

China

**Overweight** (no change)

**Highlighted companies**

**China Education Group**  
0839.HK; ADD; TP: HK\$23.50

CEG achieved 24.4% yoy growth in student enrolment in its higher vocational education segment in the 21/22 school year. We expect FY8/22F revenue growth of 18% yoy, adjusted net profit growth of 21% yoy, and about 15% organic growth yoy in revenue and adjusted net profit in the next two years.

**China New Higher Education**  
2001.HK; ADD; TP: HK\$5.80

Total student enrolment in the new school year grew by 14.4% yoy, and the average tuition fee is expected to increase by 10.1% yoy. CNHE will focus on cutting operating expenses. Along with the growth potential of its non-degree exam-preparation program and school operation income, we believe there is large room for its operating margin to grow.

**China Yuhua Education Corp**  
6169.HK; ADD; TP: HK\$4.70

Yuhua recorded a significant increase in student enrolment in the 21/22 school year with its optimized student structure. Its average tuition fee is expected to be increased in the new 21/22 school year. FY8/22F top-line growth is expected to be 9.1% yoy, with 60–70% of the growth from higher enrolment and 30–40% from tuition increases.

**Summary valuation metrics**

P/E (x)	FY8/22F	FY8/23F	FY8/24F
CEG	6.8	5.9	5.2
CNHE	4.8	3.9	3.2
Yuhua	3.1	2.6	2.4
P/B (x)	FY8/22F	FY8/23F	FY8/24F
CEG	1.14	1.06	0.98
CNHE	0.97	0.83	0.70
Yuhua	0.91	0.67	0.52
Dividend yield (%)	FY8/22F	FY8/23F	FY8/24F
CEG	7.09	8.15	9.36
CNHE	6.22	7.80	9.43
Yuhua	0.00	0.00	0.00

# Education

## Support for private higher education unchanged

- The Ministry of Education recently announced its major focus for 2022, clearly stating its support for the vocational education and private higher-education sectors.
- The success of a recent acquisition case in the higher-education sector indicates the M&A channel for listed education companies is still open.
- The private higher-education companies under our coverage have already submitted or are preparing to submit their applications to convert their schools into for-profit higher-education schools; we expect the conversions to be completed by end-2022. Private higher-education schools in Shanghai have completed the process.
- Our top pick for the higher-education sector is China Education Group.

### MOE supports vocational education and private higher education

The Ministry of Education (MoE) recently announced its major focus for 2022, clearly stating its support for the vocational education and private higher-education sectors. In the announcement, the MoE reiterated its positive attitude towards private vocational education and collectivized education and encouraged collaboration between vocational education schools and corporates. The MoE will also focus on implementing the non-profit and for-profit system for private-education companies at the provincial level. Establishing a vocational college entrance examination for vocational high school and technical school students will also be a major focus of the MoE in 2022. The announcement indicates the government's determination to reform the education system and its continued support for the vocational education and private higher-education sectors. We expect the favorable policy to remain stable for the foreseeable future.

### Recent M&A case indicates the channel is still open

A US-listed education company recently announced its acquisition of an independent three-year college and a four-year college in China with total student enrollment of over 4,200. The success of this acquisition indicates that the M&A channel for listed education companies to pursue further development is still open. We expect the channel to remain open, as collectivized education is supported by the MoE. China Education Group, under our coverage, has top-ranking experience and capability to acquire and integrate schools, and it will resume its M&A projects once its share price returns to normal.

### The implementation of for-profit higher education is ongoing

In Apr 2021, a HK-listed higher education school in Shanghai was approved by the local government to become a for-profit higher-education school. The private higher-education companies under our coverage, such as China Education Group, have already submitted or are preparing to submit applications to convert their schools into for-profit higher-education schools. The companies do not see any delays in the process by the authorities, but the process could be long, as it will involve various transformation procedures with different government departments. We expect the conversions to be completed by as early as end-2022.

### Vocational college entrance examination announced

The Chongqing government recently issued a notice about the college entrance examination, making it clear that in addition to candidates for the general college entrance examination, the vocational undergraduate schools can recruit candidates from the vocational college entrance examination. Graduates of secondary vocational schools (including ordinary secondary schools, adult secondary schools, vocational high schools, and technical schools) can participate in the vocational college entrance examination and be admitted to vocational undergraduate programs. Graduates from vocational undergraduate schools will be awarded the same undergraduate degrees and certificates as graduates from general undergraduate schools. We expect other provinces to announce and implement vocational college entrance examinations gradually in 2022.

### Our sector top pick is China Education Group

After the recent share price correction, the private higher-education sector is trading at quite a low valuation, in our view. Our top sector pick is China Education Group, because of 1) its strong M&A track record and successful integration of acquired schools, and 2) its large growth potential to benefit from the supportive policy for vocational education.

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**Figure 1: Comps of higher-education companies under our coverage**

Company Name	Ticker	Rec.	TP	Up/down	Last price	Curr.	Mkt cap (US\$bn)	Year end	PE		EPS CAGR		PEG		PB		EV/EBITDA		ROE		Dividend yield		Net gearing
									21F	22F	20-23E	20-23E	21F	22F	21F	22F	21F	22F	21F	22F	21F	22F	
CEG	839 HK	ADD	23.5	200%	7.8	HKD	2.2	Aug	6.8	5.9	13.3	(0.2)	1.1	1.1	7.7	6.7	17.1	18.2	7.1	8.2	42.6		
CNHE	2001 HK	ADD	5.8	106%	2.8	HKD	0.6	Aug	4.8	3.9	23.7	0.2	1.0	0.8	5.2	4.1	21.7	23.2	6.2	7.8	70.0		
Yuhua	6169 HK	ADD	4.7	141%	2.0	HKD	0.8	Aug	3.1	2.6	(2.1)	(1.5)	0.9	0.7	1.8	0.9	34.3	29.4	0.0	0.0	(21.2)		
Huaili	1756 HK	ADD	1.4	34%	1.0	HKD	0.2	Aug	3.1	2.6	14.5	0.2	0.4	0.3	4.4	4.0	11.7	12.9	13.0	15.2	53.6		

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2021		
619 companies under coverage for quarter ended on 31 Dec 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

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### Stock Ratings Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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