

# MAPLELEAF EDU (1317.HK)

## Accelerating the School's Expansion with Asset-light Mode Hong Kong | Education | Company report

7 February 2018

### Summary of Investment

- Benefiting from educational consumption upgrading, there is large room for increase of the number of students and tuition;
- The asset-light mode is accelerating the school's expansion, making it ranking top in the international education industry;

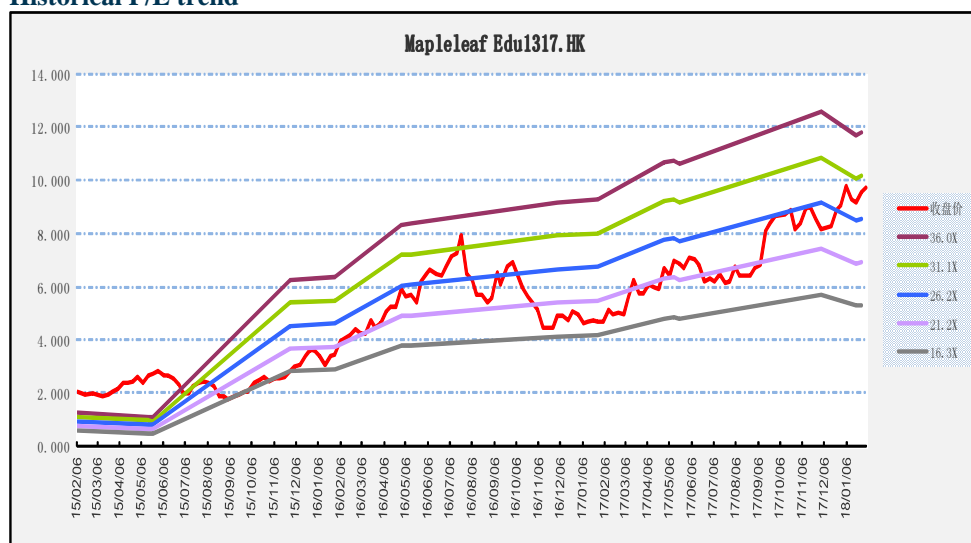
### Accumulate

CMP: HKD 9.51  
(Closing price as at 5 Feb 2018)  
TARGET: HKD 11.30 (18.8%)

### COMPANY DATA

O/S SHARES (MN) :	1490
MARKET CAP (HKDMN) :	14166
52 - WK HI/LO (HKD):	10.41/4.57

### Historical P/E trend



Source: Wind, Phillip Securities (HK) Research

### SHARE HOLDING PATTERN , %

Sherman Investment Holdings Limited	45.8
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### PRICE PERFORMANCE , %

	1-Month	3-Month	1-Year
Mapleleaf Edu	9.26	16.51	106.68
HSI	5.80	13.98	40.96

### PRICE VS. HSI



Source: Phillip Securities (HK) Research

### Investment Rating

There is still huge room for rise of the continuous increase of the number of enrolled students and tuition brought by educational consumption upgrading, providing the result growth with a strong driving force. Moreover, share allotment financing will accelerate the school expansion of the Company around the globe, resulting in share dilution. But the influence will be small. We expect the net profit of the Company in year 2018-2019 attributable to the parent company will be RMB515 million and RMB652 million, respectively, equivalent to EPS of RMB0.35/share, RMB0.44/share, respectively, and PE of 22/17times, respectively. Target price 11.3HKD and rating Accumulate is given. (Closing price as at 5 Feb 2018)

### KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
Revenue	833	1101	1392	1780
Net Profit	308	410	515	652
P/E,x	33	25	22	17
EPS, HKD	0.23	0.31	0.35	0.44
P/B, x	5.1	4.3	4.0	3.5
BVPS, HKD	1.5	1.8	1.9	2.2
ROE, %	15.2%	16.4%	18.2%	20.0%

Source: Company reports, Phillip Securities Est.

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## Accelerating the School's Expansion with The Asset-light Mode

In fiscal year 2017, the number of students enrolled in the Company reached 26,088, a year-on-year increase of 6,754 (+34.9%), higher than the target number of students of the school year formulated in the Fifth Five-year Plan. As at October 15, 2017, the number further rose to 28,111, a year-on-year increase of 36.5%. In fiscal year 2017, the Company expanded at an obviously accelerated speed: A total of 14 schools were increased, leading to a total of 8,620 to 38,660 increased students, and the integral use rate increased 3.1pct to 67.5%. Specifically, 4 junior middle schools and 4 primary schools were increased, leading to some increase of the proportions of the numbers of students in the junior middle schools and primary schools. The Company expected that the total number of 40,000 enrolled students could be recorded at the end of school year 2019/2020, under the guidance of the "endogenous + extensional" strategy, the Company's school scale and result growth over the next few years are promising, as we expect continually.

