



CITICS Research



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Core views

We estimate the Company's diluted EPS in 2020-22E will be Rmb0.40/0.53/0.66. As a leader in vocational education, OFFCN EDU will fully benefit from the rapid growth of the industry, based on its accumulated advantage. We reiterate the "BUY" rating and expected solid growth of the Company.

Economies of scale achieved; steady R&D investment

In 2019, the Company achieved revenue of Rmb9.18 bn /+47.1% YoY (same below), gross profit margin of 58.5% /-0.6pct, and attributable net profit of Rmb 1.8 bn /+56.5%. The rapid growth of revenue was supported by fast expansion in multiple businesses and the strong economies of scale: In 2019, G&A expense ratio was 12%/-2pcts, and sales expense ratio was 16.2%/-1.5pcts. Its R&D expense ratio was 7.6% in 2019, a slight increase from 7.3% a year ago. The number of R&D personnel reached 2,051/+51.9%, which verified the underlying logic of its enhanced involvement in the teaching and research background, informational operation and intelligence level.

Abundant cash, strong growth of advances from customers and high dividend ratio

By the end of 2019, OFFCN EDU had cash of Rmb 2.72bn and tradable financial assets of Rmb 1.75bn (mostly wealth management products). Advances from customers were up to Rmb 2.63bn /+37%. Considering the end of a year is usually the peak season for national examination, we estimate that most of advances from customers were tuitions of national examination training, which provides reference for the growth trend of trainings related to national examination. A cash dividend of Rmb2.40 will be distributed for every 10 shares to all shareholders, with a total of Rmb1.48bn.

Growth of public recruitment test training exceeded expectation and online training also expanded rapidly

In 2019, the revenue from face-to-face training was Rmb 8.08bn, with 1.51 million student orders and unit price increasing by 9.5%. Revenue from online training was Rmb 1.03bn /+133%, with 1.779 million student orders and unit price increasing by 46%. In terms of specific business line, revenue from civil servant test training was Rmb 4.17bn /+30% with student orders increasing by 27.09%, which was beyond market expectation, and unit price increased by 2.3%; Revenue from public institution test training was Rmb 1.4bn /+58% with student orders increasing 43.6% and unit price increased by 10.3%; Revenue from teachers' recruitment test training was Rmb 1.93bn /+60.9% with student orders increasing by 52.9% and unit price increasing by 5.2%; Revenue from other public service training was Rmb 1.61bn /+74.9% and revenue growth rate of graduate school entrance examination and IT training were 100% and 300% respectively. We believe that fast growth of each business was brought by sound operation of offline branches and penetration to the low-tier regional market. By the end of 2019, OFFCN operated in more than 1,000 branches across the country, covering more than 300 prefecture cities, and is rapidly expanding into counties and universities. Expansion based on precise target customers will deepen its penetration and help it realize sustainable growth.

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OFFCN EDU	002607
Rating	BUY (Reiterate)
Current price	Rmb 21.40
Total equity	6,167mn
Shares o/s	667mn
52W high/low	Rmb 23.15/10.88
LTM absolute gain	79.53%

■ Potential risks

Change of policy in recruitment examinations of civil servants, institutions and teachers; decreasing demand for civil servants, institutions and teachers; increasing competition among the industry; and stagnation in short-term teaching activities caused by the coronavirus outbreak.

■ Investment recommendation

We slightly adjust our diluted EPS estimates in 2020-21E to Rmb 0.40/0.53, from the previous Rmb 0.39/0.49 and add diluted EPS estimate of Rmb 0.66 in 2022E. The vocational education industry has received remarkable growth and OFFCN EDU will fully benefit as an industrial leader, so we expect solid growth of the Company and reiterate the “BUY” rating.

Item/Year	2018	2019	2020E	2021E	2022E
Operating revenue (Rmb mn)	6237	9176	12842	17187	22579
Operating revenue growth	-6.4	47.1	39.9	33.8	31.4
Net profit (Rmb mn)	1153	1805	2456	3258	4045
Net profit growth	1469.4	56.5	36.1	32.6	24.2
Basic EPS (Rmb)	0.19	0.29	0.40	0.53	0.66
Gross profit margin	59.1	58.5	58.7	57.9	57.0
ROE	39.0	52.6	57.9	62.4	62.9
PE (x)	114	73	54	41	33

