

New Oriental (EDU US)

Soft consumption weighs on demand for high-ASP businesses; intact long-term outlook

New Oriental announced 1QFY25 results on 23 Oct: net revenue grew by 30.5% YoY to US\$1,435mn (or +33.5% YoY if excluding East Buy revenue), in line with our/consensus estimate of US\$1,396mn/1,442mn; non-GAAP net income grew by 39.8% YoY to US\$265mn, largely in line with our/consensus estimate of US\$256/258mn, driven by enhanced operating margin of core educational business. Looking into 2QFY25E, management expects total net revenue (excluding revenue from East Buy) to grow by 25-28% YoY to US\$851-872mn, decelerating due to the seasonality effect and macro impact on certain high-ASP businesses. Nonetheless, management expects revenue growth to reaccelerate in 3Q/4Q and full-year revenue growth to remain at c.+30% YoY in FY25E (excl. East Buy). We lower FY25 total revenue/non-GAAP earnings forecasts by 1.0/9.6% respectively, as the soft consumption sentiment affects overseas-related and high-end 1v1 tutoring businesses. We lower our SOTP-derived TP to US\$87.0 (previous: US\$95.0). Maintain BUY.

- Core educational businesses maintained solid momentum.** Overseas-related business revenue was up by 19% YoY in 1QFY25, accounting for c.23% of total revenue. Domestic test prep revenue grew by 30% YoY in 1QFY25 (c.7% of total revenue). New educational business initiatives revenue increased by 50% YoY in 1QFY25 (c.24% of total revenue), mainly driven by the strong growth of both non-academic tutoring and intelligent learning system businesses. The company's intelligent learning system and devices were adopted in c.60 cities, with c.323k active paid users in 1QFY25 (+78% YoY). Looking ahead in 2QFY25E, we expect overseas-related/domestic test prep/new educational initiatives/high-school tutoring revenue to grow by 21%/35%/45%/21% YoY respectively.
- On-track development of tourism business.** Tourism business achieved steady progress, with the revenue from study tour and research camp for K-12 & university students up by 221% YoY in 1QFY25. The company expanded its tourism business for all age groups across 30 provinces in China and internationally. East Buy continues to focus on its "high-cost performance" and multi-channel strategy, expanding its private label offerings to 488 SKUs across diverse categories.
- Balancing profitability and revenue growth.** Non-GAAP OPM, excluding the impact from East Buy, was up by 2.2ppts YoY to 24.4% in 1QFY25, primarily attributable to the improved utilization and operating efficiency of learning centres. Total number of schools and learning centres grew by 37% YoY to 1,089 as of end-1QFY25 (4QFY24/3QFY24: +37/28% YoY). Going forward, New Oriental will continue to balance profitability and revenue growth, and management expects to grow the capacity by 20-25% YoY while improve the core educational business OPM YoY in FY25E.

Earnings Summary

(YE 31 May)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	2,998	4,314	5,216	6,199	6,908
Adjusted net profit (US\$ mn)	258.9	381.1	516.9	718.2	928.1
EPS (Adjusted) (US\$)	1.54	2.30	3.12	4.34	5.61
Consensus EPS (US\$)	1.54	2.30	3.36	4.48	5.72
P/E (x)	63.5	35.9	26.6	18.7	14.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	US\$87.00
(Previous TP)	US\$95.00)
Up/Downside	29.6%
Current Price	US\$67.13

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Stock Data

Mkt Cap (US\$ mn)	11,160.3
Avg 3 mths t/o (US\$ mn)	42.0
52w High/Low (US\$)	96.31/59.17
Total Issued Shares (mn)	166.2