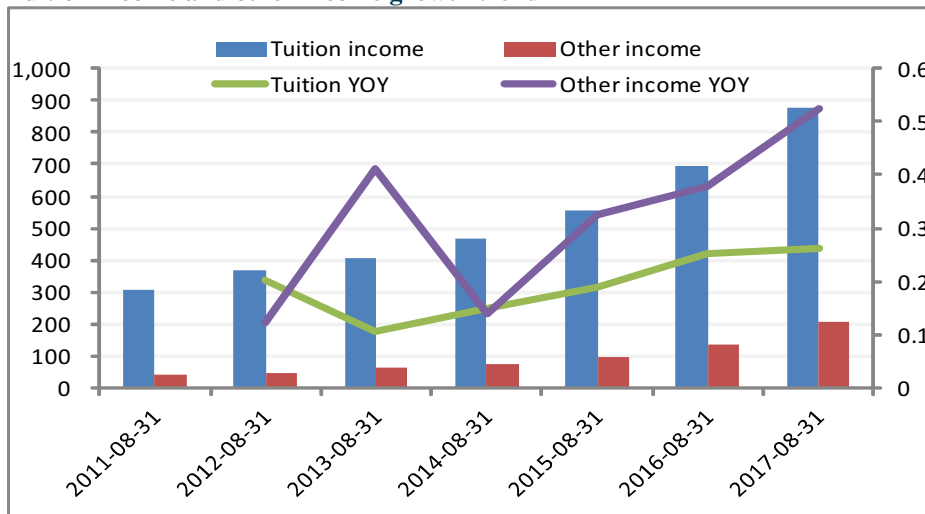
## The Profit has Greatly Increased by More than 30% Year on Year

Based on the annual report as of August 31, 2017, Maple Leaf Educational recorded a revenue of RMB1,083 million, up by 30.5% yoy, a gross profit of RMB539 million, up by 34.4% yoy and an adjusted net profit of RMB414 million, up by 34.5% yoy, equivalent to an EPS of RMB0.3063 (+32.5%). The proposed final dividend was RMB0.072. A total of RMB0.125 including the interim dividend paid out throughout the year, equivalent to a dividend payout ratio of 40.8%.

## Tuition Revenue Accounts for 80%, Being the Major Source of Revenue

The revenue from tuition and boarding fee amounted to RMB878 million, up by 26.3% yoy, mainly due to the increase of the number of enrolled students and tuition. Specifically, the tuition of senior middle school has decreased to some extent, accounting for 43.2%; the proportions of the tuition of junior middle school and primary school has increased to some extent, accounting for 15.1% and 17.5%, respectively; the tuition of the kindergarten and foreign students accounts for 3.3% and 1.9%, respectively. In addition to tuition, other revenues also have been rising rapidly, up by 52.3% to RMB206 million yoy, mainly due to the increase of school uniforms and other services provided.

