

Hong Kong

**ADD** (no change)

Consensus ratings\*: Buy 15 Hold 1 Sell 0

Current price: HK\$2.41  
 Target price: ▼ HK\$4.90  
 Previous target: HK\$5.80  
 Up/downside: 103.3%  
 CGI / Consensus: -6.1%

Reuters: 2001.HK  
 Bloomberg: 2001 HK  
 Market cap: US\$479.9m  
 HK\$3,765m

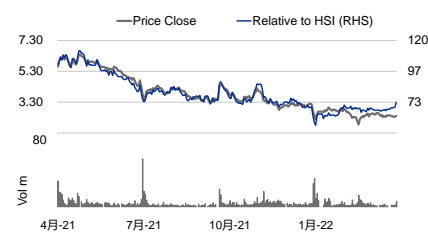
Average daily turnover: US\$1.41m  
 HK\$11.11m

Current shares o/s: 1,541m  
 Free float: 37.9%

\*Source: Bloomberg

**Key changes in this note**

- FY22F EPS decreased by 15.7%.
- FY23F EPS decreased by 18.0%.
- FY24F EPS decreased by 16.6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.3	-10.1	-56.7
Relative (%)	8.5	8	-25

Major shareholders	% held
Mr. Li Xiaoxuan	55.3

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## China New Higher Education

### Continued spending on teaching quality

- CNHE reported 1H FY8/22 revenue of Rmb1,036m, up 31.7% yoy, and net profit of Rmb345m, up 17.2% yoy, in line with our expectations. The interim dividend payout ratio for the period improved from 30% last year to 50%.
- In the next few years, CNHE will continue to focus on high-quality organic growth instead of high-speed enrolment growth and M&A.
- With the optimized student structure, we expect CNHE's average tuition to grow by over a 10% CAGR in the next three years.
- Reiterate Add with a new DCF-based TP of HK\$4.9.

### Results in line, high-quality organic growth to continue

CNHE reported a 32.0% yoy tuition revenue increase and a 28.9% yoy boarding revenue increase in 1H FY8/22. Total student enrolment in the 21/22 school year was over 140k. Because of a 71.5% increase in teaching costs and a 31.5% increase in teacher compensation, its 1H FY8/22 gross margin dropped by 5.2% pts yoy to 40.2%. The ratio of selling expenses to total revenue grew by 0.5% pts, as CNHE established a department for brand building and stepped up its campaigns to improve brand value. The ratio of administrative expenses to total revenue fell by 0.9% pts yoy. CNHE's financing costs dropped by 82 bps to below 5% during the period, as it actively replaced high-cost debt with low-cost debt. The interim dividend payout ratio for the period improved from 30% last year to 50%. In the next few years, CNHE will continue to focus on high-quality organic growth instead of high-speed enrolment growth and M&A.

### Optimizing the enrolment structure

Since CNHE will focus on high-quality organic growth, its enrollment growth is expected to slow down and become more stable, but its student structure is expected to be optimized to drive average tuition revenue. In the 21/22 school year, the percentage of CNHE's undergraduate students in its total enrolment improved by 5% pts yoy with a 20.2% yoy increase in the number of new undergraduates, and its junior college to undergraduate upgrading program (92.0% yoy growth for the junior college to undergraduate upgrading program with about 4.5k new students). In its Yunnan School, the percentage of undergraduate students was about 50%, and it is expected to increase in the next few years. With the optimized student structure, we expect CNHE's average tuition to grow by over a 10% CAGR in the next three years.

### Improving teaching quality and diversifying its revenue stream

In 1H FY8/22, CNHE invested heavily into improving teaching quality. Teaching costs rose by 71.5% yoy, driven by a 33.6%, 120.2% and 225.3% yoy cost increase in student activities and competitions, teaching optimization and school-enterprise cooperation, and high-quality employment support, respectively. CNHE spent Rmb145m to upgrade practical training facilities, laboratories and smart classrooms, and Rmb110m to upgrade the campus and commercial area. In the next three years, CNHE will continue to invest in improving teaching quality, which in our opinion, may continue to hurt margins, and it will invest at least Rmb400m in upgrading its campuses and facilities. CNHE is also diversifying its revenue stream with 38.3% yoy organic growth in revenue from other business, driven by 33.9% yoy growth in commercial and supporting revenue and 35.0% yoy growth in exam-preparation revenue.

