

Wednesday, 04 January, 2017

Bringing China to the World

Company Visit

Not rated

Tarena International Inc

Sector: Consumer Discretionary

Industry: Diversified Consumer Services

Sub-industry: Education Services

Key data

Price (US\$)	14.99
52wk High (US\$)	16.49
52wk Low (US\$)	8.3033
Market Cap (US\$m)	835
Shares outstanding (m)	45
Free float (%)	-
1M relative return	-12.9
6M relative return	35.9
YTD relative return	-
Nasdaq 100	4,864
Dividend yield (FY15)	0.0

US\$:Rmb 6.9569

Inst Ownership (Top 5, %)

AREO HOLDINGS	12.99
HAN SHAOYUN	9.07
IDG VENTURES INC	7.46
GREENWOODS ASSET MAN	4.04
CAPITAL GROUP COMPAN	3.75

Source: Bloomberg

达内国际 (TEDU:US)

O2O 教学典范，IT 职业教育新模式的开创者

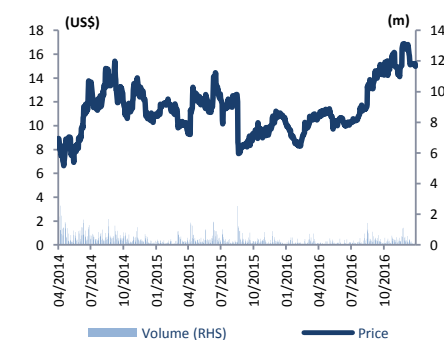
达内教育是一家专业职业培训机构，它所提供的课程涵盖 12 个 IT 主题，3 个非 IT 主题，以及 3 个儿童教学主题。根据 IDC 报告，达内教育是目目前中国国内最大的专业 IT 培训机构，2013 年市场份额约 8.3%。

有效的教学方式。达内的 O2O 的教学方式融合了现场教学、线上平台及课堂助教辅导。其中现场教学通过在线直播的方式使全国 135 家直营培训中心的学生与北京的同学同步上课。而课堂助教为学习有困难的学生提供实时的疑难解答。这种教学模式既保证了培训服务的质量与多样性，同时降低了学生的平均教学成本，因为助教工资远低于授课教师的工资。自 2012 年以来，达内教育已培训了总计 353,000 名学员，这些学员被分派到约 90,000 家公司工作。

成长中的 IT 培训市场。长期教学积累的口碑和出色的学员就业服务，达内学生人数从 2011 年的 16,282 人增长至 2015 年的 84,041 人，年复合增长率达到 50.73%。随着对 IT 技能人才的需求持续增长，IDC 预测 2012-2017 中国的 IT 培训市场规模年将每年增长约 12%，并于 2017 年达到 120 亿元人民币。

数字艺术的爆发。达内最开始只专注于 IT 领域的培训，公司于 2013 年引入了非 IT 课程培训。目前，达内教育提供的非 IT 领域培训包括数字艺术、线上销售与市场营销、会计课程等。得益于现代公司越来越重视用户界面，达内数字艺术课程增长十分显著，已经成为公司 2015 年净收益主要贡献来源。

业绩指引。管理层预期学生人数在 2016 至 2018 年间将年均增长 20%-30%，学费每年增长 3%-5%；相应地，公司收入从 2016 年到 2018 年将年均增长 25%-35%。管理层预测，公司的非美国通用会计准则的营运利润率将从 2015 年的 16.2% 增长至 2016-2018 年的 18% 左右；与此同时，管理层将继续在全国的布局，学校座位数将以每年 20% 的速度扩张（利用率在扩张期稳定在 74% 左右）。根据彭博预测公司股价对应 16 年 21.4 倍市盈率，高于历史平均 13.8 倍市盈率。



Source: Bloomberg

Financial Table

	2012	2013	2014	2015
Revenue (US\$m)	57	93	136	189
YoY (%)	120.7	63.4	46.7	38.9
Net income (US\$m)	10	14	25	29
YoY (%)	1263.3	47.1	75.8	16.3
Diluted EPS (US\$)	-1.57	-2.77	0.44	0.49
YoY (%)	-103.9	-76.4	115.9	11.4
ROE (%)	-	-	-	14.8
Dividend yield (%)	-	-	-	-
Free cash flow/shr (US\$)	0.02	1.88	0.50	0.74
PE (x)	-	-	25.1	21.3
PB (x)	-	-	3.2	2.8
EV/Ebitda	-	-	20.6	14.4
Debt/equity	-	-	-	-

Source: SWS Research, Bloomberg

Tarena International is China's largest information technology (IT) professional education services provider according to IDC, offering courses on 12 IT subjects, three non-IT topics, as well as three children programmes. It does so through a differentiated teaching method using both online and offline resources, which allows it to benefit from wider coverage and reduced costs.