### Tuition income and other income growth trend

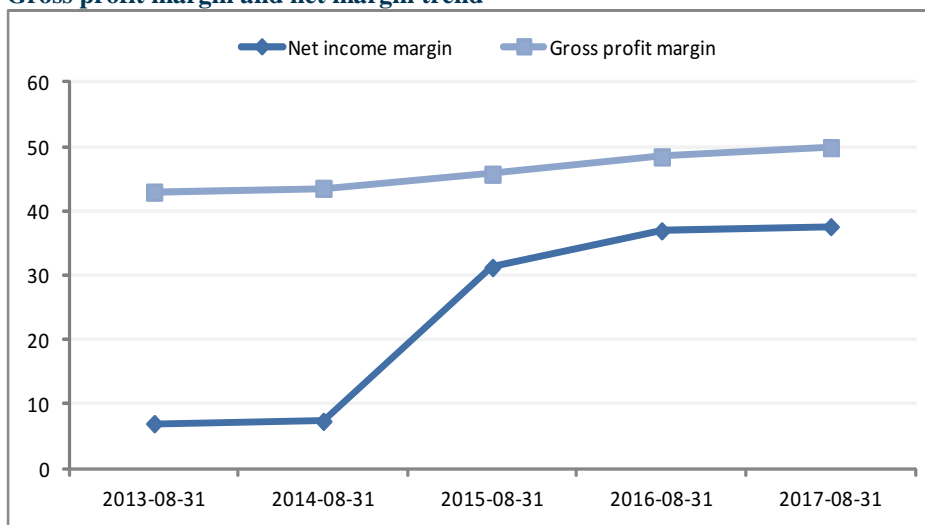


Source: Wind, Phillip Securities (HK) Research

### The Expense Ratio Decreases, and the Profitability Improves Year on Year

The sales expense and overhead expense ratios have decreased by 0.45pct and 0.51pct, respectively, reflecting that the Company has a strong expense management and control ability. Benefiting from the rise of the school utilization rate and tuition, the gross margin has risen by 1.4pct to 49.8% year on year, and the net margin has increased by 0.64pct to 37.57% year on year. This signals that the Company's operational efficiency and profitability has been improving. Besides, operation under the asset-light mode has led to good financial performance of the Company. The current operating cash flow is RMB699 million, up by 31.1% yoy, and the book capital is RMB1,649 million, up by 33.2% yoy.

### Gross profit margin and net margin trend



Source: Wind, Phillip Securities (HK) Research

## Continuous Acquisition is Accelerating Expansion

The Company acquired 55% of the stock right of Eastern Shenzhen International Academy at the cost of RMB89.04 million on December 14. It was the first time that the Company occupied the markets in Guangdong and Shenzhen, possibly providing a good chance and demonstration for the later expansion in other first-tier cities. Moreover, the Company acquired 100% of the stock rights of Mekesure Frontier, Meiwen Frontier, Ivy Frontier, Meihua Frontier, Meicheng Frontier, respectively, at a cost of RMB0.15 billion on January 25, obtaining the operating rights of 3 schools, 1 kindergarten and 1 adolescent training center. It is expected that the acquisition will facilitate the Company's business expansion in Hainan Province as well as enhancement of overall result and profitability and consolidate its leading position in the educational industry.

## Placement Financing Facilitates Overseas Expansion

The Company has placed 0.11 billion of shares at the price of HKD9.1, a discount of about 7.8% compared with HKD9.8 of January 11, 2018. The number of placed shares accounts for 7.97% of capital stock issued and 7.38% of the total number of shares issued. HKD989 million obtained will be used to support multiple potential overseas acquisition matters. As we see it, this financing will accelerate the Company's global business expansion, bringing more room for follow-up business development.

## Risk Warnings

Risk of fluctuations in policy;

Overseas expansion below expectations.

Result growth below expectations;

Damage to school brand and reputation;

## Financials

FYE	FY15	FY16	FY17	FY18E	FY19E
<b>Valuation Ratios</b>					
Price Earnings(P/E)	45.0	33.3	24.7	22.1	17.5
Price to Book(P/B)	5.8	5.1	4.3	4.0	3.5
Dividend yield	1.0%	1.0%	1.7%	5.2%	5.2%
<b>Per share data(RMB)</b>					
EPS,Adjusted	0.17	0.23	0.31	0.35	0.44
Book Value Per Share	1.33	1.49	1.76	1.91	2.21
Dividends Per Share	0.08	0.08	0.13	0.40	0.40
<b>Growth &amp; Margins(%)</b>					
<b>Growth</b>					
Revenue	21.0%	26.6%	32.2%	26.5%	27.9%
Operating income	21.3%	49.7%	45.7%	23.9%	28.2%
Net profit	415.0%	49.5%	33.1%	25.7%	26.6%
<b>Margins</b>					
Gross profit margin	46.2%	48.6%	50.7%	50.5%	50.5%
Operating profit margin	26.0%	30.7%	33.9%	33.2%	33.3%
Net income margin	31.3%	37.0%	37.2%	37.0%	36.6%
<b>Key Ratios</b>					
ROE(%)	11.4%	15.2%	16.4%	18.1%	19.8%
<b>Income Statement(RMB m)</b>					
<b>Revenue</b>	658	833	1,101	1,392	1,780
- Cost of Goods Sold	354	428	543	689	881
<b>Gross Income</b>	304	405	558	703	899
- Operating Expenses	132	149	185	241	306
<b>Operating Income</b>	171	256	373	462	593
- Net Non-Operating Losses	9	37	19	28	28
<b>Pretax Income</b>	217	326	441	550	701
- Income Tax Expense	11	18	27	30	43
<b>Net profit</b>	206	308	410	515	652

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 5 Feb 2018)

**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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