### Reiterate Add with a new DCF-based TP of HK\$4.9

We cut our forecast for FY8/22-24F by 15.7%, 18.0% and 16.6%, respectively, to reflect CNHE's continued investment in teaching quality, which will put pressure on its gross margin. Positive catalysts include bigger tuition fee increases and beneficial vocational education policies. The risks include any negative government policies.

Financial Summary	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Revenue (Rmbm)	1,292	1,497	1,826	2,161	2,583
Operating EBITDA (Rmbm)	738	948	1,184	1,368	1,589
Net Profit (Rmbm)	432.7	567.8	596.0	727.2	895.0
Normalised EPS (Rmb)	0.28	0.37	0.39	0.47	0.58
Normalised EPS Growth	9.6%	31.2%	5.0%	22.0%	23.1%
FD Normalised P/E (x)	7.04	5.42	5.16	4.23	3.44
DPS (Rmb)	0.07	0.07	0.12	0.14	0.17
Dividend Yield	3.40%	3.40%	5.81%	7.09%	8.72%
EV/EBITDA (x)	6.16	5.79	4.75	3.82	3.07
P/FCFE (x)	5.89	NA	12.24	3.75	3.74
Net Gearing	51.4%	70.0%	64.4%	46.0%	32.1%
P/BV (x)	1.33	1.02	0.90	0.78	0.67
ROE	18.0%	21.3%	18.5%	19.7%	21.1%
% Change In Normalised EPS Estimates			(15.7%)	(18.0%)	(16.6%)
Normalised EPS/consensus EPS (x)			0.86	0.89	0.93

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

# Continued spending on teaching quality

**Figure 1: CNHE earnings results**

(Rmb m)	1H FY8/21	1H FY8/22
<b>Revenue</b>	<b>786.5</b>	<b>1,036.1</b>
<i>yoy change</i>		<b>31.7%</b>
Cost of revenue	-429.7	-619.6
<b>Gross profit</b>	<b>356.8</b>	<b>416.5</b>
<b>Gross margin</b>	<b>45.4%</b>	<b>40.2%</b>
<i>yoy change</i>		<b>-5.2%</b>
Selling expenses	-8.3	-15.6
<i>As % of revenue</i>	1.1%	1.5%
Administrative expenses	-51.7	-58.5
<i>As % of revenue</i>	6.6%	5.7%
Other gains and losses	138.7	173.4
Other expenses	-26.5	-35.8
<b>Operating profit</b>	<b>409.0</b>	<b>480.0</b>
<i>yoy growth</i>		<b>17.4%</b>
<b>Operating margin</b>	<b>52.0%</b>	<b>46.3%</b>
<i>yoy change</i>		<b>-5.7%</b>
Finance costs	-65.3	-65.9
<b>Profit before taxation</b>	<b>343.7</b>	<b>414.1</b>
<b>PBT margin</b>	<b>43.7%</b>	<b>40.0%</b>
Taxation	-38.7	-58.5
<i>Effective tax rate</i>	-11.3%	-14.1%
Profit from continuing operations	305.0	355.6
Non-controlling interests	10.4	10.2
<b>Total profit attributable to shareholders</b>	<b>294.6</b>	<b>345.4</b>
<i>yoy change</i>		<b>17.2%</b>
<b>PAT margin</b>	<b>37.5%</b>	<b>33.3%</b>

SOURCES: CGIS RESEARCH, COMPANY DATA

**Figure 2: CNHE forecasts revision**

(Rmb m)	FY8/22F			FY8/23F			FY8/24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	1,811.5	1,825.6	0.8%	2,184.1	2,160.9	-1.1%	2,564.3	2,583.2	0.7%
Gross margin	45.1%	41.6%	-3.5% pts	45.6%	41.8%	-3.8% pts	46.1%	42.0%	-4.1% pts
Operating margin	56.2%	49.2%	-7.0% pts	56.0%	48.6%	-7.4% pts	56.0%	48.2%	-7.8% pts
Net profit	707.1	596.0	-15.7%	886.6	727.2	-18.0%	1,072.6	895.0	-16.6%

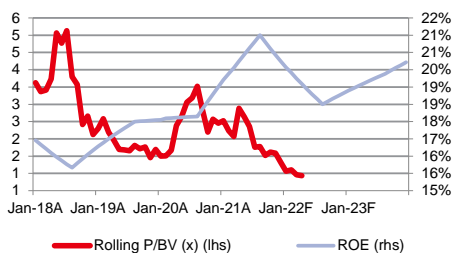
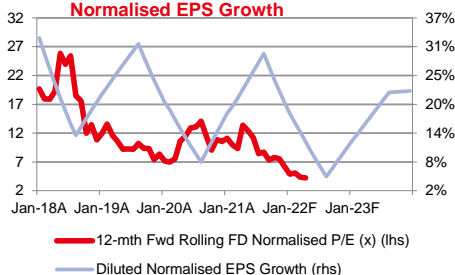
SOURCES: CGIS RESEARCH, COMPANY DATA

**Figure 3: CNHE DCF valuation**

FCF computation (Rmb m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
EBIT	898.9	1,050.9	1,245.4	1,257.8	1,195.0	1,147.2	1,112.7	1,079.4	1,047.0	1,015.6	1,025.7	1,036.0
Taxes	-98.4	-119.2	-145.8	-226.4	-215.1	-206.5	-200.3	-194.3	-188.5	-182.8	-184.6	-186.5
NOPAT	800.5	931.7	1,099.6	1,031.4	979.9	940.7	912.4	885.1	858.5	832.8	841.1	849.5
<i>NOPAT growth</i>	9.1%	16.4%	18.0%	-6.2%	-5.0%	-4.0%	-3.0%	-3.0%	-3.0%	-3.0%	1.0%	1.0%
D&A	285.0	317.0	343.1	346.6	350.0	353.5	357.1	360.6	364.2	367.9	371.6	375.3
Funds from operation	1,085.5	1,248.7	1,442.7	1,378.0	1,329.9	1,294.2	1,269.5	1,245.7	1,222.8	1,200.6	1,212.6	1,224.8
Change in net working Capital	-134.0	173.0	-119.7	-120.9	-122.1	-123.3	-124.5	-125.8	-127.0	-128.3	-129.6	-130.9
Cash flow from operation	951.5	1,421.7	1,323.0	1,257.1	1,207.8	1,170.9	1,145.0	1,119.9	1,095.7	1,072.3	1,083.1	1,093.9
Capex	-600.0	-500.0	-400.0	-400.0	-400.0	-400.0	-400.0	-400.0	-400.0	-400.0	-400.0	-400.0
Free cash flow from operation	351.5	921.7	923.0	857.1	807.8	770.9	745.0	719.9	695.7	672.3	683.1	693.9
<i>FCF growth</i>	-7.7%	162.2%	0.1%	-7.1%	-5.8%	-4.6%	-3.4%	-3.4%	-3.4%	-3.4%	1.6%	1.6%
Terminal free cash flow	8,103.2	<b>Assumptions</b>										
Total discounted free cash flow	5,455.0	Equity Beta 0.90										
Present value of terminal free cash flow	3,197.9	Risk Free Rate 3.0%										
		Market Risk Premium 7.0%										
Total present value of forecasted free cash flows	8,652.9	Cost of Equity 9.3%										
Less: Net Debt	2,341.5	Cost of Debt 6.0%										
Equity Value	6,311.4	Effective Tax Rate 25.0%										
No. Shares (millions)	1,541.1	Target Gearing 10.0%										
Per Share Equity Value (Rmb)	4.1	WACC 8.8%										
Exchange rate	0.8	Terminal Growth Rate 3.0%										
<b>Target price (HK\$)</b>	<b>4.9</b>											

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

## BY THE NUMBERS

**P/BV vs ROE**

**12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth**


### Profit & Loss

(Rmbm)	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
<b>Total Net Revenues</b>	<b>1,292</b>	<b>1,497</b>	<b>1,826</b>	<b>2,161</b>	<b>2,583</b>
<b>Gross Profit</b>	<b>617</b>	<b>667</b>	<b>759</b>	<b>902</b>	<b>1,084</b>
<b>Operating EBITDA</b>	<b>738</b>	<b>948</b>	<b>1,184</b>	<b>1,368</b>	<b>1,589</b>
Depreciation And Amortisation	-79	-128	-285	-317	-343
<b>Operating EBIT</b>	<b>660</b>	<b>820</b>	<b>899</b>	<b>1,051</b>	<b>1,245</b>
Financial Income/(Expense)	-113	-142	-181	-181	-181
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>546</b>	<b>678</b>	<b>718</b>	<b>870</b>	<b>1,065</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>546</b>	<b>678</b>	<b>718</b>	<b>870</b>	<b>1,065</b>
Taxation	-64	-86	-98	-119	-146
Exceptional Income - post-tax	0	0	0	0	0
<b>Profit After Tax</b>	<b>482</b>	<b>592</b>	<b>620</b>	<b>751</b>	<b>919</b>
Minority Interests	-49	-24	-24	-24	-24
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
<b>Net Profit</b>	<b>433</b>	<b>568</b>	<b>596</b>	<b>727</b>	<b>895</b>
Normalised Net Profit	482	592	620	751	919
<b>Fully Diluted Normalised Profit</b>	<b>433</b>	<b>568</b>	<b>596</b>	<b>727</b>	<b>895</b>

### Cash Flow

(Rmbm)	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
EBITDA	738.2	947.9	1,183.9	1,367.9	1,588.5
Cash Flow from Invt. & Assoc.	(1.7)	(6.2)	0.0	0.0	0.0
Change In Working Capital	(328.6)	(216.8)	(134.0)	173.0	(119.7)
(Incr)/Decr in Total Provisions	(15.8)	8.7	0.0	0.0	0.0
Other Non-Cash (Income)/Expense	17.1	33.9	0.0	0.0	0.0
Other Operating Cashflow	(246.3)	139.2	180.6	180.6	180.6
Net Interest (Paid)/Received	(113.3)	(142.1)	(180.6)	(180.6)	(180.6)
Tax Paid	(4.1)	(35.7)	(98.4)	(119.2)	(145.8)
<b>Cashflow From Operations</b>	<b>45.5</b>	<b>728.8</b>	<b>951.5</b>	<b>1,421.7</b>	<b>1,323.0</b>
Capex	(174.2)	(334.4)	(600.0)	(500.0)	(400.0)
Disposals Of FAs/subsidiaries	5.7	28.2	0.0	0.0	0.0
Acq. Of Subsidiaries/Investments	(42.7)	(517.3)	0.0	0.0	0.0
Other Investing Cashflow	173.7	(198.0)	(100.0)	(100.0)	(100.0)
<b>Cash Flow From Investing</b>	<b>(37.5)</b>	<b>(1,021.5)</b>	<b>(700.0)</b>	<b>(600.0)</b>	<b>(500.0)</b>
Debt Raised/(repaid)	509.0	74.5	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.3	847.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(114.0)	(149.9)	(178.8)	(218.1)	(268.5)
Preferred Dividends					
Other Financing Cashflow	(353.9)	(310.8)	(180.6)	(180.6)	(180.6)
<b>Cash Flow From Financing</b>	<b>41.3</b>	<b>460.7</b>	<b>(359.4)</b>	<b>(398.7)</b>	<b>(449.1)</b>
Total Cash Generated	49.3	168.0	(107.9)	423.0	373.9
<b>Free Cashflow To Equity</b>	<b>516.9</b>	<b>(218.3)</b>	<b>251.5</b>	<b>821.7</b>	<b>823.0</b>
<b>Free Cashflow To Firm</b>	<b>121.3</b>	<b>(150.6)</b>	<b>432.1</b>	<b>1,002.3</b>	<b>1,003.6</b>

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

## BY THE NUMBERS... cont'd

<b>Balance Sheet</b>					
<b>(Rmbm)</b>	<b>Aug-20A</b>	<b>Aug-21A</b>	<b>Aug-22F</b>	<b>Aug-23F</b>	<b>Aug-24F</b>
Total Cash And Equivalents	608	776	668	1,091	1,465
Total Debtors	411	566	598	637	684
Inventories					
Total Other Current Assets	118	0	0	0	0
<b>Total Current Assets</b>	<b>1,138</b>	<b>1,342</b>	<b>1,266</b>	<b>1,728</b>	<b>2,149</b>
Fixed Assets	3,314	4,440	4,755	4,938	4,995
Total Investments	0	0	0	0	0
Intangible Assets	265	434	434	434	434
Total Other Non-Current Assets	1,139	1,716	1,816	1,916	2,016
<b>Total Non-current Assets</b>	<b>4,719</b>	<b>6,590</b>	<b>7,005</b>	<b>7,288</b>	<b>7,445</b>
Short-term Debt	728	1,221	1,221	1,221	1,221
Current Portion of Long-Term Debt					
Total Creditors	1,303	1,320	1,219	1,431	1,357
Other Current Liabilities	27	67	67	67	67
<b>Total Current Liabilities</b>	<b>2,058</b>	<b>2,609</b>	<b>2,507</b>	<b>2,719</b>	<b>2,646</b>
Total Long-term Debt	1,168	1,788	1,788	1,788	1,788
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	128	343	343	343	343
<b>Total Non-current Liabilities</b>	<b>1,296</b>	<b>2,131</b>	<b>2,131</b>	<b>2,131</b>	<b>2,131</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>3,354</b>	<b>4,740</b>	<b>4,638</b>	<b>4,850</b>	<b>4,777</b>
Shareholders' Equity	2,320	3,012	3,430	3,939	4,565
Minority Interests	183	180	204	228	252
<b>Total Equity</b>	<b>2,503</b>	<b>3,192</b>	<b>3,633</b>	<b>4,166</b>	<b>4,817</b>

<b>Key Ratios</b>					
	<b>Aug-20A</b>	<b>Aug-21A</b>	<b>Aug-22F</b>	<b>Aug-23F</b>	<b>Aug-24F</b>
Revenue Growth	18.7%	15.9%	21.9%	18.4%	19.5%
Operating EBITDA Growth	9.0%	28.4%	24.9%	15.5%	16.1%
Operating EBITDA Margin	57.1%	63.3%	64.8%	63.3%	61.5%
Net Cash Per Share (Rmb)	-0.84	-1.45	-1.52	-1.24	-1.00
BVPS (Rmb)	1.51	1.95	2.23	2.56	2.96
Gross Interest Cover	5.82	5.77	4.98	5.82	6.90
Effective Tax Rate	11.8%	12.7%	13.7%	13.7%	13.7%
Net Dividend Payout Ratio	24.2%	18.5%	30.0%	30.0%	30.0%
Accounts Receivables Days	-	-	-	-	-
Inventory Days	-	-	-	-	-
Accounts Payables Days	-	-	-	-	-
ROIC (%)	16.4%	20.9%	15.6%	16.6%	19.4%
ROCE (%)	14.9%	15.5%	14.0%	15.2%	16.6%
Return On Average Assets	10.0%	10.6%	9.9%	10.8%	11.8%

<b>Key Drivers</b>					
	<b>Aug-20A</b>	<b>Aug-21A</b>	<b>Aug-22F</b>	<b>Aug-23F</b>	<b>Aug-24F</b>
Total student numbers growth (%)	23.6%	10.0%	4.8%	5.1%	6.6%
Average tuition increase (%)	75.2%	3.2%	11.7%	12.7%	12.1%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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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.

### Country Ratings Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
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.

## Analyst Certification

The analyst who is primarily responsible for the content of this report, in whole or in part, certifies that with respect to the securities or issuer covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject, securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by the analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the securities covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the securities covered in this research report three business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong-listed companies covered in this report; and (4) have any financial interests in the Hong Kong-listed companies covered in this report.

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