

New Oriental Education (9901 HK)

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Initial Coverage

BUY

Close price: HK\$1319.0

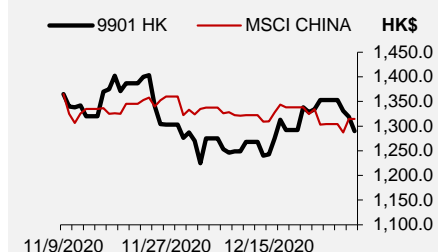
Target Price: HK\$1665.5 (+26.3%)

Key Data

| | |
|-----------------------|---|
| HKEx code | 9901 |
| 12 Months High (HK\$) | 1,424.00 |
| 12 Month Low (HK\$) | 1,219.00 |
| 3M Avg Dail Vol. (mn) | N.A. |
| Issue Share (mn) | 168.89 |
| Market Cap (HK\$m) | 222,765 |
| Fiscal Year | 05/2020 |
| Major shareholder (s) | Chairman Michael Minhong Yu & family (11.69%) |

Source: Company data, Bloomberg, OP Research
 Closing price are as of 07/10/2020

Price Chart



| | 1mth | 3mth | 6mth |
|-------------------|------|------|------|
| Absolute % | 1.1 | N.A. | N.A. |
| Rel. MSCI CHINA % | 1.7 | N.A. | N.A. |

Company Profile

New Oriental Education offers educational services. The Company offers foreign language training, test preparation courses for admissions and assessment tests in the PRC.

Tutoring elephant continues to fly

- **Tick up deferred revenue growth pointed to V shape recovery, with 30% plus 2H21E revenue growth.**
- **OMO hybrid strategy to push for 20% capacity expansion pa.**
- **Initiate BUY on 26% 3 years CAGR in core net profit.**

Tick up deferred revenue growth pointed to V shape recovery, with 30% plus 2H21E revenue growth. New Oriental Education has passed through the worst of COVID-19 and recovery is on way. End 1Q21 deferred revenue went up 18% qoq to USD1,563 mn, pinpointing stronger growth in coming quarters. New Oriental's summer promotion campaign saw 31% growth in promotion enrolment, with an improved student retention at 60% going into autumn. Given low base of comparison, 4Q21E yoy revenue growth shall pick up to 50% plus. We project 15% top line growth for FY21E, and 23% 3 years revenue CAGR to FY23E.

OMO hybrid strategy to push for 20% capacity expansion pa. The COVID-19 fostered industry consolidation and enabled New Oriental to grab more market share. More importantly, by adopting hybrid class format (OMO integrated education), New Oriental can effectively penetrate into satellite and lower tier cities. New Oriental has introduced pilot OMO in 20 cities, aiming to acquire students where it has less learning center coverage.

We forecast 26% 3 years CAGR in core net profit as we expect gradual gross margin recovery to 55.6% by FY23E, plus opex ratio edging down to 43.6%. We argue strong FCF justifies New Oriental's valuation premium, as tuitions are charged on pre-paid basis. In terms of price to FCF, New Oriental is trading at less demanding multiples of 35.8x/27.8x FY22E/23E.

Initiate BUY. New Oriental is trading at its high end of historical valuation range, which is justified on increased market share amid industry consolidation and sustained growth prospect on lower tier cities expansion. Given 7.2% discount rate and 3.5% terminal growth, we reach DCF based target price at USD1,665.5, which also represent 79.7x/53.1x FY21E/22E PER, and 117X/45.2X P/FCF. We see more visibility in 2H21E enrollment growth to serve as share price catalyst.

Exhibit 1: Forecast and Valuation

| Year to May (USD mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|----------------------------|--------|--------|--------|--------|--------|
| Revenue | 3,096 | 3,579 | 4,124 | 5,392 | 6,727 |
| Growth (%) | 26.5 | 15.6 | 15.2 | 30.7 | 24.8 |
| EBITDA | 416 | 550 | 605 | 862 | 1,123 |
| Growth (%) | 21.6 | 32.2 | 10.1 | 42.4 | 30.3 |
| Adjusted Net Profit | 323.7 | 436.0 | 445.6 | 687.3 | 880.5 |
| Growth (%) | 12.8 | 34.7 | 2.2 | 54.2 | 28.1 |
| Diluted EPS (HK\$) | 15.793 | 21.207 | 20.890 | 31.391 | 40.217 |
| EPS growth (%) | 12.5 | 34.3 | (1.5) | 50.3 | 28.1 |
| Change to previous EPS (%) | | | N.A. | N.A. | |
| Consensus EPS (HK\$) | | | 27.564 | 36.442 | |
| ROE (%) | 10.0 | 15.3 | 13.5 | 14.0 | 15.7 |
| P/E (x) | 83.5 | 62.2 | 63.1 | 42.0 | 32.8 |
| P/B (x) | 11.4 | 9.9 | 6.3 | 5.5 | 4.7 |
| Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Bloomberg, OP Research

