

Company Report

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

New Oriental Education (EDU US)

Positive outlook further boosted by strong results

- 1QFY23 (Aug-Q) NG NP reached USD84mn, 85% above consensus and also turning positive earnings after losses in FY22
- Koolearn (1797 HK) a big driver for the beat along with cost decline from restructuring as well as reduced selling and marketing expenses
- New Oriental: BUY, TP up to USD38; Upgrade Koolearn from HOLD to BUY, TP up to HKD53 base on our "Bull" case SOTP

Exceptional 1QFY23 performance

New Oriental 1QFY23 revenue reached USD745mn up 42.1% qoq, boosted by strong performance from Koolearn which experienced substantial GMV jump starting in June. NG NP reached USD84mn, turning positive after previous quarters of losses from restructuring. GPM reached 58.1%, with positive NG OPM of 13%, a significant improvement from 4QFY22. Per mgmt., margins improvement was driven by: 1) Reduction of costs from learning centers' closure and headcount cuts; 2) Koolearn's higher margin contribution thanks to Dongfang Zhenxuan (DFZX); 3) No summer promotion. Company guides 2QFY23 revenue of USD601.4mn-619.2mn, implying 6~9% decline yoy in USD term, or 1~4% increase in RMB term.

Koolearn's profit was much better than expected

We estimate Koolearn 1QFY23 net income was USD41mn or RMB287mn, reaching 44% of our previous full year forecast, significantly above expectation. We believe this points to significantly better take rate and margins than the market expected. We believe company's push into 1P products and limited selling expenses are drivers of this strong performance. In our base case, we maintain our forecast of RMB25mn avg. daily GMV for FY23, but raise NP to GMV ratio from 8% previously to 11.4%. This latest results points lends confidence to Koolearn's strategy of diversification of categories, expanding talent pool, and brand building, with the latter in progress of transforming the channel to a consumer brand with positive attributes such as quality, wholesomeness, and socially responsible.

Positive view unchanged, up Koolearn to BUY

We made forecast revision for New Oriental and Koolearn (Figure 13 and 14). **New Oriental** is currently trading at its net cash (similar to market cap), with FY23/24E P/E of 27x/18x. We revised our TP to USD38 from USD29, based on 25x FY24E P/E (unchanged), also back tested by our SOTP valuation (Figure 15), maintain BUY. For **Koolearn**, we revised our TP to HKD53 from HKD22.8, based on SOTP valuation (Figure 17), upgrade to BUY. Between New Oriental and Koolearn, we maintain preference for New Oriental over Koolearn, due to New Oriental's discount to NAV is attractive from valuation standpoint. **Key Risks:** 1) New business' competition; 2) Exit from senior high segment; 3) Regulatory; 4) DFZX continued ability to attract shoppers, and live broadcasting operational risks e.g. talent management.

Financials

Company	Ticker	Rating	Current Price (LC)	Target Price (LC)	Upside (%)	Previous Target Price (LC)	Market cap (USD mn)	EPS(LC)		P/E (x)	Mkt cap/net cash (x)
								FY22E	FY23E		
NEW ORIENTAL	EDU US	BUY	27.0	38.0	40.6	29.0	4,592	-6.13	0.98	27.4	1.1
	9901 HK	BUY	20.7	30.0	45.3	23.0					
KOOLEARN	1797 HK	BUY	39.1	53.0	35.5	22.8	5,003	0.12	0.05	26.8	19.9

Sources: Bloomberg, CMS (HK) estimates; Share price as of Oct 27, 2022 for HK listed shares; Share price as of Oct 26 for US listed shares

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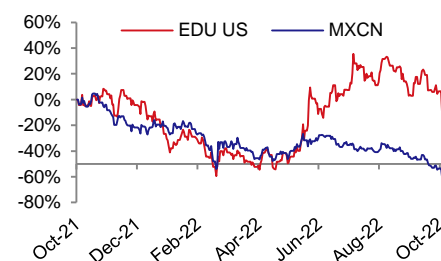
WHAT'S NEW

1QFY23 results; Earnings/TP/rating revision

BUY

Previous	BUY
Price (Jul 27, 2022)	USD27.0
12-month Target Price (Potential up/downside)	USD38 (+40.6%)
Previous	USD29

Price Performance



Source: Bloomberg

%	1m	6m	12m
EDU US	11.8	140.2	26.9
MXCN	(18.0)	(26.5)	(53.6)

Sector: Education	
Hang Seng Index (Oct. 27, 2022)	15,428
HSCEI (Oct. 27, 2022)	5,243

Key Data	
52-week range (USD)	8.4 - 29.8
Market cap (USD mn)	4,592
Avg. daily volume (mn)	1.10
BVPS (HKD)	17.10

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

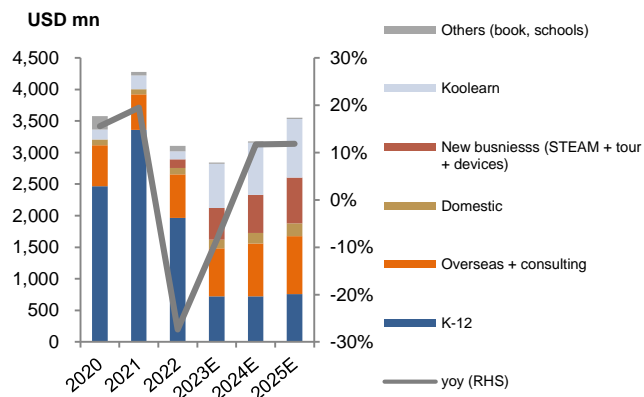
Sources: Company data, Bloomberg

Related Research

1. New Oriental Education (EDU US) - Koolearn to lift 1Q23E (BUY) (Oct 20, 2022)
2. New Oriental Education (EDU US) - A clean slate for a brighter new start (BUY) (July 28, 2022)
3. New Oriental Education (EDU US) - 3Q22 tail of restructuring phase (BUY) (Apr 27, 2022)

