



Company Report: Home Inns & Hotels (HMIN US)

公司报告：如家酒店 (HMIN US)

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4Q13 EBITDA In-line, EPS Missed on Higher Tax Rate

2013年4季度EBITDA符合预期，EPS因税率提高而低于预期

- **4Q13 core EBITDA increased 31.5% YoY to RMB314 million, in-line with Bloomberg consensus estimate of RMB308 million.** Adjusted earnings per ADS for the quarter increased 10.3% YoY to RMB1.92, missing the consensus estimate by 14.8% due to effective tax rate of 78.6% compared to 11.3% in 4Q12.
- **Management expects full year 2014 total revenues to increase between 7.0% to 10.2%, in-line with previous Bloomberg consensus forecast.** The Company maintains guidance to open at least 450 new hotels in 2014, 82% of which will be franchised-and-managed ("F&M") hotels.
- **We decrease our 2014F and 2015F EBITDA forecasts by 10.8% and 11.5%, respectively.** Management sees no clear signs of meaningful recovery in the macro-economy and expects short-term challenges will still remain, leading to flat or slightly negative 2014 RevPAR growth. Mature hotel same-hotel RevPAR in 2014 is targeted to hold flat. On the bright side, EBITDA margin is expected to continue to increase in 2014 as the proportion of higher margin F&M hotels continues to increase.
- **Maintain 'Buy' rating as share price is trading 26.4% below its historical average forward EV/EBITDA and 48.5% below international peers' forward EV/EBITDA.** However, we lower our target price from US\$55.00 to US\$45.00, which is equivalent to 8.5x 2014 EV/Core EBITDA, on lower earnings outlook.
- 如家酒店 2013 年 4 季度核心 EBITDA 同比增长 31.5%至人民币 3.14 亿元，大致符合彭博一致预期（人民币 3.08 亿元）。该季度调整后的每份 ADS 净利同比增长 10.3%至人民币 1.92 元，低于市场预期 14.8%，是由于有效税率达 78.6%，而 2012 年 4 季度则为 11.3%。
- 管理层预期 2014 年全年收入增幅介于 7.0%至 10.2%之间，符合此前的彭博一致预期。公司维持在 2014 年至至少新开 450 家酒店的指引，其中 82%将为加盟管理酒店。
- 我们分别下调 2014 年和 2015 年 EBITDA 预期 10.8%和 11.5%。管理层尚未看到宏观经济实质性复苏的清晰信号，预期短期挑战仍将存在，导致 2014 年可租房平均收益的增长持平或略偏负面。成熟酒店的同店可租房平均收益预计在 2014 年持平。另一方面，预期 EBITDA 率在 2014 年进一步提升，因较高经营利润率的加盟管理酒店的占比继续增加。
- 我们维持‘买入’评级，因为目前估值低于其历史平均预测 EV/ EBITDA26.4%，也低于国际同行 48.5%。因为下调盈利预期，我们下调目标价从 55.00 美元至 45.00 美元，相当于 8.5 倍 2014 年 EV/ EBITDA。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

US\$45.00

Revised from 原目标价:

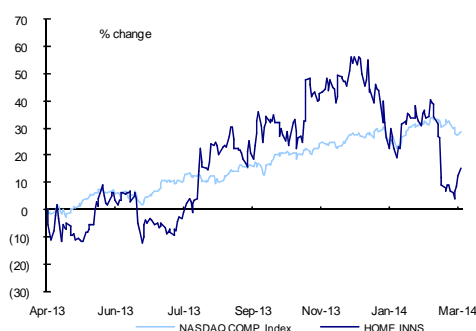
US\$55.00

Share price 股价:

US\$32.290

Stock performance

股价表现



Change in ADR Price ADR 价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	(12.1)	(24.4)	17.6
Rel. % to NASDAQ index 相对纳斯达克变动 %	(11.3)	(26.6)	(14.2)
Avg. ADR price(US\$) 平均 ADR 价 (美元)	33.1	36.2	33.3

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入	Net Profit 股东净利	Earnings / ADR 每份 ADR 净利	Earnings / ADR 每份 ADR 净利变动	PER 市盈率	BV/ADR 每份 ADR 净资产	PBR 市净率	DP ADR 每份 ADR 股息	Yield 股息率	ROE 净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2012A	5,770	(27)	(0.580)	(106.9)	n.a.	87.163	2.3	0.000	0.0	(0.7)
2013A	6,353	196	4.235	830.1	46.2	95.632	2.0	0.000	0.0	4.7
2014F	6,913	429	9.100	114.9	21.6	109.578	1.8	0.000	0.0	8.9
2015F	7,583	521	10.960	20.4	17.4	124.721	1.5	0.000	0.0	9.4
2016F	8,211	612	12.738	16.2	14.8	141.177	1.3	0.000	0.0	9.6

Shares in issue (m) 总股数 (m)	47.0	Major shareholder 大股东	Ctrip 18.0%
Market cap. (US\$ m) 市值 (US\$ m)	1,518.2	Free float (%) 自由流通比率 (%)	62.9
3 month average vol. 3 个月平均成交量 ('000)	433.2	2014 Net gearing (%) 2014 净负债/股东资金 (%)	3.8
52 Weeks high/low (US\$) 52 周高/低	44.170 / 23.930	2014 Est. NAV (US\$) 2014 每股估值 (美元)	54.3

Source: the Company, Guotai Junan International.

