



Company Report: Home Inns & Hotels (HMIN US)

公司报告: 如家酒店 (HMIN US)

Noah Hudson
+86 755 23976684
noah.hudson@gtjas.com

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Expect Revenue Growth and EBITDA Expansion to Slow Down

预期收入增长率和EBITDA扩张减缓

- **1Q14 adjusted EBITDA increased by 17.6% YoY to RMB254 million, 20% above Bloomberg consensus estimate.** Net revenue increased by just 4.9% YoY to RMB1.378 billion. Total operating expense ratio decreased by 2.0 ppt YoY due to larger contribution from franchised-and-managed ("F&M"), leading to a 1.8 ppt YoY increase in adjusted EBITDA margin to 17.3%. Adjusted net income for the quarter was RMB32 million, up 210.3% YoY.
- **1Q14 Mature hotel RevPAR unexpectedly declined by 2.2% YoY, and might show YoY declines in the coming quarters.** Full year 2014, total revenues could come in at the low end or slightly below management's previous guidance range. We are also now less optimistic on EBITDA margin expansion in 2014, which we now expect to remain flat compared to last year.
- **Decrease 2014-2016 core EBITDA forecasts by 10.0%, 10.3% and 10.2%, respectively, on lower revenue and higher hotel operating expense ratio.** We forecast 2014-2016 core EBITDA of RMB1.289 billion, RMB1.442 billion and RMB1.601 billion, respectively, reflecting 7.0% CAGR.
- **Current valuation is 1 standard deviation below historical average; maintain "Buy" rating; fine tune target price down from US\$45.00 to US\$44.30.**
- **2014 年 1 季度调整后 EBITDA 同比增长 17.6%至人民币 2.54 亿元, 高于彭博市场预期 20%。** 净收入同比略增长 4.9%至人民币 13.78 亿元。由于加盟管理酒店的收入占总收入比例继续增长, 总经营费用对收入比例同比下降 2.0 个百分点, 令调整后 EBITDA 利润率同比提升 1.8 个百分点至 17.3%。1 季度的调整后净利润为人民币 32 百万元, 同比增长 210.3%。
- **2014 年 1 季度成熟酒店的可租房平均收益出其不意地同比下降 2.2%, 而今年可能会继续同比下降。** 2014 年全年总收入可能会达到管理层上次指引范围的下限, 或更低一些。现在我们也对 EBITDA 利润率提升的可能性没有以前那么乐观, 而预期今年会持平。
- **由于较低的收入预期、较高的酒店费用对收入比例预期, 分别下调 2014 年至 2016 年核心 EBITDA 预测 10.0%、10.3%和 10.2%。** 我们分别预期 2014 年至 2016 年核心 EBITDA 为人民币 12.89 亿元人民币、人民币 14.41 亿元和人民币 16.01 亿元, 相当于 7.0%的复合年增长率。
- **目前估值低于历史平均一个标准差, 维持 "买入" 投资评级, 微下调目标价从 45.00 美元至 44.30 美元。**

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

US\$44.30

Revised from 原目标价:

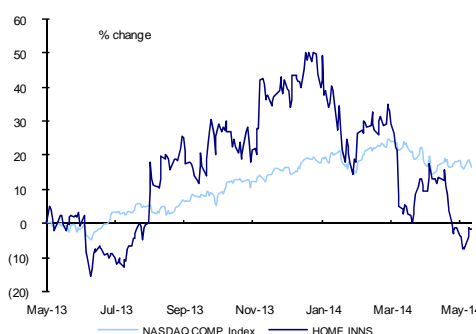
US\$45.00

Share price 股价:

US\$28.630

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)	(23.4)	(0.6)
Rel. % to NASDAQ index 相对纳指变动 %	(12.9)	(19.3)	(17.8)
Avg. ADR price(US\$) 平均 ADR 价 (美元)	29.6	32.5	33.8

