



New Oriental (EDU US / 9901 HK) New business initiatives to support growth

- 2Q24 revenue growth was strong, supported by robust growth in major business segments; we believe new business initiatives would sustain growth momentum
- Margin profile to be impacted by costs of expansion under new business initiatives
- Maintain **BUY**; TP represents 36.52x/26.65x 24E/25E P/E, or 3.48x/3.08x 24E/25E P/B

New business initiatives to sustain growth momentum. 2Q24 revenue grew by 36.3% YoY and showed strong subsegment growth. Most notably, revenue of new education business initiatives jumped 68.3% YoY, the highest among subsegments. The Group's business strategies continue to capture new opportunities and the strong demand in China's education industry. In addition, East Buy's revenue rose 34.4% YoY. According to the Group, 3Q24 revenue is expected to be in the range of US\$ 1,070.9mn to US\$ 1,093.5mn, representing a YoY growth of 42% – 45%. Based on the Group's expectation, 9M24 revenue would increase 42% - 43% YoY. Based on the 2Q24 growth performance, the Group's guidance on 3Q24, and the increasing contribution from the new education business initiatives and East Buy, we revise up revenue growth in FY24E to 37.1% YoY, meaning 2H24 revenue would grow 32.6% YoY. FY23-26E revenue CAGR is also revised up to 27.1%.

Margin profile takes time to recover. The Group's strong revenue growth came at the expense of lower margins as it ventures into new businesses, such as East Buy's private-label products and livestreaming e-commerce business. OPM, and NPM⁽¹⁾ both decreased to the single-digit level in 2Q24. We expect overall margins to be pressured in the short term as the Group keeps exploring other business opportunities. As a result, we revise down OPM and NPM⁽¹⁾ to 11.6%, and 10.4% for FY24E, meaning 2H24 OPM and NPM⁽¹⁾ would be 11.7% and 8.7%. Non-GAAP OPM and Non-GAAP NPM⁽¹⁾ are expected to be 12.9% and 10.6% in FY24E. However, we are optimistic on the medium term profit outlook as the aforementioned cost pressures is expected to decrease starting in FY26E, for which we revise up net profit⁽¹⁾ projection by 0.5% compared to previous report.

Maintain BUY; TP at US\$ 84.6/HK\$66.1. We believe strong revenue growth would continue to solidify the Group's leadership position in the education industry. The success of East Buy would also help diversify its business portfolio. Maintain **BUY**. Current TP represents 36.52x/26.65x 24E/25E P/E, or 3.48x/3.08x 24E/25E P/B.

Risk factors: 1) Macroeconomic risk; 2) Regulatory risk; 3) Demographic risk; 4) Education quality risk; 5) Seasonality of business; 6) Concentration risk; 7) Expansion into non-education businesses; 8) Non-GAAP financial metrics; 9) Lack of dividend payout; 10) EPS dilution from new share issuance and share split.

Results and Valuation

As of May 31	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	3,105	2,998	4,111	5,198	6,148
Chg (% YoY)	(27.4)	(3.5)	37.1	26.5	18.3
Net profit (US\$ mn) ⁽¹⁾	(1,188)	177	383	524	651
Chg (% YoY)	(455.2)	(114.9)	115.7	37.0	24.2
EPS (US\$)	(0.70)	0.11	0.23	0.32	0.39
Chg (% YoY)	(444.5)	(115.7)	110.6	37.0	24.2
BVPS (US\$)	2.2	2.1	2.4	2.8	3.1
Chg (% YoY)	(26.8)	(1.7)	13.3	13.0	14.3
P/E (x) – US	(10.94)	69.61	33.05	24.12	19.43
P/E (x) – HK	(10.78)	68.62	32.58	23.78	19.15
P/B (x)– US	3.51	3.57	3.15	2.78	2.44
P/B (x) – HK	3.46	3.51	3.10	2.74	2.40
ROAA (%)	(14.7)	3.8	6.1	6.8	7.2
ROAE (%)	(27.6)	4.9	10.0	12.2	13.4
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 Jan 31, 2024