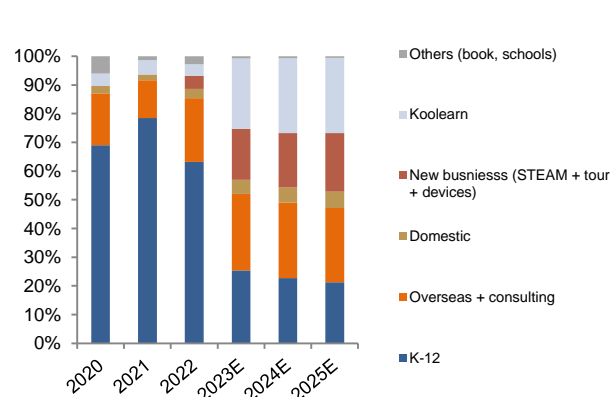
Focus charts – New Oriental (EDU US)

Figure 1: New Oriental's revenue by segment



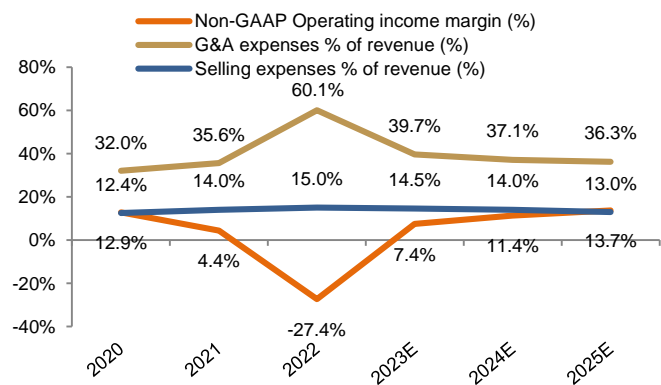
Sources: Company data, CMS (HK) estimates

Figure 2: Koolearn to be the key growth driver



Sources: Company data, CMS (HK) estimates

Figure 3: New Oriental's OPEX and NG OPM



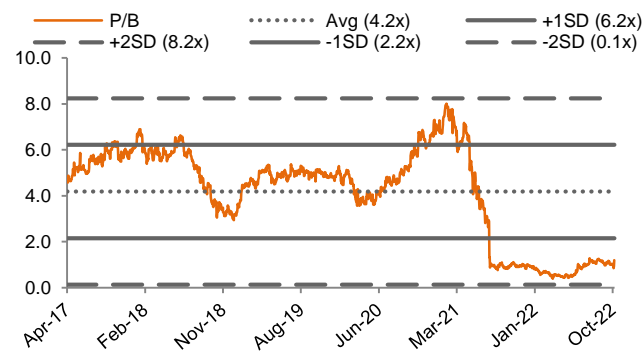
Sources: Company data, CMS (HK) estimates

Figure 4: New Oriental to turn profit in FY23E



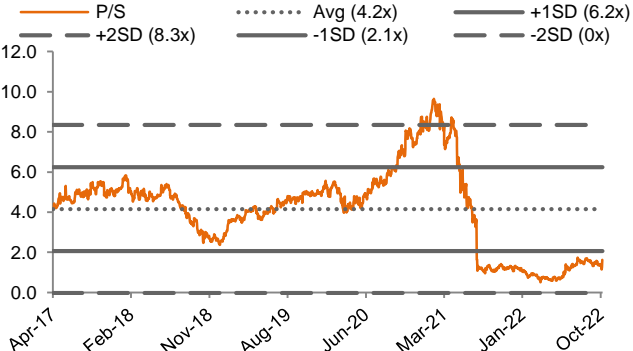
Sources: Company data, CMS (HK) estimates

