

## Edvantage Group Holdings Limited

### Grooming Greater Bay Area's Next Generation of Talent, Initiate with Buy

**We believe Edvantage is operating in a regulatory sweet spot and the stock will re-rate when the private education regulation overhang is removed. Valuations remains attractive at ~17x FY21E P/E for a ~29% net profit CAGR stock, in our view. We initiate coverage of Edvantage with a Buy Rating and a Target Price of HK\$9.93/sh, offering 33% upside.**

#### Operating in a Regulatory Sweet Spot, initiate with Buy

We believe Edvantage is entering a robust growth period during FY2021E-FY2023E, driven by new campus opening and profit margin expansion through royalty fee savings. We expect the company to deliver a net profit CAGR of 29% p.a. during FY20-FY23E. With the stock trading at ~17x FY21E P/E, we believe market remains concern with the regulatory overhang and the stock will re-rate when more clarity on the private education regulations are released. We believe that Edvantage is operating in a regulatory sweet spot, offering private higher-educational institutions in Greater Bay Area. We initiate with a Buy Rating with a Target Price of HK\$9.93/sh.

#### A Global Education Enterprise rooted in Greater Bay Area

Edvantage Group operates the Huashang College and Huashang Vocational College in the Greater Bay Area, with campuses across Zengcheng, Zhaoqing and Jiangmen. They also have operations in Australia (Edvantage Institute Australia), and Global Business College Australia) and Singapore (Edvantage Institute Singapore). As of FY20, Edvantage has 35,453 students enrolled in their schools. As they ramp up their newly built Zhaoqing campus together with the Jiangmen campus in the pipeline, we expect the total capacity to exceed 60,000 over the next 3-5 years.

#### ROE to accelerate amid revenue growth and margin expansion

We estimate the expansion in campus capacity will drive revenues higher amid more student enrolment, we expect the net profit growth to accelerate even further amid cost savings from Royalty Fees from FY21E onwards. The company's strategic cooperation with Guangdong University of Finance and Economics will end during FY21E, and we expect it will result in RMB75m of cost savings per year Royalty Fees by FY24E. We estimate that this will drive its net margins up by 5 percent points spread across a four year period from FY21E. As a result, we expect ROE to expand to 21% by FY23E from 16% of FY20.

#### On track to generate 16% ROIC in newly acquired Xinhui Campus

Edvantage was listed on the Hong Kong Stock Exchange in 2019, having raised HK\$629.3m in gross proceeds. We believe management has been deploying the capital effectively to drive growth, acquiring the Xinhui Campus site in Jiangmen in June 2020. We estimate the total CAPEX required to be ~RMB600m, and the campus can accommodate ~12,000 students. Assuming they can generate RMB16,000 revenue per student on a 41% EBITDA margin, we estimate that they would achieve a ~16% ROIC when the campus reaches its full capacity.

#### Valuation attractive with regulation overhang removed

With the stock currently trading at ~17x FY21E P/E, we believe the valuations are attractive. We initiate with a target price of HK\$9.93/sh, which is derived based on a DCF-Based model. Our target price offers 33% upside to current share price levels, and implies a target FY21E P/E of 22.7x.

Stock code: 0382.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>9.93</b>
Current price (HK\$, 20 Nov 2020)	7.47
Upside/downside %	33%
Market cap (HK\$ m)	7,607
Market cap (US\$ m)	981
Avg daily turnover (US\$ m)	2.50

Source: Bloomberg, AMTD Research

#### Key forecasts

(RMBm)	FY20	FY21E	FY22E	FY23E
Revenue	800	982	1,209	1,471
yoy %	13.6%	22.8%	23.1%	21.7%
Gross Profit	396	496	630	785
yoy %	15.7%	25.2%	26.9%	24.7%
Core Net Profit	291	387	497	633
yoy %	34.5%	32.8%	28.4%	27.4%
Gross margin	49.5%	50.5%	52.1%	53.3%
Net	Net Cash	Net Cash	Net Cash	Net Cash
EPS	0.29	0.38	0.49	0.62
DPS	0.04	0.11	0.15	0.19
BPS	1.80	2.07	2.41	2.85

Source: Company data, AMTD Equity Research

#### Valuation

	FY20	FY21E	FY22E	FY23E
P/E	22.4	16.9	13.2	10.3
P/BV	3.6	3.1	2.7	2.3
Div. yield	0.5%	1.3%	1.7%	2.1%
ROE	15.9%	18.4%	20.3%	21.9%
ROA	8.3%	9.4%	10.6%	11.7%

Source: Bloomberg, AMTD Equity Research

#### Share price performance



Source: Bloomberg

**Jacky Chan**  
**Analyst**

+852 3163 3323

[jacky.chan@amtdgroup.com](mailto:jacky.chan@amtdgroup.com)

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## Financial Summary

**Figure 1: Edvantage Group Financial Summary**

PnL, RMB '000	FY2019	FY2020	FY2021E	FY2022E	FY2023E	Balance Sheet, RMB '000	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Revenue	704,239	800,092	982,256	1,209,051	1,471,210	Cash and cash equivalents	1,402,220	1,185,689	1,203,282	1,256,998	1,866,360
COGS	(361,877)	(403,848)	(485,988)	(579,448)	(686,340)	Short-term investments	252,666	88,118	88,118	88,118	88,118
<b>Gross Profit</b>	<b>342,362</b>	<b>396,244</b>	<b>496,269</b>	<b>629,603</b>	<b>784,870</b>	Accounts receivable, net	31,805	57,855	57,855	57,855	57,855
General and Admin expenses	(127,814)	(117,732)	(124,021)	(145,393)	(162,206)	Amount due from related parties	2,330	2,981	2,981	2,981	2,981
<b>Income from Operations</b>	<b>214,548</b>	<b>278,512</b>	<b>372,248</b>	<b>484,210</b>	<b>622,664</b>	Prepayments and others	5,743	929	929	929	929
Interest expense	(27,725)	(16,063)	(16,997)	(16,997)	(16,997)	<b>Total current assets</b>	<b>1,694,764</b>	<b>1,335,572</b>	<b>1,353,165</b>	<b>1,406,881</b>	<b>2,016,243</b>
Interest income	4,565	19,542	19,542	19,542	19,542	Property and equipment, net	1,180,097	1,660,224	2,700,046	3,213,986	3,301,806
Other Income	22,389	28,716	28,716	28,716	28,716	Land use rights	243,855	45,700	45,700	45,700	45,700
Other Gains & Losses	29,413	(2,737)	(2,737)	(2,737)	(2,737)	Other non-current assets	7,880	486,893	28,036	28,036	28,036
<b>Profit before tax</b>	<b>243,190</b>	<b>307,970</b>	<b>400,772</b>	<b>512,735</b>	<b>651,188</b>	<b>Total non-current assets</b>	<b>1,431,832</b>	<b>2,192,817</b>	<b>2,773,782</b>	<b>3,287,722</b>	<b>3,375,542</b>
Income tax expense	(28,136)	(16,483)	(13,572)	(15,448)	(17,769)	<b>Total assets</b>	<b>3,126,596</b>	<b>3,528,389</b>	<b>4,126,948</b>	<b>4,694,602</b>	<b>5,391,785</b>
<b>Net profit</b>	<b>215,054</b>	<b>291,487</b>	<b>387,200</b>	<b>497,286</b>	<b>633,419</b>	Short-term borrowings	166,399	290,434	290,434	290,434	290,434
Shareholders' Profit	216,762	291,487	387,200	497,286	633,419	Contract Liabilities & Trade Payables	688,398	627,985	955,504	1,175,058	1,428,847
Minority Interest	5,756	-	-	-	-	Deferred revenue, current	6,458	13,051	13,051	13,051	13,051
<b>Core Net Profit</b>	<b>216,762</b>	<b>291,487</b>	<b>387,200</b>	<b>497,286</b>	<b>633,419</b>	Taxes payable	39,822	48,169	48,169	48,169	48,169
EPS - basic	0.28	0.29	0.38	0.49	0.62	Other Payables	117,737	112,571	112,571	112,571	112,571
EPS - core	0.27	0.29	0.38	0.49	0.62	<b>Total current liabilities</b>	<b>1,018,814</b>	<b>1,092,210</b>	<b>1,419,729</b>	<b>1,639,283</b>	<b>1,893,072</b>
DPS - basic	-	0.04	0.11	0.15	0.19	Lease Liabilities	-	25,930	25,930	25,930	25,930
BVPS	1.58	1.80	2.07	2.41	2.85	Bank Borrowings	389,600	456,670	456,670	456,670	456,670
						Deferred Tax Payables & Others	112,522	118,651	118,651	118,651	118,651
						<b>Total non-current liabilities</b>	<b>502,122</b>	<b>601,251</b>	<b>601,251</b>	<b>601,251</b>	<b>601,251</b>
						Total shareholders' equity	1,605,660	1,834,928	2,105,968	2,454,068	2,897,462
						Minority Interests	-	-	-	-	-
						<b>Total Equity</b>	<b>1,605,660</b>	<b>1,834,928</b>	<b>2,105,968</b>	<b>2,454,068</b>	<b>2,897,462</b>
						<b>Total Liabilities &amp; Equity</b>	<b>3,126,596</b>	<b>3,528,389</b>	<b>4,126,948</b>	<b>4,694,602</b>	<b>5,391,785</b>

Cash Flow Statement, RMB '000	FY2019	FY2020	FY2021E	FY2022E	FY2023E	Key Ratios	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Net income	222,518	291,487	387,200	497,286	633,419	GP Margins	48.6%	49.5%	50.5%	52.1%	53.3%
<b>Operating CF before Working Cap</b>	<b>303,428</b>	<b>351,461</b>	<b>471,575</b>	<b>611,187</b>	<b>773,439</b>	Net Margins	30.5%	36.4%	39.4%	41.1%	43.1%
Net Changes in Working Cap	130,425	(58,377)	327,519	219,554	253,789	Core Attr Net Margins	30.8%	36.4%	39.4%	41.1%	43.1%
<b>Net Operating Cashflows</b>	<b>423,113</b>	<b>293,084</b>	<b>799,094</b>	<b>830,741</b>	<b>1,027,228</b>	ROE	13.5%	15.9%	18.4%	20.3%	21.9%
Net Investing Cashflows	432,835	(416,702)	(665,340)	(627,840)	(227,840)	ROA	6.9%	8.3%	9.4%	10.6%	11.7%
Net Financing Cashflows	331,788	(42,914)	(116,160)	(149,186)	(190,026)	Net Debt / Total Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Net Cash Flows	1,187,736	(166,531)	17,593	53,715	609,362	Total Assets / Total Equity	194.7%	192.3%	196.0%	191.3%	186.1%
						Current ratio	166.3%	122.3%	95.3%	85.8%	106.5%
						Asset Turnover	23%	23%	24%	26%	27%

Source: HKEx, Company data, AMTD Research

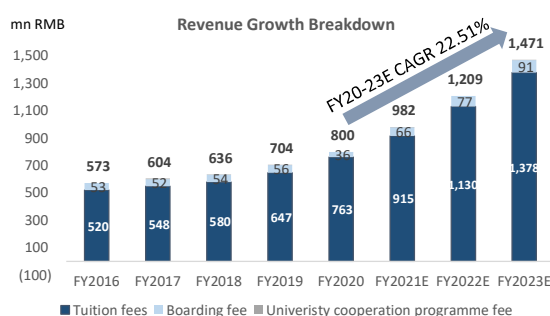
## Investment Highlights

We believe Edvantage is operating in a regulatory sweet spot and the stock will re-rate when the private education regulation overhang is removed. Valuations remains attractive at ~17x FY21E P/E for a ~29% net profit CAGR stock, in our view. We initiate coverage of Edvantage with a Buy Rating and a Target Price of HK\$9.93/sh, offering 33% upside.

