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Exeter Student Investment Fund

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Learn. Network. Invest.

# New Oriental Education & Technology Group (NYSE:EDU)

Dayaanan 'Didi' Muthukrishnan



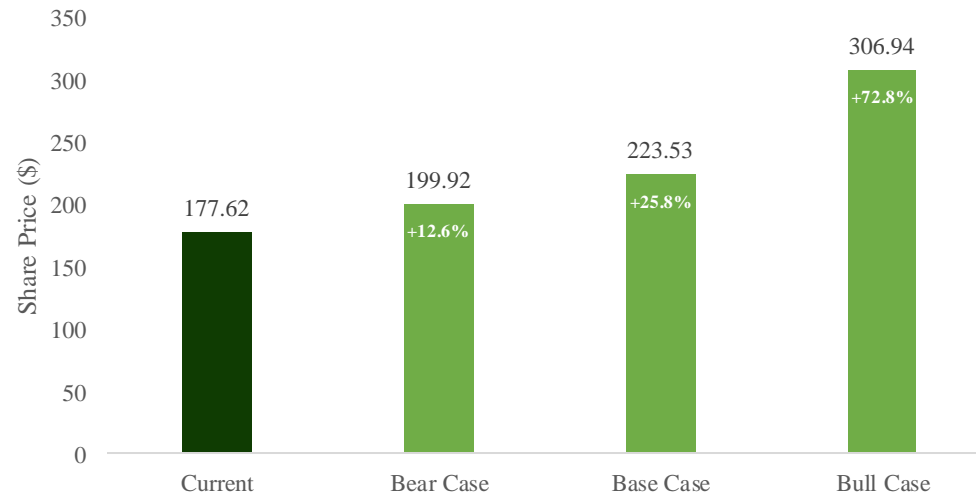
Private education provider, offering online and offline learning to 10mn+ students across various stages of their educational journey.

Current Price: \$177.62

Recommendation: (Strong) Buy

Target Price: \$223.53

Share Price Analysis

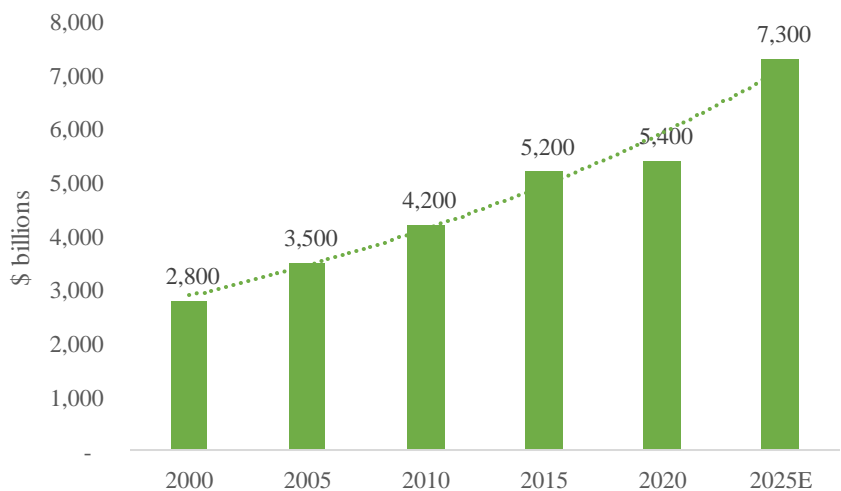


*Fundamentally strong business with a competitive advantage in a growing market, with a base case upside of 25%+*