Rating (US/ HK): BUY/ BUY
TP (US/HK): US\$ 84.6/ HK\$ 66.1

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Price (US/HK)	US\$ 76.57/HK\$ 59.0
Est. price return (US/HK)	10.5%/12.1%
Est. dividend yield (US/HK)	0%/0%
Est. total return (US/HK)	10.5%/12.1%
Last Rating & TP (US/HK)	BUY; US\$75.6/ HK\$59.2
Previous Report Date	Nov 3, 2023

Source(s): Bloomberg, ABCI Securities estimate

Key Data

52Wk H/L (US\$) (US shr)	83.73/33.98
52Wk H/L (HK\$) (HK shr)	65.85/26.3
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)	12.60
H-shr market cap (HK\$ mn)	578
3-mth avg daily turnover (US\$ mn) (US shr)	136.0
Avg daily turnover since IPO (HK\$ mn) (HK shr)	221.8
Major shareholder(s) (%): Minhong Yu	3.2

Source(s): Bloomberg, ABCI Securities

Price performance – US (%)

	Absolute	Relative*
1-mth	8.4	3.0
3-mth	17.3	18.2
6-mth	36.5	7.5

*Relative to S&P 500 Index

Source(s): Bloomberg, ABCI Securities

Price performance – HK (%)

	Absolute	Relative*
1-mth	3.9	11.7
3-mth	14.5	24.2
6-mth	34.1	55.2

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Note:

- refers to net profit to shareholders of the Company;
- US\$/HK\$= 7.8160;
- Market data as of Jan 30, 2024;
- 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	
Assumptions					
D/E (%)	0.3	0.3	0.3	0.3	N/A
D/A (%)	0.2	0.1	0.2	0.2	N/A
Tax rate (%)	21.1	21.7	21.1	21.7	N/A
Valuations					
TP (US\$)	84.6		75.6		
TP (HK\$)	66.1		59.2		Revise up TP due to higher revenue growth projections and higher profit projection in FY26E
P/E (x)	36.52	26.65	29.45	21.22	
P/B (x)	3.48	3.08	3.10	2.71	

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

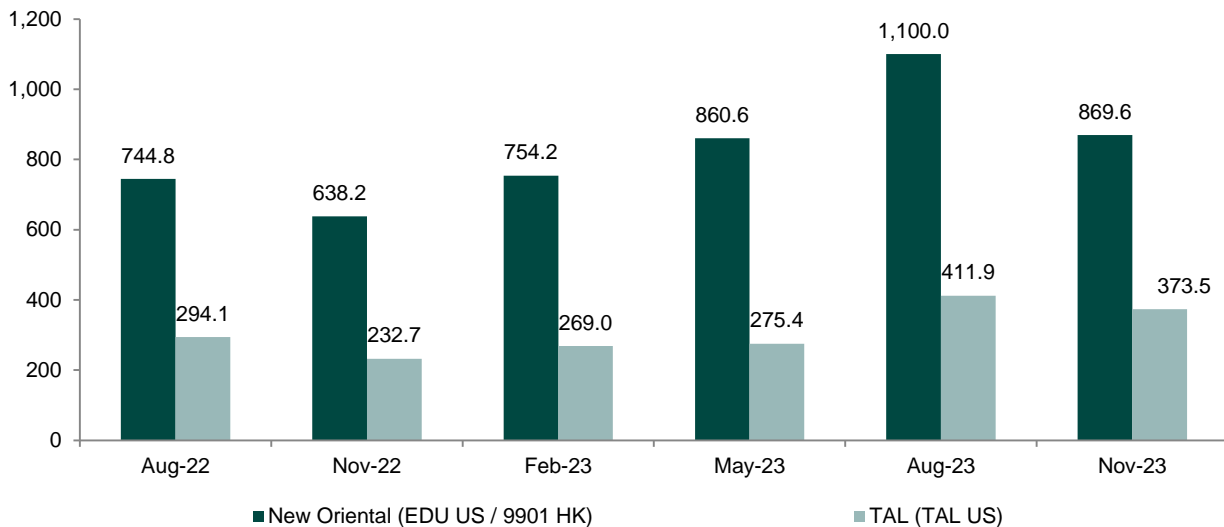
Source(s): The Group, ABCI Securities estimates

