

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

New Oriental Education (EDU US)

A clean slate for a brighter new start

- 4Q22 revenue down 57% yoy with NG operating loss sequentially narrowed; Announced USD400mn share purchase program
- Legacy business remains resilient; New business gained more tractions with Dong Fang Zhen Xuan's exceptional performance
- Upbeat on solid growth and profitability improvement outlook after transformation; Maintain BUY, TP revised up to USD33

4Q22 a final phase for future transition

New Oriental's 4Q22 revenue down 57% yoy. GPM was 52.7%, +13.4ppt qoq, due to less restructuring cost related to learning centers and employees, which also drove NG operating loss to sequentially narrow to USD77mn (vs. USD111mn in 3Q22). Adj. NG net loss (excl. investment loss) reached USD92mn (vs. USD96mn in 4Q21 and USD131mn in 3Q22), with adj. NG NPM +3.8ppt qoq. Total no. of learning centres was 744 in 4Q22 (vs. 847 in 3Q22 and 1,625 in 3Q21), with majorities located in high-tier cities. Mgmt. indicated to maintain the current centres to support their businesses (e.g. Overseas and STEAM courses). Furthermore, mgmt. announced a share repurchase program of USD400mn, accounting for c.10% of its total liquidity (USD4.2bn) as of May 2022. Mgmt. planned to fully execute the program by the end of May 2023.

Resilient legacy with incremental tractions for new business

Legacy segment maintains resilient performance in 4Q22: Overseas test prep revenue +6% yoy in USD term, overseas consulting +16% yoy, while domestic +30% yoy. **New businesses** suggest solid demand, including: 1) STEAM courses (e.g. reading, coding, and arts); 2) Smart devices; 3) Study tour. Moreover, Koolearn (1797 HK)'s new initiative Dong Fang Zhen Xuan (DFZX, 东方甄选) demonstrated exceptional performance, with recent avg. daily GMV reached RMB20mn. Going forward, we expect 1Q23 group revenue to reach USD671mn, +28.1% qoq, mainly driven by DFZX's incremental revenue contribution.

BUY: Profitability outlook intact

We made forecast revision for New Oriental and Koolearn (Figure 8 and 9). **New Oriental** is currently trading at its net cash (similar to market cap), with FY23/24E P/E of 61x/19x. We revised our TP to USD33 from USD29, based on 25x FY24E P/E (revised up from 20x previously), maintain BUY. For **Koolearn**, we revised our TP to HKD20.9 from HKD26.7, based on SOTP valuation (Figure 14), maintain NEUTRAL. **Key Risks:** 1) New business' competition; 2) Exit from senior high segment; 3) Regulatory.

Financials

Year ended 31 May (USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4,277	3,105	2,588	2,845	3,126
Growth (%)	20%	-27%	-17%	10%	10%
Gross profit	2,240	1,351	1,391	1,586	1,806
Growth (%)	13%	-40%	3%	14%	14%
Non-GAAP OP	186	-850	28	230	409
Growth (%)	-60%	n.a.	n.a.	724%	78%
Non-GAAP NI	389	-1,046	71	226	364
Growth (%)	-20%	n.a.	n.a.	217%	61%
Non-GAAP EPADS (USD)	2.35	-6.17	0.42	1.33	2.15
P/E (x)	10.7	n.a.	61.4	19.4	12.0
ROE	10%	-24%	2%	6%	9%

Sources: Company data, CMS (HK) estimates; share price as of July 28, 2022 (HK Market) & July 27, 2022 (US market).

Tommy WONG +852 3189 6634
tommywong@cmschina.com.hk
Kaia ZHANG +852 3189 6176
kaiazhang@cmschina.com.hk
Crystal LI, CFA +852 3189 6122
crystalli@cmschina.com.hk

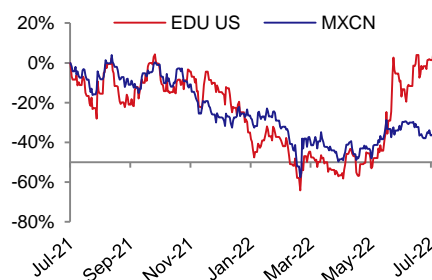
WHAT'S NEW

4Q22 results briefing; Earnings/TP revision

BUY

Previous	BUY
Price (Jul 27, 2022)	USD25.7
12-month Target Price (Potential up/downside)	USD33 (+28%)
Previous	USD29

Price Performance



Source: Bloomberg

	1m	6m	12m
EDU US	36.9	116.8	21.9
MXCN	(9.6)	(11.1)	(32.3)

