TAL Educational Group (TAL US)

2QFY27: Revenue Miss And Strong Operating Leverage; Fair-value Loss Drags Net Profit

Highlights

- TAL's 2QFY27 revenue grew 15% yoy to US$995m, 7% and 8% below our and consensus estimates. Non-GAAP operating profit more than doubled to US$248m, with operating margin expanding 12.4ppt yoy to 25% as S&M expenses fell 15% yoy. Non-GAAP net profit fell short of expectations and came in at losses of US$36m vs street's estimate of US$200m due to fair-value loss on investments and tax charges.
- Maintain BUY with a lower target price of US$15.00.

2QFY27 Results

Year to 28 Feb (US$m)	3QFY25	2QFY26	3QFY26	QoQ	YoY	UOB	Var	Cons	Var
Revenue	861	758	995	31%	15%	1,073	-7%	1,076	-7.5%
COGS	370	320	400	25%	8%	442	-10%		
Gross profit	491	438	595	36%	21%	630	-6%	634	-6.2%
GPM	57%	58%	60%	2 ppt	3 ppt	59%	1 ppt	58.9%	1 ppt
Operating expenses	395	301	359	19%	-9%	471	-24%		
S&M	267	172	226	32%	-15%	304	-26%		
G&A	129	129	132	3%	3%	167	-21%		
Operating profit	96	137	236	72%	145%	159	48%		
Non-GAAP OP	108	149	248	67%	130%	175	42%		
Non-GAAP OPM	13%	20%	25%	5 ppt	12 ppt	16%	9 ppt		
Net income	124	408	-47	-112%	-138%	186	-126%		
Non-GAAP net profit	136	420	-36	-108%	-126%	202	-118%	200	-117.8%
Non-GAAP diluted EPS	0.24	0.75	-0.06	-109%	-127%	0.36	-118%	0.37	-117.4%
Non-GAAP NPM	16%	55%	-4%	(59 ppt)	(19 ppt)	19%	(22 ppt)	18.6%	(22 ppt)

Source: TAL Educational Group, UOB Kay Hian

Analysis

- **Revenue growth moderates; below expectations.** TAL Education Group's (TAL) revenue grew 15% yoy to US$995m in 2QFY27, decelerating from 32% yoy in 1QFY27 and 7% and 8% below our and consensus estimates. Growth was weighed down by weaker learning-device performance amid market contraction and intense competition, alongside moderating online enrichment growth, partly offset by healthy double-digit growth in Peiyou offline programmes, driven by enrolment gains. Management expects learning devices to remain a key drag on group revenue growth. Deferred revenue stood at US$930.4m at end-2QFY27, up 5.5% from end-FY26, supporting revenue visibility into 2HFY27.
- **Better-than-expected margin expansion.** Gross profit rose 21% yoy to US$595m in 2QFY27, with gross margin expanding 3ppt yoy to 60%. Non-GAAP operating margin widened 12ppt yoy to 25%, supported by higher gross margin and lower S&M expenses, partly offset by higher G&A expenses. S&M expenses declined 15% yoy to US$226m, bringing the expense ratio down 8ppt yoy to 23%, while G&A expenses rose 4% yoy to US$132m. non-GAAP operating profit reached US$248m, more than double the US$108m recorded in 2QFY26 and 42% above our estimate.

Key Financials

Year to 28 Feb (US$m)	2025	2026	2027F	2028F	2029F
Net turnover	2,250	3,009	3,651	4,173	4,870
EBITDA	45	348	498	481	571
Operating profit	(3)	276	425	406	503
Net profit (rep./act.)	85	531	671	684	754
Net profit (adj.)	20	488	621	630	695
EPS (US$ cent)	9.6	252.8	320.2	323.4	354.7
PE (x)	105.9	4.0	3.2	3.1	2.9
P/B (x)	0.5	0.5	0.5	0.4	0.3
EV/EBITDA (x)	82.4	10.6	7.4	7.7	6.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	3.8	17.6	18.4	16.4	15.5
Net debt/(cash) to equity (%)	(47.0)	(40.4)	(46.1)	(63.3)	(68.7)
ROE (%)	2.3	14.1	16.9	14.7	13.7
Consensus net profit	-	-	752.5	658.8	832.3
UOBKH/Consensus (x)	-	-	0.83	0.96	0.83

Source: TAL Educational Group, Bloomberg, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	US$10.14
Target Price	US$15.00
Upside	47.9%
Previous TP	US$18.40

