



New Oriental (EDU US) K-12 tutoring programs as the major growth driver in 1Q21

- 1Q21 net revenue declined by 8.0% YoY, better than the Group's previous guidance (11%-15% decline); revenue from K-12 all-subjects after-school tutoring courses was up by 8.0% YoY; revenue from U-CAN and POP Kids grew ~9% YoY and ~4% YoY
- GPM and NPM (to shareholders of the Company) declined to 52.9% and 17.7% in 1Q21 compared to 58.9% and 19.5% in 1Q20
- The Group expects 2Q21 revenue to be US\$ 863.7mn-887.3mn, representing a 10%-13% YoY increase
- Maintain **BUY**; current TP represents 62.80x/43.36x 21E/22E P/E, or 9.17x/7.57x 21E/22E P/B

K-12 tutoring programs expanded. Revenue from K-12 all-subjects after-school tutoring courses grew 8.0% YoY; revenue from U-Can middle and high school all-subjects after-school tutoring and POP Kids program grew ~9% YoY and ~4% YoY. However, affected by the pandemic, revenue from the overseas test preparation business and the overseas consulting & study tour business declined by ~51% YoY and ~31% YoY. Overall 1Q21 revenue declined by 8.0% YoY. On the other hand, the Group continued to ramp up capacity during the quarter - total classroom area increased by 23% YoY or 1% QoQ. Meanwhile, student enrollment in academic subjects tutoring and test preparation courses increased by 13.5% YoY to 2,961.1k.

Margins fell. The Group's GPM and NPM (to shareholders of the Company) declined to 52.9% and 17.7% in 1Q21 compared to 58.9% and 19.5% in 1Q20. We believe the margin decline can be attributed to the disruptions caused by the pandemic, bigger decline in ASP of the overseas test prep programs, and the discounted price in the summer for the pilot OMO online courses.

Growth to resume in 2Q. The Group expects 2Q21 revenue to be US\$ 863.7mn-887.3mn, up 10%-13% YoY. We believe overall growth is going to be supported by the post-pandemic recovery and multiple growth initiatives, including the OMO (online merging offline) strategy. As schools reopen, the Group's offline course activities would resume, which would elevate growth and margins in the coming quarters. In addition, since some small players exited the market during the pandemic, the Group may be able to absorb the market share of exited players. We expect FY21A-23E revenue CAGR to be 27.9% and FY21E revenue is expected to grow at 21.3% YoY.

Maintain BUY; TP at US\$ 185.6/ADS. We remain confident on the Group's leading position and expansion strategy. TP is raised to reflect better long-term growth and margin outlook. Our TP represents 62.80x/43.36x 21E/22E P/E, or 9.17x/7.57x 21E/22E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3) Pandemic risk; 4) Demographic risk; 5) Rapidly changing industry; 6) Education quality risk; 7) Expansion risk; 8) Seasonality of business; 9) Concentration risk; 10) Non-GAAP financial metrics; 11) Lack of dividend payout.

Results and Valuation

FY-end on May 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	3,096	3,579	4,342	5,669	7,482
Chg (YoY %)	26.52	15.57	21.33	30.57	31.97
Net Profit (to shareholders of the Company) (US\$ mn)	238	413	468	678	961
Chg (% YoY)	(19.61)	73.62	13.24	44.83	41.74
Basic net profit per common share/ADS (US\$)	1.50	2.61	2.95	4.28	6.07
Change (YoY %)	(19.79)	74.00	13.20	44.83	41.74
P/E (x)	108.07	62.11	54.87	37.88	26.73
BV per common share/ADS (US\$)	14.91	17.28	20.23	24.51	30.57
P/B (x)	10.87	9.38	8.01	6.61	5.30
Dividend per common share/ADS (US\$)	0	0	0	0	0
Dividend yield (%)	0	0	0	0	0
ROAA (%)	5.28	6.33	6.46	7.71	8.72
ROAE (%)	10.94	16.22	15.76	19.13	22.02