### Operating in a Regulatory Sweet Spot, initiate with Buy

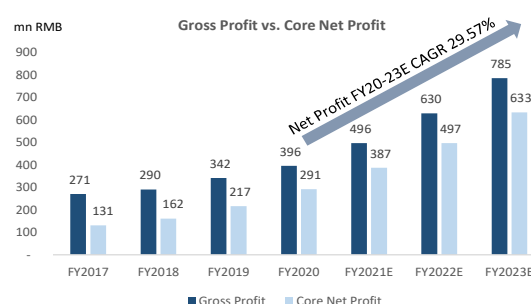
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**Figure 2: We expect revenue growth to be driven by new campus opening and tuition fees increase**



Source: Company Data, AMTD Research

**Figure 3: Net Profit CAGR to accelerate in FY21E-23E amid net profit margin expansion**



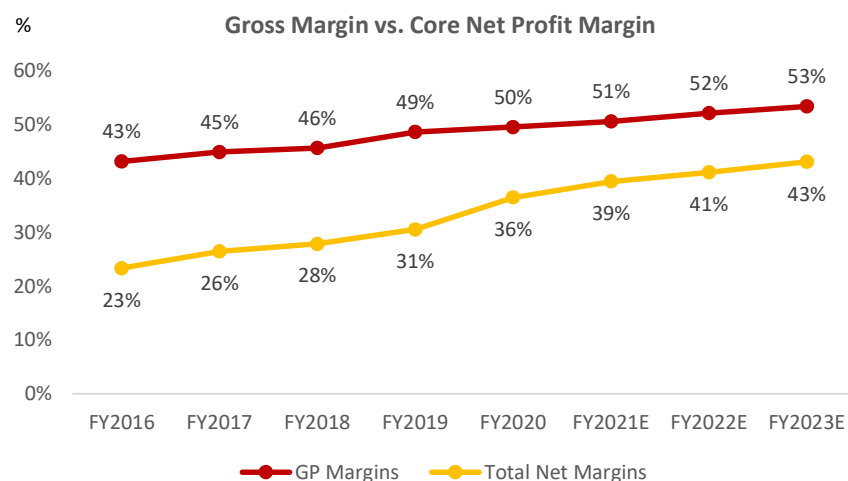
Source: Company data, AMTD Research

### A Global Education Enterprise rooted in Greater Bay Area

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### ROE to accelerate amid revenue growth and margin expansion

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**Figure 4: Profit Margins will expand amid savings from Royalty Fees**

Source: Company data, AMTD Research

**On track to generate 16% ROIC in newly acquired Xinhui Campus**

Edvantage was listed on the Hong Kong Stock Exchange in 2019, having raised HK\$629.3m in gross proceeds. We believe management has been deploying the capital effectively to drive growth, acquiring the Xinhui Campus site in Jiangmen in June 2020. We estimate the total CAPEX required to be ~RMB600m, and the campus can accommodate ~12,000 students. Assuming they can generate RMB16,000 revenue per student on a 41% EBITDA margin, we estimate that they would achieve a ~16% ROIC when the campus reaches its full capacity.

**Figure 5: IPO Proceeds deployed efficiently to generate ~16% ROIC**

Xinhui Campus		Total	Plot Ratio	
Site Area		455,652		
GFA (Min)		318,956	0.70	
GFA (Max)		683,478	1.50	
		RMB '000	RMB/sqm (Max)	RMB/sqm (Min)
Land Cost		190,010	596	278
Construction Cost		293,600	921	430
Average Revenue / Student		16,000		
No. of Students		12,000		
Est. Stabilised Rev Per Year (RMBm)		192		
Est. EBITDA Margin		41%		
EBITDA (RMBm)		78		
<b>ROIC</b>		<b>16%</b>		

Source: Company Data, AMTD Research

**Valuation attractive with regulation overhang removed**

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Figure 6: Peers Valuation Comparison

Date	20/11/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(HKD mn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
<b>Higher Education</b>										
839 HK	China Education	14.94	32,124	28.0x	21.5x	17.4x	3.5x	3.0x	2.7x	1.5%
6169 HK	China Yuhua Education	6.99	23,344	22.2x	15.9x	13.7x	4.7x	4.0x	3.4x	2.3%
1765 HK	Hope Education	2.19	15,842	20.9x	15.1x	13.1x	2.4x	2.2x	1.9x	1.6%
1890 HK	China Kepei Education	5.88	11,850	16.6x	13.1x	11.1x	3.2x	2.8x	2.3x	2.4%
382 HK	Edvantage Group	7.47	7,607	23.6x	16.6x	13.1x	3.7x	3.0x	2.5x	0.7%
2001 HK	China New Higher	4.75	7,531	11.4x	9.6x	8.0x	2.2x	1.9x	1.5x	2.5%
1569 HK	Minsheng Education	1.16	4,893	12.2x	8.2x	7.2x	0.9x	0.8x	0.8x	2.6%
2779 HK	China Xinhua Education	2.53	4,070	10.9x	9.3x	8.0x	1.2x	1.0x	0.9x	2.9%
1756 HK	Huali University	2.90	3,480	8.8x	7.3x	5.9x	1.1x	1.0x	0.8x	4.3%
1525 HK	Shanghai Gench	5.93	2,461	10.9x	7.9x	7.1x	1.1x	1.0x	0.9x	2.7%
<b>Total/Average</b>			113,201	16.5x	12.4x	10.4x	2.4x	2.1x	1.8x	2.4%

Source: Bloomberg, Company Data, AMTD Research, E=Bloomberg Consensus Estimates. For Edvantage Group, E=AMTD Research Estimates

## Business Overview

### The Largest Private Higher-Education Provider in the Great Bay Area (GBA)

Edvantage Group, rooted in the Guangdong-Hong Kong-Macau Greater Bay Area, benefited from the favorable national policies, the Group adheres to the market demand by proactively adding majors and disciplines. As the largest private education group in the Guangdong-Hong Kong-Macau Greater Bay Area, Edvantage Group proactively grasps the national policy trends and provides the quality education resources for talents with the ambition to develop a career in the Greater Bay Area.

The Group is an early pioneer in expanding international markets and providing private education services in China and overseas. The Group has been operating since 2003 and established its first school in Guangzhou in 2006, Guangdong University of Finance and Economics Huashang College ("Huashang College"), initially offering undergraduate degrees in economics and management, and later undergraduate degrees in literature, engineering and other disciplines. Later, in 2009, Guangzhou Huashang Vocational College ("Huashang Vocational College") was established in Guangzhou City to provide a variety of vocational education courses. In 2015, the Group invested overseas and opened the first international school, the Australian International Business School, in Melbourne, Australia. The school started teaching in September 2016. As a registered training organization approved by ASQA, Australia International Business School is the first Chinese international education institution approved by the Australian government.

According to Frost & Sullivan, in terms of total student enrolment of business majors for the 2017/2018 school year, the Group is the largest private higher education group in the Greater Bay Area. The Group currently operates two private schools in China, i.e. Huashang College and Huashang Vocational College; one private vocational education institution in Australia, Global Business College of Australia (GBCA); and one private institution in Singapore, Edvantage Institute Singapore (EIS).

Below is the operational performance of the Group's schools:

**Figure 7: The Campuses Structure and Summary**

Campuses Summary					
	Location	Education Type	Current Capacity	Future Capacity	Students Enrolled
<b>Huashang College</b>			29,837	N/A	24,127
Sihui Campus	Zhaoqing, Guangdong	Bachelor's Degree ; Junior College to Bachelor's Degree Transfer	6,000	10,000	
Zengcheng Campus	Guangzhou, Guangdong	Bachelor's Degree ; Junior College to Bachelor's Degree Transfer	23,837	N/A	
<b>Huashang Vocational College</b>			11,044	N/A	10,656
Xinhui Campus	Jiangmen, Guangdong	Junior College Diploma	N/A	12,000	
Zengcheng Campus	Guangzhou, Guangdong	Junior College Diploma	11,044	N/A	
<b>GBCA</b>	Melbourne, Australia	Advanced Diploma; Vocational Education; Non-academical Education Programmes	N/A	N/A	625
<b>EIS (former NYU Language School)</b>	Singapore	Language Training Courses; Junior College, Undergraduate and Master Courses; Vocational Education	N/A	N/A	45

Source: Company data, AMTD Research

### Huashang College

Huashang College is an independent college located at Zengcheng District of Guangzhou, and Sihui District of Zhaoqing, Guangdong Province. Huashang College provides various bachelor's degree programmes. Through its cooperation with overseas institutions, Huashang College offered 37 bachelor's degree programmes and abundant international courses. As of 31 August 2019, the top 5 majors (in terms of student enrolment) were accounting, English, international economics and trade, financial engineering and Chinese literature. Among them, accounting was designated as a "featured key discipline in Guangdong Province" ("廣東省重點學科") and journalism was designated as a "key

development discipline of colleges in Guangdong province” (“廣東省高校重點培育學科”). In September 2016, Huashang College also cooperated with Guangdong Association of Management Accountants to launch its first bilingual programme (“GAMA class”). For the year ended 31 August 2020, its total number of students was 24,127. For the 2018/2019 school year, the initial employment rate of Huashang College graduates was 97.4%, being 4.0 percentage points higher than the average level of initial employment rate recorded by undergraduates of the general higher education sector in Guangdong Province as well as ranking No.1 among independent colleges in Guangdong Province.

### **Huashang Vocational College**

Huashang Vocational College has been established in 2009. Huashang Vocational College is located at Zengcheng District of Guangzhou, and a new campus under construction in Xinhui District of Jiangmen, Guangdong Province. Huashang Vocational College is a full-time, higher vocational college approved by Guangdong Province Government and recognized by the Ministry of Education. Huashang Vocational College offers 44 junior college diploma programmes for the 2019/2020 school year including business, economics and management, among others. The school's top five majors in terms of student enrolment were accounting, electronic commerce, business English, internet technology, and marketing. Huashang Vocational College has two affiliated colleges, Huashang Auto Engineering School and Huashang Hospitality Management School, which were established in May 2015 and September 2014, respectively. Tourism and hotel management was designated as a “key disciplines” (“重點建設學科”) in Huashang Hospitality Management School by Department of Education of Guangdong Province in 2014. For the year ended 31 August 2020, the total number of students in Huashang Vocational College was 10,656. For the 2018/2019 school year, the initial employment rate of Huashang Vocational College graduates was 97.7%, being 1.6 percentage points higher than the average level of initial employment rate recorded by junior college graduates of the general higher education sector in Guangdong Province as well as ranking No.4 among private vocational colleges in Guangdong Province.

### **Global Business College of Australia (GBCA)**

As the first overseas education institution of the Group, GBCA is a vocational education and training organisation recognised by the Australian Skills Quality Authority (“ASQA”), the national regulator for Australia's vocational education and training sector. GBCA is committed to providing a multicultural academic platform for students from both Australia and abroad, aiming to improve students' practical skills and graduate employability. GBCA currently offers 15 training programmes that are divided into five main categories: interpreting, English, business and accounting, information technology and childcare and community services programmes. Students will receive certifications issued by GBCA which are recognised or endorsed by relevant training agencies, such as the National Accreditation Authority for Translators and Interpreters, or a diploma or advanced diploma upon completing all courses required by the respective programmes. For the year ended 31 August 2020, its total number of students was 625.

