

Tianli International (01773)

Policy further defines and clarifies the boundaries of off-campus training, revenue from comprehensive education service growth has been robust
China | Service | Education

14 May 2024

Established in 2002, Tianli International (01773) is a comprehensive education service operator in Western region of the PRC, providing with comprehensive education management and diversified services. With a presence in Sichuan province where Tianli International is based in, its school spans across 36 cities in Inner Mongolia, Shandong, Henan, Guizhou, Jiangxi, Zhejiang, Yunnan, Gansu, Anhui, Guangxi, Guangdong, Shaanxi, Shanghai, Chongqing and Hubei. As of 29 February 2024, it principally provided students with comprehensive education services in 50 schools. For the same period, the number of full-time teachers employed by Tianli self-owned schools was 2,060 (as of 28 February 2023: 1,654). There were 36,708 high school students in the Company's school network as at the beginning of the 2023 fall semester, representing an increase of 43.8%, among which the enrollment number of new high school students was 19,071, representing an increase of 41% as compared with the enrollment number of new high school students as at the beginning of the 2022 fall semester.

Revenue from comprehensive education service growth has been robust

For the year ended 31 August 2023 (FY2023), revenue increased by 160.3% to RMB2302 million, primarily driven by increase of revenue from comprehensive educational services and sales of products. Adjusted profit for the year was RMB366 million, an increase of 276.4% YoY. During the period, basic EPS were RMB15.90 cents, the full-year dividend was RMB4.77 cents per share, and the dividend payout ratio was 30%.

The gross profit was RMB779 million, representing an increase of 165.3%, primarily due to the increase in the number of high school students enrolled and the revenue from the provision of comprehensive quality services and product sales. The gross profit margin was 33.8%, representing a slight increase of 0.6 percentage points.

The cost of sales consists of material consumption, staff costs, depreciation and amortization, procurement cost of products, teaching activity costs, utilities and others. The cost of sales increased by 157.9% to RMB1524 million, primarily due to the significant increase in revenue resulting in the corresponding increase in costs related to business operations.

Material consumption costs increased by 34.7% to RMB340.6 million, primarily due to the increase in the number of diners in the canteens operated. Staff costs increased by 232.2% to RMB397 million, primarily due to the increase in labor cost as a result of the recruitment of new teachers resulted from the increase in the number of high school students, and the provision of comprehensive quality services, product sales business, etc.. Depreciation and amortization costs increased by 56.8% to RMB184 million, primarily due to the increase in depreciation as a result of the high schools newly opened in September 2022 and the completion of the spin-off and consolidation of four additional high schools. Procurement cost of products increased by 911.9% to RMB459 million, primarily due to the increase in procurement costs as a result of a significant increase in product sales revenue of 837.8%. Teaching activity costs increased by 223.6% to RMB107 million, primarily due to the increase in teaching service costs related to the business of study tours which is in line with its significant growth. Utilities cost increased slightly by 6.0% to RMB16 million, due to the fact that on one hand, the increased number of students served would increase the costs, and on the other hand, the Group promotes the green office and frugality convention, and integrates environmental awareness and green actions into school daily management to improve operational efficiency.

Accumulate

CMP HKD 5.41
(Closing price as of 10 May)
Target HKD6.01 (+11.1%)

COMPANY DATA

O/S SHARES (MN) :	2,154.000
MARKET CAP (HKD MN) :	11330
52 - WK HI/LO (HKD):	5.750/1.704

SHARE HOLDING PATTERN, %

Mr. Luo Shi	41.90%
First Beijing Investment Limited	9.00%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY22	FY23	FY24E	FY25E
Revenue	884.4	2,302.5	3,185.3	4,045.9
Shareholders Net profit	96.5	333.8	502.6	635.5
Reported EPS	0.046	0.159	0.240	0.304
P/E ratio, x	103.8	31.7	21.0	16.5
Dividend Yield, %	0.5%	1.0%	1.5%	1.8%

Source: Company reports, Phillip Securities Est.

Sr. Research Analyst

Eric Li (+852 2277 6516)

erichyli@phillip.com.hk

The revenue from comprehensive educational services increased by 253.8% to RMB1223 million, which is primarily due to : 1) the increase in high school students enrollment; 2) the new separation of 4 for-profit high schools with independent operating licenses from the integrated schools, and hence the consolidation of the financial results of such high schools into the consolidated financial statements of the company; 3) the provision of comprehensive quality services by the company to tens of thousands of people of appropriate age, including but not limited to sinology, technology, sports, art, etc., which aimed at facilitating all-round development of students and cultivating comprehensive talents; and 4) the end of the pandemic, which led to an explosive growth in the study tour business. The sales revenue of RMB555 million, including revenue of RMB160 million from the sale of student supplies, such as school uniforms, bedding, daily necessities and stationery provided to students through the online campus store; and revenue of RMB395 million from the supply and sales of agricultural and sideline products through the integration of channel resources and logistics system. The revenue from canteen operations increased by 12.3% to RMB485 million, primarily due to the increase in the number of students served by the company. The revenue from management and franchise fees decreased by 17.7% to RMB39 million, primarily because the company adjusted its cooperation model with suppliers, resulting in a decrease in revenue from supply chain management services.