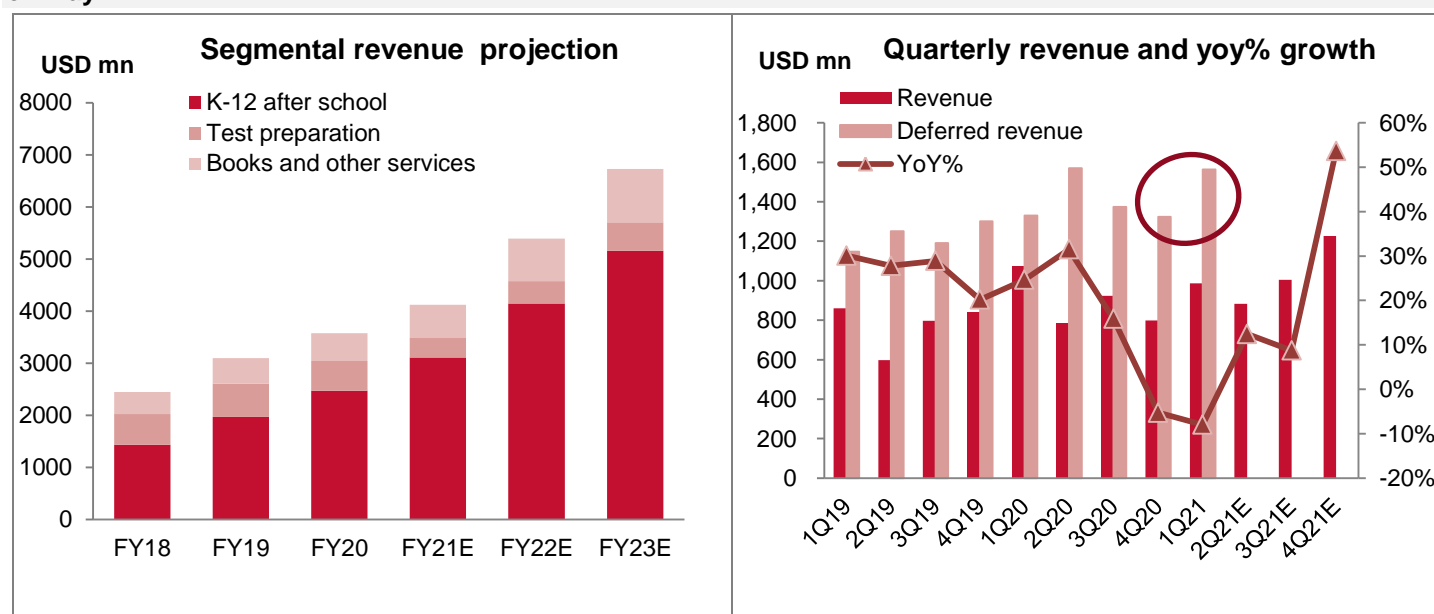
Worst of COVID-19 past, V shape recovery on way

Tick up deferred revenue growth pointed to V shape recovery, with 30% plus 2H21E revenue growth. We argue New Oriental Education has passed through the worst of COVID-19 and recovery is on way. Having reported a less than expected 8% drop in 1Q21 (3 months ended Aug) revenue, the Company guided 10% to 13% yoy topline growth for 2Q21. The moderate pace of recovery was attributable to school open being delayed to mid-September.

Nevertheless, end 1Q21 deferred revenue went up 18% qoq to USD1,563 mn, pinpointing stronger growth in coming quarters. Given low base of comparison together with exam season approaching, 4Q21E yoy revenue growth shall pick up to 50% plus. We project 15% top line growth for FY21E (year ended May), and 23% 3 years revenue CAGR to FY23E.

31% summer promotion student growth will feed into 2H21E revenue. K-12 after school enrollment growth in 1Q21 slowed to 22% yoy, due to temporarily delayed and shortened summer holiday in major cities, plus delayed resumption of offline class in Beijing due to the re-emergence of COVID-19. Nonetheless, New Oriental's summer promotion campaign saw 31% growth in enrolment, with an improved student retention at 60% going into autumn. Therefore, enrollment growth for K-12 after school will pick up to 30% plus for the remaining quarters of FY21E. We also believe the gross margin shall recover back to 55%, once the promotion discount expires.

Exhibit 2: K-12 after school to lead 23% revenue CAGR, uptick in deferred revenue suggested V shape recovery on way



Source: Company, OP Research

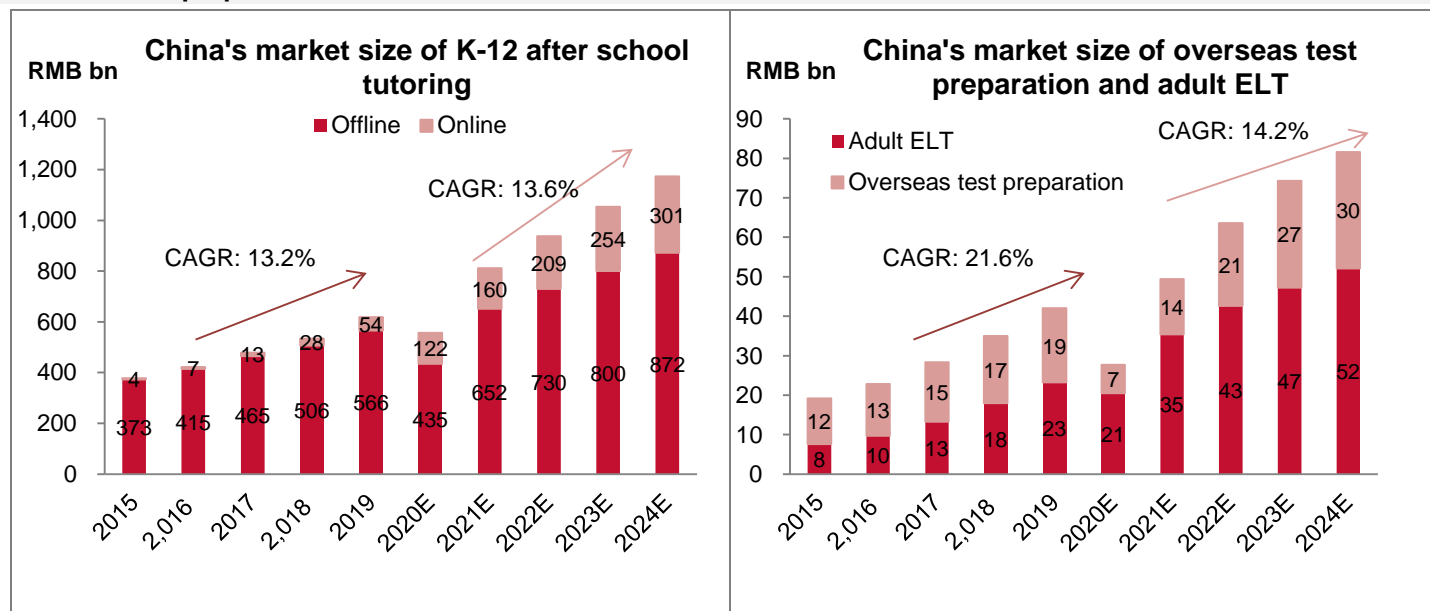
Sustainable growth on lower tier cities expansion