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 (Δ%)	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)	(106.9)	n.a.	87.163	2.0	0.000	0.0	(0.7)
2013A	6,353	196	4.235	830.1	40.9	95.632	1.8	0.000	0.0	4.7
2014F	6,663	400	8.372	97.7	21.0	108.230	1.6	0.000	0.0	8.3
2015F	7,182	403	8.470	1.2	20.1	122.215	1.4	0.000	0.0	7.4
2016F	7,709	481	10.008	18.2	16.7	136.619	1.2	0.000	0.0	7.8

Shares in issue (m) 总股数 (m)	47.9	Major shareholder 大股东	Oppenheimer Funds 13.1%
Market cap. (US\$ m) 市值 (US\$ m)	1,370.1	Free float (%) 自由流通比率 (%)	70.4
3 month average vol. 3 个月平均成交量 (000)	394.4	2014 Net gearing (%) 2014 净负债/股东资金 (%)	6.0
52 Weeks high/low (US\$) 52 周高/低	44.170 / 23.930	2014 Est. NAV (US\$) 2014 每股估值 (美元)	53.9

Source: the Company, Guotai Junan International.

1Q14 RESULTS

1Q14 adjusted EBITDA increased by 17.6% YoY to RMB254 million, 20% above Bloomberg consensus estimate but 5% below our forecast. Total net revenue increased by 4.9% YoY to RMB1.378 billion. Adjusted net income for the quarter was RMB32 million, up 210.3% compared to just RMB10 million in 1Q13. Adjusted diluted earnings per ADS for the quarter increased by 201.0% YoY to RMB0.67, beating the consensus estimate by 78% but 39% below our last forecast. Adjusted EBITDA margin was 17.3% up 1.8 ppt YoY. Leased-and-operated ("L&O") hotel costs for the quarter were equivalent to 95.2% of L&O hotel revenue, up 1.2 ppt YoY, which was mainly due to decline in the Company's RevPAR.

Total 1Q14 operating expense ratio decreased by 2.0 ppt YoY due to larger contribution from franchised-and-managed ("F&M") hotels which do not incur hotel operating expenses. Revenue contribution from F&M hotels made up 13.1% of total revenue in 1Q14, compared to 11.7% in 1Q13, thereby increasing operating margin from 0.9% in 1Q13 to 2.9% in 1Q14. Operating income in 1Q14 was RMB42 million, up 250.7% YoY.

