



## CEG (839 HK) Increase in enrollment quota to boost growth

- 2020/21 school year total enrollment quota for bachelor's degree and junior college diploma programs will increase by 27% YoY or 7,900 to 37,600 while the enrollment quota for top-up degrees will grow by 300% or 6,300 to 8,400
- Policy to accelerate the conversion of independent colleges means the Group's three independent colleges might receive approval for conversion sooner than expected; a successful conversion would facilitate cost reduction, enrollment expansion, and quality enhancement
- Our projected FY19-22E revenue CAGR is raised to 23.3% on higher enrollment quota
- Maintain **BUY**, current TP represents 32.49x/24.17x 20E/21E P/E, or 3.99x/3.58x 20E/21E P/B

**Student enrollment quota is raised for 2020/21 school year.** According to the Group, for the 2020/21 school year, the total enrollment quota for bachelor's degree and junior college diploma programs will increase by 27% YoY or 7,900 to 37,600, while enrollment quota for top-up degrees will increase by 300% or 6,300 to 8,400. In addition, the enrollment quota for the Group's higher education institutions located in Jiangxi Province, Guangdong Province, Chongqing municipality, and Shandong Province will increase by 25% YoY, 18% YoY, 33% YoY, and 56% YoY, respectively. The strong growth in top-up degree enrollment quota is mainly the result of the government's policy to expand the opportunities for junior college students to obtain the bachelor's degree. The increase in such enrollment quota represents 4.3% of the Group's total enrollment as of end-Feb, 2020.

**Policy to accelerate independent college conversion to benefit the Group.** According to MOE, the number of independent colleges in China in 2019 reached 257. In Jan-June 2020, the number of independent colleges approved for conversion was 14, representing 5.4% of the total. The Group has applied to convert its three independent colleges – policy to accelerate such conversion may mean that it is likely to receive approval sooner than expected. A successful conversion would facilitate cost reduction, enrollment expansion, and quality enhancement.

**Expect FY19-22E revenue CAGR to be 23.3%.** In light of the expanded enrollment quota for the 2020/21, we revise up our revenue forecasts to RMB 3,183mn for FY21E and RMB 3,667mn in FY22E (previous forecasts - FY21E: RMB 3,165mn; FY22E: RMB 3,650mn). Student enrollment and revenue per student would increase at 6.2% and 16.2% CAGRs in FY19-22E.

**Maintain BUY, TP at HK\$ 15.5.** We revise up our DCF-derived TP by ~2% to reflect the expanding enrollment quota and the favorable policy environment. Current TP represents 32.49x/24.17x 20E/21E P/E, or 3.99x/3.58x 20E/21E P/B.

**Risk factors:** 1) Growth risk; 2) Geographical concentration risk; 3) Acquisition risk; 4) Cost risk; 5) Education quality and student dropout risk; 6) Expansion risk; 7) Regulatory risk; 8) Liquidity risk; 9) Prolonged pandemic risk; 10) Increasing financial leverage.

### Results and Valuation

FY ended Aug 31	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,294	1,955	2,618	3,183	3,667
Chg (YoY %)	N/A	51.08	33.94	21.55	15.23
Total Net Profit – to shareholders of the Company (RMB mn)	500	593	866	1,163	1,463
Chg (% YoY)	N/A	18.61	46.07	34.41	25.71
Basic EPS (RMB cents)	28.68	29.33	43.06	57.88	72.77
Change (YoY %)	1.85	2.27	46.83	34.41	25.71
P/E (x)	41.55	40.63	27.67	20.59	16.38
BVPS (RMB cents)	319.88	346.91	371.42	411.94	462.88
P/B (x)	3.73	3.44	3.21	2.89	2.57
Dividend (HK cents)	7.40	12.50	20.54	19.23	24.18
Dividend yield	0.62	1.05	1.72	1.61	2.03
ROAA (%)	N/A	5.71	5.55	7.07	8.37
ROAE (%)	N/A	9.30	12.66	15.53	17.39