4Q13 RESULTS

4Q13 core EBITDA increased 31.5% YoY to RMB314 million, in-line with Bloomberg consensus estimate of RMB308 million. Adjusted earnings per ADS for the quarter increased 10.3% YoY to RMB1.92, missing the consensus estimate by 14.8% due to effective tax rate of 78.6% compared to 11.3% in 4Q12. Core EBITDA margin was 19.5% up 3.2 ppt YoY. 4Q13 core net income was RMB72 million, an increase of 26.3% YoY as core net income margin increased by 0.6 ppt YoY. Leased-and-operated ("L&O") hotel costs for the quarter were equivalent to 87.4% of L&O hotel revenue, down 2.6 ppt YoY, which was mainly due to continued productivity gains, especially for personnel costs and particularly so for Motel 168 hotels.

Total 4Q13 operating expense ratio decreased by 4.2 ppt YoY on continued hotel level efficiency gains and ongoing cost control focus across the Company. S&M expense ratio increased from 1.7% in 4Q12 to 2.9% in 4Q13. The increase in this cost included spending on marketing programs for mobile apps development and implementation in support of the Company's multi-brand strategy and the increased cost associated with Company's member rewards program. G&A expense for the quarter was equivalent to 5.1% of total revenue compared to 5.7% in the same period of 2012. The decrease in this expense ratio was driven by effective cost-control initiative at the headquarters with continued leverage of economies of scale.

Operating income was RMB106 million, up 191.1% YoY as margin increased from 2.5% in 4Q12 to 6.6% in 4Q13. The increase in margin was mainly driven by the increasing revenue contribution from franchised-and-managed ("F&M") hotels. Continued operational improvement from Motel 168 during and after integration, and cost control and efficiency improvement at both hotels and corporate headquarter levels.

Table-1: Results Summary

(RMB million)	4Q12	1Q13	2Q13	3Q13	4Q13	4Q13	(% or ppt.)
						YoY	QoQ
L&O hotels revenue	1,305	1,238	1,413	1,535	1,402	7.4%	-8.7%
F&M hotels revenue	161	164	189	204	208	29.4%	1.9%
Gross revenue	1,466	1,402	1,602	1,739	1,610	9.8%	-7.4%
Business tax & surcharges	(90)	(88)	(99)	(106)	(98)	-9.3%	7.2%
Net revenue	1,376	1,314	1,503	1,633	1,511	9.9%	-7.5%
L&O hotel op. costs (Ex pre-open costs)	(1,182)	(1,164)	(1,168)	(1,224)	(1,233)	-4.3%	-0.7%
<i>% of L&O hotel gross revenue</i>	<i>90.6%</i>	<i>94.0%</i>	<i>82.7%</i>	<i>79.8%</i>	<i>87.9%</i>	<i>(2.6)</i>	<i>8.2</i>
L&O hotels income (excluding pre-open costs)	43	-3	157	217	83	95.4%	-61.6%
Total operating expenses	(1,342)	(1,310)	(1,324)	(1,407)	(1,406)	-4.8%	0.1%
<i>% of gross revenue</i>	<i>91.5%</i>	<i>93.4%</i>	<i>82.6%</i>	<i>80.9%</i>	<i>87.4%</i>	<i>(4.2)</i>	<i>6.4</i>
Operating Income	36	12	180	227	106	191.1%	-53.5%
Net Income	6	(19)	95	108	13	104.7%	-88.1%
Less non-core items:							
Early extinguishment of Term Loan	0	0	(42)	0	0	n.a.	n.a.
Gain (loss) on CB fair value change	(45)	(6)	0	(57)	(71)	-56.3%	-23.7%
Foreign exchange gain (loss), net	15	3	25	9	14	-9.5%	58.0%
Motel 168 integration costs (in G&A & hotel costs)	(20)	(4)	(6)	(3)	(2)	90.1%	35.9%
Total non-core items	(51)	(7)	(22)	(52)	(59)	-16.6%	-14.4%
Core Net Income	57	(12)	117	160	72	26.3%	-54.8%
Less share based compensation expense	22	23	22	21	20	-12.8%	-6.9%
Adjusted Net Income	81	10	140	181	92	13.9%	-49.3%
Earnings per ADR, diluted (RMB)	0.14	(0.42)	1.68	2.31	0.27	100.3%	-88.2%
Core Earnings per ADR, diluted (RMB)	1.24	(0.26)	2.33	3.42	1.53	23.6%	-55.3%
Adjusted Earnings per ADR, diluted (RMB)	1.74	0.22	2.89	3.70	1.92	10.3%	-48.1%
EBITDA	188	187	349	375	255	35.5%	-32.0%
Core EBITDA	239	195	371	427	314	31.5%	-26.3%
Adjusted EBITDA	260	216	394	448	334	28.2%	-25.4%

L&O hotels hotel income margin	1.3%	-2.6%	10.4%	13.8%	5.3%	4.0	-8.5
Hotel income margin	12.1%	9.4%	21.0%	23.9%	17.5%	5.4	-6.4
Operating margin	2.5%	0.9%	11.2%	13.0%	6.6%	4.1	-6.5
EBITDA margin	12.8%	13.4%	21.8%	21.5%	15.8%	3.0	-5.7
Core EBITDA margin	16.3%	13.9%	23.1%	24.5%	19.5%	3.2	-5.0
Adjusted EBITDA margin	17.8%	15.4%	24.6%	25.7%	20.7%	3.0	-5.0
Net income margin	0.4%	-1.4%	5.9%	6.2%	0.8%	0.4	-5.4
Core net income margin	3.9%	-0.9%	7.3%	9.2%	4.5%	0.6	-4.7
Adjusted net income margin	5.5%	0.7%	8.7%	10.4%	5.7%	0.2	-4.7

Source: the Company, Guotai Junan International.