Source: Wind, CITICS Research forecast

Note: Closing price as of 9 March 2020

Income Statement						Balance Sheet					
(Rmb mn)						(Rmb mn)					
Indicator	2018	2019	2020E	2021E	2022E	Indicator	2018	2019	2020E	2021E	2022E
Operating revenue	6,237	9,176	12,842	17,187	22,579	Cash and cash equivalents	649	2,724	3,412	3,568	5,626
Operating cost	2,552	3,813	5,303	7,241	9,707	Inventories	0	0	0	0	0
Gross profit margin	59.08%	58.45%	58.70%	57.87%	57.01%	Accounts receivable	7	3	12	16	21
Business taxes & surcharges	27	57	0	0	0	Other current assets	2,414	2,109	980	1,024	1,078
Selling expenses	1,102	1,483	2,119	2,836	3,726	Current assets	3,070	4,836	4,405	4,608	6,725
Operating expense ratio	17.67%	16.16%	16.50%	16.50%	16.50%	Fixed assets	699	672	1,194	1,696	2,177
Administrative expenses	1,328	1,796	2,633	3,523	4,742	Long-term equity investments	0	0	0	0	0
Administrative expense ratio	21.30%	19.58%	20.50%	20.50%	21.00%	Intangible assets	204	198	198	198	198
Financial expenses	-3	204	110	45	38	Other long-term assets	3,229	4,255	4,264	4,272	4,279
Financial expense ratio	-0.04%	2.23%	0.85%	0.26%	0.17%	Non-current assets	4,132	5,124	5,655	6,165	6,653
Investment income	110	259	218	292	384	Total assets	7,202	9,961	10,060	10,772	13,378
Operating profit	1,340	2,091	2,896	3,834	4,750	Short-term borrowings	1,607	2,867	1,500	0	0
Operating profit margin	21.48%	22.78%	22.55%	22.31%	21.04%	Accounts payable	0	236	0	0	0
Non-operating revenue	1	0	8	11	13	Other current liabilities	2,544	3,319	4,209	5,444	6,836
Non-operating expenses	1	1	14	12	5	Current liabilities	4,151	6,422	5,709	5,444	6,836
Total profit	1,339	2,089	2,890	3,833	4,759	Long-term borrowings	0	0	0	0	0
Income tax	187	285	433	575	714	Other long-term liabilities	97	107	107	107	107
Income tax rate	13.94%	13.63%	15.00%	15.00%	15.00%	Non-current liabilities	97	107	107	107	107
Minority shareholders' profit	0	0	0	0	0	Total Liabilities	4,248	6,529	5,816	5,551	6,943
Net profit attributable to shareholders of the parent	1,153	1,805	2,456	3,258	4,045	Share capital	104	104	104	104	104
Net profit margin	18.48%	19.67%	19.13%	18.96%	17.92%	Capital reserve	1,145	1,199	1,199	1,199	1,199
						Total equity attributable to owners of the parent	2,954	3,432	4,244	5,222	6,435
						Minority interests	0	0	0	0	0
						Total liabilities and shareholders' equity	7,202	9,961	10,060	10,772	13,378

Cash Flow Statement						Major financial indicators					
(Rmb mn)											
Indicator	2018	2019	2020E	2021E	2022E	Indicator	2018	2019	2020E	2021E	2022E
Net profit	1,153	1,805	2,456	3,258	4,045	Operating revenue growth	-6.4	47.1	39.9	33.8	31.4
Depreciation & amortization	84	162	79	101	122	Operating profit growth	1247.1	56.0	38.5	32.4	23.9
Change in working capital	-169	620	609	1,187	1,332	Net profit growth	1469.4	56.5	36.1	32.6	24.2
Other cash flow from operating activities	340	-113	-210	-270	-384	Gross profit margin	59.1	58.5	58.7	57.9	57.0
Total cash flow from operating activities	1,408	2,474	2,935	4,276	5,116	EBIT Margin	19.7	22.1	21.7	20.9	19.5
Capex	-871	-720	-610	-610	-610	EBITDA Margin	21.0	23.9	22.3	21.5	20.0
Investment income	4	259	218	292	384	Net profit margin	18.5	19.7	19.1	19.0	17.9
Asset Sale	601	0	0	0	0	ROE	39.0	52.6	57.9	62.4	62.9
Other cash flow from investing activities	-2,094	330	1,000	0	0	ROA	16.0	18.1	24.4	30.2	30.2
Total cash flow from investing activities	-2,360	-131	608	-318	-226	Debt-to-asset ratio	59.0	65.5	57.8	51.5	51.9
Stock issuance	0	0	0	0	0	Income tax rate	13.9	13.6	15.0	15.0	15.0
Change in liabilities	0	1,260	-1,367	-1,500	0	Dividend payout ratio	0.0	0.0	60.3	70.0	70.0
Dividend paid	0	-1,526	-1,480	-2,281	-2,832						
Other cash flow from financing activities	1,412	-2	-8	-22	0						
Total cash flow from financing activities	1,412	-267	-2,855	-3,803	-2,832						
Net increase in cash and cash equivalents	460	2,076	688	156	2,058						

Source: Company announcement, CITICS Research forecast

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		OVERWEIGHT	Increase relative to market representative index between 5% and 20%
		HOLD	Increase relative to market representative index between -10% and 5%
		SELL	Decrease relative to market representative index over 10%
	Industry ratings	OUTPERFORM	Increase relative to market representative index over 10%
		NEUTRAL	Increase relative to market representative index between -10% and 10%
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