

New Oriental (EDU US)

Core educational business sustained strong momentum

New Oriental reported 4QFY24 results: net revenue was up by 32% YoY to US\$1,137mn, in line with our/consensus estimate; non-GAAP net income declined by 41% YoY to US\$36.9mn, below our/consensus estimate of US\$62/72mn, primarily due to accelerated capacity expansion and increased investment in live streaming e-commerce business. FY24 total revenue/non-GAAP net income grew by 44/47% YoY to US\$4,314/381mn. For 1QFY25E, excluding East Buy financials, management guided total revenue to grow by 31-34% YoY to US\$1,255-1,284mn, and OPM to expand by 200bps YoY. We lower FY25-26E non-GAAP earnings forecast by 5-10%, mainly to reflect accelerating capacity expansion and the business adjustment of East Buy. We lower our SOTP-derived target price to US\$95.0 (previous: US\$102.5). Maintain BUY.

■ **Educational business delivered steady recovery.** Overseas test prep and study consulting revenue grew by 17.7% and 17.3% YoY respectively, equivalent to c.11% and c.15% of total revenue in 4QFY24. Domestic test prep revenue was up by 16.4% YoY and accounted for c.4% of total revenue in 4QFY24. YoY growth of both overseas and domestic test prep businesses slowed down on the high-base effect. New educational business initiatives maintained strong momentum, with revenue up by 50.3% YoY in 4QFY24 (c.20% of total revenue). The non-academic tutoring courses recorded 875k student enrolments (+39% YoY) in 4QFY24. Looking ahead in FY25E, we expect overseas test prep/overseas consulting/new educational initiatives/high-school tutoring revenue to grow by 25%/15%/50%/30% YoY respectively.

■ **East Buy under business adjustment.** We now model East Buy revenue to decline by 20% YoY to US\$741mn in FY25E, due to the departure of Yuhui Dong and the Yuhui Tongxing disposal. Details on East Buy financials and impact of Yuhui Tongxing disposal will be disclosed on East Buy's next earnings call in late August. Tourism revenue reached RMB380mn in FY24 (-US\$53mn), driven by enriched offerings and expanded reach to different age groups. Management expects tourism revenue to reach RMB1.2bn (-US\$166mn, 3% of total revenue), with c.RMB100mn loss in FY25E.

■ **Expect OPM to improve in FY25E.** Non-GAAP operating margin declined by 5.9ppt YoY to 3.2% in 4QFY24 primarily due to capacity expansion for educational business, investment in live streaming e-commerce business, and the increased incentives to employees (G&A expenses: +38% YoY). Total number of schools and learning centres grew by 37% YoY to 1,025 as of end-4QFY24 (3QFY24/2QFY24: +28/19% YoY). For FY25E, management expects to increase the capacity by 20-25% YoY, and most new openings will be launched in the cities with better unit economics. With a better balance of growth and profitability, management expects the educational business OPM to increase YoY in FY25E.

Earnings Summary

(YE 31 May)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	2,998	4,314	5,267	6,258	6,976
Adjusted net profit (US\$ mn)	258.9	381.1	571.7	791.4	1,009.7
EPS (Adjusted) (US\$)	1.54	2.30	3.45	4.78	6.10
Consensus EPS (US\$)	1.54	2.30	3.82	5.03	6.34
P/E (x)	65.5	37.0	24.6	17.2	13.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$95.00**
 (Previous TP) US\$102.50
Up/Downside **37.2%**
Current Price **US\$69.25**

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Stock Data

Mkt Cap (US\$ mn)	11,512.8
Avg 3 mths t/o (US\$ mn)	27.4
52w High/Low (US\$)	96.31/50.60
Total Issued Shares (mn)	166.2

Source: FactSet

Shareholding Structure

Minhong Yu	12.2%
GIC	5.1%

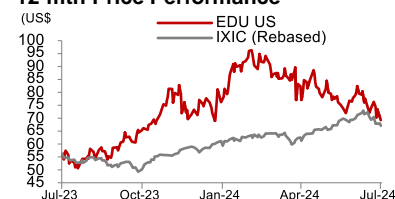
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-10.9%	-7.9%
3-mth	-10.2%	-18.0%
6-mth	-9.7%	-20.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Business forecasts update and valuation

Figure 1: New Oriental: forecast revision

US\$m	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	5,267.5	6,258.1	6,975.6	5,421.7	6,409.2	na	-2.8%	-2.4%	na
Gross profit	2,824.8	3,429.9	3,898.9	2,849.8	3,428.3	na	-0.9%	0.0%	na
Non-GAAP Net Income	571.7	791.4	1,009.7	633.8	832.7	na	-9.8%	-5.0%	na
Non-GAAP EPS (US\$)	3.5	4.8	6.1	3.8	5.0	na	-9.8%	-5.0%	na
Gross Margin	53.6%	54.8%	55.9%	52.6%	53.5%	na	1.1 ppt	1.3 ppt	na
Operating Margin	11.1%	13.3%	15.6%	10.9%	12.5%	na	0.2 ppt	0.8 ppt	na
Non-GAAP net margin	10.9%	12.6%	14.5%	11.7%	13.0%	na	-0.8 ppt	-0.3 ppt	na

