

Nord Anglia Education (NORD US)

Overweight

Price: \$22.91

23 Jan 2017

Price Target: \$25.00

PT End Date: 31 Dec 2017

1QFY17 results – first take

Nord Anglia Education (NAE) operates one of the largest networks of English curriculum premium private schools globally. 1QFY17 was just slightly lower than our expectations and we don't expect much of a reaction to these figures.

- Nord announced 1QFY17 (YE Aug) results with sales of \$261m (up 7% Y/Y), adjusted EBITDA of \$63.3m (down 3% Y/Y) and adjusted net profit of \$26m (down 5% Y/Y). These three key financial figures were close to (<3% variance) our estimates. Sales growth would have been up 1.6% higher if not for a drag from currencies.
- GAAP net profit of US\$39.4m beat our estimate by a large margin mainly due to \$14m in FX gains on intercompany balances and a net gain of \$6m on FX currency swaps. Excluding these gains (not in our estimates) adjusted net profit was just 3% lower than expected.
- Continued weakness in currencies, namely Renminbi and Euro are the key risks to earnings estimates for FY17. We note that the negative impact of currencies in 1QFY17 may be less of a concern going forward as some currencies have stabilized and/or strengthened against the USD in 2QFY17.
- FY17 guidance for sales announced last November has not been amended in the 1QFY17 filings. Sales for FY17 are expected by management at (US\$910-930m), adjusted EBITDA (US\$207-217m) and adjusted NP (US\$67-72m).

Table 1: 1QFY17 results review

QTR results	results	1Q16	1Q17	Growth	1Q17E	Variance
Turnover		244.0	261.0	7%	261.3	0%
Gross profit		96.0	97.1	1%	99.6	-2%
GPM		39.3%	29.9%		29.9%	
Adj EBITDA		65.1	63.3	-3%	64.6	-2%
Net profit		32.5	39.4	21%	18.3	116%
Adjusted net profit		27.3	26.0	-5%	26.9	-3%

Source: J.P. Morgan estimates. Company data

Investment Thesis

We believe NAE is well positioned to benefit from attractive dynamics in expat (or global citizen) growth trends, such as an historically high percentage of employees being relocated to other countries. We consider NAE to be a high-single to low double-digit organic growth company, with both healthy same-school growth and attractive greenfield opportunities. NAE has one of the largest (if not the largest) network of private schools all operating under a similar curriculum. There are significant economies of scale in terms of curriculum development, brand building and marketing and administration that can be achieved by NAE compared to single campus schools.

Valuation

Our Dec-17 price target is based on DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2% (yield on 10-year government notes in China). We assume a beta of 1.00. Accordingly, we assume a WACC of 8.2%. We estimate free cash flow until 2020 and assume a terminal growth rate of 3%. The ND/E level for NORD is still quite high and we are assuming long-term liabilities as a proportion of EV to be 40%.

Risks to Rating and Price Target

If the global economy slows, companies may lower their commitments to global expansion, which will in turn impact the number of expats across various markets. NAE is one of the leaders in a very fragmented market. There are limited natural barriers to entry and new entrants can lower prices to attract students. While the company has a successful track record of over 20 acquisitions, 12 of the schools were acquired in 2013. While we have observed an impressive ability to integrate operations of these schools, execution issues might be a distraction to management.

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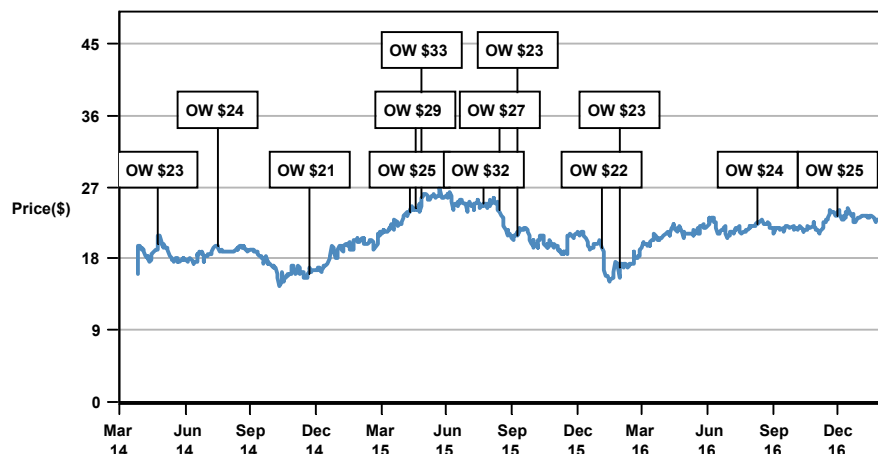
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Nord Anglia Education (NORD, NORD US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
24-Apr-14	OW	19.81	23.00
17-Jul-14	OW	19.55	24.00
20-Nov-14	OW	16.02	21.00
09-Apr-15	OW	23.89	25.00
17-Apr-15	OW	24.25	29.00
28-Apr-15	OW	25.62	33.00
23-Jul-15	OW	24.91	32.00
13-Aug-15	OW	24.22	27.00
09-Sep-15	OW	20.88	23.00
04-Jan-16	OW	19.35	22.00
27-Jan-16	OW	16.92	23.00
09-Aug-16	OW	22.45	24.00
29-Nov-16	OW	23.30	25.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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