Table-1: Results Summary

(RMB million)	1Q13	2Q13	3Q13	4Q13	1Q14	1Q14 (% or ppt.)	
						YoY	QoQ
L&O hotels revenue	1,238	1,413	1,535	1,402	1,279	3.3%	-8.7%
F&M hotels revenue	164	189	204	208	193	17.8%	-7.1%
Gross revenue	1,402	1,602	1,739	1,610	1,472	5.0%	-8.5%
Business tax & surcharges	(88)	(99)	(106)	(98)	(94)	-7.2%	4.3%
Net revenue	1,314	1,503	1,633	1,511	1,378	4.9%	-8.8%
L&O hotel op. costs (Ex pre-open costs)	(1,164)	(1,168)	(1,224)	(1,233)	(1,218)	-4.6%	1.2%
% of L&O hotel gross revenue	94.0%	82.7%	79.8%	87.9%	95.2%	1.2	7.3
L&O hotels income (excluding pre-open costs)	-3	157	217	83	-20	-489.7%	-124.3%
Total operating expenses	(1,310)	(1,324)	(1,407)	(1,406)	(1,346)	-2.8%	4.3%
% of gross revenue	93.4%	82.6%	80.9%	87.4%	91.4%	(2.0)	4.1
Operating Income	12	180	227	106	42	250.7%	-59.8%
Net Income	(19)	95	108	13	75	486.2%	482.5%
Less non-core items:							
Gain (loss) on CB fair value change	(6)	0	(57)	(71)	86	1610.5%	220.7%
Foreign exchange gain (loss), net	3	25	9	14	(15)	-687.7%	-211.8%
Motel 168 integration costs (in G&A & hotel costs)	(4)	(6)	(3)	(2)	(2)	49.3%	-4.0%
Total non-core items	(7)	(22)	(52)	(59)	68	1045.0%	215.0%
Core Net Income	(12)	117	160	72	7	154.4%	-90.8%
Less share based compensation expense	23	22	21	20	25	11.2%	29.9%
Adjusted Net Income	10	140	181	92	32	210.3%	-65.0%
Earnings per ADR, diluted (RMB)	(0.42)	1.68	2.31	0.27	0.11	125.4%	-59.6%
Core Earnings per ADR, diluted (RMB)	(0.26)	2.33	3.42	1.53	0.13	149.2%	-91.6%
Adjusted Earnings per ADR, diluted (RMB)	0.22	2.89	3.70	1.92	0.67	201.0%	-65.1%
EBITDA	187	349	375	255	297	58.4%	16.4%
Core EBITDA	195	371	427	314	229	17.5%	-27.3%
Adjusted EBITDA	216	394	448	334	254	17.6%	-23.9%
L&O hotels hotel income margin	-2.6%	10.4%	13.8%	5.3%	-1.2%	1.4	-6.5
Hotel income margin	9.4%	21.0%	23.9%	17.5%	12.1%	2.7	-5.5
Operating margin	0.9%	11.2%	13.0%	6.6%	2.9%	2.0	-3.7
EBITDA margin	13.4%	21.8%	21.5%	15.8%	20.2%	6.8	4.3
Core EBITDA margin	13.9%	23.1%	24.5%	19.5%	15.5%	1.6	-4.0
Adjusted EBITDA margin	15.4%	24.6%	25.7%	20.7%	17.3%	1.8	-3.5
Net income margin	-1.4%	5.9%	6.2%	0.8%	5.1%	6.5	4.3
Core net income margin	-0.9%	7.3%	9.2%	4.5%	0.4%	1.3	-4.0
Adjusted net income margin	0.7%	8.7%	10.4%	5.7%	2.2%	1.4	-3.5

Source: the Company, Guotai Junan International.

Hotel Portfolio

Home Inns opened 69 new hotels (closed 8 hotels) in 1Q14, in-line with expectations. By end of 1Q14, the Company had total 2,241 hotels in operation across 297 cities in China under its three brands.

At the end of 1Q14, 60.9% of all hotels in operation were F&M hotels, up from 56.0% in 1Q13. There were a total of 448 hotel projects in the development pipeline as of March 31, 2014, including 185 hotels contracted or under construction (165 of which were franchised-and-managed hotels) and 263 hotels under due diligence (all of which were franchised-and-managed hotels), demonstrating continued strong interest from franchise partners in the Company's three hotel brands.

Table-2: Home Inns' Hotel Portfolio, 1Q14

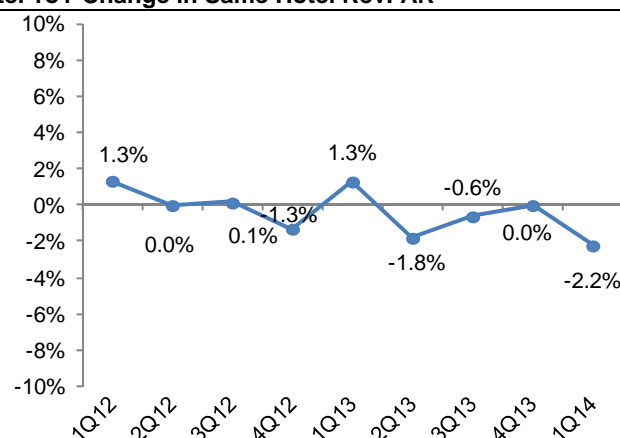
	Hotels				Net Additions			
	Total	Home Inn	Motel 168	Yitel	Total	Home Inn	Motel 168	Yitel
Total Number of Hotels in Operation	2,241	1,841	381	19	61	57	3	1
Leased-and-Operated	876	698	164	14	4	2	1	1
Franchised-and-Managed	1,365	1,143	217	5	57	55	2	0
Hotels Contracted or Under Construction	185	152	22	11				
Leased-and-Operated	20	13	6	1				
Franchised-and-Managed	165	139	16	10				
Hotels Under Due Diligence	263	237	23	3				
Leased-and-Operated	0	0	0	0				
Franchised-and-Managed	263	237	23	3				

