

## New Oriental (EDU US / 9901 HK) Business recovery to support growth

- 1Q24 revenue growth reached 47.7% YoY, supported by the strong growth of various business segments; we revise up revenue growth projection for FY24E-26E
- Margin profile would continue to improve on business recovery
- Maintain **BUY**; TP represents 29.45x/21.22x 24E/25E P/E, or 3.10x/2.71x 24E/25E P/B

**Solid segment performance to support growth.** 1Q24 revenue grew 47.7% YoY, with various business segments showing strong growth. Overseas test preparation, overseas study consulting businesses, domestic test preparation business targeting adults and university students, and new educational business initiatives recorded revenue growth of ~51.7% YoY, ~26.6% YoY, ~25.5% YoY, and 103.3% YoY in 1Q24. The low base in 1Q23, during which the Group recorded a revenue decline of 43.1% YoY, was partly the reason for the high growth in 1Q24, and it is evident that the Group's new educational business initiatives have made strides to become the new growth driver. In addition, EAST BUY launched its own APP and live-streaming activities on TAOBAO, realizing its multi-platform strategy. We believe revenue growth would be supported by the existing education business as well as the new educational business initiatives. The Group expects 2Q24 revenue to reach US\$ 785.0mn – US\$ 804.2mn, representing an increase of 23% – 26% YoY. Based on the Group's expectation, 1H24 revenue growth would reach ~36.3% YoY – ~37.7% YoY. Due to the strong performance in 1Q24, we raise our FY24E revenue projection to US\$ 3,835mn, representing a revenue growth of 27.9% YoY. FY23-FY26E revenue CAGR is expected to be 22.8%.

**Margin profile to improve on business recovery.** OPM of the Group reached 18.6% in 1Q24 vs. 10.5% in 1Q23 mainly due to enhanced operating expenses efficiency. Selling and distribution expense-to-revenue ratio was 12.4% while general and admin. expenses-to-revenue ratio was 28.9% in 1Q24, vs. 13.3% and 34.4% in 1Q23. We maintain that margin profile will continue to improve for the rest of FY24E as business segments continue to recover. We expect OPM and NPM (to shareholders of the Company) to reach 13.5% and 14.3% in FY24E.

**Upgrade to BUY; TP at US\$ 75.6/HK\$ 59.2.** 1Q24 results show recovery of existing business and the Group's success in cultivating new growth drivers. Maintain **BUY**. We raise our DCF-derived TP on revised revenue projections. Current TP represents 29.45x/21.22x 24E/25E P/E, or 3.10x/2.71x 24E/25E P/B.

**Risk factors:** 1) Macroeconomic risk; 2) Regulatory risk; 3) Pandemic risk; 4) Demographic risk; 5) Rapidly changing industry; 6) Education quality risk; 7) Expansion risk; 8) Seasonality of business; 9) Concentration risk; 10) Non-GAAP financial metrics; 11) Lack of dividend payout; 12) EPS dilution from new share issuance and share split.

### Results and Valuation

FY ended May 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	3,105	2,998	3,835	4,767	5,550
Chg (% YoY)	(27.4)	(3.5)	27.9	24.3	16.4
Net profit (US\$ mn) <sup>(1)</sup>	(1,188)	177	424	589	647
Chg (% YoY)	(455.2)	(114.9)	139.1	38.8	10.0
EPS (US\$)	(0.70)	0.11	0.26	0.36	0.39
Chg (% YoY)	(444.5)	(115.7)	133.5	38.8	10.0
BVPS (US\$)	2.2	2.1	2.4	2.8	3.2
Chg (% YoY)	(26.8)	(1.7)	13.6	14.6	14.0
P/E (x) – US	(9.49)	60.38	25.86	18.63	16.94
P/E (x) – HK	(9.50)	60.47	25.90	18.66	16.97
P/B (x) – US	3.04	3.09	2.72	2.38	2.08
P/B (x) – HK	3.05	3.10	2.73	2.38	2.09
ROAA (%)	(14.7)	3.8	6.6	7.3	7.0
ROAE (%)	(27.6)	4.9	11.1	13.6	13.1
DPS (US\$)	0	0	0	0	0
Yield (%) - US	0.0	0.0	0.0	0.0	0.0
Yield (%) - HK	0.0	0.0	0.0	0.0	0.0

Source(s): The Group, ABCI Securities estimates

## Company Report Nov 3, 2023

Rating (US): BUY  
Rating (HK): BUY  
TP (US): US\$ 75.6  
TP (HK): HK\$ 59.2

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Price (US/HK)	US\$ 66.42/HK\$ 52.05
Est. price return (US/HK)	13.9%/13.7%
Est. dividend yield (US/HK)	0%/0%
Est. total return (US/HK)	13.9%/13.7%
Last Rating & TP (US/HK)	BUY; US\$65.8/ HK\$51.3
Previous Report Date	Aug 3, 2023