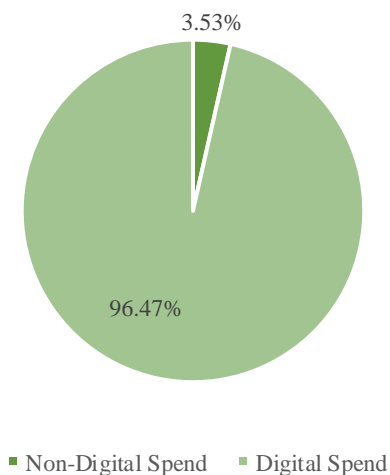
# Global Education Industry Overview



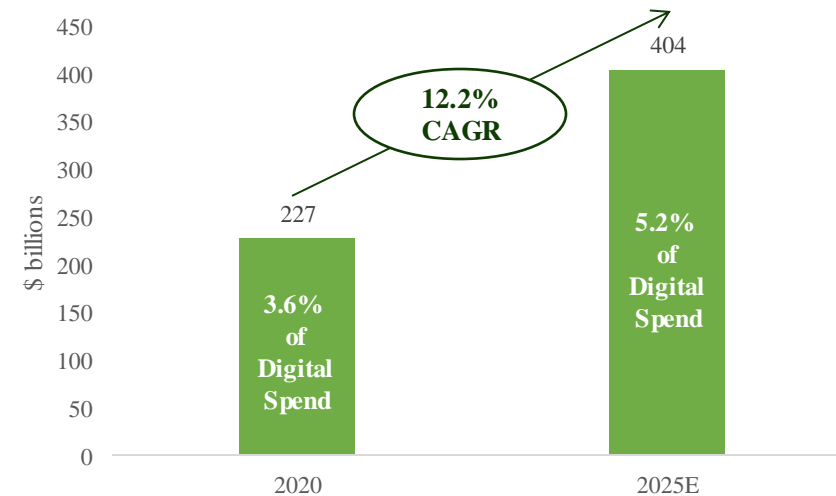
### Global Education & Training Expenditure



### Global Digital Spend in Education & Training



### Global Digital Spend Growth



*Education, specifically education technology, will experience outsized growth within the decade*

Source: Holon IQ.

