



Recommendation – Buy

Target Price: \$69.58

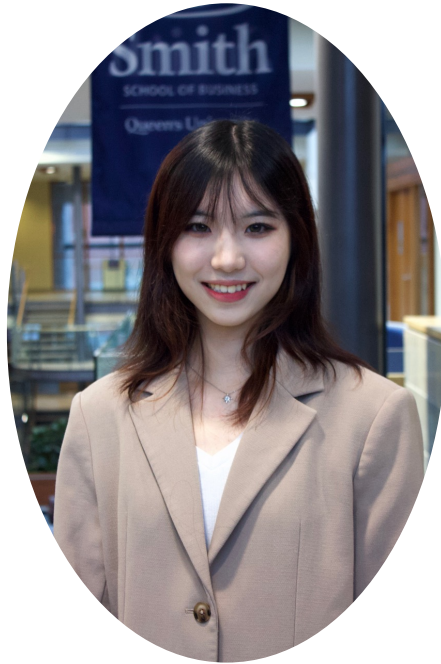
Current Price: \$55.05

Implied Upside: 20.88%

New Oriental Education & Technology Group Inc. (NYSE: EDU)

QGCC Stock Coverage Team

Amy D, Kiki K, Leo X



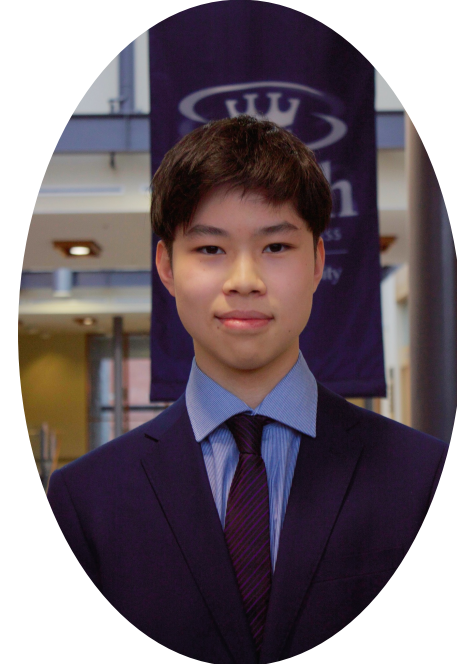
Kiki Kang

Queen's Commerce '26



Amy Duan

Queen's Commerce '27



Leo Xie

Queen's Commerce '27

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Business Description

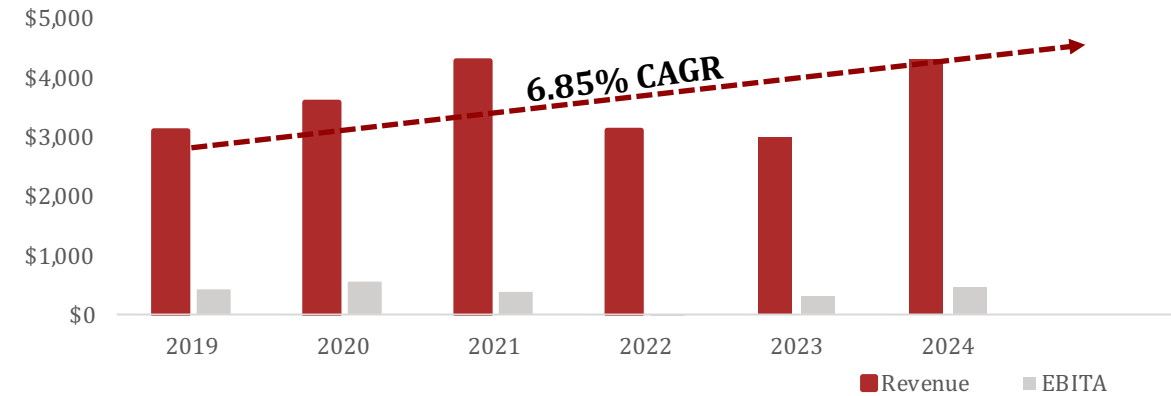
- Founded in 1993. New Oriental Education & Technology Group (EDU) provide wide range of educational programs, services and product. China boasts one of the highest numbers of private schools globally.
- EDU was listed on the New York Stock Exchange in the United States in 2006 as the first educational institution in mainland China to be listed in the United States.
- EDU has 80 schools, 1,089 learning centers, 8 bookstores, 245 distributors, and 39,400 teachers across 73 cities.