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)	4,111	5,198	6,148	3,835	4,767	5,550	7.2	9.1	10.8
Net profit (to shareholders of the Company) (US\$ mn)	383	524	651	424	589	647	(9.8)	(11.0)	0.5
EPS - basic (US\$)	0.23	0.32	0.39	0.26	0.36	0.39	(9.8)	(11.0)	0.5

Source(s): ABCI Securities estimates

Exhibit 3: Revenue comparison with TAL Education Group (TAL) (US\$ mn)

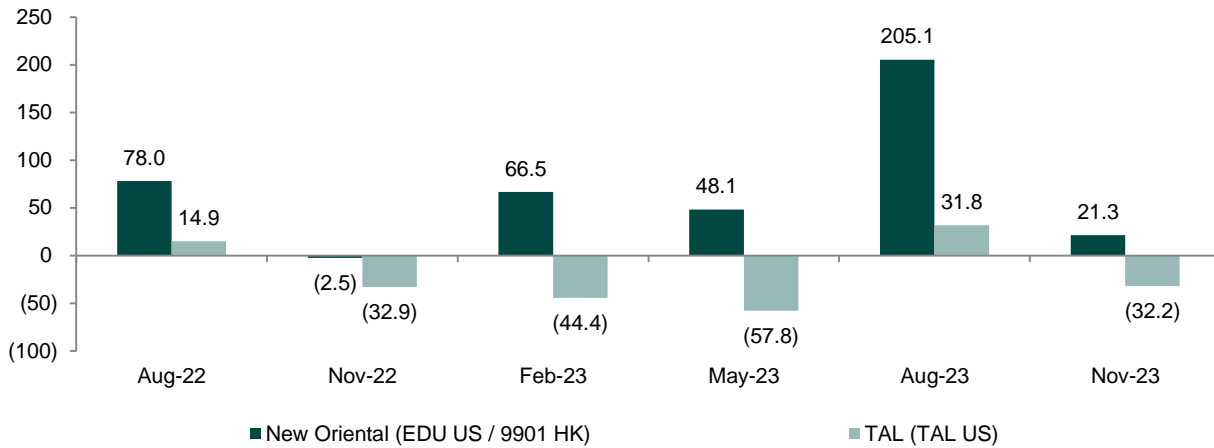


Note: Figures are for each quarter ended on the month indicated.

Source(s): Companies, ABCI Securities



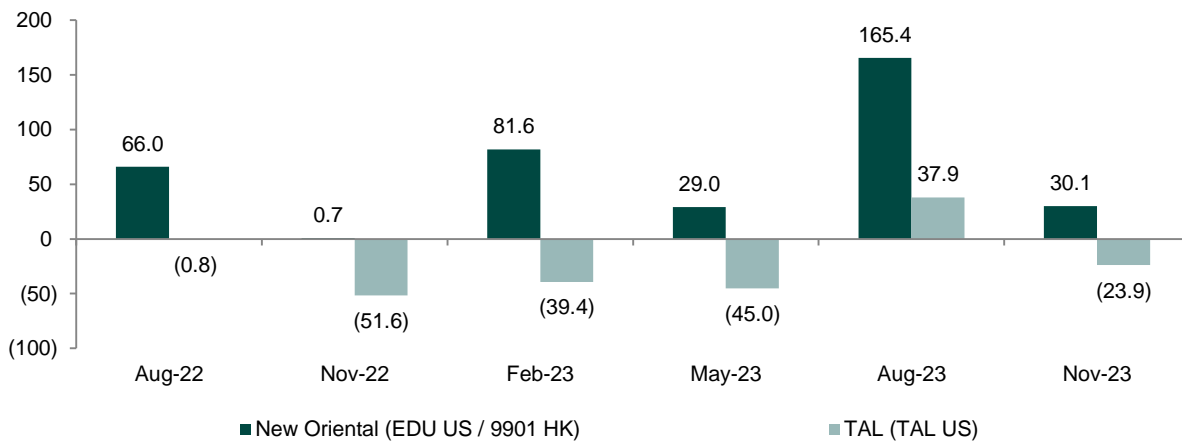
Exhibit 4: Operating profit comparison with TAL Education Group (TAL) (US\$ mn)



Note: Figures are for each quarter ended on the month indicated.