Effective method. Tarena's online-to-offline (O2O) teaching method comprises live lectures, which are broadcasted from Beijing to 135 directly-managed learning centres across China, an online platform and in-class tutoring. The in-class tutoring provide real time assistant to student who needs help with class. This ensures the variety and quality of its training services while reducing its costs per student as tutor costs much less than instructor. It has taught a total of 353,000 students since its inception in 2002, who were placed with c.90,000 employers.

Growing market. Backed by its long track record and job placement services, Tarena's student enrolments have increased from 16,282 in FY11 to 84,041 in FY15, representing a Cagr of 50.73%. On the back of rising demand for IT skills, IDC forecasts the Chinese IT training market size to grow at a five-Cagr of 12% to Rmb12bn by 17F.

Digital art boom. Originally focused only on IT, Tarena launched non-IT subjects in 2013. Currently, it offers digital art, online sales & marketing and accounting courses. Notably, its digital art course has grown substantially to become its most important course in terms of net revenue contribution in FY15 (US\$60.9m) as companies increasing focus on user interface.

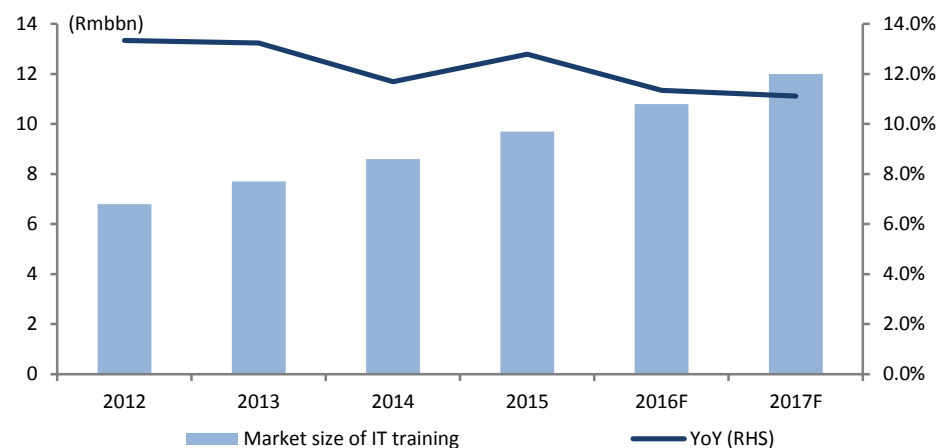
Growth guidance. Management expects student enrolments to grow 20-30% from FY16 to FY18, with tuition increasing by 3-5% per annum. Accordingly, revenue would grow 25-35% from FY16 to FY18. Management also forecasts the company's non-GAAP operating margin to rise from 16.2% in FY15 to c.18% in FY16-FY18 and its capacity to grow at a 20% Cagr during the period (on a flat utilisation rate of 74%) as the firm continues to expand its footprint nationwide. The company is currently trading at 21.4x 16F PE based on Bloomberg consensus estimates, above its historical average of 13.8x leading PE.

Online-to-offline teaching

Established in 2002 and listed on the NASDAQ Global Select Market in 2014, Tarena International is a professional education services provider, offering courses on 12 information technology (IT) subjects, three non-IT topics, as well as three children programmes. According to IDC, it is China's largest information technology (IT) professional education services provider, with a market share of 8.3% in 2013. Tarena's teaching method comprises online lectures, which are broadcasted from Beijing to 135 directly-managed learning centres across China, online practice and in-class tutoring. It has taught a total of 353,000 students since 2002, who were placed with c.90,000 employers.

On the back of rising demand for IT skills, IDC forecasts the Chinese IT training market size to grow at a five-Cagr of 12% to Rmb12bn by 17F.