Source(s): the Company, ABCI Securities estimates

## Company Report Jul 15, 2020 Rating: BUY TP: HK\$ 15.5

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Share price (HK\$)	13.20
52WK H/L (HK\$)	14.34/8.9
Est. share price return	17.42%
Est. dividend yield	1.72%
Est. total returns	19.15%
Previous rating&TP	BUY/HK\$ 15.2
Previous report date	May 6, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Key data

Issued shares (mn)	2,020.22
Mkt cap (HK\$ mn)	26,666.93
3-mth avg ADT (HK\$mn)	52.40
Shareholding (%)	
Yu Guo	37.125
Xie Ketao	37.125
Matthews Intl. Capital	2.33

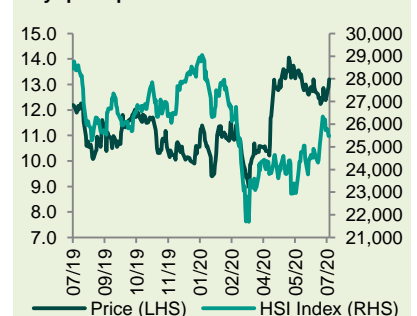
Source(s): Bloomberg, the Group, ABCI Securities

### Price performance (%)

	Absolute	Relative (HSI)*
1-mth	4.60	(3.85)
3-mth	24.88	16.90
6-mth	17.32	26.52

Source(s): Bloomberg

### 1-yr price performance



Source(s): Bloomberg, ABCI Securities

Note: market data as of Jul 15, 2020

RMB/HKD= 1.1077



**Exhibit 1: Changes in assumptions, projections, and valuations**

FY ends at Aug 31	Current report		Previous report		Rationale
	FY20E	FY21E	FY20E	FY21E	
<b>Assumptions</b>					
GPM (%)	57.5	57.8	57.5	57.8	
Pretax margin (%)	34.5	38.0	34.5	38.0	
NPM (to shareholders of the Company) (%)	33.1	36.6	33.1	36.6	N/A
D/E (%)	58.6	51.8	58.6	51.8	
D/A (%)	27.5	25.3	27.5	25.3	
Revenue growth (YoY %)	33.9	21.6	33.9	20.9	Higher growth is mainly due to the increase in enrollment quota for bachelor's degree and junior college diploma programs
- - Tuition fees	33.5	21.5	33.5	20.8	
- - Boarding fees	6.6	20.4	6.6	19.8	
- - Ancillary services	212.5	25.9	212.5	24.8	
<b>Projections</b>					
ROAA (%)	5.6	7.1	5.6	7.1	N/A
ROAE (%)	12.7	15.5	12.7	15.5	
EPS (RMB cent)	43.06	57.88	43.06	57.55	Higher growth lead to higher EPS
<b>Valuations</b>					
TP (HK\$)		15.5		15.2	The increase in enrollment quota means higher growth and higher valuation, but the increase in earnings would mean lower P/E
P/E (x)	32.49	24.17	32.42	24.26	
P/B (x)	3.99	3.58	3.98	3.57	

Note: Previous report was published on May 6, 2020

Source(s): The Group, ABCI Securities estimates

**Exhibit 2: Change in major forecasts**

FY ends at Aug 31	Current report			Previous report			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue (RMB mn)	2,618	3,183	3,667	2,618	3,165	3,650	0.00	0.57	0.47
Net profit (to owners of the Company) (RMB mn)	866	1,163	1,463	866	1,157	1,454	0.00	0.52	0.62
EPS (RMB cents)	43.06	57.88	72.77	43.06	57.55	72.35	0.00	0.57	0.58