Sector: Education

Hang Seng Index (Jul 28, 2022)	20,623
HSCEI (Jul 28, 2022)	7,083

Key Data

52-week range (USD)	8.4 - 26.43
Market cap (USD mn)	4,368
Avg. daily volume (mn)	3.03
BVPS (HKD)	171.35

Shareholding Structure

Michael Minhong Yu	10%
No. of shares outstanding (mn)	1,697
% outstanding	90%

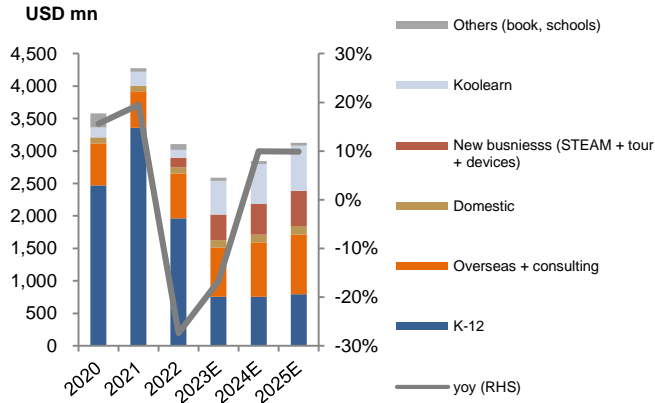
Sources: Company data, Bloomberg

Related Research

1. New Oriental Education (EDU US) - 3Q22 tail of restructuring phase (BUY) (Apr 27, 2022)
2. New Oriental Education (EDU US) - Scaling back to its roots (BUY) (Oct 13, 2021)
3. New Oriental Education (EDU US) - Solid 3Q21 with positive outlook (BUY) (Apr 21, 2021)

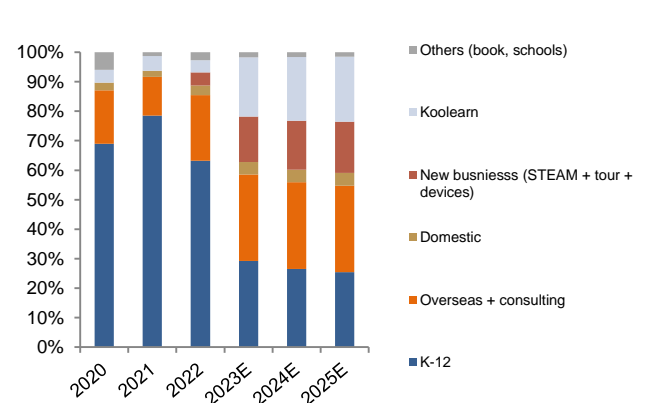
Focus charts

Figure 1: New Oriental's total revenue to recover in FY24E driven by legacy and new businesses



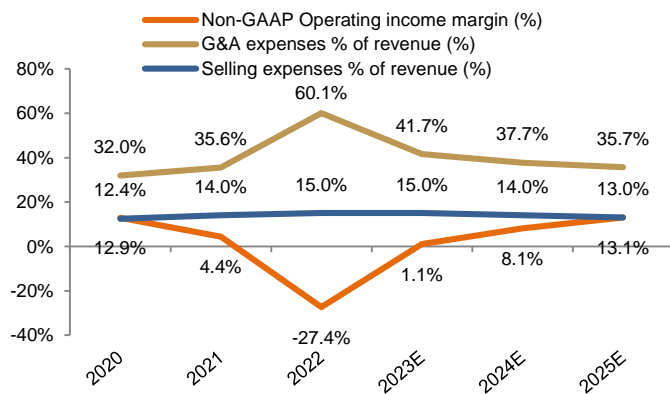
Sources: Company data, CMS (HK) estimates

Figure 2: New businesses' revenue contribution is increasing



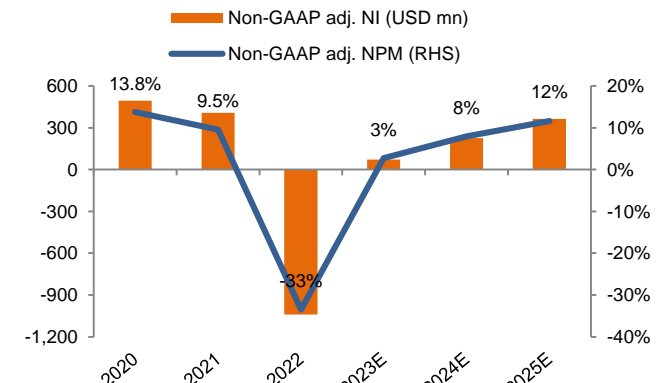
Sources: Company data, CMS (HK) estimates