Hotel Portfolio

The Company's upscale brand hotel, Yitel, is performing strongly as 11 new Yitel hotels were added in 2013. The new Yitel brand hotels added in 2013 included 7 L&O Yitel hotels. By the end of 2013, the Company had 18 Yitel hotels in operation located across 9 tier 1 or major capital cities. For the Yitel hotels, their occupancy rates were all at least 80%. For the mature Yitel hotels' same hotel performance, occupancy was 90% or above. Given the proven performance and operational experience so far, the Company has started introducing franchise business model in response to strong interest from potential franchisee and joint venture partners for further Yitel hotel development.

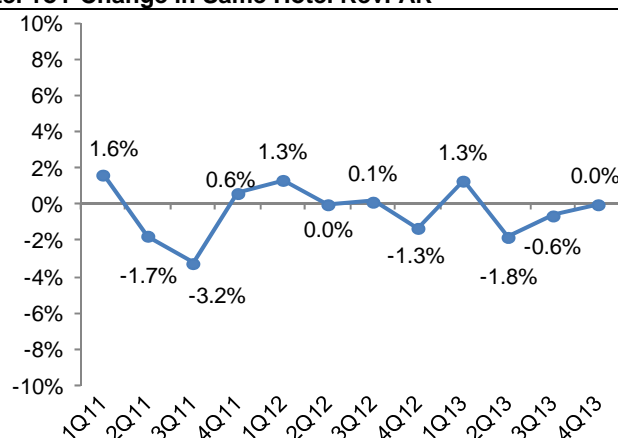
At the end of 4Q13, F&M hotels represented 60% of the Company's total hotels in operation. At the end of 2013, the Company had 470 hotel projects in the development pipeline, which include 161 hotels constructed or under construction and another 256 hotels under due diligence. 293, or 94% of these hotels will be under the F&M model.

Regional acquisition of Yunshang Siji Hotel to boost presence in Yunnan at reasonable price. On March 10, the Company announced that it had entered into a legally binding memorandum of understanding to acquire 100% ownership of Yunshang Siji Hotel Management Company from Kunming Department Store (Group) Co., Ltd., a publicly listed company in the domestic A-share market, for a cash purchase price of RMB230 million. The transaction is expected to close on April 1, 2014. Yunshang Siji Hotel operates 27 L&O hotels and eight F&M hotels, with approximately 3,500 rooms in total. Upon successful closing, this acquisition would enhance the value and the geographic diversity of the Home Inns hotel brand in Yunnan Province and support strategic expansion in the southwest region of China. This transaction, like any other potential regional chain acquisitions that Home Inns might make, will be a part of the overall hotel development plan and the capital budget for the year. The Company acquired Yunshang Siji Hotel at a cost of about RMB70,000 to RMB72,000 per L&O room, which is in-line with the Company's current cost of approximately RMB65,000 to RMB70,000 per room to convert an individual hotel into the Home Inns brand. Yunshang Siji Hotel is a strategically well-located business, which adds to Home Inns' overall presence, so we think the slight premium is justified. Additionally, it is a relatively small acquisition of 3,500 rooms and will not require as much investment to improve or integrate into the Home Inn's portfolio, as was the case when in October 2011 Home Inns acquired Motel 168, which had 45,669 rooms at the time.

Hotel Performance

Mature hotel revenue-per-available-room (RevPAR) was flat YoY. There were 1,563 hotels in operation for at least 18 months in 4Q13. These mature hotels maintained a flat ADR YoY at RMB166 and occupancy was also flat YoY at 86.6%. For mature Motel 168 hotels, same hotel RevPAR increased by 5.5% YoY, offsetting the slight decline of 0.2% in RevPAR for mature hotels of Home Inn and Yitel brands. For all hotels, 4Q13 occupancy increased slightly to 84.0% from 83.8% YoY and ADR decreased slightly YoY to RMB163 from RMB165, resulting in a decrease of 0.7% in 4Q13 overall RevPAR to RMB137 from RMB138 a year ago. These results were stemmed from weak general economic conditions in China, and the Company sees no clear signs of recovery going forward.

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



Source: the Company.

Note: The Company acquired Motel 168 in October 2011 and began operating Motel 168 hotels in the 4th quarter 2011; therefore, the above like-for-like same hotel performance figures include Motel 168 hotels starting from 4Q12.

OUTLOOK

The Company maintains its guidance (from 3Q13) to open at least 450 new hotels in 2014. These hotels will include 70 to 90 L&O hotels, and 360 to 380 F&M hotels; 25 to 30 Yitel brand hotels will be added in 2014 and even more in 2015. Also, any acquisitions of smaller scale regional chains are part of the overall hotel development plan.

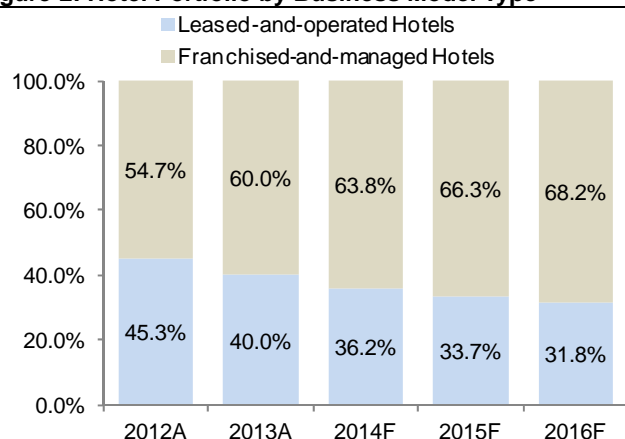
For full year 2014, Home Inns expects total revenues be in the range of RMB6,800 million to RMB7,000 million, representing growth of 7.0% to 10.2% over 2013. The midpoint of managements guidance range, RMB6,900 million, is 1.8% above Bloomberg consensus pre-announcement forecast. Management expects total revenue for 1Q14 to be in the range of RMB1,460 million to RMB 1,490 million. Management sees no clear signs of meaningful recovery in the macro conditions and expects short-term challenges will still remain, leading to flat or even negative 2014 RevPAR growth. Same-hotel RevPAR for mature hotels is targeted to hold flat. Motel 168 RevPAR is expected to increase by about 1% to 2% in 2014, a lower pace compared to 2013, when Motel 168 completed integration.