Source(s): Companies, ABCI Securities

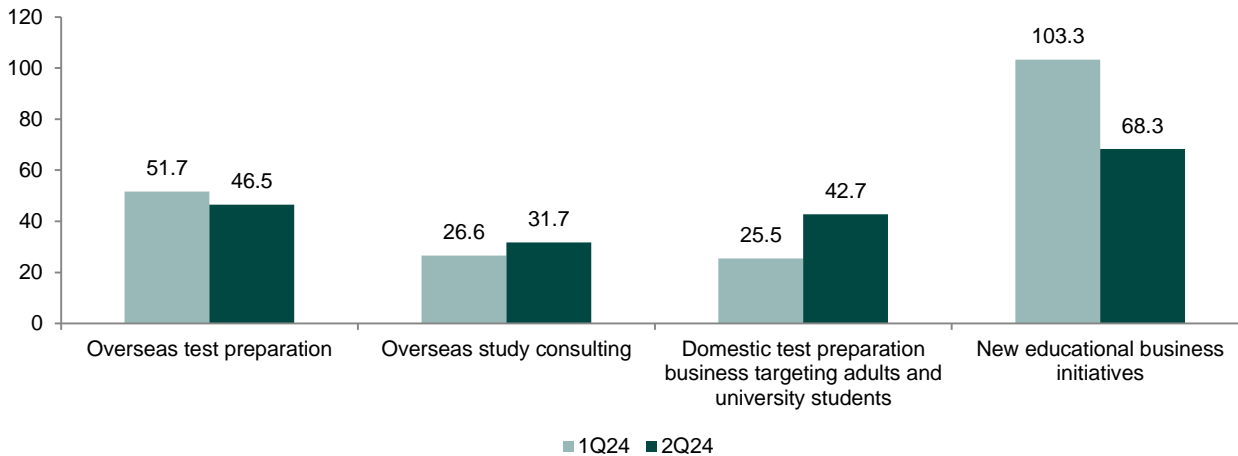
Exhibit 5: Net profit* comparison with TAL Education Group (TAL) (US\$ mn)



Note: Net profit refers net profit attributable to shareholders of the Company; figures are for each quarter ended on the month indicated.

Source(s): Companies, ABCI Securities

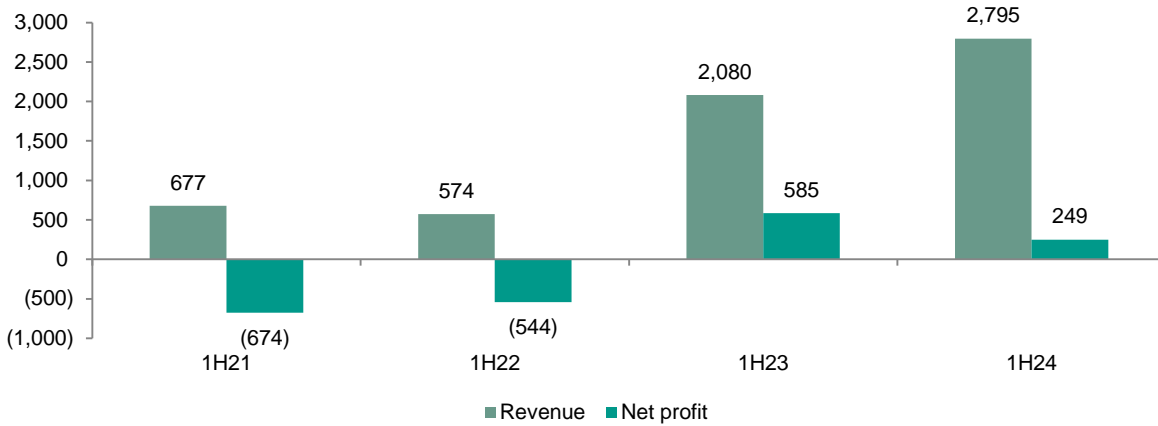
Exhibit 6: Revenue growth of major education businesses (YoY %)