Figure 5: P/B range for New Oriental



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

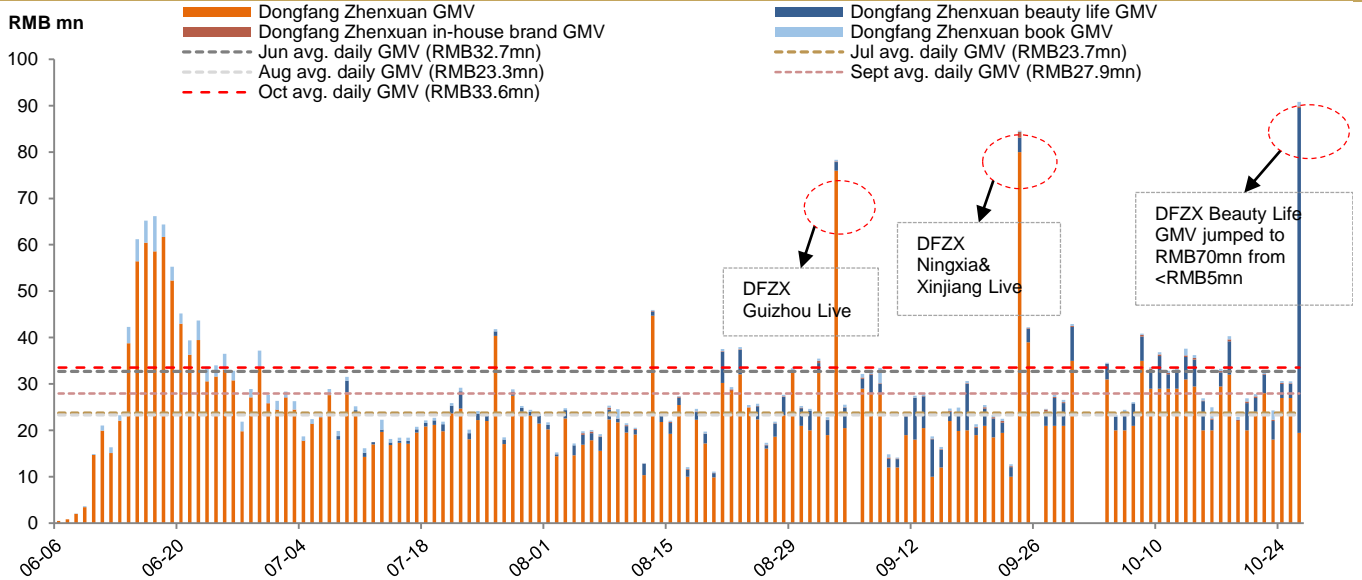
Figure 6: P/S range for New Oriental



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

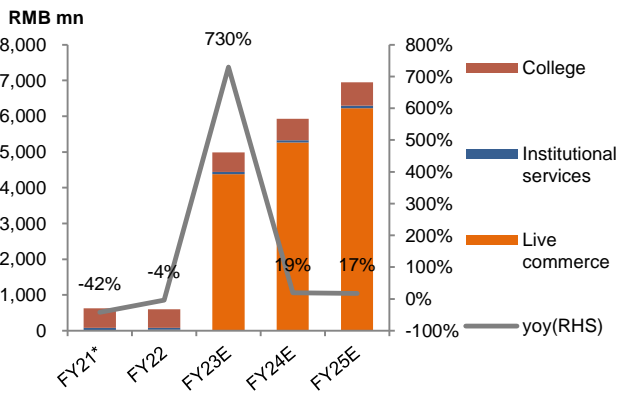
Focus charts – Koolearn (1797 HK)

Figure 7: Dongfang Zhenxuan's daily GMV performance: Beauty Life channel had strong GMV jump in Oct 26



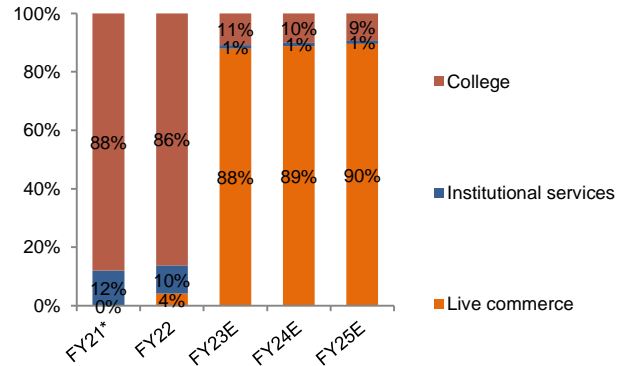
Sources: Huitun data, Company data, CMS (HK); Data as of Oct 26, 2022

Figure 8: Koolearn's revenue by segment



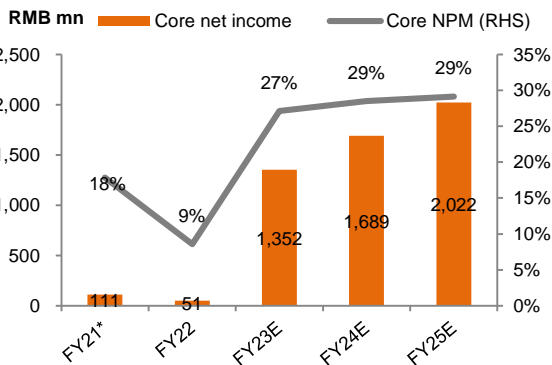
Sources: Company data, CMS (HK) estimates

Figure 9: Live commerce to be the key driver



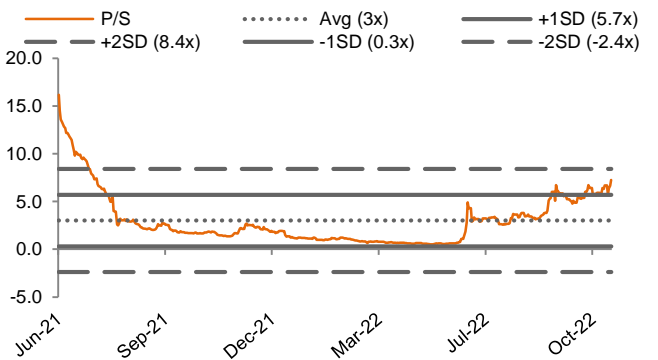
Sources: Company data, CMS (HK) estimates

Figure 10: Koolearn's core NP



Sources: Company data, CMS (HK) estimates

Figure 11: P/S range for Koolearn



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

Figure 12: New Oriental's 1QFY23 results vs. CMS forecast and Bloomberg consensus