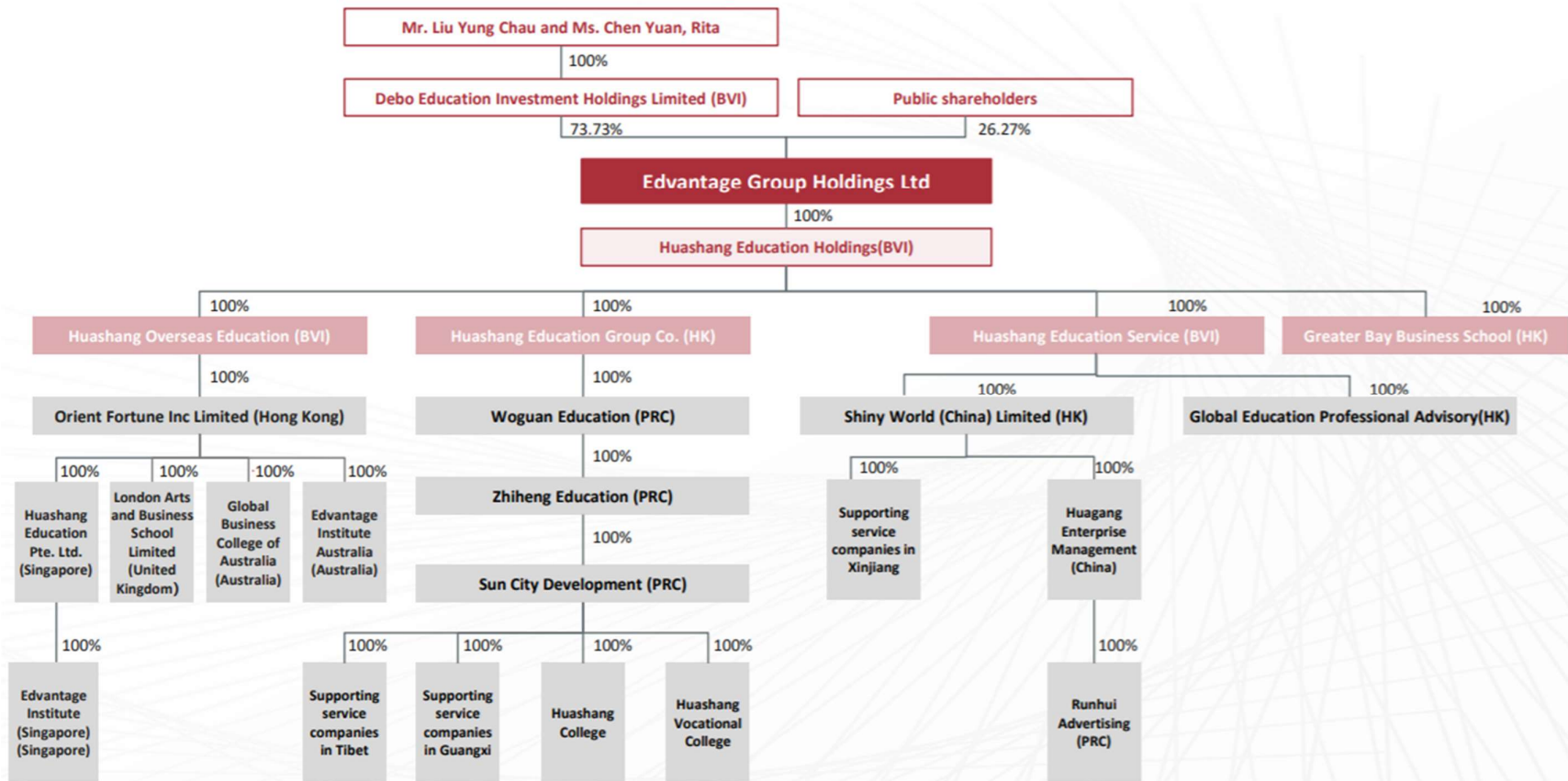
### **EIS (formerly known as NYU Language School)**

The Group has also acquired NYU Language School, a local school in Singapore and has established the Singapore campus based in the existing NYU Language School. Then, this school is renamed as EIS (Edvantage Institution Singapore). NYU Language School has been accredited as EduTrust by the Education Department of Singapore. The Singapore campus commenced its operation in April 2020. In addition to the language preparatory courses, the campus also provides undergraduate and college courses and start-up/training courses. It is qualified to offer internationally-recognised courses and accept local and overseas students in Singapore.

Edvantage Group proactively enriches education resources, expands overseas and domestic school network, continuously consolidates its sizable students base, and upgrade branding influence.



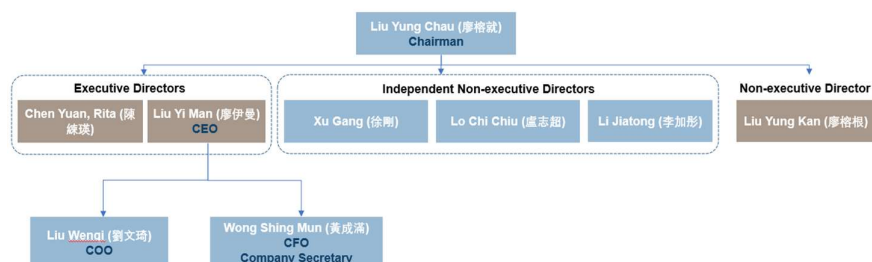
Figure 8: Corporate Organization Chart of Edvantage Group in 2020



Source: HKEx, Company data, AMTD Research

## Corporate Management

Figure 9: Corporate Profile



Source: Company Data, AMTD Research

### Executive Directors

**Mr. Liu Yung Chau (廖榕就)**, aged 66 and formerly known as Liao Cai, Vidal, founded the Group in December 2003 and serves as an executive Director and chairman of the Board. Mr. Liu has been executive vice-president of the Guangdong Provincial Private Education Association (廣東省民辦教育協會) since June 2009. He was also committee member and standing committee member of the Chinese People's Political Consultative Conference Guangdong Committee (中國人民政治協商會議廣東省委員會).

**Ms. Chen Yuan, Rita (陳練瑛)**, aged 64, joined the Group in June 2014 and serves as an executive Director. Ms. Chen has also been a director of GBCA since its inception in June 2014. Ms. Chen is spouse of Mr. Liu, mother of Ms. Liu Yi Man, and sister-in-law of Mr. Liu Yung Kan.

**Ms. Liu Yi Man (廖伊曼)**, aged 39, joined the Group in July 2006 and serves as an executive Director and our chief executive officer. Ms. Liu became a director of Huashang College in August 2007, a director of Huashang Vocational College in August 2010, and a director of GBCA in June 2014. Ms. Liu Yi Man is daughter of Mr. Liu and Ms. Chen, and niece of Mr. Liu Yung Kan.

### Non-Executive Director

**Mr. Liu Yung Kan (廖榕根)**, aged 59 and formerly known as Liu Kai Chung (廖啟中), assisted in the development of Huashang College and served as its director from September 2006 to February 2016. He also served as a director of Huashang Vocational College from August 2010 to April 2017 and is a non-executive Director. Mr. Liu Yung Kan is brother of Mr. Liu, brother-in-law of Ms. Chen, and uncle of Ms. Liu Yi Man.

### Independent Non-executive Directors

**Mr. Xu Gang (徐剛)**, aged 65, serves as an independent non-executive Director, the chairman of the Remuneration Committee and Nomination Committee, and a member of the Audit Committee.

**Mr. Lo Chi Chiu (盧志超)**, aged 46, serves as an independent non-executive Director, chairman of the Audit Committee, and member of the Remuneration Committee and Nomination Committee.

**Mr. Li Jiatong (李加彤)**, aged 47, serves as an independent non-executive Director, and member of the Audit Committee, Remuneration Committee and Nomination Committee.

#### **Senior Management**

**Ms. Liu Yi Man (廖伊曼)**, mentioned above, is the chief executive officer of the Company.

**Ms. Liu Wenqi (劉文琦)**, aged 47, has been the chief operating officer of the Company since January 2017, having originally joined the Group as the chief financial officer of the Company in April 2010.

**Mr. Wong Shing Mun (黃成滿)**, aged 43, was appointed general manager of Huashang Education Group Company (HK) in May 2016, and became the chief financial officer of the Company in January 2017.

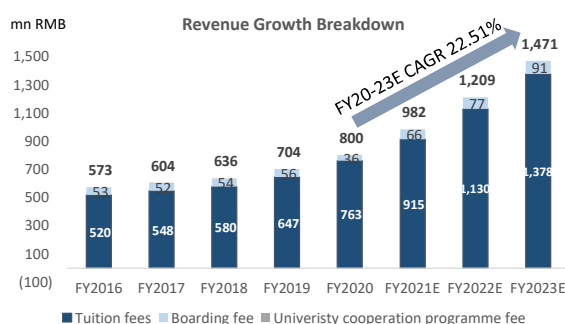
## Financial Analysis and Forecast

### Revenue

The number of students enrolled in both Huashang College and Huashang Vocational College increased from 2016/17 to 2020/2021.

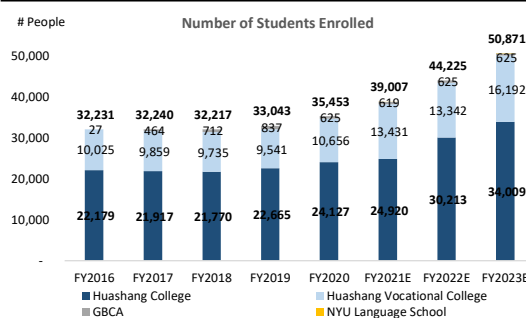
In our view, this statistic corresponds with the popularity of two colleges in Guangzhou especially for those who want to obtain a degree in business & management related major. Huashang College and Huashang Vocational College are the top choices for students who intend to study in private higher education system.

**Figure 10: We expect revenue to grow at 22.5% CAGR during FY2020-2023E...**



Source: Company Data, AMTD Research

**Figure 11: ...Mostly driven by the growth in number of students enrolled**

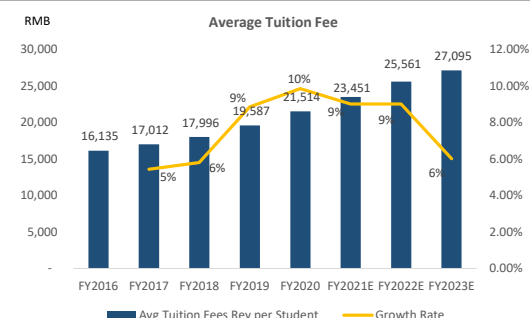


Source: Company data, AMTD Research

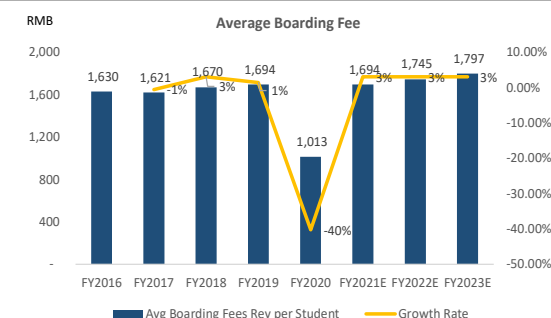
### Tuition Fees and Boarding Fees

The average tuition fees increased rapidly from RMB 16,135 to RMB 21,514 from FY2016 to FY2020. Although the growth rate is around 6% in FY2017 and FY2018, the recent growth rate in FY2020 has reached 10%. According to the Group's objective and our estimation, the future growth rate will remain in the relatively high position (9%) and will maintain for the following years.

The average boarding fees increased durably from RMB 1,630 to RMB 1,694 from FY2016 to FY2019. The growth rate is around 1.5% in the past three years. The decrease of boarding fee in FY2020 is due to the COVID-19 pandemic which caused absence of students, and the Group has reimbursed the boarding fee around RMB 35 million. Therefore, the average boarding fee decreased apparently. As China has recovered from the pandemic, and students went back to school in 2020, next fiscal year's average boarding fee will increase rapidly and return to the stage in FY2019. According to the Group's objective and our estimation, the future growth rate will remain in the position of 3% and will maintain for the following years.