# Domestic Education Industry Overview

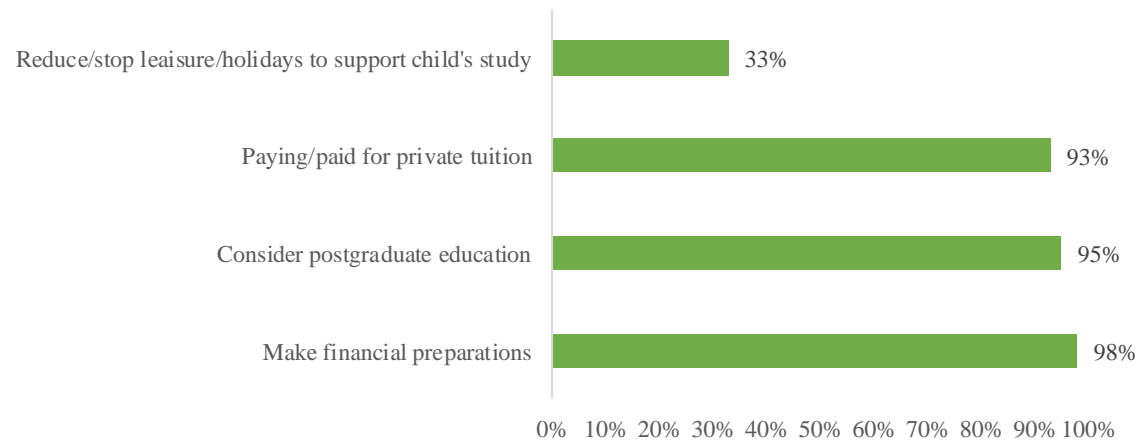


Chinese education market size of \$573bn by 2023

Chinese education market growth (CAGR) of 11.3%

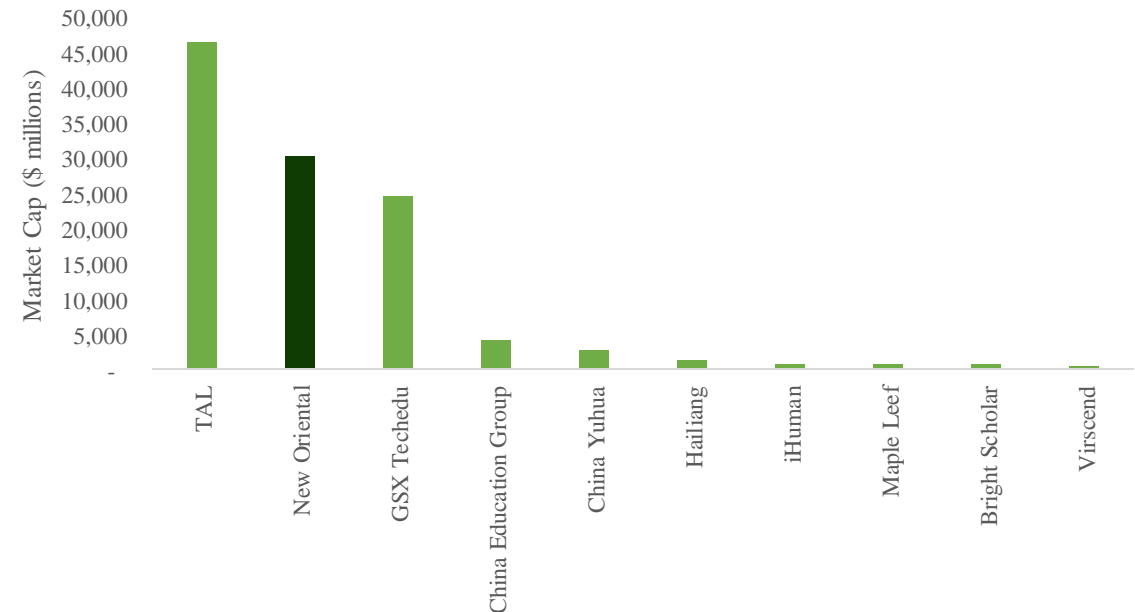
## Chinese Attitudes Towards Education

Chinese Parents' Attitudes Towards Education



## Domestic Private Education Market

Key Chinese Players



*Education is front-of-mind for Chinese parents, yet, there are only few large players in the \$238bn private sector*

Source: China Internet Watch, L.E.K. Consulting, Research and Markets.

# Company Overview



## Business Overview

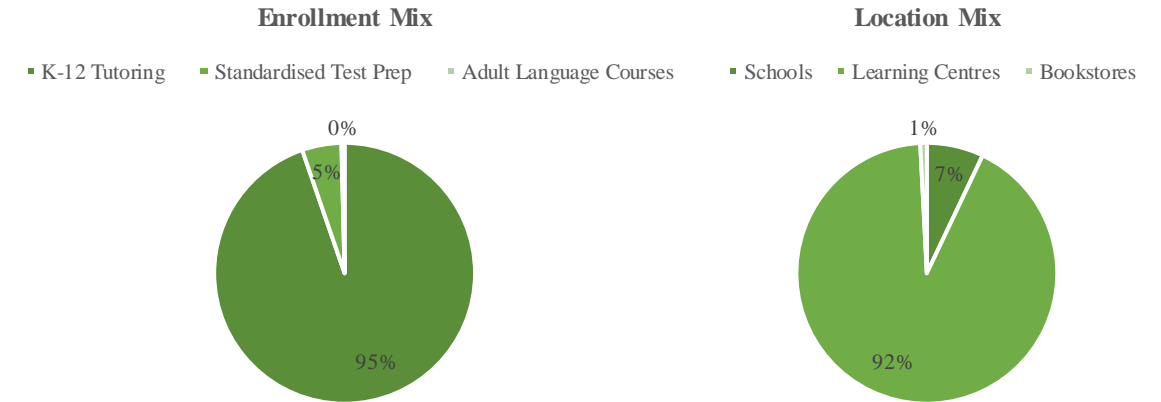
- China's **#1 private education services provider**.
- **Enrolled 62.6 million students** since founding.
- Physical network of 117 schools and 1,518 learning centres
- Presence in **103 Chinese cities**.
- Education delivery through **online and offline settings**.
- Revenues through **enrolment fees and partnership agreements**.
- Employs 90,600 employees, including **45,700 teachers**.
- **Founded in 1993** by CEO Michael Yu.
- Headquartered in Beijing, China.