Source: CMBIGM estimates

Figure 2: New Oriental: CMBIGM estimates vs consensus

US\$m	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	5,267.5	6,258.1	6,975.6	5,458.6	6,615.7	7,671.4	-3.5%	-5.4%	-9.1%
Gross Profit	2,824.8	3,429.9	3,898.9	2,878.6	3,557.0	4,121.3	-1.9%	-3.6%	-5.4%
Non-GAAP Net Income	571.7	791.4	1,009.7	632.6	833.0	1,049.3	-9.6%	-5.0%	-3.8%
Non-GAAP EPS (US\$)	3.5	4.8	6.1	3.8	5.0	6.3	-9.6%	-5.0%	-3.8%
Gross Margin	53.6%	54.8%	55.9%	52.7%	53.8%	53.7%	0.9 ppt	1.0 ppt	2.2 ppt
Operating Margin	11.1%	13.3%	15.6%	12.4%	13.8%	15.6%	-1.3 ppt	-0.5 ppt	0.0 ppt
Non-GAAP net margin	10.9%	12.6%	14.5%	11.6%	12.6%	13.7%	-0.7 ppt	0.1 ppt	0.8 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

We use sum-of-the-parts (SOTP) valuation methodology with a 10% holdco. discount to value New Oriental at US\$95.0 per ADS, comprising:

1) US\$89.9 for the educational and consulting business (95% of total valuation), based on 30x FY25E PE, which is a premium to the sector average (22x PE) and reflects New Oriental's strong leadership in China's educational service market.

2) US\$1.7 for East Buy (2% of total valuation), based on 7x FY25E PE, which is on par with the e-commerce sector average.

3) US\$3.3 for the Tourism and others business (4% of total valuation), based on 15x FY25E PE.

Figure 3: New Oriental: SOTP valuation

SOTP valuation							
(US\$m)	Revenue (FY25E)	Revenue CAGR (FY24-26E)	Earnings (FY25E)	PE (x)	% Holding	Valuation	As % of total Valuation
Educational & consulting	4,095.4	30%	553.8	30	100%	16,613.5	95%
East Buy	740.6	6%	82.9	7	55%	318.7	2%
Tourism and others	431.5	65%	41.2	15	100%	617.5	4%
Total valuation (US\$m)						17,549.7	
Holdco discount						10%	
Total valuation (US\$m)						15,794.8	
No. of ADS (mn)						166.2	
Valuation per ADS (US\$)						95.0	

Source: Company data, CMBIGM estimates

Figure 4: Education & e-commerce: valuation comparison

Companies	Ticker	Price (LC)	PE (x)			PS (x)			EPS CAGR 24-26E
			2024E	2025E	2026E	2024E	2025E	2026E	
Education									
TAL	TAL US	12.2	NA	41.8	21.8	4.6	3.2	2.5	NA
Youdao	DAO US	3.6	NA	16.9	9.7	0.5	0.4	0.4	NA
Gaotu	GOTU US	7.0	NA	NA	NA	2.0	1.4	1.0	NA
Fenbi	2469 HK	4.2	10.8	8.5	6.8	1.7	1.4	1.3	38%
Average			10.8	22.4	12.8	2.2	1.6	1.3	
E-commerce									
Alibaba Group	BABA US	72.5	9.2	8.2	7.4	1.3	1.2	1.1	7%
Pinduoduo	PDD US	128.0	10.3	8.0	6.8	3.0	2.2	1.8	47%
JD.com	JD US	27.6	8.4	7.6	6.9	0.3	0.2	0.2	10%
VIPShop	VIPS US	15.8	5.6	5.3	5.0	0.5	0.5	0.4	7%
Kuaishou	1024 HK	49.1	9.4	7.2	5.6	1.4	1.2	1.1	49%
Average			8.6	7.3	6.3	1.3	1.1	1.0	