**Figure 12: We expect average tuition fees to continue to grow steadily**

Source: Company Data, AMTD Research

**Figure 13: Average Boarding Fees for Students Enrolled**

Source: Company data, AMTD Research

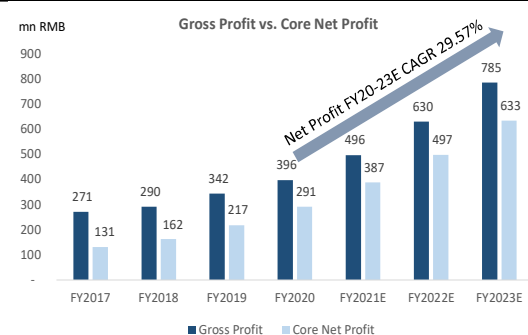
### Gross Profit and Net Profit

For gross profit, it has increased from RMB 271 million to RMB 396 million between FY2017 and FY2020, and we predict it would finally reach RMB 785 million in FY2023E, which shows a CAGR of 19.39% from FY2017 to FY2023E.

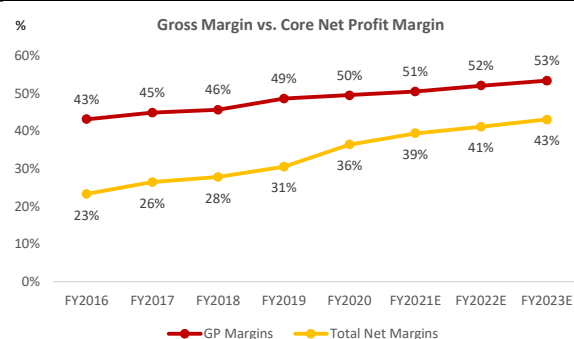
As for core net profit referred to the continuing business, it has increased respectively from RMB 131 million to RMB 291 million, and we forecast the net profit will be RMB 633 million in FY2023E, and the CAGR between FY2020 to FY2023E is 29.57%. This high growth is resulted from the fast expanding of student enrollment and tuition fee.

The line chart refers to the gross margin after deducting cost associated with main business revenue which steadily increased from 46% to 50% from FY2018 to FY2020. According to our estimation, the future gross profit margin will reach 53% by FY2023E due to the savings of royalty fee giving to the Group's strategic partner -- Guangdong University of Finance & Economics.

The net profit margin of Edvantage Group essentially rose from 28% to 39% within FY2018 to FY2021E. We forecast the future net profit margin to continue to expand steadily to 43% by FY2023E.

**Figure 14: Gross Profit & Core Net profit of Edvantage Group**

Source: Company Data, AMTD Research

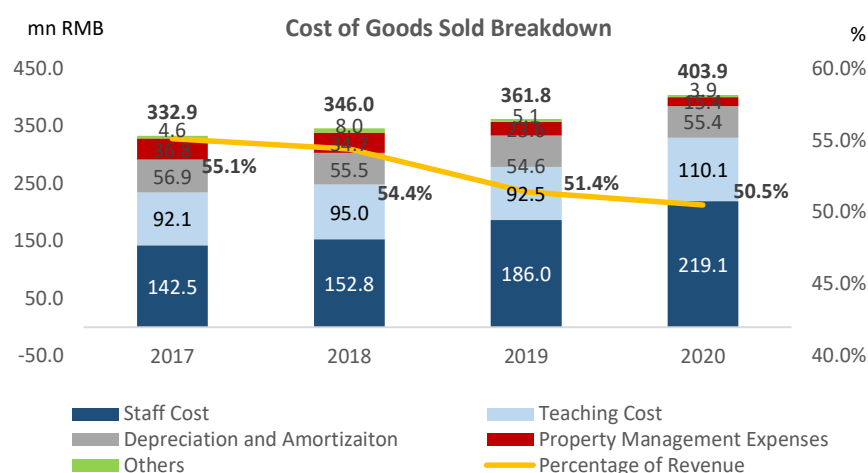
**Figure 15: Gross Margin & Net Profit Margin of Edvantage Group**

Source: Company data, AMTD Research

### Solid Cost Control

Although the total cost climbed up from RMB 332.9 million to RMB 403.9 million, the costs to revenue ratio has remained stable for a long time with a downward trend, from 55.1% to 50.5% from 2017 to 2020. This indicates that Edvantage Group has efficient cost control capabilities.

**Figure 16: Cost of Revenue Breakdown**



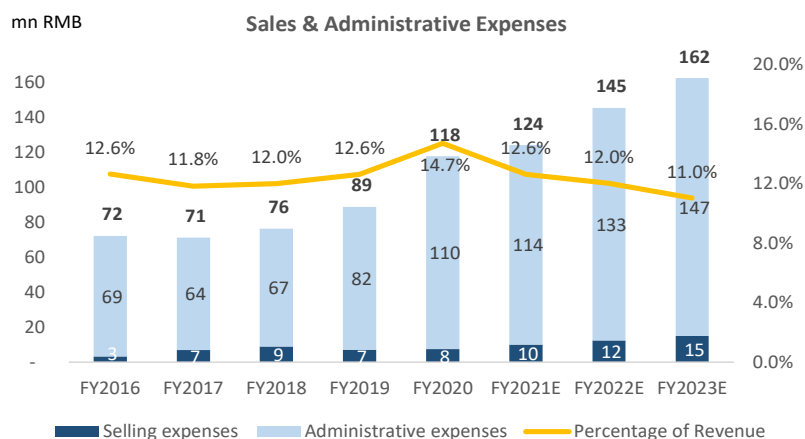
Source: Company Data, AMTD Research

### Selling and Administrative Expenses as % of Revenue Remains Stable

Since Edvantage Group is extending its business, the expense of selling and administrative increased in four years, from FY2017 -- FY2020. Nonetheless, we expect the SG&A to remain stable at around 12% of Revenue and could slightly decline by FY2023E amid the economies of scale.

We estimate the Group an increase in selling and administrative expenses from FY2021E to FY2023E to match with its revenue increase. This increase of S&A expenses is associated with its expanding of two new campuses in Guangdong and oversea schools as the Group will hire additional supporting staffs and management personnel to accommodate its needs.

**Figure 17: Selling and Administrative Expenses**



Source: Company data, AMTD Research

### Solid Balance Sheet backed by IPO Proceeds and Bank Borrowings

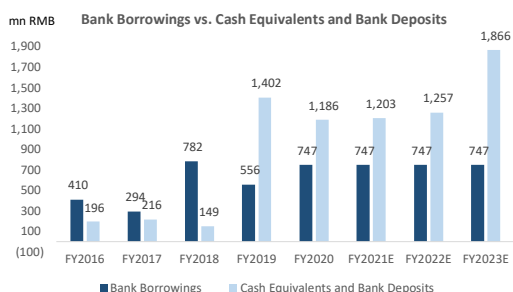
During the review period, Edvantage Group Holdings Limited still has unutilized banking facilities amounted to more than RMB1 billion, reflecting the Group's healthy financial condition. We predict the cash and bank deposits will remain in a stable level and the Group will maintain sufficient net cash in its account for the following years.

The FY2020 weighted average interest rate of bank borrowings is approximately 4.80% which is lower than 4.92% of FY2019 which reveals the cost of debt financing is constantly decreasing.

### Deploying IPO Proceeds into CAPEX to Drive Future Growth

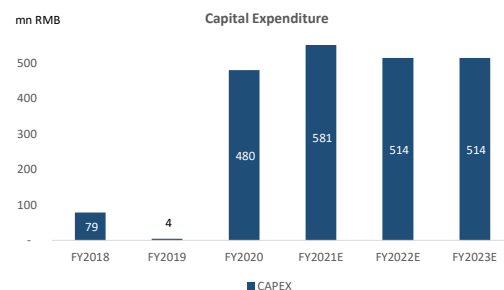
The CAPEX increased from FY2019 to FY2020. This is due to the construction of Sihui Campus and Xinhui Campus in 1<sup>st</sup> phase, and the expansion of current Zengcheng Campus. We expect the further CAPEX will maintain at the same level as the 2<sup>nd</sup> or 3<sup>rd</sup> phase construction lasting for a few years, and the Depreciation & Amortization of the 1<sup>st</sup> phase will be included in the future CAPEX.

**Figure 18: Bank Borrowings, Cash Equivalents and Mortgage Back Loans**



Source: Company Data, AMTD Research

**Figure 19: Capital Expenditure (RMB Million)**



Source: Company data, AMTD Research

Figure 20: P&amp;L of Edvantage

RMB'000	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
<b>Income Statement</b>						
Tuition fees recognised overtime	579,787	647,220	762,744	914,734	1,130,441	1,378,339
Boarding fees recognised overtime	53,797	55,982	35,912	66,086	77,175	91,435
Fees from univeristy cooperation programme recognised overtime	2,797	1,037	1,436	1,436	1,436	1,436
<b>Revenue</b>	<b>636,381</b>	<b>704,239</b>	<b>800,092</b>	<b>982,256</b>	<b>1,209,051</b>	<b>1,471,210</b>
Cost of revenue	(345,947)	(361,877)	(403,848)	(485,988)	(579,448)	(686,340)
<b>Gross profit</b>	<b>290,434</b>	<b>342,362</b>	<b>396,244</b>	<b>496,269</b>	<b>629,603</b>	<b>784,870</b>
Other income	17,190	22,389	28,716	28,716	28,716	28,716
Investment income	1,012	4,565	19,542	19,542	19,542	19,542
Other gains and losses	14,368	29,413	(2,737)	(2,737)	(2,737)	(2,737)
Selling expenses	(8,938)	(7,221)	(7,512)	(10,072)	(12,397)	(15,085)
Administrative expenses	(67,438)	(81,697)	(110,220)	(113,949)	(132,996)	(147,121)
Listing expenses	(4,174)	(38,896)	-	-	-	-
Share of results of associates						
Finance costs	(17,665)	(27,725)	(16,063)	(16,997)	(16,997)	(16,997)
<b>Profit before taxation</b>	<b>224,789</b>	<b>243,190</b>	<b>307,970</b>	<b>400,772</b>	<b>512,735</b>	<b>651,188</b>
Taxation	(47,638)	(28,136)	(16,483)	(13,572)	(15,448)	(17,769)
<b>Profit for the year/period from continuing operations</b>	<b>177,151</b>	<b>215,054</b>	<b>291,487</b>	<b>387,200</b>	<b>497,286</b>	<b>633,419</b>
<b>Discontinued operation</b>						
Profit (loss) for the year/period from discontinued operations	(1,703)	7,464	-	-	-	-
<b>Profit for the year/period</b>	<b>175,448</b>	<b>222,518</b>	<b>291,487</b>	<b>387,200</b>	<b>497,286</b>	<b>633,419</b>
<b>Other comprehensive (expense) income</b>						
Fair value gain on buildings transferred to investment properties		4,856	-	-	-	-
Exchange differences arising on translation of foreign operations	245	(275)	202	-	-	-
<b>Total comprehensive income for the year/period</b>	<b>175,693</b>	<b>227,099</b>	<b>291,689</b>	<b>387,200</b>	<b>497,286</b>	<b>633,419</b>
<b>Profit (loss) excluding OCI for the year/period</b>						
Attributable to owners of the Company						
- from continuing operation	163,328	209,291	291,487	387,200	497,286	633,419
- from discontinued operation	(1,703)	7471	-	-	-	-
<b>Total Attributable Net Profit</b>	<b>161,625</b>	<b>216,762</b>	<b>291,487</b>	<b>387,200</b>	<b>497,286</b>	<b>633,419</b>