## Key Figures

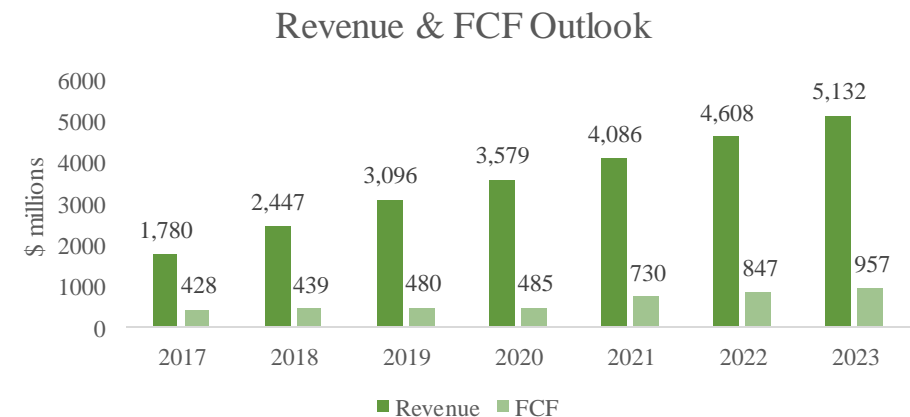
FYE 30 March	2018	2019	2020
<b>Revenue</b>	\$2,447mn	\$3,096mn	\$3,579mn
<b>EBITDA</b>	\$336mn (13.7%)	\$512mn (16.5%)	\$693mn (19.4%)
<b>EBIT</b>	\$263mn (10.7%)	\$317mn (10.2%)	\$492mn (13.7%)
<b>FCF</b>	\$562mn	\$523mn	\$495mn
<b>Market Cap</b>	\$31,602mn	<b>Enterprise Value</b>	\$29,561mn

Source: company information, Wikipedia, Yahoo Finance.

## Business Mix



## Outlook





## Macro Factors

Persistent cultural views towards education

Growing Chinese middle class

Increase in birth rates

## Company-Specific Factors

Strong customer retention

Low customer acquisition cost

Recognised brand across most of China

Continued strong growth, even in mature markets

Solid balance sheet and cash position



## Catalysts

Post-COVID learning catch-up

Online-merging-offline (OMO) strategy

Expansion into foreign markets

Consolidation through M&A



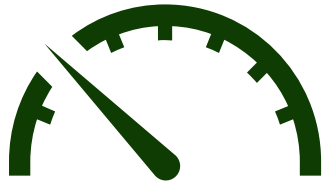
## Risks

Sensitive to increases in teachers' pay

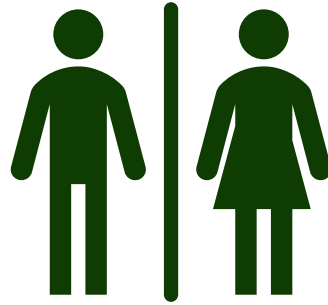
Regulatory uncertainty

Antitrust

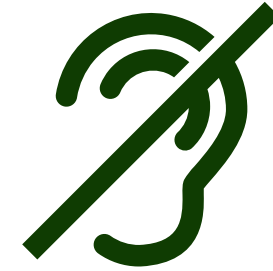
Geopolitical tensions



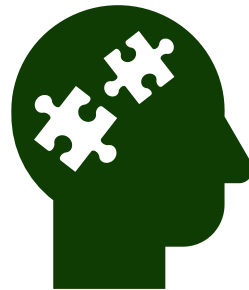
**Low ESG Scores**



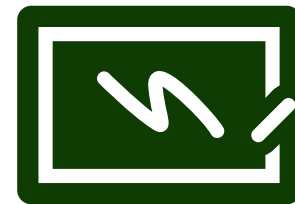
**Lack of Diversity**



**Lack of Support for Disabilities**



**Mental Health Concerns**



**Paper Usage**



# Valuation: Intrinsic Value

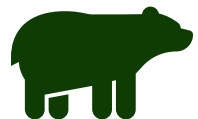


Assumptions	
Valuation Date	28/02/2021
WACC	6.4%
TGR	3.0%
Tax Rate	16.6%
Terminal EBITDA Margin	24.0%
Terminal EBIT Margin	19.3%
Terminal Capex/Revenue	3.0%
Terminal Capex/D&A	1.5x

