

RAFFLES EDUCATION LIMITED

(RLS SP / NR7.SI)

Look forward to ASEAN K-12 expansion

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Investment Highlights

- **FY26 financials: FX tipped the year into a loss.** Revenue fell 4.4% to S\$106.8m on the HFYR disposal. The Group posted an audited net loss of S\$6.4m (PATMI: -S\$5.6m), mainly due to a S\$10.1m net FX loss versus a S\$24.1m gain in FY25. Borrowings fell 59% to S\$86.2m, cutting net gearing to 7% from 34%.
- **Operations: leaner and ASEAN-led.** After the HFYR exit, the Group runs 13 institutions with 12,408 students, and ASEAN now contributes 54% of revenue (+4.6% YoY). Costs were contained, but the RM54.4m (~S\$17.2m) arbitration award against Raffles K12 is a watch item.
- **Iskandar: record enrolment and land upside.** Raffles American School Iskandar reached record enrolment, and management targets FY27 revenue of MYR70–75m. Potential monetisation of ~65 acres at EduCity to recover capital from the school could fund debt repayment, though timing is uncertain.
- **China: smaller by design.** Management will grow design training while selling non-core assets, starting with OUC/Langfang and then Tianjin. The aim is to halve or eliminate OUC's S\$40.7m of debt. China revenue will fall, and some sales may come in below book (Langfang: S\$55.7m compensation vs S\$117.1m book value).
- **Bangkok and Jakarta: growth on different timelines.** Bangkok's two new blocks will double capacity to 1,000 students, with a possible fee increase as upside. Funding for Jakarta's S\$30.1m of capex has been addressed, but its contribution will build gradually as start-up costs weigh.
- **ASEAN K-12: supportive but selective.** Local demand for English-medium education should support the sector into 2027, but competition for students and teachers is rising. Filling Iskandar, ramping up Bangkok and controlling Jakarta's costs matter more than market growth.

Valuation & Action.

We reiterate our **OUTPERFORM** rating on Raffles Education, with a 12-month fully diluted target price of **S\$0.27** (previously S\$0.32), implying 216.6% upside from current levels. Our target price is derived using our DCF valuation methodology, based on an unchanged WACC of 6.3% and terminal growth rate of 2.5%. The reduction in our target price reflects a more conservative FY27–30F earnings trajectory following FY26 results, as we normalise one-off disposal items and assume a slower ramp-up in ASEAN K-12 contributions against a smaller recurring revenue base, while the Group's improved risk profile after its balance-sheet restructuring and asset monetisation continues to underpin our positive view.

Risks.

Key downside risks include (i) execution risk on new-campus launches across ASEAN; (ii) margin pressure from rising competition in international schooling

OUTPERFORM

Last close (S\$)	0.08
12M Target Price (S\$)	0.27
Previous TP (S\$)	0.32
Previous Recommendation	OP
Upside / (Downside) (%)	228.19

TRADING DATA

Market Cap (S\$m)	149.23
Issued Shares (mn)	1,819.83
3M Avg Daily Vol (mn)	2.85
3M Avg Daily Val (S\$m)	0.30
Free Float (%)	55.25

MAJOR SHAREHOLDERS (%)

Chew Hua Seng	43.16
Chung Gim Lian Doris	43.16
Chua Chwee Koh	0.58

Financials & Key Operating Statistics

YE Jun (S\$m)	2025	2026	2027F	2028F	2029F
Revenue	111.7	106.8	120.9	137.7	157.8
PATMI	(20.1)	6.1	2.7	7.4	13.3
EPS (S\$ cents)	0.55	(0.34)	0.15	0.41	0.73
EPS growth (%)	n/a	(160.7%)	(144.8%)	171.2%	79.9%
DPS (S\$ cents)	-	0.13	0.05	0.12	0.22
Div Yield (%)	-	1.5%	0.5%	1.4%	2.6%
Net Profit Margin (%)	(18.0%)	5.7%	2.3%	5.4%	8.5%
Net Gearing (%)	30.0%	6.6%	4.8%	4.3%	1.6%
P/E (x)	54.1x	(25.3x)	56.5x	20.8x	11.6x
P/B (x)	0.2x	0.2x	0.2x	0.2x	0.2x

Source: Company data, KGI Research estimates

across Malaysia, Thailand and Indonesia; and (iii) regulatory and foreign-exchange exposure across multiple jurisdictions.