Management Team

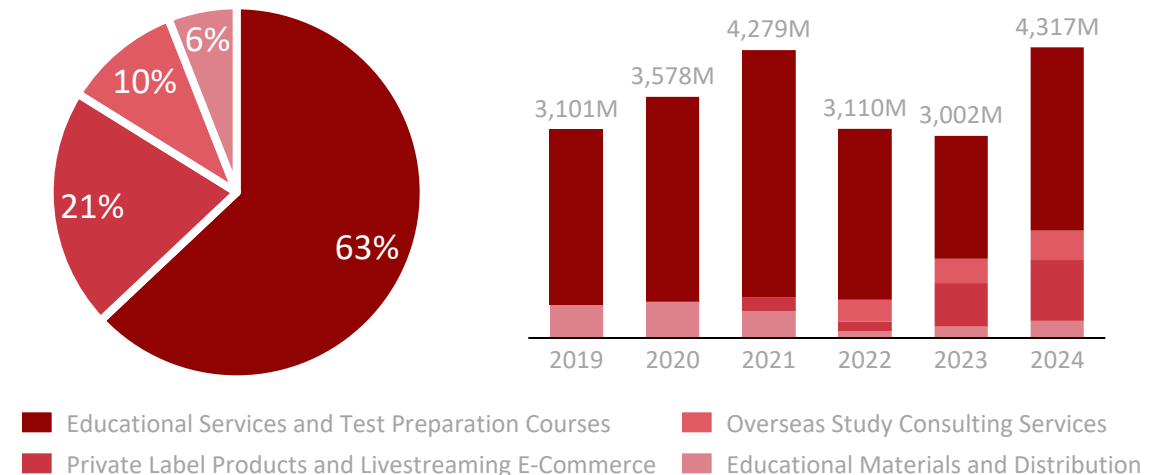


Name	Minhong Yu	Chenggang Zhou	Zhihui Yang
Position	Founder/Chairman	CEO	CFO
Years of Exp.	24	24	18
Background	Chairman of East Buy/Instructor of Pecking U	Ex-BBC correspondent, degrees from Suzhou and Macquarie.	Executive president, ex-PwC auditor, director at DiDi

Revenue & EBITDA Breakdown in Millions US\$



Operation Segments Breakdown



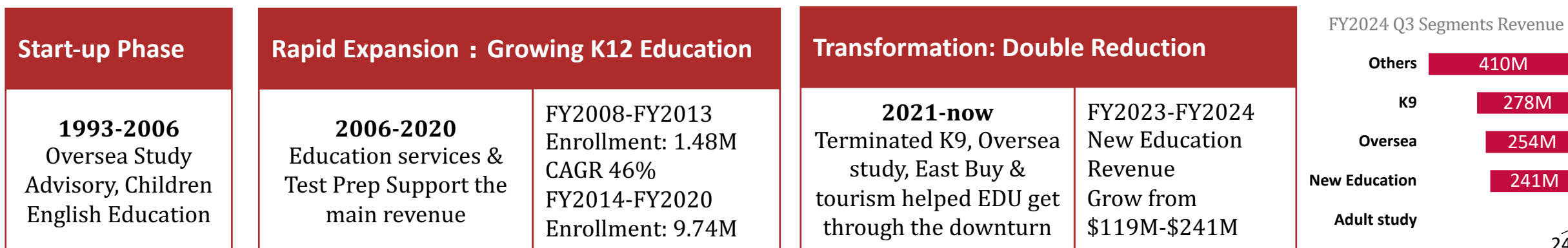
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Operation Overview