Figure 3: New Oriental's OPEX and NG OPM



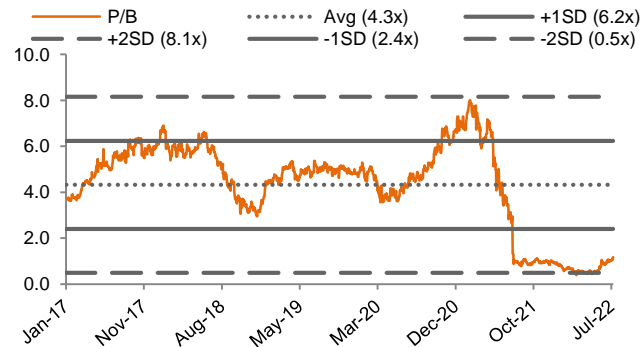
Sources: Company data, CMS (HK) estimates

Figure 4: We forecast New Oriental to near breakeven in FY23E



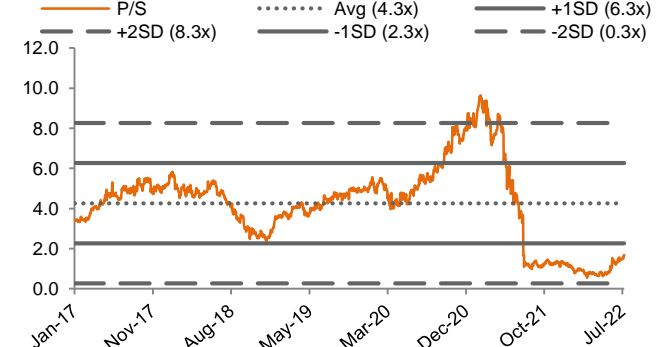
Sources: Company data, CMS (HK) estimates

Figure 5: P/B range for New Oriental



Sources: Bloomberg, Company data, CMS (HK) estimates

Figure 6: P/S range for New Oriental



Sources: Bloomberg, Company data, CMS (HK) estimates

Figure 7: New Oriental's 4Q22 results vs. CMS forecast and Bloomberg consensus

USD mn	4Q21	1H22	3Q22	4Q22	3Q22	4Q22	4Q22	CMS Forecast		Bloomberg Consensus	
	31-May	30-Nov	28-Feb	31-May	yoy	yoy	qoq	4Q22E	Diff	4Q22E	Diff
Net revenues	1,212	1,967	614	524	-48.4%	-56.8%	-14.7%	550	-4.6%	567	-7.6%
Gross profit	633	833	241	276	-62.9%	-56.4%	14.4%	221	24.7%	227	21.7%
Selling and marketing	194	277	94	96	-40.0%	-50.7%	2.2%	82	16.2%	185	-48.3%
G&A	541	1,292	289	286	-26.6%	-47.2%	-1.0%	220	30.1%	58	393.0%
OP - as reported	(102)	(736)	(141)	(106)	n.a.	3.2%	-25.2%	(81)	30.8%	(180)	-41.2%
NP - as reported	(45)	(876)	(122)	(189)	n.a.	316.4%	54.6%	(41)	364.7%	(52)	267.4%
Non-GAAP Op income	(82)	(661)	(111)	(77)	n.a.	-6.5%	-30.9%	(59)	30.7%	(85)	-10.0%
Non-GAAP Net income	(28)	(790)	(96)	(160)	n.a.	475.3%	67.9%	(19)	755.0%	(4)	3552.4%
Non-GAAP EPADS (USD)	(0.17)	(4.69)	(0.56)	(0.94)	n.a.	460.0%	67.9%	(0.11)	755.0%	(0.01)	9348.6%
Margins											
GPM	52.2%	42.4%	39.3%	52.7%	-15.4 ppt	0.5 ppt	13.4 ppt	40.3%	12.4 ppt	40.0%	12.7 ppt
OPM	-8.4%	-37.4%	-23.0%	-20.2%	n.a.	-11.7 ppt	2.8 ppt	-14.7%	-5.5 ppt	-31.7%	11.5 ppt
NPM	-3.8%	-44.5%	-19.9%	-36.1%	n.a.	-32.4 ppt	-16.2 ppt	-7.4%	-28.7 ppt	-9.1%	-27 ppt
Non-GAAP OPM	-6.8%	-33.6%	-18.1%	-14.7%	n.a.	-7.9 ppt	3.4 ppt	-10.7%	-4 ppt	-15.1%	0.4 ppt
Non-GAAP NPM	-2.3%	-40.2%	-15.6%	-30.6%	n.a.	-28.3 ppt	-15 ppt	-3.4%	-27.2 ppt	-0.8%	-29.8 ppt
As of revenue											
Selling and marketing	16.0%	14.1%	15.3%	18.3%	2.1 ppt	2.3 ppt	3 ppt	15.0%	3.3 ppt		
G&A	44.7%	65.7%	47.0%	54.6%	14 ppt	9.9 ppt	7.6 ppt	40.0%	14.6 ppt		
OCF											
OCF	304	(1,075)	(235)	29							
Cash	1,612	1,027	1,467	1,149							
Term Deposits	1,214	1,146	915	1,140							
Short Term Investments	3,435	2,632	2,028	1,902							
Total Liquidity	6,261	4,805	4,410	4,191							

