

China Kepei (1890 HK)

20/21 number of students enrolled up by 58% yoy, Harbin College expected to be fully consolidated in early 2021

9 Dec 2020

Hong Kong | Education Sector | Company Update

Investment Summary

20/21 new student enrollment up by 73% yoy, number of students enrolled up by 58% yoy

The new student enrollment of the company's school in 20/21 academic year was up by 73%, and reached 39 thousand. Within it, the new student enrollment of Guangdong Polytechnic College was 33 thousand (+72.8% yoy), the new student enrollment of Zhaoqing School was 4 thousand (+5.3% yoy). The new student enrollment of Harbin College (Non-consolidated school operated under the Entrustment Agreement), which the company acquired in early 2020, was 2.5 thousand. The students enrolled of Harbin College will be consolidated into the company's overall students enrolled from 2020 onward.

The company has a total of 92 thousand students enrolled in 20/21 academic year, compared with the 50 thousand in 19/20, it was up by 46% yoy. Within it, Guangdong Polytechnic College Undergraduate program has a total of 29.3 thousand students enrolled (+22.8% yoy), Junior college program has a total of 6.3 thousand students enrolled (-7.4% yoy), On-campus adult college program has a total of 7.3 thousand students enrolled, (+52.8% yoy), Off-campus adult college program has a total of 30.6 thousand students enrolled (+105.6% yoy). On the other hand, Zhaoqing School Secondary vocational program has a total of 8.5 thousand of students enrolled (+11.3% yoy). In terms of Harbin College undergraduate program, it has roughly 10 thousand students enrolled. We believe the growth in number of student enrolled was mainly attributed by 1) the increase in enrollment quota of the schools of the Group for the 2020/2021 school year (including the expansion policy in "junior college graduate into undergraduate program") 2) the increase in student registration rate of Guangdong Polytechnic College and Harbin College and 3) the expansion of the number of student enrollment contributed by Harbin College. Overall, the number of number of student enrollment in 20/21 is in line with our expectation, with just the number of students enrolled for Junior college program slightly below of what we previous expected.

The Harbin College is expected to be fully consolidated onto the company's financial statement in early 2021

The "change in organizer" was approved by the Ministry of Education recently and it is expected that the company will begin to process the "change in organizer" before the year end. According to the management, the Harbin College is expected to be fully consolidated onto the company's financial statement in early 2021. Nonetheless, it is slower than our previous expectation, we expected that the full consolidation will take place before the year end. We have adjusted our models according to this. We have taken out the 2020E revenue of the Harbin College from the company's total revenue, and added the 2020E net profit of the Harbin College into other income of the company.

Valuation

We have made adjustments to the above mentioned (lower the junior college program revenue and taken out the 2020E revenue of the Harbin College from the company's total revenue). The 2020/2021/2022 revenue of the company was adjusted to RMB 0.88/1.27/1.46 billion, NP of the company was adjusted to RMB 0.63/0.77/0.87 billion, EPS of the company was adjusted to RMB 0.31/0.38/0.43. We maintain our previous target 2021 PE of 17.7x, slightly adjust our 12-months TP downward to HKD 7.50, which implies 2020/2021/2022 P/E ratio of 21.7x/17.7x/15.7x. We maintain Buy rating. (Market closing price as of 7th Dec) (exchange rate: RMB 0.9/HKD)

Risk: acquisition not as effective as expected, teaching quality diminished, change of related policies, the number of students increased less than expected

Buy (Maintain)

CMP HKD 5.84

(Closing price as at 7 Dec)

TARGET HKD 7.50 (+28%)

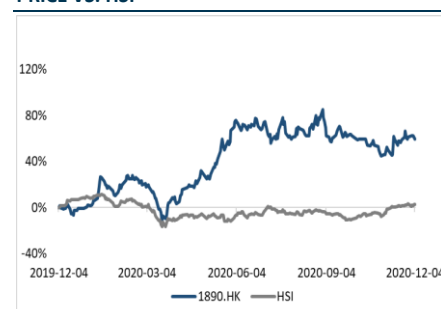
COMPANY DATA

O/S SHARES (MN) :	2,015
MARKET CAP (HKD MN) :	11,769
52 - WK HI/LO (HKD):	7.32/3.21

SHARE HOLDING PATTERN, %

Qiaoge Company Limited	33.74
Chenye Company Limited	14.99
Shuye Company Limited	18.74
SKYLINE MIRACLE LIMITED	7.33

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY19	FY20E	FY21E	FY22E
Net Sales	714	880	1267	1459
Profit	456	626	768	869
EPS, CNY	0.23	0.31	0.38	0.43
P/E, x	22.7	16.9	13.8	12.2
BVPS, CNY	1.42	1.56	1.77	2.01
P/BV, x	4.1	3.8	3.3	2.9
DPS (HKD)	0.10	0.14	0.17	0.19
Div. Yield (%)	1.7	2.4	2.9	3.3

Source: Company reports, Phillip Securities Est.