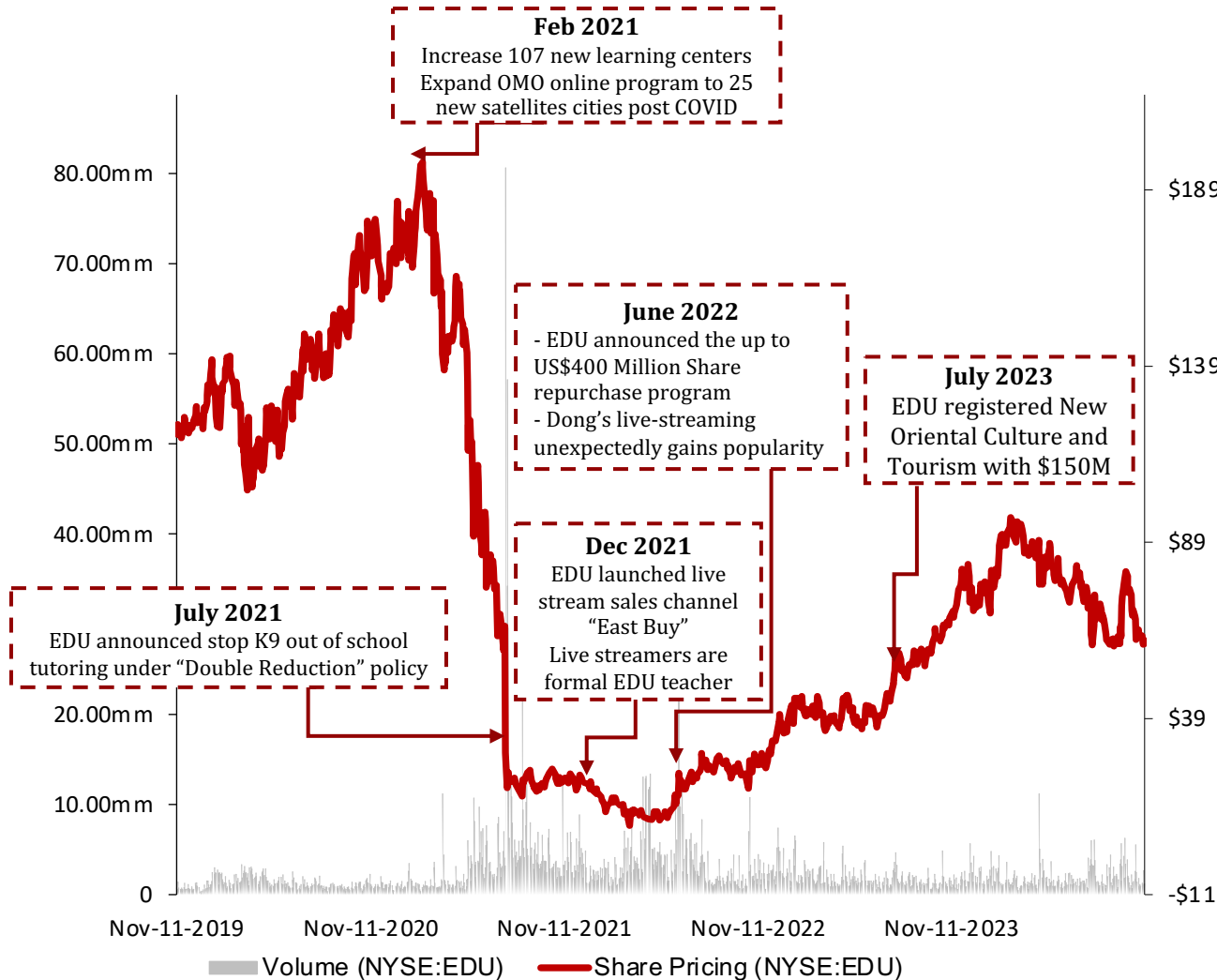
Segments	Business Line	Services	4 Year Sales CAGR
Education services and Test preparation courses	Children Key Competencies Education	Programing, Robotics, Chess, Sciences	0.83%
	K12 Wisdom education	Test Preparation, Tutoring, Oversea Chinese Courses	
	Post-secondary and adult education	English Level 4/6 Exam, Master Exam, CPA Exam Prep	
	Private Foreign Language School	A-Level, AP courses, IB program, IGCSE	
Oversea study and Consulting services	EDU Vision Oversea	IELTS, TOEFL, CAE, Duolingo Language Exam Prep	11.09%
	EDU International Education	Study Abroad Planning, Application, Guidance, Visa	
	EuroAsia Education	Third language training in European and Asians regions	
	Sphinx International Art Education	Art Portfolio Prep, International Partnership Art School	
Private label	Live Stream E Commerce East Buy - Agriculture	Create, promotes, sell variety of high-quality agricultural products through Live-streaming, expanded to sell books	55.89%
Others	Tourism Related Business	Cultural tours, International study tours, Camp Education	19.62%

Business Operation Transition



Company Overview

5-Year Market Data Overview



Market Capitalization		
Share Price (May 31, 2024)	(US\$)	\$62.21
Shares Outstanding	(mm)	163.5
Market Capitalization	(US\$ mm)	\$10173.1
Add: Net Debt	(US\$ mm)	\$662.3
Add: Minority Interest	(US\$ mm)	\$273.1
Less: Cash & ST Investment	(US\$ mm)	(\$4775.1)
Enterprise Value	(US\$ mm)	\$6333.4
Trading Multiples		
EV/EBITDA 2023E	(x)	8.92x
EV/EBITDA 2024E	(x)	16.89x
EV/Revenue 2023E	(x)	1.71x
EV/Revenue 2024E	(x)	2.34x
P/E 2023E	(x)	55.99x
P/E 2024E	(x)	43.10x
Markets Data		
52-Weeks High	(US\$)	8.92x
% of 52-Week High	(x)	16.89x
52-Week Low	(x)	1.71x
Beta 5-Year	(x)	2.34x

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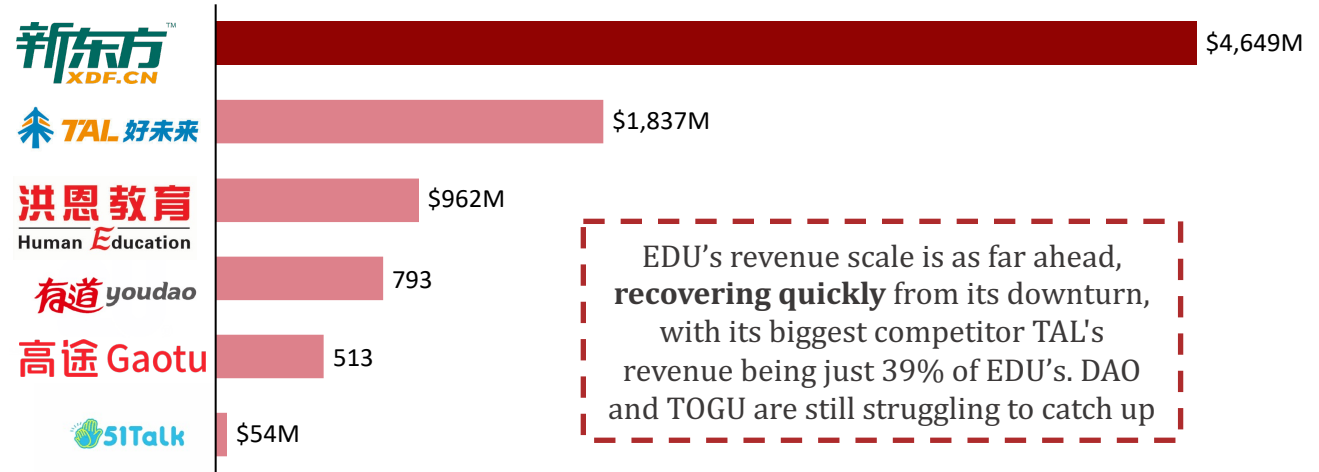
Industry Snapshot