USD mn	1Q22	2Q22	3Q22	4Q22	1Q23	4Q22	1Q23	1Q23	CMS Forecast		Bloomberg Consensus	
	31-Aug	30-Nov	28-Feb	31-May	31-Aug	yoy	yoy	qoq	1Q23E	Diff	1Q23E	Diff
As of												
Net revenues	1,309	658	614	524	745	-56.8%	-43.1%	42.1%	647	15.0%	556	33.9%
Gross profit	667	167	241	276	433	-56.4%	-35.1%	56.7%	343	26.1%	289	49.6%
Selling and marketing	165	112	94	96	99	-50.7%	-40.2%	3.1%	97	1.7%	244	-59.5%
G&A	469	822	289	286	256	-47.2%	-45.4%	-10.5%	259	-1.1%	105	144.2%
OP - as reported	32	(768)	(141)	(106)	78	3.2%	140.5%	n.a.	(13)	n.a.	46	68.0%
NP - as reported	61	(937)	(122)	(189)	66	316.4%	9.0%	n.a.	2	4176.5%	25	161.0%
Non-GAAP Op income	76	(737)	(111)	(77)	97	-6.5%	28.3%	n.a.	13	649.5%	40	144.8%
Non-GAAP Net income	111	(902)	(96)	(160)	84	475.3%	-24.7%	n.a.	27	205.0%	45	85.4%
Non-GAAP EPADS (USD)	0.66	(5.32)	(0.56)	(0.94)	0.49	460.0%	-25.0%	n.a.	0.16	204.1%	0.23	117.6%
Margins												
GPM	50.9%	25.3%	39.3%	52.7%	58.1%	0.5 ppt	7.2 ppt	5.4 ppt	53.0%	5.1 ppt	52.0%	6.1 ppt
OPM	2.5%	-116.7%	-23.0%	-20.2%	10.5%	-11.7 ppt	8 ppt	2.8 ppt	-2.0%	n.a.	8.3%	2.1 ppt
NPM	4.6%	-142.3%	-19.9%	-36.1%	8.9%	-32.4 ppt	4.2 ppt	-16.2 ppt	0.2%	8.6 ppt	4.5%	4.3 ppt
Non-GAAP OPM	5.8%	-112.0%	-18.1%	-14.7%	13.0%	-7.9 ppt	7.3 ppt	3.4 ppt	2.0%	11 ppt	7.1%	5.9 ppt
Non-GAAP NPM	8.5%	-137.0%	-15.6%	-30.6%	11.2%	-28.3 ppt	2.7 ppt	-15 ppt	4.2%	7 ppt	8.1%	3.1 ppt
As of revenue												
Selling and marketing	12.6%	17.1%	15.3%	18.3%	13.3%	2.3 ppt	0.6 ppt	-5 ppt	15.0%	-1.7 ppt		
G&A	35.9%	124.9%	47.0%	54.6%	34.4%	9.9 ppt	-1.5 ppt	-20.2 ppt	40.0%	-5.6 ppt		
OCF	(447)	(628)	(235)	29	185							
Cash			1,467	1,149	1,104							
Term Deposits			915	1,140	1,055							
Short Term Investments			2,028	1,902	2,092							
Total debt			113	65	44							
Net cash			4,297	4,126	4,207							

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

Other key takeaways:

- 1QFY23 Recurring businesses revenue, removing discontinued K-9 segments, grew 38~39% yoy (including Koolearn) in USD terms. Overseas test prep revenue +2% yoy, adult education revenue +2% yoy, while overseas study consulting revenue +21% yoy.
- New Oriental continues to put effort into education segment: Non-academic tutoring continues to expand, with over 60 cities and student enrollment reaching 297k, and Top 10 cities contributing 60% of the segment revenue.
- Other new education business such as digital learning and study tour were boosted from summer season.
- Per management, despite the ongoing geopolitical tensions, overseas business is undergoing recovery. We believe after the post-covid recovery, overseas test prep business likely to return to mid to high single digit stable growth phase.
- For the upcoming Double 11 festival, Chairman Yu reportedly will have his first show on Taobao Live. Per management, the main content will be to promote New Oriental's college classes. If the classes purchased are taken offline, will be booked under New Oriental, on the other hand, if taken online, the revenue will be booked under Koolearn.
- New Oriental has executed part of its USD400mn buy-back program announced last quarter, and has bought 1.6mn ADRs / USD39.6mn.

Revision summary / FY2Q23 outlook

New oriental

- **Model revisions:** We revised New Oriental's FY23/24/25E group revenue +17%/19%/21%, mainly due to revenue increase from Koolearn and new businesses (i.e. STEAM, study tour and devices etc.) given their strong growth momentum. We revised FY23/24/25E group NG NP +94%/31%/9%, reflecting revenue increase and margin improvement outlook driven by Koolearn's increasing revenue contribution and its better-than-expected margin.
- **Target price methodology:** Our TP is based on 25x FY24E P/E (unchanged), and raised to USD38/HKD30, mainly from earnings upgrade. Our TP is back-tested via SOTP valuation (Figure 15), New Oriental's Koolearn stake at current market value is USD2.9bn, latest net cash of USD4.2bn, these sum up to USD7.1bn, which is 55% over New Oriental's current market cap, while not including any value for its education businesses. Moreover, New Oriental currently trades at 9% above its latest net cash position, still a defensive feature, in our view. As such we continue to see New Oriental's valuation as highly attractive.