Deepen geographical penetration via OMO hybrid strategy. The COVID-19 fostered industry consolidation and enabled New Oriental to grab more market share, as lesser players were quitting the market. Moreover, higher demand for small group learning does favor industry leaders like New Oriental which has richer financial resources, and is more capable to offer nationwide standardized education.

More importantly, New Oriental's OMO integrated education ecosystem put together online-offline learning and hence maintained smooth and prompt teaching during the COVID-19 lockdown. By adopting hybrid class format, New Oriental can effectively penetrate into satellite and lower tier cities with fewer available learning centers, as illustrated by the recent rollout of OMO in Hangzhou helping attract students from nearby satellite cities. We view lower tier cities as green field given Gaokao competition is fierce across the country but lower tier cities are endowed with less resource. New Oriental has introduced pilot OMO model in 20 cities, aiming to acquire students where it has less learning center coverage. Driven by this hybrid and lower tier cities expansion, New Oriental is projected to grow class capacity at 20% p.a..

Test preparation to rebound by FY22E. Meanwhile, we expect modest pace of recovery for its overseas test preparation business (9% of FY21E revenue), as dragged by lingering COVID-19 and geopolitical uncertainty. Segmental revenue is expected to decrease 35% in FY21E, then followed by 16%/26% growth in FY22E/23E. We expect student enrollment to recover back to pre-COVID level only by FY24E.

Exhibit 3: Market growth projection: K-12 after school to sustain high growth as pushed by online tutoring, overseas test preparation to suffer setback due to COVID-19



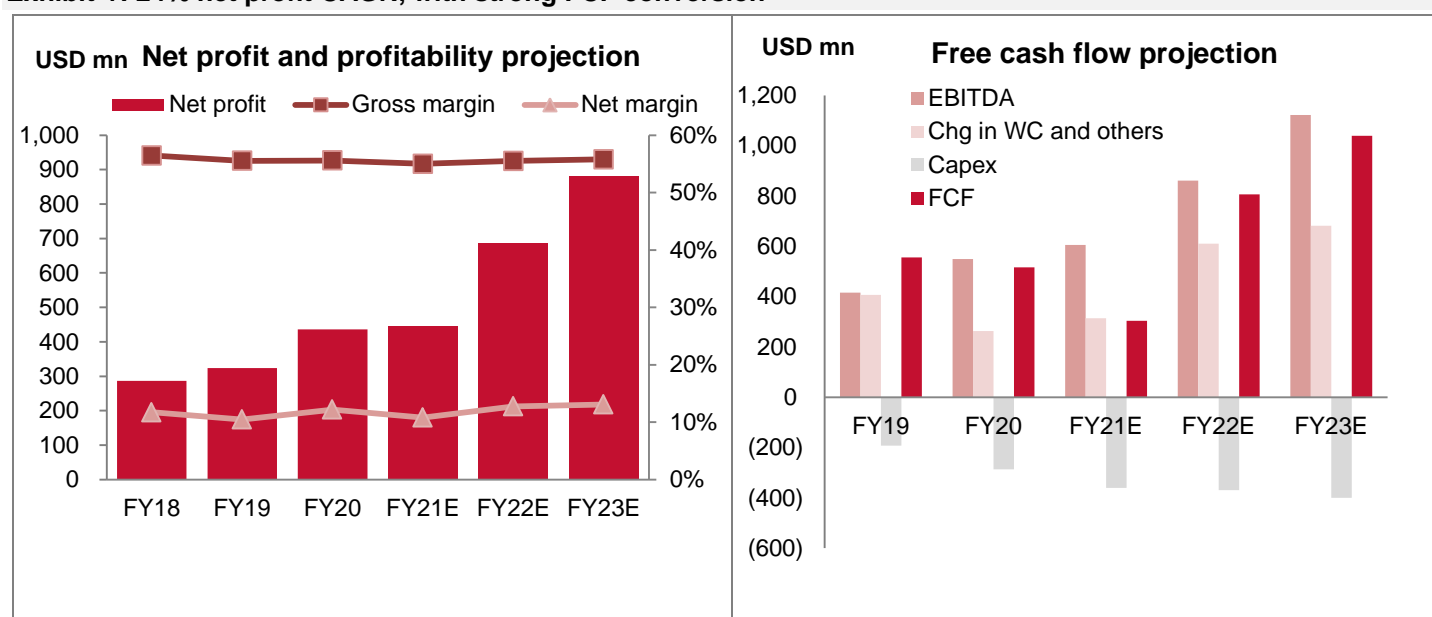
Source: Company Prospectus

Initiate BUY on strong free cash flow

We forecast 26% 3 years CAGR in core net profit (excluding investment and disposal gains, plus fair value changes) as we expect gradual gross margin recovery to 55.8% by FY23E, plus opex ratio edging down to 43.1% by FY23E from 44.45% in FY20.

Less demanding P/FCF at 35.8x FY22E. As tuitions are charged on pre-paid, New Oriental is capable of generating strong free cash flow, with FCF conversion rate at above 100% and FCF projected to surpass USD1,000 mn by FY23E. In terms of price to FCF, New Oriental is trading at less demanding multiples of 35.8x/27.8x FY22E/23E, compared with 42.0x/32.8x PER.