- Private educational institutions offer courses not available in public schools and are privately owned and operated. They include a range of establishments, such as private schools, colleges, universities, and trade training facilities.
- Online and blended learning with virtual classrooms and interactive software are reshaping private education, offering flexible and personalized instruction.
- China's new policy suggests revitalization of education and training market, introduced K12 tutoring and extracurricular courses a prospective view.

Industry Analysis – Porter's Five Forces

Characteristics	Comments
Bargaining Power of Suppliers	Low supplier power: educational materials from multiple suppliers and sufficient teaching force
Bargaining Power of Buyers	High buyer power: Many OMO educational services options in China
Barrier to Entry	Moderate barrier to entry: establishing a strong brand identity poses many challenges.
Threat of Substitution	High threat of substitution: Many possible alternatives that can reduce demand
Rivalry among Competitors	Intense rivalry: Competitive education sector with domestic and digital competitors

Chinese Competitive Landscape (LTM Revenue)



The Big 4 of Teaching and Learning						
FY2024 Q4	Revenue	YoY+%	Net Income	YoY+%	Stock Price	Market Cap
EDU	\$1435.4M	26.28%	\$245M	48.4%	\$55.64	\$9.58B
TAL	\$619.36M	50.36%	\$57.43	51.52%	\$9.57	\$5.79B
DAO	\$170.23M	9.5%	-\$13.7M	66.75%	\$4.80	\$573.69M
GOTU	\$151.96M	43.6%	-\$59.37M	-864%	\$2.36	\$67918M

EDU has diversified into foreign exams, university exams, study abroad services, live e-commerce, and culture and tourism, driving its revenue growth. In contrast, the other three companies remain focused on traditional education, with TAL and DAO especially emphasizing "AI + education" amid the AIGC trend.

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Negative Sentiment Towards the Industry Despite Robust Company

Chinese Double Reduction Policy scared away many investors. But EDU's ability to quickly adjust back to pre-policy revenue level continues to be heavily discounted by investors, causing a price mismatch

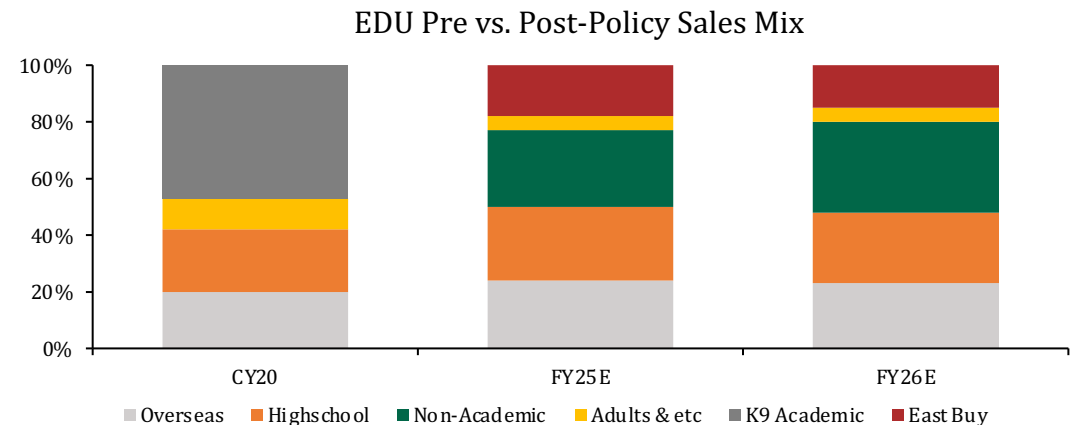
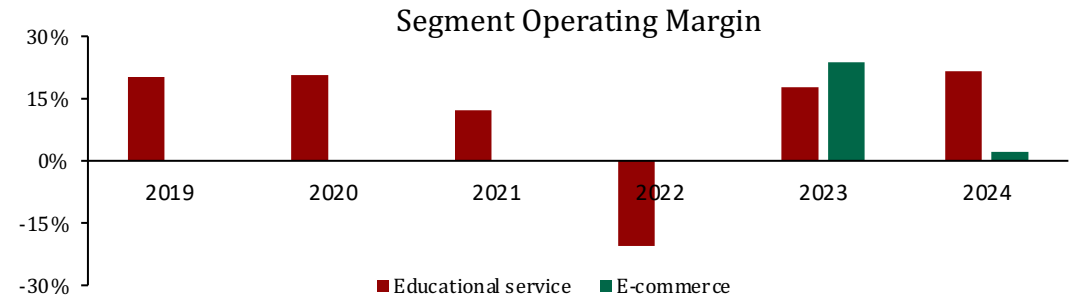
Overview of the Double Reduction Policy

