

Company Report

Koolearn (1797 HK)

New chapter begins as old one is finished

- Koolearn FY22 continuing-operated revenue reached RMB600mn, -4% yoy, inline, Non-IFRS net profit turned positive
- Live commerce to contribute to exceptional recovery for FY23, forecasted to account for 77% of group revenue
- GMV level sustaining longer than expected, maintain our stance that much has been priced in, maintain HOLD

Koolearn FY22 results: Old chapter is finished

Koolearn reported FY22 continuing-operated revenue of RMB600mn, -4% yoy vs. pro-forma FY21 results, inline with our expectation. GP -10.2% yoy, with GPM of 65%, -4.7ppt yoy. Non-IFRS net profit turnaround to RMB110mn, vs. RMB40mn net loss in FY21, with Non-IFRS NPM of 18%. Total cash balance remained solid at RMB1.6bn as of FY22. Koolearn's FY22 results mainly reflect its legacy education segment, which contributed c.96% revenue. Going forward, we anticipate new live commerce business to drive group earnings.

New chapter begins, running GMV maintains firm

Live commerce: Dongfang Zhenxuan (东方甄选, DFZX), strong performance lift in Jun with avg. daily GMV of c.RMB32mn, has declined to c.RMB24mn for Jul and similar level in Aug, according to Huitun data. The latest August performance is better than our previous expectation, helping further easing concern on interest wane. We think Koolearn's strategy of expanding live broadcaster to c.20 (from c.10 earlier), leveraging creativity (e.g. outdoor broadcasting and celebrity invitations) while expanding product categories/channels as well as its in-house brand products have helped sustained GMV running rate. Management highlighted to continue to follow the strategy, and indicated that the segment is profitable with better-than-peers profit margins thanks to better managed live broadcasters' remuneration and not active in traffic acquisition, with positive cash flows expected. We expect **education segment**, mainly focused in university segment, to maintain stable healthy growth after policy led restructuring, we expect segment revenue growth to be 5~10% yoy going forward, with more pull from international segment.

Valuation relatively full, waiting for better entry opportunity

We maintain our positive stance on DFZX's business model, with latest mgmt. guidance and Aug GMV resilience support that view. We forecasted Group revenue to reach RMB2.6bn in FY23E +334% yoy, with non-IFRS Net income at RMB658mn +499% yoy. We adjust several SOTP-TP (Figure 11) variables, keep our Bull case GMV at avg. daily rate of RMB30mn, lifted Core NP to GMV ratio to 8% from 5%, but slightly lowered target P/E to 20x from 25x on longer GMV growth uncertainty. On the other hand, we lowered education segment's target P/E, given its gentle growth outlook. Overall we revised TP to HKD22.8 (from HKD20.9), maintain HOLD as we believe the current share price level has already baked in our Bull case scenario, we would like to see further signs of trend growth pick up to reassess our GMV outlook and assigned multiple. **Key Risks:** 1) Regulation; 2) Competition; 3) Talent retention; 4) Reputation.

Financials

Year ended 31 May (RMB mn)	FY21*	FY22	FY23E	FY24E	FY25E
Revenue	624	601	2,607	3,173	3,479
yoy	n.a.	-4%	334%	22%	10%
Gross profit	435	391	1,249	1,462	1,603
yoy	n.a.	-10%	220%	17%	10%
Operating income (as reported)	-155	-158	367	543	631
Non-IFRS OP income	83	18	680	860	910
Core net income	111	51	658	819	859
Core EPS (RMB)	0.12	0.05	0.66	0.82	0.86
P/S (x)	31.6	32.8	7.6	6.2	5.7
ROE	-2%	6%	36%	37%	21%

Sources: Company data, CMS (HK) estimates; share price as of Aug 29, 2022. *Restated.

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

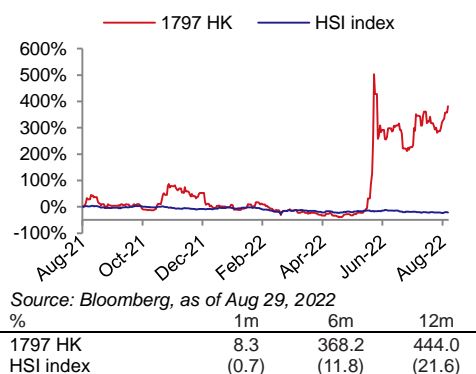
WHAT'S NEW

FY22 results; Earnings/TP revision

HOLD

Previous	HOLD
Price	HKD22.85
12-month Target Price (Potential up/downside)	HKD22.8 (-0.2%)
Previous	HKD20.9