Source: Company data, AMTD Research Estimates



Figure 21: Balance Sheet of Edvantage

RMB'000	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
<b>Balance Sheet</b>						
Property, plant and equipment	1,175,743	1,180,097	1,660,224	2,241,189	2,755,129	2,842,949
Right-of-use assets			458,857	458,857	458,857	458,857
Prepaid lease payments	54,269	198,955	-	-	-	-
Investment properties		44,900	45,700	45,700	45,700	45,700
Goodwill			1,554	1,554	1,554	1,554
Intangible assets			7,628	7,628	7,628	7,628
Interests in associates	200	-	-	-	-	-
Amounts due from related parties		-	-	-	-	-
Deposits paid for a acquisition of PP&E	3,307	2,457	13,920	13,920	13,920	13,920
Deferred tax assets	4,944	5,423	4,934	4,934	4,934	4,934
<b>Non-current assets</b>	<b>1,238,463</b>	<b>1,431,832</b>	<b>2,192,817</b>	<b>2,773,782</b>	<b>3,287,722</b>	<b>3,375,542</b>
Inventories	494	455	929	929	929	929
Trade and other receivables	22,582	31,805	57,855	57,855	57,855	57,855
Amounts due from related parties	115,088	2,330	2,981	2,981	2,981	2,981
Financial assets at fair value through profit or loss	869,259	252,666	88,118	88,118	88,118	88,118
Prepaid lease payments	1,547	5,288	-	-	-	-
Pledged Bank Deposits		50,000	-	-	-	-
Bank balances and cash	148,763	1,352,220	1,185,689	1,203,282	1,256,998	1,866,360
<b>Current assets</b>	<b>1,157,733</b>	<b>1,694,764</b>	<b>1,335,572</b>	<b>1,353,165</b>	<b>1,406,881</b>	<b>2,016,243</b>
<b>Total Assets</b>	<b>2,396,196</b>	<b>3,126,596</b>	<b>3,528,389</b>	<b>4,126,948</b>	<b>4,694,602</b>	<b>5,391,785</b>
Contract liabilities	568,239	681,756	623,379	950,898	1,170,452	1,424,241
Trade payables	8,065	6,642	4,606	4,606	4,606	4,606
Other payables and accrued expenses	83,249	106,374	104,873	104,873	104,873	104,873
Amounts due to related parties	11,702	3,131	780	780	780	780
Amount due to an associate	200	-	-	-	-	-
Amounts due to directors	28,330	-	-	-	-	-
Deferred income	5,783	6,458	13,051	13,051	13,051	13,051
Income tax payable	28,480	39,822	48,169	48,169	48,169	48,169
Bank borrowings	213,900	166,399	290,434	290,434	290,434	290,434
Lease Liabilities			6,918	6,918	6,918	6,918
Dividend payable	17,391	8,232	-	-	-	-
Financial guarantee contract	58,281	-	-	-	-	-
<b>CURRENT LIABILITIES</b>	<b>1,023,620</b>	<b>1,018,814</b>	<b>1,092,210</b>	<b>1,419,729</b>	<b>1,639,283</b>	<b>1,893,072</b>
Deferred tax liabilities	105,746	112,522	118,651	118,651	118,651	118,651
Lease Liabilities			25,930	25,930	25,930	25,930
Bank borrowings	567,700	389,600	456,670	456,670	456,670	456,670
<b>NON-CURRENT LIABILITIES</b>	<b>673,446</b>	<b>502,122</b>	<b>601,251</b>	<b>601,251</b>	<b>601,251</b>	<b>601,251</b>
<b>CAPITAL AND RESERVES</b>						
Share capital/registered capital	21	70,005	70,005	70,005	70,005	70,005
Reserves	626,202	1,535,655	1,764,923	2,035,963	2,384,063	2,827,457
<b>Equity attributable to owners of the company</b>	<b>626,223</b>	<b>1,605,660</b>	<b>1,834,928</b>	<b>2,105,968</b>	<b>2,454,068</b>	<b>2,897,462</b>
Non-controlling interests	72,907	-	-	-	-	-
<b>Total Equity</b>	<b>699,130</b>	<b>1,605,660</b>	<b>1,834,928</b>	<b>2,105,968</b>	<b>2,454,068</b>	<b>2,897,462</b>
<b>Total Liabilities &amp; Equity</b>	<b>2,396,196</b>	<b>3,126,596</b>	<b>3,528,389</b>	<b>4,126,948</b>	<b>4,694,602</b>	<b>5,391,785</b>

Source: Company data, AMTD Research Estimates

Figure 22: Cash Flow Statement of Edvantage

RMB'000	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
<b>Cash Flow Statement</b>						
<b>Profit of the period</b>	<b>175,448</b>	<b>222,518</b>	<b>291,487</b>	<b>387,200</b>	<b>497,286</b>	<b>633,419</b>
Income tax	47,638	28,136				
Amortisation of prepaid lease payments	1,560	4,460				
Depreciation for property, plant and equipment	62,868	59,753	59,974	84,375	113,901	140,020
Depreciation of right-of-use assets						
Fair value change on financial assets at fair value through profit or loss	(7,932)	(12,405)				
Finance costs	17,665	27,725				
Financial guarantee income	(2,010)	(5,024)				
Foreign exchange gain, net		(14,140)				
Gain from changes in fair value of investment properties		(500)				
Gain on disposal of subsidiaries	(4,667)	(8,112)				
Impairment of trade receivables	61	97				
Imputed interest income from amount due from a related party	(523)					
Interest income from banks	(489)	(4,565)				
Gain on disposal of an associate	(36)					
Share of results of associates	27					
Loss on disposal of property, plant and equipment	80	5,485				
<b>Operating cash flows before movements in working capital</b>	<b>289,690</b>	<b>303,428</b>	<b>351,461</b>	<b>471,575</b>	<b>611,187</b>	<b>773,439</b>
Decrease (increase) in inventories	930	39				
(Increase) decrease in trade receivables, deposits, prepayments and other receivables	(14,917)	(11,024)				
Decrease (increase) in amounts due from related parties	(3,592)	(1,342)				
Increase (decrease) in contract liabilities	111,393	117,749	-58,377	327,519	219,554	253,789
(Decrease) increase in trade payables	(10,505)	(1,209)				
Increase (decrease) in other payables and accrued expenses	(25,523)	25,307				
(Decrease) increase in deferred income	1,708	675				
(Decrease) increase in amounts due to related parties	2,081	230				
<b>Cash generated from (used in) operations</b>	<b>351,265</b>	<b>433,853</b>	<b>293,084</b>	<b>799,094</b>	<b>830,741</b>	<b>1,027,228</b>
Income tax paid	(13,218)	(10,740)				
<b>Net cash generated from (used in) operating activities</b>	<b>338,047</b>	<b>423,113</b>	<b>293,084</b>	<b>799,094</b>	<b>830,741</b>	<b>1,027,228</b>
<b>Investing activities</b>						
Purchase of financial assets at fair value through profit or loss	(5,067,900)	(3,822,720)				
Advances to related parties	(523,991)	(201,914)				
Acquisition of prepaid lease payments		(152,887)				
Payments for acquisition of property, plant and equipment	(132,478)	(101,547)	(416,702)	(665,340)	(627,840)	(227,840)
Placement of pledged bank deposits		(50,000)				
Deposits paid for acquisition of property, plant and equipment	(354)	(734)				
Advance to directors	(192)	(6)				
Redemption of financial assets at fair value through profit or loss	4,464,330	4,438,730				
Repayment from related parties	414,452	302,040				
Interest income from financial assets at fair value through profit or loss	6,469	12,988				
Interest income from banks	489	4,565				
Acquisition of interest in associates						
Net cash inflow on disposal of subsidiaries	659	4,320				
Proceeds from disposal of property, plant and equipment	10					
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(838,506)</b>	<b>432,835</b>	<b>(416,702)</b>	<b>(665,340)</b>	<b>(627,840)</b>	<b>(227,840)</b>
<b>FINANCING ACTIVITIES</b>						
Repayment of bank borrowings	(223,033)	(326,800)				
Issue costs paid	(242)	(43,755)				
Interest paid	(27,495)	(37,077)				
Repayments to directors	(10,820)	(31,310)				
Repayments to related parties	(4,560)	(16,544)				
Dividend Paid		(9,159)	(42,914)	(116,160)	(149,186)	(190,026)
Payment for acquiring entities under common control	(25,516)	(18)				
Issuance of new shares	6	672,371				
New bank borrowings raised	710,900	99,791				
Advances from related parties	11,959	20,593				
Advances from directors	463	3,596				
Reduction of registered capital of an entity comprising the Group						
Proceeds from disposal of partial interest in a subsidiary		100				
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>431,662</b>	<b>331,788</b>	<b>(42,914)</b>	<b>(116,160)</b>	<b>(149,186)</b>	<b>(190,026)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(68,797)</b>	<b>1,187,736</b>	<b>(166,531)</b>	<b>17,593</b>	<b>53,715</b>	<b>609,362</b>

Source: Company data, AMTD Research Estimates

## Business Positives

### Xinhui Campus – the New Growth Driver

Figure 23: Est. Revenue Generated from Xinhui Campus (in construction)

Xinhui Campus	Total	Plot Ratio
Site Area	455,652	
GFA (Min)	318,956	0.70
GFA (Max)	683,478	1.50

	RMB '000	RMB/sqm (Max)	RMB/sqm (Min)
Land Cost	190,010	596	278
Construction Cost	293,600	921	430

Average Revenue / Student	16,000
No. of Students	12,000
Est. Stabilised Rev Per Year (RMBm)	192
Est. EBITDA Margin	41%
EBITDA (RMBm)	78

<b>ROIC</b>	<b>16%</b>
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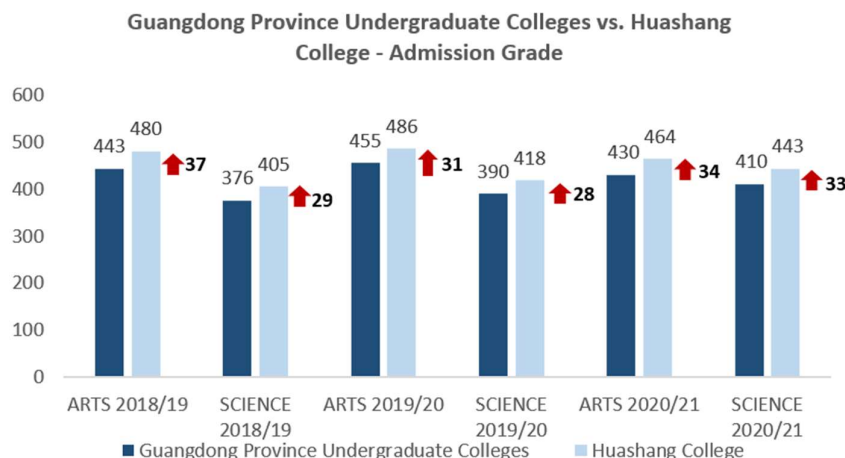
Source: Company Data, AMTD Research

Edvantage Group intended to leverage its campus capacity in order to accommodate its increasing number of student enrollment. The maximum capacity of this new campus could contain 12,000 students. The average fee of each student (including tuition fee and boarding fee) could reach RMB 16,000. This will eventually bring the Group an annual revenue of RMB 192 million with its full capacity being utilized, and EBITDA of RMB 78 million. With the total investment of land and construction cost -- RMB 483.6 million, the calculated ROIC of opening the Xinhui Campus will be 16% indicating this new growth driver will largely benefit the Group in the following years.