Exhibit 4: 24% net profit CAGR, with strong FCF conversion



Source: Company, OP Research

Valuation premium justified for after school education giant. Nationwide tutor chain, including New Oriental and TAL (TAL US), have been enjoying valuation premium over peers, which is attributable to less policy risk compared with K-12 education, plus strong brand equity. New Oriental is trading at its high end of historical valuation range, which is justified on increased market share amid industry consolidation and sustained growth prospect on lower tier cities expansion.

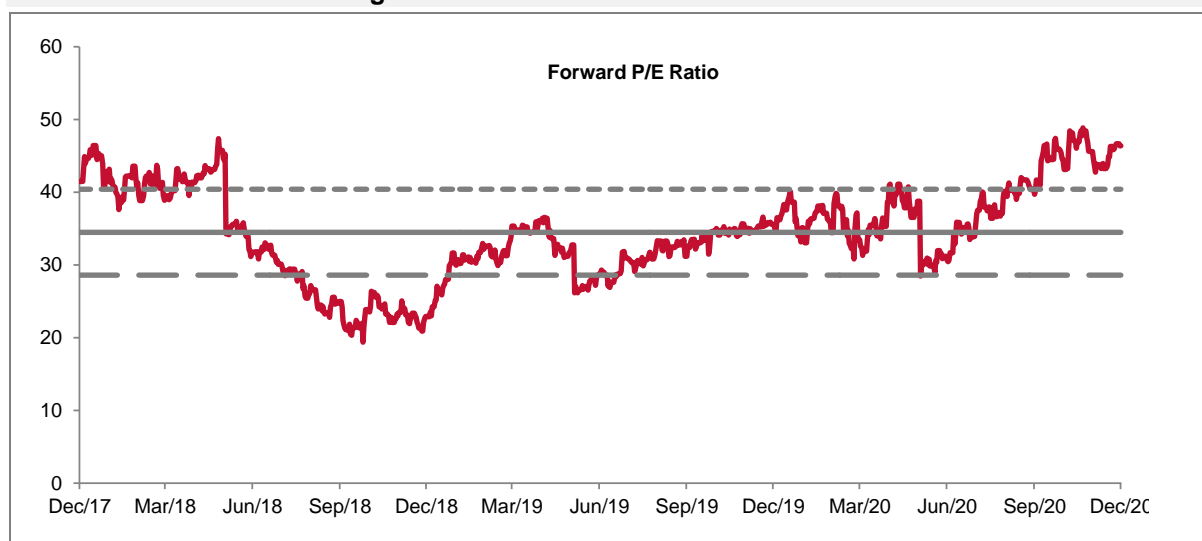
Given 7.2% discount rate and 3.5% terminal growth, we reach DCF based target price at USD1,665.5, which also represent 79.7x/53.1x FY21E/22E PER, and 117X/45.2X price to FCF. We see more visibility in 2H21E student enrollment growth to serve as share price catalyst.

Exhibit 5: DCF Valuation

| (USD mn) | FY21E | FY22E | FY23E | FY24E | FY25E | FY26E | FY27E | FY28E |
|---|----------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|
| EBITDA | 605 | 862 | 1,123 | | | | | |
| Chg in working cap | 314 | 610 | 682 | | | | | |
| Tax | (185) | (225) | (296) | | | | | |
| Capex | (430) | (440) | (470) | | | | | |
| FCF | 304 | 807 | 1,040 | 1,227 | 1,399 | 1,538 | 1,646 | 1,728 |
| YoY | -41.1% | 165.4% | 28.8% | 18.0% | 14.0% | 10.0% | 7.0% | 5.0% |
| DCF 21-28 | 6,763 | | | | | | | |
| PV (Terminal value) | 27,708 | | | | | | | |
| Net cash (debt) | 1,779 | | | | | | | |
| EV | 36,250 | | | | | | | |
| Terminal growth | 3.5% | | | | | | | |
| WACC | 7.2% | | | | | | | |
| Fully diluted no. of shares (m) | 169 | | | | | | | |
| Exchange rate (USDHKD) | 7.76 | | | | | | | |
| Fully diluted equity value/share (HK\$) | 1,665.5 | | | | | | | |

Source: OP Research

Exhibit 6: Historical PER range



Source: Bloomberg, OP Research

Investment risks

Policy risks related to private education

Tutoring education is relatively less exposed to regulatory risk compared with K-12 education providers. Yet the authority could tighten its grip on tutoring hours, tuition fee, and tuition pre-paid structure etc.

Unable to fill-up admission quota

New Oriental is planning 20% plus capacity expansion per annum. The Company may suffer margin pressure if unable to recruit enough students to ramp up new capacities. Pace of post COVID-19 recovery, weak economy and birth rate are uncertainties.

Higher-than-expected cost of converting independent college.

Teachers' salary is a major COGS component and hence unexpected hike in teachers' compensation due to labor shortage will weigh on gross margin.

Company background

History

1993 • First school was established by Michael Minhong Yu, Executive Chairman, in Beijing.

2001 • The Company established New Oriental China as a domestic holding company to act as the sponsor of its schools.

2004 • In August, the Company established the Company in the BVI, as an offshore holding company. The Company was subsequently domiciled to the Cayman Islands in March 2006.

2006 • In September, the Company completed an initial public offering and listed its ADSs on the NYSE under the symbol “EDU”.

2007 • In February, the Company completed an additional public offering of ADSs. In December, the Company established Elite Concept, the first of its three wholly-owned subsidiaries in Hong Kong, which now directly owns its wholly-owned subsidiaries in China.

