

Hong Kong

ADD (no change)

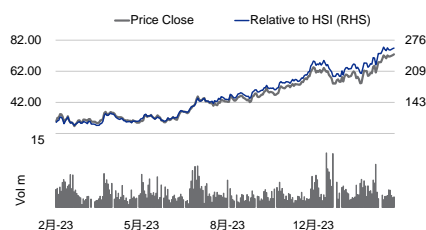
Consensus ratings*: Buy 22 Hold 0 Sell 1

Current price: HK\$72.90
 Target price: HK\$78.80
 Previous target: HK\$78.80
 Up/downside: 8.1%
 CGI / Consensus: 9.3%

Reuters: 9901.HK
 Bloomberg: 9901 HK
 Market cap: US\$15,420m
 HK\$120,659m
 Average daily turnover: US\$30.36m
 HK\$237.2m
 Current shares o/s: 1,678m
 Free float: 85.4%
 *Source: Bloomberg

Key changes in this note

No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	17.5	24.2	133.3
Relative (%)	12.2	28.4	149.1

Major shareholders	% held
Mr. Michael M Yu	14.6

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New Oriental Education

New draft regulation for after-school tutoring

- China's Ministry of Education on 8 Feb issued a draft regulation aiming to formalise the after-school tutoring industry.
- We believe this draft regulation could alleviate the policy overhang on the industry.
- We expect it to benefit after-school tutoring players, such as New Oriental, as they would be able to expand their high school academic tutoring businesses.
- Reiterate Add with an unchanged DCF-based TP of HK\$78.8 (WACC: 10.9%, TG: 3%).

Favourable new draft regulation for after-school tutoring

China's Ministry of Education on 8 Feb issued a draft regulation aiming to formalise the after-school tutoring industry. The draft regulation clarified various aspects of after-school tutoring, from licensing and scheduling to pricing and penalties. We believe this draft regulation could alleviate the policy overhang on the after school tutoring sector. The key points in the draft regulation include 1) academic tutoring agents for compulsory education (Grades 1-9), i.e. primary and middle schools, should be non-profit entities, 2) the monitoring segment for academic tutoring only refers to compulsory education, and does not mention high school education, 3) non-academic tutoring agents, like arts and sports, are encouraged to apply for licences, and 4) academic after-school tutoring sessions must be scheduled outside of regular school teaching hours and should not be conducted during national statutory holidays, weekends, and/or summer/winter vacations. However, there is no time requirement for non-academic tutoring.

This regulation should benefit New Oriental

We expect this draft regulation to benefit after-school tutoring players, such as New Oriental, as they would be able to expand their academic tutoring for high school and non-academic tutoring businesses. During 2QFY5/24, the academic tutoring business for high school accounted for over 20% of New Oriental's revenue with c.10% yoy growth, and for FY5/24F we expect the revenue contribution to improve to 20-25%. In addition, New Oriental's non-academic tutoring business has penetrated 60 cities, attracting 786k student enrolments (vs. 438k student enrolments in 1QFY5/24), with over 65% retention rate. Management targets to expand its learning centre capacity by 20% yoy in 3QFY24F. We expect New Oriental's full-year revenue and net profit growth to reach 38% and 79% yoy (in US\$ terms), respectively, for FY5/24F.

East Buy is likely to achieve solid growth in FY5/24F

New Oriental's 55%-owned unit, East Buy's (1797 HK, Add, TP: HK\$44.5, CP: HK\$23.2) top influencer, Dong Yu Hui, closed his Weibo account on 27 Feb 2024, which could lead to short-term volatility in East Buy's share price, in our view. However, we do not expect this event to impact Dong Yu Hui's public image and number of fans. East Buy said it will continue to grow its own app and private-label product offerings, and maintain its position in different livestreaming platforms (e.g. Douyin, Taobao). We expect East Buy's revenue to rise 35.7% to Rmb6.1bn and adjusted NP to grow 8.5% to Rmb768m in FY5/24F, accounting for 21% and 36% of New Oriental's revenue and adjusted NP.

Reiterate Add with unchanged DCF-based TP of HK\$78.8

We reiterate Add on New Oriental, as we believe New Oriental has ample room to grow its existing business and expand its new initiatives. We have noted strong education business demand, and the new draft regulation on after school tutoring should provide an opportunity for New Oriental to expand its high school academic tutoring and non-academic tutoring businesses. Key positive catalysts: stronger revenue growth and margins in 3QFY5/24F. Key downside risks: 1) further policy changes, which could constrain its revenue growth, 2) increased competition affecting its overall margins, and 3) the failure of some new initiatives.

