



Company Report: Home Inns & Hotels (HMIN US)

公司报告：如家酒店 (HMIN US)

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New “Homeinn Plus” Brand Will Target New Market Segment

新推出的“如家精选”品牌将瞄准新市场领土

- **3Q14 adjusted EBITDA increased 15.0% YoY to RMB515 million, topping our forecast by 6.5% and beating Bloomberg consensus by 11.2%.** Gross revenue increased by 7.9% YoY to RMB1.876 billion. Total operating expense ratio decreased by 2.0 ppt YoY mainly due to larger contribution from franchised-and-managed hotels, leading to a 1.7 ppt YoY increase in adjusted EBITDA margin to 27.5%. Adjusted net income for the quarter was RMB224 million, up 24.0% YoY.
- **Increase 2014-2016 core EBITDA forecasts by 3.5%, 2.4% and 1.8%, respectively, on lower expected expenses.** Management has revised down slightly its full year revenue guidance by 2.9%. However, we have revised down leased-and-operated hotel expense ratio and also G&A expense ratio since the Company's ongoing cost control measures have exceeded our previous expectations. Additionally, the Company will introduce its new “Homeinn Plus” brand and also accelerate its Yitel brand hotel additions; both of these brands have higher ADR than the “Home Inn” brand.
- **Valuation is attractive as the Company is currently trading at a 37.4% discount to its historical average forward EV/EBITDA.** Maintain “Buy” investment rating and adjust target price from US\$48.00 to US\$47.00.
- **2014 年 3 季度调整后 EBITDA 同比增长 15.0%至人民币 5.15 亿元，高于我们预期 6.5%，高于彭博市场预期 11.2%。** 收入同比增长 7.9%至人民币 18.76 亿元。总经营费用对收入比例同比下降 2.0 个百分点，主要是因为加盟管理酒店的收入占总收入比例继续增长，令调整后 EBITDA 利润率同比提升 1.7 个百分点至 27.5%。3 季度的调整后净利润为人民币 2.24 亿元，同比增长 24.0%。
- **由于较低的费用预期，分别上调 2014 年至 2016 年核心 EBITDA 预测 3.5%、2.4%和 1.8%。** 管理层下调 2014 年全年收入指引范围 2.9%。但是由于公司持续的费用控制措施的效用超过我们预期，我们也下调租赁直营酒店费用比例和一般及行政费用比例。另外，公司将推出新“如家精选”品牌，以及加快和颐酒店扩展速度；如家精选和和颐两个品牌的房价高于“如家酒店”品牌。
- **估值有吸引力，公司目前的后 4 个季度预测 EV/EBITDA 相对其历史水平有 37.4%的折让。** 维持“买入”投资评级，而且调整目标价从 48.00 美元至 47.00 美元。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:
Revised from 原目标价:

US\$47.00
US\$48.00

Share price 股价:

US\$30.290

Stock performance

股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	9.4	(12.4)	(13.3)
Rel. % to CCMP index 相对纳斯达克变动 %	0.0	(18.9)	(32.5)
Avg. share price(US\$) 平均股价 (美元)	29.6	30.7	34.0

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	Earnings / ADR 每份 ADR 净利 (RMB)	Earnings / ADR 每份 ADR 净利变动 (%)	PER 市盈率 (x)	BV/ADR 每份 ADR 净资产 (RMB)	PBR 市净率 (x)	DP ADR 每份 ADR 股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2012A	5,770	(27)	(0.580)	n.a	n.a.	87.163	2.2	0.000	0.0	(0.7)
2013A	6,353	196	4.235	830.1	43.3	95.632	1.9	0.000	0.0	4.7
2014F	6,706	524	10.994	159.6	17.0	106.425	1.8	0.000	0.0	11.1
2015F	7,184	508	10.681	(2.9)	17.0	118.687	1.5	0.000	0.0	9.5
2016F	7,957	604	12.558	17.6	14.2	131.537	1.4	0.000	0.0	10.1

Shares in issue (m) 总股数 (m)	47.5	Major shareholder 大股东	Oppenheimer Funds 13.1%
Market cap. (US\$ m) 市值 (US\$ m)	1,440.2	Free float (%) 自由流通比率 (%)	70.4
3 month average vol. 3 个月平均成交量 ('000)	144.6	2014 Net gearing (%) 2014 净负债/股东资金 (%)	6.2
52 Weeks high/low (US\$) 52 周高/低	44.170 / 26.250	2014 Est. NAV (US\$) 2014 每股估值 (美元)	57.2

Source: the Company, Guotai Junan International.

3Q14 RESULTS

Home Inns (HMIN US)'s 3Q14 adjusted EBITDA increased 15.0% YoY to RMB515 million, topping our forecast by 6.5% and beating Bloomberg consensus by 11.2%. Adjusted diluted earnings per ADS increased by 20.6% YoY to RMB4.47, and was 22.2% higher than our forecast and 2.3% higher than Bloomberg consensus. Gross revenue increased by 7.9% YoY to RMB1.876 billion, which was at the low end of management's guidance range.

Leased-and-operated ("L&O") hotel operating costs to revenue ratio fell by 0.4 ppt YoY to 79.4%. Besides the lower hotel operating cost ratio, operating profit also benefitted from the increase in the proportion of higher margin Franchised-and-Managed ("F&M") hotels. Revenue contribution from F&M hotels made up 14.1% of total revenue in 3Q14, compared to just 11.7% in 3Q13, thereby increasing operating margin from 13.0% in 3Q13 to 15.2% in 3Q14. Operating income in 3Q14 was RMB284 million, up 25.4% YoY.

