FLASH NOTE

20 April 2015

Maple Leaf Education | 1317.HK

Ride on the demand of overseas education

Fundamental

Leading international school operator in China, >95% high school graduates were admitted to overseas univerisites

- Maple Leaf is the largest international school operator in China. In 2013/14 school year, its total student enrollment and high school student enrollment were 13,513 and 5,836 respectively, represented 7.6% and 9.0% share in China international school market.

- Maple Leaf offered a dual-diploma high school program, graduates would receive both a Canadian BC high school diploma and a PRC high school diploma. In 2013/14, >95% of Maple Leaf's high school graduates were admitted to overseas universities.

Catalyst

~17% increase in student enrollment in FY15E

- With a more competitive tuition fee (average tuition fee of Maple Leaf's high school is RMB49,000/year versus >RMB100,000 for major peers), Maple Leaf targeted the middle-class families who want their children to have overseas education. No. of students recorded 14.0% CAGR growth during FY11 to FY14, and management expressed that no. of students further increased by ~17% in FY15E.

Proven track report in geographical expansion, started using an asset light approach to expand school network since 2012

- Opening its first international school in Dalian in 1996, Maple Leaf has proven track record in geographical expansion. It started operation in Wuhan, Tianjin, Chongqing and Zhenjiang during 2007-2011, and these units are all now profitable. Since 2012, Maple Leaf implemented an asset-light expansion approach, of which the local partners (mainly local government) would construct the schools, while Maple Leaf is responsible for management and daily operation.

- Under this model, Maple Leaf would share 51% of profit after it claim back all the losses during early operation. Currently 9 schools in Luoyang, Ordos and Pingdingshan opened during 2012-2014 are under this approach. Maple Leaf scheduled to expand into 4 more cities during 2015-2017 to increase its maximum capacity from 26,090 as of Sep 2014 to 36,290 as of Sep 2017, with most of the new school under the asset light model.

Valuation

Undemanding valuation versus peers; Trading BUY

- Maple Leaf would announce its 1HFY15E results in end April, the first results announcement since listing. Given the nature of school operation, the half year results should largely reflect its full year performance, which should give investors more confident if it managed to deliver a decent results. The Company is trading at 19X FY15E PER and 12X ex-cash, undemanding versus other PRC educational peers listed in US. Trading BUY.

RMB mn (YE Aug)	FY11A	FY12A	FY13A	FY14A	FY15E
Revenue	346	413	471	540	631
Net profit	(38)	94	33	40	144
Recurring profit	93	106	105	119	147

Sources: Bloomberg, CIRL

信達國際 CINDA INTERNATIONAL

Short Term (6 Months)

Trading Buy

Trading Sell

Current Price: HK$2.53
Target price: HK$3.40
Upside: 34%

Lewis Pang
lewis.pang@cinda.com.hk
(852) 2235 7847

Trading data

52-Week Range (HK$)	1.81/3.16
3 Mth Avg Daily Vol (m)	0.5
No of Shares (m)	1,334
Market Cap (HK$m)	3,375
Major Shareholders (%)	Mr. Sherman Jen (54.13%)
	Sequoia Capital (17.18%)
Auditors	Deloitte
Result Due	1H15: Apr