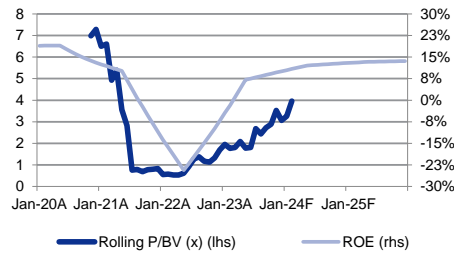
Financial Summary

	May-22A	May-23A	May-24F	May-25F	May-26F
Revenue (US\$m)	3,105	2,998	4,149	5,089	5,951
Operating EBITDA (US\$m)	(843.9)	345.2	581.4	747.2	900.2
Net Profit (US\$m)	-1,188	177	363	502	626
Core EPS (US\$)	-0.62	0.15	0.28	0.35	0.41
Core EPS Growth	(360%)		79%	26%	18%
FD Core P/E (x)	NA	60.72	33.79	26.87	22.78
DPS (US\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	38.33	22.59	16.67	13.00
P/FCFE (x)	NA	18.3	134.8	22.5	20.4
Net Gearing	(58.6%)	(68.5%)	(63.5%)	(70.0%)	(74.9%)
P/BV (x)	4.27	4.34	3.84	3.36	2.93
ROE	(24.3%)	7.1%	12.1%	13.4%	13.7%
% Change In Core EPS Estimates			0%	0%	0%
CGI/consensus EPS (x)			0.91	0.90	0.95

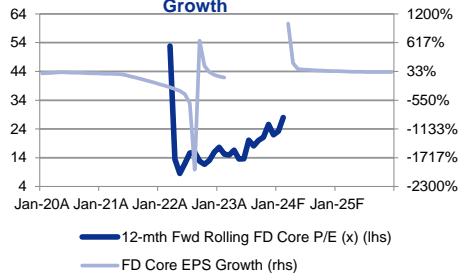
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(US\$m)	May-22A	May-23A	May-24F	May-25F	May-26F
Total Net Revenues	3,105	2,998	4,149	5,089	5,951
Gross Profit	1,351	1,588	2,311	2,868	3,371
Operating EBITDA	-844	345	581	747	900
Depreciation And Amortisation	-139	-155	-164	-172	-174
Operating EBIT	-983	190	417	576	726
Financial Income/(Expense)	0	0	0	0	0
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	-15	-1	0	0	0
Profit Before Tax (pre-EI)	-997	189	417	576	726
Exceptional Items					
Pre-tax Profit	-997	189	417	576	726
Taxation	-136	-66	-104	-127	-152
Exceptional Income - post-tax					
Profit After Tax	-1,134	123	313	449	573
Minority Interests	33	-58	-20	-17	-17
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	-87	112	70	70	70
Net Profit	-1,188	177	363	502	626
Recurring Net Profit	-1,046	259	463	582	686
Fully Diluted Recurring Net Profit	-1,046	259	463	582	686

Cash Flow

(US\$m)	May-22A	May-23A	May-24F	May-25F	May-26F
EBITDA	-844	345	581	747	900
Cash Flow from Inv. & Assoc.					
Change In Working Capital	-1,325	523	-49	11	-25
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	889	102	66	23	-22
Net Interest (Paid)/Received	0	0	0	0	0
Tax Paid					
Cashflow From Operations	-1,280	971	598	781	853
Capex	-26	-112	-482	-85	-85
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/investments	0	0	0	0	0
Other Investing Cashflow	0	0	0	0	0
Cash Flow From Investing	-26	-112	-482	-85	-85
Debt Raised/(repaid)	0	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	0	0	0	0	0
Preferred Dividends					
Other Financing Cashflow	0	0	0	0	0
Cash Flow From Financing	0	0	0	0	0
Total Cash Generated	-1,307	859	116	696	768
Free Cashflow To Equity	-1,307	859	116	696	768
Free Cashflow To Firm	-1,307	859	116	696	768

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(US\$m)	May-22A	May-23A	May-24F	May-25F	May-26F
Total Cash And Equivalents	2,289	2,630	2,746	3,442	4,210
Total Debtors	16	33	33	33	33
Inventories	28	53	63	76	91
Total Other Current Assets	2,141	1,698	1,698	1,698	1,698
Total Current Assets	4,474	4,414	4,540	5,249	6,032
Fixed Assets	403	360	677	591	501
Total Investments	438	862	862	862	862
Intangible Assets	74	131	131	131	131
Total Other Non-Current Assets	646	626	626	626	626
Total Non-current Assets	1,561	1,979	2,296	2,209	2,120
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	533	640	601	624	615
Other Current Liabilities	1,177	1,611	1,611	1,611	1,611
Total Current Liabilities	1,710	2,251	2,212	2,235	2,226
Total Long-term Debt	65	15	15	15	15
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	446	288	288	288	288
Total Non-current Liabilities	512	303	303	303	303
Total Provisions	19	24	24	24	24
Total Liabilities	2,241	2,578	2,539	2,562	2,553
Shareholders' Equity	3,706	3,604	4,067	4,649	5,335
Minority Interests	88	210	230	247	264
Total Equity	3,794	3,815	4,298	4,897	5,600