Price Performance



Sector: Education

Hang Seng Index (Aug 29, 2022)	20,023
HSCEI (Aug 29, 2022)	6,872

Key Data

52-week range (HKD)	2.84 - 33.15
Market cap (HKD mn)	22,902
Avg. daily volume (mn)	12.91
BVPS (RMB)	1.96

Shareholding Structure

New Oriental	55.6%
Others	13.8%
No. of shares outstanding (mn)	1,002
% outstanding	30.6%

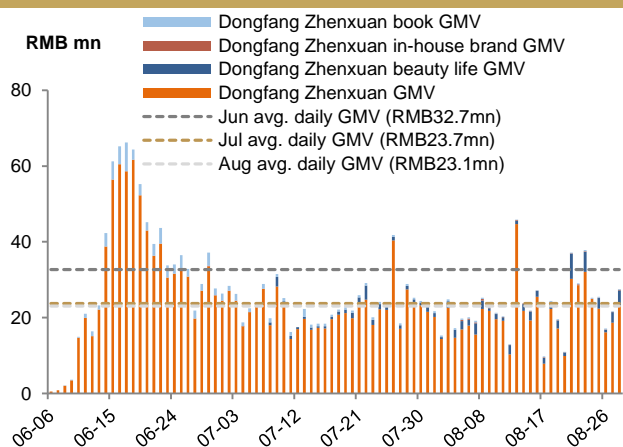
Sources: Company data, Bloomberg

Related Research

1. Koolearn (1797 HK) - Looking forward to next growth phase (HOLD) (Aug 10, 2022)
2. New Oriental Education (EDU US) - A clean slate for a brighter new start (BUY) (Jul 28, 2022)
3. China Tutoring Sector - On value recovery trend (NEUTRAL) (Jun 17, 2022)

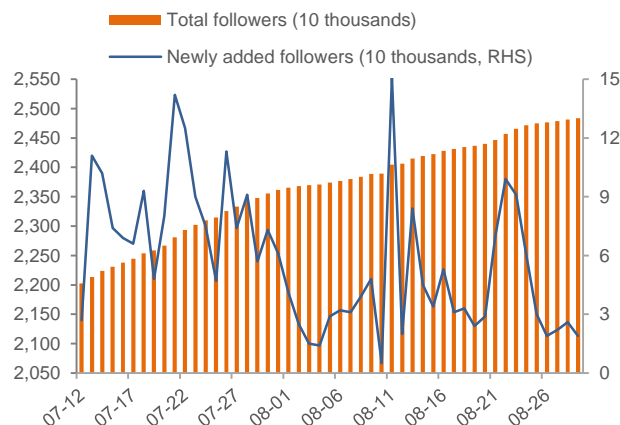
Focus charts

Figure 1: Dongfang Zhenxuan's daily GMV



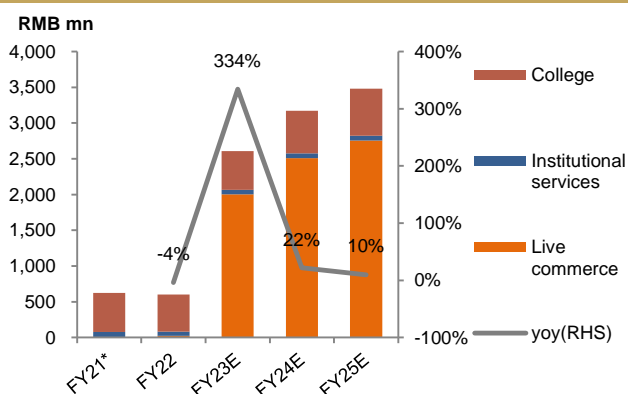
Sources: Company data, Huitun, Douchacha, Feigua, CMS (HK)

Figure 2: Dongfang Zhenxuan's total followers



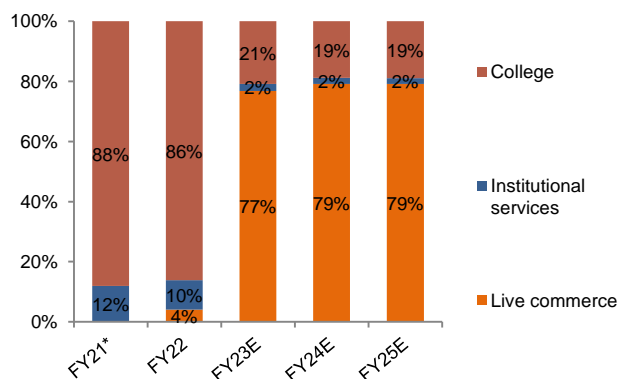
Sources: Company data, Huitun data, CMS (HK)

