

Edvantage Group Holdings Limited

Growth on Track, Entering the M&A Harvest

1HFY21 results in-line, growth on track as capital has been deployed efficiently. We believe M&A and organic growth will remain as the company's twin engine for growth in student enrolments. At 18.6x FY21E P/E, we see value in the stock as it is on track to deliver a 43% YoY FY21E net profit growth, in our view. Maintain Buy.

Results in-line, as stock on track to achieve ~43% earnings growth

We believe Edvantage is on track to achieve our FY21E core net profit growth of 43% YoY with 48% of our full year estimate already achieved during 1HFY21. As the newly acquired Sichuan Urban Vocational and Technician colleges only contributed to two months' of the 1HFY21 financials, we expect the 2HFY21 should achieve a solid HoH growth in revenues and net profit driving the full year results to beat our expectations, in our view. Considering the earnings growth potential, we see value in the stock that is trading at a 18.6x FY21E P/E.

Solid 1HFY21, with 48% of full year results in the bag

Edvantage reported a 1HFY21 revenues of RMB554m (up 32.5% YoY) and attrib. net profit of RMB165m (up 12% YoY), respectively. After adjusting for the non-recurring and non-cash expenses, the adjusted net profit was at ~RMB200m, up 32.5% YoY, and implies 48% of our full year estimate. GP Margins maintained stable at high levels of ~50%, while adjusted net margins came in at 36%, both in-line with expectations. The company declared an interim dividend of HK\$0.055/sh, up 12% YoY, growing in-line with its reported net profit.

Reaping the benefits of M&A as student enrolments grew 77% YoY

Following the acquisition of Urban Vocational College and Urban Technician College, the company's no. of students enrolled has grown 77% YoY to 62,404 students by end-Feb 2021. These two new schools now contribute to ~33% of the total no. of students of Edvantage. Huashang College and Huashang Vocational College also saw organic growth of 3.7% YoY and 25% YoY in terms of number of students. Tuition Fees also grew organically by 9.6% and 5.1% at Huashang College and Huashang Vocational College, respectively. We believe the future capacity growth through the Jiangmen campus will be the next key volume driver of Edvantage, as we expect this new campus to have a capacity of 12,000 students.

From net cash to net gearing, but 2HFY21E should return to net cash

Following the organic and M&A expansion during the past 12 months, the company has deployed its cash balance efficiently to drive earnings growth in our view. As a result, its balance sheet has entered into 21% net gearing territory, from its previous net cash position. We expect its balance sheet to return to net cash position by year end as cash inflows from tuition fees are received. In addition to M&A activities, the company deployed RMB335m of capex during 1HFY21 and we expect the company to deploy another ~RMB300m during 2HFY21E mostly in its Zhaoqing and Jiangmen campuses, in our view.

The stock is now trading at a 18.6x FY21E P/E

The stock is currently trading at 18.6x 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 trade at a premium valuation to peers, in our view. Our DCF-based Target Price of HK\$13.72/sh implies a target FY21E P/E of ~30x.

Stock code: 0382.HK

Rating: Buy

Price target (HK\$)	13.72
Current price (HK\$, 20 Apr 2021)	8.63
Upside/downside %	59%
Market cap (HK\$ m)	9,248
Market cap (US\$ m)	1,192
Avg daily turnover (US\$ m)	4.28

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	0.08	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	25.3	18.6	13.3	10.5
P/BV	4.0	3.1	2.7	2.3
Div. yield	0.8%	1.1%	1.6%	2.0%
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

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Figure 1: 1HFY2021 Financial Results

<i>Income Statement</i>	<i>1HFY2021A</i>	<i>FY2021E</i>	<i>% of FY2021E</i>	<i>1HFY2020A</i>	<i>YoY</i>
<i>RMB'000</i>			<i>(%)</i>		<i>(%)</i>
Tuition fees recognised overtime	489,980	1,117,641	44%	381,544	28%
Boarding fees recognised overtime	43,205	103,180	42%	35,900	20%
Fees recognised overtime	21,091	1,436	1469%	812	2497%
Revenue	554,276	1,222,256	45%	418,256	33%
Cost of revenue	(277,066)	(610,409)	45%	(214,182)	29%
Gross profit	277,210	611,848	45%	204,074	36%
Other income	18,163	28,716	63%	12,368	47%
Investment income	9,407	19,542	48%	10,850	-13%
Other gains and losses	(25,599)	(2,737)	935%	2,882	-988%
Selling expenses	(6,269)	(12,533)	50%	(4,267)	47%
Administrative expenses	(76,615)	(141,791)	54%	(59,419)	29%
Finance costs	(10,644)	(16,997)	63%	(11,979)	-11%
Profit before taxation	185,653	486,048	38%	154,509	20%
Taxation	(9,751)	(15,001)	65%	(7,374)	32%
Profit for the year	175,902	471,047	37%	147,135	20%
Profit (loss) for the year/period					
Attributable to:					
- Owners of the Company	164,763	418,127	39%	147,528	12%
- Non-controlling Interests	11,139	52,920	21%	-	N/A
Adjusted Attributable Net Profit	199,906	418,127	48%	150,844	33%
	<i>1HFY2021A</i>	<i>FY2021E</i>		<i>1HFY2020A</i>	
GP Margins	50%	50%		49%	
Adjusted Net Margins	36%	34%		36%	
Net Debt to Equity	21%	Net Cash		Net Cash	

Source: Company Data, AMTD Research Estimates

Figure 2: Peers Valuation Comparison

Date		4/20/2021	Mkt cap (USD mn)	P/E			CAGR	Div. yield
				FY19	FY20	FY21E	20-23E	
H-share education								
Higher Education								
839 HK	China Education	17.72	5,189	52.8x	32.9x	24.8x	24%	1.83%
1765 HK	Hope Education	3.07	3,154	37.7x	22.9x	18.4x	38%	1.47%
6169 HK	China Yuehua Education	7.13	3,082	25.4x	21.0x	15.6x	19%	3.09%
1890 HK	China Kepei Education	5.85	1,519	23.6x	17.1x	12.8x	24%	2.41%
382 HK	Edvantage Group	8.63	1,192	25.9x	25.3x	18.6x	40%	0.80%
2001 HK	China New Higher	5.09	1,040	17.2x	17.2x	11.4x	33%	2.57%
1935 HK	JH Educational	3.64	751	23.8x	19.5x	16.1x	18%	0.49%
1569 HK	Minsheng Education	1.33	723	12.9x	29.6x	8.0x	75%	2.48%
2779 HK	China Xinhua Education	2.30	477	12.4x	10.7x	8.0x	25%	3.22%
1756 HK	Huali University	2.37	366	NA	7.2x	6.2x	18%	5.70%
1593 HK	Chenlin Education	2.65	341	NA	NA	NA	NA	NA
1525 HK	Shanghai Gench	6.25	334	11.3x	11.2x	8.3x	36%	2.61%
1969 HK	China Chunlai Education	1.45	224	NA	NA	NA	NA	NA
1598 HK	China 21st Education	0.69	104	9.0x	9.0x	NA	NA	4.64%
1851 HK	China Gingko Education	1.45	93	NA	NA	NA	NA	NA
Higher Education Average				22.9x	18.6x	13.5x	32%	2.61%

Source: Bloomberg, *AMTD Research Estimates

IMPORTANT DISCLOSURES

AMTD Investment Ratings**Stock Rating**

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

Analyst Certification

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