

Edvantage Group (382 HK) Acquisitions boost geographical and growth profile

- Acquisition of the two schools in Sichuan will help expand geographical footprint beyond Guangdong and provide additional growth drivers
- Conversion of the Huashang College to a standalone university would help reduce costs; commencement of the Jiangmen Campus in Sep 2021 would boost growth
- Expect revenue CAGR of 34.8% in FY19A-22E; 14ppts of the CAGR growth can be attributed to the acquisition
- Maintain **BUY**; current TP implies 22.83x/15.70x 21E/22E P/E, or 4.55x/3.53x 21E/22E P/B

Acquisition of schools in Sichuan boost growth and expand footprint. The Group announced it would spend RMB 750mn to acquire a 51% equity interest of a Group holding two schools, Sichuan Vocational College and Sichuan Technician College, in Sichuan. The two schools currently have a combined enrollment of ~24k, which represents 63% of the Group's enrollment of Huashang College and Huashang Vocational College in the 20/21 school year. We believe the acquisition would expand the Group's geographical profile beyond Guangdong. Combined enrollment of the two schools is expected to be 34k in the next two academic years and the average tuition fee of Sichuan Vocational College would increase to RMB 16.8k in the next two years.

More intrinsic growth to materialize. The Group's FY20 revenue/enrollment growth was 13.6%/7.3% YoY, showing resilience amid the COVID-19 pandemic. We believe additional growth drivers will soon emerge: (1) conversion of the Group's Huashang College from an independent college to a standalone university will help improve margins as the proportion of tuition paid to its sponsor school, Guangdong University of Finance and Economics (~13% in FY18), will decrease gradually; (2) new campus in Jiangmen will commence operation in Sep 2021, which would bring in additional income.

Expect revenue CAGR of 34.8% in FY20-23E. Full consolidation of the two newly acquired schools would be effective in Jan 2021, meaning the full impact of the two acquired schools would be reflected in the Group's results in FY22. In our current estimates, 14ppts of the FY20-23E revenue CAGR growth can be attributed to the two new schools; student enrollment and avg. revenue per student are expected to grow at 32.3% and 1.9% CAGRs in FY20-23E.

Maintain BUY; TP at HK\$ 12.1. Maintain **BUY**. We revised up TP mainly on the expanded geographical profile, elevated growth, and enhanced margins. Current TP represents 22.83x/15.70x 21E/22E P/E, or 4.55x/3.53x 21E/22E P/B.

Risk factors: 1) Growth risk; 2) Acquisition risk; 3) Education quality risk; 4) Regulatory risk; 5) Prolonged pandemic risk; 6) Risk of maintaining the favorable effective tax rate; 7) Increasing leverage risk

Results and Valuation

FY ended Aug 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	704	800	1,230	1,669	1,958
Change (YoY %)	10.7	13.6	53.7	35.7	17.3
Net Profit – to owners of the Company (RMB mn)	217	291	457	664	823
Change (YoY %)	34.1	34.5	56.7	45.4	23.9
Basic EPS (RMB cent)	27.68	28.66	44.84	65.21	80.79
Change (YoY %)	28.4	3.5	56.5	45.4	23.9
P/E (x)	26.44	25.54	16.32	11.22	9.06
BVPS (RMB cent)	157.67	180.18	225.03	290.24	371.03
P/B (x)	4.64	4.06	3.25	2.52	1.97
Dividend (HK cent)	1.0	9.8	18.9	27.5	34.1
Dividend yield	0.12	1.13	2.18	3.17	3.93
ROAA (%)	8.1	8.8	10.6	12.3	12.6
ROAE (%)	19.4	18.9	22.1	25.3	24.4

Source(s): The Company, ABCI Securities estimates

Company Report Dec 23, 2020 Rating: BUY TP: HK\$ 12.1

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Share price (HK\$)	8.68
52WK H/L (HK\$)	8.72/3.4
Est. share price return	39.87%
Est. dividend yield	2.18%
Est. total returns	42.05%
Previous report date	Jun 10, 2020
Previous rating/TP	BUY / HK\$ 6.96