Table-1: Results Summary

(RMB million)	3Q13	4Q13	1Q14	2Q14	3Q14	3Q14 (% or ppt.)	
						YoY	QoQ
L&O hotels revenue	1,535	1,402	1,279	1,459	1,612	5.0%	10.5%
F&M hotels revenue	204	208	193	239	264	29.5%	10.6%
Gross revenue	1,739	1,610	1,472	1,699	1,876	7.9%	10.5%
Business tax & surcharges	(106)	(98)	(94)	(105)	(112)	-5.5%	-7.0%
Net revenue	1,633	1,511	1,378	1,594	1,764	8.0%	10.7%
L&O hotel op. costs (Ex. pre-open costs)	(1,224)	(1,233)	(1,206)	(1,210)	(1,280)	-4.5%	-5.8%
% of L&O hotel gross revenue	79.8%	87.9%	94.3%	82.9%	79.4%	(0.4) ppt	(3.5) ppt
L&O hotels income (Ex. pre-open costs)	217	83	(8)	160	236	8.7%	47.8%
Total operating expenses	(1,407)	(1,406)	(1,346)	(1,387)	(1,480)	-5.2%	-6.7%
% of gross revenue	80.9%	87.4%	91.4%	81.6%	78.9%	(2.0) ppt	(2.8) ppt
Operating Income	227	106	42	211	284	25.4%	34.7%
Net Income	108	13	75	108	246	127.3%	127.0%
Less non-core items:							
Gain (loss) on CB fair value change	(57)	(71)	86	(35)	29	151.2%	183.7%
Foreign exchange gain (loss), net	9	14	(15)	(0)	(1)	-109.8%	-671.6%
Motel 168 acquisition costs (in G&A)	0	0	0	(1)	12	n.a.	1824.9%
Motel 168 integration costs (in G&A & hotel costs)	(3)	(2)	(2)	(2)	(2)	44.7%	-6.0%
Total non-core items	(52)	(59)	68	(37)	39	174.5%	203.1%
Core Net Income	160	72	7	146	206	29.0%	41.6%
Less share based compensation	21	20	25	23	18	-14.1%	-20.5%
Adjusted Net Income	181	92	32	168	224	24.0%	33.2%
Earnings per ADR, diluted (RMB)	2.31	0.27	0.11	2.27	4.29	85.5%	89.0%
Core Earnings per ADR, diluted (RMB)	3.42	1.53	0.13	3.05	4.00	17.0%	31.1%
Adj. Earnings per ADR, diluted (RMB)	3.70	1.92	0.67	3.38	4.47	20.6%	32.2%
EBITDA	375	255	297	380	536	43.1%	41.0%
Core EBITDA	427	314	229	418	497	16.5%	18.9%
Adjusted EBITDA	448	334	254	441	515	15.0%	16.9%
Margins:							
L&O hotels hotel income margin	13.8%	5.3%	-1.2%	11.2%	14.5%	0.7 ppt	3.3 ppt
Hotel income margin	23.9%	17.5%	12.1%	23.7%	26.5%	2.6 ppt	2.9 ppt
Operating margin	13.0%	6.6%	2.9%	12.4%	15.2%	2.1 ppt	2.7 ppt
EBITDA margin	21.5%	15.8%	20.2%	22.4%	28.6%	7.0 ppt	6.2 ppt
Core EBITDA margin	24.5%	19.5%	15.5%	24.6%	26.5%	2.0 ppt	1.9 ppt
Adjusted EBITDA margin	25.7%	20.7%	17.3%	25.9%	27.5%	1.7 ppt	1.5 ppt
Net income margin	6.2%	0.8%	5.1%	6.4%	13.1%	6.9 ppt	6.7 ppt
Core net income margin	9.2%	4.5%	0.4%	8.6%	11.0%	1.8 ppt	2.4 ppt
Adjusted net income margin	10.4%	5.7%	2.2%	9.9%	12.0%	1.6 ppt	2.0 ppt

Source: the Company, Guotai Junan International.

Home Inns opened 122 net new hotels in 3Q1 and is on track to meet its full year target of 450 hotel additions. The Company entered nine new cities in 3Q14 and by the end of the quarter had a total of 2,496 hotels in operation across 315 cities in China under its four brands. The Company has changed the name of its recently acquired “Yunshan Siji” hotels to “Fairyland”. At the end of 3Q14, 63.5% of all hotels in operation were F&M hotels, up from 58.5% in 3Q13.

There were a total of 435 hotel projects in the development pipeline as of September 30, 2014, including 208 hotels contracted or under construction (181 of which were F&M) and 227 hotels under due diligence (all of which were F&M), demonstrating continued strong interest from franchise partners in all of the Company's hotel brands.