Source: FactSet

Shareholding Structure

Minhong Yu	12.2%
GIC	5.1%

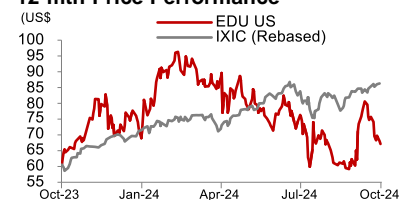
Source: Company data

Share Performance

	Absolute	Relative
1-mth	11.4%	7.8%
3-mth	-11.2%	-14.0%
6-mth	-25.1%	-36.7%

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	5,216.1	6,199.3	6,908.4	5,267.5	6,258.1	6,975.6	-1.0%	-0.9%	-1.0%
Gross profit	2,829.8	3,439.4	3,923.5	2,824.8	3,429.9	3,898.9	0.2%	0.3%	0.6%
Non-GAAP net income	516.9	718.2	928.1	571.7	791.4	1,009.7	-9.6%	-9.3%	-8.1%
Non-GAAP EPS (US\$)	3.1	4.3	5.6	3.5	4.8	6.1	-9.6%	-9.3%	-8.1%
Gross margin	54.3%	55.5%	56.8%	53.6%	54.8%	55.9%	0.6 ppt	0.7 ppt	0.9 ppt
Operating margin	9.7%	12.0%	14.3%	11.1%	13.3%	15.6%	-1.3 ppt	-1.3 ppt	-1.3 ppt
Non-GAAP net margin	9.9%	11.6%	13.4%	10.9%	12.6%	14.5%	-0.9 ppt	-1.1 ppt	-1.0 ppt

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	5,216.1	6,199.3	6,908.4	5,256.6	6,393.9	7,631.3	-0.8%	-3.0%	-9.5%
Gross profit	2,829.8	3,439.4	3,923.5	2,812.6	3,474.0	4,178.9	0.6%	-1.0%	-6.1%
Non-GAAP net income	516.9	718.2	928.1	556.3	741.5	947.4	-7.1%	-3.2%	-2.0%
Non-GAAP EPS (US\$)	3.1	4.3	5.6	3.4	4.5	5.7	-7.1%	-3.2%	-2.0%
Gross margin	54.3%	55.5%	56.8%	53.5%	54.3%	54.8%	0.7 ppt	1.1 ppt	2.0 ppt
Operating margin	9.7%	12.0%	14.3%	10.9%	12.4%	13.5%	-1.1 ppt	-0.4 ppt	0.8 ppt
Non-GAAP net margin	9.9%	11.6%	13.4%	10.6%	11.6%	12.4%	-0.7 ppt	0.0 ppt	1.0 ppt

Source: CMBIGM estimates, Bloomberg

Valuation

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

1) US\$83.4 for the educational and consulting business (96% of total valuation), based on 27x FY25E PE, which is a premium to the sector average (26x PE) and reflects New Oriental's strong leadership in China's educational service market.

2) US\$1.0 for East Buy (1% of total valuation), based on 9x FY25E PE, which is on par with the e-commerce sector average.

3) US\$2.6 for the tourism and others business (3% of total valuation), based on 12x 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	3,980.6	29%	570.6	27	100%	15,405.7	96%
East Buy	801.8	9%	37.1	9	55%	183.3	1%
Tourism and others	433.7	67%	40.7	12	100%	488.2	3%
Total valuation (US\$m)						16,077.3	
Holdco discount						10%	
Total valuation (US\$m)						14,469.6	
No. of ADS						166.2	
Valuation per ADS (US\$)						87.0	

Source: Company data, CMBIGM estimates

Figure 4: Education: valuation comparison

Companies	Ticker	Price (LC)	PE (x)		PS (x)		EPS CAGR 24-26E
			2025E	2026E	2025E	2026E	
Education							
TAL	TAL US	11.4	39.3	20.6	3.5	2.7	NA
Youdao	DAO US	4.9	31.0	12.2	0.6	0.5	NA
Gaotu	GOTU US	3.2	NA	NA	1.0	0.8	NA
Fenbi	2469 HK	2.5	8.2	6.7	1.5	1.4	36%
Average			26.1	13.1	1.7	1.4	
E-commerce							
Alibaba Group	BABA US	100.5	10.0	9.5	1.6	1.5	7%
Pinduoduo	PDD US	128.5	9.0	7.6	2.5	2.1	43%
JD.com	JD US	40.4	10.1	9.3	0.4	0.4	14%
VIPShop	VIPS US	14.0	6.0	5.8	0.5	0.5	3%
Kuaishou	1024 HK	46.3	8.2	6.9	1.3	1.2	43%
Average			8.7	7.8	1.2	1.1	