Increased focus on development of mobile sales channels. Home Inns plans to continue to investment in developing its mobile apps and enhancing features including on-the-spot payment as well as customer booking and feedback. The Company's 2013 mobile apps development spending went into initial development whereas this year spending will go toward adding new features. The Company is also exploring options to integrate other social media, including WeChat and Alipay, into its mobile platform.

S&M expense ratio increased from 1.3% in 2012 to 1.7% in 2013 and management expects it will remain at this higher level in 2014. Although the Company will be increasing spending on mobile apps development this year, it will be also able to eliminate some of its other more traditional sales and marketing expenses. As such, management is targeting to allocate 1.7% of revenue as the budget for S&M expenses in 2014.

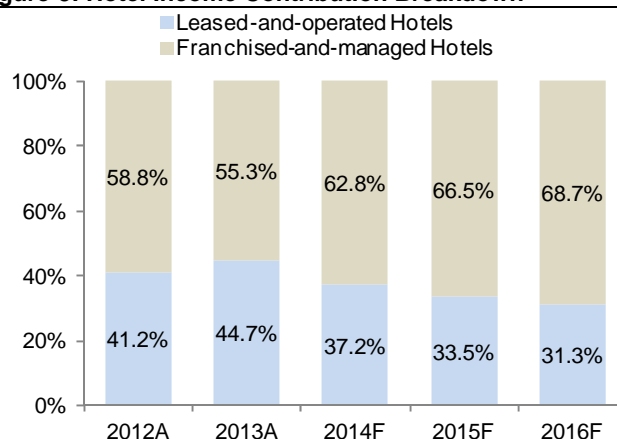
EBITDA margin is expected to continue to increase in 2014 due to growing contribution from F&M hotels. As at the end of 2013, 60% of the Company's total hotels were operated as F&M hotels. As new hotels added will consist mostly of F&M hotels (82% in 2014), the proportion of F&M hotels will continue to increase, and could eventually reach 80% or even 90%, according to management. Core profit margin is expected to increase going forward as the proportion of F&M hotels (for which the Company bears no hotel operating expenses) in the portfolio increases. Additionally, management expects to continue to generate productivity gains and reduce cost ratios.

Figure-2: Hotel Portfolio by Business Model Type



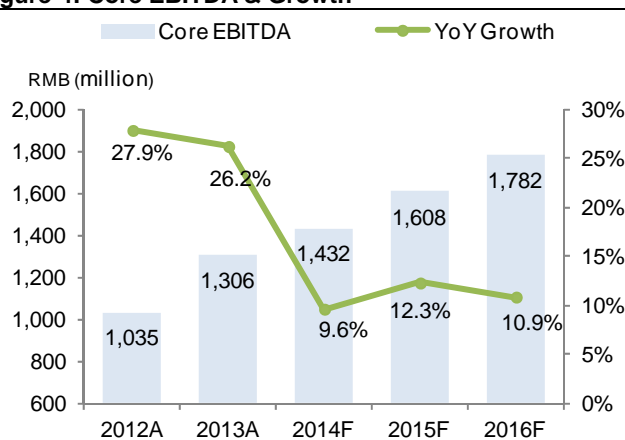
Source: the Company, Guotai Junan International.

Figure-3: Hotel Income Contribution Breakdown



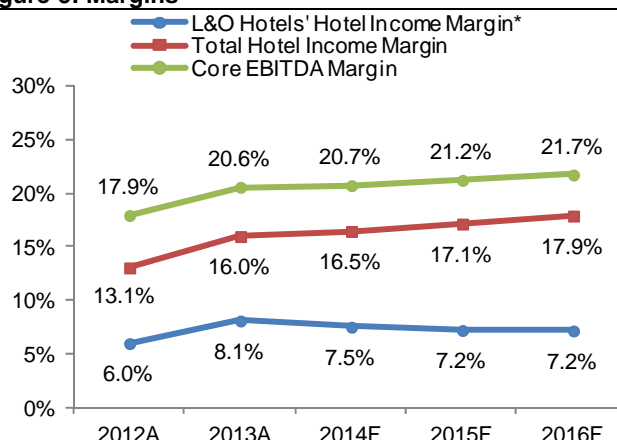
Source: the Company, Guotai Junan International.

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.

We decrease our 2014F and 2015F core EBITDA forecasts by 10.8% and 11.5%, respectively, on lower revenue and higher rent expense ratio. The Company's 2014 revenue guidance was below our previous forecast, and we revise down our revenue forecasts accordingly. Also, rents and utilities expense ratio in 4Q13 was higher than we were expecting, and so we increase rent expense forecasts, which pushes up the L&O hotel operating cost to L&O revenue ratio. We lower G&A expense ratio, which is partially offset by higher S&M expense ratio. The combined effect is reduction in 2014 and 2015 operating income by 19.6% and 18.3%, respectively. Capex (based on Company guidance) and depreciation expense forecasts are lowered, and hence the decline in our EBITDA forecast is less than that of operating margin.

We forecast 2014-2016 core EBITDA of RMB1.432 billion, RMB1.608 billion and RMB1.782 billion, respectively, reflecting 10.9% CAGR. Our revised forecast calls for 2014-2016 fully diluted core earnings per ADR of RMB8.57, RMB10.39 and RMB12.14, respectively, equivalent to 21.4% CAGR.