Sources: Company data, Bloomberg, CMS (HK) estimates

Figure 8: New Oriental's earnings revision

USD mn	FY23E			FY24E		
	Previous	Revised	change	Previous	Revised	change
Revenue	2,247	2,588	15.2%	2,598	2,845	9.5%
Gross profit	963	1,391	44.5%	1,177	1,586	34.8%
Non - GAAP OP	(122)	28	n.a.	125	230	84.0%
Non-GAAP Net income	13	71	449.6%	229	226	-1.3%
Non-GAAP Core NI	13	71	449.6%	230	226	-1.9%
GPM	42.8%	53.8%	10.9 ppt	45.3%	55.8%	10.5 ppt
Non-GAAP OPM	-5.5%	1.1%	6.5 ppt	4.8%	8.1%	3.3 ppt
Non-GAAP NPM	0.6%	2.7%	2.2 ppt	8.8%	7.9%	-0.9 ppt
Non-GAAP Core NPM	0.6%	2.7%	2.2 ppt	8.8%	7.9%	-0.9 ppt

Sources: Company data, CMS (HK) estimates

Figure 9: Koolearn's earnings revision

RMB mn	FY22E			FY23E		
	Previous	Revised	change	Previous	Revised	change
Revenue	890	890	0.0%	860	1,350	57.0%
Gross profit	360	360	0.0%	594	986	66.0%
Operating income (loss)	-575	-575	n.a.	41	161	293.7%
Attributable net income (loss)	-569	-569	n.a.	48	163	236.8%
Core net income (loss)	-397	-397	n.a.	151	325	114.4%
Margins						
GPM	40.4%	40.4%	0 ppt	69.1%	73.0%	4 ppt
OPM	-64.6%	-64.6%	n.a.	4.7%	11.9%	7.2 ppt
NPM	-63.9%	-63.9%	n.a.	5.6%	12.1%	6.4 ppt
Core NPM	-44.6%	-44.6%	n.a.	17.6%	24.1%	6.4 ppt

Sources: Company data, CMS (HK) estimates

Figure 10: New Oriental newly launched summer study tour/research camp

全球优选国际教育资源

2022 暑假 SUMMER CAMP
夏令营
新东方游学

YOUNG LEADERSHIP
少年领袖营

TENGER DESERT
沙漠探索营

MUSEUM & HISTORY
博物研学营

【暑假】北京少年领袖
对话北大教授感受名校教育
实地考察世界500强名企京东
参访故宫长城两大世界遗产

【暑假】腾格里沙漠徒步
探访沙漠博物馆Get自然知识
沙漠徒步50公里锤炼意志力
夜行观星，发现宇宙奥秘

【暑假】博物研学
穿越长安，大唐诗人朋友圈等特色活动
跨学科探究，历史/语文/地理
沉浸式领略国家历史奥秘

Sources: Company data, Beijing New Oriental Website, CMS (HK)

Figure 11: New Oriental launched various kinds of STEAM courses

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Sources: Company data, Beijing New Oriental Website, CMS (HK)

Figure 12: New Oriental's AI learning machine

OK学习机
专业的学习设备

AI智能分析 AI针对练

用“魔拍”找到学习漏洞 双屏 学习专用

防蓝光“屏”实力 用“魔镜”只学不会的

OK学习机 S5Pro
用OK学习机

AI针对练 AI找薄弱
AI精准学 AI错题诊断

*独创 双屏设计 专为学习打造

Sources: Company data, Beijing New Oriental Website, CMS (HK)

Figure 13: Koolearn's Dong Fang Zhen Xuan recent GMV



Sources: Douchacha, CMS (HK)

Figure 14: Koolearn's SOTP valuation

GMV scenario analysis (RMB mn)