Financials & Business Updates

FY26 operations review

FY26 was a year of network consolidation. After the HFYR (Wanbo) exit, the Group operates 13 institutions across 8 countries, down from 16 across 9, with 12,408 students enrolled (FY25: 17,859). The remaining portfolio is higher-value. Course fees fell 6.4% to S\$83.8m, but average course fees per student rose to about S\$6,750 from about S\$5,000, partly flattered by HFYR's part-year revenue.

ASEAN is now the anchor market, contributing 54.2% of revenue (FY25: 49.5%), as ASEAN revenue rose 4.6% to S\$57.9m on higher course and ancillary fees. China revenue fell 13.5% to S\$45.9m. The Group kept investing in Malaysia. It raised its stake in Raffles Iskandar (Raffles University) to 95% for S\$1.9m and bought two freehold land parcels for S\$5.3m from a related party. PPE additions totalled S\$23.4m, mostly buildings and construction in progress. Capital commitments fell to S\$2.1m from S\$17.3m, suggesting the current build-out is largely complete. Against this, an arbitral tribunal awarded RM54.4m (~S\$17.2m) against Raffles K12, which management intends to challenge.

Costs were well contained: personnel expenses fell 1.2% to S\$47.6m and marketing spend dropped 24% to S\$4.5m. However, course fees covered personnel costs only 1.76x (FY25: 1.86x). In the facilities rental segment, OUC now leases to 8 institutions with about 7,000 students, and the segment's net loss narrowed to S\$3.1m from S\$13.6m. Course fees received in advance rose 1.3% to S\$27.7m, giving modest revenue visibility into FY27.

FY26 financials review

Raffles Education's FY26 revenue fell 4.4% YoY to S\$106.8m. The disposal of HFYR cut North Asia revenue by 13.5% to S\$45.9m, while ASEAN grew 4.6% to S\$57.9m (54.2% of Group revenue). The Group swung to an audited net loss after tax of S\$6.4m (PATMI: -S\$5.6m, or -0.36 SG cents per share) from a S\$4.4m profit in FY25, mainly due to a S\$10.1m net FX loss, compared with a S\$24.1m net FX gain in FY25. This S\$34.2m swing was largely unrealised and reflected the Singapore dollar's moves against the Renminbi and Malaysian Ringgit on cross-currency financial assets and liabilities. Excluding the FX loss, the Group would have reported a profit after tax of about S\$3.7m (assuming no tax effect). Including S\$13.6m of cumulative translation losses recycled to P&L on the HFYR disposal and a subsidiary strike-off, FX-related charges totalled S\$23.6m.

Disposal-related items were a net positive: a S\$52.8m gain on 51 Merchant Road more than covered the S\$29.4m HFYR loss and the S\$1.8m strike-off loss. However, the HFYR disposal also lifted the tax charge to S\$13.1m. Excluding all non-recurring items, our core EBITDA declined 7% YoY to S\$25.8m; the company-defined adjusted EBITDA rose 52% to S\$29.6m, helped by a S\$4.6m revaluation gain. Finance costs were flat at S\$16.6m. Bank interest fell to S\$5.0m from S\$9.8m, but S\$3.8m of litigation costs related to the Raffles K12 arbitration offset the saving, leaving core PBT at a S\$8.6m loss.

The balance sheet improved markedly: total borrowings fell 59% to S\$86.2m, cash and bank balances rose to S\$39.2m, and net gearing dropped to 7% from 34%. Operating cash flow nearly tripled to S\$12.6m. However, NAV per share declined 13% to 34.72 SG cents because the share count rose 31%, mainly from bond and loan conversions.