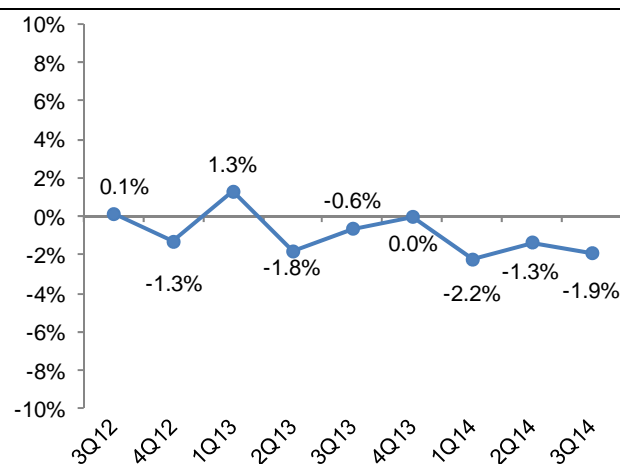
Table-2: Home Inns' Hotel Portfolio, 2Q14

	Hotels by Brand				Hotels Total
	Home Inn	Motel 168	Fairyland	Yitel	
Leased-and-Operated	703	167	24	16	910
Franchised-and-Managed	1,339	225	7	15	1,586
Total Number of Hotels in Operation	2,042	392	31	31	2,496
Hotels Contracted or Under Construction					
Leased-and-Operated	11	3	2	11	27
Franchised-and-Managed	142	25	3	11	181
Total	153	28	5	22	208
Hotels Under Due Diligence	193	30	-	4	227
Total Hotels Under Development	346	58	5	26	435

Source: the Company, Guotai Junan International.

3Q14 mature hotel revenue-per-available-room (RevPAR) declined by 1.9% YoY to RMB156, 2.6% less than our forecast. There were 1,813 hotels in operation for at least 18 months in 3Q14. This group of hotels' ADR declined by RMB5 YoY to RMB156 in 3Q13 as occupancy rate declined from 91.2% in 3Q13 to 89.1% in 3Q14, while average-daily-rate (“ADR”) declined by RMB1 to RMB175 in 3Q14. Mature Motel 168 brand hotels did better than the overall portfolio, however, as their same hotel RevPAR increased from RMB142 in 3Q13 to RMB144 in 3Q14.

Figure-1: Home Inns Mature Hotel YoY Change in Same Hotel RevPAR



Source: the Company.

OUTLOOK

The Company maintains its previous guidance to open at least 450 new hotels in 2014.

Management has lowered its full year revenue guidance by 2.9%. The Company management is not expecting a significant market rebound during the remainder of the year. Given the continued soft market environment, fewer new L&O hotels planned for the year, and a lower than expected RevPAR in the Company's mature hotels' performance, Home Inns expects total 4Q14 revenues to be in the range of RMB1,625 million to RMB 1,675 million, which is 3.9% lower than our previous forecast. Consequently, management expects total 2014 revenue to be in the range of RMB6,675 million to RMB6,725 million, 2.9% lower than their initial full year guidance provided at the beginning of the year. Nevertheless, the Company expects to deliver year-over-year profitability improvement in 4Q14.

Management to introduce new "Homeinn Plus" brand targeting new market segment. The Company plans to open between 50 to 80 Homeinn Plus brand hotels next year, which will target the market between the Company's Home Inn and Yitel brands. The ADR for Yitel hotels is about 1.8x that of Home Inns, and the ADR of Homeinn Plus will be about 1.3x to 1.4x that of Home Inns. Additionally, the development of the Yitel brand hotels will be accelerated.

The Company has launched a new online retail platform, but we don't expect it to contribute significant revenue. In 3Q14, the Company launched its online retail platform, "youxuan.homeinns.com" (如家优选), which provides the Company's members and customers online purchase access to selected travel related products. Currently, the product selection is very limited, offering only room vouchers, towels and bedding and hairy crabs. The platform is designed to be a business extension and revenue building initiative and the Company has already started to generate revenue from this platform. This initiative will also allow the Company to add value for its extensive loyalty members and customers. Furthermore, the Company will be working with Yihaodian, one of the leading Chinese B2C online "supermarket" players, through a strategic alliance to ensure top quality execution. We think the platform will be useful for rewarding customer loyalty, but we do not expect it to become a significant revenue contributor.

"Home Alliance" hotel marketing and corporate service platform to be launched in 4Q14. Home Inns announced that it plans to launch "Home Alliance" ("家盟"), a B2B service fee-based platform, starting in the fourth quarter. The Home Alliance program is a hotel membership based marketing alliance and corporate service program targeting small to medium sized regional economy or midscale hotels. This new platform will allow member hotels to take advantage of Home Inns' industry expertise and resources. Under the initiative, the Company will provide consulting and advising services on hotel design, construction and operations as well as personnel development.

FORECAST UPDATES

We increase our 2014-2016 core EBITDA forecasts by 3.5%, 2.4% and 1.8%, respectively. We expect RevPAR to be lifted in 2016 from contribution from the Company's higher ADR brands. We fine-tune down revenue forecasts for 2014 and 2015 on the slightly less than we expected 3Q14 results and full year 2014 guidance from the Company. However, with the acceleration of high end Yitel hotel openings as well as the rollout of the new Homeinn Plus brand, we adjust up slightly RevPAR forecast and as a result also revenue for 2016. Our lower revenue forecasts in 2014 and 2015 are more than offset by our revise down of L&O hotel expense ratio and also expected G&A expense ratio; the Company's recent cost control measures exceeded our previous expectations. As a result, revise up 2014-2016 operating income by 5.6%, 3.0% and 2.0%, respectively.