2017 • In March, Beijing Xuncheng, a then majority-owned subsidiary of New Oriental China, which operated several online education platforms together with its subsidiaries, one of which is koolearn.com, listed its shares on the National Equities Exchange and Quotations in China for trading.

2018 • In February, Beijing Xuncheng completed a voluntary delisting from the National Equities Exchange and Quotations, after which it went through a series of restructuring transactions and became a variable interest entity controlled by Koolearn.

2019 • In March, Koolearn completed its initial public offering and listing of its shares (1797 HK) on the Main Board of the Hong Kong Stock Exchange.

2020 • In July, the Company completed an offering of US\$300 million aggregate principal amount of 2.125% notes due 2025.

Business profile

New Oriental commenced business in Beijing in 1993, when founder and Executive Chairman, Michael Minhong Yu, established its first school. New Oriental had since grown to become the largest private educational service provider in China. The Company is a holding company first incorporated in the BVI on August 18, 2004 and subsequently domiciled to and continued in the Cayman Islands on March 16, 2006.

New Oriental's wide range of educational programs include English and other foreign language training, overseas and domestic test preparation courses, all-subjects after school tutoring, primary and secondary school education, educational content and software as well as online education. New Oriental has had over 58.4 million student enrollments, including approximately 10.6 million enrollments in fiscal year 2020. As of fiscal year 2020, New Oriental had a network of 112 schools, 1,472 learning centers, 12 bookstores and 131 third-party distributors and over 42,400 teachers in 98 cities.