Koolearn

- **DFZX latest operating performance:** 1) DFZX channel: maintains 30k-50k daily incremental followers in recent weeks, with total followers reached 27mn+. Daily GMV was RMB26mn in Oct to date, increasing from RMB23mn in Sept and RMB21mn in Aug. ASP is currently at RMB50-100. 2) In Oct 26, DFZX Beauty Life channel launched a special live event with key focus on cosmetics and recorded a remarkable performance. Daily incremental follower reached 80k (vs. 10-20k per day in past 3 month), and daily GMV reached RMB70mn (vs. RMB3-5mn in past 3 month). ASP also increased from RMB50-100 to RMB200-300. DFZX Beauty Life currently has 1.87mn followers.
- **Model revisions:** We revised Koolearn's FY23/24/25E revenue +91%/87%/100%, mainly due to higher take rate assumption driven by 1P product mix increase, and we keep our annual GMV assumption largely unchanged. We revised FY23/24/25E group NG NP +105%/106%/135%, reflecting better-than-expected operating margin, which also implies a higher NP to GMV ratio.
- **Target price methodology:** Our TP of HKD53 (Figure 17) is set based on our Bull case assumption of RMB30mn avg. daily GMV, with further expansion of NP/GMV ratio to 13%, and TP multiple of 30x, this is against our base case scenario of RMB25mn GMV/11.4%/30x.
- Our GMV expansion implies our view of continued category expansion with the most likely success coming from its Beauty Life channel with products such as cosmetics and fashion. Their latest jump in the Beauty Life channel daily GMV on October 26, reaching a record high of RMB70mn was a surprise, give its previous track record of around RMB3~5mn per day. As for its NP/GMV ratio, we think the biggest opportunity/swing factor is take rate, enhanced by its in-house brand mix.
- Our current TP of HKD53, implies 36x FY23E base case earnings. Between New Oriental and Koolearn, we maintain preference for New Oriental over Koolearn, due to New Oriental's discount to NAV is attractive from valuation standpoint.

Figure 13: New Oriental's earnings revision

USD mn	FY23E			FY24E			FY25E		
	Previous	Revised	change	Previous	Revised	change	Previous	Revised	change
Revenue	2,437	2,844	16.7%	2,668	3,177	19.1%	2,928	3,554	21.3%
Gross profit	1,310	1,650	26.0%	1,487	1,858	25.0%	1,691	2,097	24.0%
Non - GAAP OP	26	211	717.3%	215	361	67.6%	382	488	27.7%
Non-GAAP Net income	86	166	92.0%	199	261	30.9%	318	348	9.4%
Non-GAAP Core NI	86	168	93.9%	199	261	30.9%	318	348	9.4%
GPM	53.7%	58.0%	4.3 ppt	55.7%	58.5%	2.8 ppt	57.7%	59.0%	1.3 ppt
Non-GAAP OPM	1.1%	7.4%	6.4 ppt	8.1%	11.4%	3.3 ppt	13.1%	13.7%	0.7 ppt
Non-GAAP NPM	3.5%	5.8%	2.3 ppt	7.5%	8.2%	0.7 ppt	10.9%	9.8%	-1.1 ppt
Non-GAAP Core NPM	3.5%	5.9%	2.3 ppt	7.5%	8.2%	0.7 ppt	10.9%	9.8%	-1.1 ppt

Sources: Company data, CMS (HK) estimates

Figure 14: Koolearn's earnings revision

RMB mn	FY23E			FY24E			FY25E		
	Previous	Revised	change	Previous	Revised	change	Previous	Revised	change
Revenue	2,607	4,985	91.2%	3,173	5,925	86.8%	3,479	6,948	99.7%
Gross profit	1,249	2,264	81.3%	1,462	2,676	83.0%	1,603	3,104	93.7%
Operating income (loss)	367	1,281	248.6%	543	1,620	198.4%	631	1,948	208.5%
Attributable net income (loss)	346	1,152	233.5%	502	1,452	189.4%	581	1,744	200.2%
Core net income (loss)	658	1,352	105.3%	819	1,689	106.2%	859	2,022	135.3%
Margins									
GPM	47.9%	45.4%	-2.5 ppt	46.1%	45.2%	-0.9 ppt	46.1%	44.7%	-1.4 ppt
OPM	14.1%	25.7%	11.6 ppt	17.1%	27.3%	10.2 ppt	18.1%	28.0%	9.9 ppt
NPM	13.3%	23.1%	9.9 ppt	15.8%	24.5%	8.7 ppt	16.7%	25.1%	8.4 ppt
Core NPM	25.3%	27.1%	1.9 ppt	25.8%	28.5%	2.7 ppt	24.7%	29.1%	4.4 ppt

Sources: Company data, CMS (HK) estimates

Figure 15: New Oriental's valuation, also back tested by our SOTP estimation

New Oriental P/E valuation			
New Oriental FY24E EPS (USD)		1.5	
Target P/E (x)		25.0	
Target value per share (USD)		38.0	(Our TP)
Target value per share (HKD)		30.0	