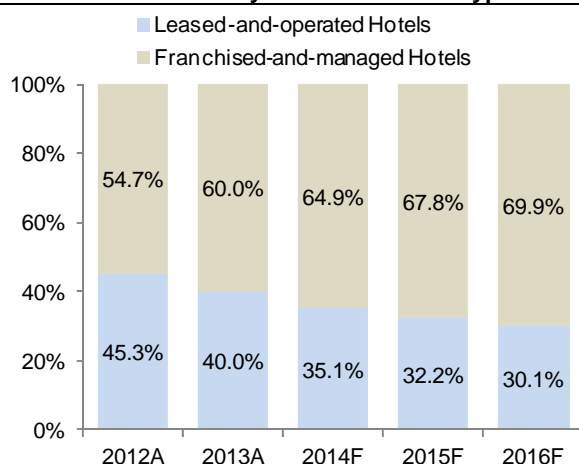
Revise up 2014-2016 core net income forecasts by 22.1%, 30.1% and 30.0% on lower interest expense. During 3Q14, the Company completely paid off its RMB793 million in short and long term loans, which will drastically reduce interest expense over the coming quarters. However, we expect the Company to take on some debt by the end of next year in order to pay off its convertible bond coming due also at the end of next year. Reduce 2014-2016 net interest expense forecasts by RMB7 million, RMB23 million and RMB36 million, respectively.

We forecast 2014-2016 core EBITDA of RMB1.490 billion, RMB1.588 billion and RMB1.744 billion, respectively, reflecting 10.1% CAGR. Our revised forecast calls for 2014-2016 fully diluted core earnings per ADR of RMB9.19, RMB10.65 and RMB12.53, respectively, equivalent to 21.3% CAGR.

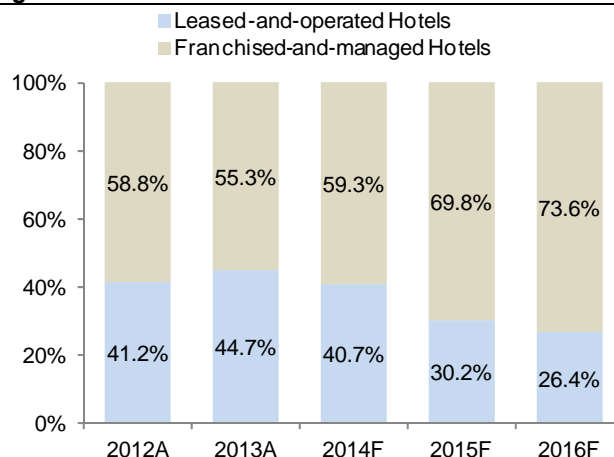
Table-3: Model Updates

(RMB million)	Old			New			Change (% or ppt)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Total L&O hotels in operation	922	977	1,032	922	977	1,032	0.0%	0.0%	0.0%
Total F&M hotels in operation	1,708	2,053	2,398	1,708	2,053	2,398	0.0%	0.0%	0.0%
L&O hotels gross revenue	5,810	6,133	6,453	5,753	6,022	6,551	-1.0%	-1.8%	1.5%
F&M hotels gross revenue	969	1,173	1,380	953	1,161	1,405	-1.6%	-1.0%	1.9%
Total gross revenue	6,779	7,305	7,833	6,706	7,184	7,957	-1.1%	-1.7%	1.6%
Business tax & surcharges	(421)	(450)	(482)	(410)	(429)	(475)	-2.7%	-4.7%	-1.6%
Net revenue	6,358	6,856	7,350	6,296	6,755	7,482	-1.0%	-1.5%	1.8%
L&O hotel operating costs (excluding pre-open costs)	(5,022)	(5,410)	(5,703)	(4,939)	(5,299)	(5,795)	-1.6%	-2.1%	1.6%
% of L&O hotel gross revenue	86.4%	88.2%	88.4%	85.9%	88.0%	88.5%	-0.6	-0.2	0.1
L&O hotel income (excluding pre-open costs)	427	345	352	462	364	365	8.2%	5.4%	3.7%
% of L&O hotels gross revenue	7.4%	5.6%	5.5%	8.0%	6.0%	5.6%	0.7	0.4	0.1
L&O hotels pre-opening costs	(65)	(73)	(74)	(39)	(80)	(91)	-40.7%	10.2%	22.9%
Sales & marketing	(126)	(143)	(153)	(136)	(145)	(161)	7.4%	1.7%	5.0%
% of total gross revenue	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	0.2	0.1	0.1
General & administrative	(331)	(360)	(386)	(318)	(341)	(378)	-3.7%	-5.2%	-2.0%
% of total gross revenue	5.2%	5.2%	5.2%	5.1%	5.1%	5.1%	-0.1	-0.2	-0.2
F&M hotel personnel costs	(211)	(251)	(296)	(222)	(250)	(303)	5.4%	-0.5%	2.3%
Other income	23	17	17	19	15	15	-18.7%	-6.9%	-6.9%
Operating income	626	635	754	661	654	769	5.6%	3.0%	2.0%
Net interest expense	(44)	(44)	(44)	(37)	(21)	(8)	-16.7%	-51.8%	-81.8%
Income tax expense	(238)	(247)	(293)	(212)	(176)	(209)	-11.2%	-28.7%	-28.8%
effective tax rate	36.3%	38.4%	38.4%	28.5%	25.4%	25.4%	-7.9	-13.0	-13.0
Net income	412	390	464	524	508	604	27.3%	30.1%	30.0%
(-) Non-core items*	35	0	0	64	0	0	82.6%	n.a.	n.a.
Core net income	377	390	464	460	508	604	22.1%	30.1%	30.0%
(-) share based comp expense	(98)	(114)	(135)	(86)	(100)	(122)	-11.5%	-12.2%	-9.4%
Adjusted net income	474	505	599	546	608	726	15.2%	20.5%	21.2%
Earnings per ADR, diluted (RMB)	7.06	8.07	9.52	8.64	10.51	12.38	22.3%	30.2%	30.1%
Core earnings per ADR (RMB), diluted	7.94	8.21	9.65	9.19	10.65	12.53	15.7%	29.8%	29.8%
Adjusted earnings per ADR (RMB), diluted	9.84	10.58	12.42	10.94	12.73	15.04	11.2%	20.4%	21.0%
EBITDA	1,475	1,551	1,712	1,554	1,588	1,744	5.4%	2.4%	1.8%
Core EBITDA	1,440	1,551	1,712	1,490	1,588	1,744	3.5%	2.4%	1.8%