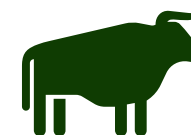
Share Price Value - DCF <sup>(1)</sup>	
Enterprise Value	42,172
Net Debt	665
Equity Value	42,837
Fully Diluted NOSH	170
Implied Share Price	\$251.73
Current Share Price	\$177.62
Implied (Discount)/Premium	-\$74.11
Implied % (Discount)/Premium	-29.4%

## Discounted Cash Flow Sensitivity Analysis

Share Price	Terminal Growth Rate				
	1.0%	2.0%	3.0%	4.0%	5.0%
4.4%	\$290.13	\$390.66	\$630.36	\$1,945.38	-\$1,486.76
5.4%	\$218.91	\$270.13	\$363.28	\$585.38	\$1,803.89
6.4%	\$174.21	\$204.24	\$251.73	\$338.11	\$544.06
7.4%	\$143.67	\$162.87	\$190.73	\$234.80	\$314.96
8.4%	\$121.55	\$134.58	\$152.41	\$178.28	\$219.21



WACC



Source: company information, various surveys, Yahoo Finance.  
(1) \$ million unless stated.

# Valuation: Trading Multiples



Comparables													
\$ million unless stated			Market Data			Financial Data				Valuation			
Name	Ticker	Market	Share Price	Market Cap	EV	Revenue	EBITDA	EBIT	Earnings	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
New Oriental	EDU	China	\$177.62	30,226	29,561	3,579	693	542	413	8.3x	42.6x	54.5x	73.1x
TAL Education Group	TAL	China	\$77.54	46,554	43,740	3,273	226	(39)	(110)	13.4x	193.4x	N/A	N/A
GSX Techedu	GSX	China	\$102.85	24,545	24,520	2,115	228	35	29	11.6x	107.6x	696.8x	844.3x
Chegg	CHGG	USA	\$96.53	13,553	12,880	644	128	64	(6)	20.0x	100.7x	199.9x	N/A
Hailiang Education Group	HLG	China	\$59.80	1,542	1,430	1,483	685	493	57	1.0x	2.1x	2.9x	26.9x
iHuman	IH	China	\$18.50	967	796	219	(39)	(43)	(42)	3.6x	N/A	N/A	N/A
American Public Education	APEI	USA	\$29.44	439	219	286	36	13	10	0.8x	6.0x	16.8x	43.9x
Lincoln Educational Services	LINC	USA	\$5.78	153	221	278	13	5	2	0.8x	16.5x	44.1x	75.8x
<b>Mean</b>										<b>7.4x</b>	<b>67.0x</b>	<b>169.2x</b>	<b>212.8x</b>
<b>Median</b>										<b>5.9x</b>	<b>42.6x</b>	<b>49.3x</b>	<b>73.1x</b>

Share Price Value - Revenue Comps	
EDU 2020 Revenue	3579
Comps Mean EV/Revenue	7.4x
<b>Implied Enterprise Value</b>	<b>26,557</b>
Net Debt	665
<b>Equity Value</b>	<b>27,222</b>
Fully Diluted NOSH	170
<b>Implied Share Price</b>	<b>\$159.97</b>
Current Share Price	\$177.62
Implied (Discount)/Premium	\$17.65
<b>Implied % (Discount)/Premium</b>	<b>11.0%</b>

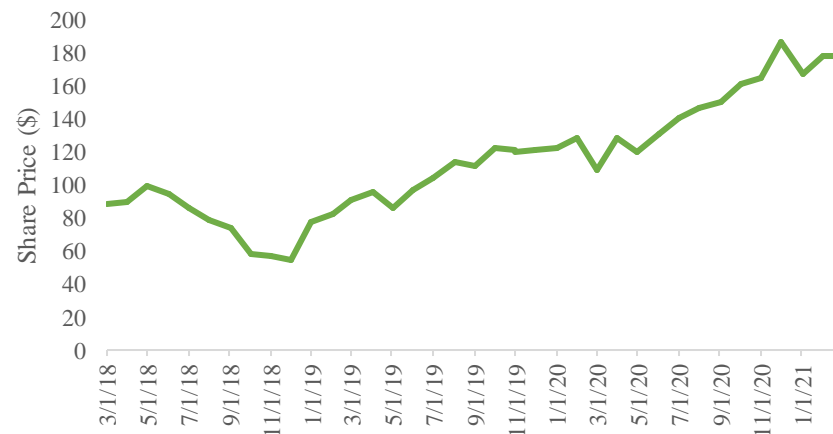
Share Price Value - EBITDA Comps	
EDU 2020 EBITDA	693
Comps Mean EV/EBITDA	67.0x
<b>Implied Enterprise Value</b>	<b>46,459</b>
Net Debt	665
<b>Equity Value</b>	<b>47,124</b>
Fully Diluted NOSH	170
<b>Implied Share Price</b>	<b>\$276.92</b>
Current Share Price	\$177.62
Implied (Discount)/Premium	-\$99.30
<b>Implied % (Discount)/Premium</b>	<b>-35.9%</b>