- **Initiative:** Easing the excessive burden of homework and after-school tutoring for young children
- Policies:
 - Reduced K-9 homework burden
 - Reduced after-school tutoring

Consequences of the Double Reduction Policy

- More than 25 online tutoring companies went bankrupted
 - Industry-wide collapse, wiping 95% of industry revenue away
 - Fragmented the educational services market
-
- Reduced competition again EDU
 - Launching new business lines to create synergy between each stream
 - Market leader in Oversea Test Preparation & Overseas Consulting: 30-40% market share

Strong Pivot Towards Other Revenue Stream



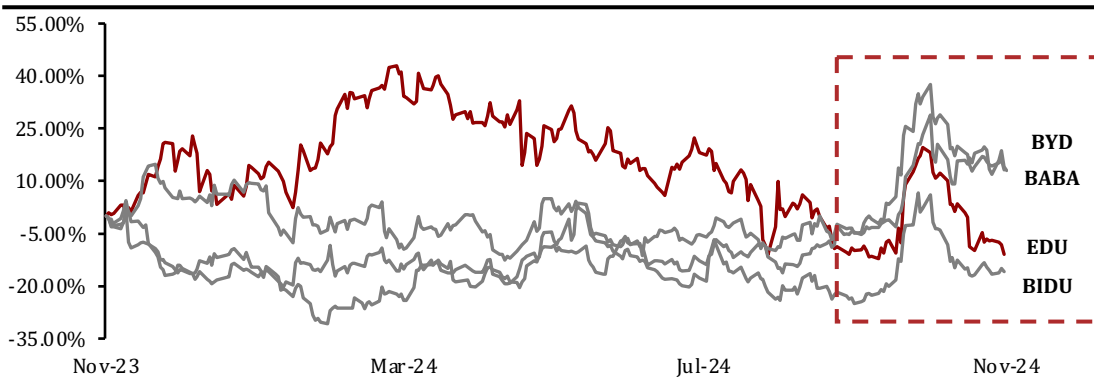
“Alibaba might still be present in a decade, but unlikely in a century, while education—and New Oriental—would persist for 100 years.”
 – Yu Minhong, founder of CEO

EDU's adaptation is fast and strong. While it is hard to predict the government's next move, the change in business model is heavily undervalued by the market through diversification

Market Overexaggerates Trump 2.0 on Immigration

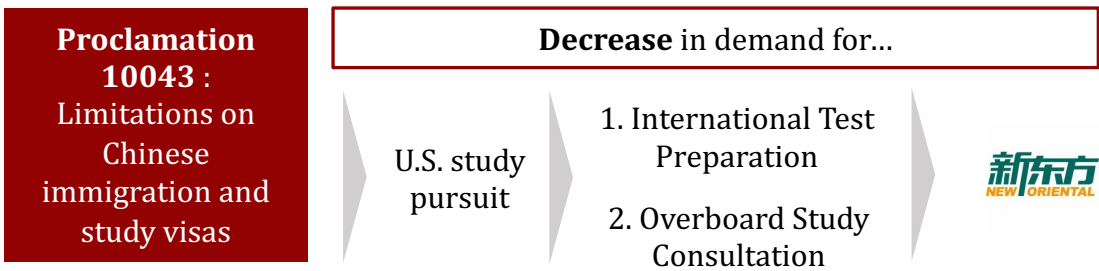
Given Trump's presidency, the market is skeptical of EDU since ~50% of EDU students are pursuing education in the US. However, we expect the impact of Trump 2.0 to be minimal because the proclamation only affects a very small portion of international students

1-Year EDU Stock Movement Correlation



Since Trump took office, EDU has been one of the major underperformers among mega-cap dual-listed Chinese companies, declining around 15% compared to the average performance

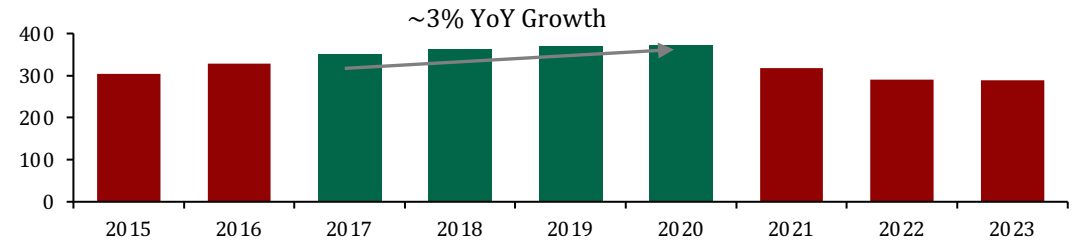
How Does the 2020 Proclamation Influence EDU?