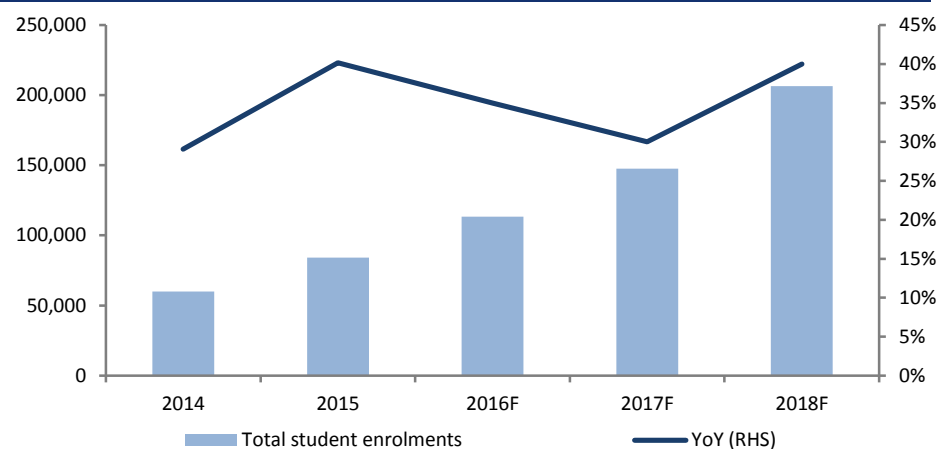
Fig 1: China's IT training market



Source: Company data, SWS Research

Backed by its long track record and job placement services, Tarena's student enrolments have increased from 16,282 in FY11 to 84,041 in FY15, representing a Cagr of 50.73%.

Fig 2: Student enrolments



Source: Company data, SWS Research

Tarena is one of the first IT training companies in China. While classes are broadcasted from Beijing, where the firm's experienced instructors are based and where students can attend in-person lectures, each classroom in other learning centres has one or

two on-site teaching assistants to tutor and supervise students. Moreover, Tarena also has an online platform where students can access the content of courses, self-assessment exams and student management tools, as well as interact with staff and other students. Through its O2O model, Tarena is able to have diverse offerings with high-quality instructors, benefiting from economies of scale and thus reducing its costs per student. Currently offering 12 IT subjects, three non-IT topics and three children programmes, we highlight that Tarena has a wider subject coverage than its peers.

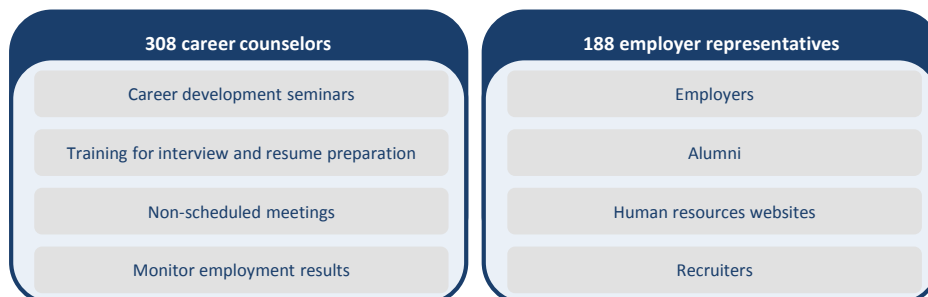
Fig 3: Courses offered by Tarena and peers

	Eduask	Ambow	APTECH	ETC	Neusoft	Tarena
Number of learning centers	9	134	139	13	9	138
Courses						
JAVA	✓	✓	✓	✓	✓	✓
C++					✓	✓
Software Testing			✓	✓	✓	✓
PHP	✓			✓		✓
Embedded				✓	✓	✓
Android	✓	✓	✓	✓	✓	✓
IOS				✓	✓	✓
.Net	✓			✓	✓	✓
Linux		✓	✓			✓
Big Data						✓
Web front-end development						✓
Digital Art				✓		✓
Online sales and marketing	✓		✓	✓	✓	✓
AR/VR						✓
Accounting						✓

Source: Company, SWS Research

Tarena provides job placement services for students such as access to career counseling, employer representatives and a self-developed job search website called Job Show. On the back of its network of partner employers and supporting services, the employment rate of Tarena’s graduates is at c.90%.