Table-2: Model Updates

(RMB million)	Old		New			Change (% or ppt)	
	2014F	2015F	2014F	2015F	2016F	2014F	2015F
Total L&O hotels in operation	936	1,004	952	1,022	1,092	1.8%	1.8%
Total F&M hotels in operation	1,687	2,019	1,678	2,008	2,338	-0.5%	-0.5%
L&O hotels gross revenue	6,305	6,843	5,977	6,447	6,884	-5.2%	-5.8%
F&M hotels gross revenue	1,055	1,318	936	1,135	1,327	-11.3%	-13.9%
Total gross revenue	7,360	8,161	6,913	7,583	8,211	-6.1%	-7.1%
Business tax & surcharges	(449)	(498)	(423)	(464)	(502)	-5.8%	-6.9%
Net revenue	6,911	7,663	6,490	7,119	7,709	-6.1%	-7.1%
L&O hotel operating costs (excluding pre-open costs)	(5,376)	(5,875)	(5,160)	(5,586)	(5,968)	-4.0%	-4.9%
<i>% of L&O hotel gross revenue</i>	<i>85.3%</i>	<i>85.9%</i>	<i>86.3%</i>	<i>86.6%</i>	<i>86.7%</i>	<i>1.1</i>	<i>0.8</i>
L&O hotel income (excluding pre-open costs)	544	550	451	466	495	-17.1%	-15.3%
<i>% of L&O hotels gross revenue</i>	<i>8.6%</i>	<i>8.0%</i>	<i>7.5%</i>	<i>7.2%</i>	<i>7.2%</i>	<i>-1.1</i>	<i>-0.8</i>
L&O hotels pre-opening costs	(108)	(111)	(92)	(82)	(84)	-14.9%	-26.1%
Sales & marketing	(105)	(116)	(118)	(129)	(140)	12.3%	11.1%
<i>% of total gross revenue</i>	<i>1.4%</i>	<i>1.4%</i>	<i>1.7%</i>	<i>1.7%</i>	<i>1.7%</i>	<i>0.3</i>	<i>0.3</i>
General & administrative	(375)	(415)	(341)	(374)	(405)	-9.0%	-10.0%
<i>% of total gross revenue</i>	<i>5.4%</i>	<i>5.4%</i>	<i>5.3%</i>	<i>5.3%</i>	<i>5.3%</i>	<i>-0.2</i>	<i>-0.2</i>
F&M hotel personnel costs	(216)	(270)	(192)	(232)	(272)	-11.3%	-13.9%
Other income	13	13	11	11	11	-13.3%	-13.3%
Operating Income	744	888	598	726	852	-19.6%	-18.3%
Income Tax Expense	(220)	(271)	(184)	(223)	(262)	-16.4%	-17.6%
<i>effective tax rate</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>0.0</i>	<i>0.0</i>
Net Income	514	633	429	521	612	-16.5%	-17.7%
Core net Income	514	633	429	521	612	-16.5%	-17.7%
(-) share based comp expense	(102)	(108)	(91)	(112)	(133)	-10.7%	4.2%
Adjusted net income	617	741	521	633	745	-15.6%	-14.5%
Earnings per ADR, diluted (RMB)	10.73	13.10	8.93	10.78	12.56	-16.8%	-17.7%
Core earnings per ADR (RMB), diluted	10.73	13.10	8.93	10.78	12.56	-16.8%	-17.7%
Adjusted earnings per ADR (RMB), diluted	12.87	15.65	10.83	13.10	15.28	-15.9%	-16.3%
EBITDA	1,605	1,817	1,432	1,608	1,782	-10.8%	-11.5%
Core EBITDA	1,605	1,817	1,432	1,608	1,782	-10.8%	-11.5%

Source: the Company, Guotai Junan International.

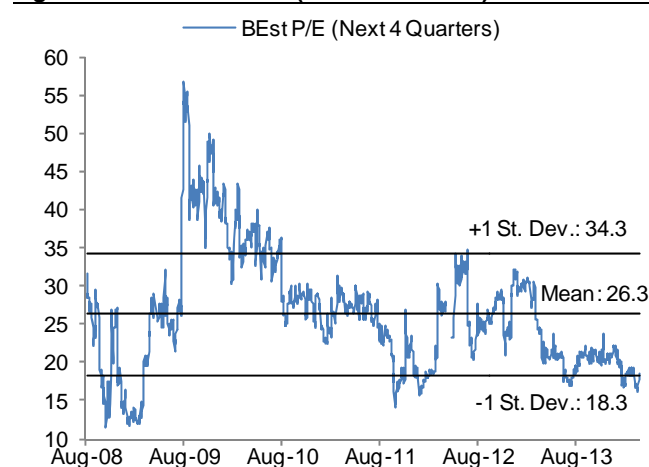
Maintain “Buy” rating but reduce target price from US\$55.00 to US\$45.00. Our TP is equivalent to 8.5x 2014 EV/ EBITDA, which is lower than international peers, now trading at 13.3x 2014 EV/EBITDA. We think Home Inns’ valuation is attractive as is cheap compared not only to international peers but also to its own historical forward PE and EV/EBITDA valuations. We also use DCF analysis to cross-check our target price, which is a 17.1% discount to our DCF derived NAV of US\$54.31. Our Target Price represents 39.4% upside potential.

