

EARNINGS REVIEW

Tarena International Inc. (TEDU)

Buy

Equity Research

Above expectations: Ongoing penetration into the lower tier cities

What surprised us

Tarena (TEDU) reported above expectation 4Q15 results. Net revenues of US\$60mn (+51% yoy) were 9%/8% above GSe/Bloomberg consensus. For 1Q, TEDU guided to revenues of US\$38.5-39.5mn (+38% yoy at the midpoint), reflecting higher enrollments due to early CNY this year compared to last year. 2016 revenue was guided to grow 28%-31% yoy in Rmb terms, in line with GSe/consensus. This guidance includes ~Rmb30mn revenues (~2% of revs) from Tongcheng/Tongmei. Mgmt. guided to ~25% revenue CAGR (in Rmb term) for the next three years. The board has approved a cash dividend of US\$0.15 per ADS for the first time since TEDU's listing in 2014.

What to do with the stock

IT enrollments grew 59% yoy in 4Q, much higher than 21% growth rate for non-IT courses, mainly driven by stronger demand for IT courses. The company said it will continue to implement the premium pricing strategy with a plan to raise tuition fees by another Rmb1k this March for top tier cities including Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan, Nanjing, Hangzhou and Chengdu. TEDU continues to penetrate lower tier cities with ~4-5mn population. Mgmt. sees sufficient affordability in the markets despite the premium pricing, citing 60-70% of students will subsequently search for jobs in higher tier cities and it estimates a 6-month payback period for tuition based on Rmb3k-4k average salary in the low tier cities.

We now model 18% non-GAAP op margin in 2016E, +2pp yoy to factor in stronger enrollment growth, full-year benefits from Baidu discount and lower bad debt allowance. We thus raise our 2016E/17E EPS by 8c/7c to reflect the better margins. We introduce 2018E EPS of US\$1.14 and raise our 12m TP 8% on our revisions to US\$13 (based on unchanged 15x 2017E P/E). Maintain Buy. Key risks: Weaker execution and market demand.

Result snapshot

	Actual	% yoy	GSe	Consensus	Act vs. Est	Act vs. Cons
4Q15 Revenue (US\$m)	60.0	51%	54.8	55.4	9%	8%
4Q15 non-GAAP EPS (US\$)	0.27	88%	0.19	0.19	46%	48%
2016E Revenue (US\$m)	230-236	23%	228.7	235.8	2%	-1%

Source: Company data, Bloomberg, Goldman Sachs Global Investment Research.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy List

Coverage View: Neutral

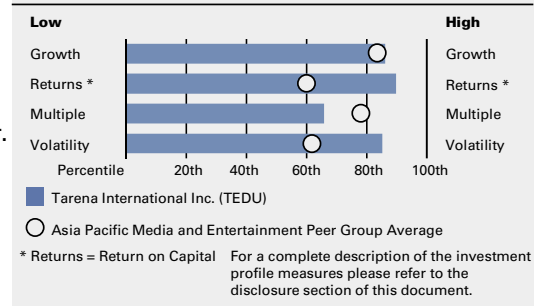
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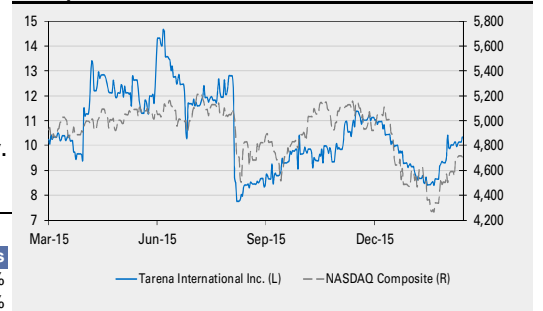
Investment Profile



Key data	Current
Price (\$)	10.34
12 month price target (\$)	13.00
Market cap (\$ mn / US\$ mn)	607.5 / 607.5
Foreign ownership (%)	--

	12/15	12/16E	12/17E	12/18E
EPS (\$ New)	0.58	0.73	0.89	1.14
EPS revision (%)	16.5	11.9	8.4	--
EPS growth (%)	(1.0)	25.5	22.1	29.1
EPS (dil) (\$ New)	0.49	0.63	0.79	1.04
P/E (X)	19.0	14.2	11.7	9.0
P/B (X)	3.1	2.4	2.0	1.7
EV/EBITDA (X)	14.7	9.2	6.1	3.9
Dividend yield (%)	0.0	0.0	0.0	0.0
ROE (%)	14.8	16.2	17.0	18.7
CROCI (%)	20.8	28.3	23.2	22.9

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(8.1)	22.4	1.0
Rel. to NASDAQ Composite	(0.4)	21.7	5.7

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/07/2016 close.