Next 12-mo	Bear	Base	TP basis	
			Bull	Blue sky
Daily GMV	10.0	18.0	30.0	50.0
Annual GMV	3,600	6,480	10,800	18,000
NP to GMV ratio	1.5%	3.0%	5.0%	6.0%
NP	54.5	196.0	540.0	1,080.0
Target P/E (x)	30.0	30.0	25.0	15.0
Live commerce target value	1,634	5,881	13,500	16,200

SOTP valuation

RMB mn	Next 12-mo core NP	Target P/E (x)	Target valuation	Valuation mix
Live commerce	540	25	13,500	76%
Education	129	20	2,573	14%
Net cash (FY23E)			1,802	10%
Total value			17,875	
Share outstanding (mn)			1,001	
Value per share (RMB)			17.9	
FX (HKD: RMB)			1.2	
Value per share (HKD)	Bear	Base	Bull	Blue sky
	7.0	12.0	20.9	24.1

Base case implied multiples

	FY22E	FY23E	FY24E
Implied P/E (x)	n.a.	55.1	52.4
Implied P/S (x)	20.1	13.2	13.0

Bull case implied multiples

	FY22E	FY23E	FY24E
Implied P/E (x)	n.a.	26.7	21.9
Implied P/S (x)	20.1	7.7	6.5

Sources: Company data, CMS (HK) estimates

Figure 15: Tutoring sector peers comparison

Company	CN name	Ticker	Price (local currency)	CMS			Mkt cap (USDm)	3-mth avg t/o (Loc\$m)	P/E (x)		PEG*	P/S (x)		PSG*	Sales CAGR (%)	EPS CAGR (%)
				Rating	TP(Local currency)	Up/(Dn) side (%)			FY22E	FY23E		FY22E	FY23E			
HSI			20,623						10.8	9.2	0.7	1.0	0.9	0.1	9.6	13.4
HSCEI			7,083						9.1	8.0	0.7	0.7	0.7	0.1	10.1	12.2
Offline tutoring - China																
NEW ORIENTAL	新东方	EDU US	25.7	BUY	33.0	28.2	4,368	92.6	n.a.	61.4	n.a.	1.4	1.7	n.a.	(4.3)	n.a.
		9901 HK	20.5	BUY	26.0	26.8										
TAL	好未来	TAL US	5.2	NEUTRAL	UR	n.a.	3,368	36.9	n.a.	n.a.	n.a.	0.8	3.8	n.a.	(50.5)	n.a.
OFFCN	中公教育	002607 CH	5.2	NR	n.a.	n.a.	4,727	423.5	26.4	37.5	n.a.	2.9	2.3	n.a.	n.a.	n.a.
EAST	东方	667 HK	3.4	NR	n.a.	n.a.	942	15.7	7.7	7.6	n.a.	1.2	1.1	n.a.	n.a.	n.a.
ONLY	昂立	600661 CH	9.2	NR	n.a.	n.a.	391	142.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SCHOLAR	思考乐	1769 HK	0.7	NR	n.a.	n.a.	51	5.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
BESTSTUDY	卓越	3978 HK	0.4	NR	n.a.	n.a.	41	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Online tutoring - China																
GAOTU	高途	GOTU US	1.8	BUY	2.6	43.6	465	7.7	11.0	9.7	0.4	2.4	2.3	0.2	13.3	25.4
KOOLEARN	新东方在线	1797 HK	21.4	NEUTRAL	20.9	-2.3	2,732	882.9	n.a.	56.7	n.a.	20.7	13.6	56.3	0.2	n.a.
YOUDAO	有道	DAO US	4.7	NR	n.a.	n.a.	586	1.5	4.2	2.5	n.a.	0.6	0.5	n.a.	n.a.	n.a.
SUNLAND	尚德机构	STG US	5.3	NR	n.a.	n.a.	71	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
51 TALK	51 Talk	COE US	1.5	NR	n.a.	n.a.	34	0.1	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.
Education (US listed Non-China)																
PEARSON		PSO US	9.7	NR	n.a.	n.a.	7,112	4.2	18.1	15.7	n.a.	1.5	1.5	n.a.	n.a.	n.a.
GRAND		LOPE US	97.0	NR	n.a.	n.a.	3,133	33.8	15.8	14.0	n.a.	3.3	3.0	n.a.	n.a.	n.a.
GRAHAM		GHC US	591.0	NR	n.a.	n.a.	2,885	10.4	16.5	10.1	n.a.	0.7	0.7	n.a.	n.a.	n.a.
LAUREATE		LAUR US	11.8	NR	n.a.	n.a.	2,034	11.9	14.1	9.8	n.a.	1.6	1.5	n.a.	n.a.	n.a.
K12		LRN US	43.3	NR	n.a.	n.a.	1,851	34.2	17.4	16.7	1.4	1.1	1.1	0.2	5.9	12.2
STRATEGIC		STRA US	72.3	NR	n.a.	n.a.	1,782	8.7	22.0	17.9	n.a.	1.6	1.6	n.a.	n.a.	n.a.
ADTALEM		ATGE US	40.2	NR	n.a.	n.a.	1,816	16.8	24.8	12.8	0.7	1.3	1.2	n.a.	n.a.	19.5
Average - Offline tutoring - China									11.4	26.6	n.a.	1.3	1.8	n.a.	(18.2)	0.0
Average - Online tutoring - China									7.6	23.0	0.4	6.3	5.5	28.2	6.8	25.4
Average - Tutoring - Non-China									18.4	13.9	1.0	1.6	1.5	0.2	5.9	15.9
Average (all)									14.8	19.5	0.8	2.7	2.4	18.9	(5.9)	14.3