Source: company information, Reuters, Yahoo Finance.

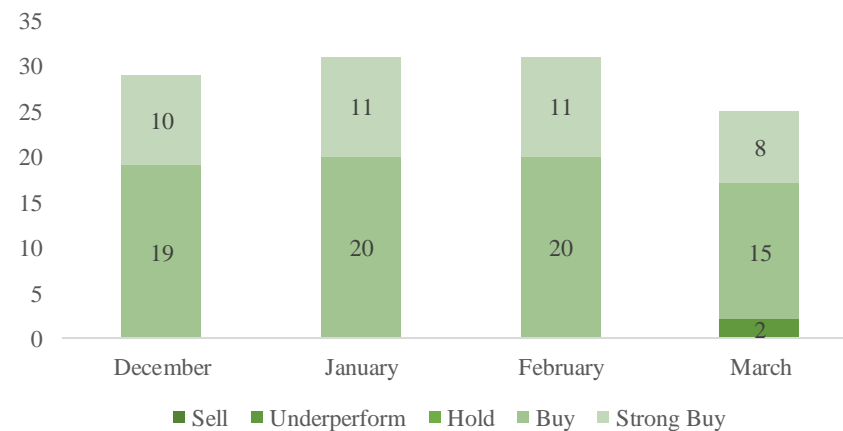
# Valuation: Market Values



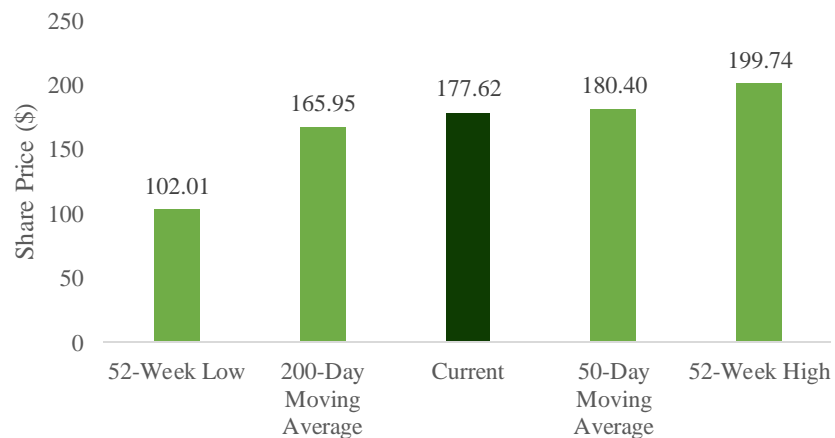
### 3-Year Share Price



### Analyst Consensus



### Share Price History



### Analyst Price Targets



Source: Yahoo Finance.

# Valuation Summary



## Bear Case Implied Share Price

Discounted Cash Flow	\$162.87
Comparables - EV/Revenue	\$159.97
Comparables - EV/EBITDA	\$276.92
Average Analyst Price Target	\$205.50
<b>Mean</b>	<b>\$199.92</b>
Current Share Price	\$177.62
Implied (Discount)/Premium	-\$22.30
<b>Implied % (Discount)/Premium</b>	<b>-11.2%</b>