Source: Bloomberg, CMBIGM
 Note: data are as of 22 Oct 2024

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Revenue	3,105	2,998	4,314	5,216	6,199	6,908
Cost of goods sold	(1,754)	(1,409)	(2,051)	(2,386)	(2,760)	(2,985)
Gross profit	1,351	1,588	2,263	2,830	3,439	3,923
Operating expenses	(2,333)	(1,398)	(1,912)	(2,322)	(2,697)	(2,936)
Selling expense	(467)	(445)	(661)	(821)	(961)	(1,036)
Admin expense	(1,867)	(954)	(1,252)	(1,501)	(1,736)	(1,900)
Operating profit	(983)	190	350	508	743	987
Other income	(35)	119	124	39	0	0
Gain/loss on financial assets at FVTPL	(15)	(1)	19	(12)	0	0
Pre-tax profit	(1,032)	309	494	535	743	987
Income tax	(136)	(66)	(110)	(120)	(149)	(197)
Others	(51)	(7)	(59)	0	0	0
After tax profit	(1,220)	235	325	414	594	790
Minority interest	33	(58)	(16)	2	0	0
Net profit	(1,188)	177	310	417	594	790
Adjusted net profit	(1,046)	259	381	517	718	928

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Current assets	4,474	4,414	5,389	6,032	6,892	7,755
Cash & equivalents	1,149	1,663	1,389	1,917	2,672	3,460
Restricted cash	0	111	177	177	177	177
Account receivables	16	33	30	71	85	95
Inventories	28	53	93	105	136	164
Prepayment	215	211	309	372	431	470
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	2,357	2,608	2,879
PP&E	403	360	508	723	973	1,244
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	8,390	9,500	10,634
Current liabilities	1,710	2,251	3,001	3,356	3,749	3,955
Account payables	22	70	106	124	151	172
Tax payable	76	118	140	120	149	197
Lease liabilities	169	156	200	200	200	200
Contract liabilities	933	1,338	1,781	1,983	2,170	2,211
Accrued expenses	510	569	775	929	1,079	1,174
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	3,838	4,231	4,437
Total shareholders equity	3,706	3,604	3,776	4,281	4,999	5,927
Minority interest	88	210	273	271	271	271
Total equity and liabilities	6,035	6,392	7,532	8,390	9,500	10,634

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Operating						
Profit before taxation	(1,032)	309	494	535	743	987
Depreciation & amortization	192	117	101	46	59	75
Tax paid	(136)	(66)	(110)	(120)	(149)	(197)
Change in working capital	(1,154)	538	519	240	288	131
Others	850	74	119	88	124	138
Net cash from operations	(1,280)	971	1,123	788	1,065	1,133
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	(793)	0	0	0
Others	31	154	(52)	49	(0)	(36)
Net cash from investing	1,169	(37)	(1,154)	(261)	(310)	(345)
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	1,917	2,672
Exchange difference	(121)	(61)	(25)	0	0	0
Cash at the end of the year	1,149	1,774	1,447	1,917	2,672	3,460
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
Revenue	(27.4%)	(3.5%)	43.9%	20.9%	18.8%	11.4%
Gross profit	(39.7%)	17.6%	42.5%	25.1%	21.5%	14.1%
Operating profit	na	na	84.4%	44.8%	46.3%	32.9%
Net profit	na	na	74.6%	34.7%	42.5%	32.9%
Adj. net profit	na	na	47.2%	35.6%	38.9%	29.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
Gross profit margin	43.5%	53.0%	52.5%	54.3%	55.5%	56.8%
Operating margin	(31.6%)	6.3%	8.1%	9.7%	12.0%	14.3%
Adj. net profit margin	(33.7%)	8.6%	8.8%	9.9%	11.6%	13.4%
Return on equity (ROE)	(27.6%)	4.9%	8.4%	10.3%	12.8%	14.5%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May						
Current ratio (x)	2.6	2.0	1.8	1.8	1.8	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	63.5	35.9	26.6	18.7	14.1
P/E (diluted)	ns	63.8	36.0	26.8	18.8	14.1
P/B	3.1	3.1	2.9	2.6	2.2	1.9

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

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