New Oriental SOTP valuation backtest			
USD: HKD	7.85		
USD: CNY	7.20		
Koolearn + net cash		New Oriental education segments	
USD mn		USD mn	
Koolearn Market Cap	5,297		
New Oriental stake % of Koolearn	55%	FY24E Core NI	132
Koolearn stake value	2,924	Target P/E (x) for education segment	10
New Oriental 1Q23 net cash	4,207	New Oriental education segment value	1,316
Subtotal	7,131		
New Oriental current market cap	4,600	New Oriental SOTP valuation (a+b+c)	8,446
Premium over New Oriental current market cap	55%	Current market cap discount to SOTP value	-46%
		Shares (mn)	170
		Implied value per share	
		New Oriental (EDU US, USD)	49.7
		New Oriental - S (9901 HK, HKD)	39.0

Sources: Company data, CMS (HK) estimates

Figure 16: New Oriental's education segment implied P/E estimation

USD: CNY				7.20
USD mn				
Koolearn Market Cap				5,297
New Oriental stake % of Koolearn				55%
New Oriental Koolearn stake value				2,924
New Oriental market cap				4,600
New Oriental education segment mkt cap				1,676
New Oriental Group P/E (x)	-4.4	27.4	17.6	13.2
Koolearn P/E (x)	347	28	23	19
New Oriental Group P/S (x)	1.5	1.6	1.4	1.3
Koolearn P/S (x)	63.5	7.7	6.4	5.5
	FY22	FY23E	FY24E	FY25E
Group NI (USD mn)	-1,040	168	261	348
Koolearn NI (RMB mn)	110	1,352	1,689	2,022
New Oriental stake % of Koolearn NI (USD mn)	8	104	130	155
New Oriental education segment NI (USD mn)	-1,048	64	132	193
New Oriental education segment implied P/E (x)	-1.6	26.2	12.7	8.7
Group revenue (USD mn)	3,105	2,844	3,177	3,554
Koolearn revenue (RMB mn)	601	4,985	5,925	6,948
New Oriental education segment revenue (USD mn)	3,022	2,152	2,354	2,588
New Oriental education segment implied P/S (x)	0.6	0.8	0.7	0.6

Sources: Company data, CMS (HK) estimates

Figure 17: Koolearn's SOTP valuation

GMV scenario analysis (RMB mn)				
Next 12-mo	Bear	Base	TP basis	
			Bull	Blue sky
Daily GMV	15.0	25.0	30.0	60.0
Annual GMV	5,475	9,125	10,950	21,900
Core NP to GMV ratio	11.4%	11.4%	13.0%	15.0%
NP	622.8	1,038.1	1,423.5	3,285.0
Target P/E (x)	30.0	30.0	30.0	20.0
Live commerce target value	18,685	31,142	42,705	65,700
SOTP valuation				
RMB mn	Next 12-mo core NP	Target P/E (x)	Target valuation	Valuation mix
Live commerce	1,424	30	42,705	88%
Education	314	10	3,136	6%
Net cash (FY23E)			2,595	5%
Total value			48,437	
Share outstanding (mn)			1,001	
Value per share (RMB)			48.4	
FX (HKD: RMB)			1.10	
Value per share (HKD)	27.0	41.0	53.0	79.0
Base case implied multiples		FY22	FY23E	FY24E
Implied P/E (x)		942.8	35.8	28.7
Implied P/S (x)		80.7	9.7	8.2
Bull case implied multiples		FY22	FY23E	FY24E
Implied P/E (x)		942.8	27.9	22.5
Implied P/S (x)		80.7	21.6	18.4

Sources: Company data, CMS (HK) estimates

Figure 18: 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			15,428						8.7	7.5	0.6	0.8	0.7	0.1	9.3	12.3
HSCEI			5,243						7.4	6.6	0.6	0.6	0.6	0.1	9.5	11.2
Offline tutoring - China																
NEW ORIENTAL	新东方	EDU US	27.0	BUY	38.0	40.6	4,592	54.1	n.a.	27.4	n.a.	1.5	1.6	1.4	1.1	n.a.
		9901 HK	20.7	BUY	30.0	45.3										
TAL	好未来	TAL US	4.0	BUY	5.0	24.7	2,602	29.3	n.a.	n.a.	n.a.	0.6	2.5	n.a.	(46.9)	(82.3)
OFFCN	中公教育	002607 CH	4.4	NR	n.a.	n.a.	3,774	195.0	32.0	21.0	n.a.	2.9	2.5	n.a.	n.a.	n.a.
EAST	东方	667 HK	2.7	NR	n.a.	n.a.	754	5.0	8.9	7.6	n.a.	1.1	0.9	n.a.	n.a.	n.a.
ONLY	昂立	600661 CH	8.6	NR	n.a.	n.a.	339	42.5	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	1.1	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.	56	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	0.8	BUY	2.3	194.9	200	2.7	25.5	5.2	0.0	0.6	0.5	0.0	21.3	188.6
KOOLEARN	新东方在线	1797 HK	39.1	BUY	53.0	35.5	5,003	771.3	n.m.	26.8	0.1	60.2	7.3	0.0	214.1	473.4
YOUDAO	有道	DAO US	3.7	NR	n.a.	n.a.	465	0.6	n.a.	27.1	n.a.	0.5	0.4	n.a.	n.a.	n.a.
SUNLAND	尚德机构	STG US	3.8	NR	n.a.	n.a.	54	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.	37	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	11.1	NR	n.a.	n.a.	7,981	3.5	15.8	14.4	n.a.	1.6	1.6	n.a.	n.a.	n.a.
GRAHAM		GHC US	608.9	NR	n.a.	n.a.	2,948	8.1	11.4	8.0	n.a.	0.7	0.7	n.a.	n.a.	n.a.
GRAND		LOPE US	86.2	NR	n.a.	n.a.	2,756	20.4	14.1	13.1	n.a.	2.8	2.8	n.a.	n.a.	n.a.
LAUREATE		LAUR US	12.5	NR	n.a.	n.a.	2,058	9.7	13.1	9.4	n.a.	1.5	1.4	n.a.	n.a.	n.a.
ADTALEM		ATGE US	40.5	NR	n.a.	n.a.	1,837	13.4	14.1	9.6	4.1	1.2	1.2	n.a.	n.a.	2.4
K12		LRN US	32.9	NR	n.a.	n.a.	1,414	25.2	14.3	11.2	0.4	0.8	0.7	0.1	9.1	31.6
STRATEGIC		STRA US	66.4	NR	n.a.	n.a.	1,636	6.8	19.3	15.5	n.a.	1.4	1.4	n.a.	n.a.	n.a.
Average - Offline tutoring - China									13.6	14.0	n.a.	1.2	1.5	1.4	(15.2)	(41.1)
Average - Online tutoring - China									25.5	19.7	0.0	20.4	2.7	0.0	117.7	331.0
Average - Tutoring - Non-China									14.6	11.6	2.2	1.4	1.4	0.1	9.1	17.0
Average (all)									15.3	14.0	1.1	5.2	1.7	0.4	33.1	102.3