Source(s): Bloomberg, ABCI Securities estimate

### Key Data

52Wk H/L (US\$) (US shr)	69.97/24.17
52Wk H/L (HK\$) (HK shr)	52.95/18.4
Total issued shares (mn)	1,655.1
Issued US shr (mn)	1,645.3
Issued HK shr(mn)	9.8
US-shr market cap (US\$ mn)	10.93
H-shr market cap (HK\$ mn)	510
3-mth avg daily turnover (US\$ mn) (US shr)	82.4
Avg daily turnover since IPO (HK\$ mn) (HK shr)	127.3
Major shareholder(s) (%):	
Minhong Yu	12.2

Source(s): Bloomberg, ABCI Securities

### Price performance – US (%)

	Absolute	Relative*
1-mth	13.1	12.4
3-mth	18.5	24.2
6-mth	49.8	46.2

\*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

### Price performance – HK (%)

	Absolute	Relative*
1-mth	9.1	12.4
3-mth	18.4	32.3
6-mth	47.5	60.8

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

- 1) refers to net profit to shareholders of the Company;
- 2) US\$/HK\$ = 7.8249;
- 3) Market data as of Nov 2, 2023;
- 4) US share price & TP are on per-ADS basis; HK share price & TP are on per-share basis; 1 ADS = 10 common shares.

**Exhibit 1: Changes in assumptions and valuations**

As of May 31	Current report		Previous report		Rationale
	FY24E	FY25E	FY24E	FY25E	
<b>Assumptions</b>					
D/E (%)	0.3	0.3	0.4	0.3	N/A
D/A (%)	0.2	0.1	0.2	0.2	
Tax rate (%)	21.1	21.7	21.1	21.6	N/A
<b>Valuations</b>					
TP (US\$)	75.6		65.8		
TP (HK\$)	59.2		51.3		Revise up TP due to higher growth and margin projections
P/E (x)	29.45	21.22	29.05	25.62	
P/B (x)	3.10	2.71	2.77	2.50	

Note: Previous report was published on Aug 3, 2023; US TP is on per-ADS basis; HK TP is on per-share basis; 1 ADS = 10 common shares

Source(s): ABCI Securities estimates

**Exhibit 2: Changes in major forecasts**

As of May 31	Current report			Previous report			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (US\$ mn)	3,835	4,767	5,550	3,585	4,276	4,778	7.0	11.5	16.2
Net profit (to owners of the Company) (US\$ mn)	424	589	647	380	431	488	11.6	36.6	32.7
EPS (US\$)	0.26	0.36	0.39	0.23	0.26	0.29	13.4	38.8	34.9

Source(s): ABCI Securities estimates

## Financial statements

### Consolidated income statement

As of May 31 (US\$ mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Net revenue</b>	<b>3,105</b>	<b>2,998</b>	<b>3,835</b>	<b>4,767</b>	<b>5,550</b>
Cost of revenue	(1,754)	(1,409)	(1,721)	(2,079)	(2,374)
<b>Gross profit</b>	<b>1,351</b>	<b>1,588</b>	<b>2,114</b>	<b>2,688</b>	<b>3,176</b>
Selling and marketing expenses	(467)	(445)	(517)	(646)	(758)
General and admin expenses	(1,867)	(954)	(1,080)	(1,355)	(1,583)
Gain/loss on disposal of subsidiaries	0	0	0	0	0
<b>Operating profit</b>	<b>(983)</b>	<b>190</b>	<b>517</b>	<b>687</b>	<b>835</b>
Other income, net	(50)	118	103	160	99
<b>Profit before tax provision and gain(loss) from investments</b>	<b>(1,032)</b>	<b>309</b>	<b>620</b>	<b>847</b>	<b>934</b>
Tax	(136)	(66)	(131)	(183)	(203)
Income/(Loss) from equity method investments	(51)	(7)	(15)	(19)	(23)
<b>Net profit</b>	<b>(1,220)</b>	<b>235</b>	<b>474</b>	<b>645</b>	<b>709</b>
- Owners	(1,188)	177	424	589	647
- MI	(33)	(58)	50	57	61
<b>Net profit per common share (US\$)</b>					
- Basic	(0.70)	0.11	0.26	0.36	0.39
- Diluted	(0.70)	0.10	0.25	0.35	0.39

