

Hong Kong

ADD (no change)

Consensus ratings*: Buy 15 Hold 3 Sell 0

Current price: HK\$1.20
 Target price: ▼ HK\$3.30
 Previous target: HK\$4.70
 Up/downside: 175.0%
 CGI / Consensus: -23.1%

Reuters: 6169.HK
 Bloomberg: 6169 HK
 Market cap: US\$549.7m
 HK\$4,313m

Average daily turnover: US\$5.40m
 HK\$42.01m

Current shares o/s: 3,318m
 Free float: 34.5%

*Source: Bloomberg

Key changes in this note

- FY8/22F EPS decreased by 24.9%.
- FY8/23F EPS decreased by 29.7%.
- FY8/24F EPS decreased by 29.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-30.6	-29	-83.5
Relative (%)	-26.3	-17.6	-57.9

Major shareholders	% held
Li Guangyu	65.5

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China Yuhua Education Corp

Focusing on high-quality vocational education

- Excluding the contribution of K-9 schools, Yuhua reported 1H FY8/22 revenue of Rmb1.2bn, up 4.8% yoy, and adjusted net profit of Rmb576m, down 7.3% yoy, below our expectation because of higher investment to improve education quality.
- We expect Yuhua to continue to invest in improving its teaching quality and expect its FY8/22F top line to grow by 8.3% yoy and adjusted net profit to drop by 9.9% yoy.
- Yuhua plans to increase tuition fees for its Shandong School and Hunan School in the next school year.
- Yuhua is upgrading its three high schools to junior colleges. If everything goes smoothly, Zhengzhou Software College is expected to admit junior college students in the 22/23 school year.
- Reiterate Add with new DCF-based TP of HK\$3.30.

Teaching quality investment hurt margins

Yuhua reported 1H FY8/22 revenue of Rmb1.2bn, up 4.8% yoy, excluding the contribution from K-9 schools. Its gross margin in 1H FY8/22 narrowed by 10.6% pts yoy to 56.6%, as it expanded its teaching team and increased its investment in facility renovation, course development and student activities to respond to the authority's proposal to develop high-quality vocational education. The selling expenses and administrative expenses to total revenue ratios fell by 0.7% pt and 0.6% pt, respectively, yoy in 1H FY8/22. Yuhua's operating profit in 1H FY8/22 was Rmb553m, down 33.1% yoy, owing to a lower gross margin. Adjusted net profit in the period was Rmb576m, down 7.3% yoy, excluding the contribution of K-9 schools, below our expectation, because of lower-than-expected margins. We expect Yuhua to continue to invest in high-quality teaching resources and expect its FY8/22F top line to grow by 8.3% yoy and adjusted net profit to drop by 9.9% yoy.

Capacity expansion to develop good vocational education schools

The new Vocational Education Law recently announced by the National Congress reiterated support for vocational education, especially high-quality vocational education. To respond to the suggestion, Yuhua invested heavily in its teaching quality by introducing teachers with high qualifications, raising the salaries of its teaching staff, upgrading teaching facilities, and so forth. The student intake quota for the new school year has yet to be released, but Yuhua plans to increase tuition fees for its Shandong Yingcai University (Shandong School) and Hunan International Economics University (Hunan School) in the next school year. The site selection for Hunan School's new campus is under way, but the progress has been delayed by the pandemic rebound. Yuhua is upgrading its three high schools to junior colleges, and will upgrade them to undergraduate colleges in the next five to 10 years. Among the three schools, Zhengzhou Software College was reviewed by the local authority last month and is highly expected to be approved. After that, the remaining two steps are approval by the provincial government and the Ministry of Education (MoE). This is expected to be completed before Sep 2022 if everything goes smoothly. Yuhua plans to invest Rmb600m in each school once the school is approved for the upgrade.

Reiterate Add with new DCF-based TP of HK\$3.30

We cut our forecast for FY8/22-24F by 24.9%, 29.7% and 29.8%, respectively, to reflect the margin pressure, as Yuhua continues to improve teaching quality, and step up its campus expansion and school upgrading. We still like China Yuhua Education because of its 1) organic growth potential, 2) advantage in higher vocational education, and 3) cheap valuation. A positive catalyst is better margin expansion. Risk includes any negative government policies for the education sector.