Table-3: Peers Comparison

Company	Stock Code	CNCY	Share Price	Mkt Cap (USD mn)	D/Y% 13A	ROE %		PE			EV/EBITDA			13 PEG Bbg
						14F	15F	14F	15F	16F	14F	15F	16F	
US Listed Economy Chain Hotels in China														
Home Inns & -Adr	HMIN US	USD	32.905	1,560	0.0	11.0	11.6	18.1	14.9	15.5	6.8	6.1	5.6	0.8
China Lodgin-Ads	HTHT US	USD	24.250	1,477	0.0	11.7	13.0	25.0	19.6	15.5	8.2	6.8	5.8	0.8
Simple Average				1,518	0.0	11.3	12.3	21.5	17.2	15.5	7.5	6.4	5.7	0.8
Weighted Average					0.0	11.3	12.3	21.4	17.2	15.5	7.5	6.4	5.7	0.8
Hong Kong Listed														
Hongkong Shangha	45 HK	HKD	10.600	2,053	n.a.	1.8	n.a.	26.5	27.0	24.1	13.6	13.1	12.6	2.4
Shangri-La Asia	69 HK	HKD	12.740	5,144	n.a.	2.4	2.8	32.8	28.3	25.7	15.7	14.1	13.3	n.a.
Shanghai Jin J-H	2006 HK	HKD	2.000	1,435	n.a.	12.1	5.0	9.4	22.9	20.0	6.7	6.1	5.7	n.a.
Dorsett Hospital	2266 HK	HKD	1.470	398	n.a.	8.0	6.6	11.1	11.3	8.6	9.8	9.9	8.4	n.a.
Simple Average				2,257	n.a.	6.0	4.8	20.0	22.4	19.6	11.4	10.8	10.0	2.4
Weighted Average					n.a.	4.0	3.4	26.7	26.4	24.1	13.5	12.4	10.8	2.4
International														
Intercontin-Adr	IHG US	USD	32.640	8,358	2.3	n.a.	n.a.	21.0	18.9	17.0	n.a.	n.a.	n.a.	2.8
Hyatt Hotels-A	H US	USD	55.000	8,611	0.0	3.5	4.6	51.0	39.5	30.2	12.6	11.3	10.1	3.8
Accor Sa	AC FP	EUR	38.110	11,994	2.8	14.1	15.5	23.8	20.6	18.4	10.0	9.2	8.8	1.6
Millennium & Cop	MLC LN	GBp	562.50	3,037	2.7	4.5	5.3	18.0	15.9	15.5	10.4	9.5	9.3	n.a.
Sunstone Hotel	SHO US	USD	13.930	2,553	0.0	7.3	7.7	16.8	17.7	28.4	14.1	12.9	11.9	2.8
Wyndham Worldwid	WYN US	USD	74.120	9,498	1.7	29.5	26.4	17.2	15.4	12.9	11.5	10.8	10.0	n.a.
Marriott Intl-A	MAR US	USD	56.930	16,784	1.3	-49.9	-63.6	23.6	20.1	17.7	14.4	13.2	11.8	2.0
Hilton Worldwide	HLT US	USD	22.550	22,203	n.a.	13.9	15.1	37.6	29.3	24.8	14.7	13.4	12.4	1.9
Starwood Hotels	HOT US	USD	80.360	15,423	2.2	16.3	18.0	28.9	24.8	22.6	13.5	12.3	11.3	2.5
Host Hotels & Re	HST US	USD	20.560	15,559	1.9	5.9	7.1	22.9	21.3	n.a.	14.3	13.2	12.5	4.6
Simple Average				11,402	1.7	5.0	4.0	26.1	22.3	20.8	12.8	11.8	10.9	2.7
Weighted Average					1.8	3.1	1.6	28.0	23.6	20.6	13.3	12.2	11.2	2.3

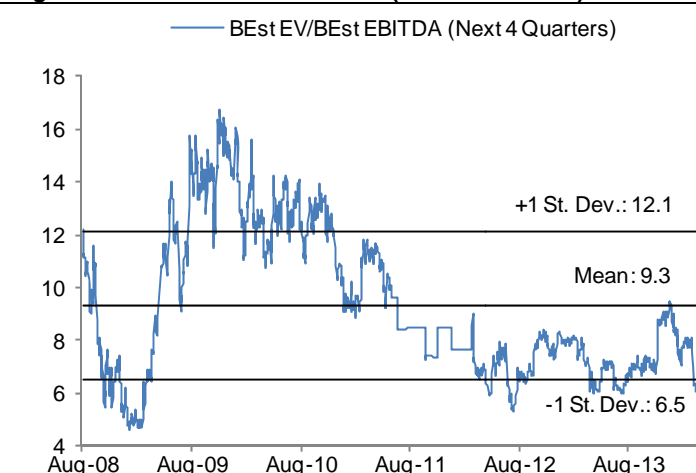
Source: Bloomberg.

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-4: Valuation and Target Price Based Multiples

	FY13A	FY14F	FY15F	FY16F
Target Price Based EV / EBITDA				
Target Price (US\$/ADR)	45.00			
ADR Outstanding, Year End, Fully Diluted (mn)	46.7	48.1	48.5	48.6
Market Capitalization (US\$ mn)	2,101	2,164	2,181	2,186
+ Yr End minority interest (US\$ mn)	3	3	4	5
+ Yr End Borrowings, not including CB's (US\$ mn)	118	117	121	122
- Yr End cash & equivalents (US\$ mn)	191	277	372	489
Year End Enterprise Value (US\$ mn)	2,031	2,008	1,934	1,825
Core EBITDA (US\$ mn)	215.8	235.2	272.5	305.7
TP Based EV/Core EBITDA	9.4	8.5	7.1	6.0
Target Price Based PER & PEG				
Target Price (US\$/ADR)	45.00			
Target Price (RMB/ADR)	279.45			
Core Earnings per ADR (RMB), Diluted	7.02	8.93	10.78	12.56
Target Price Based PER	39.8	31.3	25.9	22.2

Source: the Company, Guotai Junan International.