Sources: Company data, CMS (HK) estimates; share prices as of Oct. 27, 2022 (HK and China Market) & Oct. 26, 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	455	515	582
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	1,635	1,717	1,807
Cash & Equivalent	1,612	1,149	2,645	2,837	3,105
Restricted cash & Term deposits	1,214	1,140	684	684	684
ST investments	3,435	1,902	951	951	951
Accounts & Receivables	9	16	24	24	27
Inventories	31	28	32	34	38
Other current assets	273	239	243	248	253
Current assets	6,574	4,474	4,580	4,779	5,059
Total assets	10,151	6,035	6,215	6,495	6,866
ST Debt	0	0	0	0	0
Accounts & Notes payable	38	22	32	34	38
Deferred revenue	1,926	933	1,013	1,131	1,266
Other current liabilities	1,507	755	770	785	801
Current liabilities	3,471	1,710	1,815	1,951	2,105
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	2,357	2,504	2,668
Total net assets	5,018	3,794	3,858	3,992	4,198
Share capital	2	2	2	2	2
Reserves	4,912	3,704	3,768	3,902	4,108
Shareholder's equity	4,913	3,706	3,770	3,904	4,110
Non-controlling interest	105	88	88	88	88
Total Equity	5,018	3,794	3,858	3,992	4,198
Total debts	0	0	0	0	0
Net cash/(debts)*	6,261	4,191	4,280	4,472	4,740

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	64	134	206
Dep. & Amort.	230	194	103	103	103
Chg in working cap	603	-1,014	78	118	131
Others	-38	727	10	11	11
Net cash from operations	1,130	-1,280	256	365	451
CAPEX	-384	-145	-152	-160	-168
Acquisition	1	0	-4	-3	-3
Investment	-2,152	1,706	1,398	-9	-9
Others	358	-392	-13	-13	-13
Net cash from investments	-2,178	1,169	1,230	-185	-193
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	1,496	192	269
Opening cash	919	1,632	1,195	2,691	2,883
Closing cash	1,632	1,195	2,691	2,883	3,151
Closing cash (excl. restricted cash)	1,612	1,149	2,645	2,837	3,105

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	2,844	3,177	3,554
Cost of revenue	-2,037	-1,754	-1,194	-1,318	-1,457
Gross profit	2,240	1,351	1,650	1,858	2,097
Selling expense	-601	-467	-414	-445	-462
G&A expense	-1,522	-1,867	-1,129	-1,179	-1,289
Total opex	-2,122	-2,333	-1,542	-1,624	-1,751
Gain on disposal of subsidiaries	0	0	0	0	0
Operating income	117	-983	108	234	346
Net interest income	158	-32	67	57	64
Other income	40	-18	7	6	7
Pre-tax profit	315	-1,032	182	298	417
Tax	-84	-136	-41	-74	-104
Profit after tax	231	-1,169	182	298	417
Loss from equity method investments	-1	-51	-2	0	0
Non-controlling interests	104	33	-74	-89	-107
Net profit - as reported	334	-1,188	64	134	206
Non-GAAP items:					
Non - GAAP Operating income	186	-850	211	361	488
Non-GAAP Net income	389	-1,046	166	261	348
Non-GAAP Core NI	407	-1,040	168	261	348
Non-GAAP EPADS (USD)	2.35	-6.17	0.98	1.53	2.04
Non-GAAP Core EPADS (USD)	2.46	-6.13	0.98	1.53	2.04