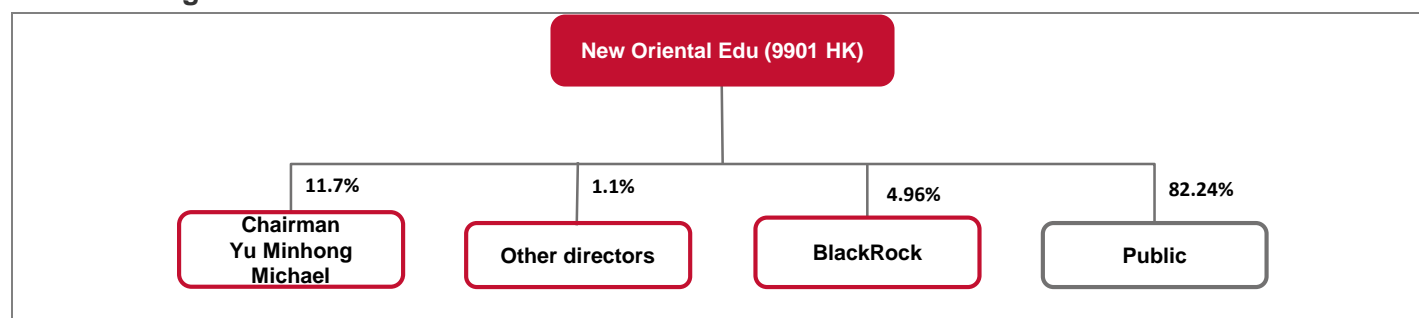
Financial Summary

| Year to May | FY19 | FY20 | FY21E | FY22E | FY23E | Year to May | FY19 | FY20 | FY21E | FY22E | FY23E |
|----------------------------------|----------------|-----------------|----------------|----------------|----------------|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Income Statement (USD mn) | | | | | | Ratios | | | | | |
| K-12 after school | 1,968 | 2,475 | 3,111 | 4,146 | 5,161 | Gross margin (%) - blended | 55.6 | 55.6 | 55.0 | 55.5 | 55.8 |
| Test preparation & others | 817 | 756 | 650 | 839 | 1,111 | Operating margin (%) | 9.7 | 11.1 | 10.1 | 11.7 | 12.7 |
| Books and other services | 311 | 348 | 363 | 407 | 455 | Net margin (%) | 7.7 | 11.5 | 12.3 | 12.7 | 13.1 |
| Turnover | 3,096 | 3,579 | 4,124 | 5,392 | 6,727 | Net adj. margin (%) | 10.5 | 12.2 | 10.8 | 12.7 | 13.1 |
| YoY% | 26.5 | 15.6 | 15.2 | 30.7 | 24.8 | Selling exp/sales (%) | 12.4 | 12.4 | 13.9 | 13.0 | 12.4 |
| COGS | (1,376) | (1,589) | (1,856) | (2,399) | (2,973) | Admin exp/sales (%) | 33.4 | 32.0 | 31.0 | 30.8 | 30.7 |
| Gross profit | 1,720 | 1,990 | 2,268 | 2,992 | 3,754 | Payout ratio (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross margin | 55.6% | 55.6% | 55.0% | 55.5% | 55.8% | Effective tax (%) | 37.2 | 28.9 | 27.0 | 27.0 | 27.0 |
| Other gain/losses | (82) | (23) | 60 | 0 | 0 | Total debt/equity (%) | 3.8 | 41.7 | 30.3 | 26.8 | 23.2 |
| Selling expenses | (384) | (445) | (573) | (701) | (834) | Net debt/equity (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Admin expenses | (1,034) | (1,146) | (1,278) | (1,661) | (2,065) | Current ratio (x) | 1.7 | 1.5 | 2.0 | 1.9 | 1.9 |
| Total opex | (1,418) | (1,591) | (1,852) | (2,362) | (2,899) | Quick ratio (x) | 1.7 | 1.5 | 2.0 | 1.9 | 1.9 |
| Operating profit (EBIT) | 302 | 399 | 417 | 631 | 854 | Inventory T/O (days) | 8 | 7 | 7 | 7 | 7 |
| Operating margin | 9.7% | 11.1% | 10.1% | 11.7% | 12.7% | AR T/O (days) | 0 | 0 | 0 | 0 | 0 |
| Interest Income | 98 | 116 | 161 | 216 | 256 | AP T/O (days) | 9 | 8 | 8 | 8 | 8 |
| Finance costs | (2) | (5) | (13) | (14) | (14) | Cash conversion cycle (days) | (1) | 0 | (0) | (0) | (0) |
| Profit after financing costs | 316 | 488 | 624 | 833 | 1,097 | Asset turnover (x) | 0.7 | 0.6 | 0.5 | 0.6 | 0.6 |
| Associated & JVs | 0 | 0 | 0 | 0 | 0 | Financial leverage (x) | 1.8 | 2.1 | 2.1 | 2.0 | 2.0 |
| Pre-tax profit | 316 | 488 | 624 | 833 | 1,097 | EBIT margin (%) | 9.7 | 11.1 | 10.1 | 11.7 | 12.7 |
| Tax | (86) | (134) | (185) | (225) | (296) | Interest burden (x) | 1.0 | 1.2 | 1.5 | 1.3 | 1.3 |
| Minority interests | 10 | 58 | 66 | 79 | 80 | Tax burden (x) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Net profit | 238 | 413 | 506 | 687 | 881 | Return on equity (%) | 10.0 | 15.3 | 13.5 | 14.0 | 15.7 |
| Net margin | 7.7% | 11.5% | 12.3% | 12.7% | 13.1% | Year to May | FY19 | FY20 | FY21E | FY22E | FY23E |
| One-off items | (86) | (23) | 60 | 0 | 0 | Balance Sheet (USD mn) | | | | | |
| Adj. net profit | 324 | 436 | 446 | 687 | 881 | Net PPE | 532 | 672 | 850 | 998 | 1,141 |
| Adj. net margin | 10.5% | 12.2% | 10.8% | 12.7% | 13.1% | Land use rights & lease | 6 | 1,432 | 1,432 | 1,432 | 1,432 |
| YoY% | 12.8% | 34.7% | 2.2% | 54.2% | 28.1% | Goodwill & intangible assets | 94 | 91 | 154 | 215 | 273 |
| EBITDA | 416 | 550 | 605 | 862 | 1,123 | Long term investments | 405 | 431 | 431 | 431 | 431 |
| EBITDA margin | 13.4% | 15.4% | 14.7% | 16.0% | 16.7% | Deferred tax | 61 | 63 | 65 | 67 | 70 |
| Adj. EPS (HK\$) | 15.793 | 21.207 | 20.890 | 31.391 | 40.217 | Other non-current assets | 82 | 111 | 116 | 121 | 126 |
| YoY% | 12.5% | 34.3% | -1.5% | 50.3% | 28.1% | Non-current assets | 1,180 | 2,800 | 3,048 | 3,264 | 3,473 |
| DPS (HK\$) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | Inventories | 29 | 31 | 37 | 49 | 61 |
| Year to May | FY19 | FY20 | FY21E | FY22E | FY23E | Rece and prepayments | 3 | 4 | 5 | 7 | 9 |
| Cash Flow (USD mn) | | | | | | Short term investments | 1,669 | 2,318 | 2,500 | 3,000 | 3,500 |
| EBITDA | 416 | 550 | 605 | 862 | 1,123 | Other current assets | 242 | 203 | 247 | 324 | 404 |
| Chg in working cap | 1,973 | 470 | 254 | 610 | 682 | Cash | 1,523 | 1,200 | 3,179 | 3,683 | 4,457 |
| Others | (1,566) | (207) | 60 | 0 | 0 | Current assets | 3,466 | 3,756 | 5,969 | 7,062 | 8,430 |
| Tax | (17) | (9) | (185) | (225) | (296) | AP | 34 | 33 | 41 | 53 | 65 |
| Net cash from operations | 806 | 804 | 734 | 1,247 | 1,510 | Accruals & other payables | 577 | 635 | 742 | 971 | 1,211 |
| Capex | (192) | (287) | (360) | (370) | (400) | Tax | 94 | 101 | 0 | 0 | 0 |
| Goodwill and intangible | (57) | (2) | (70) | (70) | (70) | Bank loans & leases | 0 | 0 | 0 | 0 | 0 |
| Short term investments | 0 | 0 | (182) | (500) | (500) | Deferral income | 1,301 | 1,324 | 1,784 | 2,224 | 2,727 |
| Others | (325) | (968) | 0 | 0 | 0 | Other current liabilities | 0 | 386 | 420 | 440 | 460 |
| Investing cash | (575) | (1,256) | (612) | (940) | (970) | Current liabilities | 2,006 | 2,479 | 2,987 | 3,687 | 4,463 |
| FCF | 556 | 516 | 304 | 807 | 1,040 | Bank loans | 96 | 118 | 300 | 300 | 300 |
| Issue of shares | 0 | 0 | 1,305 | 0 | 0 | Leased liabilities | 0 | 1,078 | 1,100 | 1,100 | 1,100 |
| Proceeds from convertible | 0 | 0 | 0 | 0 | 0 | Deferred tax & others | 19 | 12 | 15 | 16 | 17 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | Non-current liabilities | 115 | 1,208 | 1,415 | 1,416 | 1,417 |
| Net interest income | 0 | 0 | 148 | 202 | 242 | Total net assets | 2,525 | 2,870 | 4,615 | 5,223 | 6,024 |
| Net change in loans | 96 | 1,099 | 204 | 0 | 0 | Total Equity | 2,525 | 2,870 | 4,615 | 5,223 | 6,024 |
| Others | 170 | (1,117) | 199 | (6) | (7) | Shareholder's equity | 2,361 | 2,733 | 4,544 | 5,232 | 6,112 |
| Financing cash | 267 | (18) | 1,857 | 196 | 235 | Share capital | 431 | 458 | 1,763 | 1,763 | 1,763 |
| Net change in cash | 498 | (470) | 1,979 | 504 | 775 | Reserves | 1,930 | 2,276 | 2,781 | 3,469 | 4,349 |
| Exchange rate or other Adj | (66) | 147 | 0 | 0 | 0 | NCI | 164 | 137 | 71 | (9) | (89) |
| Opening cash | 1,091 | 1,523 | 1,200 | 3,179 | 3,683 | BVPS (HK\$) | 115.73 | 133.88 | 208.79 | 240.36 | 279.17 |
| Closing cash | 1,523 | 1,200 | 3,179 | 3,683 | 4,457 | Total borrowings | 96 | 1,196 | 1,400 | 1,400 | 1,400 |
| CFPS (HK\$) | 24.279 | (22.850) | 92.778 | 22.997 | 35.390 | Net cash/(debts) | 1,426 | 4 | 1,779 | 2,283 | 3,057 |
| | | | | | | Year to May | FY19 | FY20 | FY21E | FY22E | FY23E |
| | | | | | | Key assumption | | | | | |
| | | | | | | Student enrollment (mn) | | | | | |
| | | | | | | K-12 after school | 7.5 | 9.7 | 12.9 | 16.6 | 21.1 |
| | | | | | | Test preparation & others | 0.866 | 0.851 | 0.560 | 0.650 | 0.820 |