The Misunderstood Policy

- **Proclamation 10043:** Prohibition of students in the PRC associated with the People's Liberation Army from obtaining F visas or J visas
- Only Chinese graduates in very specific STEM fields are impacted
- This policy was still in effect during Biden's presidency

Number of Chinese Students in US University



Chinese students' interest in studying in the US was not deterred by the policy which falls in line with recent year average

Market View

- Trump will tighten the immigration policy
- Trump's victory means longer visa pending time and a higher denial rate

Our View

- US remains one of the top destinations for education; demand will remain strong
- Trump's focus this term is deportation

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Potential Risks Mitigated by EDU's Strong Presence in the Market

Risks

Mitigations

Catalysts

Recent Exit of Dong Yuhui

- Dong Yuhui, a popular e-commerce influencer, exited East Buy, impacting the following quarters
- EDU has already retained a substantial consumer base (44.2M) on East Buy

EDU's **strategic pivot to e-commerce** remains to have a huge potential for future FCF growth. FY 2023, East Buy operating margin is at ~24%, beating other two revenue sectors

Intensified Educational Service Competition

- Existing competitors, such as TAL, is slowing gaining market share
- EDU can maintain its margins via its extensive network of locations and diverse stream of revenues

Management team continues to **expand/build new learning centers** in response to the recovery of the Double Reduction policy in 2021

Strengthened Overboard Study Regulations

- UK, Canada and Australia are imposing more criteria on overboard studies for international students
- Locations, such as Singapore and Japan, remain to be popular alternatives

Waiting for the Chinese government to provide more details on the **stimulus package**; specifically, the amount of fund allocated to each sector

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Valuation Comparable Company Analysis

(\$ USD MM)	Market Data				Trading Multiples					
Ticker	Company	Price	Equity Value	EV	P/E		EV/EBITDA		EV/EBIT	
		\$/Share	\$M	\$M	2024E	2025E	2024E	2025E	2024E	2025E
NYSE: TAL	TAL Education Group	\$ 9.54	\$ 5,777.42	2,661.90	79.50x	22.71x	231.47x	17.68x	-204.76x	-1762.85x
LSE: PSON	Pearson	\$ 15.17	\$ 10,074.40	11783.4	24.08x	18.50x	14.95x	11.36x	19.74x	18.53x
TSE: 7366	LITALICO Inc.	\$ 6.16	\$ 219.91	291.2	15.02x	15.02x	7.02x	6.81x	0.08x	0.09x
NYSE: GHC	Graham Holdings Company	\$ 944.04	\$ 4,059.37	4583.2	18.45x	18.44x	9.22x	13.17x	16.96x	22.30x
SZSE: 000526	Xueda Education Technology Group	\$ 6.63	\$ 816.82	821	26.52x	26.52x	17.43x	13.87x	2.74x	2.06x
Mean					32.71x	20.24x	56.02x	12.58x	-33.05x	-343.97x
Median					24.08x	18.50x	14.95x	13.17x	2.74x	2.06x
EDU	New Oriental Education & Technology Group	\$ 55.40	\$9,057.90	5233.30	24.09x	16.49x	9.67x	7.66x	11.93x	9.71x

Ratio	Multiples			Implied Share Price			Implied Return		
	Lower Limit	Median	Upper Limit	Lower Limit	Mean	Upper Limit	Lower Limit	Mean	Upper Limit
P/E 2024A	18.45x	24.08x	26.52x	\$42.42	\$55.38	\$61.00	-23.42%	0%	10%
P/E 2025E	18.44x	18.50x	22.71x	\$42.42	\$42.55	\$52.24	-23.44%	-23%	-6%
EV/EBITDA 2024A	9.22x	14.95x	17.43x	\$84.46	\$103.11	\$111.19	52.45%	86%	101%
EV/EBITDA 2025E	11.36x	12.58x	13.87x	\$100.44	\$100.68	\$118.29	81.30%	82%	114%
EV/EBIT 2024A	0.08x	2.74x	16.96x	\$48.13	\$63.49	\$70.14	-13.12%	15%	27%
EV/EBIT 2025E	0.09x	2.06x	18.53x	\$60.82	\$64.83	\$69.08	9.78%	17%	25%

