Hailiang Education Gets Slammed by Short-seller; Shares Drop More Than 10% Intraday

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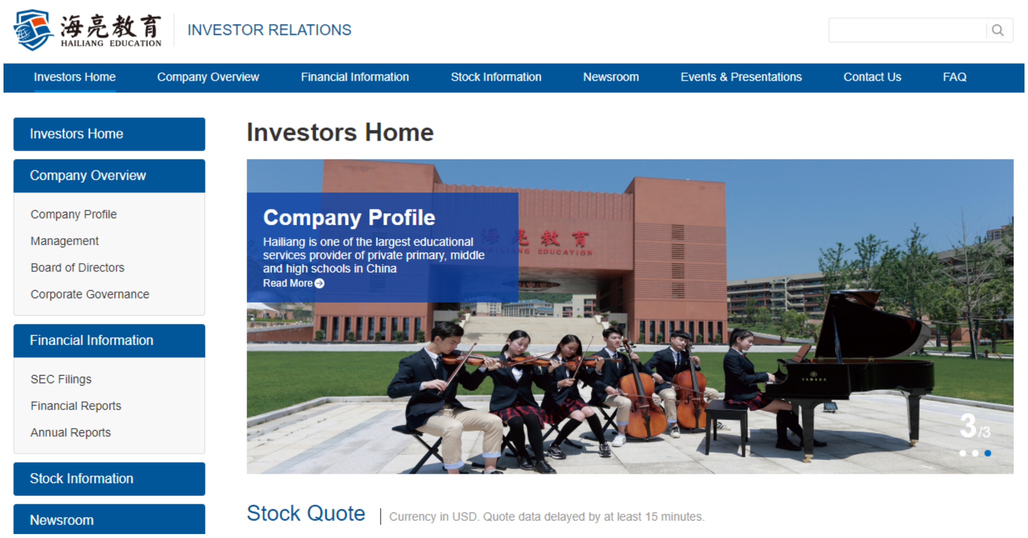
Selina Cheng Apr 09, 2018 3:48 PM PT



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Shares of Hailiang Education Group Inc. (Nasdaq: HLG) dropped more than 10 percent after being targeted by short-seller Citron Research.

The company's stock price climbed back up in the last few hours of trading to close at $75.44 per share, down 1.4 percent.

Citron Research, which has a long history of reporting on Chinese companies, said it "has never seen anything as bad as Hailiang," and Citron warned the investors on its Twitter post that "If you are fortunate to get a borrow on Hailiang Education than [sic] you can be short your part of the China Hustle."

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Moreover, another red flag mentioned in Citron's research report was the large turnover in Hailiang's top leadership. Hailiang Education has had three chief financial officers in less than two years and two board members have resigned in the past six months for personal reasons.

The last, but most interesting argument, was a change of auditor after KPMG disclosed Hailiang's "material weakness relating to (i) lack of sufficient control as to the board or management approval on related party transactions and (ii) insufficient resources for financial information processing and reporting and lack of appropriate IFRS knowledge."

The company's new auditor, Marcum, which is also the auditor of the controversial NQ Mobile, expressed no opinion in the new audit report as to the effectiveness of internal controls, because it said, it is not engaged to express an opinion.

Hailiang Education, an educational services provider of private primary, middle and high schools in China, has been one of the hottest stocks on the Nasdaq market, up more than sevenfold in the past 12 months.

Despite the negative report, Hailiang is highly profitable. Thanks to the growth of tuition and growing enrollments numbers, the company recorded 77.9 million yuan ($12.35 million) net income for the six months ended Dec. 31, a 47 percent increase compared with a year earlier. For the same period, the company's revenue was 502.7 million yuan, an increase of by more than 36 percent from 367.6 million yuan for the same in the previous year.

Apart from primary and high school education, in recent years, the company has launched courses, such as Mathematical Olympiad courses, A-level courses, Australia Victorian Certificate of Education (VCE) courses, IELTS courses, and TOEFL courses, as well as SAT courses.

Shares in Hailiang Education took a hit immediately after the

Twitter post from Citron Research at about 1:45 p.m. ET. (Source: Thomson Reuters Eikon)