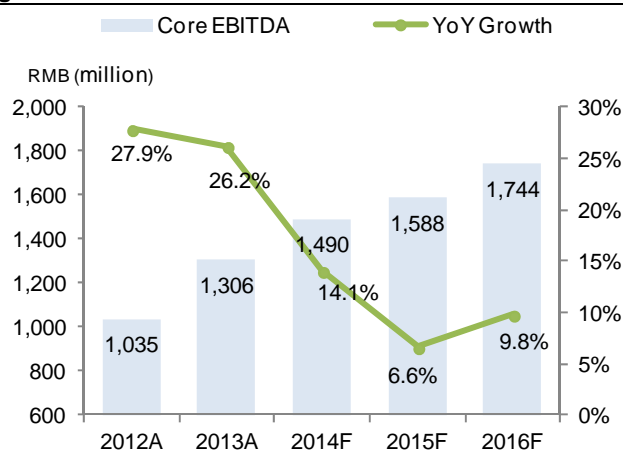
Source: Guotai Junan International.

Figure-2: Hotel Portfolio by Business Model Type


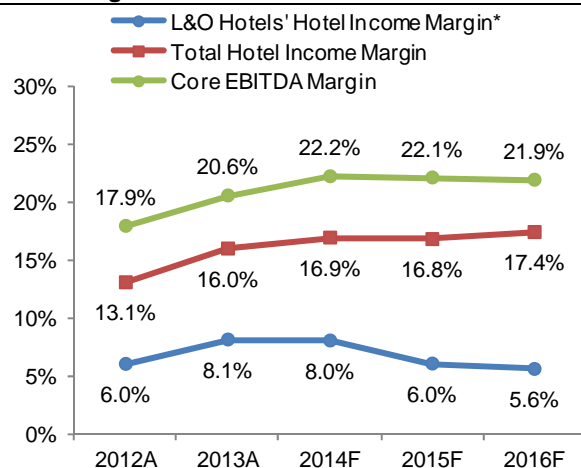
Source: the Company, Guotai Junan International.

Figure-3: Hotel Income Contribution Breakdown


Source: the Company, Guotai Junan International.

Figure-4: Core EBITDA & Growth


Source: the Company, Guotai Junan International.

Figure-5: Margins


Source: the Company, Guotai Junan International.

Note*: *Excludes pre-opening expenses, which are mainly a function of L&O hotels under development.

VALUATION

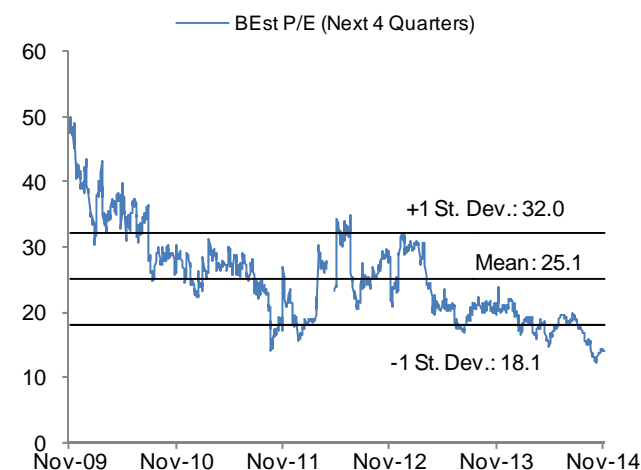
Reiterate “Buy” on low valuation, Target price adjusted from US\$48.00 to US\$47.00. Home Inns is currently trading at 5.5x forward EV/EBITDA, which is a 37.4% discount to its historical average forward EV/EBITDA of 8.8x. Our US\$47.00 Target price is based on Home Inn's historical average forward EV/EBITDA of 8.8x, which is lower than U.S. listed peers' average forward EV/EBITDA of 12.6x. We also use DCF analysis to cross-check our Target price, which is a 17.9% discount to our DCF derived NAV of US\$57.24. Our Target price represents 55.2% upside potential.