Financial Summary

	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Revenue (Rmbm)	2,032	2,259	2,446	2,691	2,945
Operating EBITDA (Rmbm)	1,123	2,400	1,446	1,623	1,811
Net Profit (Rmbm)	39	1,689	1,172	1,301	1,429
Normalised EPS (Rmb)	0.24	0.65	0.35	0.39	0.43
Normalised EPS Growth	(3%)	175%	(46%)	11%	10%
FD Normalised P/E (x)	4.25	1.55	2.86	2.57	2.34
DPS (Rmb)	0.14	0.00	0.00	0.00	0.00
Dividend Yield	14.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	2.44	1.07	1.25	0.55	-0.12
P/FCFE (x)	13.25	6.11	4.34	3.66	3.01
Net Gearing	(25.1%)	(21.2%)	(31.5%)	(39.3%)	(46.1%)
P/BV (x)	0.92	0.89	0.67	0.53	0.43
ROE	21.3%	58.6%	26.9%	23.1%	20.3%
% Change In Normalised EPS Estimates			(24.9%)	(29.7%)	(29.8%)
Normalised EPS/consensus EPS (x)			0.92	0.94	0.92

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Focusing on high-quality vocational education

Figure 1: Yuhua results review

FYE Aug (Rmb m)	1H FY8/21	1H FY8/22	yoy
Revenue	1,148.7	1,203.7	4.8%
Cost of revenue	-376.7	-521.9	38.5%
Gross profit	771.9	681.8	-11.7%
Gross margin	67.2%	56.6%	-10.6% pts
Selling expenses	-26.8	-19.3	-28.2%
As % of revenue	2.3%	1.6%	-0.7% pts
Administrative expenses	-104.8	-102.9	-1.8%
As % of revenue	9.1%	8.6%	-0.6% pts
Other income	21.8	7.0	-67.8%
Other gains/(losses)	164.2	-13.8	N/A
Operating profit	826.4	552.8	-33.1%
Operating margin	71.9%	45.9%	-26.0% pts
Finance income	14.1	18.6	32.3%
Finance expenses	-44.4	-27.1	-38.9%
Profit before taxation	796.1	544.3	-31.6%
Income tax expense	4.8	3.5	-26.6%
Profit for the year	800.9	547.8	-31.6%
Profit attributable to shareholders	849.2	542.3	-36.1%
Extraordinary items	-227.9	33.5	-114.7%
Adjusted Net Profit	621.3	575.9	-7.3%

SOURCES: CGIS RESEARCH, COMPANY REPORTS

Figure 2: Yuhua earnings revisions

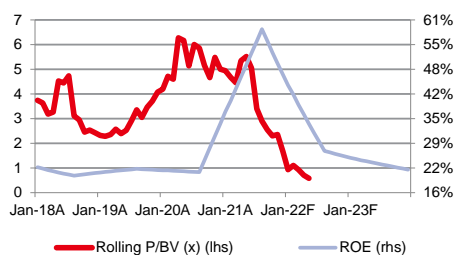
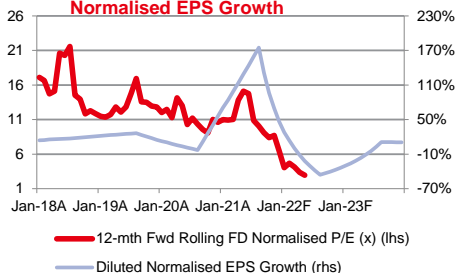
FYE Aug (Rmb m)	FY8/22F			FY8/23F			FY8/24F		
	Old	New	% change	Old	New	% change	Old	New	% change
Net revenue	2,462.4	2,446.5	-0.6%	2,687.0	2,690.9	0.1%	2,935.2	2,945.0	0.3%
Gross margin	74.8%	60.0%	-14.8% pts	79.8%	60.0%	-19.8% pts	79.8%	60.0%	-19.8% pts
Operating margin	66.2%	50.2%	-16.0% pts	71.6%	50.4%	-21.3% pts	72.1%	50.5%	-21.5% pts
Net profit	1,559.6	1,172.0	-24.9%	1,850.4	1,301.1	-29.7%	2,036.7	1,429.2	-29.8%
Adjusted net profit	1,559.6	1,172.0	-24.9%	1,850.4	1,301.1	-29.7%	2,036.7	1,429.2	-29.8%