Fig 4: Student job placement services



Source: Company, SWS Research

Fig 5: Career search website (www.jobshow.cn)



Source: www.jobshow.cn, SWS Research

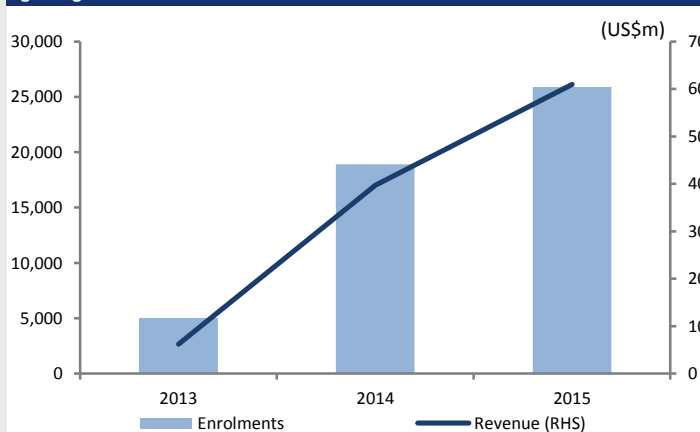
Originally focused only on IT, Tarena launched non-IT subjects in 2013. Currently, it offers digital art, online sales & marketing and accounting courses. Notably, its digital art course has grown substantially to become its most important course in terms of net revenue contribution in FY15 (US\$60.9m) as companies increasing focus on user interface to set themselves apart from the competition. Design-centric firms include Apple (AAPL:US), Facebook (FB:US), Alibaba (BABA:US) and Tencent (700:HK – BUY) and, according to the Design Management Institute (DMI), they outperformed the S&P 500 by 211% from 2005 to 2015. According to DMI, user experience designers are the most demanded professionals within design and planning in the USA.

Fig 6: Non-IT courses

Subject	Launch	Content
Digital art	2013	Latest Adobe user interface design technology for graphic design, as well as webpage and mobile design
Online sales and marketing	2013	Search engine marketing, search engine optimisation, and other internet-based marketing, such as microblog marketing
Accounting	2014	Accounting certificate and chief accountant practice

