

China Maple Leaf Educational Systems (1317.HK)

Obvious competitive advantages with the continued profit growth

24 December 2015

HONG KONG | Education | COMPANY NOTE

Summary

- China Maple Leaf Educational Systems (“CMLES” or “the Group”) announced FY2015 results last Friday. As at the end of 31 Aug 2015, its total revenue and adjusted net profit increased by 20.9% and 45.8% y-y to RMB653 million and 186 million respectively. Adjusted net profit margin achieved to 28.5%, up 4.9ppts compared with the end of 2014;
- CMLES owns the obvious competitive advantages, which is a leading international school operator from preschool to grade 12 (K-12) in China. By the end of Sep, the Group recorded 17,864 students, 1,753 teachers, and 46 schools in China, and around 90% of students came from Chinese middle class families and the rest were foreigners. According to QS World University Rankings, in 2014/2015, over 51% of the Group’s high school graduates were admitted to top 100 universities in the world. It gained the largest market share as 9% approximately in China in 2014;
- We note that the Group’s cash flow is rich, by the end of Aug, bank balances and cash amounted to RMB1.022 billion, increased sharply by 168.7% y-y. Meanwhile, the Group’s loans were zero, representing the good financial situation, and we believe it will be helpful for building more schools, and support the Group’s long-term development. According to the latest plan, its overall growth target is to increase the student enrollment to more than 40,000 by the end of 2019/2020 school year and open up 6 six to nine new schools in three cities in each school year;
- Overall, CMLES has the obvious brand advantage in the industry. There are more Chinese middle class families sending their children to the good international schools in future, therefore the development potential of the industry is large. According to the current price, although it increased largely recently, considering the stable profit growth and strong profitability, it still has the large room to go up, therefore, we hold the optimistic view on CMLES’s future performance.

Obvious competitive advantages

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Especially, compared with FY2014 results, based on the exchange rate of 1USD=6.1RMB, by the end of 31 Aug 2014, we noted that NAE’s total revenue was USD475 million, equivalent to RMB2.895 billion, much higher than CMLES’s RMB0.54 billion, but adjusted net profits were close, around RMB144 million and 127 million respectively. The Group’s strong profitability is mainly benefited from the asset light model, which will continue to be a core strategy for its expansion in future.

No Rating

CMP: HK\$ 3.79

(Closing price as at 22 Dec 2015)

TARGET: N/A

COMPANY DATA

| | |
|------------------------|------------|
| O/S SHARES (MN) : | 1,360 |
| MARKET CAP (HK\$ MN) : | 5,153 |
| 52 - WK HI/LO (HK\$) : | 3.90/ 1.70 |

SHARE HOLDING PATTERN, %

| | |
|--------------------|-------|
| Sherman Investment | 54.17 |
|--------------------|-------|

PRICE PERFORMANCE, %

| | 1MTH | 3MTH | 1YR |
|----------------------------------|-------|-------|-------|
| China Maple Leaf Educational HSI | 30.10 | 74.88 | 95.83 |
| | -3.69 | 0.34 | -6.74 |

KEY FINANCIALS

| RMB'000 | FY2013 | FY2014 | FY2015 | 2016E |
|---------------------|---------|---------|---------|---------|
| Revenue | 471,129 | 540,269 | 652,984 | 803,170 |
| Adjusted net profit | 105,343 | 127,390 | 185,792 | 250,819 |
| EPS (RMB) | 0.46 | 0.56 | 0.17 | 0.23 |
| P/E (x) | 9.8 | 8.0 | 26.5 | 19.6 |
| DPS (RMB) | 0 | 0 | 0.095 | 0.115 |
| Dividend yield | 0.00% | 0.00% | 3.02% | 3.66% |

Source: Company reports, Phillip Securities Est.

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Comparison between China Maple Leaf Educational Systems and Nord Anglia Education

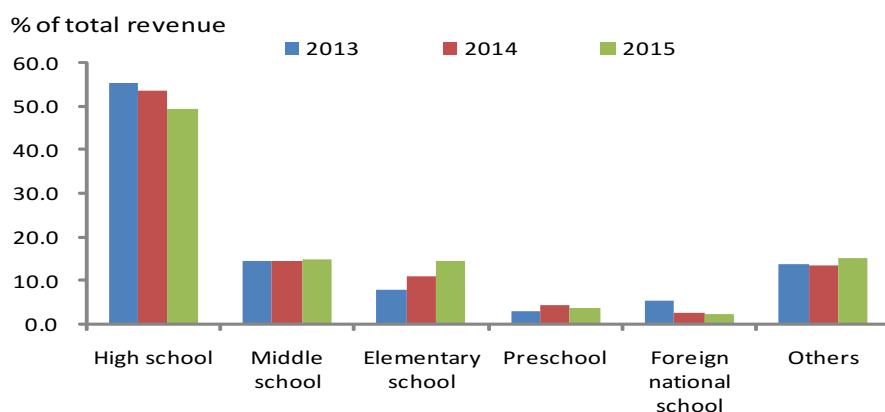
| FY2014 | China Maple Leaf Educational Systems | Nord Anglia Education |
|------------------------------------|--------------------------------------|------------------------|
| Year of establishment | 1995 | 1972 |
| Markets | China | 15 countries worldwide |
| Students in China | 13513 | 4514 |
| Market share | 9.00% | 3.00% |
| Target | Middle-class families | Foreigners |
| Tuition fee per student/year (RMB) | 60,000 | 210,000 |
| Utilization rate | 56% | 85% |
| Total revenue (RMB Mn) | 540.3 | 2895.1 |
| Net profit (Adjusted, RMB Mn) | 127.4 | 144.0 |