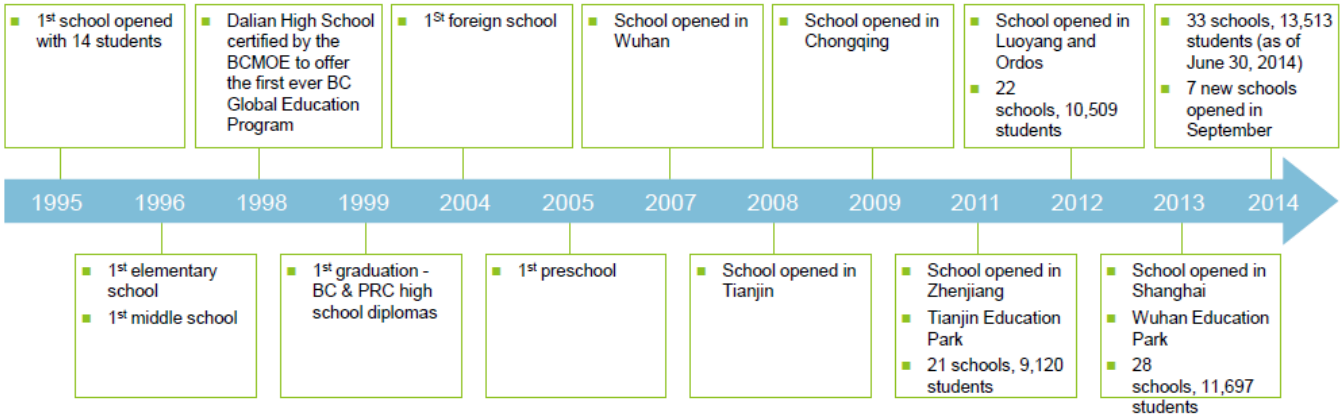
Company description

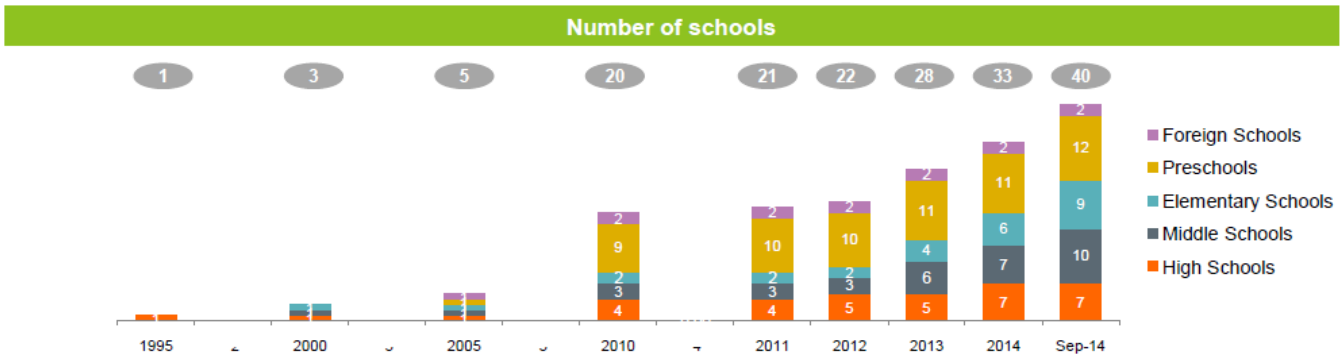
Listed in Nov 2014, Maple Leaf is the largest international school operator in China. Maple Leaf opened its first international school in 1996, and now operates 40 schools (7 high schools, 10 middle schools, 9 elementary schools, 12 preschools and 2 foreign national schools) across 9 cities in China.

Price chart



Exhibit 1: Development milestones of Maple Leaf





Note: Figures as of 31 August of each school year

Source: Maple Leaf

Exhibit 2: Operating 40 schools with 15,801 students as of March 2015

Extensive school network – 40 schools in 9 cities (as of March, 2015)

Cities	High Schools	Middle Schools	Elementary Schools	Preschools	Foreign National School	Students	Capacity
Dalian	1	1	1	10	1	6,211	7,690
Wuhan	1	1	1		1	3,006	3,500
Tianjin	1	2	2			3,329	4,600
Chongqing	1	1	1			935	1,500
Zhenjiang	1	1	1			680	800
Luoyang	1	1	1			644	2,700
Shanghai	1	1				433	2,000
Ordos		1	1	1		392	1,300
Pingdingshan		1	1	1		171	2,000
Total	**7**	**10**	**9**	**12**	**2**	**15,801**	**26,090**

Note: (1) Only take into account schools in the PRC. Number of schools as of end of 2013/14 school year of each school operator

Source: Maple Leaf

Exhibit 3: Maple Leaf is the leading international school operator in the PRC

Top 5 international schools in the PRC

Ranking	School operator	Total student enrollment 2013/14 school year (persons)	Market share 2013/14 school year (%)
1	**Maple Leaf**	**13,513**	**7.6%**
2	Nord Angila	4,859	2.7%
3	Shanghai United	4,737	2.7%
4	Dulwich	4,162	2.3%
5	Yew Chung	3,866	2.2%

Top 5 international high schools in the PRC

Ranking	School operator	High school student enrollment 2013/14 school year (persons)	Market share 2013/14 school year (%)
1	**Maple Leaf**	**5,836**	**9.0%**
2	Dulwich	1,476	2.3%
3	NIT Education	1,462	2.2%
4	Huamei	1,432	2.2%
5	Shanghai American	1,425	2.2%

Source: Maple Leaf

Exhibit 4: Maple Leaf would expand into 4 more cities during 2015-17

Expansion plan/ pipeline

	Status	Est. school commencement date	Est. max. capacity for students
Yiwu			
High school and foreign national school	Under contract	Sep 1, 2015	1,400–1,800
Middle school, elementary school and preschool	Under contract	Sep 1, 2015	1,800
Jingzhou			
Middle School and Elementary School	Under contract	Sep 1, 2015	1500
Pinghu			
Middle school	Under contract	Sep 1, 2016	800
Elementary school	Under contract	Sep 1, 2016	900
Preschool	Under contract	Sep 1, 2016	300
Xi'an			
High school, middle school, elementary school and foreign national school	Under contract	Sep 1, 2016 - Sep 1, 2017	3,500 – 4,000