Maintained strong interim growth

For the six months ended 29 February 2024 (1HFY2024), revenue increased by 73.8% to RMB1645 million. Among which, revenue from comprehensive educational services increased by 64.4% to RMB851 million, which is primarily due to the increase in high school students enrollment; the end of the pandemic, which led to a significant growth in the study tour business. Sales revenue increased by 1.8 times to RMB474. The revenue from canteen operations increased by 19.9% to RMB294 million, primarily due to the increase in the number of students served by the company. The revenue from management and franchise fees increased by 34.9% to RMB26.056 million, primarily because of the addition of three schools to the company's entrusted school network. The gross profit margin 35.4%, representing a slight decrease of 3.8 percentage points. Adjusted profit was RMB319 million, a year-on-year increase of 70.0%.

Company valuation

The government has released the "Opinions on Further Reducing the Homework Burden and Off-campus Training Burden of Students in Compulsory Education" (《關於進一步減輕義務教育階段學生作業負擔和校外培訓負擔的意見》), with the aim of effectively reducing the heavy workload and off-campus training burden of students in the compulsory education stage. This policy is commonly referred to as the "double reduction" (「雙減」). However, as a result, the education and training industry suddenly entered a period of decline, leading to a significant number of job losses. Nevertheless, in February 2024, the Ministry of Education announced the "Regulations on the Management of Off-campus Training" (draft for public opinion) (《校外培訓管理條例》(徵求意見稿)), which specifically mentioned guidelines for non-educational off-campus training institutions to participate in after-school services and address the reasonable needs for after-school training. The Regulations also propose encouraging and supporting institutions such as youth centers and science museums to offer off-campus training, enriching curriculum offerings, and expanding enrollment numbers. Local governments are explicitly permitted to introduce non-subject-based off-campus training institutions to participate in after-school services through various means, adopting multiple measures to meet students' reasonable and diverse educational needs. As the policy further defines and clarifies the boundaries of off-campus training, and with the industry's regulatory policies becoming more transparent, with a focus of for-profit high schools, providing students with comprehensive operational services, including but not limited to a series of other value-added services such as online campus store, logistical integrated

services, study guidance for arts and sports oriented schools, international education, overseas studies consulting and study tours, Tianli is expected to benefit from sustainable development. Taking all these factors into consideration, we anticipate the company's basic earnings per share (EPS) for the FY2024E & FY2025E to be RMB\$0.24 and RMB\$0.30, with a target price of HKD6.01, corresponding to a FY2024E P/E of 23.3 times (similar to the industry's average). Our investment rating is "Accumulate".

Risk factors

1) Policy changes impacting the industry's operating environment; 2) Intensified industry competition; and 3) Lower-than-expected student enrollment.

Financial

Consolidated Statement of Profit or Loss

Aug Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
Revenue	345.2	884.4	2,302.5	3,185.3	4,045.9
COGS	(284.7)	(590.8)	(1,523.7)	(2,114.8)	(2,681.7)
Gross Profit	60.5	293.5	778.8	1,070.5	1,364.2
Other income and gains	21.4	17.0	22.9	31.6	40.2
Selling and marketing expenses	(4.8)	(12.2)	(36.2)	(70.9)	(70.6)
Administrative expenses	(98.3)	(132.8)	(240.1)	(277.8)	(387.4)
Impairment losses on non-current assets	(1,085.2)	-	-	-	-
Other expenses	(13.1)	(13.6)	(17.3)	(36.4)	(46.3)
Finance costs	(17.0)	(27.5)	(62.5)	(51.5)	(58.4)
Share of (losses)/profits of:					
A joint venture	(27.5)	(0.3)	(1.1)	(1.3)	(1.8)
Associates	(103.1)	1.2	(0.5)	5.6	7.1
Profit before tax	(1,267.1)	125.3	443.9	669.8	847.0
Income tax	158.0	(29.2)	(112.9)	(170.3)	(215.3)
Shareholders Net profit	(1,334.4)	96.5	333.8	502.6	635.5
Reported EPS, Diluted	(0.623)	0.046	0.159	0.240	0.304
DPS	0.0379	0.0229	0.0477	0.0720	0.0913
Payout ratio	-6%	50%	30%	30%	30%

