007
Tax	-14	-8	-18	-43	-152
Minority interests	-56	-78	-104	-114	-123
Net profit	414	567	626	713	732
YoY%	+41.9	+35.7	+10.3	+13.9	+2.8
Adjusted net profit	460	577	626	713	732
YoY%	+48.7	+25.6	+8.4	+13.9	+2.8
Adjusted net margin	36.7%	34.2%	32.4%	32.8%	30.1%
EBITDA	605	817	940	1,073	1,214
EBITDA margin	48.3%	48.4%	48.7%	49.3%	49.8%
Adjusted EPS (HK\$)	0.43	0.650	0.633	0.721	0.741
YoY%	+49.9	+24.1	-0.2	+13.9	+2.8
DPS (HK\$)	0.139	0.196	0.190	0.216	0.222
Year to Aug	FY21	FY22	FY23E	FY24E	FY25E
Cash Flow (RMB mn)					
EBITDA	624	818	940	1,073	1,214
Chg in working cap	321	143	438	206	205
Others	13	-15	0	0	0
Cash flows from operation	958	946	1,379	1,279	1,419
Tax	-2	-2	-8	-18	-44
Net cash from operations	956	944	1,371	1,261	1,375
Capex	-625	-569	-600	-350	-350
Investments	-706	-137	0	0	0
Interests received	10	5	6	6	6
Sales of assets	0	0	0	0	0
Others	-428	185	0	0	0
Investing cash	-1748	-516	-594	-344	-344
Issue of shares	385	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	0	0	0	0	0
Interest paid	-67	-83	-83	-80	-80
Dividends paid	-93	-128	-174	-185	-211
Net change in bank loans	212	313	0	0	0
Others	-36	-7	0	0	0
Financing cash	401	94	-257	-265	-291
Net change in cash	-402	523	519	651	740
Exchange rate or other Adj	0	0	0	0	0
Opening cash	1198	795	1,318	1,835	2,486
Closing cash	795	1,318	1,837	2,486	3,226
CFPS (HK\$)	1.09	1.06	1.39	1.28	1.39

Source: Company, OP Research

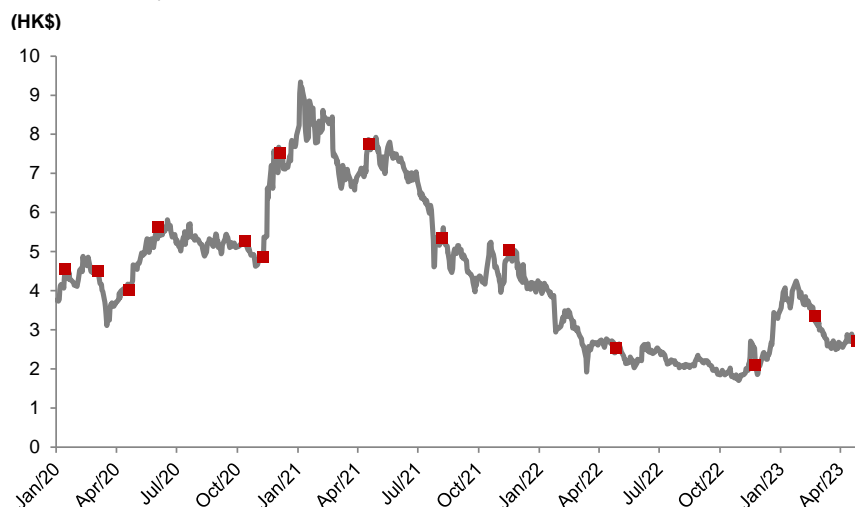
Year to Aug	FY21	FY22	FY23E	FY24E	FY25E
Ratios					
Gross margin (%)	50.4	50.4	50.6	50.8	51.0
Operating margin (%)	38.6	38.5	38.9	40.2	41.5
Adjusted net margin (%)	36.7	33.7	32.4	32.8	30.1
Selling & dist'n exp/Sales (%)	1.6	2.9	3.6	3.4	3.2
Admin exp/Sales (%)	12.5	14.0	14.0	13.0	12.0
Payout ratio (%)	30.0	33.6	30.0	30.0	30.0
Effective tax (%)	2.9	1.2	2.4	5.0	15.0
Total debt/equity (%)	81.6	81.9	85.9	79.6	72.9
Net debt/equity (%)	43.5	41.0	36.0	21.8	8.3
Current ratio (x)	0.7	0.7	0.8	1.0	1.1
Quick ratio (x)	0.7	0.7	0.8	0.9	1.1
Inventory T/O (days)	2	4	4	4	4
AR T/O (days)	41	23	23	23	23
AP T/O (days)	6	11	11	11	11
Cash conversion cycle (days)	36	16	16	16	16
Asset turnover (x)	0.3	0.3	0.3	0.3	0.3
Financial leverage (x)	2.2	2.4	2.5	2.4	2.4
EBIT margin (%)	39.3	38.5	38.9	40.2	41.5
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.9	0.9	0.8	0.8	0.7
Return on equity (%)	21.0	20.6	20.0	20.4	18.3
Year Ended Aug	FY21	FY22	FY23E	FY24E	FY25E
Balance Sheet (RMB mn)					
Fixed assets	3,593	4,166	4,507	4,682	4,852
Investment properties	79	147	147	147	147
Intangible assets & Goodwills	182	331	331	331	331
Right of use assets	808	787	787	787	787
Deposits paid	88	58	58	58	58
Other non-current assets	110	153	153	153	153
Non-current assets	4,859	5,643	5,984	6,158	6,328
Inventories	3	9	11	12	13
AR	141	108	123	139	155
Prepayments & deposits	0	0	12	12	12
Other current assets	368	140	140	140	140
Cash	795	1,318	1,837	2,486	3,226
Current assets	1,307	1,575	2,123	2,789	3,547
AP	11	26	30	34	37
Tax	76	89	8	18	44
Accruals & other payables	228	268	351	396	443
Bank loans & leases	282	492	492	492	492
Contract liabilities	1,141	1,256	1,740	1,948	2,130
Other current liabilities	33	40	40	40	40
Current liabilities	1,770	2,171	2,661	2,928	3,186
Bank loans & leases	1,062	1,171	1,171	1,171	1,171
Other debts	0	0	0	0	0
Deferred tax & others	288	309	309	309	309
Non-current liabilities	1,350	1,480	1,480	1,480	1,480
Total net assets	3,046	3,568	3,967	4,539	5,209
Shareholder's equity	2,533	2,975	3,271	3,729	4,275
Share capital	73	74	74	74	74
Reserves	2,460	2,901	3,196	3,655	4,201
MI	513	592	696	810	934
BVPS (HK\$)	2.88	3.41	3.35	3.82	4.38