Key Ratios

	May-22A	May-23A	May-24F	May-25F	May-26F
Revenue Growth	(27.4%)	(3.5%)	38.4%	22.6%	16.9%
Operating EBITDA Growth	(325%)	N/A	68%	29%	20%
Operating EBITDA Margin	(27.2%)	11.5%	14.0%	14.7%	15.1%
Net Cash Per Share (US\$)	1.31	1.56	1.63	2.04	2.50
BVPS (US\$)	2.18	2.15	2.42	2.77	3.18
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	0.0%	34.9%	25.0%	22.0%	21.0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	1.47	3.01	2.92	2.37	2.03
Inventory Days	6.15	10.44	11.54	11.43	11.81
Accounts Payables Days	6.32	11.92	10.03	7.00	7.00
ROIC (%)	(33.7%)	7.7%	48.2%	44.2%	62.4%
ROCE (%)	(21.3%)	4.9%	10.2%	12.4%	13.7%
Return On Average Assets	(15.1%)	3.8%	5.8%	7.3%	8.2%

Key Drivers

	May-22A	May-23A	May-24F	May-25F	May-26F
Learning centre yoy change (%)	-54.7%	-0.2%	25.0%	25.0%	25.0%
Student base yoy change (%)	-36.3%	-66.7%	9.0%	9.1%	9.1%
Overall ASP (USD) yoy change (%)	-19.6%	189.6%	26.9%	12.4%	7.2%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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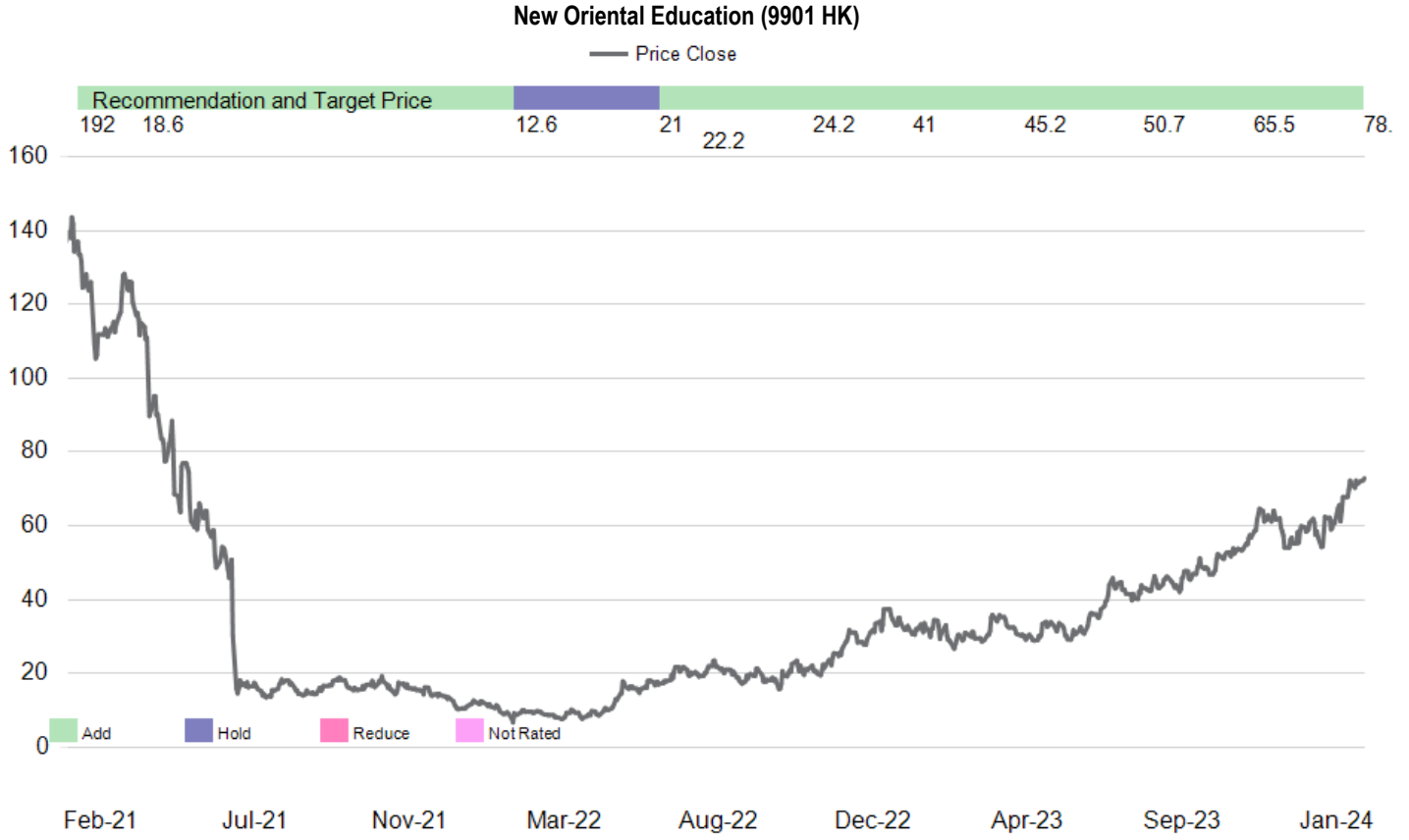
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Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2023		
636 companies under coverage for quarter ended on 31 Dec 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)



RECOMMENDATION FRAMEWORK

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.

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.

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#11