Source: Company, OP Research

Appendix– Shareholding and management

Shareholding structure



Source: Company, OP Research

Management profile

| Name | Age | Position | Description |
|------------------------------|-----|--------------------------------------|---|
| Mr. Michael Minhong Yu (俞敏洪) | 57 | Director and Executive Chairman | Mr. Michael Minhong Yu is the founder of New Oriental and has served as the Company's Chairman since August 2001. He was also the Chief Executive Officer from 2001 to September 2016. Mr. Yu also serves as Standing Committee Member of the Central Committee of the China Democratic League. Formerly Mr. Yu served as Vice Chairman of China Youth Entrepreneurs Association. Prior to founding its first school in 1993, Mr. Yu was an English instructor at Peking University from 1985 and 1991. Mr. Yu currently was a director of Sunlands Technology Group (NYSE:STG) from August 2017 to June 2019. Mr. Yu received his bachelor's degree in English from Peking University. |
| Mr. Chenggang Zhou (周成剛) | 58 | Director and Chief Executive Officer | Mr. Chenggang Zhou has served as Director since November 2010 and Chief Executive Officer since September 2016. Mr. Zhou joined New Oriental in 2000 and has held multiple positions in the Company since then, including President, Executive President for domestic business, Executive Vice President, Vice President and President of Beijing and Shanghai New Oriental Schools. Prior Mr. Zhou was a correspondent for the Asia Pacific region and a program host at BBC. Mr. Zhou received his bachelor's degree in English from Suzhou University in China and his master's degree in communications from Macquarie University, Australia.. |
| Mr. Zihui Yang (楊志輝) | 46 | Chief Financial Officer | Mr. Zihui Yang has served as Chief Financial Officer since April 2015. Prior to that, Mr. Yang held multiple positions after he joined New Oriental in April 2006, including Vice President of finance, Deputy Director of president office and senior financial manager. Prior to Mr. Yang served as the financial director of Beijing Hua De Xin Investment from July 2002 to April 2006. From August 1997 and May 2002, Mr. Yang worked for PricewaterhouseCoopers as a senior auditor. Mr. Yang received his bachelor's degree in economics from Guanghua School of Management of Peking University.. |

Source: Company, OP Research

Exhibit 7: Peer Group Comparison

| Company | Ticker | Price | 3-mth avg | | | PER FY1 | PER FY2 | EPS FY1 | EPS FY2 | 3-Yr EPS Cagr (%) | PEG (x) | P/B Hist (x) | P/B FY1 (x) | EV/Rev Hist | EV/Rev Cur Yr | Net gearing Hist (%) | Gross margin Hist (%) | Net margin Hist (%) | ROE Hist (%) | ROE FY1 (%) | Sh px 1-mth % | Sh px 3-mth % |
|-----------------------|-----------|-----------|-----------------|-------------|--------------|---------|---------|---------|---------|-------------------|---------|--------------|-------------|-------------|---------------|----------------------|-----------------------|---------------------|--------------|-------------|---------------|---------------|
| | | | Mkt cap (US\$m) | t/o (US\$m) | PER Hist (x) | | | | | | | | | | | | | | | | | |
| New Oriental Edu | 9901 HK | 1,319.00 | 28,734 | N/A | 62.2 | 63.1 | 42.0 | 2.2 | 54.2 | 26.4 | 2.39 | 9.85 | 6.32 | 7.5 | 6.4 | Net cash | 55.6 | 12.2 | 15.3 | 13.5 | 1.2 | N/A |
| HSI | | 26,568.49 | | | 15.1 | 14.2 | 12.0 | 6.2 | 18.6 | 13.0 | 1.09 | 1.15 | 1.20 | | | | | | 7.6 | 8.4 | (1.2) | 14.1 |
| HSCEI | | 10,449.17 | | | 10.4 | 10.5 | 9.2 | (0.2) | 13.2 | 8.4 | 1.24 | 1.15 | 1.16 | | | | | | 11.1 | 11.1 | (3.2) | 12.6 |
| CSI300 | | 5,042.94 | | | 19.4 | 17.7 | 15.0 | 9.3 | 17.9 | | | 2.30 | 2.20 | | | | | | 11.9 | 12.4 | 1.2 | 9.8 |
| Domestic peers | | | | | | | | | | | | | | | | | | | | | | |
| Adjusted sector avg* | | | | | 35.5 | 33.6 | 30.9 | 62.5 | 31.6 | 38.3 | 0.5 | 6.9 | 5.9 | 10.1 | 7.4 | 1.3 | 55.6 | 16.5 | 13.7 | 15.8 | (8.6) | (6.5) |
| Tal Educatio-Adr | TAL US | 68.00 | 40,822 | 188.6 | N/A | 126.4 | 61.3 | N/A | 106.3 | (317.6) | N/A | 15.7 | 14.7 | 12.1 | 9.1 | 0.0 | 55.1 | (3.4) | 1.3 | 10.0 | (7.0) | (9.0) |
| Offcn Educatio-A | 002607 CH | 34.33 | 32,415 | 58.1 | 118.4 | 83.5 | 60.5 | 41.7 | 38.0 | 37.1 | 2.2 | 64.2 | 32.9 | 22.4 | 16.0 | 0.0 | 58.5 | 19.7 | 74.3 | 49.4 | (4.4) | 5.0 |
| China Education | 839 HK | 14.50 | 4,022 | 6.3 | 39.1 | 19.9 | 16.0 | 96.6 | 24.1 | 41.4 | 0.5 | 2.9 | 2.7 | 10.3 | 7.3 | 10.7 | 59.8 | 23.6 | 8.3 | 14.0 | (3.7) | 2.1 |
| Hope Education G | 1765 HK | 2.09 | 1,950 | 5.9 | 27.9 | 15.3 | 12.7 | 82.3 | 20.9 | 40.5 | 0.4 | 2.1 | 2.0 | 8.4 | 5.2 | 6.4 | 49.6 | 29.1 | 8.9 | 13.6 | 0.0 | (14.3) |
| China Kepei Educ | 1890 HK | 5.04 | 1,310 | 1.5 | 18.5 | 14.0 | 11.0 | 31.7 | 27.4 | 24.7 | 0.6 | 3.0 | 2.6 | 11.2 | 8.9 | 0.0 | 67.5 | 63.9 | 21.6 | 19.0 | (15.4) | (16.6) |
| Scholar Educatio | 1769 HK | 12.78 | 916 | 2.9 | 56.5 | 35.3 | 23.9 | 60.0 | 47.5 | 47.6 | 0.7 | 10.8 | 7.4 | 8.6 | 6.6 | 0.0 | 43.3 | 13.3 | 28.4 | 22.2 | (20.8) | (38.0) |