Table-5: DCF Based Valuation

DCF Assumptions		Calculation	
Perpetual growth rate	3.0%	PV FCFF (RMB mn)	9,881
		PV Terminal Value (RMB mn)	4,898
Risk free rate	2.11%	EV (RMB mn)	14,780
Adjusted Beta	1.30	- Debt, not including CB's (RMB mn)	114
Market risk premium	11.9%	- Minority Interest (RMB mn)	16
Cost of Equity	17.54%	+ Cash & Equivalents (RMB mn)	1,157
		Total NAV (RMB mn)	15,806
Borrowing interest rate	4.0%		
Effective tax rate	30.0%	ADR Outstanding (fully diluted, as at 2014 year end, mn)	46.7
Cost of Debt	2.8%	NAV per share (RMB)	338.39
		US\$:RMB	6.23
Historical Average E/ (D+E)	73%	NAV per ADR (US\$)	54.31
Historical Average D/ (D+E)	27%		
WACC	13.63%		

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	5,977	6,447	6,884
Franchised-and-managed hotels	605	765	936	1,135	1,327
Total Gross Revenue	5,770	6,353	6,913	7,583	8,211
Business tax	(353)	(392)	(423)	(464)	(502)
Net revenue	5,416	5,961	6,490	7,119	7,709
L&O hotel operating costs	(4,642)	(4,867)	(5,253)	(5,669)	(6,052)
F&M hotel personnel costs	(125)	(157)	(192)	(232)	(272)
Hotel income	649	937	1,046	1,218	1,385
Sales & marketing	(77)	(110)	(118)	(129)	(140)
G&A	(315)	(313)	(341)	(374)	(405)
Other income	17	11	11	11	11
Operating Income	274	525	598	726	852
Interest expense	(108)	(48)	(40)	(36)	(32)
Non-operating income & gains	(53)	(74)	54	54	54
Income before tax	114	403	612	743	874
Income tax	(136)	(207)	(184)	(223)	(262)
Minority interests	(4)	0	1	1	1
Net Income attributable to shareholders	(27)	196	429	521	612
Gain (loss) on change in fair value of convertible	(87)	(133)	0	0	0
Early extinguishment of Term Loan	0	(42)	0	0	0
FX gain/(loss), net	0	50	0	0	0
MOTEL 168 acquisition & integration expenses	(97)	(15)	0	0	0
Core Net Income	157	337	429	521	612
EBITDA	851	1,166	1,432	1,608	1,782
Core EBITDA	1,035	1,306	1,432	1,608	1,782
Earnings per ADR					
-Basic (RMB)	(0.580)	4.235	9.100	10.960	12.738
-Diluted (RMB)	(0.580)	4.201	8.926	10.784	12.560
Core earnings per ADR					
-Basic (RMB)	3.535	7.227	9.100	10.960	12.738
-Diluted (RMB)	3.348	7.016	8.926	10.784	12.560

Growth

Year end Dec.	2012A	2013A	2014F	2015F	2016F
Net Revenue	46.0%	10.1%	8.9%	9.7%	8.3%
L&O hotels hotel income	-44.9%	82.1%	-4.6%	7.1%	7.0%
Hotel income	-4.2%	44.3%	11.6%	16.4%	13.8%
Operating income	-8.0%	91.6%	14.1%	21.3%	17.3%
Income before tax	-78.4%	254.8%	51.8%	21.5%	17.5%
Net income attributable to shareholders	-107.6%	832.8%	118.7%	21.5%	17.5%
Core net income	-26.0%	114.4%	27.5%	21.5%	17.5%
EBITDA	-10.3%	37.0%	22.8%	12.3%	10.9%
Core EBITDA	27.9%	26.2%	9.6%	12.3%	10.9%
Earnings per ADR, basic	-106.9%	830.1%	114.9%	20.4%	16.2%
Earnings per ADR, diluted	-123.1%	824.3%	112.5%	20.8%	16.5%
Core earnings per ADR, basic	-29.9%	104.5%	25.9%	20.4%	16.2%
Core earnings per ADR, diluted	-25.6%	109.6%	27.2%	20.8%	16.5%

Balance Sheet

As at 31 December (RMB m)	2012A	2013A	2014F	2015F	2016F
Cash and equivalent	663	1,157	1,685	2,197	2,848
Restricted Cash	206	173	173	173	173
Inventories	42	41	46	50	53
Receivables	278	287	312	342	371
Deferred tax assets	80	79	70	85	100
Current assets	1,268	1,737	2,287	2,847	3,545
Affiliate investments	7	6	6	6	6
P&E	3,847	4,049	4,405	4,751	5,048
Goodwill & intangibles	3,404	3,367	3,367	3,367	3,367
Other	117	86	90	99	107
Deferred tax assets	311	408	385	468	550
Non-current assets	7,686	7,916	8,253	8,691	9,078
Total assets	8,954	9,653	10,540	11,538	12,623
Payables & Accruals	1,498	1,577	1,664	1,813	1,953
Borrowings	13	0	0	0	0
Deferred tax liability	29	52	48	52	55
Deferred revenue	203	203	221	243	263
Current liabilities	1,743	1,832	1,933	2,107	2,271
Borrowings	735	713	713	713	713
Convertible notes	1,067	1,157	1,157	1,157	1,157
Deferred revenue	45	54	59	65	70
Deferred tax liability	288	284	284	284	284
Deposits	91	115	148	177	206
Deferred rental	632	691	740	798	852
Other	383	358	325	292	259
Non-current Liabilities	3,241	3,373	3,426	3,486	3,542
Total liabilities	4,984	5,205	5,359	5,593	5,813
Total equity	3,970	4,448	5,181	5,945	6,811
Minority interest	12	16	20	24	28
Shareholders' equity	3,957	4,431	5,161	5,921	6,783
BV per ADR (RMB)	87.163	95.632	109.578	124.721	141.177