Our recent reports

Date	Company / Sector	Ticker	Title	Rating	Analyst
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
02/03/2023	Xinyi Energy	3868	FY22 results miss, expecting a rebound for FY23E	BUY	John Siah
24/02/2023	Edvantage Group	382	FY23Q1 operations on track	BUY	John Siah
13/02/2023	Newborn Town	9911	More social apps expecting to begin bearing fruit	BUY	John Siah
02/02/2023	China Water Affairs	855	Tapping into opportunities in the direct drinking water market	BUY	John Siah
18/01/2023	361 Degrees	1361	The worst has likely passed	BUY	John Siah
05/12/2022	China Edu Group	839	Higher vocational education leads the growth	BUY	John Siah
05/12/2022	New Higher Edu	2001	FY22 results slightly beat, emphasis on quality education	BUY	John Siah
29/11/2022	Edvantage Group	382	FY22 earnings beat, moderate growth ahead	BUY	John Siah
20/10/2022	361 Degrees	1361	Lockdown may impact sales in Q4	BUY	John Siah
20/10/2022	Greentown Mgmt	9979	Impressive new contracts growth in Q3 under severe headwinds	BUY	John Siah
16/09/2022	EVA Holdings	838	Decent earnings outlook supported by strong order backlogs	BUY	John Siah
02/09/2022	Tian Lun Gas	1600	1H22 results missed, tough near-term outlook	HOLD	John Siah
02/09/2022	HK Tech Venture	1137	1H22 results beats amid better costs management	BUY	John Siah
31/08/2022	AAC Tech	2018	Headwinds likely to persist in 2H22E	HOLD	John Siah
31/08/2022	Truly Int'l	732	1H22 earnings decline as expected, negatives priced in	BUY	John Siah
26/08/2022	361 Degrees	1361	1H22 earnings beats, strong growth in e-commerce and kids' wear	BUY	John Siah
03/08/2022	Xinyi Energy	3868	Flat earnings growth in 1H22, slowing M&A pace due to high prices	BUY	John Siah

Historical recommendations and target price: Edvantage (382 HK)

(as of 05/03/2023)



Date	Rating	TP	Close	Date	Rating	TP	Close
1 28 Nov 2019	BUY	HK\$ 5.70	HK\$ 4.28	9 21 Apr 2021	BUY	HK\$ 11.20	HK\$ 8.63
2 16 Jan 2020	BUY	HK\$ 6.45	HK\$ 5.06	10 9 Aug 2021	BUY	HK\$ 10.50	HK\$ 5.91
3 06 Mar 2020	BUY	HK\$ 6.45	HK\$ 5.00	11 18 Nov 2021	BUY	HK\$ 9.55	HK\$ 5.52
4 22 Apr 2020	BUY	HK\$ 6.45	HK\$ 4.46	12 29 Apr 2022	BUY	HK\$ 4.70	HK\$ 2.68
5 05 Jun 2020	BUY	HK\$ 8.38	HK\$ 6.25	13 29 Nov 2022	BUY	HK\$ 3.15	HK\$ 1.93
6 14 Oct 2020	BUY	HK\$ 8.57	HK\$ 5.86	14 24 Feb 2023	BUY	HK\$ 3.95	HK\$ 3.25
7 11 Nov 2020	BUY	HK\$ 8.60	HK\$ 5.39	15 4 May 2023	BUY	HK\$ 3.80	HK\$ 2.81
8 07 Dec 2020	BUY	HK\$ 11.21	HK\$ 8.35				

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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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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