



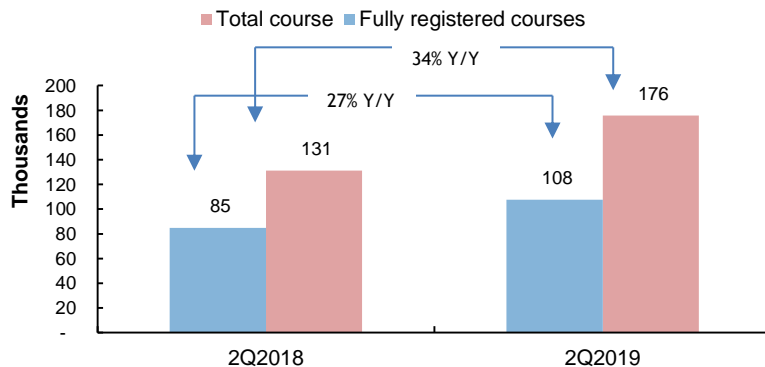
T. H. Data Flash - Chinese TAL Education Group – FY2Q19E

Enrollments and Course Structural Changes Drive FY2Q19 Revenue but Policy Uncertainty Remains

We expect TAL to have positive performance in the quarter, but we see continued uncertainty from government policies and regulations. In 2018, the government issued multiple new regulations and policies in the non-public education area and we cannot rule out the possibility of no more potential policies/regulations to follow.

- **Enrollment growth drives FY2Q19 revenue** - We estimate that TAL's FY2Q19 small class revenue is likely to be \$537.0M with total revenue at \$669.54M (representing 46.9% Y/Y growth), higher than the high end of the company's guidance range of \$647.2M to \$660.8M, and better than consensus at \$666.8M. We believe the growth is driven mainly by the enrollment volume growth as well as the changes from the price composition of courses.
- **Total course capacity grows Y/Y** – Total course capacity is likely to be 176K in FY2Q19, an increase of 34% Y/Y from 131K in FY2Q18. Fully registered course capacity is 108K in FY2Q19, an increase of 27% Y/Y from 85K in FY2Q18 (*Figure 1*).
- **Course price composition changes lead to faster Y/Y growth of the attendee capacity for high priced courses** – Total course attendee capacity is 3,558K in FY2Q19, increase of 30% Y/Y from 2,745K in FY2Q18. Fully registered course attendee capacity is 2,110K in FY2Q19, an increase of 22% Y/Y from 1,733K in FY2Q18 (*Figure 2*). The total course capacity with prices higher than RMB500 is 117K in F2Q19, an increase of 72% Y/Y from 68K in F2Q18. (*Figure 3*), and the total course attendee capacity with price higher than RMB500 is 2,381K in F2Q19, increase of 65% Y/Y from 1,446K in F2Q18 (*Figure 4*).
- Please see page 2 for a discussion of valuation and risks.

Figure 1: Total and Fully Registered Course Capacity ('000s), F2Q18 vs. F2Q19E



Source: T. H. DATA (www.thdata.com)

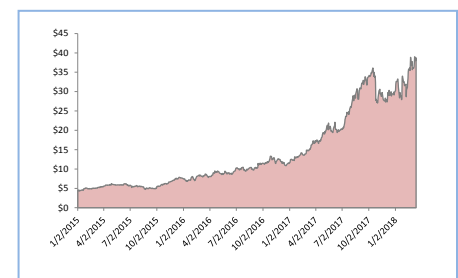
TAL: BUY
Price: \$22.74
Target Price: \$45.00

52 Week Range:	\$22.33 - \$47.63
Market Cap:	\$12.9B
Avg. Daily Vol. (100 day):	5,484,470
3-Yr. Est. EPS CAGR:	24%
Net cash per share:	\$3.20

FY (Feb)	2018A	2019E	2020E
Q1	\$321.9A	\$550.6A	\$754.6E
Q2	\$455.7A	\$658.6E	\$944.0E
Q3	\$433.3A	\$621.7E	\$894.9E
Q4	\$504.1A	\$722.2E	\$1,028.4E
FY Revenue	\$1,715.0A	\$2,553.1E	\$3,621.9E