Source(s): the Group, ABCI Securities



Exhibit 7: East Buy (1797 HK) revenue and net profit* (RMB mn)



Note: Net profit refers to net profit attributable to shareholders of the Company; FY as of May 31

Source(s): East Buy, ABCI Securities

Exhibit 8: Major operating metrics of East Buy (1797 HK)

As of May 31	1H23	1H24
GMV (RMB bn)	4.8	5.7
Number of followers on Douyin (million)	35.2	45.8
Number of paid orders on Douyin (million)	70.2	59.6

Source(s): East Buy, ABCI Securities

Exhibit 9: Quarterly performance

As of May 31	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Revenue and profit (US\$ mn, excluding per ADS amounts that are in US\$)						
Net revenue	744.8	638.2	754.2	860.6	1,100.0	869.6
Operating profit/(loss)	78.0	(2.5)	66.5	48.1	205.1	21.3
Non-GAAP operating profit/(loss)	97.0	16.3	87.9	78.6	244.8	50.9
Net profit	66.0	0.7	81.6	29.0	165.4	30.1
Non-GAAP net profit	83.7	17.8	95.4	62.1	189.3	50.2
Net profit per ADS - basic	0.39	0.00	0.49	0.18	1.00	0.18
Growth (YoY %)						
Net revenue	(43.1)	(3.1)	22.8	64.2	47.7	36.3
Operating profit/(loss)	140.5	(99.7)	147.1	145.5	163.0	957.8
Non-GAAP operating profit/(loss)	28.3	102.2	179.0	202.2	152.2	212.2
Net profit	9.0	100.1	166.7	115.3	150.6	4007.4
Non-GAAP net profit	(24.7)	102.0	199.9	138.7	126.2	182.6
Net profit per ADS - basic	8.7	100.1	167.8	115.7	158.1	4092.1
Margins (%)						
OPM	10.5	(0.4)	8.8	5.6	18.6	2.5
Non-GAAP OPM	13.0	2.6	11.7	9.1	22.3	5.9
NPM	8.9	0.1	10.8	3.4	15.0	3.5
Non-GAAP NPM	11.2	2.8	12.6	7.2	17.2	5.8

Note:

1) net profit and per ADS measures are attributable to shareholders of the Company;

2) 1ADS = 10 common shares;

3) Non-GAAP financial measure definition: net income excluding share-based compensation expenses and (loss) / gain from fair value change of investments, operating income excluding share-based compensation expenses, operating cost and expenses excluding share-based compensation expenses, general and administrative expenses excluding share-based compensation expenses, operating margin excluding share-based compensation expenses, and basic and diluted net income per ADS and per share excluding share-based compensation expenses and (loss) / gain from fair value change of investments.

Source(s): the Group, ABCI Securities



Financial statements

Consolidated income statement

As of May 31 (US\$ mn, except per share data)	FY22A	FY23A	FY24E	FY25E	FY26E
Net revenue	3,105	2,998	4,111	5,198	6,148
Cost of revenue	(1,754)	(1,409)	(1,922)	(2,398)	(2,783)
Gross profit	1,351	1,588	2,189	2,800	3,365
Selling and marketing expenses	(467)	(445)	(554)	(704)	(839)
General and admin expenses	(1,867)	(954)	(1,158)	(1,477)	(1,754)
Gain/loss on disposal of subsidiaries	0	0	0	0	0
Operating profit	(983)	190	477	619	772
Other income, net	(50)	118	84	136	158
Profit before tax provision and gain(loss) from investments	316	(1,032)	309	561	755
Tax	(136)	(66)	(118)	(163)	(200)
Income/(Loss) from equity method investments	(51)	(7)	(15)	(17)	(17)
Net profit	(1,220)	235	428	575	712
- Owners	(1,188)	177	383	524	651
- MI	(33)	(58)	45	51	62
Net profit per common share/ADS (US\$)					
- Basic	(0.70)	0.11	0.23	0.32	0.39
- Diluted	(0.70)	0.10	0.23	0.31	0.39