Outlook

Iskandar: Record enrolment supports growth; land monetisation offers additional upside.

Raffles American School in Iskandar is positioned to be a key operating driver in FY27, with management targeting revenue of MYR70–75mn. Enrolment reached a record despite a decline in Chinese student numbers in the preceding year, suggesting that demand from other student groups has helped broaden the intake base. We expect higher utilisation of the existing campus to support revenue growth and improve the absorption of fixed costs, although the extent of margin expansion will depend on staffing requirements, student retention and realised tuition fees.

Separately, potential monetisation of approximately 65 acres of land at EduCity Iskandar provides options to recover capital from its school investment. These initiatives could release funds for debt repayment and further education investment. However, transaction timing and proceeds remain uncertain, and any sale of the school or an ownership interest would need to be assessed against the recurring earnings forgone.

China: Selective education expansion alongside asset disposals.

The group's China strategy centres on expanding design-oriented training while reducing capital tied up in non-core assets. Management plans to build its design-training presence, providing a potential avenue for growth within the group's established area of expertise. We see scope for this initiative to support the longer-term education business, although its near-term contribution remains uncertain given the absence of disclosed expansion budgets, enrolment targets or opening schedules. Programme demand, recruitment costs and campus profitability will determine whether expansion meets management's preference for higher-margin operations.

The OUC/Langfang disposal remains a principal priority, alongside planned disposals in Tianjin over the next two to three years. Successful transactions could simplify the portfolio and support management's objective of halving, or potentially eliminating, borrowings at Hong Kong-listed OUC. Nevertheless, China's reported revenue could decline as assets or businesses are divested. We would therefore assess progress through the profitability and cash generation of retained operations, together with net disposal proceeds and debt reduction.

Bangkok and Jakarta: Capacity expansion provides growth opportunities, with different earnings timelines.

Bangkok offers opportunities from both additional student capacity and a potential tuition-fee increase. The company outlines doubling the capacity to 1,000 students with the two new blocks. Subject to delivery and enrolment conversion, the expansion could support growth during FY27 and beyond. Any fee increase would provide additional revenue upside, although the benefit will depend on retention and discounts. Staffing and depreciation costs could precede full utilisation of the new facilities, limiting the initial margin contribution.

Jakarta represents an earlier-stage K–12 growth opportunity. Management indicated that funding for S\$30.1mn of Indonesia capex has been addressed, shifting the focus towards project delivery, school readiness and student recruitment. We expect the pace of enrolment growth to determine the campus's path to profitability, with initial staffing and launch expenses potentially weighing on earnings. Bangkok should therefore offer a more immediate route to growth, while Jakarta's contribution is likely to develop progressively as its student base expands.

ASEAN K–12 market: Supportive demand in 2027, but increasingly selective growth.

We remain cautiously constructive on ASEAN's private international K–12 segment entering 2027. Demand from local families seeking English-medium education and pathways to overseas universities should complement expatriate demand. ISC Research identifies growing local participation as an important industry trend, while BDA's regional research highlights expansion supported by both local and expatriate families. These trends underpin our outlook rather than constitute a quantified 2027 market forecast.

Growth will nevertheless vary by city, fee segment and school reputation. Additional campuses increase competition for students and teachers, making retention, academic quality and affordability central to sustainable fee increases. ISC Research also highlights uneven enrolment trends and challenges in recruiting teaching staff. For Raffles Education, we believe the strongest opportunities lie in filling existing capacity at Iskandar, converting Bangkok's expansion into paid enrolments and controlling Jakarta's start-up costs. These operating outcomes will be more important to FY27 earnings than regional market growth alone.

