

# Edvantage Group Holdings Limited

## Fundamental Growth drives Stock Outperformance, Reiterate Buy

Edvantage has demonstrated its consistent execution track record since listing and we believe will continue to drive the stock's performance. We are revising upwards our FY21E-FY23E earnings estimates by 8-17% and our target price by 38% to HK\$13.72/sh on the back of its recent M&A and solid 1QFY21 results. Reiterate Buy.

### Proven Execution Track Record will drive Stock Performance

We are raising Edvantage's FY21E-FY23E net profit estimates by 8-17% to factor in the contributions from recent acquisition of Urban Vocational College of Sichuan, as well as the strong 1QFY2021 results. As a result, we have also raised our Target Price by ~38% to HK\$13.72/sh. We believe the company is continuing to build its execution track record since its listing on the HKEX in 2019, which will drive a continual positive re-rating in the stock. Over the past 12 months, the company has started building out its Xinhui Campus in Jiangmen, acquired Urban Vocational College of Sichuan and also completed the branding change into the independent Huashang College which will result in royalty fee savings. We reiterate our Buy rating.

### Solid 1QFY21 Results, in-line with our estimates

On 20 January 2021, the company announced a solid set of 1QFY2021 results, with Revenue reaching RMB243.7m and Gross Profit at RMB121.5m, both representing ~24-25% of our full year estimates respectively. This implies that revenue and gross profit rose by 16% and 17%, respectively.

### M&A war chest replenished through equity placement

The company raised HK\$459.77m in net proceeds through an equity placement on 13 January 2021, which we believe will replenish the company's M&A war chest. This follows after the company announced its acquisition of a 51% stake in Urban Vocational College of Sichuan for a total consideration of RMB750m in Dec 2020. We believe that the acquisition is value accretive as we estimate that the acquisition cost is at around mid-teens P/E, compared to the equity funding cost of ~19x P/E based on its equity placement price of HK\$8.73/sh.

### Upward revision in earnings estimate and target price

We are revising our FY21E net profit estimate by 8%, FY22E-FY23E by 17% to factor in the earnings contribution from the newly acquired Urban Vocational College of Sichuan. Our FY21E EPS are raised by 3%, and FY22E-23E by 11% respectively, after also factoring in the dilution effect from the equity placement. As a result, our Target Price has also been raised by ~38% to HK\$13.72/sh based on our DCF model.

### The stock is now trading at a 20.8x FY21E P/E

The stock is currently trading at 20.8x FY21E P/E, in-line with the leading Higher Education operators listed on HKEX. Considering the growth rate and execution track record delivered by Edvantage, we expect the company's valuation to remain in-line with the industry leaders, in our view.

Stock code: 0382.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>13.72</b>
Previous price target (HK\$)	9.93
Current price (HK\$, 22 Jan 2021)	9.68
Upside/downside %	42%
Market cap (HK\$ m)	10,374
Market cap (US\$ m)	1,388
Avg daily turnover (US\$ m)	5.51

Source: Bloomberg, AMTD Research

### Key forecasts

(RMBm)	FY20	FY21E	FY22E	FY23E
Revenue	800	1,222	1,609	1,957
yoy %	13.6%	52.8%	31.6%	21.6%
Gross Profit	396	612	824	1,021
yoy %	15.7%	54.4%	34.7%	23.9%
Core Net Profit	291	418	583	742
yoy %	34.5%	43.4%	39.3%	27.3%
Gross margin	49.5%	50.1%	51.2%	52.2%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash
EPS	0.29	0.39	0.54	0.69
DPS	0.04	0.12	0.16	0.21
BPS	1.80	2.34	2.72	3.20

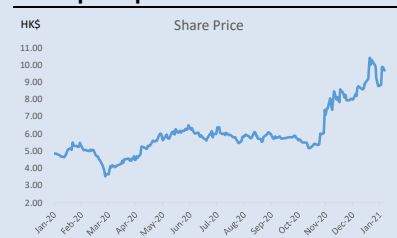
Source: Company data, AMTD Research

### Valuation

	FY20	FY21E	FY22E	FY23E
P/E	28.4	20.8	15.0	11.7
P/BV	4.5	3.5	3.0	2.5
Div. yield	0.4%	1.0%	1.4%	1.8%
ROE	15.9%	16.7%	20.0%	21.6%
ROA	8.3%	9.5%	11.3%	12.4%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

**Jacky Chan**  
**Analyst**

+852 3163 3323

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

## Valuation and Risks

### DCF Valuation: FY2021E TP at HK\$13.72, implying 29.5x Target 2021E P/E

Our target price of HK\$13.72 is based on the three-stage discounted cash flow model, implying 29.5x 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 1: DCF Valuation Breakdown**

DCF Fair Value - Base Case	
Stage 1	1,532
Stage 2	5,186
Stage 3	4,997
<b>Enterprise Value(Rmb mn)</b>	<b>11,715</b>
Net cash	439
Minority interest	-
<b>Total equity value (Rmb mn)</b>	<b>12,154</b>
<b>Total equity value (HKD mn)</b>	<b>13,977</b>
Shares outstanding (mn)	1,018
<b>FY2021 Price target (HKD)</b>	<b>13.72</b>
Implied 2021E PE	29.5x
Implied 2022E PE	21.2x
Current Share Price (HKD)	9.68
Upside	42%

Source: Company Data, AMTD Research Estimates

**Figure 2: Peers Valuation Comparison**

Date	2021/1/22	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY21E
<b>Higher Education</b>										
839 HK	China Education	17.62	4,888	32.7x	24.1x	19.3x	3.7x	3.3x	2.9x	1.8%
6169 HK	China Yuhua Education	7.31	3,149	21.6x	15.9x	13.7x	5.8x	4.7x	3.9x	3.1%
1765 HK	Hope Education	2.87	2,692	35.3x	21.3x	17.4x	3.0x	2.8x	2.5x	1.6%
1890 HK	China Kepei Education	6.08	1,581	16.9x	13.4x	11.4x	3.2x	2.7x	2.3x	2.3%
382 HK	Edvantage Group*	9.68	1,338	28.4x	20.8x	15.0x	4.5x	3.5x	3.0x	1.0%
2001 HK	China New Higher	5.70	1,166	19.3x	12.9x	9.6x	3.2x	2.5x	2.1x	2.4%
1569 HK	Minsheng Education	1.60	871	15.2x	9.8x	8.4x	1.3x	1.1x	1.0x	1.9%
2779 HK	China Xinhua Education	2.32	481	9.8x	8.1x	7.2x	1.1x	0.9x	0.8x	3.4%
1756 HK	Huali University	2.82	437	8.6x	6.9x	5.5x	1.1x	0.9x	0.8x	4.9%
1525 HK	Shanghai Gench	6.40	343	11.4x	8.1x	7.4x	1.2x	1.1x	1.0x	2.6%
<b>Total/Average</b>			16,945	19.9x	14.1x	11.5x	2.8x	2.4x	2.0x	2.5%

Source: Bloomberg, \*AMTD Research Estimates

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**IMPORTANT DISCLOSURES**


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<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

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**Analyst Certification**

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**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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