Source: the Company, Guotai Junan International.

Hotel Performance

1Q14 Mature hotel revenue-per-available-room (RevPAR) unexpectedly declined by 2.2% YoY. There were 1,654 hotels in operation for at least 18 months in 1Q14. These mature hotels maintained a flat ADR YoY at RMB166 but their occupancy rate declined from 86.0% in 1Q13 to 83.9% in 1Q14, leading to a 2.2% YoY drop in RevPAR (management previously gave guidance expecting it to be flat). Mature Motel 168 hotels did better, as their same hotel RevPAR increased by 2.5% YoY. However, this was not enough to offset the 2.0% decline in RevPAR for the Home Inn and Yitel brands combined. For all hotels in operation (mature and new), 1Q14 RevPAR declined by 3.1% YoY due to fall in occupancy rate from 83.6% in 1Q13 to 81.3% in 1Q14 (ADR was flat YoY in 1Q14).

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.

As of March 31, 2014, almost 800,000 users had downloaded the Company's mobile application, which was first introduced in October 2013. Approximately 45% of the Company's bookings come from Home Inns members. Third party providers including OTA's bring in about 12% of Home Inns' total bookings. Walk-ins has declined to about 5%. We expect the number customers who book via Home Inn's mobile app will increase significantly over the coming quarters. As the number of people who download and use the Company's mobile app increases, we expect direct bookings to increase and the contribution from third parties to decrease, although we don't expect this to have a significant impact on margin.

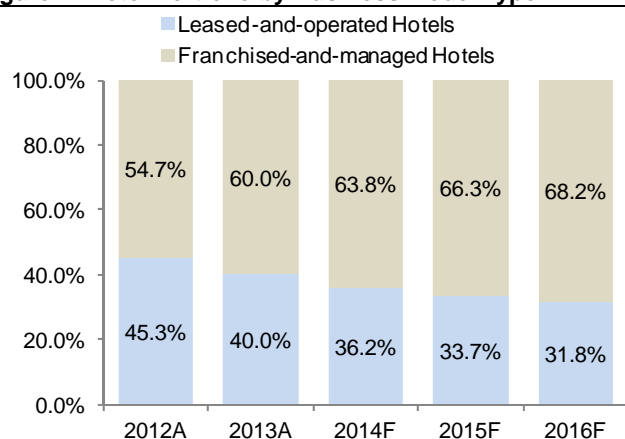
OUTLOOK

The Company maintains its guidance to open at least 450 new hotels in 2014, but with less L&O hotels and more F&M hotels. The Company now targets to add from 50 to 70 leased-and-operated ("L&O") hotels, down from 70 to 90 previously. Expected F&M hotel openings is increased from 360 to 38, up from 380 to 400 previously.

Full year 2014, total revenues could come in at the low end or slightly below management's previous guidance range of between RMB6,800 million to RMB7,000 million, which represents growth of 7.0% to 10.2%. 1Q14 mature hotel RevPAR was down 2.2% YoY whereas management had been expecting it to be flat. Due to the weaker than expected performance, which could continue this year, combined with less expected L&O hotel additions compared to previous guidance, we have revised down or forecast for 2014 revenue, which we now expect to be 1.9% below the low end of management's previous guidance.