Note: Previous report was published on May 6, 2020

Source(s): ABCI Securities estimates



## Financial statement of the Group

### Consolidated income statement

FY ends at Aug 31 (RMB mn)	FY18E	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>1,294</b>	<b>1,955</b>	<b>2,618</b>	<b>3,183</b>	<b>3,667</b>
- Tuition fees	1,172	1,774	2,369	2,878	3,313
- Boarding fees	101	153	164	197	225
- Ancillary services	22	27	85	108	129
COGS	(497)	(833)	(1,113)	(1,344)	(1,541)
<b>Gross profit</b>	<b>797</b>	<b>1,121</b>	<b>1,505</b>	<b>1,838</b>	<b>2,126</b>
Selling expenses	(21)	(53)	(125)	(153)	(169)
Admin expenses	(212)	(353)	(366)	(444)	(500)
Others	34	56	156	219	257
Finance costs	(31)	(104)	(267)	(251)	(202)
<b>Pretax profit</b>	<b>567</b>	<b>668</b>	<b>902</b>	<b>1,209</b>	<b>1,513</b>
Tax	13	19	(32)	(40)	(43)
<b>Net profit</b>	<b>579</b>	<b>687</b>	<b>870</b>	<b>1,169</b>	<b>1,470</b>
- Profit attributable to shareholders	500	593	866	1,163	1,463
- Minority interest	43	95	4	6	7
Dividend	135	228	375	351	441
EPS (RMB cents)					
- Basic	28.68	29.33	43.06	57.88	72.77
- Diluted	28.55	29.16	42.86	57.61	72.42
DPS (HK cents)	7.40	12.50	20.54	19.23	24.18

Note: 1) The Group changed its FY-end to Aug 31 from Dec 31 in 2018 and only disclosed income statement data for Jan-Aug 2018; 2) FY18 data is calculated based on disclosures and our estimates

Source(s): The Group, ABCI Securities estimates

### Consolidated balance sheet

FY ends at Aug 31 (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Bank balances and cash	1,738	3,497	1,695	1,648	1,618
Trade receivables, deposits, prepayments and other receivables	130	571	580	679	729
Others	190	839	904	929	968
<b>Current assets</b>	<b>2,059</b>	<b>4,906</b>	<b>3,179</b>	<b>3,256</b>	<b>3,315</b>
PP&E	3,259	5,851	7,175	7,841	8,454
LT Prepaid lease payment	63	1,051	0	0	0
Goodwill	917	1,566	1,566	1,566	1,566
Intangible assets	994	1,708	1,759	1,812	1,867
Others	1,442	257	2,327	2,583	2,845
<b>Non-current assets</b>	<b>6,675</b>	<b>10,433</b>	<b>12,827</b>	<b>13,803</b>	<b>14,732</b>
<b>Total assets</b>	<b>8,733</b>	<b>15,339</b>	<b>16,006</b>	<b>17,059</b>	<b>18,047</b>
ST Contracted liabilities	1,038	1,617	1,940	2,391	2,596
ST Borrowing	107	285	129	125	121
Trade payables, other payables and accrued expenses	546	1,530	1,530	1,567	1,447
Others	36	59	323	96	104
<b>Current liabilities</b>	<b>1,728</b>	<b>3,491</b>	<b>3,923</b>	<b>4,179</b>	<b>4,269</b>
LT Borrowing	130	1,838	2,159	2,108	1,966
Convertible bonds	0	2,144	2,112	2,080	2,049
Others	394	620	309	370	412
<b>Non-current liabilities</b>	<b>524</b>	<b>4,602</b>	<b>4,580</b>	<b>4,558</b>	<b>4,427</b>
Equity to owners of the Company	6,143	6,595	7,085	7,898	8,920
Minority interest	319	414	418	424	431
<b>Equity</b>	<b>6,462</b>	<b>7,008</b>	<b>7,504</b>	<b>8,322</b>	<b>9,351</b>
<b>Total liabilities and equity</b>	<b>8,714</b>	<b>15,101</b>	<b>16,006</b>	<b>17,059</b>	<b>18,047</b>