Q1	\$0.05A	\$0.11A	\$0.13E
Q2	\$0.10A	\$0.11E	\$0.18E
Q3	\$0.07A	\$0.08E	\$0.13E
Q4	\$0.12A	\$0.12E	\$0.20E
FY GAAP EPS	\$0.34A	\$0.43E	\$0.64E
P/E	66.9x	52.9x	35.5x

All figures in millions unless otherwise noted



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- **Maintain BUY** - We maintain our positive outlook on the stock based on the potential upsides driven by the high demands in the underlying market. We maintain our BUY rating and our price target of \$45.00, which is based on a 41.7X PE to our FY2021E non-GAAP EPS projection of \$1.08. Compared with its growth at higher than 60% annually, we believe the valuation is justified.
- **Risks** – 1) Expansion risk: while the expansion can be positive to its topline growth, it may also bring challenges to the company, such as hiring qualified teachers. The proper management capacity has to be put in place along with the capacity expansion. Otherwise, the growth can be constrained and can lead to new issues; 2) Emerging online education competition - the penetration of mobile internet and new technology could change the business model in each offline business, including tutoring companies; 3) Lower quality of teaching may impact the company's reputation; 4) Increase in labor and rental costs; 5) Intensifying competition in China's after-school tutoring market; and 6) Regulatory issues appear to be intensified a bit in recent days, which actually may put pressure on near term growth.

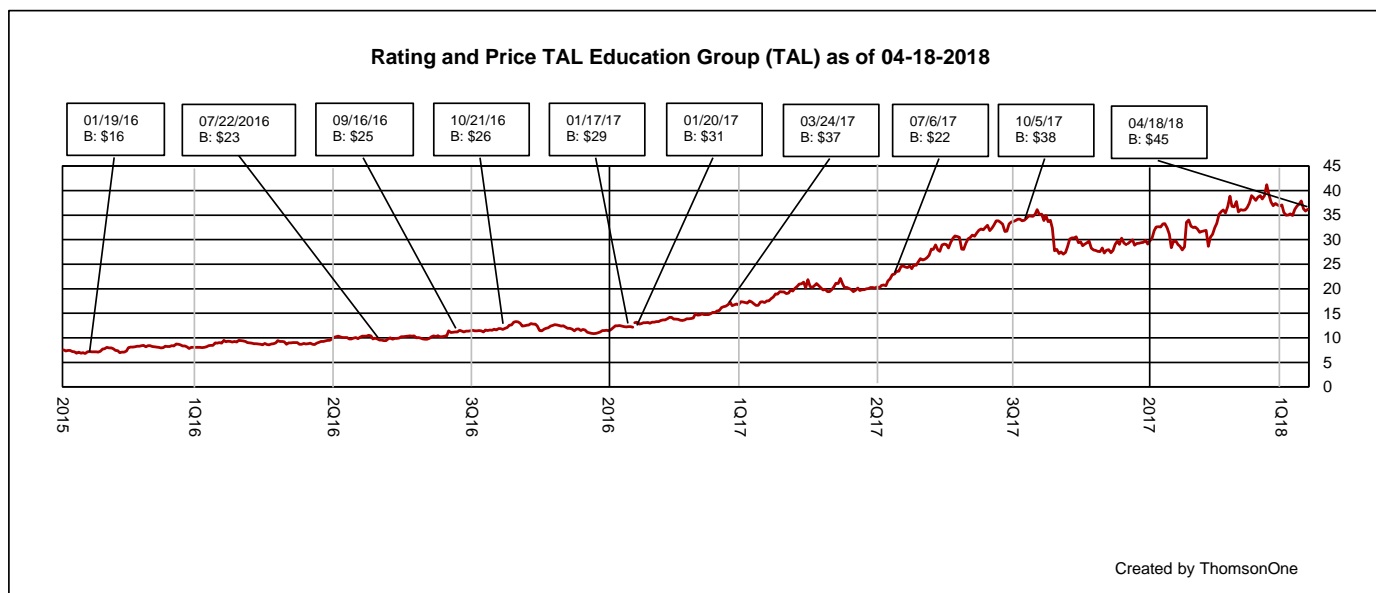
For the full version of this report, please contact TH Capital.

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