Note: figures may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

### Consolidated balance sheet

As of May 31 (US\$ mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash, cash equivalents, and restricted cash	1,149	1,774	2,335	2,544	3,903
ST investments	1,902	1,478	1,231	1,134	1,079
Others	1,423	1,162	2,054	2,317	2,994
<b>Current assets</b>	<b>4,474</b>	<b>4,414</b>	<b>5,619</b>	<b>5,995</b>	<b>7,976</b>
PP&E	403	360	388	795	454
LT investments	438	400	396	359	336
Right-of-use assets	531	440	815	1,669	953
Others	189	780	772	890	903
<b>Non-current assets</b>	<b>1,561</b>	<b>1,979</b>	<b>2,372</b>	<b>3,712</b>	<b>2,646</b>
<b>Total assets</b>	<b>6,035</b>	<b>6,392</b>	<b>7,991</b>	<b>9,708</b>	<b>10,622</b>
Deferred revenue	933	1,338	1,779	1,664	2,195
Others	777	913	1,208	1,681	1,547
<b>Current liabilities</b>	<b>1,710</b>	<b>2,251</b>	<b>2,988</b>	<b>3,346</b>	<b>3,742</b>
LT borrowing	65	15	15	15	15
Deferred tax liabilities	446	288	699	1,430	1,270
Non-current lease liabilities	19	24	26	36	36
<b>Non-current liabilities</b>	<b>531</b>	<b>327</b>	<b>740</b>	<b>1,481</b>	<b>1,321</b>
Shareholders' capital	3,706	3,604	4,028	4,617	5,264
MI	88	210	236	264	295
<b>Total equity</b>	<b>3,794</b>	<b>3,815</b>	<b>4,264</b>	<b>4,881</b>	<b>5,559</b>
<b>Total liabilities and equity</b>	<b>6,035</b>	<b>6,392</b>	<b>7,991</b>	<b>9,708</b>	<b>10,622</b>

Note: figures may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

**Consolidated cash flow statement**

As of May 31 (US\$ mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Net profit	(1,220)	235	474	645	709
Depreciation and amortization	194	118	124	184	220
Change in working capital	696	538	1,548	(218)	682
Others	(951)	80	95	101	92
<b>Cash flow from operating activities</b>	<b>(1,280)</b>	<b>971</b>	<b>2,242</b>	<b>712</b>	<b>1,703</b>
Change in PP&E and land use right	(140)	(140)	(278)	(425)	(449)
Change in investments	1,430	411	251	133	78
Others	(122)	(309)	(903)	(158)	(713)
<b>Cash flow from investing activities</b>	<b>1,169</b>	<b>(37)</b>	<b>(931)</b>	<b>(450)</b>	<b>(1,083)</b>
Change in borrowing	0	0	0	0	0
Others	(231)	(247)	(784)	(56)	737
<b>Cash flow from financing activities</b>	<b>(231)</b>	<b>(247)</b>	<b>(784)</b>	<b>(56)</b>	<b>737</b>
Effect of foreign exchange rate changes	(95)	(76)	11	4	7
Net change in cash, cash equivalent, and restricted cash	(438)	611	538	210	1,364
<b>cash, cash equivalent, and restricted cash - end</b>	<b>1,195</b>	<b>1,805</b>	<b>2,343</b>	<b>2,553</b>	<b>3,917</b>

Note: figures may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

**Key operating and financial ratios**

As of May 31	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (YoY %)</b>					
Net revenue	(27.4)	(3.5)	27.9	24.3	16.4
Gross profit	(39.7)	17.6	33.1	27.1	18.2
Operating profit	(937.8)	(119.3)	171.9	33.0	21.5
Net profit (to shareholders of the Company)	(455.2)	(114.9)	139.1	38.8	10.0
<b>Profitability ratios (%)</b>					
GPM	43.5	53.0	55.1	56.4	57.2
OPM	(31.6)	6.3	13.5	14.4	15.1
NPM (to owners of the Company)	(39.3)	7.9	12.4	13.5	12.8
Non-GAAP OPM	(27.4)	9.3	14.8	15.6	16.3
Non-GAAP NPM (to owners of the Company)	(33.7)	8.6	12.4	13.6	12.9
<b>Return ratios (%)</b>					
ROAA	(14.7)	3.8	6.6	7.3	7.0
ROAE	(27.6)	4.9	11.1	13.6	13.1
<b>Liquidity ratio (x)</b>					
Current ratio	2.6	2.0	1.9	1.8	2.1
Cash ratio	1.3	1.2	1.4	1.3	1.7
<b>Leverage ratios (%)</b>					
Total debt to Equity	1.7	0.4	0.3	0.3	0.3
Total debt to Total assets	1.1	0.2	0.2	0.2	0.1
Net debt/(cash) to Equity	(58.6)	(68.5)	(95.7)	(91.1)	(117.3)
Net debt/(cash) to Total assets	(36.8)	(40.9)	(51.0)	(45.8)	(61.4)

Note: figures may not sum up due to rounding

Source(s): The Group, ABCI Securities estimates

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Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $\sim 9\%$ )
Hold	- Market return rate ( $\sim 9\%$ ) $\leq$ Stock return rate $<$ Market return rate ( $\sim +9\%$ )
Sell	Stock return $<$ - Market return ( $\sim 9\%$ )

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2006 (For reference: HSI total return index 2006-22 averaged at 8.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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