Note: Each ADS represents one common share
Source(s): The Group, ABCI Securities estimates

Company Report
Oct 14, 2020
Rating: BUY
TP: US\$ 185.6

Analyst: Paul Pan
Tel: (852) 2147 8829
Email: paulpan@abci.com.hk

Share price (HK\$)	162.10
52WK H/L (HK\$)	173.37/102.01
Est. share price return	14.49%
Est. dividend yield	0.00%
Est. total returns	14.49%
Previous rating & TP	BUY; US\$ 176.0
Previous report date	Aug 7, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued shares (mn)	159.11
Mkt cap (US\$ mn)	25,791.85
3-mth avg ADT (US\$mn)	137.16
Major shareholders (%)	
Minhong Yu	12.41

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

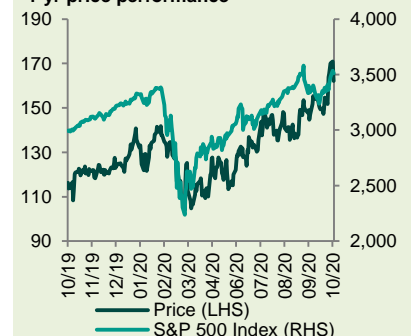
Price performance (%)

	Absolute	Relative*
1-mth	10.05	4.79
3-mth	12.34	0.56
6-mth	38.44	10.12

Note: Relative to S&P 500 Index

Source(s): Bloomberg

1-yr price performance



Source(s): Bloomberg, ABCI Securities

Note: market data as of Oct 13, 2020



Exhibit 1: Changes in assumptions and valuations

As of May 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
GPM (%)	55.7	56.7	55.7	56.7	
OPM (%)	11.9	13.6	11.9	13.6	N/A
NPM (to shareholders of the Company) (%)	10.7	11.8	10.7	11.8	
D/E (%)	3.7	3.6	3.7	3.6	N/A
D/A (%)	1.6	1.5	1.6	1.5	
Tax rate (%)	26.8	26.5	26.8	26.5	N/A
Revenue growth (YoY %)	21.3	30.6	21.3	30.6	N/A
Valuations					
TP (HK\$)	185.6		176.0		
P/E (x)	62.81	43.37	59.58	41.14	Increase in TP due to better long-term growth and margin outlook
P/B (x)	9.17	7.57	8.70	7.18	

Note: Previous report was published on Aug 7, 2020

Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

As of May 31	Current report			Previous report			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue (US\$ mn)	4,342	5,669	7,482	4,342	5,669	7,454	0.00	0.00	0.38
Net profit (to owners of the Company) (US\$ mn)	468	678	961	468	678	925	0.00	0.00	3.89
EPS (US\$)	2.95	4.28	6.07	2.95	4.28	5.84	0.00	0.00	3.94

Source(s): ABCI Securities estimates



Financial statements

Consolidated income statement

As of May 31 (US\$ mn, except per share data)	FY19A	FY20A	FY21E	FY22E	FY23E
Net revenue	3,096	3,579	4,342	5,669	7,482
Cost of revenue	(1,376)	(1,589)	(1,922)	(2,453)	(3,165)
Gross profit	1,720	1,990	2,420	3,216	4,317
Selling and marketing expenses	(384)	(445)	(537)	(683)	(898)
General and admin expenses	(1,034)	(1,146)	(1,366)	(1,762)	(2,309)
Gain/loss on disposal of subsidiaries	4	0	0	0	0
Operating profit	306	399	517	772	1,110
Other income, net	10	89	121	145	183
Profit before tax provision and gain(loss) from investments	316	316	488	637	917
Tax	(86)	(134)	(171)	(243)	(341)
Income/(Loss) from equity method investments	(2)	1	(2)	(2)	(2)
Net profit	228	355	465	672	949
- Owners	238	413	468	678	961
- MI	(10)	(58)	(3)	(6)	(12)
Net profit per common share/ADS (US\$)					
- Basic	1.50	2.61	2.95	4.28	6.07
- Diluted	1.50	2.59	2.93	4.25	6.02