Note: 1) The Group changed its FY-end to Aug 31 from Dec 31 in 2018

Source(s): The Group, ABCI Securities estimates



**Consolidated cash flow statement**

FY ends at Aug 31 (RMB mn)	FY18E	FY19A	FY20E	FY21E	FY22E
Net profit for the period	579	668	870	1,169	1,470
Depreciation	127	236	459	337	449
Change in working capital	481	44	255	84	250
Others	71	193	347	169	273
<b>Cash flow from operating activities</b>	<b>1,258</b>	<b>1,141</b>	<b>1,932</b>	<b>1,759</b>	<b>2,442</b>
Capex	(205)	(808)	(943)	(918)	(916)
Others	(2,584)	(1,460)	(2,281)	(199)	(735)
<b>Cash flow from investing activities</b>	<b>(2,789)</b>	<b>(2,268)</b>	<b>(3,225)</b>	<b>(1,118)</b>	<b>(1,652)</b>
Change in borrowings	86	4,030	133	(86)	(177)
Interest paid	(31)	(32)	(267)	(251)	(202)
Others	(29)	(1,188)	(375)	(351)	(441)
<b>Cash flow from financing activities</b>	<b>26</b>	<b>2,810</b>	<b>(509)</b>	<b>(688)</b>	<b>(820)</b>
<b>Net change in cash</b>	<b>(1,505)</b>	<b>1,758</b>	<b>(1,802)</b>	<b>(46)</b>	<b>(30)</b>
Cash and cash equivalent - beg	3,243	1,738	3,497	1,695	1,648
ForEx impact	22	74	87	57	48
<b>Cash and cash equivalent - end</b>	<b>1,738</b>	<b>3,497</b>	<b>1,695</b>	<b>1,648</b>	<b>1,618</b>

Note: 1) The Group changed its FY-end to Aug 31 from Dec 31 in 2018 and did not disclose FY18 cash flow data adjusted for the new FY-end  
Source(s): The Group, ABCI Securities estimates

**Key operating and financial ratios**

FY ends at Aug 31	FY18E	FY19E	FY20E	FY21E	FY22E
<b>Growth (YoY %)</b>					
Revenue	N/A	51.1	33.9	21.6	15.2
- Tuition fees	N/A	51.3	33.5	21.5	15.1
- Boarding fees	N/A	51.5	6.6	20.4	14.3
- Ancillary services	N/A	25.4	212.5	25.9	20.0
Gross profit	N/A	40.7	34.2	22.1	15.7
Pretax profit	N/A	17.9	35.0	34.1	25.1
Total net profit (to owners of the Company)	N/A	18.6	46.1	34.4	25.7
<b>Profitability ratios (%)</b>					
GPM	61.6	57.4	57.5	57.8	58.0
Pretax margin	43.8	34.2	34.5	38.0	41.3
Total NPM (to shareholders of the Company)	38.6	30.3	33.1	36.6	39.9
<b>Revenue contribution (%)</b>					
Tuition fees	90.6	90.7	90.5	90.4	90.3
Boarding fees	7.8	7.9	6.2	6.2	6.1
Ancillary services	1.7	1.4	3.3	3.4	3.5
<b>Return ratios (%)</b>					
ROAA	N/A	5.7	5.6	7.1	8.4
ROAE	N/A	9.3	12.7	15.5	17.4
<b>Liquidity ratio (x)</b>					
Current ratio	1.2	1.4	0.8	0.8	0.8
Cash ratio	1.0	1.0	0.4	0.4	0.4
<b>Leverage ratios (%)</b>					
Total debt to Equity	3.7	60.9	58.6	51.8	44.2
Total debt to Total assets	2.7	27.8	27.5	25.3	22.9
Net debt/(cash) to Equity	(23.2)	11.0	36.0	32.0	26.9
Net debt/(cash) to total assets	(17.2)	5.0	16.9	15.6	14.0

Note: 1) The Group changed its FY-end to Aug 31 from Dec 31 in 2018 and did not disclose FY17 figures  
Source(s): The Group, ABCI Securities estimates



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Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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