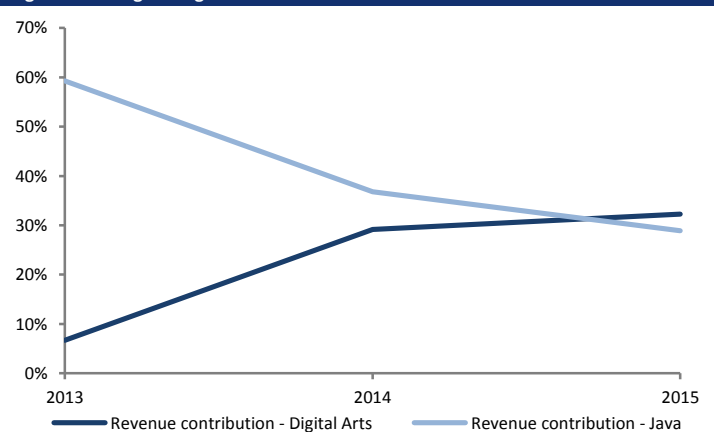
Source: Company, SWS Research

Fig 7: Digital art enrolments and revenue



Source: Company, SWS Research

Fig 8: Percentage of digital art in total revenue

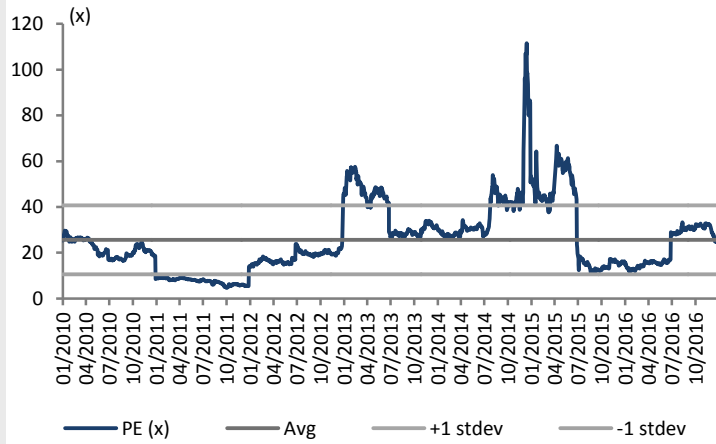


Source: Company, SWS Research

Growth guidance

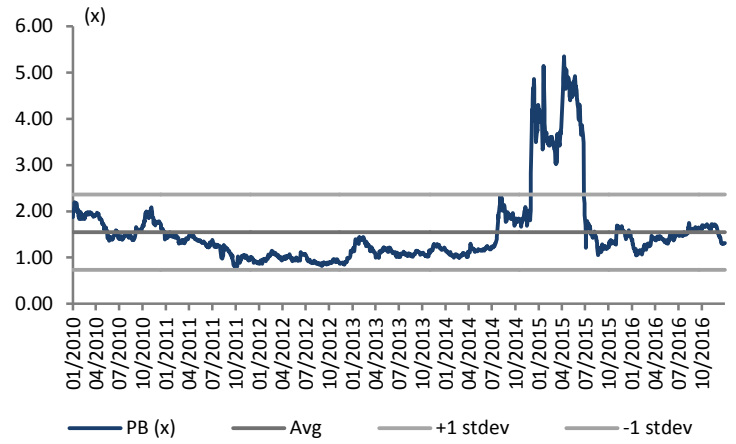
Management expects student enrolments to grow 20-30% from FY16 to FY18, with tuition increasing by 3-5% per annum. Accordingly, revenue would grow 25-35% from FY16 to FY18. Management also forecasts the company's non-GAAP operating margin to rise from 16.2% in FY15 to c.18% in FY16-FY18 and its capacity to grow at a 20% Cagr during the period (on a flat utilisation rate of 74%) as the firm continues to expand its footprint nationwide. The company also indicated that it will add two more courses in the next fiscal year. The company is currently trading at 21.4x 16F PE based on Bloomberg consensus estimates, above its historical average of 13.8x leading PE.