Source: Company, Phillip Securities (HK) Research

Stable financial position

According to the latest data announced last week, CMLES's operating performance is stable with the good financial position. As at the end of 31 Aug 2015, its total revenue and adjusted net profit increased by 20.9% and 45.8% y-y to RMB653 million and 186 million respectively, of which 49.2% of revenue came from high schools, but the portion declined year by year, and the proportion of elementary schools increased from 8% in 2013 to 14.4% in 2015. We expect this trend will be last in future, which is helpful for enhancing the clients' loyalty and increasing the customer stickiness.

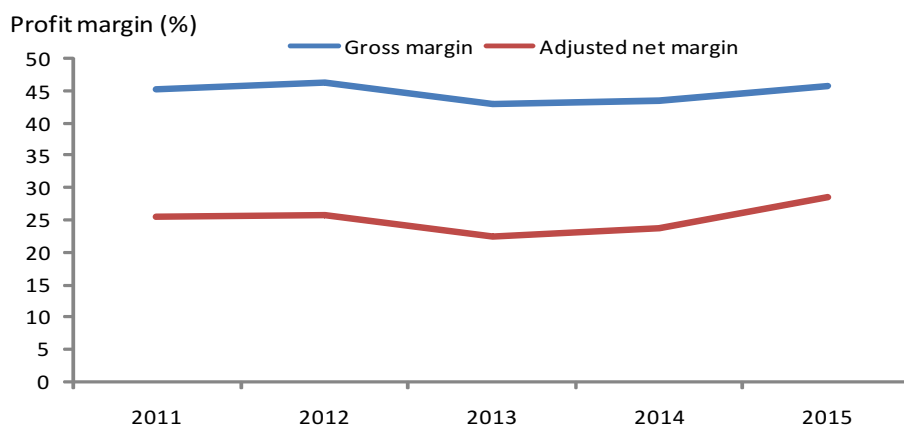
CMLES's revenue segment



Source: Company, Phillip Securities (HK) Research

Additionally, the Group has a good financial position, and operating costs are controlled effectively by the asset light model, with the strong profitability. By the end of Aug, the gross margin and adjusted net margin were 45.7% and 28.5%, up 2.2ppts and 4.9ppts respectively compared with the end of 2014.

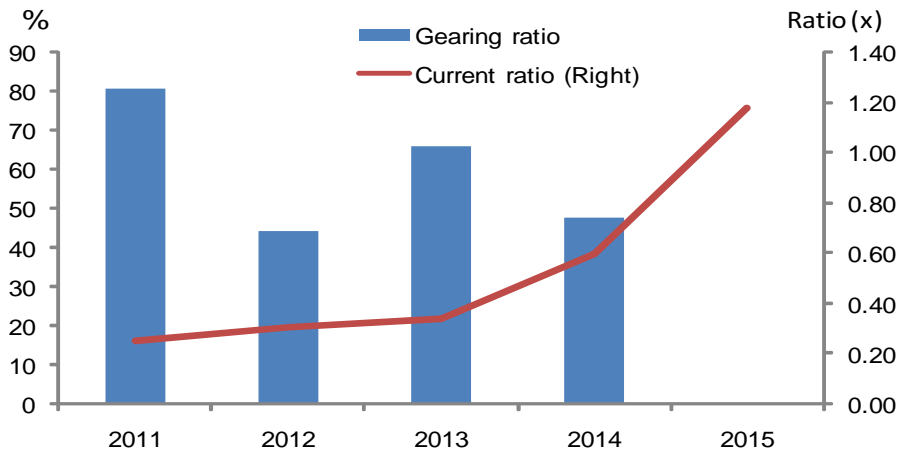
CMLES's profit margin



Source: Company, Phillip Securities (HK) Research

Meanwhile, the Group’s cash flow is rich, by the end of Aug, bank balances and cash amounted to RMB1.022 billion, increased sharply by 168.7% y-y. The Group’s loans were zero, representing the good financial situation. The gearing ratio declined from 47.8% in FY2014 to 0 in FY2015, and the current asset increased sharply due the strong growth of cash, the current ratio increased from 0.59 in FY2014 to 1.18. We believe the rich cash flow will support the Group’s long-term development. According to the latest plan, the Group’s overall growth target is to increase the student enrollment to more than 40,000 by the end of 2019/2020 school year and open up 6 six to nine new schools in three cities in each school year.

CMLES’s financial ratios



Source: Company, Phillip Securities (HK) Research

Risk

- Lower-than-expected profit growth due to the stronger industry competition;
- Profitability declines due to the increase of costs;
- Short-term decrease of share price.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

| Total Return | Recommendation | Rating | Remarks |
|--------------|----------------|--------|---|
| >+20% | Buy | 1 | >20% upside from the current price |
| +5% to +20% | Accumulate | 2 | +5% to +20% upside from the current price |
| -5% to +5% | Neutral | 3 | Trade within $\pm 5\%$ from the current price |
| -5% to -20% | Reduce | 4 | -5% to -20% downside from the current price |
| <-20% | Sell | 5 | >20% downside from the current price |

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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