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	-8.4	11.7	11.9
Gross Profit	12.6	-39.7	22.2	12.6	12.8
Operating profit - as reported	-70.6	n.a.	n.a.	116.6	47.8
Net profit - as reported	-19.1	n.a.	n.a.	108.4	53.5
Non-GAAP OP	-59.6	n.a.	n.a.	71.1	35.1
Non-GAAP NI	-19.6	n.a.	n.a.	217.1	61.4
Non-GAAP Core NI	-17.6	n.a.	n.a.	55.7	33.2
Margins (%)					
Gross margin	52.4	43.5	58.0	58.5	59.0
OPM - as reported	2.7	-31.6	3.8	7.4	9.7
NPM - as reported	7.8	-38.2	2.3	4.2	5.8
OPM - Non-GAAP	4.4	-27.4	7.4	11.4	13.7
NPM - Non GAAP	9.1	-33.7	5.8	8.2	9.8
Core NPM- Non-GAAP	9.5	-33.5	5.9	8.2	9.8
Effective tax rate (%)	26.5	-13.2	22.8	25.0	25.0
Current ratio (x)	1.0	1.1	0.5	0.5	0.5
Net cash/equity (%)	124.8	110.5	110.9	112.0	1.1
Returns (%)					
Asset turnover (x)	0.5	0.4	0.5	0.5	0.5
Financial leverage (x)	2.1	1.8	1.6	1.6	1.6
EBIT margin (%)	2.7	-31.6	3.8	7.4	9.7
Interest burden (x)	2.7	1.1	1.7	1.3	1.2
Tax burden (x)	1.3	1.0	0.9	0.9	0.8
ROE (%)	10.3	-23.6	4.4	6.7	8.5
P/E (x)	11.3	n.a.	27.4	17.6	13.2
P/B (x)	0.9	1.2	1.2	1.2	1.1

Sources: Company data, CMS (HK) estimates; *Net cash includes Bank balance, ST investments and term deposits. Share price as of Oct. 27, 2022 (HK Market) & Oct. 26, 2022 (US market).

Financial Summary: Koolearn (1797 HK)

Balance Sheet

(RMB mn)	FY21	FY22	FY23E	FY24E	FY25E
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)	FY21	FY22	FY23E	FY24E	FY25E
Year ended	31 May	31 May	31 May	31 May	31 May
(Loss) profit before tax	-1,659	-89	1,356	1,709	2,052
Depreciation of property and equipment	149	35	30	26	24
Change in working capital	114	-843	-130	39	-31
Others	482	-297	-203	-257	-308
Net cash from operations	-914	-1,195	1,052	1,518	1,737
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	1,006	1,472	1,691
Opening cash	480	1,520	547	1,554	3,026
Exchange impact	-118	0	0	0	0
Closing cash	1,520	547	1,554	3,026	4,717

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	4,985	5,925	6,948
Cost of revenue	-189	-210	-2,721	-3,250	-3,845
Gross profit	435	391	2,264	2,676	3,104
Selling expense	-320	-270	-394	-412	-448
R&D	-122	-64	-255	-286	-318
G&A expense	-148	-214	-334	-359	-390
Operating income	-155	-158	1,281	1,620	1,948
Other income	-99	71	75	89	104
Other gains/losses	-1	-2	0	0	0
Pretax income	-255	-89	1,356	1,709	2,052
tax expense	1	18	-203	-256	-308
Net income	-254	-71	1,152	1,452	1,744
NCI	0	0	0	0	0
Net income (attributable)	-254	-71	1,152	1,452	1,744
Exceptional (includes SBC)	-365	-122	-199	-237	-278
Core net income	111	51	1,352	1,689	2,022
Non-IFRS OP income	83	18	1,480	1,857	2,226
Non-IFRS Net income	-40	110	1,352	1,689	2,022
EPS (RMB)	-0.26	-0.07	1.15	1.45	1.74
Core EPS (RMB)	0.12	0.05	1.35	1.69	2.02
Non-IFRS EPS (RMB)	-0.04	0.11	1.35	1.69	2.02

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	730.1	18.9	17.3
Gross Profit	n.a.	-10.2	479.2	18.2	16.0
Operating income	n.a.	1.7	n.a.	26.5	20.2
Net income (attributable)	n.a.	-72.0	n.a.	26.0	20.1
Core net income	n.a.	-53.8	2,531.0	25.0	19.7
Non-IFRS Operating income	n.a.	-78.3	8,175.6	25.4	19.9
Non-IFRS Net income	n.a.	n.a.	1,128.8	25.0	19.7
Margins (%)					
Gross Profit	69.8	65.1	45.4	45.2	44.7
Operating income	-24.9	-26.3	25.7	27.3	28.0
Net income (attributable)	-40.7	-11.8	23.1	24.5	25.1
Core net income	17.8	8.6	27.1	28.5	29.1
Non-IFRS Net income	-6.5	18.3	27.1	28.5	29.1
Effective tax rate (%)	0.4	20.5	15.0	15.0	15.0
Current ratio (x)	4.3	4.3	2.4	2.8	3.3
Net cash/equity (%)	122.5	96.8	92.9	95.8	78.8
ROE (%)	-2.1	6.0	61.0	48.0	34.1
P/E (x)	n.m.	n.m.	26.8	21.4	17.9
P/B (x)	22.0	22.0	12.9	8.5	6.0
P/S (x)	60.2	60.2	7.3	6.1	5.2

Sources: Company data, CMS (HK) estimates; *Net cash includes bank balance, available for sale investments, and term deposits. Share price as of Oct. 27, 2022 (HK Market) & Oct. 26, 2022 (US market). **Pro forma number.

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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

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