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	TAL US
Shares issued (m)	407.2
Market cap (US$m)	5,624.1
Market cap (US$m)	5,624.1
3-mth avg daily t'over (US$m)	55.5

Price Performance (%)

52-week high/low				US$13.37/US$8.87
1mth	3mth	6mth	1yr	YTD
(13.6)	(17.8)	(6.5)	(15.7)	(7.1)

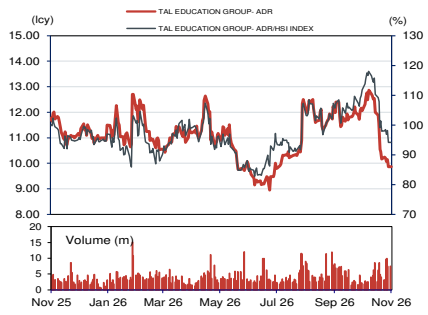
Major Shareholders (%)

Bangxin Zhang	30.05%
Yachao Liu	4.58%
BlackRock	4.17%

Balance Sheet Metrics

FY27 NAV/Share (HK$)	21.80
FY27 Net Debt/Share (HK$)	10.05

Price Chart



Source: Bloomberg

Company Description

TAL Education Group is a holding company, which engages in the provision of smart learning solutions. It offers comprehensive learning services to students of all ages through diversified class formats.

- **Investment fair-value changes and higher tax expense weigh on earnings.** TAL reported a non-GAAP net loss of US$35.6m in 2QFY27, against our net profit estimate of US$202m, despite stronger operating profitability. Other expenses totalled US$189.7m, compared with other income of US$67.1m in 2QFY26, with the swing mainly driven by changes in the fair value of certain investments. Income tax expense increased to US$135.9m from US$51.1m, mainly reflecting changes in deferred tax liabilities relating to withholding tax.
- **FY27 margin improvement expected despite moderating revenue growth.** Management expects group revenue growth to moderate as the business scales and learning devices continue to face industry headwinds. FY27 operating margin is expected to improve yoy, supported by operating efficiencies and disciplined resource allocation. TAL will continue investing in learning-device content, technology and product experience while managing costs carefully, and does not expect significant losses from the business for the full year. Quarterly profitability may fluctuate with seasonality and investment timing.
- **Shareholder returns.** TAL extended its share buyback programme to 28 Jul 27, with US$393.7m available for repurchases, equivalent to approximately 7.1% of its market capitalisation. The company also declared a dividend of US$0.10/ADS, totalling US$55.2m and implying a yield of approximately 1.0%. Together, the dividend and available buyback authorisation represent potential capital returns of approximately 8.0% of market capitalisation, subject to buyback execution. Actual repurchases totalled US$2.0m between 29 Jul 26 and 23 Oct 26.

Valuation/Recommendation

- **Maintain BUY with a lower target price of US$15.00,** based on SOTP valuation. Our target price implies 13x FY27F non-GAAP PE. TAL currently trades at 9.0x FY27F non-GAAP PE.

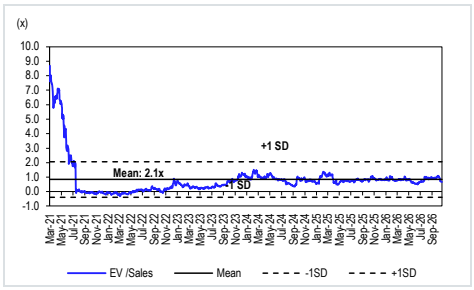
Earnings Revision/Risk

- We lower our FY27 revenue forecast by 2.8% to US$3,651m, up 21% yoy, and our FY27 non-GAAP net profit forecast by 6.2% to US$720m, translating to a net margin of 20%, to reflect moderating revenue growth in FY27.
- **Risks** include: a) prolonged weakness in learning-device sales; b) stronger competition in learning services; c) margin pressure from continued investment; d) adverse education policy changes; and e) fair-value volatility in TAL's investment portfolio.

Share Price Catalyst

- a) Sustained demand growth for non-academic courses; b) stronger enrolment and classroom utilisation; c) margin improvement from operating efficiencies and disciplined spending; and d) a recovery in learning-device sales.