Source: Bloomberg, CMBIGM
 Note: data are as of 30 Jul 2024

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Revenue	3,105	2,998	4,314	5,267	6,258	6,976
Cost of goods sold	(1,754)	(1,409)	(2,051)	(2,443)	(2,828)	(3,077)
Gross profit	1,351	1,588	2,263	2,825	3,430	3,899
Operating expenses	(2,333)	(1,398)	(1,912)	(2,242)	(2,597)	(2,811)
Selling expense	(467)	(445)	(661)	(764)	(895)	(942)
Admin expense	(1,867)	(954)	(1,252)	(1,478)	(1,702)	(1,869)
Operating profit	(983)	190	350	583	833	1,088
Other income	(35)	119	124	0	0	0
Gain/loss on financial assets at FVTPL	(15)	(1)	19	0	0	0
Pre-tax profit	(1,032)	309	494	583	833	1,088
Income tax	(136)	(66)	(110)	(117)	(167)	(218)
Others	(51)	(7)	(59)	0	0	0
After tax profit	(1,220)	235	325	466	666	870
Minority interest	33	(58)	(16)	0	0	0
Net profit	(1,188)	177	310	466	666	870
Adjusted net profit	(1,046)	259	381	572	791	1,010

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Current assets	4,474	4,414	5,389	6,085	7,031	7,968
Cash & equivalents	1,149	1,663	1,389	1,980	2,823	3,686
Restricted cash	0	111	177	177	177	177
Account receivables	16	33	30	72	86	96
Inventories	28	53	93	107	139	169
Prepayment	215	211	309	359	416	450
ST bank deposits	1,140	856	1,320	1,320	1,320	1,320
Financial assets at FVTPL	1,902	1,478	2,066	2,066	2,066	2,066
Other current assets	23	9	4	4	4	4
Non-current assets	1,561	1,979	2,143	2,360	2,614	2,887
PP&E	403	360	508	725	979	1,253
Right-of-use assets	531	440	654	654	654	654
Deferred income tax	20	56	73	73	73	73
Investment in JVs & assos	438	400	356	356	356	356
Intangibles	3	25	19	19	19	19
Goodwill	71	106	104	104	104	104
Other non-current assets	95	593	430	430	430	430
Total assets	6,035	6,392	7,532	8,445	9,645	10,855
Current liabilities	1,710	2,251	3,001	3,343	3,751	3,952
Account payables	22	70	106	127	155	177
Tax payable	76	118	140	117	167	218
Lease liabilities	169	156	200	200	200	200
Contract liabilities	933	1,338	1,781	2,002	2,191	2,233
Accrued expenses	510	569	775	897	1,039	1,124
Non-current liabilities	531	327	482	482	482	482
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	531	327	482	482	482	482
Total liabilities	2,241	2,578	3,483	3,824	4,233	4,434
Total shareholders equity	3,706	3,604	3,776	4,348	5,139	6,149
Minority interest	88	210	273	273	273	273
Total equity and liabilities	6,035	6,392	7,532	8,445	9,645	10,855

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Operating						
Profit before taxation	(1,032)	309	494	583	833	1,088
Depreciation & amortization	192	117	13	46	59	75
Tax paid	(136)	(66)	(110)	(117)	(167)	(218)
Change in working capital	(1,154)	538	694	236	306	127
Others	850	74	32	105	125	140
Net cash from operations	(1,280)	971	1,123	854	1,156	1,212
Investing						
Capital expenditure	(310)	(310)	(310)	(310)	(310)	(310)
Acquisition of subsidiaries/ investments	0	1	0	0	0	0
Net proceeds from disposal of short-term investments	1,447	117	0	0	0	0
Others	31	154	(844)	46	(3)	(39)
Net cash from investing	1,169	(37)	(1,154)	(263)	(313)	(349)
Financing						
Net borrowings	0	0	0	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(231)	(247)	(160)	0	0	0
Net cash from financing	(231)	(247)	(160)	0	0	0
Net change in cash						
Cash at the beginning of the year	1,612	1,149	1,663	1,389	1,980	2,823
Exchange difference	(121)	(61)	(25)	0	0	0
Cash at the end of the year	1,149	1,774	1,447	1,980	2,823	3,686
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
Revenue	(27.4%)	(3.5%)	43.9%	22.1%	18.8%	11.5%
Gross profit	(39.7%)	17.6%	42.5%	24.8%	21.4%	13.7%
Operating profit	na	na	84.4%	66.4%	42.9%	30.6%
Net profit	na	na	74.6%	50.6%	42.9%	30.6%
Adj. net profit	na	na	47.2%	50.0%	38.4%	27.6%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
Gross profit margin	43.5%	53.0%	52.5%	53.6%	54.8%	55.9%
Operating margin	(31.6%)	6.3%	8.1%	11.1%	13.3%	15.6%
Adj. net profit margin	(33.7%)	8.6%	8.8%	10.9%	12.6%	14.5%
Return on equity (ROE)	(27.6%)	4.9%	8.4%	11.5%	14.0%	15.4%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
Current ratio (x)	2.6	2.0	1.8	1.8	1.9	2.0
Receivable turnover days	1.9	4.0	2.5	5.0	5.0	5.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
P/E	ns	65.5	37.0	24.6	17.2	13.2
P/E (diluted)	ns	65.8	37.2	24.7	17.3	13.2
P/B	3.2	3.2	3.0	2.6	2.2	1.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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