

Tal Education Group
 Ticker: XRS
 Sector: Services
 Industry: Training & Education services

Intrinsic Value: \$222
 Current Price: \$31.76
 Stop Loss: \$25
 Upside Review: \$70

P/E: 28.43
 Forward P/E: 31.68
 Beta: 0.7

Market Cap: \$2.65B
 Dividend Yield: N/A
 52 Week Range: \$37.31–\$14.44

Business Summary: Tal Education Group is a leading K-12 after-school tutoring services provider in China which offers comprehensive tutoring services to K-12 students and early education for young learners aged through 3-8. It has established “Xueersi” as a leading brand in China’s K-12 private education market closely associated with high teaching quality and academic excellence.

Industry Trends: Although the education training market in China has realized fast development in last decade, it is still an emerging market with extraordinary potential for growth in this industry. In this market, the segments of after-school tutoring and early education, especially, are showing strong growth stemming from a cultural norm to enhance education in children and young adults. There is also a great potential in the online learning space.

Investment Thesis: Tal Education Group has developed a leading position in the market since it started due to its well-known brand and excellent reputation in teaching ability. The company has achieved average growth of net income through strong demand for its service, around 70% customer retention rate, word of mouth referrals of consumers and cost control ability. The company also commits itself to build up its long-term distinctive competitiveness through building a strong team to write its core teaching materials, training teachers to improve teaching ability, developing online course and online education platform. We foresee that the company will be continually keeping a rapid growth based on Chinese strong demand for after-school tutoring service.

Competitive Analysis:
 Tal Education Group has strong competitiveness power in the market. Most of its revenue comes from small classes which provide its customers with high teaching quality at a favorable price compared with its major competitors. It has built up a more than 400 teachers R&D team which is responsible for writing and updating the core teaching materials.

Pros:

- The exam-oriented, historic, and traditional culture in East Asia create a long-term demand of after-school tutoring service.
- The increasing household disposable income in China and “one child policy” both make parents willing to invest in their children’s education.
- The steady expansion of its new learning and service centers and 70% customer retention assure its rapid growth over next few years.
- The good cost control ability has aided growth and profitability and will continue to do so.

Risk Factors:

- Strict government regulations on the private education market.
- The intense competition for quality education in the market.

5 Year Stock Performance:



Total Return Estimates

3 Yr FV Reversion: 35%
 5 Yr FV Reversion: 17.5%

Key Valuation Assumptions

Est Revenue Growth: 35%
 WACC: 8.02%
 Expected Inflation: 1.7%
 Terminal Growth Rate: 6.5%
 10 Yr Risk Free Rate: 2.58%
 Equity Risk Premium: 2.47%
 Tax Rate: 17.00%

Key Financial Data

Est 2014 EPS: \$0.76
 Est 2015 EPS: \$1.06
 3-5 Yr Est EPS Growth: 17.5%
 PEG (TTM): 0.95
 ROE: 20.9%
 ROA: 12.96%
 Price/Book: 10.83
 Price/Cash Flow: 10.04
 Debt/Equity: 0%
 Current Ratio: 2.3
 Quick Ratio: 2.3

CSR Information:

N/A (see supplemental form attached)

Competitor Comparison:

Direct Competitor Comparison					
	XRS	AMBO	CEDU	EDU	Industry
Market Cap:	2.72B	N/A	N/A	3.26B	321.82M
Employees:	6,375	N/A	N/A	22,826	3.01K
Qtrly Rev Growth (yoy):	0.45	N/A	N/A	0.20	0.15
Revenue (ttm):	341.52M	N/A	N/A	1.14B	344.41M
Gross Margin (ttm):	0.53	N/A	N/A	0.60	0.52
EBITDA (ttm):	75.07M	N/A	N/A	239.00M	30.55M
Operating Margin (ttm):	0.19	N/A	N/A	0.17	0.09
Net Income (ttm):	65.90M	N/A	N/A	215.70M	N/A
EPS (ttm):	0.82	-0.15	0.70	1.37	0.05
P/E (ttm):	42.10	N/A	10.00	15.15	22.02
PEG (5 yr expected):	0.99	N/A	N/A	0.61	0.74
P/S (ttm):	7.75	N/A	N/A	2.90	1.49

Information from: Bloomberg, Value Line, S&P Net Advantage, Yahoo

2014 – 2015 Student Managed Fund Supplemental CSR Information

Although Tal Education does not publish CSR information in the U.S., due to no such obligation required by SEC, it is clearly concerned with the importance of contributions to society.

1. It has set up a Social Responsibility Department to fulfill its social obligations.
2. It released *2013 Social responsibility report* publicly in Chinese language based on GRI Sustainable Development Guidance.
3. It has been rewarded 89 awards due to its contribution to society.
4. It set up a charity fund in its name in 2013 to share its educational resources, educational ideas to students from low income families, and serves remote country and minority areas.
5. It continually improves multimedia teaching methods to reduce paper use and energy consumption.
6. Its amount of employees has grown to 10,447 people from 2011 to 2013 with female employees accounting for 62% of its total employee.
7. It offers attractive salary and welfare to employees, creates equal opportunity for promotion, grants paid holiday and leave
8. It is teaching philosophy to make learning more effective, efficient and fun, helping student to improve themselves while making fun in learning process.

From talked above, we believe that Tal Education Group take its social responsibility seriously.