

COMPANY RESULTS

New Oriental Education & Technology Group (EDU US)

4QFY24: Earnings Miss; Impact From East Buy To Ease Off After 1QFY25

New Oriental's 4QFY24 earnings missed expectations. Revenue grew 32% yoy to US\$1,136.7m, in line with the street's estimate. Non-GAAP net profit declined 41% yoy to US\$37m, below our and consensus expectations, while net margin dipped 4ppt yoy to 3% for 4QFY24. EDU forecasts 1QFY25 revenue (excluding East Buy) rising 31-34% yoy to US\$1,254.7m-1,283.5m, 2% below consensus estimate. Maintain BUY with a lower target price of US\$90.00 (HK\$70.00).

4QFY24 RESULTS

Year to 31 May (US\$m)	4QFY23	3QFY24	4FYQ24	QoQ	YoY	UOB	Var	Cons	Var
Revenue	861	1,207	1,137	-6%	32%	1,118	2%	1,136	0.1%
COGS	-2,708	-4,675	-3,916			-3,916			
Gross profit	469	563	594	6%	27%	582	2%	574	3.5%
GPM	54%	47%	52%	6 ppt	(2 ppt)	52%	0 ppt	50.6%	2 ppt
Operating expenses	-421	-449	-584	30%	39%	-539	8%		
S&M	-148	-161	-208	29%	41%	-189	10%		
G&A	-273	-288	-376	30%	37%	-327	15%		
Operating profit	48	113	11	-91%	-78%	43	-75%		
Non-GAAP OP	79	141	36	-74%	-54%	74	-51%		
Non-GAAP OPM	9%	12%	3%	(8 ppt)	(6 ppt)	7%	(340 bps)		
Net income	29	87	27	-69%	-7%	54	-50%		
Non-GAAP net profit	62	105	37	-65%	-41%	69	-47%	72	-48.9%
Non-GAAP diluted EPS	0.37	0.63	0.22	-65%	-41%	0.41	-47%	0.38	-41.7%
Non-GAAP NPM	7%	9%	3%	(5 ppt)	(4 ppt)	6%	(296 bps)	6.4%	(3 ppt)

Source: New Oriental Education & Technology Group, UOB Kay Hian

RESULTS

- Solid 4QFY24 top-line growth.** New Oriental Education & Technology Group's (EDU) revenue grew 32.1% yoy to US\$1,136.7m in 4QFY24, attributed to: a) resilient overseas test preparation and the study consulting revenue which grew 17.7% and 17.3% yoy, respectively, b) revenue from domestic test preparation business targeting adults and university students which recorded a 16.4% yoy growth, and c) educational business initiatives revenue which soared 50.3% yoy. Among which, EDU's non-academic tutoring courses were offered in around 60 cities, attracting 875,000 student enrolments in 4QFY24. Meanwhile, intelligent learning system and devices were adopted in around 60 cities, with 188,000 active paid users in 4QFY24. The total number of schools and learning centres were 1,025 as of 4QFY24, up from 911 in 3QFY24 and 748 in 4QFY23.
- Subdued margin.** Gross profit rose 27% yoy to US\$594m in 4QFY24, while gross margin fell 2 ppt yoy to 52%. Non-GAAP operating profit declined 54% yoy to US\$36m for 4QFY24. Sales & marketing (S&M) expenses grew 41% yoy to US\$208m, due to investment in East Buy private label products and the livestreaming e-commerce business. Non-GAAP net profit dropped 41% yoy to US\$37m, with net margin dipping 4ppt yoy to 3% for 4QFY24 (vs previously guided 6%), primarily resulting from East Buy's one-off compensation for Dong Yuhui's departure, with its impact to sustain until 1QFY25.

KEY FINANCIALS

Year to 31 May (US\$m)	2023	2024	2025F	2026F	2027F
Net turnover	2,998	4,314	5,490	6,633	7,806
EBITDA	313	469	666	987	1,238
Operating profit	190	350	524	818	1,039
Net profit (rep./act.)	177	310	506	704	881
Net profit (adj.)	259	381	581	777	962
EPS (Fen)	15.1	22.7	34.4	45.8	56.4
PE (x)	45.89	30.51	20.10	15.12	12.28
P/B (x)	32.2	28.4	24.7	21.1	17.9
EV/EBITDA (x)	33.7	22.5	15.8	10.7	8.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	5.9	7.2	9.2	10.6	11.3
Net debt/(cash) to equity (%)	(41.8)	(29.5)	(49.1)	(63.3)	(74.5)
ROE (%)	4.9	8.1	11.6	13.9	14.7
Consensus net profit	-	-	633	833	1,049
UOBKH/Consensus (x)	-	-	0.92	0.93	0.92