Figure 3: Koolearn's revenue forecast



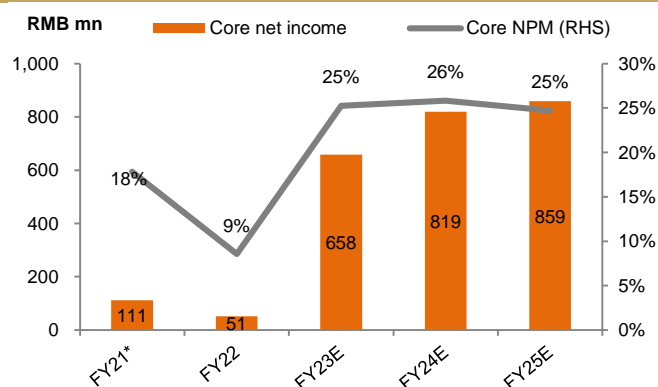
Sources: Company data, CMS (HK) estimates; *Restated

Figure 4: Revenue by segment



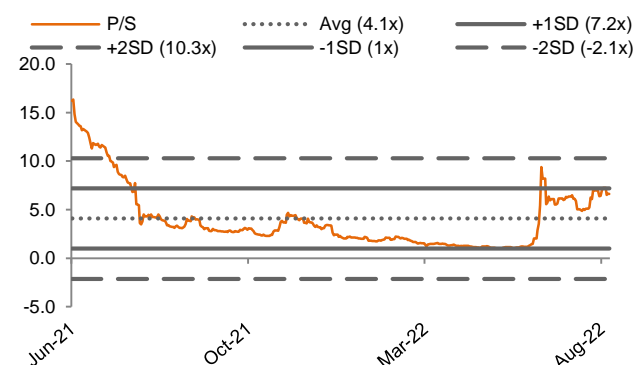
Sources: Company data, CMS (HK) estimates; *Restated

Figure 5: Koolearn core net income forecast



Sources: Company data, CMS (HK) estimates; *Restated

Figure 6: Forward 12-mo P/S range



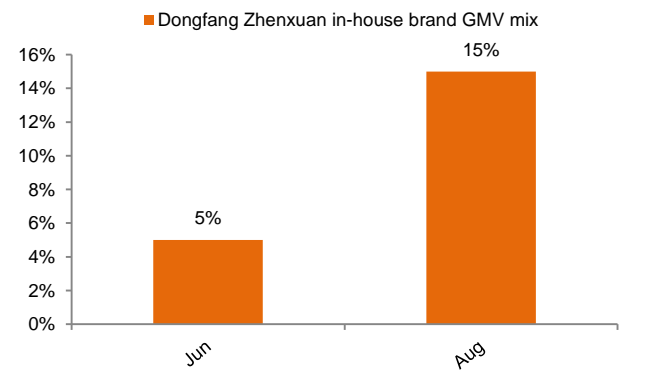
Sources: Bloomberg, Company data, CMS (HK) estimates

Figure 7: Dongfang Zhenxuan currently has c.30 in-house brand products



Sources: Company data, Douyin, CMS (HK)

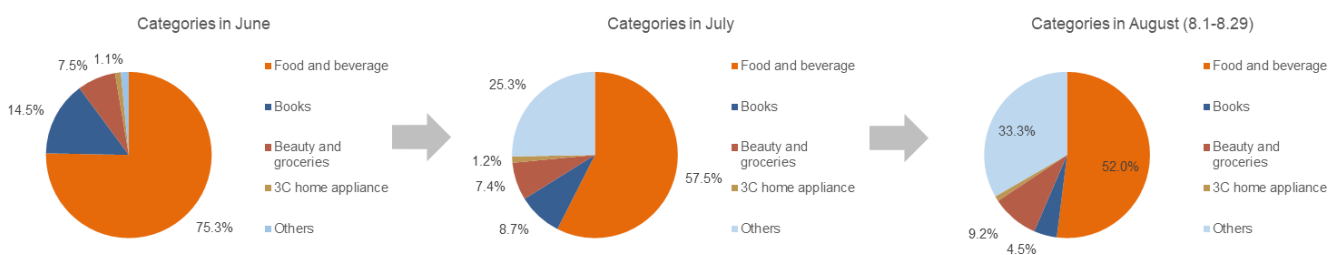
Figure 8: Dongfang Zhenxuan in-house brand GMV mix has increased to c.15% in Aug



Sources: Company data, Huitun data, CMS (HK)

Figure 9: Koolearn continue to expand categories, with new Douyin accounts in beauty and 1P in-house brand products

抖号	粉丝数	点赞数	作品数	带货额	操作
东方甄选 北京 抖音号:dongfangzhenxuan (第1名) (第1名) 简介: 新东方集团、新东方在线唯一农产品直播带货平台 每天7:00-24:00东方甄选陪你!	2484.4w	5924.6w	1,092	6.4亿	★ 0.0
东方甄选美好生活 抖音号:95144913203 (第10名) (第29名) 简介: 新东方集团、新东方在线旗下 东方甄选美好生活好物账号 点击关注, 为您甄选更多品质生活好物	104.2w	88.9w	190	6008.5w	★ 0.0
东方甄选自营产品 抖音号:91037342507 (第1名) (第9名) 简介: 新东方集团、新东方在线旗下 东方甄选唯一自营产品账号	43.5w	44.2w	259	443.8w	★ 0.0
东方甄选之图书 北京 抖音号:40664875953 (第88名) (第591名) 简介: 新东方集团、新东方在线旗下 东方甄选科技好物东方图书分公司官方账号	335.7w	225.5w	195	1463.0w	★ 0.0



Sources: Company data, Huitun data, CMS (HK)

Figure 10: Koolearn's earnings revision

RMB mn	FY23E			FY24E		
	Previous	Revised	change	Previous	Revised	change
Revenue	1,350	2,607	93.1%	1,375	3,173	130.7%
Gross profit	986	1,249	26.7%	1,013	1,462	44.3%
Operating income (loss)	161	367	128.2%	206	543	163.6%
Attributable net income (loss)	163	346	112.0%	204	502	146.0%
Core net income (loss)	325	658	102.6%	341	819	140.2%
Margins						
GPM	73.0%	47.9%	-25.1 ppt	73.7%	46.1%	-27.6 ppt
OPM	11.9%	14.1%	2.2 ppt	15.0%	17.1%	2.1 ppt
NPM	12.1%	13.3%	1.2 ppt	14.8%	15.8%	1 ppt
Core NPM	24.1%	25.3%	1.2 ppt	24.8%	25.8%	1 ppt

Sources: Company data, CMS (HK) estimates

Figure 11: Koolearn's SOTP valuation

GMV scenario analysis (RMB mn)

Next 12-mo	Bear	Base	TP basis	
			Bull	Blue sky
Daily GMV	15.0	24.9	30.0	100.0
Annual GMV	5,475	9,103	10,950	36,500
Core NP to GMV ratio	6.6%	6.6%	8.0%	8.0%
NP	361.4	600.8	876.0	2,920.0
Target P/E (x)	20.0	20.0	20.0	10.0
Live commerce target value	7,227	12,016	17,520	29,200

SOTP valuation

RMB mn	Next 12-mo core NP	Target P/E (x)	Target valuation	Valuation mix
Live commerce	876	20	17,520	88%
Education	58	10	576	3%
Net cash (FY23E)			1,876	9%
Total value			19,972	
Share outstanding (mn)			1,001	
Value per share (RMB)			20.0	
FX (HKD: RMB)			1.14	
Value per share (HKD)	11.0	16.5	22.8	36.1
Base case implied multiples		FY22	FY23E	FY24E
Implied P/E (x)		388.8	30.3	24.4
Implied P/S (x)		33.3	7.7	6.3
Bull case implied multiples		FY22	FY23E	FY24E
Implied P/E (x)		388.8	21.4	17.9
Implied P/S (x)		33.3	8.9	7.6

Sources: Company data, CMS (HK) estimates

Figure 12: 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 (%) 2022- 2024 CAGR	EPS CAGR (%) 2022- 2024 CAGR
				Rating	TP(Local currency)	Up/(Dn) side (%)			FY22E	FY23E		FY22E	FY23E			
HSI			20,023					10.4	9.2	0.8	1.0	0.9	0.1	9.2	12.1	
HSCEI			6,872					8.9	7.9	0.7	0.7	0.7	0.1	9.7	11.8	
Offline tutoring - China																
NEW ORIENTAL	新东方	EDU US 9901 HK	28.2 22.0	BUY	33.0 26.0	17.2 18.2	4,777	97.1	n.a.	52.0	n.a.	1.5	1.8	n.a.	(4.3)	n.a.
TAL	好未来	TAL US	6.0	HOLD	UR	n.a.	3,887	36.5	n.a.	n.a.	n.a.	0.9	3.9	n.a.	(48.1)	n.a.
OFFCN	中公教育	002607 CH	4.5	NR	n.a.	n.a.	3,984	368.0	31.9	21.4	n.a.	2.9	2.5	n.a.	n.a.	n.a.
EAST	东方	667 HK	3.3	NR	n.a.	n.a.	915	14.9	8.9	9.4	n.a.	1.2	1.1	n.a.	n.a.	n.a.
ONLY	昂立	600661 CH	9.1	NR	n.a.	n.a.	375	119.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SCHOLAR	思考乐	1769 HK	0.8	NR	n.a.	n.a.	57	5.4	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.	43	0.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Online tutoring - China																
GAOTU	高途	GOTU US	1.6	BUY	2.6	60.5	416	7.4	10.1	8.9	0.3	2.2	2.1	0.2	13.3	25.4
KOOLEARN	新东方在线	1797 HK	22.9	HOLD	22.8	-0.2	2,918	1012.9	384.0	30.0	0.1	32.8	7.6	0.1	129.8	299.3
YOUDAO	有道	DAO US	6.0	NR	n.a.	n.a.	760	1.5	n.a.	44.6	n.a.	0.8	0.7	n.a.	n.a.	n.a.
SUNLAND	尚德机构	STG US	3.8	NR	n.a.	n.a.	53	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	10.2	NR	n.a.	n.a.	7,455	3.7	16.3	14.6	n.a.	1.6	1.5	n.a.	n.a.	n.a.
GRAND		LOPE US	84.3	NR	n.a.	n.a.	2,696	28.7	14.0	12.8	n.a.	2.8	2.7	n.a.	n.a.	n.a.
GRAHAM		GHC US	575.5	NR	n.a.	n.a.	2,787	8.5	16.0	9.7	n.a.	0.7	0.7	n.a.	n.a.	n.a.
LAUREATE		LAUR US	10.8	NR	n.a.	n.a.	1,783	9.9	12.0	8.4	n.a.	1.3	1.2	n.a.	n.a.	n.a.
K12		LRN US	37.8	NR	n.a.	n.a.	1,618	35.6	15.8	12.7	0.5	0.9	0.8	0.1	8.8	25.1
STRATEGIC		STRA US	67.7	NR	n.a.	n.a.	1,668	7.8	20.3	15.8	n.a.	1.5	1.4	n.a.	n.a.	n.a.
ADTALEM		ATGE US	39.8	NR	n.a.	n.a.	1,797	16.7	11.5	9.1	2.1	1.3	1.2	n.a.	n.a.	4.3
Average - Offline tutoring - China									13.6	20.7	n.a.	1.3	1.9	n.a.	(17.5)	0.0
Average - Online tutoring - China									197.0	27.8	0.2	9.3	3.5	0.1	71.6	162.3
Average - Tutoring - Non-China									15.1	11.9	1.3	1.5	1.4	0.1	8.8	14.7
Average (all)									45.1	17.8	0.8	3.4	2.0	0.1	16.6	70.8

Sources: Company data, CMS (HK) estimates; share prices as of Aug 29, 2022. 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

Balance Sheet

(RMB mn)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	31 May	31 May	31 May	31 May	31 May
Property and equipment	114	34	40	45	49
Investments	302	278	283	289	295
Others non-current assets	323	56	61	69	81
Non-current assets	739	368	384	403	425
Trade and other receivables	31	38	163	198	218
Prepayments	55	60	261	318	349
Investments & Term Dep.	941	1,042	1,042	1,042	359
Bank balances and cash	1,520	547	834	1,345	1,909
Other current assets	0	5	377	473	1,202
Current Assets	2,547	1,691	2,678	3,377	4,036
Total assets	3,285	2,059	3,062	3,780	4,461
Contract liabilities	397	163	652	826	888
Trade payables	43	24	153	192	211
Accrued expenses and other payables	405	163	196	198	216
Other current liabilities	198	43	47	48	48
Current Liabilities	1,043	393	1,048	1,264	1,364
Non-current liabilities	234	25	28	27	27
Total liabilities	1,276	418	1,075	1,291	1,391
Net assets	2,009	1,641	1,987	2,488	3,070
Share capital	0	0	0	0	0
Reserves	2,009	1,641	1,986	2,488	3,069
Equity attributable to owners of the Company	2,009	1,641	1,987	2,488	3,070
Non-controlling interests	0	0	0	0	0
Total Equity	2,009	1,641	1,987	2,488	3,070
Total debt	0	0	0	0	0
Net cash/(debt)*	2,460	1,589	1,876	2,387	1,909

Cashflow Statement

(RMB mn)	FY21	FY22E	FY23E	FY24E	FY25E
Year ended	31 May	31 May	31 May	31 May	31 May
(Loss) profit before tax	-1,659	-89	407	591	684
Depreciation of property and equipment	149	35	30	26	24
Change in working capital	114	-843	-43	29	4
Others	482	-297	-61	-89	-103
Net cash from operations	-914	-1,195	332	557	609
Investments	785	-76	-6	-6	-6
CAPEX	-153	299	-40	-40	-40
Others	27	0	0	0	0
Net cash from investments	659	223	-46	-46	-46
Change in paid-in-capital	0	0	0	0	0
Change in share issuance	0	0	0	0	0
Others	1,412	0	0	0	0
Net cash from financing	1,412	0	0	0	0
Net change in cash	1,158	-972	287	511	564
Opening cash	480	1,520	547	834	1,345
Exchange impact	-118	0	0	0	0
Closing cash	1,520	547	834	1,345	1,909

Sources: Company data, CMS (HK) estimates; *Net cash includes bank balance, available for sale investments, and term deposits; share prices as of Aug 29, 2022. **Restated.

Profit & Loss Statement

(RMB mn)	FY21**	FY22	FY23E	FY24E	FY25E
Year ended	31 May	31 May	31 May	31 May	31 May
Revenue	624	601	2,607	3,173	3,479
Cost of revenue	-189	-210	-1,359	-1,710	-1,876
Gross profit	435	391	1,249	1,462	1,603
Selling expense	-320	-270	-360	-366	-387
R&D	-122	-64	-221	-240	-256
G&A expense	-148	-214	-300	-313	-329
Operating income	-155	-158	367	543	631
Other income	-99	71	39	48	52
Other gains/losses	-1	-2	0	0	0
Pretax income	-255	-89	407	591	684
tax expense	1	18	-61	-89	-103
Net income	-254	-71	346	502	581
NCI	0	0	0	0	0
Net income (attributable)	-254	-71	346	502	581
Exceptional (includes SBC)	-365	-122	-313	-317	-278
Core net income	111	51	658	819	859
Non-IFRS OP income	83	18	680	860	910
Non-IFRS Net income	-40	110	658	819	859
EPS (RMB)	-0.26	-0.07	0.35	0.50	0.58
Core EPS (RMB)	0.12	0.05	0.66	0.82	0.86
Non-IFRS EPS (RMB)	-0.04	0.11	0.66	0.82	0.86

Financial ratios

	FY21**	FY22	FY23E	FY24E	FY25E
Year ended	31 May	31 May	31 May	31 May	31 May
yoY growth rate (%)					
Revenue	n.a.	-3.7	334.2	21.7	9.7
Gross Profit	n.a.	-10.2	219.5	17.1	9.6
Operating income	n.a.	1.7	n.a.	47.8	16.3
Net income (attributable)	n.a.	-72.0	n.a.	45.3	15.8
Core net income	n.a.	-53.8	1,181.6	24.4	4.9
Non-IFRS Operating income	n.a.	-78.3	3,703.4	26.4	5.8
Non-IFRS Net income	n.a.	n.a.	498.6	24.4	4.9
Margins (%)					
Gross Profit	69.8	65.1	47.9	46.1	46.1
Operating income	-24.9	-26.3	14.1	17.1	18.1
Net income (attributable)	-40.7	-11.8	13.3	15.8	16.7
Core net income	17.8	8.6	25.3	25.8	24.7
Non-IFRS Net income	-6.5	18.3	25.3	25.8	24.7
Effective tax rate (%)	0.4	20.5	15.0	15.0	15.0
Current ratio (x)	2.4	4.3	2.6	2.7	3.0
Net cash/equity (%)	122.5	96.8	94.4	95.9	62.2
ROE (%)	-2.1	6.0	36.3	36.6	20.9
P/E (x)	177.4	384.0	30.0	24.1	23.0
P/B (x)	12.0	12.0	9.9	7.9	6.4
P/S (x)	31.6	32.8	7.6	6.2	5.7

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
HOLD	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

Analyst Disclosure

The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

Regulatory Disclosure

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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