Source: Maple Leaf

Exhibit 5: Financial Summary

Year to Aug (RMB mn)	FY11A	FY12A	FY13A	FY14A
Revenue	**346.1**	**413.5**	**471.2**	**540.3**
Cost of revenue	(189.7)	(222.3)	(268.8)	(305.1)
Gross Profit	**156.4**	**191.1**	**202.5**	**235.1**
Marketing expenses	(13.9)	(14.4)	(20.9)	(21.7)
Administrative expenses	(34.3)	(47.9)	(56.1)	(74.5)
Other expenses	(1.1)	(1.4)	(1.5)	(1.6)
Operating profit	**107.2**	**127.3**	**123.9**	**137.3**
Finance costs	(15.0)	(15.2)	(15.6)	(15.5)
Investment and other income	1.6	4.9	4.9	5.7
Other income, gains and losses	6.7	(1.6)	0.1	(0.2)
Taxation	(7.6)	(9.2)	(8.0)	(8.4)
Recurring Profit	**92.9**	**106.2**	**105.3**	**118.8**
Listing-related expenses	(5.1)	0.0	0.0	(22.5)
Change in fair value on redeemable convertible preferred shares	(104.0)	(10.4)	(63.7)	(91.8)
Loss on modification of redeemable convertible preferred shares	0.0	0.0	0.0	(3.3)
Change in fair value on warrants	(22.0)	(1.8)	(8.4)	(3.7)
Gain on cancellation of warrants	0.0	0.0	0.0	42.5
Net profit	**(38.2)**	**94.0**	**33.2**	**40.0**
Revenue Breakdown				
Tuition fee - High school	196.5	241.1	259.2	288.0
Tuition fee - Middle School	41.7	54.8	68.2	79.3
Tuition fee - Elementary School	25.6	31.3	37.9	59.8
Tuition fee - Foreign Nation school	18.2	16.4	14.4	14.9
Tuition fee - Preschool	22.8	23.5	26.4	24.8
Text books	13.2	15.6	18.0	23.3
Summer and winter camps	16.3	17.1	26.2	24.8
Other education services	11.8	13.7	21.1	25.3
	346.1	413.5	471.2	540.3

Source: Maple Leaf, CIRL

Exhibit 6: Peers table

	Ticker	Mkt cap	Price	P/E(x)		Ex-Cash P/E (x)	P/B(x)	
		(HKD mn)	(HKD)	FY15E	FY16E	FY15E	FY15E	FY16E
NORD ANGLIA	NORD US	18,373	187.96	38.6	29.0	44.4	9.5	7.2
NEW ORIENTAL	EDU US	29,151	184.78	18.8	15.3	13.7	3.2	2.7
TAL EDUCATION	XRS US	21,891	277.56	38.0	30.4	34.3	9.0	7.0
TARENA INTER	TEDU US	5,203	102.70	19.7	14.0	18.5	3.3	2.7
CHINA DISTAN	DL US	5,687	159.36	24.0	19.4	20.5	8.1	7.9
Average				**27.8**	**21.6**	**26.3**	**6.6**	**5.5**
Maple Leaf Education	**1317 HK**	**3,375**	**2.53**	**18.8**	**15.9**	**11.8**	**1.8**	**1.6**

Source: Bloomberg, CIRL

Rating Policy

	Rating	Definition
Stock Rating	Buy	Outperform HSI by 15%
	Neutral	Between -15% ~ 15% of the HSI
	Sell	Underperform HSI by -15%
Sector Rating	Accumulate	Outperform HSI by 10%
	Neutral	Between -10% ~ 10% of the HSI
	Reduce	Underperform HSI by -10%

Analysts List

Antony Cheng	Head of Research	(852) 2235 7127	antony.cheng@cinda.com.hk
Hayman Chiu	Associate Director	(852) 2235 7677	hayman.chiu@cinda.com.hk
Kenneth Li	Senior Research Analyst	(852) 2235 7619	kenneth.li@cinda.com.hk
Lewis Pang	Senior Research Analyst	(852) 2235 7847	lewis.pang@cinda.com.hk
Johnny Yum	Research Assistant	(852) 2235 7617	johnny.yum@cinda.com.hk

Analyst Certification

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