SOURCES: CGIS RESEARCH, COMPANY REPORTS

Figure 3: Yuhua DCF valuation

FCF computation (Rmb m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F
EBIT	1,227.1	1,355.0	1,487.5	1,442.9	1,370.7	1,274.8	1,160.0	1,055.6	981.7	932.7	904.7	904.7
Taxes	7.3	13.5	14.7	14.3	13.6	12.6	11.5	10.4	9.7	9.2	9.0	9.0
NOPAT	1,234.5	1,368.5	1,502.2	1,457.1	1,384.3	1,287.4	1,171.5	1,066.1	991.5	941.9	913.6	913.6
NOPAT growth	-30.3%	10.9%	9.8%	-3.0%	-5.0%	-7.0%	-9.0%	-9.0%	-7.0%	-5.0%	-3.0%	0.0%
D&A	219.0	268.4	323.7	333.4	343.4	353.7	364.3	375.3	386.5	398.1	410.1	422.4
Funds from operation	1,453.4	1,636.9	1,825.9	1,790.6	1,727.7	1,641.1	1,535.9	1,441.4	1,378.0	1,340.0	1,323.7	1,336.0
Change in net working Capital	149.8	216.1	225.5	227.7	230.0	232.3	234.6	237.0	239.3	241.7	244.2	246.6
Cash flow from operation	1,603.2	1,853.0	2,051.4	2,018.3	1,957.7	1,873.4	1,770.5	1,678.3	1,617.3	1,581.7	1,567.9	1,582.6
Capex	-800.0	-900.0	-900.0	-927.0	-954.8	-926.2	-898.4	-871.4	-845.3	-819.9	-795.3	-771.5
Free cash flow from operation	803.2	953.0	1,151.4	1,091.3	1,002.9	947.3	872.1	806.9	772.0	761.8	772.5	811.1
FCF growth	-59.1%	18.7%	20.8%	-5.2%	-8.1%	-5.5%	-7.9%	-7.5%	-4.3%	-1.3%	1.4%	5.0%
Terminal free cash flow	6,759.4	Assumptions										
Total discounted free cash flow	5,568.5	Cost of equity 12.8%										
Present value of terminal free cash flow	1,920.4	Risk free 3.0%										
Market Risk Premium 7.5%												
Beta 1.30												
Total present value of forecasted free cash flows	7,488.9	Cost of debt (after tax) 3.8%										
Less: Net Debt	-1,727.1	Target Debt / (Debt + Equity) 7.0%										
Equity Value	9,216.1	WACC 12.1%										
No. Shares (millions)	3,317.8	Terminal growth 2.0%										
Per Share Equity Value (Rmb)	2.8											
Exchange rate	0.8											
Target price (HK\$)	3.30											

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
Total Net Revenues	2,032	2,259	2,446	2,691	2,945
Gross Profit	1,254	1,519	1,468	1,615	1,767
Operating EBITDA	1,123	2,400	1,446	1,623	1,811
Depreciation And Amortisation	-155	-162	-219	-268	-324
Operating EBIT	968	2,237	1,227	1,355	1,487
Financial Income/(Expense)	-83	-53	-30	-30	-30
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	885	2,184	1,197	1,325	1,457
Exceptional Items					
Pre-tax Profit	885	2,184	1,197	1,325	1,457
Taxation	10	9	7	13	15
Exceptional Income - post-tax	-739	-476	0	0	0
Profit After Tax	156	1,717	1,204	1,338	1,472
Minority Interests	-117	-28	-33	-37	-43
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	39	1,689	1,172	1,301	1,429
Normalised Net Profit	895	2,193	1,204	1,338	1,472
Fully Diluted Normalised Profit	778	2,165	1,172	1,301	1,429