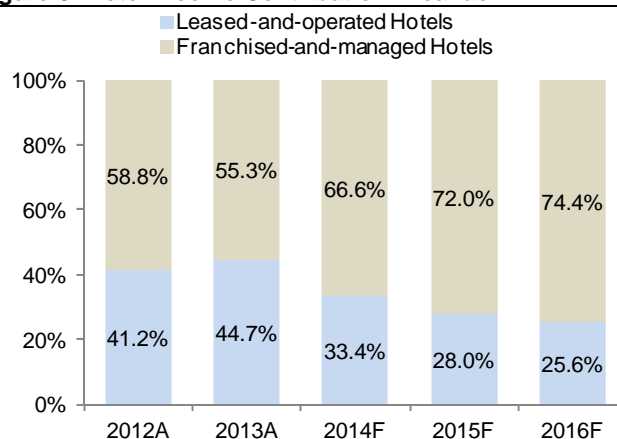
We are now less optimistic on EBITDA margin expansion in 2014, which we now expect to remain flat compared to last year. Previously, we had expected adjusted EBITDA to increase somewhat in 2014 due to the growing contribution from the high margin F&M hotels. However, due to the weak 1Q14 hotel performance, in particular the mature hotel RevPAR being down 2.2% YoY, we now expect adjusted EBITDA margin to decrease remain flat at 21.0% compared to 2013.

Figure-2: Hotel Portfolio by Business Model Type

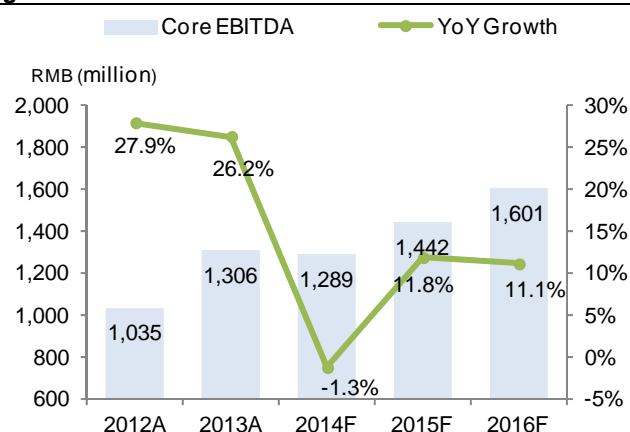


Source: the Company, Guotai Junan International.

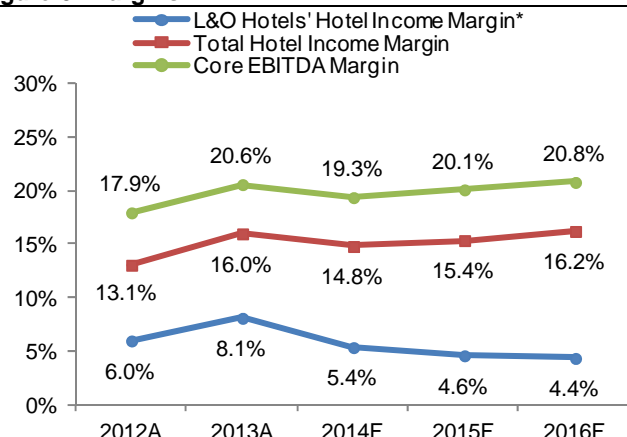
Figure-3: Hotel Income Contribution Breakdown



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 2014-2016 core EBITDA forecasts by 10.0%, 10.3% and 10.2%, respectively, on lower revenue and higher L&O operating expense ratio. We decrease revenue forecasts on lower expected RevPAR and also less expected L&O hotel additions this year. Operating income is decreased by even more due to higher expected L&O hotel operating expense ratio. As a result, decrease 2014-2016 core net income forecasts by 23.2%, 22.7% and 21.4%, respectively.