Sources: Company data, CMS (HK) estimates; share prices as of July 28, 2022 (HK and China Market) & July 27, 2022 (US market). Note: All information of Non-rated stocks was sourced from Bloomberg. *PEG was calculated based on FY21E P/E and FY20-22E EPS CAGR; PSG was calculated based on FY21E P/S and FY20-22E sales CAGR.

Financial Summary: New Oriental (EDU US)

Balance Sheet

(USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	31 May	31 May	31 May	31 May	31 May
Plant, property, equipment	865	403	453	525	623
Intangible assets & goodwill	78	74	74	74	74
LT investments	538	438	447	456	465
Other LT assets	2,096	646	659	673	686
Non-current assets	3,577	1,561	1,632	1,727	1,848
Cash & Equivalent	1,612	1,149	2,316	2,433	2,655
Restricted cash & Term deposits	1,214	1,140	684	684	684
ST investments	3,435	1,902	951	951	951
Accounts & Receivables	9	16	23	22	24
Inventories	31	28	32	34	35
Other current assets	273	239	243	248	253
Current assets	6,574	4,474	4,250	4,372	4,603
Total assets	10,151	6,035	5,882	6,099	6,451
ST Debt	0	0	0	0	0
Accounts & Notes payable	38	22	32	34	35
Deferred revenue	1,926	933	777	855	939
Other current liabilities	1,507	755	770	785	801
Current liabilities	3,471	1,710	1,580	1,674	1,776
LT Debt	0	0	0	0	0
Other non current liability	1,661	531	542	552	564
Non-current liabilities	1,661	531	542	552	564
Total liabilities	5,133	2,241	2,121	2,226	2,339
Total net assets	5,018	3,794	3,761	3,873	4,112
Share capital	2	2	2	2	2
Reserves	4,912	3,704	3,671	3,783	4,022
Shareholder's equity	4,913	3,706	3,673	3,785	4,024
Non-controlling interest	105	88	88	88	88
Total Equity	5,018	3,794	3,761	3,873	4,112
Total debts	0	0	0	0	0
Net cash/(debts)*	6,261	4,191	3,951	4,068	4,291

Cashflow Statement

(USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	31 May	31 May	31 May	31 May	31 May
Pretax Income	334	-1,188	-32	112	239
Dep. & Amort.	230	605	105	105	105
Chg in working cap	603	-1,014	-157	78	82
Others	-38	317	10	11	11
Net cash from operations	1,130	-1,280	-74	305	437
CAPEX	-384	-138	-150	-172	-198
Acquisition	1	-3	-5	-5	-5
Investment	-2,152	1,706	1,398	-9	-9
Others	358	-397	-13	-13	-13
Net cash from investments	-2,178	1,169	1,231	-199	-226
Dividend paid	0	0	0	0	0
Shares issued (cancelled)	0	0	0	0	0
Debt issued (repaid)	0	0	0	0	0
Others	1,654	-231	11	11	11
Net cash from financing	1,654	-231	11	11	11
Exchange impact	106	-95	0	0	0
Net change in cash	713	-438	1,168	117	222
Opening cash	919	1,632	1,195	2,362	2,479
Closing cash	1,632	1,195	2,362	2,479	2,701
Closing cash (excl. restricted cash)	1,612	1,149	2,316	2,433	2,655