### Above Average Admission Grades Proves Huashang College's Competitive Edge

From 2018/19 to 2020/21, the grade lines of Guangdong Province Undergraduate Colleges are always lower than Huashang College. For Arts, the average difference is around 33 points; for Science, the average difference is around 30 points. This indicates Huashang College's competitiveness in undergraduate college of Guangdong Province.

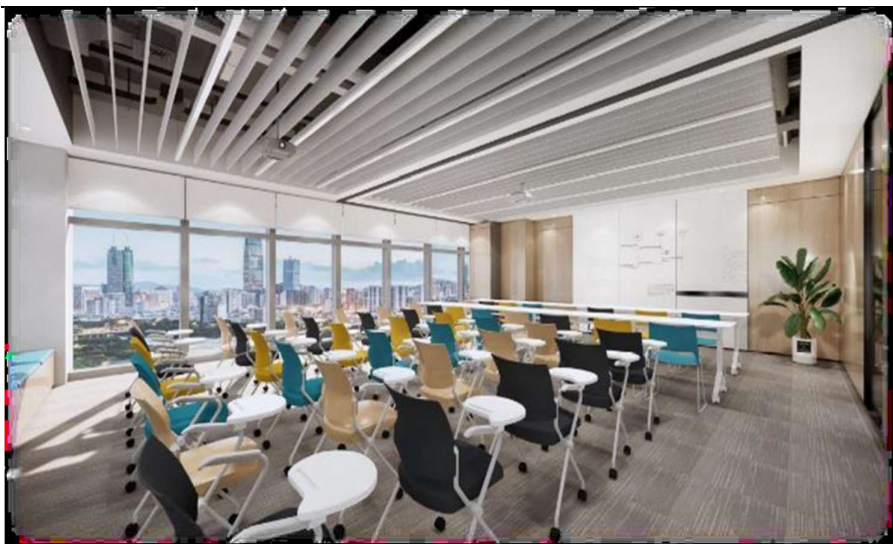
Figure 24: Guangdong Province Undergraduate and Huashang College – Grade lines



Source: Company data, AMTD Research

### Diversification of Education Service: New Teaching Venue in Shenzhen

Figure 25: Rendering of Shenzhen Teaching Venue



Source: Company data, AMTD Research

Figure 26: The Entrance of Shenzhen Teaching Venue



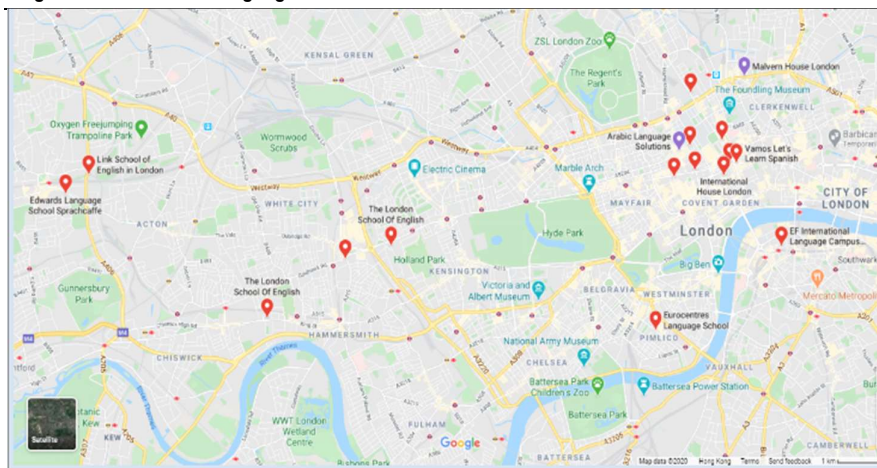
Source: Company data, AMTD Research

New Teaching venue in Shenzhen: The Group actively deploys its teaching venue in Shenzhen, a city known as the “Engine of the Greater Bay Area”, “China Special Economic Zone”, “International City”, “China Silicon Valley” and “Pilot Demonstration Zone” as the place for high-end vocational certificate training and examinations, high-end business activities and academic salons, an innovation entrepreneurship base/incubator, an extracurricular practice base, and a place for delivering employment and internship skills training. The teaching venue is located at the Mixc Commercial Zone (萬象天地商園), Nanshan District, Shenzhen and has been put into operation in May 2020.

In addition, the Shenzhen teaching venue will also serve as one of the places where the Group's Greater Bay Area Business School is to be built with an aim to develop it from a high-end vocational education provider into a high-quality business school that mainly offers MBA and EMBA programmes.

## Edvantage Institute Singapore (Formerly Known as NYU Language School) – New London Campus

Figure 27: Number of Language Schools around London



Source: Company data, AMTD Research

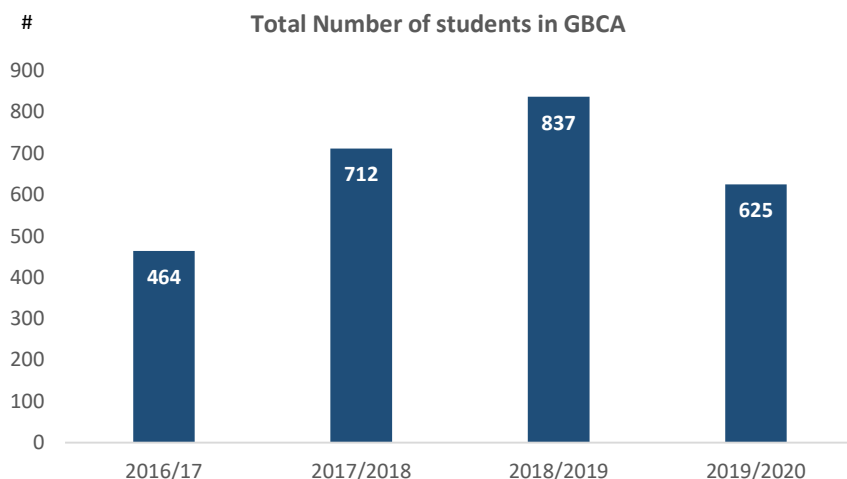
Edvantage Group is advancing relevant preparations for a new campus in London. So far, the Group's investment in preparation for the new campus in London is limited.

This is a new campus being planned to extent the market of EIS (formerly known as NYU Language School), outside Asia market. NYU Language School originally had its own campus in Singapore since 1991, and Edvantage Group has completed the process of acquisition in December 2019. After taking over the full control of NYU language school, Edvantage intended to promote the idea of how this school can help people in different age groups, fulfill various learning demand, and improve the calibre of teaching to accommodate the requirement from students or parents.

London is going to be Edvantage's first milestone for expanding Edvantage Institute outside of Asia, to attract more students from different race and background to become a multicultural school for small class teaching mainly in English.

### GBCA (Global Business College of Australia) – New Growth Driver of Overseas Business

Figure 28: Total Number of students in GBCA



Source: Company data, AMTD Research

GBCA is based in Australia, which is the first overseas education institution in the Edvantage Group, also the first Chinese international education institution being approved by the Australian government. It is a vocational education and training organization, committed to providing a multicultural academic platform for students from both Australia and abroad, aiming to improve students' practical skills and graduate employability. In GBCA, as of August 31, 2020, the number of students is 625.

GBCA provides small class teaching which could ensure students can all get enough support, and deal with concerns that parents are worrying about. Also, small class teaching is one of the current trends in the way of how school educate student. From 2016/17 to 2018/19, the number of students in GBCA increased significantly.

Although during COVID-19, the number of students enrolled decreased during 2019/2020, GBCA did not suffer from a large number of enrollment loss during the pandemic. The difference between 2018/2019 and 2019/2020 enrollment is only about 200. The enrollment number of students remains stable during the pandemic and will return to the relatively high level before COVID-19.

### EIS (Edvantage Institute Singapore) – the Beginning of Group Synergy and Internal Expansion

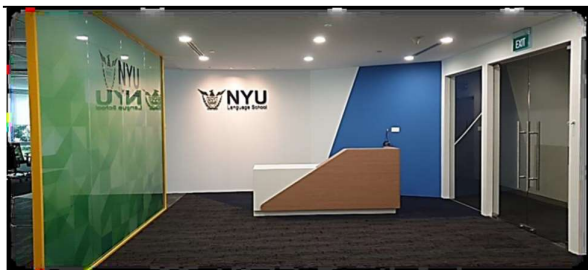
The school was established in 1991 at Singapore. From the completion of the acquisition (December 2019) to August 31, 2020, there were 45 students enrolled. Formerly known as NYU Language School, EIS has been accredited as EduTrust by the Education Department of Singapore, which provides long-term and short-term language training courses and various courses in preparatory for entrance of different schools in Singapore; it is qualified to offer internationally recognized courses and accept local and overseas students in Singapore. Students at EIS come from different countries, which provides a favorable international learning environment. Since EIS adopts "asset-light" business model, that requires less company assets, and thus Intellectual assets, like teachers and knowledge management system are the core base of the school.

Edvantage group has transferred EIS to a new location in Singapore. The new campus has been put into use in the second quarter of 2020. The Group plans to initiate new programs as the future business expansion and revenue enhancement. For example, the



Group's "Global Immersion Program" will continuously provide short-term overseas courses, such as arts and landscape design courses to Chinese students with lucrative profit.

Figure 29: Live View of NYU Language School



Source: Company data, AMTD Research

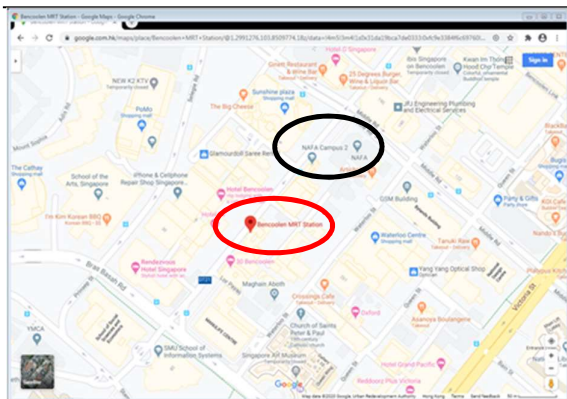
Figure 30: Live View of Class in NYU Language School



Source: Company data, AMTD Research

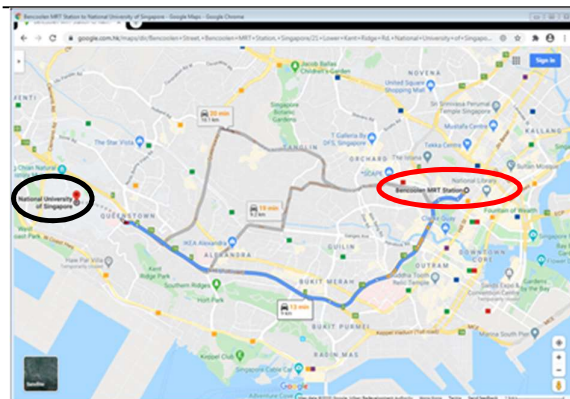
These two maps below show the two popular higher education college/university, Nanyang Academy of Fine Arts and National University of Singapore. EIS is located in the heart of Singapore, providing persuasive evidence of how Edvantage Group picked the right place as the new campus of EIS in Singapore. The site of new campus is convenient for students who could experience the diversified culture and business environment which could promote their learning experience and therefore, enhance the reputation of EIS. Besides, Edvantage Group intends to initiate joint program of Huashang College and EIS. The reputation EIS will attract more students getting enrolled and generate further revenue for the Group.