Implied Share Price	\$71.67
Implied Return	29%

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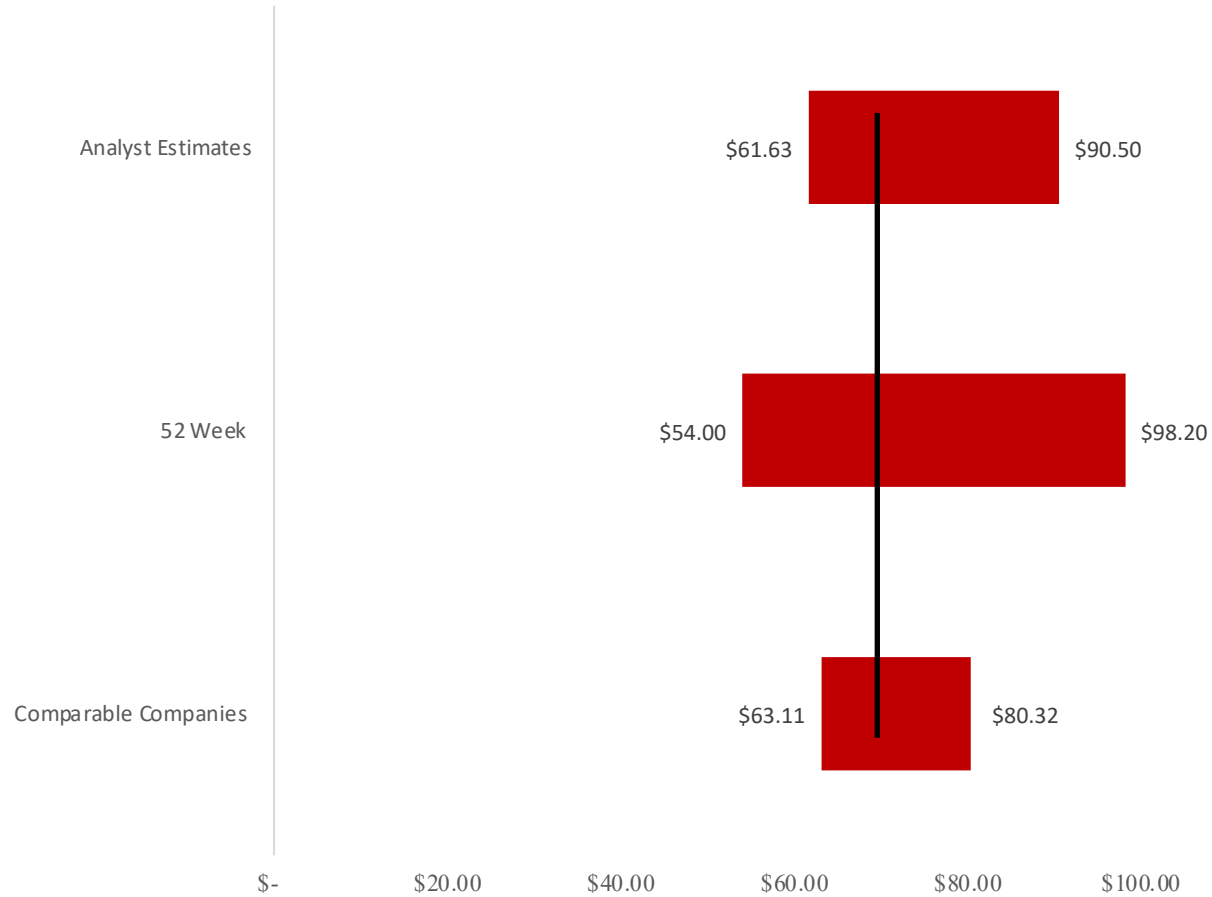
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Price Target: \$69.58(+25.5%)

Recommendation



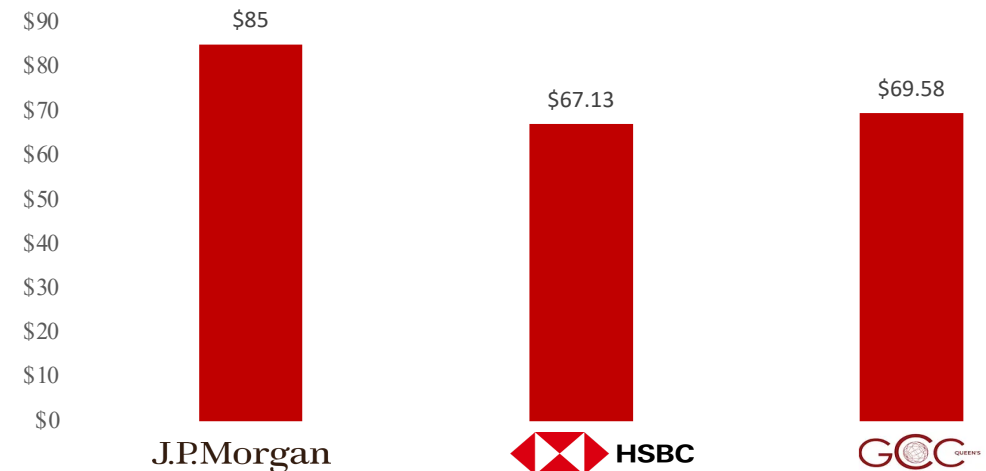
Valuation Range



Price Target Summary

Valuation Summary		
Analysis	Price	Weight
Comparable Analysis	\$71.67	60%
52 Week	\$65.74	20%
Street Consensus	\$67.13	20%
Weighted Average	\$69.58	100%