Note: Each ADS represents one common share; 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	1,763	2,394	2,998
ST investments	1,902	1,478	1,725	1,759	1,825
Others	1,423	1,162	1,738	2,258	2,802
Current assets	4,474	4,414	5,227	6,411	7,625
PP&E	403	360	524	676	719
LT investments	438	400	396	359	336
Right-of-use assets	531	440	576	710	755
Others	189	780	945	1,013	1,118
Non-current assets	1,561	1,979	2,442	2,757	2,927
Total assets	6,035	6,392	7,668	9,168	10,552
Deferred revenue	933	1,338	1,670	2,339	2,756
Others	777	913	1,275	1,373	1,621
Current liabilities	1,710	2,251	2,944	3,712	4,377
LT borrowing	65	15	15	15	15
Deferred tax liabilities	446	288	367	541	575
Non-current lease liabilities	19	24	30	38	42
Non-current liabilities	531	327	411	593	631
Shareholders' capital	3,706	3,604	4,017	4,541	5,192
MI	88	210	296	321	352
Total equity	3,794	3,815	4,313	4,862	5,544
Total liabilities and equity	6,035	6,392	7,668	9,168	10,552

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	428	575	712
Depreciation and amortization	194	118	133	226	267
Change in working capital	696	538	693	741	551
Others	(951)	80	100	109	96
Cash flow from operating activities	(1,280)	971	1,354	1,650	1,627
Change in PP&E and land use right	(140)	(140)	(298)	(434)	(485)
Change in investments	1,430	411	(244)	4	(43)
Others	(122)	(309)	(473)	(475)	(455)
Cash flow from investing activities	1,169	(37)	(1,015)	(906)	(984)
Change in borrowing	0	0	0	0	0
Others	(231)	(247)	(374)	(123)	(40)
Cash flow from financing activities	(231)	(247)	(374)	(123)	(40)
Effect of foreign exchange rate changes	(95)	(76)	(1)	11	3
Net change in cash, cash equivalent, and restricted cash	267	(438)	611	(36)	633
cash, cash equivalent, and restricted cash - end	1,195	1,805	1,770	2,402	3,009

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
Growth (YoY %)					
Net revenue	(27.4)	(3.5)	37.1	26.5	18.3
Gross profit	(39.7)	17.6	37.8	27.9	20.2
Operating profit	(937.8)	(119.3)	150.9	29.7	24.7
Net profit (to shareholders of the Company)	(455.2)	(114.9)	115.7	37.0	24.2
Profitability ratios (%)					
GPM	43.5	53.0	53.3	53.9	54.7
OPM	(31.6)	6.3	11.6	11.9	12.5
NPM (to owners of the Company)	(39.3)	7.9	10.4	11.1	11.6
Non-GAAP OPM	(27.4)	9.3	12.9	13.1	13.7
Non-GAAP NPM (to owners of the Company)	(33.7)	8.6	10.6	11.3	11.8
Return ratios (%)					
ROAA	(14.7)	3.8	6.1	6.8	7.2
ROAE	(27.6)	4.9	10.0	12.2	13.4
Liquidity ratio (x)					
Current ratio	2.6	2.0	1.8	1.7	1.7
Cash ratio	1.3	1.2	1.1	1.1	1.2
Leverage ratios (%)					
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)	(71.4)	(86.0)	(94.6)
Net debt/(cash) to Total assets	(36.8)	(40.9)	(40.1)	(45.6)	(49.7)

Note:

1) Figures may not sum up due to rounding

2) Non-GAAP financial measure definition: net income excluding share-based compensation expenses and (loss) / gain from fair value change of investments, operating income excluding share-based compensation expenses, operating cost and expenses excluding share-based compensation expenses, general and administrative expenses excluding share-based compensation expenses, operating margin excluding share-based compensation expenses, and basic and diluted net income per ADS and per share excluding share-based compensation expenses and (loss) / gain from fair value change of investments.

Source(s): The Group, ABCI Securities estimates



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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim 7\%$)
Sell	Stock return $<$ - Market return ($\sim 7\%$)

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 2005 (2005-23 HSI total return index averages at 7.4%)

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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