We forecast 2014-2016 core EBITDA of RMB1.289 billion, RMB1.442 billion and RMB1.601 billion, respectively, reflecting 7.0% CAGR. Our revised forecast calls for 2014-2016 fully diluted core earnings per ADR of RMB6.79, RMB8.33 and RMB9.87, respectively, equivalent to 12.0% 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	952	1,022	1,092	932	987	1,042	-2.1%	-3.4%	-4.6%
Total F&M hotels in operation	1,678	2,008	2,338	1,698	2,043	2,388	1.2%	1.7%	2.1%
L&O hotels gross revenue	5,977	6,447	6,884	5,733	6,049	6,373	-4.1%	-6.2%	-7.4%
F&M hotels gross revenue	936	1,135	1,327	930	1,133	1,337	-0.7%	-0.2%	0.7%
Total gross revenue	6,913	7,583	8,211	6,663	7,182	7,709	-3.6%	-5.3%	-6.1%
Business tax & surcharges	(423)	(464)	(502)	(427)	(460)	(494)	0.8%	-0.9%	-1.8%
Net revenue	6,490	7,119	7,709	6,236	6,723	7,216	-3.9%	-5.6%	-6.4%
L&O hotel operating costs (excluding pre-open costs)	(5,160)	(5,586)	(5,968)	(5,057)	(5,382)	(5,685)	-2.0%	-3.7%	-4.7%
% of L&O hotel gross revenue	86.3%	86.6%	86.7%	88.2%	89.0%	89.2%	1.9	2.3	2.5
L&O hotel income (excluding pre-open costs)	451	466	495	309	280	280	-31.4%	-39.9%	-43.5%
% of L&O hotels gross revenue	7.5%	7.2%	7.2%	5.4%	4.6%	4.4%	-2.1	-2.6	-2.8
L&O hotels pre-opening costs	(92)	(82)	(84)	(78)	(73)	(74)	-15.3%	-11.3%	-11.3%
Sales & marketing	(118)	(129)	(140)	(113)	(122)	(131)	-3.6%	-5.3%	-6.1%
% of total gross revenue	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	0.0	0.0	-
General & administrative	(341)	(374)	(405)	(326)	(353)	(379)	-4.3%	-5.6%	-6.4%
% of total gross revenue	5.3%	5.3%	5.3%	5.2%	5.3%	5.3%	-0.0	-0.0	-0.0
F&M hotel personnel costs	(192)	(232)	(272)	(193)	(238)	(281)	1.0%	2.6%	3.5%
Other income	11	11	11	21	14	14	89.1%	24.2%	24.2%
Operating Income	598	726	852	489	568	679	-18.2%	-21.7%	-20.3%
Income Tax Expense	(184)	(223)	(262)	(165)	(173)	(206)	-10.2%	-22.6%	-21.3%
effective tax rate	30.0%	30.0%	30.0%	29.1%	30.0%	30.0%	-0.9	0.0	0.0
Net Income	429	521	612	400	403	481	-6.8%	-22.7%	-21.4%
(-) Non-Core items*	0	0	0	70	0	0	n.a.	n.a.	n.a.
Core net income	429	521	612	329	403	481	-23.2%	-22.7%	-21.4%
(-) share based comp expense	(91)	(112)	(133)	(110)	(130)	(151)	20.1%	16.4%	13.8%
Adjusted net income	521	633	745	439	533	632	-15.6%	-15.8%	-15.2%
Earnings per ADR, diluted (RMB)	8.93	10.78	12.56	6.77	8.33	9.87	-24.2%	-22.7%	-21.4%
Core earnings per ADR (RMB), diluted	8.93	10.78	12.56	6.79	8.33	9.87	-23.9%	-22.7%	-21.4%
Adjusted earnings per ADR (RMB), diluted	10.83	13.10	15.28	9.07	11.03	12.97	-16.2%	-15.8%	-15.2%
EBITDA	1,432	1,608	1,782	1,360	1,442	1,601	-5.0%	-10.3%	-10.2%
Core EBITDA	1,432	1,608	1,782	1,289	1,442	1,601	-10.0%	-10.3%	-10.2%

Source: the Company, Guotai Junan International.