Note: Each ADS represents one common share

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

As of May 31 (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash, cash equivalents, and restricted cash	1,414	915	1,398	1,316	2,338
ST investments	1,669	2,318	2,802	3,639	4,470
Others	383	523	616	634	1,152
Current assets	3,466	3,756	4,816	5,589	7,960
PP&E	532	672	609	968	967
LT investments	405	431	574	637	745
Right-of-use assets	0	1,425	1,524	2,033	2,030
Others	244	271	315	360	482
Non-current assets	1,180	2,800	3,022	3,999	4,224
Total assets	4,647	6,557	7,837	9,588	12,183
Deferred revenue	1,301	1,324	2,203	2,288	3,543
Others	705	1,155	926	1,382	1,727
Current liabilities	2,006	2,479	3,129	3,670	5,270
LT borrowing	96	118	123	144	168
Deferred tax liabilities	19	12	31	25	50
Non-current lease liabilities	0	1,078	1,219	1,743	1,740
Non-current liabilities	115	1,208	1,374	1,912	1,958
Shareholders' capital	2,361	2,737	3,205	3,883	4,844
MI	164	133	129	123	111
Total equity	2,525	2,870	3,334	4,006	4,955
Total liabilities and equity	4,647	6,557	7,837	9,588	12,183

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

As of May 31 (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	228	355	465	672	949
Depreciation and amortization	114	122	149	198	253
Change in working capital	311	298	879	534	1,292
Others	153	30	35	36	40
Cash flow from operating activities	806	805	1,527	1,440	2,533
Change in PP&E and land use right	(260)	(304)	(358)	(488)	(553)
Change in investments	(245)	(286)	(481)	(398)	(938)
Others	(70)	(176)	53	(11)	(273)
Cash flow from investing activities	(575)	(767)	(786)	(897)	(1,764)
Change in borrowing	96	21	5	21	24
Others	170	(107)	(734)	(563)	(752)
Cash flow from financing activities	267	(86)	(729)	(542)	(728)
Effect of foreign exchange rate changes	(66)	(48)	12	1	41
Net change in cash, cash equivalent, and restricted cash	267	431	(452)	471	(82)
cash, cash equivalent, and restricted cash - end	1,418	919	1,402	1,321	2,346

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

As of May 31	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (YoY %)					
Net revenue	26.5	15.6	21.3	30.6	32.0
Gross profit	24.5	15.7	21.6	32.9	34.2
Operating profit	16.2	30.6	29.5	49.3	43.8
Net profit (to shareholders of the Company)	(19.6)	73.6	13.2	44.8	41.7
Profitability ratios (%)					
GPM	55.6	55.6	55.7	56.7	57.7
OPM	9.9	11.1	11.9	13.6	14.8
NPM (to owners of the Company)	7.4	9.9	10.7	11.8	12.7
Non-GAAP OPM	12.2	12.9	13.6	15.2	16.3
Non-GAAP NPM (to owners of the Company)	13.3	13.5	12.5	13.6	14.4
Return ratios (%)					
ROAA	5.3	6.3	6.5	7.7	8.7
ROAE	10.9	16.2	15.8	19.1	22.0
Liquidity ratio (x)					
Current ratio	1.7	1.5	1.5	1.5	1.5
Cash ratio	0.8	0.5	0.5	0.4	0.5
Leverage ratios (%)					
Total debt to Equity	3.8	4.1	3.7	3.6	3.4
Total debt to Total assets	2.1	1.8	1.6	1.5	1.4
Net debt/(cash) to Equity	(56.5)	(37.7)	(45.2)	(35.3)	(54.2)
Net debt/(cash) to Total assets	(30.7)	(16.5)	(19.2)	(14.8)	(22.0)

Source(s): The Group, ABCI Securities estimates



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Definition of equity rating

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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Office address: ABCI Securities Company Limited, 13th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183