Profit & Loss Statement

(USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	31 May	31 May	31 May	31 May	31 May
Revenue	4,277	3,105	2,588	2,845	3,126
Cost of revenue	-2,037	-1,754	-1,197	-1,259	-1,321
Gross profit	2,240	1,351	1,391	1,586	1,806
Selling expense	-601	-467	-388	-398	-406
G&A expense	-1,522	-1,867	-1,078	-1,072	-1,115
Total opex	-2,122	-2,333	-1,467	-1,470	-1,522
Gain on disposal of subsidiaries	0	0	0	0	0
Operating income	117	-983	-76	116	284
Net interest income	158	-32	47	51	56
Other income	40	-18	5	6	6
Pre-tax profit	315	-1,032	-24	173	346
Tax	-84	-136	6	-43	-87
Profit after tax	231	-1,169	-24	173	346
Loss from equity method investments	-1	-51	0	0	0
Non-controlling interests	104	33	-14	-18	-21
Net profit - as reported	334	-1,188	-32	112	239
Non-GAAP items:					
Non - GAAP Operating income	186	-850	28	230	409
Non-GAAP Net income	389	-1,046	71	226	364
Non-GAAP Core NI	407	-1,040	71	226	364
Non-GAAP EPADS (USD)	2.35	-6.17	0.42	1.33	2.15
Non-GAAP Core EPADS (USD)	2.46	-6.13	0.42	1.33	2.15

Financial ratios

	FY21	FY22	FY23E	FY24E	FY25E
Year ended	31 May	31 May	31 May	31 May	31 May
yoY growth rate (%)					
Turnover	19.5	-27.4	-16.7	10.0	9.9
Gross Profit	12.6	-39.7	3.0	14.0	13.8
Operating profit - as reported	-70.6	n.a.	-92.3	n.a.	144.1
Net profit - as reported	-19.1	n.a.	-97.3	n.a.	114.0
Non-GAAP OP	-59.6	n.a.	n.a.	724.5	77.7
Non-GAAP NI	-19.6	n.a.	n.a.	217.1	61.4
Non-GAAP Core NI	-17.6	n.a.	n.a.	217.1	61.4
Margins (%)					
Gross margin	52.4	43.5	53.8	55.8	57.8
OPM - as reported	2.7	-31.6	-2.9	4.1	9.1
NPM - as reported	7.8	-38.2	-1.3	3.9	7.6
OPM - Non-GAAP	4.4	-27.4	1.1	8.1	13.1
NPM - Non GAAP	9.1	-33.7	2.7	7.9	11.6
Core NPM- Non-GAAP	9.5	-33.5	2.7	7.9	11.6
Effective tax rate (%)	26.5	-13.2	25.0	25.0	25.0
Current ratio (x)	1.0	1.1	0.6	0.6	0.5
Net cash/equity (%)	124.8	110.5	105.1	105.0	1.0
Returns (%)					
Asset turnover (x)	0.5	0.4	0.4	0.5	0.5
Financial leverage (x)	2.1	1.8	1.6	1.6	1.6
EBIT margin (%)	2.7	-31.6	-2.9	4.1	9.1
Interest burden (x)	2.7	1.1	0.3	1.5	1.2
Tax burden (x)	1.3	1.0	-3.0	1.3	1.1
ROE (%)	10.3	-23.6	1.9	5.9	9.1
P/E (x)	10.7	n.a.	61.4	19.4	12.0
P/B (x)	0.9	1.2	1.2	1.1	1.1

Sources: Company data, CMS (HK) estimates; *Net cash includes Bank balance, ST investments and term deposits. Share price as of July 28, 2022 (HK Market) & July 27, 2022 (US market).

Financial Summary: Koolearn (1797 HK)

Balance Sheet

(RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Year ended	31 May	31 May	31 May	31 May	31 May
Property and equipment	82	114	96	98	102
Investments	280	302	306	312	318
Others non-current assets	347	323	240	286	297
Non-current assets	708	739	642	696	717
Trade and other receivables	42	31	19	29	30
Prepayments	71	55	35	53	54
Investments & Term Dep.	1,748	941	958	958	958
Bank balances and cash	480	1,520	568	843	1,034
Other current assets	0	0	0	0	0
Current Assets	2,341	2,547	1,581	1,884	2,076
Total assets	3,049	3,285	2,223	2,579	2,793
Contract liabilities	420	397	223	337	344
Trade payables	34	43	23	16	15
Accrued expenses and other payables	344	405	324	389	392
Other current liabilities	114	198	110	121	123
Current Liabilities	912	1,043	679	863	874
Non-current liabilities	274	234	104	114	113
Total liabilities	1,186	1,276	783	977	987
Net assets	1,864	2,009	1,440	1,602	1,806
Share capital	0	0	0	0	0
Reserves	1,864	2,009	1,440	1,602	1,806
Equity attributable to owners of the Company	1,864	2,009	1,440	1,602	1,806
Non-controlling interests	0	0	0	0	0
Total Equity	1,864	2,009	1,440	1,602	1,806
Total debt	0	0	0	0	0
Net cash/(debt)*	2,229	2,460	1,526	1,802	1,992