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Tarena International Inc.: Summary Financials

Profit model (\$ mn)	12/15	12/16E	12/17E	12/18E	Balance sheet (\$ mn)	12/15	12/16E	12/17E	12/18E
Total revenue	189.2	233.2	290.8	356.1	Cash & equivalents	79.1	111.8	172.5	249.5
Cost of goods sold	(53.5)	(63.5)	(77.1)	(92.6)	Accounts receivable	22.6	16.7	12.5	9.2
SG&A	(97.3)	(118.8)	(144.2)	(173.7)	Inventory	0.0	0.0	0.0	0.0
R&D	(7.8)	(8.5)	(11.6)	(14.2)	Other current assets	102.6	104.6	107.2	110.2
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	204.3	233.1	292.2	368.9
EBITDA	38.6	53.2	72.0	93.8	Net PP&E	19.7	22.5	25.2	27.6
Depreciation & amortization	(8.0)	(10.7)	(14.1)	(18.3)	Net intangibles	0.0	0.0	0.0	0.0
EBIT	30.6	42.5	57.9	75.6	Total investments	17.6	17.6	17.6	17.6
Interest income	6.9	7.8	6.2	8.2	Other long-term assets	9.4	8.2	8.2	8.2
Interest expense	0.7	0.0	0.0	0.0	Total assets	254.7	285.0	346.9	425.9
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	0.7	0.8	1.0	1.2
Others	(3.5)	(2.0)	(2.5)	(3.1)	Short-term debt	0.0	0.0	0.0	0.0
Pretax profits	34.6	48.3	61.6	80.8	Other current liabilities	46.4	34.4	43.7	53.9
Income tax	(0.6)	(6.0)	(9.2)	(12.1)	Total current liabilities	47.1	35.2	44.7	55.1
Minorities	0.0	0.0	0.0	0.0	Long-term debt	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	34.0	42.3	52.4	68.6	Other long-term liabilities	1.4	1.4	1.4	1.4
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	1.4	1.4	1.4	1.4
Net income (pre-exceptionals)	34.0	42.3	52.4	68.6	Total liabilities	48.6	36.6	46.1	56.5
Post-tax exceptionals	(5.3)	(5.5)	(5.8)	(6.1)	Preferred shares	0.0	0.0	0.0	0.0
Net income	28.7	36.7	46.6	62.6	Total common equity	206.1	248.4	300.8	369.4
EPS (basic, pre-exception) (\$)	0.58	0.73	0.89	1.14	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-exception) (\$)	0.49	0.63	0.79	1.04	Total liabilities & equity	254.7	285.0	346.9	425.9
EPS (diluted, post-exception) (\$)	0.49	0.63	0.79	1.04	BVPS (\$)	3.51	4.27	5.09	6.16
DPS (\$)	0.00	0.00	0.00	0.00					
Dividend payout ratio (%)	0.0	0.0	0.0	0.0					
Free cash flow yield (%)	6.2	5.4	9.9	12.4					
Growth & margins (%)	12/15	12/16E	12/17E	12/18E	Ratios	12/15	12/16E	12/17E	12/18E
Sales growth	38.9	23.3	24.7	22.5	CROCI (%)	20.8	28.3	23.2	22.9
EBITDA growth	27.2	37.9	35.4	30.3	ROE (%)	14.8	16.2	17.0	18.7
EBIT growth	31.8	38.9	36.3	30.4	ROA (%)	12.1	13.6	14.7	16.2
Net income growth	19.1	27.9	26.8	34.4	ROACE (%)	19.9	26.9	35.6	49.7
EPS growth	(2.3)	29.1	25.0	32.4	Inventory days	NM	NM	NM	NM
Gross margin	71.7	72.8	73.5	74.0	Receivables days	44.2	30.8	18.4	11.1
EBITDA margin	20.4	22.8	24.8	26.4	Payable days	3.4	4.3	4.3	4.3
EBIT margin	16.2	18.2	19.9	21.2	Net debt/equity (%)	(38.4)	(45.0)	(57.3)	(67.5)
					Interest cover - EBIT (X)	NM	NM	NM	NM
Cash flow statement (\$ mn)	12/15	12/16E	12/17E	12/18E	Valuation	12/15	12/16E	12/17E	12/18E
Net income pre-preferred dividends	34.0	42.3	52.4	68.6	P/E (analyst) (X)	19.0	14.2	11.7	9.0
D&A add-back	8.0	10.7	14.1	18.3	P/B (X)	3.1	2.4	2.0	1.7
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	14.7	9.2	6.1	3.9
Net (inc)/dec working capital	8.9	(6.8)	11.1	10.7	EV/GCI (X)	4.2	2.1	1.3	0.9
Other operating cash flow	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0
Cash flow from operations	50.9	46.1	77.5	97.6					
Capital expenditures	(10.9)	(13.5)	(16.8)	(20.6)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	(0.3)	0.0	0.0	0.0					
Cash flow from investments	(11.2)	(13.5)	(16.8)	(20.6)					
Dividends paid (common & pref)	0.0	0.0	0.0	0.0					
Inc/(dec) in debt	0.0	0.0	0.0	0.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	0.0	0.0	0.0	0.0					
Cash flow from financing	0.0	0.0	0.0	0.0					
Total cash flow	39.7	32.6	60.7	77.0					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Exhibit 1: Results overview

