

# New Oriental (EDU US)

## Overseas-related business drags revenue growth

New Oriental reported 3QFY25 results: net revenue declined by 2% YoY to US\$1.18bn, or grew by 21% YoY to US\$1.04bn if excluding revenue from East Buy, which is in line with the guidance; non-GAAP net income dropped by 14% YoY to US\$113mn, slightly below Bloomberg consensus estimate of US\$120mn, mainly due to the deceleration in revenue growth of overseas-related businesses and the investment in tourism business. Looking ahead to 4QFY25E, the company guides net revenue (excluding revenue from East Buy) to grow by 10-13% YoY to US\$1.01-1.04bn, further decelerating as macro uncertainty and geopolitical tension weigh on overseas related business. We trim FY25-27E earnings forecast by 2-8% mainly in view of the pressure on overseas-related business, and now estimate FY25-27 non-GAAP OP CAGR of 23%. We lower our SOTP-derived target price to US\$76.0 (previous: US\$80.0).

- **Decelerating revenue growth due to macro uncertainty.** Overseas test prep and overseas study consulting businesses (together accounting for c.25% of total revenue) were impacted by the macro and geopolitical uncertainty, with YoY growth rate decelerating to 7% YoY and 21% YoY in 3QFY25 (2QFY25: +21% YoY and +31% YoY). Domestic test prep revenue increased by 17% YoY and accounted for c.3% of total revenue in 3QFY25. New educational business initiatives revenue grew by 35% YoY in 3QFY25 (c.27% of total revenue), with non-academic tutoring course enrolment up by 15% YoY to 408k. The number of active paid users of intelligent learning system and devices was up by 64% YoY to 309k in 3QFY25. For 4QFY25E, we expect overseas-related/domestic test prep/new educational initiatives/high-school tutoring revenue to grow by 8%/19%/30%/16% YoY respectively. Overseas-related business could further decelerate due to macro uncertainty and geopolitical tension.
- **Investing in AI to improve student experience and enhance efficiency.** Leveraging open-source LLMs and self-developed AI technology, the company has developed AI-powered tools like essay grading and error correction notebooks, which improve students' performance and save time for teachers and parents. The company has also built an AI-empowered FAQ knowledge database, which reduces the training costs for salespersons and enhance the sales efficiency.
- **Expect margin to expand YoY in 4QFY25 and FY26E.** Excluding the impact from East Buy, non-GAAP OPM was down by 1.8ppt YoY to 13.3% in 3QFY25, mainly attributable to the slowdown in revenue growth of high-margin overseas-related businesses and the investment in tourism business. That said, management expects the margin to expand YoY in 4QFY25E and FY26E, as the company implements cost reduction initiatives and enhances facility utilization. The company has also accelerated its pace of share repurchase, with total share repurchase amount up to US\$153mn from 20 Jan to 22 Apr 2025 (2% of market cap).

### Earnings Summary

(YE 31 May)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	2,998	4,314	4,816	5,445	6,039
YoY growth (%)	(3.5)	43.9	11.7	13.1	10.9
Adjusted net profit (US\$ mn)	258.9	381.1	431.4	576.4	763.5
EPS (Adjusted) (US\$)	1.54	2.30	2.67	3.57	4.73
Consensus EPS (US\$)	1.54	2.30	2.98	3.68	4.56
P/E (x)	41.7	23.6	17.9	13.6	10.6

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** US\$76.00  
 (Previous TP) US\$80.00  
**Up/Downside** 72.4%  
**Current Price** US\$44.09

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### Stock Data

Mkt Cap (US\$ mn)	7,111.3
Avg 3 mths t/o (US\$ mn)	62.7
52w High/Low (US\$)	88.62/41.22
Total Issued Shares (mn)	161.3

Source: FactSet

### Shareholding Structure

Minhong Yu	12.2%
GIC	5.1%

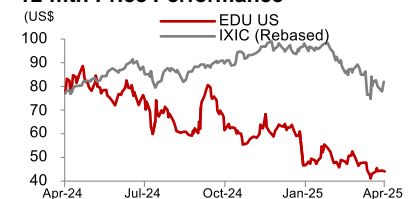
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-7.3%	0.9%
3-mth	-5.6%	12.7%
6-mth	-27.9%	-20.6%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