Cashflow Statement

(RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Year ended	31 May	31 May	31 May	31 May	31 May
(Loss) profit before tax	-715	-1,659	-570	181	226
Depreciation of property and equipment	89	149	110	93	80
Change in working capital	136	114	-451	164	9
Others	-31	482	0	-16	-24
Net cash from operations	-521	-914	-910	421	292
Investments	-1,354	785	-21	-6	-6
CAPEX	-80	-267	-20	-140	-95
Others	0	141	0	0	0
Net cash from investments	-1,433	659	-41	-146	-101
Change in paid-in-capital	31	0	0	0	0
Change in share issuance	-135	0	0	0	0
Others	-31	1,412	0	0	0
Net cash from financing	-135	1,412	0	0	0
Net change in cash	-2,090	1,158	-952	275	190
Opening cash	2,498	480	1,520	568	843
Exchange impact	73	-118	0	0	0
Closing cash	480	1,520	568	843	1,034

Profit & Loss Statement

(RMB mn)	FY20	FY21	FY22E	FY23E	FY24E
Year ended	31 May	31 May	31 May	31 May	31 May
Revenue	1,081	1,419	890	1,350	1,375
Cost of revenue	-588	-1,006	-531	-364	-361
Gross profit	493	412	360	986	1,013
Selling expense	-872	-1,189	-401	-366	-355
R&D	-317	-444	-223	-199	-200
G&A expense	-185	-259	-312	-261	-252
Operating income	-881	-1,480	-575	161	206
Other income	196	-87	13	20	21
Other gains/losses	-911	-1,573	-583	161	206
Pretax income	-715	-1,659	-570	181	226
tax expense	-43	1	1	-18	-23
Net income	-758	-1,658	-569	163	204
NCI	-16	0	0	0	0
Net income (attributable)	-742	-1,658	-569	163	204
Exceptional (includes SBC)	-22	-409	-172	-162	-137
Core net income	-720	-1,249	-397	325	341
Non-IFRS OP income	-761	-1,199	-397	323	343
Non-IFRS Net income	-642	-1,323	-391	325	341
EPS (RMB)	-0.79	-1.72	-0.57	0.16	0.20
Core EPS (RMB)	-0.77	-1.29	-0.40	0.32	0.34
Non-IFRS EPS (RMB)	-0.68	-1.37	-0.39	0.32	0.34

Financial ratios

	FY20	FY21	FY22E	FY23E	FY24E
Year ended	31 May	31 May	31 May	31 May	31 May
yoY growth rate (%)					
Revenue	17.6	31.3	-37.2	51.6	1.8
Gross Profit	-2.6	-16.4	-12.7	174.0	2.8
Operating income	n.a.	n.a.	n.a.	n.a.	n.a.
Net income (attributable)	n.a.	n.a.	n.a.	n.a.	n.a.
Core net income	n.a.	n.a.	n.a.	n.a.	n.a.
Non-IFRS Operating income	n.a.	n.a.	n.a.	n.a.	n.a.
Non-IFRS Net income	n.a.	n.a.	n.a.	n.a.	n.a.
Margins (%)					
Gross Profit	45.6	29.1	40.4	73.0	73.7
Operating income	-81.5	-104.3	-64.6	11.9	15.0
Net income (attributable)	-68.7	-116.9	-63.9	12.1	14.8
Core net income	-66.6	-88.1	-44.6	24.1	24.8
Non-IFRS Net income	-59.4	-93.2	-43.9	24.1	24.8
Effective tax rate (%)	-6.0	0.1	0.1	10.0	10.0
Current ratio (x)	2.6	2.4	2.3	2.2	2.4
Net cash/equity (%)	119.6	122.5	106.0	112.4	110.3
ROE (%)	-28.7	-68.3	-22.7	21.3	20.0
P/E (x)	n.a.	n.a.	n.a.	56.7	54.0
P/B (x)	9.9	9.2	12.8	11.5	10.2
P/S (x)	17.0	13.0	20.7	13.6	13.4

Sources: Company data, CMS (HK) estimates; *Net cash includes bank balance, available for sale investments, and term deposits. Share price as of July 28, 2022 (HK Market) & July 27, 2022 (US market).

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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Hong Kong

China Merchants Securities (HK) Co., Ltd.
Address: 48/F, One Exchange Square, Central, Hong Kong
Tel: +852 3189 6888 Fax: +852 3101 0828