Table-4: Peers Comparison

Company	Stock Code	Cur.	Last Price	Mkt Cap		PE			EV/EBITDA				ROE(%)	PB
				HKD mn	Fwd	14F	15F	16F	Fwd	14F	15F	16F	14F	14F
USA - Listed														
Home Inns & -Adr	HMIN US	CNY	30.29	1,440	14.0	24.7	24.4	20.7	5.5	6.0	4.9	4.3	10.8	1.6
China Lodgin-Ads	HTHT US	CNY	27.58	1,714	23.8	31.3	26.2	24.0	8.3	9.9	8.1	6.4	12.8	2.9
Ctrip.Com-Adr	CTRP US	USD	40.16	9,482	23.2	92.1	52.4	39.9	14.5	14.9	13.8	12.4	33.0	n.a.
Intercontin-Adr	IHG US	USD	77.30	21,904	26.4	30.0	25.5	21.9	15.5	16.8	15.0	13.6	(59.8)	(11.8)
Marriott Intl-A	MAR US	USD	25.32	24,931	32.2	36.2	30.2	25.0	13.3	14.3	12.5	10.9	14.9	4.1
Hilton Worldwide	HLT US	USD	17.63	3,608	18.2	21.9	17.3	14.6	11.8	11.5	10.4	9.2	18.0	2.8
Extended Stay Am	STAY US	USD	77.91	13,913	25.5	27.6	24.4	21.5	12.5	13.1	12.1	11.0	33.8	7.4
Starwood Hotels	HOT US	USD	22.68	17,176	21.5	21.3	19.8	19.9	13.9	14.8	13.5	11.7	7.8	2.3
Host Hotels & Re	HST US	USD	80.07	9,870	16.6	17.9	16.4	14.6	9.7	10.2	9.3	8.5	35.1	5.9
Wyndham Worldwid	WYN US	USD	58.64	8,902	49.2	55.7	45.3	34.5	12.0	12.8	11.6	10.1	4.2	1.9
Hyatt Hotels-A	H US	USD	15.47	3,177	42.2	42.3	36.3	27.5	13.6	14.7	13.4	11.8	4.4	1.3
Sunstone Hotel	SHO US	USD	30.29	1,440	14.0	24.7	24.4	20.7	5.5	6.0	4.9	4.3	10.8	1.6
Simple Average					26.6	36.5	28.9	24.0	11.9	12.6	11.3	10.0	10.5	1.8
Weighted Average					27.4	35.8	28.5	24.0	13.2	14.0	12.7	11.2	4.1	0.7
HK - Listed														
Hongkong Shangha	45 HK	HKD	11.92	2,332	28.6	28.6	28.9	26.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Shangri-La Asia	69 HK	USD	10.74	4,339	32.2	32.2	25.9	22.3	15.5	15.5	13.0	13.3	2.3	0.7
Shanghai Jin J-H	2006 HK	CNY	3.02	2,168	14.9	14.9	23.8	29.9	n.a.	n.a.	n.a.	n.a.	6.1	1.5
Dorsett Hospital	2266 HK	HKD	1.49	403	11.9	11.9	11.9	9.3	11.6	10.3	11.6	10.0	6.0	0.7
Magnif Estates	201 HK	HKD	0.37	427	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Asia Standard	292 HK	HKD	1.15	233	6.8	7.2	6.8	n.a.	n.a.	n.a.	n.a.	n.a.	8.4	n.a.
Simple Average					18.9	18.9	19.5	21.9	13.6	12.9	12.3	11.6	5.7	0.9
Weighted Average					24.8	25.8	25.1	24.5	7.3	15.1	12.8	13.0	3.9	0.7

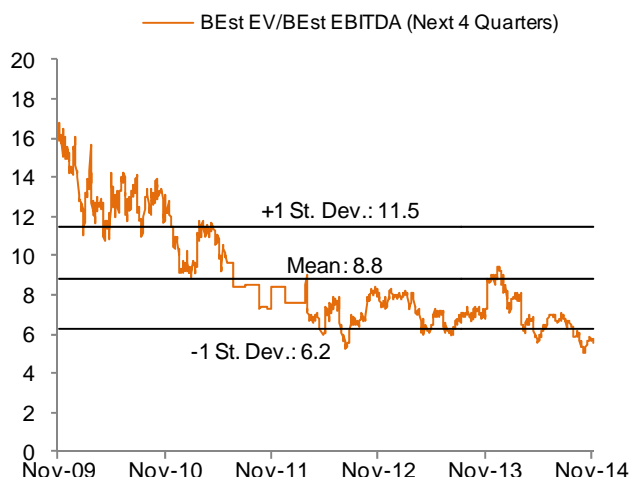
Source: Bloomberg, Guotai Junan International.

Figure-6: Home Inns P/E (Next 4 Quarters)



Source: Bloomberg, Guotai Junan International.

Figure-7: Home Inns EV/ EBITDA (Next 4 Quarters)



Source: Bloomberg, Guotai Junan International.

Table-5: Valuation and Target Price Based Multiples

	FY13A	FY14F	Next 4 Quarters	FY15F	FY16F
Target Price Based EV / EBITDA					
Target Price (US\$/ADR)	47.00				
ADR Outstanding, Period End, Fully Diluted (mn)	46.7	48.5	48.4	48.5	48.9
Market Capitalization (US\$ mn)	2,195	2,279	2,273	2,278	2,298
+ Period End Minority Interest (US\$ mn)	3	3	3	3	3
+ Period End Borrowings, including CB's (US\$ mn)	309	167	154	117	17
- Period End Cash & Equivalents (US\$ mn)	191	119	121	126	121
Year End Enterprise Value (US\$ mn)	2,315	2,329	2,310	2,272	2,196
Core EBITDA (US\$ mn)	215.8	241.5	263.0	264.7	295.5
TP Based EV/Core EBITDA	10.7	9.6	8.8	8.6	7.4
Target Price Based PER & PEG					
Target Price (US\$/ADR)	47.00				
Target Price (RMB/ADR)	288.58				
Core Earnings per ADR (RMB), Diluted	7.02	9.19	10.65	10.65	12.53
Target Price Based PER	41.1	31.4	27.1	27.1	23.0

Source: the Company, Guotai Junan International.