Fig 9: PE band charts



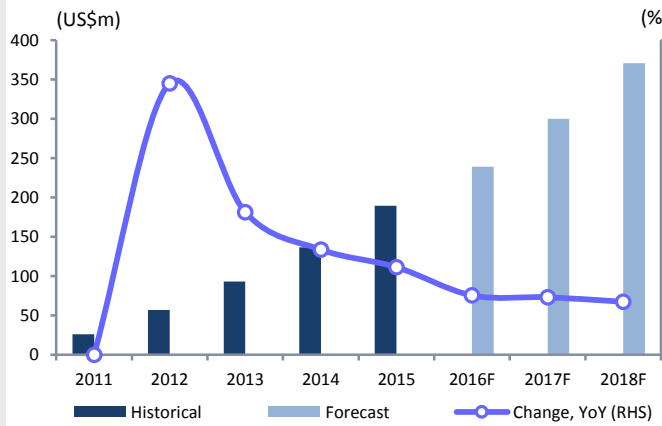
Source: SWS Research & Bloomberg

Fig 10: PB band charts



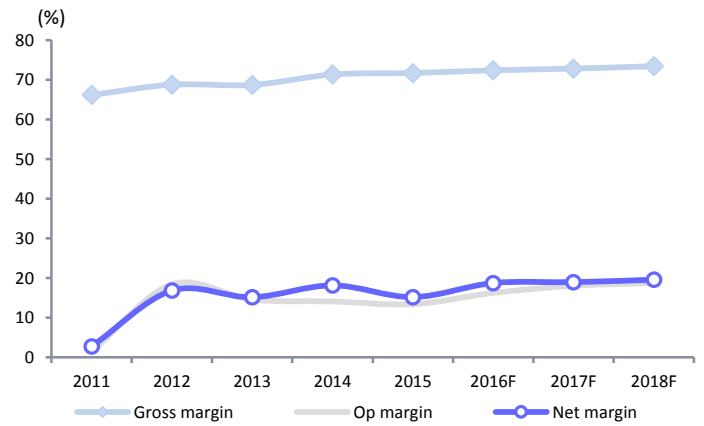
Source: SWS Research & Bloomberg

Fig 11: Revenue



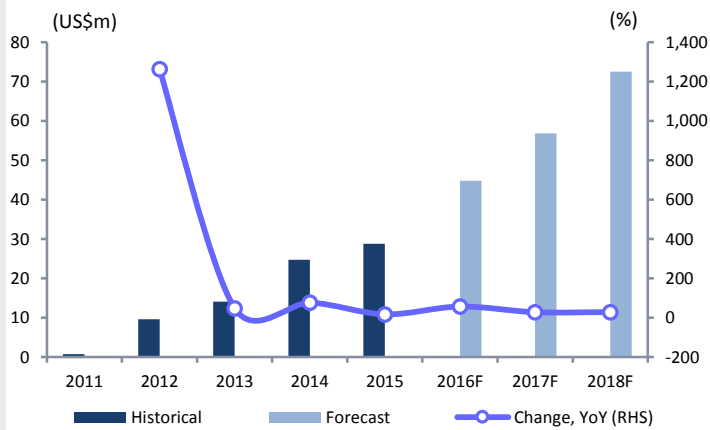
Source: SWS Research & Bloomberg

Fig 12: Margins



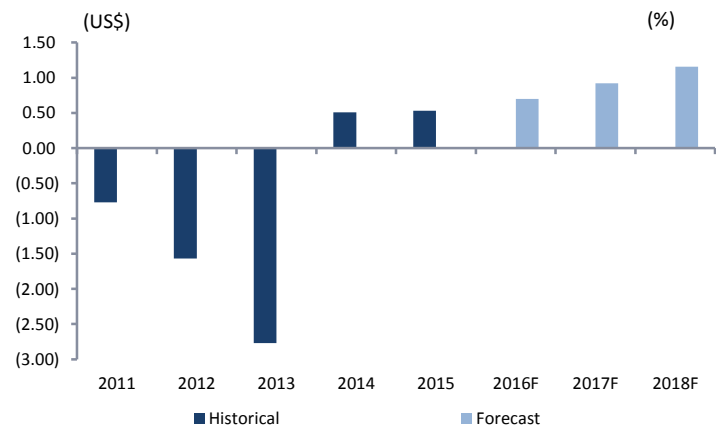
Source: SWS Research & Bloomberg

Fig 13: Net profit



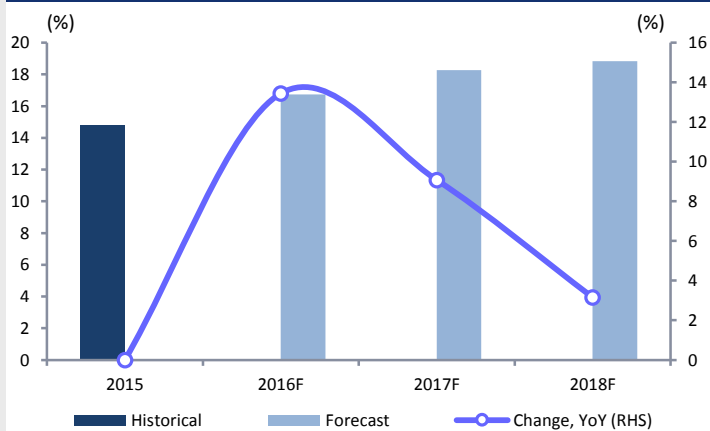
Source: SWS Research & Bloomberg

Fig 14: EPS



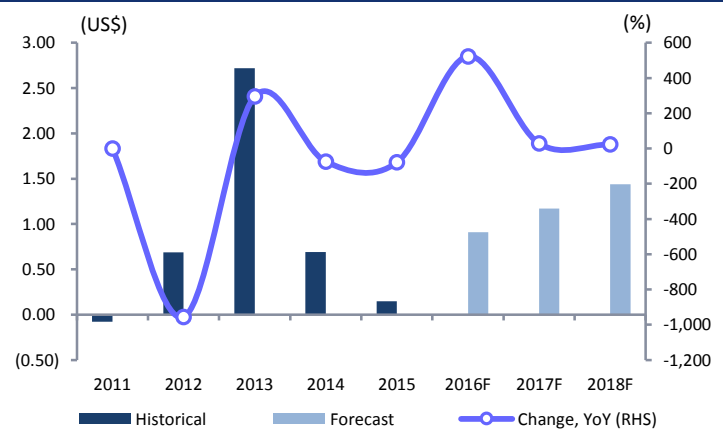
Source: SWS Research & Bloomberg

Fig 15: ROE



Source: SWS Research & Bloomberg

Fig 16: Cash flow per share



Source: SWS Research & Bloomberg

Appendix

Income Statement

(US\$)	2012	2013	2014	2015
Revenue (m)	57	93	136	189
Operating income (m)	10	13	19	25
Pretax income (m)	12	16	27	29
Income bef XO items (m)	10	14	25	29
Net income (m)	10	14	25	29
Basic EPS before XO items	-1.57	-2.77	0.51	0.53
Basic EPS	-1.57	-2.77	0.51	0.53
Diluted EPS before XO items	-1.57	-2.77	0.44	0.49
Diluted EPS	-1.57	-2.77	0.44	0.49
Dividends per share	0.00	0.00	0.00	0.00
Ebitda (m)	13	18	26	34
ROE (%)				14.8

Source: Bloomberg

Balance Sheet

(US\$)	2012	2013	2014	2015
Total current assets (m)	34	46	181	204
Total long-term assets (m)	13	27	37	50
Total assets (m)	47	74	218	255
Total current liabilities (m)	15	25	33	47
Total long-term liabilities (m)	0	0	2	1
Total liabilities (m)	15	26	35	49
Total shareholders' equity (m)	32	48	183	206
Shares outstanding (m)	11	12	52	55
Book value per share	-3.22	-5.18	3.49	3.78
Tangible book value per share	-3.22	-5.18	3.49	3.78
Equity to total liabilities	69	65	84	81

Source: Bloomberg

Cash Flow Statement

(US\$)	2012	2013	2014	2015
Net income (m)	10	14	25	29
Depreciation and amortisation (m)	2	5	7	9
Change in working capital (m)		1	127	9
Cash from operating activities (m)	7	30	28	56
Capital expenditures (m)	-7	-9	-8	-16
Cash from investing activities (m)	-8	-20	-119	-12
Cash from financing activities (m)	-0	-0	108	-8
Net changes in cash (m)	-1	10	17	36
Free cash flow (m)	0	21	21	40
FCF per share (basic)	0.02	1.88	0.50	0.74
FCF per share (diluted)	0.02	1.88	0.43	0.68
Cash flow per share	0.69	2.72	0.69	1.04

Source: Bloomberg

Information Disclosure :