Source(s): Bloomberg, ABCI Securities estimates

Key data

Issued shares (mn)	1,018.36
Mkt cap (HK\$ mn)	8,839.38
3-month ADT(HK\$mn)	23.60
Shareholding (%)	
Debo Education Investment HLD	73.65
Ariana Capital Investment	7.27
Other public investors	19.08

Source(s): Bloomberg, the Group

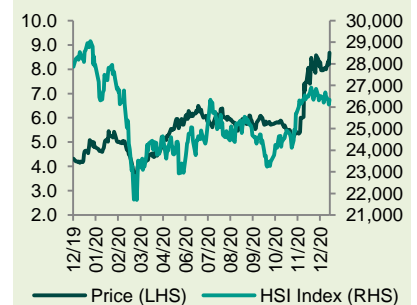
Price performance (%)

	Absolute	Relative*
1-mth	7.69	8.19
3-mth	48.38	37.23
6-mth	36.91	29.49

* Relative to HSI

Source(s): Bloomberg

1-year price performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Note: Market data as of Dec 23, 2020

RMB/HKD=1.1858



Exhibit 1: Changes in assumptions and valuations

FY ends at Dec 31	Current report		Previous report		Rationale
	FY21E	FY22E	FY21E	FY22E	
Assumptions					
GPM (%)	51.0	53.1	51.2	51.8	Lower margin projections due to the impact of the acquisition of two schools; higher GPM in FY22 mainly due to the projected savings from conversion of Huashang College
Pretax margin (%)	40.3	43.2	45.8	46.8	
NPM (to shareholders of the Company) (%)	37.1	39.8	42.2	43.2	
D/E (%)	37.3	33.3	17.3	16.3	
D/A (%)	16.8	17.1	10.2	9.7	
Tax rate (%)	7.9	7.9	7.9	7.9	N/A
Revenue growth (YoY %)	53.7	35.7	19.6	22.1	Upward adjustment due to acquisition
Valuations					
TP (HK\$)		12.1		6.96	Higher TP due to increased operational scale from school acquisitions
P/E (x)	22.83	15.70	15.48	12.40	
P/B (x)	4.55	3.53	2.75	2.69	

Note: Previous report was published on Jun 10, 2020

Source(s): The Group, ABCI Securities estimates

Exhibit 2: Changes in major forecasts

FY ends at Dec 31	Current report		Previous report		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue (RMB mn)	1,230	1,669	992	1,211	23.97	37.80
Net profit (to owners of the Company) (RMB mn)	457	664	418	522	9.25	27.23
EPS (RMB cent)	44.84	65.21	41.09	51.31	9.13	27.10

Source(s): ABCI Securities estimates



Financial statement of the Group

Consolidated income statement

FY ends at Aug 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	704	800	1,230	1,669	1,958
- Tuition fees	647	763	1,116	1,513	1,773
- Boarding fees & other services	57	37	114	156	185
Cost of sales	(362)	(404)	(602)	(783)	(878)
Gross profit	342	396	628	885	1,080
Selling expenses	(7)	(8)	(12)	(16)	(19)
Admin expenses	(82)	(110)	(146)	(197)	(232)
Others	17	46	46	68	84
Finance costs	(28)	(16)	(20)	(20)	(20)
Pretax profit	243	308	496	721	894
Tax	(28)	(16)	(39)	(57)	(71)
Net profit (continuing operation)	215	291	457	664	823
- Owners	209	291	457	664	823
- MI	6	0	0	0	0
Net profit/losses from discontinued operations	7	0	0	0	0
- Owners	7	0	0	0	0
- MI	(0)	0	0	0	0
Total net profit	223	291	457	664	823
- Owners	217	291	457	664	823
- MI	6	0	0	0	0
Dividend (HK\$ k)	10,184	95,551	156,725	227,926	282,345
EPS (RMB cent)					
- Basic	27.68	28.66	44.84	65.21	80.79
- Diluted	27.68	28.62	44.84	65.21	80.79
DPS (HK cent)	1.00	9.80	17.61	25.60	31.72