Selected Broker Summary



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Although we are taking a long view for EDU, it is important to recognize the risks in policy instability when considering investing in China

China's Education Sector

In 2013 China's private education sector valued at approximately **RMB 640 billion** (USD 102 billion) and projected to reach **RMB 1.6 trillion by 2015** (CAGR of 58.1%)

China's private education sector prospered with:

Rising Middle-Class and Disposable Income	Intense Academic Competition	Urbanization and Regional Disparities
<ul style="list-style-type: none"> Growing incomes enabled families to invest in supplemental private education to secure their children's success. 	<ul style="list-style-type: none"> The intense focus on exams like the Gaokao fueled demand for private tutoring to give students a competitive edge particularly in urban areas. 	<ul style="list-style-type: none"> Urban families had greater access to private education, creating strong demand in cities for high-quality services increasing economic disparity and setting the stage for widening the future education levels in China

These factors collectively established China's private education sector as a highly attractive investment opportunity, with significant growth potential and a prosperous outlook.

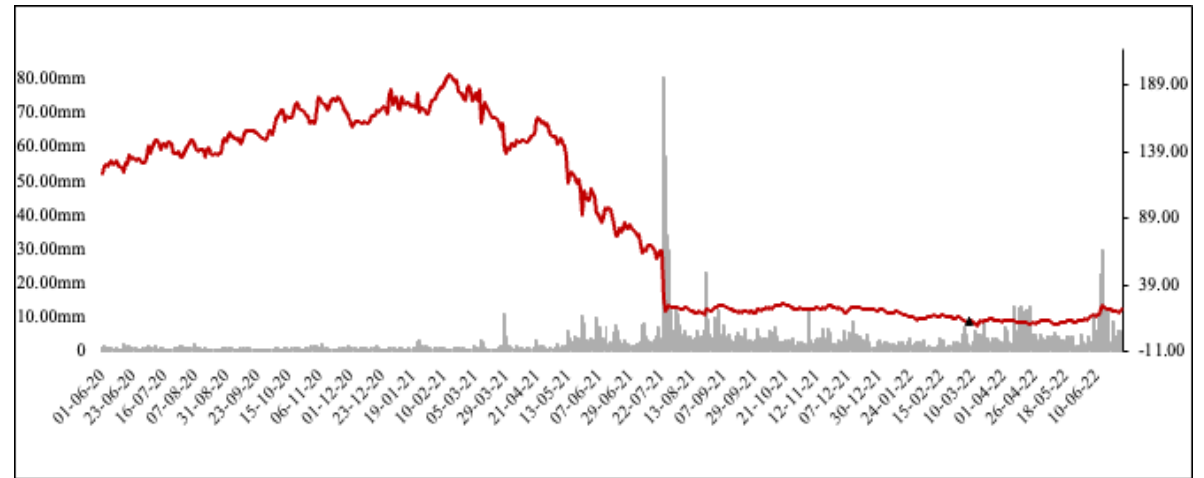
However, by 2023, China's private tutoring market was only valued at **\$93.12 billion in 2023**

Double Reduction Policy!

On **July 24, 2021**, the Double Reduction Policy was implemented, targeting the for-profit K-12 tutoring sector with strict regulations: a ban on profit-driven tutoring, limits on instructional hours, and a reduced role for private tutoring in primary and secondary education. As the industry leader, EDU was disproportionately affected, experiencing a **drastic stock price decline to a historic low of \$1.68**, representing an over **90% drop from prior highs**. This regulatory shift necessitated a complete operational overhaul to realign with permissible education services under the new policy.

Was the double reduction policy a surprise?

- 2013:** Government concern over China's aging population rises under Xi Jinping's presidency. The focus turns to reducing social pressures on families, but no major reduction policies are implemented at this time.
- 2020: (Catalyst for Double Reduction Policy)** COVID-19 pandemic accelerates online tutoring adoption with EDU reaching historical highs of , with the Chinese private education sector growing to an estimated **\$93 billion** as online platforms expand. This surge raises accessibility and competition but also brings **cybersecurity** and **ideological concerns** as private tutoring grows increasingly influential in K-12 education. This rise in popularity creates more attention from regulators and serves as a catalyst for the double reduction policy to be implemented
- Post-Pandemic Slump** Following the pandemic, EDU's revenue and enrollment rates slow down due to changing consumer demand, combined with management challenges and regulatory uncertainty. EDU's stock fluctuates between **\$98.20 (52-week high)** and **\$58.60 (52-week low)** during this period as market confidence wanes.
- July 2021: Double Reduction Policy** announced.



China's unpredictable regulatory landscape poses a significant challenge for investors; as Jing Ulrich, Managing Director at JP Morgan Chase, noted, "Sudden and sweeping policy changes create immense uncertainty for investors, particularly in the education sector." The risk of unexpected shifts makes long-term investment in the Chinese education sector highly precarious.