

Unrated

OneSmart International EDU (ONE.US)

Education

Accelerating expansion faces margin pressure

11/14/2018

Key Data

Nov. 13, 2018

Date	2018.11.13
Closing Price (USD)	8.05
Total shares (100 millions)	65.2
Market Cap (billions RMB)	1.31
Net Asset (billions RMB)	1.1
Total Asset (billions RMB)	4.18
Net asset per share(RMB)	0.17

Analyst

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Key Financial Indicators

FY	2017A	2018E	2019E	2020E
Revenue (Mn/HKD)	241919	262913	277823	297533
YoY (%)	51.4%	8.7%	5.7%	7.1%
Net Profit (Mn/HKD)	17284	21435	23955	27067
YoY (%)	17.7%	24.0%	11.8%	13.0%
Gross Margin (%)	25.4%	27.9%	28.1%	29.0%
Net Profit Margin (%)	7.1%	8.2%	8.6%	9.1%
ROE (%)	23.4%	24.8%	22.3%	20.7%
EPS (HKD)	2.61	3.23	3.61	4.08
OCFPS (HKD)	3.69	-4.21	2.76	3.97

Company Profile

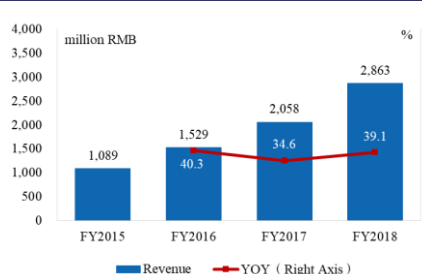
- **FY2018 annual revenue increased rapidly, profit indicated outstanding although less than expected:** In FY2018, the company's revenue reached 2.86 billion RMB and increased by 39.1% YoY; Non-GAAP operating income reached 376 million RMB and increased by 14% YoY; Non-GAAP operating margin reached 13.1% and decreased 290bps YoY; Non-GAAP net income attributable to Jingrui Education reached 392 million RMB and increased by 38.3% YoY, slightly less than Bloomberg's consensus forecast 410 million RMB, Non-GAAP net income attributable to Jingrui Education margin reached 13.7% and decreased by 90bps YoY.
- **Learning centers keep expanding rapidly, maintain the position in the fast track of expansion in the next three years:** In FY2018, capacity growth of learning centers reached 34.8% and realized 315 learning centers. Shanghai is still the company's major development market, annual revenue in Shanghai in FY2018 increased by 49%, EBIT margin still maintained above 40%. In FY2019, the company plans to set up 140 learning centers. Among them, Onesmart VIP, Happy Math and FasTract plans to set up 60, 30 and 30 learning centers respectively.
- **Expansion period faces margin pressure, specific rectification benefits company's integration progress:** In FY2019, the company expects that operating margin will decrease by 100bps due to influence produced by period expense but gross margin is expected to maintain above 50%. At present, 60%-70% of the company's teachers have teacher certification, which is higher than the industry average level. Spending on teachers is not expected to increase much. The whole industry enters the integration progress under specific rectification and the progress of acquisition will fall under positive side. The company's future plan will expand market share excluding Shanghai step by step and enhance the market share of online education and non-small class.
- **Risk tips:** 1)、Intense competition in Chinese Education industry; 2)、less than expected expansion and utilization rate of learning centers 3)、Chinese Education policy change



Content

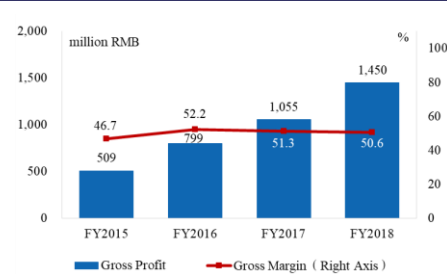
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G1、Revenue growth rapidly in FY2018



Source: Company materials, Industrial Securities

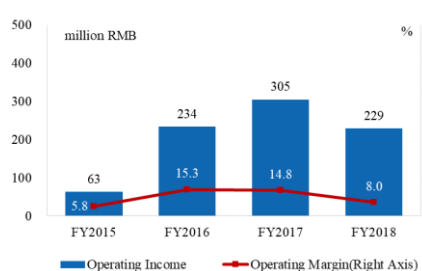
G2、Gross margin declined, but still above 50%



Source: Company materials, Industrial Securities

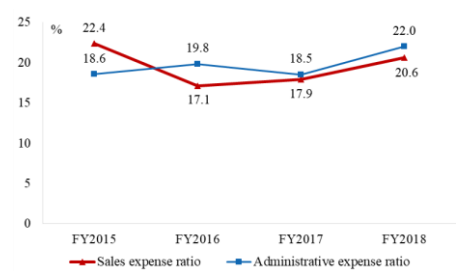
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G3、Operating margin declined



Source: Company materials, Industrial Securities

G4、SG&A expense ratio accelerated



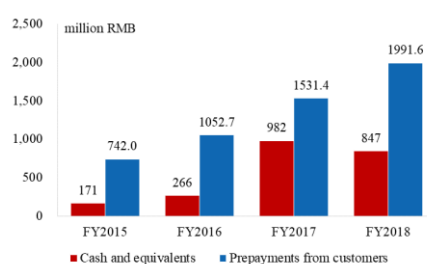
Source: Company materials, Industrial Securities

- **Completed the acquisition of Huaying Education and investment of Juren**

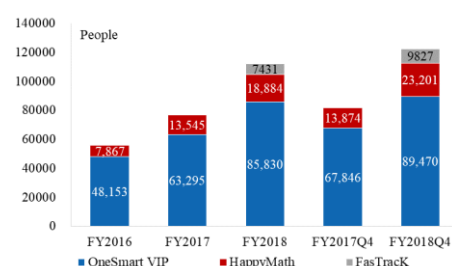
Education, annual revenue growth rate is expected to be 40%-45% in FY2019: The company completed the acquisition of 100% equity of Huaying Education and 100% equity of Juren Education with the third party and shared minority shareholder's interest, which benefit the company to achieve the expansion in Beijing, Tianjin and other areas. Huaying Education is expected to contribute 3%-3.5% of revenue in FY2019 and the company will strengthen the expansion progress in the North area with Juren Education's brand advantages in Beijing, which implements collectively development of inclusion and extension.

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G5、Deferred revenue growth rapidly, filled with cash and equivalents



G6、Monthly enrollment expanding



Source: Company materials, Industrial Securities

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Industry Investment Rating

When measuring the difference between the markup of the industry index and that of the market's benchmarks (Shanghai Composite Index/Shenzhen Component Index) within twelve months after the release of the report, we define the terms as follows:

- **Overweight:** Industry performs better than that of the whole market;
- **Neutral:** Industry performs about the same as that of the whole market;
- **Underweight:** Industry performs worse than that of the whole market

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- **Outperform:** With a markup 5% to 15% better than that of the market;
- **Neutral:** With a markup less than 5% better or worse than that of the market;
- **Underperform:** With a markup more than 5% worse than that of the market.

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