Valuation

We reiterate our **OUTPERFORM** recommendation on Raffles Education, lowering our fully diluted DCF-derived TP to **S\$0.27** (previously S\$0.32), implying 216.6% upside to S\$0.085. We maintain a 6.3% WACC and a 2.5% terminal growth rate. Our revised valuation reflects a more conservative FY27–30F earnings trajectory following FY26 results. Audited revenue declined 4.4% YoY to S\$106.8m, partly reflecting the Raffles Hefei disposal, while adjusted EBITDA rose 52.3% to S\$29.6m. We normalise the S\$52.8m gain on the disposal of 51 Merchant Road and S\$29.4m loss on the Raffles Hefei disposal rather than extrapolate one-off items. We also assume a slower ramp-up in ASEAN K–12 contributions against a smaller recurring revenue base. Consequently, FY27–29F EBITDA forecasts are lowered by c.26–31%, with FY27F EBIT revised to S\$8.0m. Nevertheless, the Group’s risk profile has improved following balance-sheet restructuring and asset monetisation: total borrowings declined to S\$86.2m from S\$208.7m, while cash increased to S\$39.1m at end-FY26. Recurring course-fee collections and limited incremental capex support cash flow visibility, although K–12 execution and residual arbitration exposure warrant monitoring.

Figure 1: DCF Valuation

DCF VALUATION <i>All amounts in S\$'000 unless otherwise stated</i> <i>Year ended 30 Jun</i>	<u>Projected</u>			
	2027F	2028F	2029F	2030F
EBIT	8,049	13,937	21,235	30,849
(-) Tax	(561)	(1,520)	(2,734)	(4,315)
EBIT (1-T)	7,489	12,417	18,501	26,535
(+) D&A	16,053	16,019	15,970	15,927
(-) Change in NWC	5,441	(5,314)	7,338	(3,285)
(-) Capex	(8,053)	(9,059)	(10,267)	(11,727)
Free Cash Flow	20,931	14,062	31,542	27,450
Free Cash Flow to Firm	20,931	14,062	31,542	27,450
Terminal Value				750,299
Total FCF to be Discounted	20,931	14,062	31,542	777,749
PV of Free Cash Flow	20,076	12,692	26,795	621,835
Enterprise Value	681,398			
(-) Net Debt	32,446			
Equity Value	648,952			
Diluted Shares Outstanding ('000)	2,411,387			
Fair Value / Share (S\$)	0.27			
Current Share Price (S\$)	0.085			
Upside / (Downside)	216.6%			

Source: KGI Research

Financial Summary

INCOME STATEMENT (S\$'000)	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue	111,710	106,823	120,880	137,650	157,777
Cost of sales	(48,125)	(47,562)	(51,978)	(59,190)	(67,844)
Gross profit	63,585	59,261	68,902	78,461	89,933
Selling & distribution	-	-	-	-	-
Administrative expenses	(40,596)	(67,244)	(47,249)	(51,242)	(55,582)
Other operating expenses	(3,351)	60,438	2,000	2,000	2,000
EBITDA	19,638	52,455	23,653	29,218	36,351
Depreciation & amortisation	(18,221)	(17,714)	(16,053)	(16,019)	(15,970)
Operating profit (EBIT)	1,417	34,741	7,599	13,200	20,382
Net finance income / (cost)	(16,479)	(16,519)	(4,302)	(4,258)	(4,300)
Other gains / (losses)	(179)	(1,244)	-	-	-
Profit before tax	(15,241)	16,978	3,297	8,942	16,082
Tax expense	(8,220)	(10,867)	(561)	(1,520)	(2,734)
Minority interests	3,338	-	-	-	-
Net profit (PATMI)	(20,123)	6,111	2,737	7,422	13,348
EPS (S\$ cents)	0.55	(0.34)	0.15	0.41	0.73
DPS (S\$ cents)	-	0.13	0.05	0.12	0.22