Source: New Oriental Education & Technology Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$69.25
Target Price	US\$90.00
Upside	+30.0%
(Previous TP)	US\$105.00

COMPANY DESCRIPTION

New Oriental Education & Technology Group offers educational services including foreign language training, test preparation courses, K12 after school tutoring services and online courses in China.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	EDU US
Shares issued (m):	165.5
Market cap (US\$m):	11,461.0
Market cap (US\$m):	11,461.0
3-mth avg daily t'over (US\$m):	125.3

Price Performance (%)

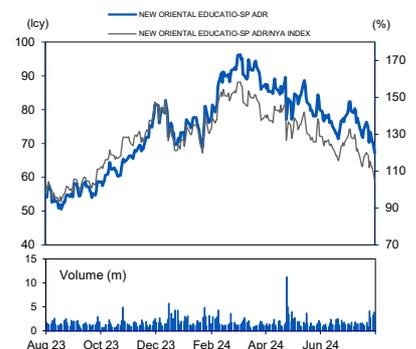
52-week high/low	US\$96.31/US\$50.60
1mth	(10.9)
3mth	(10.2)
6mth	(9.7)
1yr	23.4
YTD	(5.5)

Major Shareholders

	%
Yu Minhong	15.1
Management Team	0.4

FY25 NAV/Share (US\$)	2.80
FY25 Net Cash/Share (US\$)	1.38

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **East Buy's divestment of Time with Yuhui as a silver lining for EDU.** On 25 July, East Buy announced that Mr Dong Yuhui, a high-profile Chinese influencer, has decided to leave the company. East Buy entered into a disposal agreement to sell 100% equity interest in Time with Yuhui to the live-streamer at a consideration of Rmb76.58m (US\$10.56m). Despite initial market concerns on the divestment, we remain cautiously optimistic in view of EDU's balanced revenue exposure given its full spectrum of education services and viable venture into new initiatives. We project CAGR of 22% and 36% for revenue and net profit respectively from FY24-27. For FY25, we forecast East Buy to account for 17% of revenue and contribute 9% to EDU's SOTP valuation. EDU is currently trading at 20x the estimated core PE for FY25. We think that the negative impact has been priced into the recent price correction which presents an opportunity to accumulate positions at attractive valuation.
- **1QFY25 guidance breakdown.** EDU forecasts 1QFY25 revenue (excluding revenue from East Buy) to elevate a solid 31-34% yoy and hit US\$1,254.7m-1,283.5m. This is mainly supported by strong seasonality amid the summer holiday. By segment, management estimates revenue growth from overseas consulting and overseas test preparation at 20-25%, domestic university at 25%, high school at 25-27%, new initiatives at 50% and tourism at 180%. 1QFY25 net margin is guided to expand by 2ppt yoy, without considering the one-off impact from East Buy. For FY25, EDU's revenue growth is projected to grow 30% yoy, with capacity expansion of 20-25% while the operating margin of the test preparation, consulting, domestic university, high school and new initiatives segments are guided at >20%, 15%, 8%, >20% and 20%, respectively.
- **Return to shareholders.** As of 30 July, EDU repurchased an aggregate of 7.3m American Depository Shares (ADS) for US\$296.1m (2.6% of total market cap) from the open market. EDU approved a share repurchase programme up to US\$400m of ADSs or common shares in Jul 22 and further it extended to 31 May 25.

EARNINGS REVISION/RISK

- **We trimmed our 1QFY25/2025 revenue forecasts by 3%/1% respectively** as we saw moderated growth in the overseas business and uncertainties in East Buy's growth visibility. We expect revenue to grow 32%/27% in 1QFY25/FY25 respectively. We lowered our non-GAAP net profit by 7%/8% for 1QFY25/FY25 and forecast non-GAAP net profit at US\$247m/US\$581m in 1QFY25/FY25, translating to net margin of 17%/11% respectively.
- **Risks** include: a) margin pressure stemming from heavy investment, b) uncertainties in policy changes, and c) US-China tensions impacting its overseas business.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of US\$90.00 (HK\$70.00)**, based on SOTP valuation. Our target price implies 26x FY25F PE and 0.7x PEG vs a three-year EPS CAGR of 35%. The company is currently trading at 20x forward PE, slightly below its five-year average PE.