Key Financial Data

Aug Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
Valuation Ratio					
P/S ratio, x	27.2	11.3	4.6	3.3	2.6
P/E ratio, x	-	103.8	31.7	21.0	16.5
Dividend Yield, %	0.8%	0.5%	1.0%	1.5%	1.8%

Per share data (RMB)

Basic EPS	(0.63)	0.05	0.16	0.24	0.30
BVPS	0.83	0.88	0.98	1.15	1.37
DPS (HKD)	0.05	0.02	0.05	0.08	0.10

Growth & Margin

Growth					
Revenue Growth	-73.4%	156.2%	160.4%	38.3%	27.0%
Gross Profit Growth	-89.2%	385.3%	165.3%	37.5%	27.4%
Net Profit Growth	-	-	244.3%	50.9%	26.4%
Margin					
Gross Profit Margin	17.5%	33.2%	33.8%	33.6%	33.7%
Net Profit Margin	-386.6%	10.9%	14.5%	15.8%	15.7%

Key Ratios

ROE	-52.6%	5.3%	17.0%	22.4%	24.1%
ROA	-17.5%	1.2%	3.8%	5.1%	6.0%

Consolidated Statement of Financial Position

Aug Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
Non Current Asset					
PPE	2,915.5	3,640.3	4,454.7	4,756.1	4,957.4
Right-of-use assets	1,601.9	1,655.2	2,044.9	1,948.0	1,870.0
Others	660.4	629.6	681.0	694.5	700.7
Total Non Current Assets	5,177.9	5,925.1	7,180.6	7,398.6	7,528.2
Current Asset					
Cash & cash equivalents	1,273.3	929.9	1,501.7	1,871.0	2,347.0
Trade receivables	3.6	11.0	17.4	36.1	50.1
Inventories	3.8	18.8	27.3	52.6	85.4
Others	1,334.9	1,246.4	824.7	823.6	823.2
Total Current Assets	2,615.5	2,206.0	2,371.1	2,783.3	3,305.8
Total Assets	7,793.4	8,131.1	9,551.7	10,181.9	10,834.0
Current Liabilities					
Payables	11.4	46.6	47.1	86.1	134.5
Borrowings	491.5	240.5	553.9	579.8	573.7
Contract liabilities	395.7	842.9	1,315.1	1,315.1	1,315.1
Other Non-current Liabilities	3,880.2	2,684.6	2,653.4	2,750.1	2,798.4
Total current Liabilities	4,778.8	3,814.6	4,569.5	4,731.1	4,821.7
Non Current Liabilities					
Lease liabilities	157.4	178.9	219.4	219.4	219.4
Interest-bearing bank and other borrowings	742.3	891.4	1,118.5	1,144.4	1,138.3
Others	327.1	1,367.3	1,548.9	1,643.3	1,770.4
Total Non-Current Liabilities	1,226.7	2,437.6	2,886.8	3,007.0	3,128.0
Equity					
Shareholders' equity	1,764.0	1,851.8	2,065.5	2,416.9	2,861.2
Non-controlling interests	23.9	27.1	30.0	26.9	23.1
Total equity	1,787.9	1,878.9	2,095.5	2,443.8	2,884.2
Total Liabilities and Equity	7,793.4	8,131.1	9,551.7	10,181.9	10,834.0

Consolidated Statement of Cash Flow

Aug Y/E, RMB mn	FY21	FY22	FY23	FY24E	FY25E
CFO					
Profit before income tax	(1,267.1)	125.3	443.9	669.8	847.0
D&A add-back	66.9	132.8	202.4	212.5	246.4
Others	2,287.9	(97.2)	(139.0)	(170.3)	(215.3)
Net (inc)/dec working capital	509.0	575.5	468.3	173.6	171.2
Net cash flow from operating activities	1,596.7	736.5	975.7	885.7	1,049.2
CFI					
Purchase of PP&E	(1,354.8)	(777.0)	(575.4)	(455.3)	(385.3)
Others	(769.1)	(19.5)	140.2	38.3	15.5
Net cash flow from investing activities	(2,123.9)	(796.5)	(435.2)	(417.0)	(369.8)
CCF					
Dividends paid	(112.1)	(82.1)	(101.7)	(151.2)	(191.2)
Others	354.8	(208.6)	70.8	51.8	(12.2)
Net cash flows from financing activities	242.7	(290.7)	(30.8)	(99.5)	(203.4)
Net Change in Cash	(284.4)	(350.7)	509.6	369.2	476.1
Cash and CE at Y/E	1,273.3	929.9	1,501.7	1,871.0	2,347.0

Current Price as of: May 10

Source: PSHK Est.

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2024 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

L Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm