

Company Report

TAL (TAL US)

Entry into live commerce provides another optionality

- TAL's recent entry into live commerce adds another growth opportunity to its diversification strategy
- 2Q23E (Aug Q) revenue growth to reach 20% yoy on seasonality, NG NP to remain negative on investments to new businesses
- Recent correction provides entry opportunity, TAL is trading at 26% discount to cash, up to BUY; TP unchanged at USD5.0

Entry into live commerce business

TAL recently entered into live commerce business, similar to Koolearn (1797 HK)'s Dongfang Zhenxuan (东方甄选, DFZX), leveraging its teaching content and diversifying beyond its traditional learning products (e.g. book). TAL's new channel in Douyin, Xue Jia You Pin (学家优品, XJYP), launched in late August, remains at nascent trial stage, and avg. daily GMV reached c.RMB10k with peak at RMB36k, according to Huitun Data. XJYP's cumulative GMV to Oct 13 (total of 50 days), is c.RMB435k, c.9% of DFZX's GMV in the same period when it first started. In our view, given DFZX's stellar success and its education backdrop, entry by TAL, Gaotu (GOTU US), and reportedly Zuoyebang and Yuanfudao to join in the live commerce segment ([link](#)) is not surprising. Given the nature of live commerce success is largely predicated to key star(s)' celebrity status, it is too early to project when or if TAL can incubate one or a few celebrity live broadcasters for a massive GMV boost. However, given TAL's well-known brand and roster of high quality teachers, similar to that of New Oriental (EDU US), we think this entry does provide additional optionality to its long term growth strategy, especially given its low-risk, high potential return attribute.

Seasonal pickup in 2Q23E sales, earnings dragged by investments

We forecast 2Q23E (Aug Q) revenue to grow +20% qoq to USD268mn, driven by seasonal boost from learning services segment. NG OPM and NPM to be negative at -5.9%/-1.3%, as TAL continues to make investments into new segments post 2021 restructuring. TAL's liquidity was solid at USD3.4bn from last quarter giving them room to maneuver, while we see tuition prepayments to help offset near term higher expenses driving stable cashflow, keeping its liquidity level stable. Key segments: **Learning services**, at c.70% of FY23E revenue, is key group revenue driver, with fast growth from STEAM (i.e. non-academic subjects) and overseas business, and the latter is starting from a low base located in US and ASEAN. **Content and Technology solution** are forecasted to have low-teens growth.

Upgrade to BUY: TP unchanged at USD5.0

TAL's continues to execute its transformation while its relatively more experienced education segments have steady outlook. New segments such as overseas and live commerce provide favorable long term optionality. We currently expect TAL's NG NP to near breakeven in FY24E. We revised up FY23/24E revenue 4~5%, maintain TP unchanged at USD5.0 based on 18x P/E on long term expected margin level. We think recent share price correction provides entry opportunity, with TAL trading at 26% discount to cash (zero debt), while its business has stabilized with potential upside from new segments. **Key risk:** 1) Regulations (e.g. ADR de-listing, domestic policies for education business); 2) Competition.

Financials

Year ended 28/29 Feb (USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4,496	4,391	1,030	1,240	1,457
yoy	37%	-2%	-77%	20%	17%
Gross profit	2,447	2,188	592	726	852
Non-GAAP OP	-233	-440	-83	-47	16
Non-GAAP NI	89	-961	-58	-6	50
yoy	1048%	n.a.	-94%	-89%	n.a.
Non-GAAP EPADS (USD)	0.15	-1.49	-0.09	-0.01	0.08
P/E (x)	31.4	n.a.	n.a.	n.a.	50.5
ROE	2%	-4%	-1%	-0.2%	1%

Sources: Company data, CMS (HK) estimates; share price as of Oct. 13, 2022

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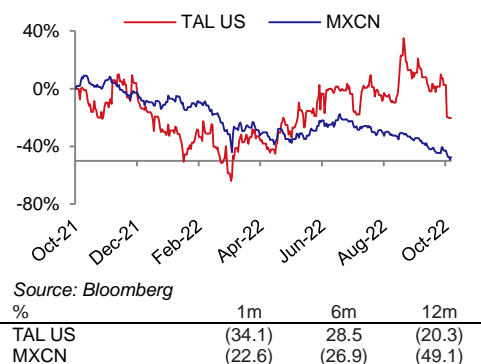
WHAT'S NEW

2Q23 preview; Earnings revision; Upgrade to BUY

BUY

Previous	HOLD
Price	USD3.9
12-month Target Price (Potential up/downside)	USD5.0 (+28.9%)
Previous	USD5.0

Price Performance



Sector: Education	
Hang Seng Index (Oct. 13, 2022)	16,389
HSCEI (Oct. 13, 2022)	5,561

Key Data	
52-week range (USD)	1.6 - 6.72
Market cap (USD mn)	2,518
Avg. daily volume (mn)	3.14
BVPS (HKD)	61.05

Shareholding Structure	
ZHANG Bangxin	26.3%
Others	4.1%
No. of shares outstanding (mn)	501
Free float	69.6%

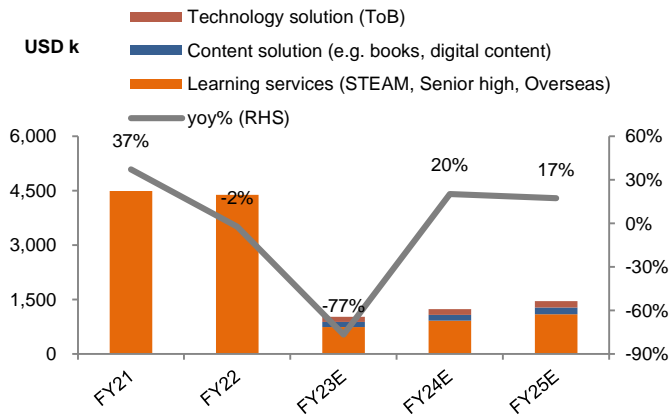
Sources: Company data, Bloomberg

Related Research

1. TAL (TAL US) - A clearer transformation direction taking place (HOLD) (Aug. 1, 2021)
2. TAL (TAL US) - Fast 4Q21 driven by online boost (HOLD) (Apr 23, 2021)
3. TAL (TAL US) - Potential marketing truce likely temporarily (HOLD) (Jan 24, 2021)

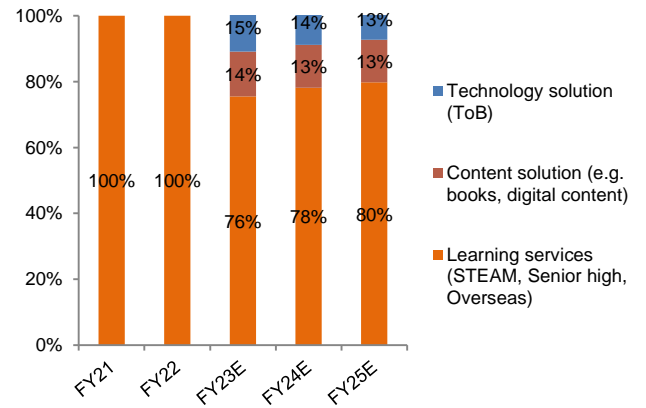
Focus charts

Figure 1: Revenue by segment



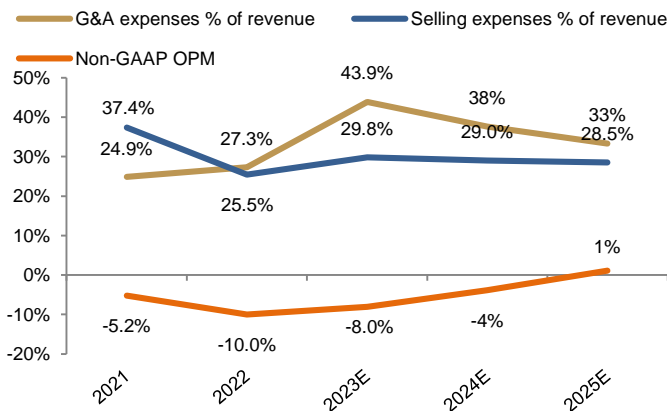
Sources: Company data, CMS (HK) estimates

Figure 2: Learning services segment remain as the cornerstone of TAL's business



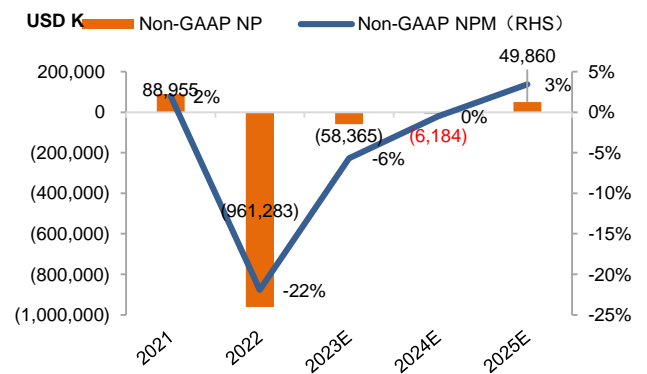
Sources: Company data, CMS (HK) estimates

Figure 3: SG&A expenses as of revenue and Non-GAAP OPM



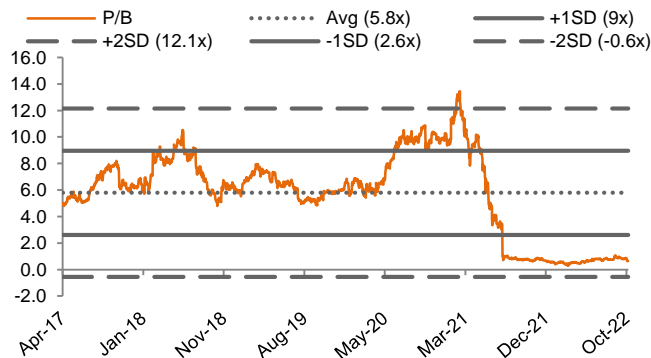
Sources: Company data, CMS (HK) estimates

Figure 4: Non-GAAP NP: we expect TAL's NG NP to near breakeven in FY24



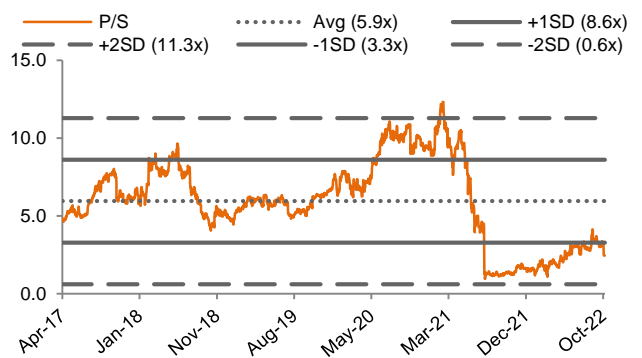
Sources: Company data, CMS (HK) estimates

Figure 5: P/B range



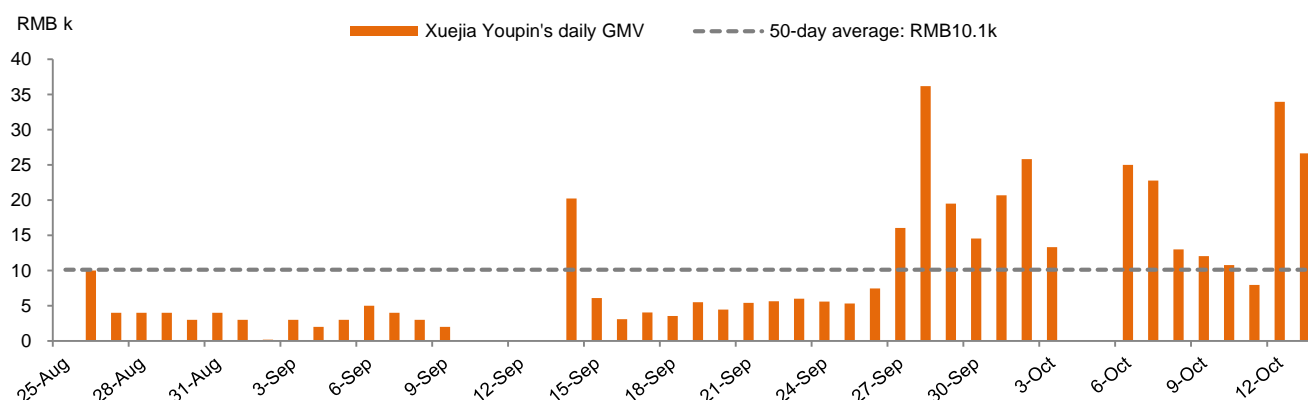
Sources: Bloomberg, Company data, CMS (HK) estimates

Figure 6: P/S range



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

Figure 7: TAL's XJYP (学家优品)'s daily GMV performance since its launch in Aug 25: 50-day average daily GMV reached RMB10K



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

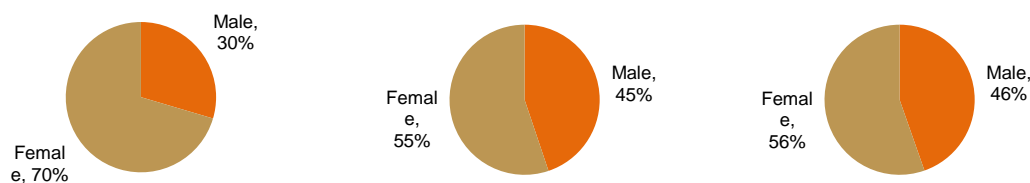
Figure 8: Comparison among live commerce channel with education backdrop: TAL XJYP (学家优品)'s cumulative GMV (total of 50 days) is c.RMB435k, c.9% of Koolearn DFZX's GMV in the same period when it first started, while Gaotu GTHW (高途好物)'s cumulative GMV is only c.2% of DFZX's GMV

Company	TAL	Koolearn	Gaotu
Ticker	TAL US	1797 HK	GOTU US
Channel name	Xuejia Youpin (学家优品)	Dongfang Zhenxuan (东方甄选)	Gaotu Haowu (高途好物)
Launch date	2022.8.25	2021.12.28	2022.9.20
No. of followers (k)	55	2,690	3

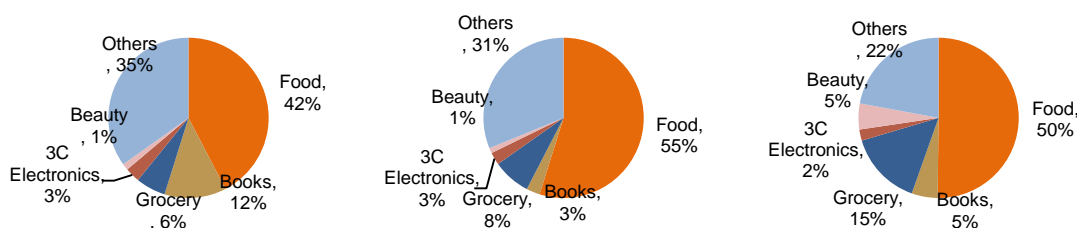
First 50-day operating data* (k)

	TAL	Koolearn	Gaotu
Accumulative GMV	435	4,620	115
Daily GMV	10.1	210.0	6.4
Total views	3,940	2,921	44

Viewers



Categories



Sources: Company data, CMS (HK), Huitun data; *TAL's statistical period is from Aug 25, 2022 to Oct 13, 2022; Koolearn's statistical period is from Dec 28, 2021 to Oct 13, 2022; Gaotu's statistical period is from Sept 20, 2022 to Oct 13, 2022.

Figure 9: TAL currently has two smart devices: Smart lamp (小猴智能学习灯) and AI learning machine (学拍拍)



Sources: Company data, CMS (HK)

Figure 10: TAL's earnings revision

USD mn	FY23E			FY24E			FY25E		
	Previous	Revised	change	Previous	Revised	change	Previous	Revised	change
Revenue	992	1,030	3.9%	1,183	1,240	4.8%	1,380	1,457	5.5%
Gross profit	570	592	3.8%	692	726	4.8%	808	852	5.5%
Non - GAAP OP	(66)	(83)	26.5%	(18)	(47)	156.4%	38	16	-59.3%
Non-GAAP Net income	(45)	(58)	29.0%	16	(6)	n.a.	66	50	-24.8%
Non-GAAP Core NI	(18)	(32)	71.0%	16	(6)	n.a.	66	50	-24.8%
GPM	57.5%	57.5%	0 ppt	58.5%	58.5%	0 ppt	58.5%	58.5%	0 ppt
Non-GAAP OPM	-6.6%	-8.0%	n.a.	-1.6%	-3.8%	n.a.	2.8%	1.1%	-1.7 ppt
Non-GAAP NPM	-4.6%	-5.7%	n.a.	1.3%	-0.5%	n.a.	4.8%	3.4%	-1.4 ppt
Non-GAAP Core NPM	-1.9%	-3.1%	n.a.	1.3%	-0.5%	n.a.	4.8%	3.4%	-1.4 ppt

Sources: Company data, CMS (HK) estimates

Figure 11: 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		2022- 2024 CAGR	2022- 2024 CAGR
HSI			16,389						9.4	8.2	0.7	0.8	0.7	0.1	9.4	12.5
HSCEI			5,561						7.9	7.1	0.6	0.7	0.6	0.1	9.6	11.2
Offline tutoring - China																
NEW ORIENTAL	新东方	EDU US 9901 HK	23.0 17.7	BUY	33.0 26.0	43.7 46.6	3,903	55.0	n.a.	42.5	n.a.	1.3	1.5	n.a.	(4.3)	n.a.
TAL	好未来	TAL US	3.9	BUY	5.0	28.9	2,518	31.2	n.a.	n.a.	n.a.	0.6	2.4	n.a.	(46.9)	(82.3)
OFFCN	中公教育	002607 CH	4.1	NR	n.a.	n.a.	3,484	156.7	29.6	19.4	n.a.	2.7	2.3	n.a.	n.a.	n.a.
EAST	东方	667 HK	2.5	NR	n.a.	n.a.	701	5.2	8.2	7.1	n.a.	1.0	0.9	n.a.	n.a.	n.a.
ONLY	昂立	600661 CH	7.9	NR	n.a.	n.a.	317	42.0	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.	56	1.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
BESTSTUDY	卓越	3978 HK	0.5	NR	n.a.	n.a.	52	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Online tutoring - China																
GAOTU	高途	GOTU US	1.1	BUY	2.3	111.0	280	3.3	35.4	7.3	0.0	0.8	0.7	0.0	21.3	188.6
KOOLEARN	新东方在线	1797 HK	30.6	HOLD	UR	n.a.	3,915	718.8	n.m.	42.6	0.1	46.7	10.8	0.1	129.8	299.3
YUODAO	有道	DAO US	4.3	NR	n.a.	n.a.	537	0.6	n.a.	31.3	n.a.	0.6	0.5	n.a.	n.a.	n.a.
SUNLAND	尚德机构	STG US	4.3	NR	n.a.	n.a.	60	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
51 TALK	51 Talk	COE US	1.7	NR	n.a.	n.a.	39	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Education (US listed Non-China)																
PEARSON		PSO US	10.3	NR	n.a.	n.a.	7,435	3.3	15.6	14.4	n.a.	1.6	1.5	n.a.	n.a.	n.a.
GRAHAM		GHC US	577.2	NR	n.a.	n.a.	2,795	7.9	10.8	7.6	n.a.	0.7	0.7	n.a.	n.a.	n.a.
GRAND		LOPE US	83.3	NR	n.a.	n.a.	2,662	20.9	13.6	12.7	n.a.	2.7	2.7	n.a.	n.a.	n.a.
LAUREATE		LAUR US	10.9	NR	n.a.	n.a.	1,788	9.3	11.4	8.2	n.a.	1.3	1.2	n.a.	n.a.	n.a.
ADTALEM		ATGE US	38.0	NR	n.a.	n.a.	1,717	13.5	13.2	9.0	2.2	1.2	1.1	n.a.	n.a.	4.1
K12		LRN US	45.2	NR	n.a.	n.a.	1,934	24.5	18.1	14.6	0.6	1.0	1.0	0.1	8.5	24.7
STRATEGIC		STRA US	63.9	NR	n.a.	n.a.	1,573	7.0	18.6	14.9	n.a.	1.4	1.3	n.a.	n.a.	n.a.
Average - Offline tutoring - China									12.6	17.2	n.a.	1.1	1.4	n.a.	(17.0)	(41.1)
Average - Online tutoring - China									35.4	27.1	0.1	16.0	4.0	0.1	75.6	244.0
Average - Tutoring - Non-China									14.5	11.6	1.4	1.4	1.4	0.1	8.5	14.4
Average (all)									15.9	16.5	0.7	4.2	1.9	0.1	18.1	72.4

Sources: Bloomberg, Company data, CMS (HK) estimates; share price as of Oct. 13, 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 and PSG was calculated based on FY21E P/S and FY20-22E revenue CAGR.

Financial Summary

Balance Sheet

(USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	28 Feb	28 Feb	28 Feb	29 Feb	28 Feb
Plant, property, equipment	511	281	306	356	416
Intangible assets & Goodwill	520	2	2	2	2
LT investment	668	414	435	457	480
Other L/T assets	1,588	341	794	833	875
Non-current assets	3,288	1,039	1,536	1,648	1,772
Cash & Equivalent	3,243	1,638	1,263	1,141	1,054
Restricted cash & Term deposits	1,759	756	756	756	756
Short term investments	2,695	1,071	1,231	1,231	1,231
Accounts & Receivables	3	1	1	1	1
Inventories	39	22	12	14	17
Other current assets	419	142	149	157	165
Current assets	8,157	3,629	3,412	3,300	3,224
Total assets	12,112	5,083	4,948	4,948	4,996
ST Debt	270	0	0	0	0
Accounts & Notes payable	354	90	44	52	61
Contract liabilities	1,387	188	140	149	158
Other current liabilities	1,363	625	656	689	724
Current liabilities	3,374	903	840	890	943
LT Debt	0	0	0	0	0
CB	2,300	0	0	0	0
Other non-current liability	3,534	178	187	196	206
Non-current liabilities	3,534	178	187	196	206
Total liabilities	6,908	1,080	1,027	1,086	1,148
Total net assets	5,205	4,002	3,921	3,862	3,848
Share capital	0	0	0	0	0
Reserves	5,203	4,030	3,921	3,862	3,848
Shareholder's equity	5,204	4,030	3,921	3,862	3,848
Non-controlling interest	1	-28	0	0	0
Total Equity	5,205	4,002	3,921	3,862	3,848
Total debts	270	0	0	0	0
Net cash/(debts)*	7,426	3,464	3,250	3,128	3,041

Cashflow Statement

(USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	28 Feb	28 Feb	28 Feb	29 Feb	28 Feb
Pretax Income	-116	-1,136	-135	-59	-14
Dep. & Amort.	161	185	113	89	82
Chg in working cap	224	-245	-36	5	6
Others	686	257	-24	35	35
Net cash from operations	955	-939	-81	70	109
CAPEX	-244	-220	-123	-125	-127
Acquisition	-12	0	0	0	0
Investment	-4,283	3,385	-196	-36	-38
Others	1,897	-1,797	-38	-40	-42
Net cash from investments	-2,641	1,369	-357	-201	-206
Dividend paid	0	0	0	0	0
Shares issued (cancelled)	2,508	1	26	0	0
Debt issued (repaid)	0	0	0	0	0
Others	2,287	-2,768	37	9	10
Net cash from financing	4,795	-2,767	63	9	10
Exchange impact	-5	1	0	0	0
Net change in cash	3,103	-2,336	-375	-122	-87
Opening cash	1,915	5,018	2,682	2,307	2,185
Restrict cash	1,775	1,044	1,044	1,044	1,044
Closing cash	3,243	1,638	1,263	1,141	1,054

Sources: Company data, CMS (HK) estimates; share price as of Oct. 13, 2022 *Net cash includes bank balance, term deposits and ST investments

Profit & Loss Statement

(USD mn)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	28 Feb	28 Feb	28 Feb	29 Feb	28 Feb
Revenue	4,496	4,391	1,030	1,240	1,457
Cost of revenue	-2,049	-2,203	-438	-515	-604
Gross profit	2,447	2,188	592	726	852
Selling expense	-1,680	-1,118	-307	-360	-416
G&A expense	-1,117	-1,200	-452	-466	-485
Other gain/losses	-88	-484	8	0	0
Operating profit - as reported	-438	-615	-160	-101	-48
Net interest income	97	95	29	25	29
Other income and gains	116	-259	-27	0	0
Pre-tax profit	-225	-778	-157	-76	-19
Tax	70	-397	21	15	4
Profit after tax	-155	-1,175	-137	-61	-15
Loss from equity method investments	12	11	1	0	0
Non-controlling interests	27	28	0	1	1
Net profit - as reported	-116	-1,136	-135	-59	-14
Non-GAAP adjustment					
Non - GAAP OP	-233	-440	-83	-47	16
Non-GAAP Net income	89	-961	-58	-6	50
Non-GAAP Core NI	80	-197	-32	-6	50
Non-GAAP EPADS (USD)	0.15	-1.49	-0.09	-0.01	0.08
Non-GAAP Core EPADS (USD)	0.13	-0.31	-0.05	-0.01	0.08

Financial ratios

	FY21	FY22	FY23E	FY24E	FY25E
Year ended	28 Feb	28 Feb	28 Feb	29 Feb	28 Feb
yoy (%)					
Revenue	37.3	-2.3	-76.5	20.4	17.5
Gross Profit	35.6	-10.6	-72.9	22.5	17.5
Operating profit - as reported	n.a.	40.2	-74.0	-37.0	-51.8
Net profit - as reported	5.3	879.5	-88.1	-56.0	-76.0
Non-GAAP OP	n.a.	88.5	-81.1	-42.9	n.a.
Non-GAAP NI	1,048.1	n.a.	-93.9	-89.4	n.a.
Non-GAAP Core NI	-22.9	-72.0	n.a.	n.a.	134.4
Margins (%)					
Gross margin	54.4	49.8	57.5	58.5	58.5
OPM - as reported	-9.7	-14.0	-15.5	-8.1	-3.3
NPM - as reported	0.6	0.6	0.0	0.1	0.1
OPM - Non-GAAP	-5.2	-10.0	-8.0	-3.8	1.1
NPM - Non GAAP	2.0	-21.9	-5.7	-0.5	3.4
Core NPM - Non GAAP	1.8	-4.5	-3.1	-0.5	3.4
Returns (%)					
Effective tax rate (%)	31.1	-51.0	13.2	20.0	n.a.
Current ratio (x)	2.4	4.0	4.1	3.7	3.4
Net cash/equity (%)	142.7	86.6	82.9	81.0	0.8
Returns (%)					
Asset turnover (x)	0.5	0.5	0.2	0.3	0.3
Financial leverage (x)	2.3	1.9	1.3	1.3	1.3
EBIT margin (%)	-9.7	-14.0	-15.5	-8.1	-3.3
Interest burden (x)	0.5	1.3	1.0	0.8	0.4
Tax burden (x)	-0.4	0.3	0.2	0.1	-2.6
ROE (%)	2.1	-4.3	-0.8	-0.2	1.3
P/E (x)	31.4	n.a.	n.a.	n.a.	50.5
P/S (x)	0.6	0.6	2.4	2.0	1.7

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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