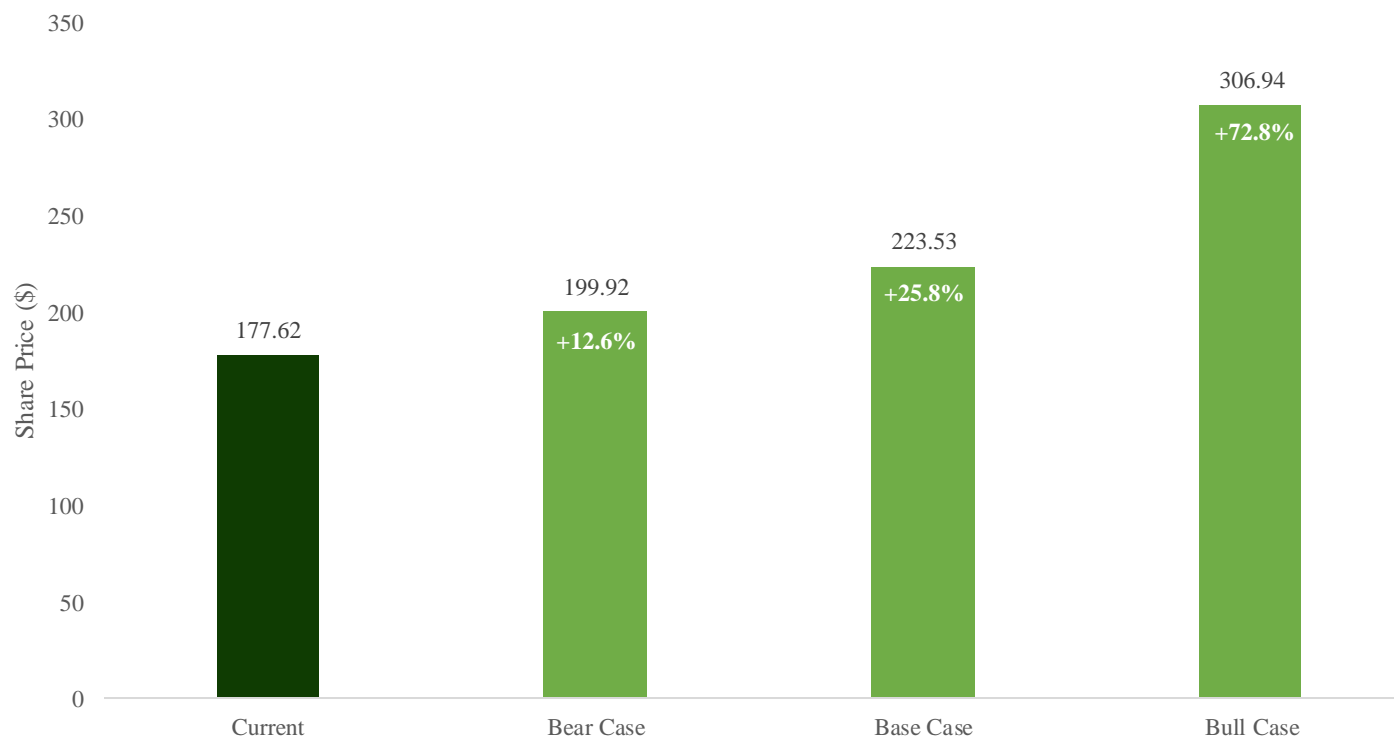
## Base Case Implied Share Price

Discounted Cash Flow	\$251.73
Comparables - EV/Revenue	\$159.97
Comparables - EV/EBITDA	\$276.92
Average Analyst Price Target	\$205.50
<b>Mean</b>	<b>\$223.53</b>
Current Share Price	\$177.62
Implied (Discount)/Premium	-\$45.91
<b>Implied % (Discount)/Premium</b>	<b>-20.5%</b>

## Bull Case Implied Share Price

Discounted Cash Flow	\$585.38
Comparables - EV/Revenue	\$159.97
Comparables - EV/EBITDA	\$276.92
Average Analyst Price Target	\$205.50
<b>Mean</b>	<b>\$306.94</b>
Current Share Price	\$177.62
Implied (Discount)/Premium	-\$129.32
<b>Implied % (Discount)/Premium</b>	<b>-42.1%</b>

## Share Price Analysis



## Recommendation

Entry Price	Market Price
Target Price	\$223.53
Time Horizon	12 Months
Stop Loss	\$165.95



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Exeter Student Investment Fund

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# Closing Summary

Q&A