Cash Flow Statement

Year end Dec. (RMB m)	2012A	2013A	2014F	2015F	2016F
Income after tax	(23)	196	428	520	611
Depr. and amort	677	714	779	827	876
Other non cash, net	58	70	122	14	36
Increase (dec.) in WC	36	197	154	220	208
Cash from operations	748	1,177	1,484	1,581	1,731
PP&E, net	(929)	(889)	(989)	(1,089)	(1,089)
Acquisitions	(69)	(69)	(69)	(69)	(69)
Other	(4)	(4)	(4)	(4)	(4)
Cash from investing	(1,002)	(962)	(1,062)	(1,162)	(1,162)
New shares proceeds	27	129	106	91	81
Convertible bond	(112)	0	0	0	0
Net borrowings	(761)	(35)	0	0	0
Other	(18)	184	1	1	1
Cash from financing	(864)	279	107	92	82
Effect of X-rate	(5)	0	0	0	0
Net increase in cash	(1,123)	494	529	511	651
Cash at 1 Jan.	1,786	663	1,157	1,685	2,197
Cash at 31 Dec.	663	1,157	1,685	2,197	2,848

Ratios

	2012A	2013A	2014F	2015F	2016F
<i>Margins:</i>					
L&O hotels hotel income (excluding pre-open expense)	6.0%	8.1%	7.5%	7.2%	7.2%
L&O hotels hotel income (including pre-open expense)	4.0%	6.7%	6.0%	6.0%	6.0%
Hotel income (excluding pre-open expense)	13.1%	16.0%	16.5%	17.1%	17.9%
Hotel income (including pre-open expense)	12.0%	15.7%	16.1%	17.1%	18.0%
Operating	4.7%	8.3%	8.7%	9.6%	10.4%
Net income	-0.5%	3.1%	6.2%	6.9%	7.5%
Core net income	2.7%	5.3%	6.2%	6.9%	7.5%
EBITDA	14.7%	18.3%	20.7%	21.2%	21.7%
Core EBITDA	17.9%	20.6%	20.7%	21.2%	21.7%
<i>Return:</i>					
ROE	-0.7%	4.7%	8.9%	9.4%	9.6%
ROA	-0.3%	2.1%	4.3%	4.7%	5.1%
<i>Leverage & liquidity:</i>					
Net gearing (%)	29.3%	17.0%	3.8%	Net cash	Net cash
Debt/equity (%)	45.7%	42.1%	36.1%	31.5%	27.5%
Current ratio (x)	0.7	0.9	1.2	1.4	1.6

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	1,295	1,523	1,649	1,511	1,401	1,651	1,778	1,618
F&M hotels revenue	191	228	255	262	239	283	314	299
Gross Revenue	1,486	1,750	1,903	1,773	1,640	1,934	2,092	1,917
Business tax & surcharges	(91)	(107)	(116)	(109)	(100)	(118)	(128)	(117)
Net revenue	1,395	1,643	1,787	1,665	1,540	1,816	1,964	1,799
Total L&O hotel operating costs	(1,209)	(1,313)	(1,386)	(1,344)	(1,308)	(1,422)	(1,496)	(1,442)
Total operating expenses	(1,347)	(1,476)	(1,564)	(1,515)	(1,466)	(1,608)	(1,699)	(1,631)
% of total revenue	90.7%	84.3%	82.2%	85.5%	89.4%	83.1%	81.2%	85.1%
Other income	3	3	3	3	3	3	3	3
Operating Income	51	170	225	152	77	211	267	171
Interest expense	(11)	(10)	(10)	(10)	(9)	(9)	(9)	(9)
Other	5	10	19	21	5	10	19	21
Tax	(13)	(51)	(70)	(49)	(21)	(63)	(83)	(55)
Net Income	31	119	164	115	50	148	194	129
YoY	-261.6%	25.4%	52.3%	791.5%	60.7%	24.5%	18.2%	12.4%
Core Net Income	31	119	164	115	50	148	194	129
YoY	-357.5%	1.7%	2.9%	58.7%	60.7%	24.5%	18.2%	12.4%
Earnings/ADR, Basic (RMB)	0.67	2.52	3.49	2.43	1.06	3.11	4.08	2.70
Earnings/ADR, Diluted (RMB)	0.65	2.47	3.42	2.38	1.05	3.06	4.02	2.66
EBITDA	246	373	441	372	283	425	495	404
YoY	31.3%	7.0%	17.6%	45.9%	15.0%	14.0%	12.3%	8.7%
Core EBITDA	246	373	441	372	283	425	495	404
YoY	26.4%	0.6%	3.3%	18.4%	15.0%	14.0%	12.3%	8.7%
Income Margins								
Operating margin	3.4%	9.7%	11.8%	8.6%	4.7%	10.9%	12.8%	8.9%
Net Income margin	2.1%	6.8%	8.6%	6.5%	3.1%	7.6%	9.3%	6.7%
Core Net Income margin	2.1%	6.8%	8.6%	6.5%	3.1%	7.6%	9.3%	6.7%
EBITDA margin	16.6%	21.3%	23.2%	21.0%	17.3%	22.0%	23.7%	21.1%
Core EBITDA margin	16.6%	21.3%	23.2%	21.0%	17.3%	22.0%	23.7%	21.1%

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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