Table-6: DCF Based Valuation

DCF Assumptions		Calculation	
Perpetual growth rate	3.0%	PV FCFF (RMB mn)	10,503
		PV Terminal Value (RMB mn)	4,991
Risk free rate	1.95%	EV (RMB mn)	15,494
Adjusted Beta	1.30	- Debt, including CB's (RMB mn)	700
Market risk premium	12.22%	- Minority Interest (RMB mn)	18
Cost of Equity	17.84%	+ Cash & Equivalents (RMB mn)	771
		Total NAV (RMB mn)	16,982
Borrowing interest rate	4.0%		
Effective tax rate	28.5%	ADR Outstanding (fully diluted, as at 2014 year end, mn)	48.3
Cost of Debt	2.9%	NAV per share (RMB)	351.47
		US\$:RMB	6.14
Historical Average E/ (D+E)	83%	NAV per ADR (US\$)	57.24
Historical Average D/ (D+E)	17%		
WACC	15.31%		

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios
Income Statement

Year end Dec. (RMB m)	2012A	2013A	2014F	2015F	2016F
Leased-and-operated hotels	5,165	5,587	5,753	6,022	6,551
Franchised-and-managed hotels	605	765	953	1,161	1,405
Total Gross Revenue	5,770	6,353	6,706	7,184	7,957
Business tax	(353)	(392)	(410)	(429)	(475)
Net revenue	5,416	5,961	6,296	6,755	7,482
L&O hotel operating costs	(4,642)	(4,867)	(4,978)	(5,379)	(5,887)
F&M hotel personnel costs	(125)	(157)	(222)	(250)	(303)
Hotel income	649	937	1,096	1,126	1,293
Sales & marketing	(77)	(110)	(136)	(145)	(161)
G&A	(315)	(313)	(318)	(341)	(378)
Other income	17	11	19	15	15
Operating Income	274	525	661	654	769
Interest expense	(108)	(48)	(37)	(21)	(8)
Non-operating income & gains	(53)	(74)	120	61	61
Income before tax	114	403	744	694	823
Income tax	(136)	(207)	(212)	(176)	(209)
Minority interests	(4)	0	(8)	(10)	(10)
Net Income attributable to shareholders	(27)	196	524	508	604
Gain (loss) on change in fair value of convertible	(87)	(133)	80	0	0
Early extinguishment of Term Loan	0	(42)	0	0	0
FX gain/(loss), net	0	50	(16)	0	0
MOTEL 168 acquisition & integration expenses	(97)	(15)	1	0	0
Core Net Income	157	337	460	508	604
EBITDA	851	1,166	1,554	1,588	1,744
Core EBITDA	1,035	1,306	1,490	1,588	1,744
Earnings per ADR					
-Basic (RMB)	(0.580)	4.235	10.994	10.681	12.558
-Diluted (RMB)	(0.580)	4.201	8.639	10.507	12.382
Core earnings per ADR					
-Basic (RMB)	3.535	7.227	9.556	10.827	12.704
-Diluted (RMB)	3.348	7.016	9.192	10.652	12.525

Growth Rates

	2012A	2013A	2014F	2015F	2016F
Net Revenue	46.0%	10.1%	5.6%	7.3%	10.8%
L&O hotels hotel income	-44.9%	82.1%	12.7%	-33.1%	-3.4%
Hotel income	-4.2%	44.3%	17.0%	2.7%	14.9%
Operating income	-8.0%	91.6%	26.0%	-1.0%	17.6%
Income before tax	-78.4%	254.8%	84.5%	-6.6%	18.5%
Net income attributable to shareholders	-107.6%	832.8%	167.1%	-3.1%	18.9%
Core net income	-26.0%	114.4%	36.6%	10.4%	18.9%
EBITDA	-10.3%	37.0%	33.3%	2.2%	9.8%
Core EBITDA	27.9%	26.2%	14.1%	6.6%	9.8%
Earnings per ADR, basic	-106.9%	830.1%	159.6%	-2.9%	17.6%
Earnings per ADR, diluted	-123.1%	824.3%	105.6%	21.6%	17.8%
Core earnings per ADR, basic	-29.9%	104.5%	32.2%	13.3%	17.3%
Core earnings per ADR, diluted	-25.6%	109.6%	31.0%	15.9%	17.6%

Balance Sheet

As at 31 December (RMB m)	2012A	2013A	2014F	2015F	2016F
Cash and equivalent	663	1,157	733	754	715
Restricted Cash	206	173	16	16	16
Inventories	42	41	37	38	42
Receivables	278	287	319	342	379
Deferred tax assets	80	79	83	88	93
Current assets	1,268	1,737	1,189	1,239	1,245
Affiliate investments	7	6	6	6	6
P&E	3,847	4,049	4,352	4,642	4,892
Goodwill & intangibles	3,404	3,367	3,462	3,462	3,462
Other	117	86	94	101	111
Deferred tax assets	311	408	451	504	568
Non-current assets	7,686	7,916	8,365	8,715	9,040
Total assets	8,954	9,653	9,554	9,954	10,285
Payables & Accruals	1,498	1,577	1,624	1,696	1,835
Borrowings	13	0	0	0	0
Deferred tax liability	29	52	63	66	72
Deferred revenue	203	203	235	251	278
Current liabilities	1,743	1,832	1,922	2,013	2,186
Borrowings	735	713	0	700	100
Convertible notes	1,067	1,157	1,027	0	0
Deferred revenue	45	54	57	61	68
Deferred tax liability	288	284	293	303	314
Deposits	91	115	151	181	211
Deferred rental	632	691	714	747	813
Other	383	358	320	287	254
Non-current Liabilities	3,241	3,373	2,562	2,280	1,760
Total liabilities	4,984	5,205	4,484	4,293	3,946
Total equity	3,970	4,448	5,070	5,661	6,339
Minority interest	12	16	17	18	19
Shareholders' equity	3,957	4,431	5,053	5,644	6,320
BV per ADR (RMB)	87.163	95.632	106.425	118.687	131.537