12-Month Forward EV/Sales



Source; Bloomberg, UOB Kay Hian

SOTP-Based Valuation

Segment	FY27F Rev US$mn	FY27F nGAAP OPM	FY27F nGAAP OP US$mn	FY27F NOPAT US$mn	FY27-28E Sales CAGR	FY27-28E OP CAGR	FY27F Target Multiples	FY27F P/S	Value US$mn	ADSs # mn	Val/sh US$
Learning services and others	2,837	14.4%	408	318	24%	23%	16x		5,028	616	8.2
High school tutoring	402	19.9%	80	62	12%	12%	15x		937	616	1.5
Enrichment learning and others	2,434	13.5%	328	256	26%	26%	16x		4,092	616	6.6
Content solutions	927	7.2%	67	52	4%	NA		3x	2,319	616	3.8
TAL	3,651	13.0%	475	371	19%	29%	20x		7,347	616	11.9
Net cash (FY27F)									1,897	616	3.1
							34x	18x	9,244	616	15.0

Source: UOB Kay Hian

Profit & Loss

Year to 28 Feb (US$m)	2026	2027F	2028F	2029F
Net turnover	3,008.9	3,650.6	4,173.0	4,870.4
EBITDA	348.5	497.6	480.7	571.1
Deprec. & amort.	72.4	72.1	74.4	68.1
EBIT	276.0	425.4	406.3	503.0
Total other non-operating income	347.3	365.2	365.2	365.2
Associate contributions	(0.9)	(0.9)	(0.9)	(0.9)
Net interest income/(expense)	62.0	84.2	75.7	66.1
Pre-tax profit	684.6	873.9	846.3	933.4
Tax	(154.4)	(203.4)	(162.2)	(178.9)
Minorities	0.6	0.0	0.0	0.0
Net profit	530.8	670.5	684.1	754.5
Net profit (adj.)	487.7	620.9	630.2	694.7

Balance Sheet

Year to 28 Feb (US$m)	2026	2027F	2028F	2029F
Fixed assets	690.5	691.1	1,066.0	1,312.4
Other LT assets	1,402.7	2,429.0	2,442.9	2,450.8
Cash/ST investment	1,523.9	1,952.6	3,234.0	4,071.1
Other current assets	2,319.2	1,585.0	1,481.1	1,551.0
Total assets	5,936.3	6,657.7	8,224.0	9,385.2
ST debt	0.0	29.8	0.0	0.0
Other current liabilities	1,767.2	1,896.8	2,553.4	2,900.3
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	395.4	558.8	561.0	561.0
Shareholders' equity	3,774.4	4,173.3	5,110.6	5,924.9
Minority interest	(0.8)	(0.9)	(0.9)	(0.9)
Total liabilities & equity	5,936.3	6,657.7	8,224.0	9,385.2

Cash Flow

Year to 28 Feb (US$m)	2026	2027F	2028F	2029F
Operating	601.5	716.8	1,561.0	1,151.6
Profit fo the year	684.6	873.9	846.3	933.4
Tax	(154.4)	(203.4)	(162.2)	(178.9)
Deprec. & amort.	72.4	72.1	74.4	68.1
Associates	0.9	0.9	0.9	0.9
Working capital changes	263.7	(72.9)	760.4	277.1
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(265.7)	46.1	41.3	51.1
Investing	(175.7)	(301.1)	(275.0)	(314.5)
Capex (growth)	(93.2)	(245.4)	(275.0)	(314.5)
Investment	828.2	1,803.4	1,803.4	1,803.4
Others	(912.4)	(1,859.0)	(1,803.4)	(1,803.4)
Financing	(643.5)	29.8	(29.8)	0.0
Dividend payments	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	29.8	(29.8)	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(643.5)	0.0	0.0	0.0
Net cash inflow (outflow)	(217.8)	445.4	1,256.3	837.1
Beginning cash & cash equivalent	1,991.7	1,786.0	2,231.5	3,487.8
Changes due to forex impact	12.1	0.0	0.0	0.0
Ending cash & cash equivalent	1,786.0	2,231.5	3,487.8	4,324.9

Key Metric

Year to 28 Feb (US$m)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	11.6	13.6	11.5	11.7
Pre-tax margin	22.8	23.9	20.3	19.2
Net margin	17.6	18.4	16.4	15.5
ROA	9.3	10.6	9.2	8.6
ROE	14.1	16.9	14.7	13.7
Growth				
Turnover	33.7	21.3	14.3	16.7
EBITDA	675.5	42.8	(3.4)	18.8
Pre-tax profit	458.5	27.7	(3.2)	10.3
Net profit	527.4	26.3	2.0	10.3
Net profit (adj.)	2,381.5	27.3	1.5	10.2
EPS	2,539.6	26.7	1.0	9.7
Leverage				
Debt to total capital	0.0	0.7	0.0	0.0
Debt to equity	0.0	0.7	0.0	0.0
Net debt/(cash) to equity	(40.4)	(46.1)	(63.3)	(68.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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