SHARE PRICE CATALYST

- **Increasing demand for overseas education**, further market consolidation and growth in lower-tier cities' online penetration rates.

SOTP VALUATION

Segment	FY25F Revenue US\$m	FY25F OP US\$m	FY25F OPM	FY25F NOPAT US\$m	FY25F Target EV/NOPAT	FY25F Implied P/E	Value US\$m	ADSs mn	Val/sh US\$
EDU core	4,490	492	11.0%	393	30x		11,955	168	71.2
Traditional K-12	1,253	199	15.9%	159	28x		4,456	168	26.5
Educational services and new initiatives	3,238	293	9.0%	234	32x		7,498	168	44.7
Other traditional businesses	1,588	97	6.1%	77	26x		2,005	168	11.9
New initiatives	1,649	196	11.9%	157	35x		5,493	168	32.7
East Buy	928	149	16.1%	119	19x		1,300	168	7.7
EDU total	5,419	641	11.8%	513	26x		13,255	168	79.0
Net cash (FY25F average, excluding deferred revenue)							3,502	168	20.9
Holdco. discount					10%		(1,676)	168	(10.0)
12-m target price (US\$)					18x	22x	15,081	168	90.0
12-m target price (HK\$)							117,633	1,679	70.0

Source: New Oriental Education & Technology Group, UOB Kay Hian

PROFIT & LOSS

Year to 31 May (US\$m)	2024	2025F	2026F	2027F
Net turnover	4,314	5,490	6,633	7,806
EBITDA	469	666	987	1,238
Deprec. & amort.	118	142	169	199
EBIT	350	524	818	1,039
Total other non-operating income	143	143	153	166
Pre-tax profit	494	667	971	1,204
Tax	(110)	(155)	(217)	(265)
Minorities	0	0	0	0
Net profit	310	506	704	881
Net profit (adj.)	381	581	777	962

CASH FLOW

Year to 31 May (US\$m)	2024	2025F	2026F	2027F
Operating	1,123	1,326	1,442	1,662
Pre-tax profit	494	667	971	1,204
Tax	(110)	(155)	(217)	(265)
Deprec. & amort.	118	142	169	199
Working capital changes	(489)	(575)	(457)	(463)
Other operating cashflows	1,109	1,246	976	987
Investing	(1,154)	(229)	(263)	(294)
Capex (growth)	(190)	(229)	(263)	(294)
Proceeds from sale of assets	0	0	0	0
Others	(964)	0	0	0
Financing	(160)	0	0	0
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	(160)	0	0	0
Net cash inflow (outflow)	(192)	1,096	1,178	1,368
Beginning cash & cash equivalent	1,774	1,567	2,663	3,841
Changes due to forex impact	(15)	0	0	0
Ending cash & cash equivalent	1,389	2,485	3,664	5,031

BALANCE SHEET

Year to 31 May (US\$m)	2024	2025F	2026F	2027F
Fixed assets	822	830	932	1,036
Other LT assets	1,323	1,321	1,321	1,321
LT debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	1,389	2,485	3,664	5,031
Other current assets	4,000	4,146	4,259	4,365
Total assets	7,534	8,782	10,176	11,754
ST debt	200	200	200	200
Other current liabilities	2,801	3,463	4,033	4,603
Other LT liabilities	482	482	482	482
Shareholders' equity	4,036	4,653	5,476	6,485
Minority interest	273	273	273	273
Total liabilities & equity	7,534	8,782	10,176	11,754

KEY METRICS

Year to 31 May (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	10.9	12.1	14.9	15.9
Pre-tax margin	11.4	12.1	14.6	15.4
Net margin	7.2	9.2	10.6	11.3
ROA	4.4	6.2	7.4	8.0
ROE	8.1	11.6	13.9	14.7
Growth				
Turnover	43.9	27.3	20.8	17.7
EBITDA	49.9	42.0	48.3	25.5
Pre-tax profit	60.1	35.0	45.6	24.0
Net profit	74.6	63.5	39.1	25.2
Net profit (adj.)	47.2	52.5	33.6	23.8
EPS	50.4	51.8	33.0	23.1
Leverage				
Debt to total capital	4.4	3.9	3.4	2.9
Debt to equity	5.0	4.3	3.7	3.1
Net debt/(cash) to equity	(29.5)	(49.1)	(63.3)	(74.5)

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