## Business forecasts update and valuation

Figure 1: New Oriental: forecast revision

US\$mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	4,816.2	5,444.8	6,038.6	5,080.9	6,027.0	6,725.3	-5.2%	-9.7%	-10.2%
Gross profit	2,668.9	3,037.2	3,407.5	2,721.0	3,312.0	3,769.3	-1.9%	-8.3%	-9.6%
Non-GAAP net income	431.4	576.4	763.5	439.4	612.4	829.8	-1.8%	-5.9%	-8.0%
Non-GAAP EPS (US\$)	2.7	3.6	4.7	2.7	3.7	5.0	0.8%	-3.4%	-5.6%
Gross margin	55.4%	55.8%	56.4%	53.6%	55.0%	56.0%	1.9 ppt	0.8 ppt	0.4 ppt
Operating margin	9.9%	12.0%	13.9%	9.1%	11.5%	13.5%	0.9 ppt	0.5 ppt	0.4 ppt
Non-GAAP net margin	9.0%	10.6%	12.6%	8.6%	10.2%	12.3%	0.3 ppt	0.4 ppt	0.3 ppt

Source: CMBIGM estimates

Figure 2: New Oriental: CMBIGM estimates vs consensus

US\$mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	4,816.2	5,444.8	6,038.6	4,971.1	5,836.7	6,788.5	-3.1%	-6.7%	-11.0%
Gross Profit	2,668.9	3,037.2	3,407.5	2,666.7	3,164.7	3,710.8	0.1%	-4.0%	-8.2%
Non-GAAP Net Income	431.4	576.4	763.5	480.8	593.8	735.7	-10.3%	-2.9%	3.8%
Non-GAAP EPS (US\$)	2.7	3.6	4.7	3.0	3.7	4.6	-10.3%	-2.9%	3.8%
Gross Margin	55.4%	55.8%	56.4%	53.6%	54.2%	54.7%	1.8 ppt	1.6 ppt	1.8 ppt
Operating Margin	9.9%	12.0%	13.9%	10.1%	11.2%	12.1%	-0.2 ppt	0.8 ppt	1.8 ppt
Non-GAAP net margin	9.0%	10.6%	12.6%	9.7%	10.2%	10.8%	-0.7 ppt	0.4 ppt	1.8 ppt

Source: CMBIGM estimates, Bloomberg

## Valuation

1) US\$73.7 for the educational and consulting business (96% of total valuation), based on 28x FY25E PE, which is on par with the educational sector average.

2) US\$1.2 for East Buy (2% of total valuation), based on 9x FY25E PE, which is on par with the e-commerce sector average.

3) US\$1.1 for the Tourism and others business (2% of total valuation), based on 10x FY25E PE.

Figure 3: New Oriental: SOTP valuation

SOTP valuation							
(US\$mn)	Revenue (FY25E)	Revenue CAGR (FY25-27E)	Earnings (FY25E)	PE (x)	% Holding	Valuation	As % of total Valuation
Educational & consulting	3,891.4	17%	469.3	28	100%	13,140.4	97%
East Buy	583.1	-12%	44.6	9	55%	220.4	2%
Tourism and others	341.7	20%	19.7	10	100%	197.4	1%
<b>Total valuation (US\$mn)</b>						<b>13,558.2</b>	
Holdco discount						10%	
<b>Total valuation (US\$mn)</b>						<b>12,202.4</b>	
No. of ADS						161.3	
<b>Valuation per ADS (US\$)</b>						<b>76.0</b>	

Source: Company data, CMBIGM estimates

**Figure 4: Education: valuation comparison**

Companies	Ticker	Price (LC)	2025E	PE (x) 2026E	2027E	2025E	PS (x) 2026E	2027E	EPS CAGR 25-27E
Education									
TAL	TAL US	10.8	34.6	23.0	16.1	2.9	2.1	1.7	47%
Youdao	DAO US	8.2	41.9	26.4	17.2	1.2	1.0	0.9	56%
Gaotu	GOTU US	2.7	NA	NA	32.4	0.8	0.7	0.6	NA
Fenbi	2469 HK	2.1	8.8	7.6	10.2	1.5	1.4	1.4	-8%
Average			28.4	19.0	19.0	1.6	1.3	1.1	
E-commerce									
Alibaba	BABA US	115.9	11.6	10.3	9.4	1.9	1.8	1.7	11%
Pinduoduo	PDD US	33.7	7.3	6.8	6.4	0.3	0.3	0.3	7%
VIPShop	VIPS US	12.8	5.5	5.1	4.9	0.4	0.4	0.4	5%
Kuaishou	1024 HK	50.1	10.2	8.7	7.3	1.5	1.4	1.3	18%
Average			8.5	7.6	6.8	1.2	1.1	1.0	