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

Source: Bloomberg, OP Research

Our recent reports

| Date | Company / Sector | Stock Code | Title | Rating | Analyst |
|------------|------------------|------------|--|--------|---------------------|
| 23/12/2020 | Anta Sports | 2020 | Precor disposal in plan of Amer brands restructuring | HOLD | Megan Jin |
| 21/12/2020 | Scholar Edu | 1769 | Extraordinary growth expected to continue | NR | John Siah |
| 14/12/2020 | CG Services | 6098 | Placement for strategic deployment | BUY | Megan Jin |
| 09/12/2020 | Edvantage Group | 382 | Expansion begins | BUY | Megan Jin |
| 08/12/2020 | HKTv | 1137 | Satisfactory November GMV | BUY | Kevin Tam/Megan Jin |
| 26/11/2020 | China Edu Group | 839 | Robust growth outlook on surging new students | BUY | John Siah |
| 20/11/2020 | China Edu Group | 839 | A fast rising education giant grabbing ample opportunities in China education market | BUY | John Siah |
| 19/11/2020 | Ausnutria Dairy | 1717 | More to expect from FY21E | BUY | Megan Jin |
| 11/11/2020 | Edvantage Group | 382 | Robust organic growth with more boosters ahead | BUY | Megan Jin |
| 10/11/2020 | HKTv | 1137 | All fronts speeding up | BUY | Kevin Tam/Megan Jin |
| 05/11/2020 | TCL Electronics | 1070 | Falcom Network as a cream on top | BUY | Kevin Tam |
| 02/11/2020 | Razer | 1337 | Winner from "stay-at-home" life | NR | John Siah |
| 27/10/2020 | Greentown Mgmt | 9979 | New treasures in the property market | BUY | John Siah |
| 21/10/2020 | Li-Ning | 2331 | Resumed store openings bodes full recovery | BUY | Megan Jin |
| 19/10/2020 | Xtep Intl | 1368 | Recovery speeded up | BUY | Megan Jin |
| 16/10/2020 | Anta Sports | 2020 | More visible outlook of full revival | HOLD | Megan Jin |
| 16/10/2020 | Kerry Logistics | 636 | Grabbing opportunities in spite of COVID headwind | NR | Kevin Tam |
| 15/10/2020 | Edvantage Group | 382 | Room of more earnings surprise | BUY | Megan Jin |
| 08/10/2020 | Innovent | 1801 | PD-1 front runner setting off | BUY | Kevin Tam |
| 01/09/2020 | Yeahka | 9923 | 1H20 soft patch, but still encouraging growth in technology services | HOLD | Kevin Tam |
| 31/08/2020 | Xtep Intl | 1368 | More confident on new brands and 2H20E recovery | BUY | Megan Jin |
| 28/08/2020 | HKTv | 1137 | Management vision beyond domestic e commerce | BUY | Kevin Tam/Megan Jin |
| 27/08/2020 | CG Services | 6098 | Leader aims higher | BUY | Megan Jin |
| 26/08/2020 | Anta Sports | 2020 | Less foreseeable catalysts | HOLD | Megan Jin |
| 24/08/2020 | GT Services | 2869 | 1H20 steady on track | HOLD | Megan Jin |
| 21/08/2020 | A-Living | 3319 | Undervalued acquisition synergies | BUY | Megan Jin |
| 20/08/2020 | Sunny Optical | 2382 | Less convincing earnings outlook | HOLD | Kevin Tam |

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| | |
|---------------------------|--|
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| Hold (H) | We expect this stock to perform in line with the relevant benchmark over the next 12 months. |
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