Figure 31: Area around the New NYU Campus in Singapore



Source: Company data, AMTD Research

Figure 32: University near Bencoolen MRT Station



Source: Company data, AMTD Research

### Under the COVID-19 Epidemic, Advantages of APP "Huashang e-Home" Platform are Fully Demonstrated

Huashang e-Home is an app that students, staff or anyone who are interested could download. In terms of interest-assisted teaching, this application provides related, certification services and career development planning; meanwhile, teachers and schools can also build their own course systems on the platform. In terms of faculty, staff and student management services, it provides various student management and services, such as exam registration and student enrollment registration. In terms of faculty, staff and student's life, it provides an all-around protection and services covering clothing, living, food and medication for faculty, staff, and students, especially life support in special periods like epidemic by using a mobile terminal.

### Online Teaching Progressed Smoothly Under the COVID-19 Epidemic



“Teaching Management does not go offline” and “Teaching quality does not discount”. These are the two slogans that Huashang College Guangdong University of Finance & Economics, Guangzhou Vocational College and three other E-learning platforms want to address about how their e-class cooperation project can provide a well-developed platform for students, while providing great service to make them feel like they are attending in-person lessons.

After class discussion time, the E-learning platforms could help students and teachers to earn extra time for interactive communications. All the classes are held on online learning platform. Teachers also have supervision time at the end of the day, to check the schedule, obtain feedback from students, and discuss consequence on student learning. The learning progress could proceed under a safe and comfortable environment.

Wisdom Tree, xuetangx.com and Chaoxing Erya are the three online teaching platforms that currently cooperate with College under Edvantage Group Holding Limited, both Huashang College and Huashang Vocational College.

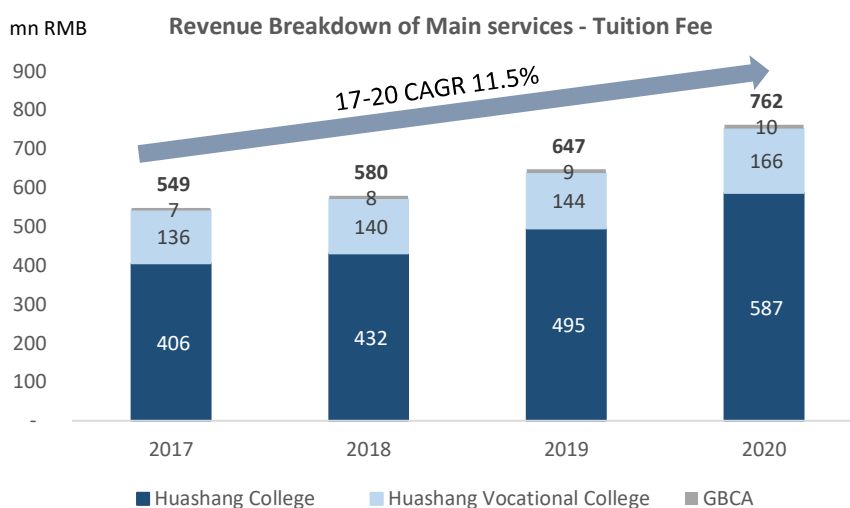


## Business Concerns

### Impacted by COVID-19

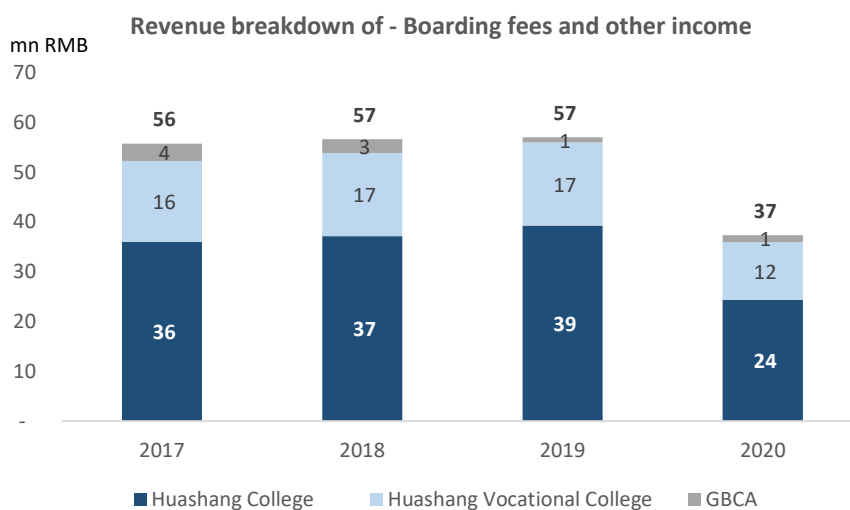
Due to COVID-19, most of the economy has been seriously affected, while education sector is one of the areas which faces the toughest measures by the government to lock down, in aid to contain the virus. As a response, Huashang College and Huahang Vocational College therefore, transferred their on-site teaching to online teaching. Relative to K-12, higher education's transition to online was much more seamless. From our estimates, there has been minimal impact on the revenue generated from tuition fees by the COVID-19 pandemic.

**Figure 33: Revenue breakdown of main services – Tuition fees**



Source: Company data, AMTD Research

**Figure 34: Revenue breakdown of main services – Accommodation fees and other income**



Source: Company data, AMTD Research

According to Figure 34, about the accommodation fees and other sources of income, the boarding fee is largely reduced due to the absence of student accommodation, meal plans and other related fees. According to company disclosure, the Group has reimbursed total boarding fee of around RMB 35 million during FY20.

The boarding fee may remain at lower levels than previous years, if COVID-19 is not totally contained in China or the local government imposes further requirements and restrictions amid public health and safety.

### Uncertainty of New Campus' Return on Investment

The new campus in Sihui, Zhaoqing, is aimed to improve school condition and teaching resource. Its operation commenced in September 2020. The net increase in the number of students is expected to record no fewer than 3,000 each year. The Location of Sihui Campus is in Sihui District of Zhaoqing City, Guangdong Province. The school area covered about 533,300 square meters (800 Mu), with capacity reaching approximately up to 16,000 students. This campus was utilized as Huashang College new campus. The total investment for the Sihui campus is approximately RMB 800 million.

New construction and mergers & acquisitions would require capex while there is uncertainty to the returns on such investments amid the demand for the newly added capacity.

**Figure 35: Live View of Sihui Campus Phase I, photographed in March 2020**



Source: Company Data, AMTD Research

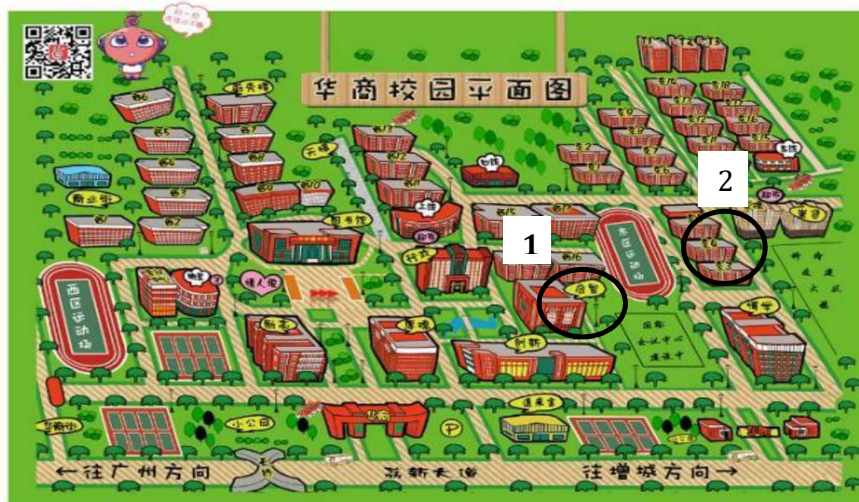
**Figure 36: Live View of Sihui Campus Phase I, photographed in March 2020**



Source: Company data, AMTD Research

In addition to the new campus, there are also two main improvements in Zengcheng campus, the Huashang Science and Technology Centre and Huashang International Conference Centre in Zengcheng campus.

The purpose of the Science and Technology Centre is providing additional teaching activities under approximately 149,000 square meters land; the total investment for this project is about RMB 400 million. The aim of the International Conference Centre is hosting industry or school-enterprise meetings, academic activities and practical training as well as offices for teachers and administrators under about 28,000 square meters land. The total investment for the centre is about approximately RMB 75 million.

**Figure 37: Zengcheng Campus Improvement Locations**

Source: Company Data, AMTD Research

Notes: (1) Expand Zengcheng campus Huashang Science and Technology Centre (2) Expand Zengcheng campus Huashang International Conference Centre

With such a large amount of investment in two campuses it may add pressure on the Group's cash flow in further years. Nonetheless, the company has a healthy balance sheet and cash balance to absorb such capex expenses and we thus believe it is manageable.

### Education Policy Change

The 2016 amendment to the Law on the Promotion of Private Education (《中华人民共和国民办教育促进法》) stipulates that private schools are divided into non-profit and profit-making. Non-profit schools enjoy preferential taxation and land, but funders cannot withdraw school profits. Education is a highly regulated sector, and while we believe that Higher Education is less regulated than K-12, policy changes could be an unexpected swing in the business operations and thus, share price.

### Brand Name Change in FY21E

Huashang College is currently a secondary independent college under the name of Guangdong University of Finance and Economics and the strategic cooperation will end during FY2021E. It will then be decoupled from Guangdong University of Finance and Economics and converted to an independent undergraduate college before re-registration.

It may be conceivable that without the endorsement of the Guangdong University of Finance and Economics, the enrollment difficulties might gradually appear. Guangdong University of Finance and Economics is renamed after Guangdong University of Business Studies. In Guangdong, where university resources are rare and scarce, Guangdong University of Finance and Economics is also regarded as a "prestigious school", and many Guangdong candidates who are unwilling to leave the province apply for the university with a rather high score.

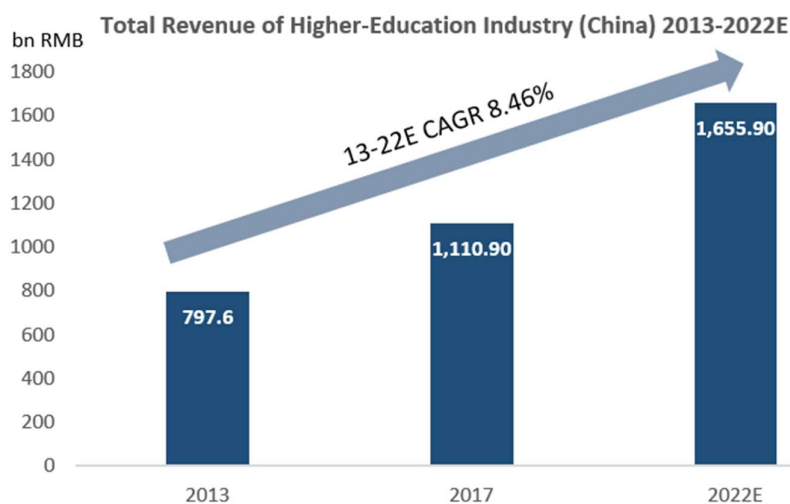
Nonetheless, we believe that Huashang College has already built up a solid reputation in the region and should be able to mitigate such risk.

## Industry Overview

### China's Higher Education Industry

In the last 10 years, according to Frost & Sullivan, China's higher education industry has improved and upgraded in various ways, the data above clearly shown how total revenue of this industry have successfully increased in a short period of time. Huashang College, Huashang Vocational College and GBCA are the great examples from Guangzhou of how higher education industry are well-contributed to form the improved society in China.