Source(s): The Group, ABCI Securities estimates

Consolidated balance sheet

FY ends at Aug 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Bank balances and cash	1,352	1,186	891	854	1,358
Financial assets at fair value through profit or loss	253	88	93	99	105
Trade receivables, deposits, prepayments and other receivables	32	58	82	106	115
Others	58	4	1	1	1
Current assets	1,695	1,336	1,067	1,061	1,579
PP&E	1,180	1,660	3,120	3,677	4,541
Prepaid lease payments	199	0	0	0	0
Others	53	533	894	1,010	1,192
Non-current assets	1,432	2,193	4,014	4,687	5,734
Total assets	3,127	3,528	5,081	5,747	7,313
Contracted liabilities	682	623	1,345	1,136	1,645
ST Borrowing	166	290	248	290	314
Others	171	178	320	369	452
Current liabilities	1,019	1,092	1,913	1,795	2,410
Deferred tax liabilities	113	119	220	245	297
LT Borrowing	390	457	607	694	756
LT lease liabilities	0	26	49	57	71
Non-current liabilities	502	601	876	997	1,124
Shareholders' equity	1,606	1,835	2,292	2,956	3,778
MI	0	0	0	0	0
Equity	1,606	1,835	2,292	2,956	3,778
Total liabilities and equity	3,127	3,528	5,081	5,747	7,313

Source(s): The Group, ABCI Securities estimates



Consolidated cash flow statement

FY ends at Aug 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit for the period	223	291	457	664	823
Depreciation and amortization	64	58	85	98	106
Change in working capital	130	(83)	828	(232)	587
Others	6	38	44	56	66
Cash flow from operating activities	423	305	1,414	586	1,582
Change in PP&E	(102)	(321)	(950)	(485)	(609)
Others	534	(220)	(744)	7	7
Cash flow from investing activities	433	(541)	(1,693)	(479)	(603)
Change in borrowing	(227)	191	108	130	85
Others	559	(114)	(124)	(273)	(563)
Cash flow from financing activities	332	78	(16)	(144)	(478)
Net change in cash	1,188	(158)	(295)	(36)	502
Cash and cash equivalent - beg	149	1,352	1,186	891	854
ForEx impact	16	(8)	0	(0)	2
Cash and cash equivalent - end	1,352	1,186	891	854	1,358

Source(s): The Group, ABCI Securities estimates

Key operating and financial ratios

FY ends at Aug 31	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (YoY %)					
Revenue	10.7	13.6	53.7	35.7	17.3
- Tuition fees	11.6	17.8	46.3	35.6	17.2
- Boarding fees	0.8	(34.5)	205.0	36.9	18.3
Gross profit	17.9	15.7	58.4	41.1	22.0
Pretax profit	8.2	26.6	60.9	45.4	24.0
Total net profit (to shareholders of the company)	34.1	34.5	56.7	45.4	23.9
Profitability ratios (%)					
GPM	48.6	49.5	51.0	53.1	55.2
Pretax profit	34.5	38.5	40.3	43.2	45.6
Total NPM (to shareholders of the company)	30.8	36.4	37.1	39.8	42.0
Return ratios (%)					
ROAA	8.1	8.8	10.6	12.3	12.6
ROAE	19.4	18.9	22.1	25.3	24.4
Liquidity ratio (x)					
Current ratio	1.7	1.2	0.6	0.6	0.7
Cash ratio	1.3	1.1	0.5	0.5	0.6
Leverage ratios (%)					
Total debt to Equity	34.6	40.7	37.3	33.3	28.3
Total debt to Total assets	17.8	21.2	16.8	17.1	14.6
Net debt to Equity	(49.6)	(23.9)	(1.6)	4.4	(7.6)
Net debt to Total assets	(25.5)	(12.4)	(0.7)	2.3	(3.9)

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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