Cash Flow Statement					
Year end Dec. (RMB m)	2012A	2013A	2014F	2015F	2016F
Income after tax	(23)	196	532	518	614
Depreciation. and amortization	677	757	781	883	923
Other non cash, net	58	83	(16)	53	64
Increase (decrease) in WC	36	156	111	128	224
Cash from operations	748	1,192	1,408	1,582	1,826
PP&E, net	(929)	(869)	(1,000)	(1,100)	(1,100)
Acquisitions	(69)	(23)	0	0	0
Other	(4)	30	0	0	0
Cash from investing	(1,002)	(862)	(1,000)	(1,100)	(1,100)
New shares proceeds	27	193	106	91	81
Convertible bond	(112)	0	(130)	(1,027)	0
Net borrowings	(761)	(12)	(713)	700	(600)
Other	(18)	(12)	(94)	(224)	(246)
Cash from financing	(864)	169	(831)	(461)	(765)
Effect of X-rate	(5)	(6)	0	0	0
Net increase in cash	(1,123)	494	(424)	21	(39)
Cash at 1 Jan.	1,786	663	1,157	733	754
Cash at 31 Dec.	663	1,157	733	754	715

Ratios					
	2012A	2013A	2014F	2015F	2016F
<i>Margins:</i>					
L&O hotels hotel income (excluding pre-open expense)	6.0%	8.1%	8.0%	6.0%	5.6%
L&O hotels hotel income (including pre-open expense)	4.0%	6.7%	7.4%	4.7%	4.2%
Hotel income (excluding pre-open expense)	13.1%	16.0%	16.9%	16.8%	17.4%
Hotel income (including pre-open expense)	12.0%	15.7%	17.4%	16.7%	17.3%
Operating	4.7%	8.3%	9.9%	9.1%	9.7%
Net income	-0.5%	3.1%	7.8%	7.1%	7.6%
Core net income	2.7%	5.3%	6.9%	7.1%	7.6%
EBITDA	14.7%	18.3%	23.2%	22.1%	21.9%
Core EBITDA	17.9%	20.6%	22.2%	22.1%	21.9%
<i>Return:</i>					
ROE	-0.7%	4.7%	11.1%	9.5%	10.1%
ROA	-0.3%	2.1%	5.5%	5.2%	6.0%
<i>Leverage & liquidity:</i>					
Net gearing (%)	29.3%	17.0%	6.2%	net cash	net cash
Debt/equity (%)	45.7%	42.1%	20.3%	12.4%	1.6%
Current ratio (x)	0.7	0.9	0.6	0.6	0.6

Source: the Company, Guotai Junan International.

Appendix

Appendix Table 1: Key Parameters & Forecasts (Quarterly)

RMB million	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
L&O hotels revenue	1,279	1,459	1,612	1,402	1,355	1,536	1,649	1,482
F&M hotels revenue	193	239	264	256	244	298	328	291
Gross Revenue	1,472	1,699	1,876	1,659	1,600	1,834	1,977	1,773
Business tax & surcharges	(94)	(105)	(112)	(99)	(95)	(109)	(118)	(106)
Net revenue	1,378	1,594	1,764	1,560	1,504	1,725	1,859	1,667
Total L&O hotel operating costs	(1,212)	(1,217)	(1,296)	(1,253)	(1,256)	(1,341)	(1,414)	(1,368)
Total operating expenses	(1,346)	(1,387)	(1,480)	(1,441)	(1,413)	(1,527)	(1,603)	(1,572)
% of total revenue	91.4%	81.6%	78.9%	86.9%	88.3%	83.3%	81.1%	88.7%
Other income	11	4	0	4	4	4	4	4
Operating Income	42	211	284	123	95	201	259	99
Interest expense	(11)	(11)	(8)	(6)	(6)	(6)	(5)	(4)
Other	69	(23)	54	13	13	13	13	13
Tax	(25)	(68)	(84)	(33)	(26)	(54)	(68)	(28)
Net Income	75	108	246	96	75	155	199	79
YoY	-486.2%	14.2%	127.3%	643.7%	0.2%	43.0%	-19.1%	-17.0%
Core Net Income	7	146	206	97	77	156	200	81
YoY	-154.4%	24.6%	29.0%	34.8%	1060.8%	7.4%	-2.8%	-16.6%
Earnings/ADR, Basic (RMB)	1.58	2.27	5.14	2.01	1.59	3.26	4.17	1.66
Earnings/ADR, Diluted (RMB)	0.11	2.27	4.29	1.97	1.56	3.21	4.11	1.64
EBITDA	297	380	536	341	324	433	494	337
YoY	58.4%	9.1%	43.1%	33.6%	9.1%	13.9%	-7.8%	-1.2%
Core EBITDA	229	418	497	342	326	435	496	338
YoY	17.5%	12.7%	16.5%	8.9%	42.5%	4.1%	-0.2%	-1.2%
Income Margins								
Operating margin	2.9%	12.4%	15.2%	7.4%	5.9%	11.0%	13.1%	5.6%
Net Income margin	5.1%	6.4%	13.1%	5.8%	4.7%	8.4%	10.0%	4.5%
Core Net Income margin	0.4%	8.6%	11.0%	5.9%	4.8%	8.5%	10.1%	4.6%
EBITDA margin	20.2%	22.4%	28.6%	20.5%	20.3%	23.6%	25.0%	19.0%
Core EBITDA margin	15.5%	24.6%	26.5%	20.6%	20.4%	23.7%	25.1%	19.1%

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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