Source: Bloomberg, CMBIGM

Note: data are as of 22 Apr 2025

## Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Revenue	3,105	2,998	4,314	4,816	5,445	6,039
Cost of goods sold	(1,754)	(1,409)	(2,051)	(2,147)	(2,408)	(2,631)
Gross profit	1,351	1,588	2,263	2,669	3,037	3,407
Operating expenses	(2,333)	(1,398)	(1,912)	(2,191)	(2,385)	(2,566)
Selling expense	(467)	(445)	(661)	(786)	(860)	(936)
Admin expense	(1,867)	(954)	(1,252)	(1,405)	(1,525)	(1,630)
Operating profit	(983)	190	350	477	652	841
Other income	(35)	119	124	99	0	0
Gain/loss on financial assets at FVTPL	(15)	(1)	19	(10)	0	0
Pre-tax profit	(1,032)	309	494	567	652	841
Income tax	(136)	(66)	(110)	(153)	(130)	(168)
Others	(51)	(7)	(59)	(17)	0	0
After tax profit	(1,220)	235	325	397	522	673
Minority interest	33	(58)	(16)	0	0	0
Net profit	(1,188)	177	310	397	522	673
Adjusted net profit	(1,046)	259	381	431	576	763

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 May (US\$ mn)						
Current assets	4,474	4,414	5,389	5,416	5,737	6,331
Cash & equivalents	1,149	1,663	1,389	1,338	1,595	2,126
Restricted cash	0	111	177	177	177	177
Account receivables	16	33	30	66	75	83
Inventories	28	53	93	94	119	144
Prepayment	215	211	309	351	382	411
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	2,337	2,552	2,782
PP&E	403	360	508	703	917	1,147
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	7,753	8,289	9,113
Current liabilities	1,710	2,251	3,001	3,172	3,323	3,479
Account payables	22	70	106	112	132	151
Tax payable	76	118	140	153	130	168
Lease liabilities	169	156	200	200	200	200
Contract liabilities	933	1,338	1,781	1,831	1,906	1,933
Accrued expenses	510	569	775	877	954	1,027
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	3,654	3,804	3,961
Total shareholders equity	3,706	3,604	3,776	3,827	4,211	4,879
Minority interest	88	210	273	273	273	273
Total equity and liabilities	6,035	6,392	7,532	7,753	8,289	9,113

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 May (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	(1,032)	309	494	567	652	841
Depreciation & amortization	192	117	101	46	58	72
Tax paid	(136)	(66)	(110)	(153)	(130)	(168)
Change in working capital	(1,154)	538	519	92	87	94
Others	850	74	119	20	54	91
<b>Net cash from operations</b>	<b>(1,280)</b>	<b>971</b>	<b>1,123</b>	<b>572</b>	<b>721</b>	<b>929</b>
<b>Investing</b>						
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)	69	37	8
<b>Net cash from investing</b>	<b>1,169</b>	<b>(37)</b>	<b>(1,154)</b>	<b>(241)</b>	<b>(272)</b>	<b>(302)</b>
<b>Financing</b>						
Net borrowings	0	0	0	0	0	0
Share repurchases	0	(192)	(63)	(383)	(192)	(96)
Others	(231)	(55)	(97)	0	0	0
<b>Net cash from financing</b>	<b>(231)</b>	<b>(247)</b>	<b>(160)</b>	<b>(383)</b>	<b>(192)</b>	<b>(96)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,612	1,149	1,663	1,389	1,338	1,595
Exchange difference	(121)	(61)	(25)	0	0	0
<b>Cash at the end of the year</b>	<b>1,149</b>	<b>1,774</b>	<b>1,447</b>	<b>1,338</b>	<b>1,595</b>	<b>2,126</b>
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 May</b>						
Revenue	(27.4%)	(3.5%)	43.9%	11.7%	13.1%	10.9%
Gross profit	(39.7%)	17.6%	42.5%	18.0%	13.8%	12.2%
Operating profit	na	na	84.4%	36.3%	36.6%	28.9%
Net profit	na	na	74.6%	28.3%	31.4%	28.9%
Adj. net profit	na	na	47.2%	13.2%	33.6%	32.5%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 May</b>						
Gross profit margin	43.5%	53.0%	52.5%	55.4%	55.8%	56.4%
Operating margin	(31.6%)	6.3%	8.1%	9.9%	12.0%	13.9%
Adj. net profit margin	(33.7%)	8.6%	8.8%	9.0%	10.6%	12.6%
Return on equity (ROE)	(27.6%)	4.9%	8.4%	10.4%	13.0%	14.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 May</b>						
Current ratio (x)	2.6	2.0	1.8	1.7	1.7	1.8
Receivable turnover days	1.9	4.0	2.5	5.0	5.0	5.0
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 May</b>						
P/E	ns	41.7	23.6	17.9	13.6	10.6
P/E (diluted)	ns	41.9	23.7	18.0	13.7	10.6
P/B	2.0	2.1	1.9	1.9	1.7	1.5

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

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