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Financials

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Revenue	575	714	880	1267	1459
Gross Profit	390	482	603	862	978
S&M expense	-15	-24	-28	-38	-44
Admin expense	-77	-77	-85	-114	-131
R&D expense	0	0	0	0	0
Other operating gain/(loss)	49	58	125	59	59
Operating Profit	346	438	615	769	862
Net finance income	-4	20	14	3	11
Profit before tax	342	458	629	772	873
Tax	0	-2	-3	-4	-4
NCI	0	0	0	0	0
Profit for the year	342	456	626	768	869
EPS (RMB)	0.23	0.23	0.31	0.38	0.43
DPS (HKD)	0.10	0.10	0.14	0.17	0.19

Key Financial Data

Dec Y/E	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio, x	23.1	22.7	16.9	13.8	12.2
P/B ratio, x	6.1	4.1	3.8	3.3	2.9
Dividend yield	1.71%	1.71%	2.36%	2.90%	3.28%

Per share data (RMB)

EPS	0.23	0.23	0.31	0.38	0.43
Book value per share	0.96	1.42	1.56	1.77	2.01
Dividend per share (HKD)	0.10	0.10	0.14	0.17	0.19

Growth & Margin

Revenue Growth	26.4%	24.1%	23.3%	43.9%	15.2%
Operating income growth	44.6%	26.6%	40.4%	25.0%	12.1%
net income growth	48.1%	33.4%	37.2%	22.7%	13.1%
Gross Profit Margin	67.7%	67.5%	68.5%	68.0%	67.0%
Operating profit Margin	60.2%	61.4%	69.9%	60.7%	59.1%
Net Profit Margin	59.4%	63.9%	71.1%	60.6%	59.5%

Key Ratios

ROE	24%	16%	20%	22%	21%
ROA	15%	13%	15%	16%	16%

Source: Company, PSHK Est.

Market closing price as of 7th Dec

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Non Current Asset					
PPE	1,274	1,423	1,672	1,965	2,309
ROU assets	0	208	208	208	208
Intangible assets	0	0	0	0	0
Others	329	350	1,753	1,730	1,730
Total Non Current Assets	1,603	1,980	3,633	3,903	4,247
Current Asset					
T/R	23	30	34	58	48
Inventories	0	0	0	0	0
Prepayments	25	29	32	36	39
Cash and cash equivalents	433	1,112	199	551	773
Others	246	272	272	272	272
Total Current Assets	727	1,443	538	917	1,132
Total Assets	2,330	3,423	4,171	4,819	5,379
Non Current Liabilities					
Long term loan	100	100	235	235	235
Deferred income	4	3	3	3	3
Others	0	9	9	9	9
Total Non Current Liabilities	104	112	247	247	247
Current Liabilities					
Short term loan	10	0	151	151	151
T/P	0	0	0	0	0
Contract Liabilities	335	412	516	726	790
Others	449	109	119	131	143
Total Current Liabilities	794	521	786	1,008	1,085
Equity					
Share capital	0	0	0	0	0
Reserve	1,433	2,790	3,138	3,564	4,047
Non controlling interest	0	0	0	0	0
Total Equity	1,433	2,790	3,138	3,564	4,047
Total Liabilities and Equity	2,330	3,423	4,171	4,819	5,379

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY18	FY19	FY20E	FY21E	FY22E
Profit (loss) before tax	342	458	629	772	873
Depreciation and amortization	57	73	70	82	96
change in working capital	96	42	108	195	84
Others	-11	-34	47	26	3
CFO	484	539	853	1075	1056
Capex	-420	-210	-320	-376	-442
Others	-94	-203	-1,449	1	1
CFI	-514	-414	-1,769	-375	-440
Proceeds from share issuance	0	760	0	0	0
Others	68	-217	3	-348	-393
CFF	68	543	3	-348	-393
Net Change in Cash	37	668	-912	352	222
Foreign exchange	26	11	0	0	0
Cash and CE at Y/E	433	1112	199	551	773

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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