US\$m	4Q14	1Q15	2Q15	3Q15	4Q15A	4Q15E	% diff	% qoq	% yoy
Net revenues	39.7	28.2	41.3	59.7	60.0	54.8	9%	0%	51%
Cost of revenues	(10.8)	(11.0)	(12.8)	(14.8)	(15.1)	(14.8)	2%	2%	40%
Gross profit, GAAP	28.8	17.2	28.6	44.9	44.9	40.0	12%	0%	56%
Gross profit, non-GAAP	28.9	17.2	28.6	45.0	44.9	40.0	12%	0%	56%
Selling and marketing, GAAP	(12.3)	(12.1)	(16.8)	(16.1)	(16.8)	(16.5)	2%	4%	36%
General and administrative, GAAP	(9.1)	(8.2)	(8.5)	(11.9)	(11.8)	(12.3)	-4%	-1%	28%
Research and development, GAAP	(1.7)	(1.6)	(2.0)	(2.1)	(2.3)	(2.3)	3%	9%	41%
Total operating expense	(23.1)	(21.9)	(27.4)	(30.2)	(30.9)	(31.1)	-1%	2%	33%
Operating profit, GAAP	5.7	(4.7)	1.2	14.8	14.0	8.9	58%	-5%	146%
Operating profit, non-GAAP	6.7	(3.6)	2.6	16.1	15.4	10.1	52%	-4%	131%
Interest income	1.5	1.5	1.3	2.1	1.9	2.1	-7%	-7%	31%
Other income	0.9	0.5	0.7	(3.4)	(1.3)	(0.5)	NM	NM	NM
Profit before tax	8.1	(2.7)	3.3	14.1	14.6	10.5	40%	4%	81%
Income tax	(0.5)	0.2	(0.4)	(0.3)	(0.1)	(0.7)	-80%	-44%	-74%
Net profit, GAAP	7.5	(2.5)	2.9	13.8	14.5	9.8	49%	5%	92%
Net profit, non-GAAP	8.5	(1.4)	4.3	15.2	15.9	11.0	45%	5%	87%
GAAP diluted EPADS (US\$)	0.13	(0.05)	0.05	0.24	0.25	0.17	50%	6%	93%
Non-GAAP diluted EPADS (US\$)	0.15	(0.03)	0.07	0.26	0.27	0.19	46%	6%	88%
Non-GAAP margins	4Q14	1Q15	2Q15	3Q15	4Q15A	4Q15E	Diff (pp)	QoQ (pp)	YoY (pp)
Gross margin	72.8%	61.2%	69.2%	75.3%	74.9%	73.0%	1.9	(0.4)	2.1
Operating margin	16.9%	NM	6.4%	27.0%	25.8%	18.5%	7.3	(1.3)	8.9
Net margin	21.5%	NM	10.4%	25.5%	26.6%	20.1%	6.4	1.1	5.1

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 2: Estimates changes

	New 2016E	Chg %	New 2017E	Chg %	New 2018E
Net revenues (US\$m)	233	2%	291	1%	356
Diluted EPADS, non-GAAP (US\$)	0.73	12%	0.89	8%	1.14

Source: Goldman Sachs Global Investment Research.

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Reg AC

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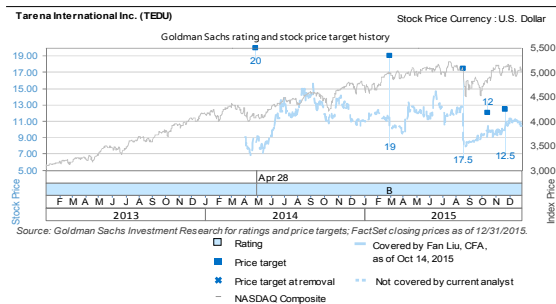
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