Cash Flow

(Rmbm)	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
EBITDA	1,123	2,400	1,446	1,623	1,811
Cash Flow from Invt. & Assoc.	-977	-691	-249	-298	-354
Change In Working Capital	-356	269	150	216	225
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1,120	-155	254	304	359
Other Operating Cashflow					
Net Interest (Paid)/Received	-111	-71	-60	-60	-60
Tax Paid					
Cashflow From Operations	799	1,751	1,541	1,785	1,982
Capex	-577	-236	-800	-900	-900
Disposals Of FAs/subsidiaries	210	69	0	0	0
Acq. Of Subsidiaries/investments	-454	-153	0	0	0
Other Investing Cashflow	501	6	30	30	30
Cash Flow From Investing	-320	-314	-770	-870	-870
Debt Raised/(repaid)	-229	-889	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased					
Dividends Paid	-465	-648	0	0	0
Preferred Dividends					
Other Financing Cashflow	0	0	0	0	0
Cash Flow From Financing	-694	-1,537	0	0	0
Total Cash Generated	-215	-100	771	915	1,112
Free Cashflow To Equity	250	548	771	915	1,112
Free Cashflow To Firm	589	1,508	831	975	1,172

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet					
(Rmbm)	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Total Cash And Equivalents	2,175	1,656	2,427	3,342	4,454
Total Debtors	57	105	88	96	106
Inventories					
Total Other Current Assets	204	151	151	151	151
Total Current Assets	2,437	1,911	2,665	3,589	4,710
Fixed Assets	3,792	3,624	4,205	4,837	5,413
Total Investments	0	0	0	0	0
Intangible Assets	1,551	1,538	1,538	1,538	1,538
Total Other Non-Current Assets	1,939	1,837	1,832	1,827	1,822
Total Non-current Assets	7,282	6,999	7,575	8,201	8,772
Short-term Debt	515	215	215	215	215
Current Portion of Long-Term Debt					
Total Creditors	616	1,087	1,126	1,239	1,356
Other Current Liabilities	925	904	991	1,089	1,192
Total Current Liabilities	2,056	2,207	2,332	2,543	2,763
Total Long-term Debt	633	640	640	640	640
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,941	2,281	2,281	2,281	2,281
Total Non-current Liabilities	3,574	2,921	2,921	2,921	2,921
Total Provisions	0	0	0	0	0
Total Liabilities	5,630	5,128	5,253	5,465	5,684
Shareholders' Equity	3,630	3,757	4,962	6,300	7,772
Minority Interests	459	25	25	25	25
Total Equity	4,089	3,783	4,987	6,326	7,798

Key Ratios					
	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Revenue Growth	18.5%	11.2%	8.3%	10.0%	9.4%
Operating EBITDA Growth	12%	114%	(40%)	12%	12%
Operating EBITDA Margin	55%	106%	59%	60%	62%
Net Cash Per Share (Rmb)	0.31	0.24	0.47	0.75	1.08
BVPS (Rmb)	1.09	1.13	1.50	1.90	2.34
Gross Interest Cover	8.74	31.40	20.45	22.58	24.79
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	67.0%	NA	NA	NA	NA
Accounts Receivables Days	12.47	13.08	14.35	12.49	12.55
Inventory Days	-	-	-	-	-
Accounts Payables Days	-	-	-	-	-
ROIC (%)	16.7%	37.1%	23.2%	23.7%	24.2%
ROCE (%)	16.5%	45.7%	24.0%	21.3%	19.2%
Return On Average Assets	10.0%	24.1%	12.9%	12.4%	11.9%

Key Drivers					
	Aug-20A	Aug-21A	Aug-22F	Aug-23F	Aug-24F
Overall student enrolment growth (%)	43.8%	6.1%	-7.5%	5.0%	1.2%
Blended ASP growth (%)	-17.6%	4.8%	17.1%	4.7%	8.1%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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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%

Spitzer Chart for stock being researched (2 year data)

China Yuhua Education Corp (6169 HK)

RECOMMENDATION FRAMEWORK

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