The views expressed in this report accurately reflect the personal views of the analyst. The analyst declares that neither he/she nor his/her associate serves as an officer of nor has any financial interests in relation to the listed corporation reviewed by the analyst. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this report to any of the analyst, the Company or the group company(ies). A group company(ies) of the Company confirm that they, whether individually or as a group (i) are not involved in any market making activities for any of the listed corporation reviewed; or (ii) do not have any individual employed by or associated with any group company(ies) of the Company serving as an officer of any of the listed corporation reviewed; or (iii) do not have any financial interest in relation to the listed corporation reviewed or (iv) do not, presently or within the last 12 months, have any investment banking relationship with the listed corporation reviewed.

Undertakings of the Analyst

I (We) am (are) conferred the Professional Quality of Securities Investment Consulting Industry by the Securities Association of China and have registered as the Securities Analyst. I hereby issue this report independently and objectively with due diligence, professional and prudent research methods and only legitimate information is used in this report. I am also responsible for the content and opinions of this report. I have never been, am not, and will not be compensated directly or indirectly in any form for the specific recommendations or opinions herein.

Disclosure with respect to the Company

The company is a subsidiary of Shenwan Hongyuan Securities. The company is a qualified securities investment consulting institute approved by China Securities Regulatory Commission with the code number ZX0065.

Releasing securities research reports is the basic form of the securities investment consulting services. The company may analyze the values or market trends of securities and related products or other relevant affecting factors, provide investment analysis advice on securities valuation/ investment rating, etc. by issuing securities research reports solely to its clients.

The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact compliance@swsresearch.com for the relevant disclosure materials or log into www.swsresearch.com for the analysts' qualifications, the arrangement of the quiet period and the affiliates' shareholdings.

Introduction of Share Investment Rating

Security Investment Rating :

When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight : Industry performs better than that of the whole market ;

Equal weight : Industry performs about the same as that of the whole market ;

Underweight : Industry performs worse than that of the whole market.