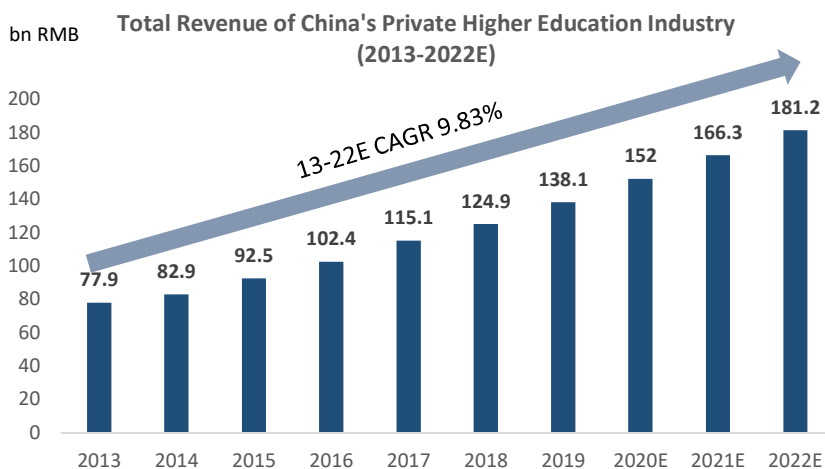
**Figure 38: Total Revenue of Higher Education Industry (China), 2013-2022E**



Source: Frost & Sullivan report, Company data, AMTD Research

Also, by looking at the forecasts by Frost & Sullivan, for the upcoming years in the future, 2021E and 2022E, especially private higher education industry revenue is expected to rise respectively to RMB 166.3 billion and RMB 181.2 billion. The CAGR of private higher education revenue from 2013 to 2022E is estimated around 9.83% which indicates a strong growth.

**Figure 39: Total Revenue of China's Private Higher Education Industry (2013-2022E)**



Source: Frost & Sullivan report, Company data, AMTD Research

According to Frost & Sullivan, the revenue of China's Private Higher Education Industry increased significantly during the past years, as more families in China are accepting and understanding how private college or university can provide more supplementary support to their children, by comparing to the traditional college or university that belonged to and provided by the government.

According to Frost & Sullivan, the average revenue growth of China's Private Higher Education is about RMB 8.17 billion from 2013 to 2016 since private higher education was not popular enough in those days. Starting from 2017, there was a significant change in the total revenue growth. Compared to 2016 of RMB 102.4 billion, it increased by RMB 12.7 billion in 2017. Then, the average increase of revenue after 2017 stays constantly with around RMB 13.2 billion per year.

**The Implementing Regulations for the Law of the People's Republic of China for Promoting Private Education (Revised Draft) (Draft for Comments) 中华人民共和国民办教育促进法实施条例（修订草案）（送审稿）**

On August 10, 2018, the Ministry of Justice of the PRC, or MOJ, published the Implementing Regulations for the Law of the People's Republic of China for Promoting Private Education (Revised Draft) (Draft for Comments), or the MOJ Draft for Comments, for public comment.

**Foreign Investment:** foreign investment enterprises established in China and social organizations for which the foreign party is the actual controller shall NOT establish, participate in establishment of, or actually control private schools providing compulsory education.

**Centralized School Management:** Social organizations which adopt centralized school management models are not allowed to control non-profit private schools by mergers and acquisitions, franchising or contractual arrangements and other means.

**Private School Enrollment:** Private school that provides education for academic credentials shall enjoy the same rights as a government-run school at the same level and of the same category in enrollment, and may, within the scale ratified by the examination and approval authority, determine on its own the scope, standards and methods of enrollment, and enroll students at the same time as a government-run school. Private schools of compulsory education shall enroll students mainly in the areas managed by the competent authorities, and may enroll students in other areas if they have boarding facilities.

**Private Schools' Transaction:** Private schools who have the transaction with related parties shall follow the principles of openness, fairness, and justice and shall not damage national interests, school interests, and teacher and student rights. Any material, long-term or recurring agreement entered into between a non-profit private school and its related parties shall be reviewed and audited by the education administrative authorities as well as the human resources and social security authorities in terms of the necessity and legality of such agreement and its compliance with the applicable laws and regulations.

**Non-profit Private Schools' Gain:** Where there is a change in the sponsor of a non-profit private school, an alteration agreement shall be signed and no gains shall be derived from the alteration; and the sponsor of an existing private school may, in accordance with the lawful rights and interests enjoyed by any such sponsor in accordance with the PRC laws and the alteration agreement entered into with the successor sponsor to alter earnings, provided that such alteration is not for profit-making purposes and does not involve any property of the school as a legal person.

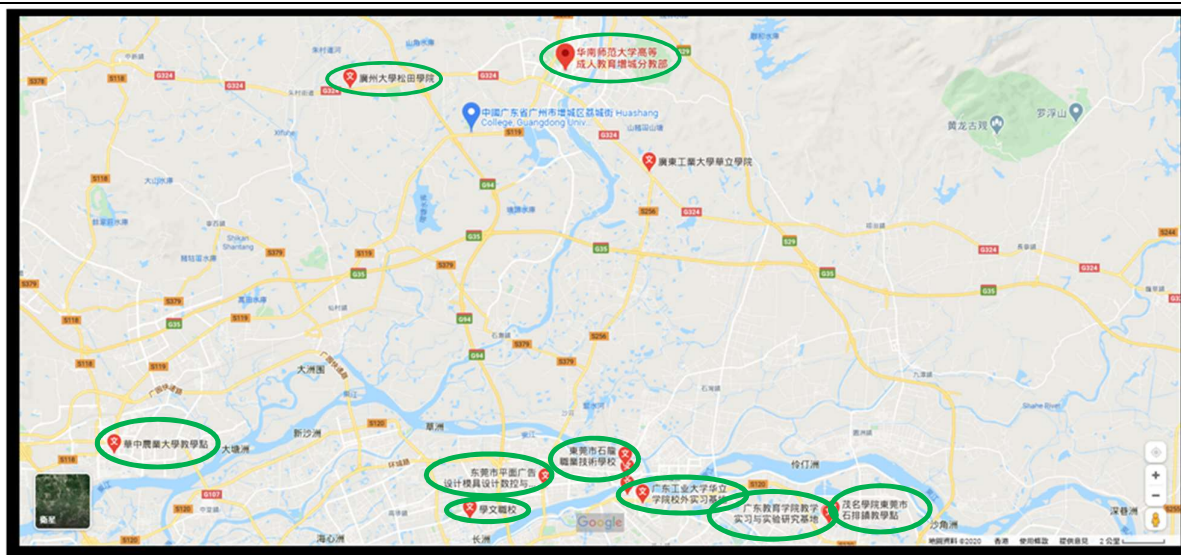
**Demand and Supply of Private Guangzhou College/ University**

There are several colleges close to area where Huashang College locates, which does not necessarily threaten the specialty of Huashang College being a private college. Some



parents might prefer to pay extra money in order to get better education and learning environment for their kids.

Figure 40: Public College/ University around Husahang College



Source: Company data, AMTD Research

New generation children should complete Higher Education, like college or university, which is the new standard of how parents want their kids to accomplish. These parents who did not reach the goal of attending colleges, would urge their kids attending private colleges or universities, getting higher education diploma, and obtaining more support through their education pathway.

Huashang College as a part of Guangdong University of Finance & Economics, has 37 bachelor's degree programs. Among them, there are the top 5 majors, accounting, English, international economics and trade, financial Engineering and Chinese literature. The majors mentioned above could fulfill needs and interests for every student. The designed curriculum provides tremendous opportunities for everyone with various talent and helps them to make decisions on what will be the best career pathway for them.

## Valuation and Risks

Figure 41: DCF Valuation Breakdown

DCF Fair Value - Base Case		WACC Buildup	
Stage 1	1,600	Risk-free rate	4.0%
Stage 2	3,441	Beta	1.2
Stage 3	3,312	Equity risk premium	7.0%
<b>Enterprise Value(Rmb mn)</b>	<b>8,353</b>	<b>Cost-of-equity (%)</b>	<b>12.5%</b>
Net cash	439	Tax rate (%)	0%
Minority interest	-	Cost of debt	10%
<b>Total equity value (Rmb mn)</b>	<b>8,791</b>	<b>Cost of debt*(1-T)</b>	<b>10.0%</b>
<b>Total equity value (HKD mn)</b>	<b>10,110</b>	Debt to Capital ratio (%)	10%
Shares outstanding (mn)	1,018	<b>WACC (%)</b>	<b>12%</b>
<b>FY2021 Price target (HKD)</b>	<b>9.93</b>	Perpetual growth rate	2%
Implied 2021E PE	22.7x		
Implied 2022E PE	17.7x		
Current Share Price (HKD)	7.47		
Upside	33%		

Source: Company Data, AMTD Research

### DCF Valuation: FY2021E TP at HK\$9.93, implying 22.7x Target 2021E P/E

Our target price of HK\$9.93 is based on the three-stage discounted cash flow model, implying 22.7x 2021E P/E. We use a three-stage DCF model to derive our valuation. In the first stage (the fast growth stage), we forecast explicitly five years of free cash flows to the enterprise. In the second stage (medium-term), the growth rates are gradually phased down to the perpetual growth rate. This cash flow stream is discounted using a 12% weighted average cost of capital assumption.

Figure 42: Peers Valuation Comparison

Date	20/11/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(HKD mn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
<b>Higher Education</b>										
839 HK	China Education	14.94	32,124	28.0x	21.5x	17.4x	3.5x	3.0x	2.7x	1.5%
6169 HK	China Yuhua Education	6.99	23,344	22.2x	15.9x	13.7x	4.7x	4.0x	3.4x	2.3%
1765 HK	Hope Education	2.19	15,842	20.9x	15.1x	13.1x	2.4x	2.2x	1.9x	1.6%
1890 HK	China Kepei Education	5.88	11,850	16.6x	13.1x	11.1x	3.2x	2.8x	2.3x	2.4%
382 HK	Edvantage Group	7.47	7,607	23.6x	16.6x	13.1x	3.7x	3.0x	2.5x	0.7%
2001 HK	China New Higher	4.75	7,531	11.4x	9.6x	8.0x	2.2x	1.9x	1.5x	2.5%
1569 HK	Minsheng Education	1.16	4,893	12.2x	8.2x	7.2x	0.9x	0.8x	0.8x	2.6%
2779 HK	China Xinhua Education	2.53	4,070	10.9x	9.3x	8.0x	1.2x	1.0x	0.9x	2.9%
1756 HK	Huali University	2.90	3,480	8.8x	7.3x	5.9x	1.1x	1.0x	0.8x	4.3%
1525 HK	Shanghai Gench	5.93	2,461	10.9x	7.9x	7.1x	1.1x	1.0x	0.9x	2.7%
<b>Total/Average</b>			113,201	16.5x	12.4x	10.4x	2.4x	2.1x	1.8x	2.4%

Source: Company Data, AMTD Research

Higher Education sector is now trading at 12.4x 2021E P/E on average, largely in line with Edvantage. We also believe Edvantage would enjoy a valuation premium as its high visibility of earnings growth during 2021E-2022E.

**Key Risks**

Key risks for the stock include (1) Slower than expected student enrollment for the following years according to the change of policies; (2) Cash collection and impairment risk from trade receivables; (3) Business with limited operating history does not operate well as expectations.



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**IMPORTANT DISCLOSURES**


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**AMTD Investment Ratings****Stock Rating**

<b>Buy</b>	Stock with potential return of over 20% over the next 12 months
<b>Hold</b>	Stock with potential return of -20% to +20% over the next 12 months
<b>Sell</b>	Stock with potential loss of over 20% over the next 12 months

**Analyst Certification**

I, Jacky Chan, hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

**AMTD Global Markets Limited**

**Address:** 23/F - 25/F, Nexus Building, No. 41 Connaught Road Central, Central, Hong Kong

**Tel:** (852) 3163-3288 **Fax:** (852) 3163-3289

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**GENERAL DISCLOSURES**


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