CASH FLOW STATEMENT (S\$'000)	FY25A	FY26A	FY27E	FY28E	FY29E
Profit before tax	8,738	6,779	3,297	8,942	16,082
Depreciation & amortisation	18,221	17,714	16,053	16,019	15,970
Working capital changes	(887)	(427)	5,441	(5,314)	7,338
Tax paid	(6,985)	(4,681)	(561)	(1,520)	(2,734)
Other operating items	(14,738)	(6,801)	333	333	333
Operating cash flow	4,349	12,584	24,565	18,459	36,989
Capex	(4,208)	(8,819)	(7,253)	(8,259)	(9,467)
Acquisitions / disposals	2,945	29,575	-	-	-
Other investing items	4,367	5,240	(800)	(800)	(800)
Investing cash flow	3,104	25,996	(8,053)	(9,059)	(10,267)
Net debt drawdown / (repayment)	(39,065)	(5,377)	(8,000)	(8,000)	(8,000)
Dividends paid	-	(2,338)	(821)	(2,226)	(4,004)
Equity issuance / (buyback)	-	8,665	-	-	-
Other financing items	19,104	(17,255)	6,667	6,667	6,667
Financing cash flow	(19,961)	(16,305)	(2,154)	(3,560)	(5,338)
Net change in cash	(12,508)	22,275	14,358	5,840	21,384
Beginning cash	29,369	16,861	39,136	53,494	59,334
Ending cash	16,861	39,136	53,494	59,334	80,718

BALANCE SHEET (S\$'000)	FY25A	FY26A	FY27E	FY28E	FY29E
Cash & equivalents	16,861	39,159	53,517	59,357	80,741
Trade receivables	34,108	35,413	34,593	47,454	49,173
Inventories	60	49	49	49	49
Other current assets	73,123	1,426	1,426	1,426	1,426
Current assets	124,152	76,047	89,584	108,286	131,389
Property, plant & equipment	464,998	448,897	442,234	436,784	432,710
Intangibles & goodwill	96,216	95,042	94,832	94,622	94,412
Other non-current assets	333,385	349,889	351,262	352,462	353,543
Non-current assets	894,599	893,828	888,327	883,868	880,665
Total assets	1,018,751	969,875	977,912	992,154	1,012,054
Trade payables	54,169	49,775	54,396	61,943	71,000
Short-term borrowings	113,405	10,154	17,640	18,040	18,440
Other current liabilities	42,381	41,823	40,409	40,234	40,059
Current liabilities	209,955	101,752	112,446	120,217	129,500
Long-term borrowings	95,336	76,048	70,562	72,162	73,762
Other non-current liabilities	72,899	74,552	75,466	75,141	74,816
Non-current liabilities	168,235	150,600	146,027	147,302	148,577
Total liabilities	378,190	252,352	258,473	267,520	278,077
Shareholders' equity	555,826	631,264	633,180	638,375	647,718
Minority interests	84,735	86,259	86,259	86,259	86,259
Total equity	640,561	717,523	719,439	724,634	733,977

KEY RATIOS & VALUATION	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue growth (%)	(0.2%)	(4.6%)	15.2%	15.4%	15.9%
Gross margin (%)	56.9%	55.5%	57.0%	57.0%	57.0%
EBITDA margin (%)	17.6%	49.1%	19.6%	21.2%	23.0%
Net profit margin (%)	(18.0%)	5.7%	2.3%	5.4%	8.5%
ROE (%)	(3.6%)	1.0%	0.4%	1.2%	2.1%
ROA (%)	(2.0%)	0.6%	0.3%	0.7%	1.3%
Net debt / equity (x)	0.3x	0.1x	0.0x	0.0x	0.0x
Net debt / EBITDA (x)	9.8x	0.9x	1.5x	1.1x	0.3x
Dividend payout (%)	-	(38.2%)	30.0%	30.0%	30.0%
P/E (x)	54.1x	(25.3x)	56.5x	20.8x	11.6x
EV/EBITDA (x)	N.M	N.M	N.M	N.M	N.M
P/NAV (x)	0.2x	0.2x	0.2x	0.2x	0.2x
Dividend yield (%)	-	1.5%	0.5%	1.4%	2.6%

Source: Company, KGI Research estimates

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