We would like to remind you that different security research institutions adopt different rating terminologies and rating standards. We adopt the relative rating method to recommend the relative weightings of investment. The clients' decisions to buy or sell securities shall be based on their actual situation, such as their portfolio structures and other necessary factors. The clients shall read through the whole report so as to obtain the complete opinions and information and shall not rely solely on the investment ratings to reach a conclusion. The Company employs its own industry classification system. The industry classification is available at our sales personnel if you are interested.

HSCEI is the benchmark employed in this report.

Disclaimer :

This report is to be used solely by the clients of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities, hereinafter referred to as the "Company"). The Company will not deem any other person as its client notwithstanding his receipt of this report.

This report is based on public information, however, the authenticity, accuracy or completeness of such information is not warranted by the Company. The materials, tools, opinions and speculations contained herein are for the clients' reference only, and are not to be regarded or deemed as an invitation for the sale or purchase of any security or other investment instruments.

The clients understand that the text message reminder and telephone recommendation are no more than a brief communication of the research opinions, which are subject to the complete report released on the Company's website (<http://www.swsresearch.com>). The clients may ask for follow-up explanations if they so wish.

The materials, opinions and estimates contained herein only reflect the judgment of the Company on the day this report is released. The prices, values and investment returns of the securities or investment instruments referred to herein may fluctuate. At different periods, the Company may release reports which are inconsistent with the materials, opinions and estimates contained herein.

Save and except as otherwise stipulated in this report, the contactor upon the first page of the report only acts as the liaison who shall not provide any consulting services.

The clients shall consider the Company's possible conflict of interests which may affect the objectivity of this report, and shall not base their investment decisions solely on this report. The clients should make investment decisions independently and solely at your own risk. Please be reminded that in any event, the company will not share gains or losses of any securities investment with the clients. Whether written or oral, any commitment to share gains or losses of securities investment is invalid. The investment and services referred to herein may not be suitable for certain clients and shall not constitute personal advice for individual clients. The Company does not ensure that this report fully takes into consideration of the particular investment objectives, financial situations or needs of individual clients. The Company strongly suggests the clients to consider themselves whether the opinions or suggestions herein are suitable for the clients' particular situations; and to consult an independent investment consultant if necessary.

Under no circumstances shall the information contained herein or the opinions expressed herein forms an investment recommendation to anyone. Under no circumstances shall the Company be held responsible for any loss caused by the use of any contents herein by anyone. Please be particularly cautious to the risks and exposures of the market via investment.

Independent investment consultant should be consulted before any investment decision is rendered based on this report or at any request of explanation for this report where the receiver of this report is not a client of the Company.

The Company possesses all copyrights of this report which shall be treated as non-public information. The Company reserves all rights related to this report. Unless otherwise indicated in writing, all the copyrights of all the materials herein belong to the Company. In the absence of any prior authorization by the Company in writing, no part of this report shall be copied, photocopied, replicated or redistributed to any other person in any form by any means, or be used in any other ways which will infringe upon the copyrights of the Company. All the trademarks, service marks and marks used herein are trademarks, service marks or marks of the Company, and no one shall have the right to use them at any circumstances without the prior consent of the Company.

This report may be translated into different languages. The Company does not warrant that the translations are free from errors or discrepancies.

This report is for distribution in Hong Kong only to persons who fall within the definition of professional investors whether under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") or the Securities and Futures (Professional Investor) Rules (Chapter 571D of the laws of the Hong Kong under the SFO).

This report is for distribution in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) order 2001 (as amended) (the "Order") or (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc") of the Order (All such persons together being referred to as "Relevant Persons"). This document is directed only at Relevant Persons. Other Persons who are not Relevant Persons must not act or rely upon this document or any of its contents.

Distribution in Singapore

If distributed in Singapore, this report is meant only for Accredited Investors and Institutional Investors as defined under Section 4A of the Securities and Futures Act of Singapore. If you are not an Accredited Investor or an Institutional Investor, you shall ignore the report and its contents. The Singapore recipients of the report are to contact the Singapore office of Shenwan Hongyuan Singapore Private Limited at 65-6323-5208, or 65-6323-5209 in respect of any matters arising from, or in connection with, the report.