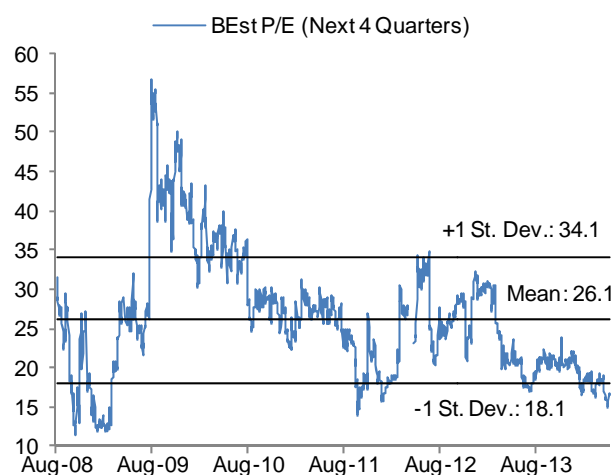
Current valuation is 1 standard deviation below historical average; maintain “Buy” rating; fine tune target price down from US\$45.00 to US\$44.30. Home Inns is currently trading at more than 1 standard deviation below both its historical average forward PE of 26.1x and also its historical average forward EV/EBITDA. Our target price is based on Home Inn's historical average forward EV/EBITDA of 9.2x, and is equivalent to 9.6x 2014F EV/EBITDA, which is lower than international peers, currently trading at 12.8x 2014F EV/EBITDA. We also use DCF analysis to cross-check our target price, which is a 17.8% discount to our DCF derived NAV of US\$53.89. Our Target Price represents 54.7% upside potential.

Table-4: Peers Comparison

Table 4: Peers Comparison															
	Stock	CNCY	Share	Mkt Cap	D/Y%	ROE			PE			EV/EBITDA			13 PEG
Company	Code		Price	(USD mn)	13A	14F	15F		14F	15F	16F	14F	15F	16F	Bbg
US Listed Economy Chain Hotels in China															
Home Inns & -Adr	HMIN US	USD	28.630	1,370	0.0	11.1	11.6		16.8	13.9	12.7	6.0	5.3	5.0	0.7
China Lodgin-Ads	HTHT US	USD	21.810	1,328	0.0	11.2	12.4		24.2	18.9	16.9	7.7	6.3	5.4	0.7
Simple Average					0.0	11.1	12.0		20.5	16.4	14.8	6.9	5.8	5.2	0.7
Weighted Average					0.0	11.1	12.0		20.5	16.4	14.8	6.8	5.8	5.2	0.7
Hong Kong Listed															
Hongkong Shangha45	HK	HKD	11.000	2,132	1.5	1.8	n.a.		27.5	28.0	25.0	14.0	13.5	13.0	2.5
Shangri-La Asia	69 HK	HKD	12.500	5,051	0.8	2.4	2.8		32.3	27.8	25.2	15.6	14.0	13.2	n.a.
Shanghai Jin J-H	2006 HK	HKD	1.710	1,228	2.2	12.1	5.0		8.1	19.6	17.2	6.6	6.0	5.6	n.a.
Dorsett Hospital	2266 HK	HKD	1.320	357	5.4	8.0	6.6		9.9	10.2	7.8	9.3	9.5	8.0	n.a.
Simple Average					2.5	6.0	4.8		19.4	21.4	18.8	11.4	10.7	10.0	2.5
Weighted Average					1.4	3.8	3.4		26.8	26.0	23.3	13.7	12.6	11.9	2.5
International															
Intercontin-Adr	IHG US	USD	37.080	9,496	2.3	n.a.	n.a.		23.8	21.1	18.9	n.a.	n.a.	n.a.	3.0
Hyatt Hotels-A	H US	USD	56.920	8,912	0.0	3.5	4.4		51.1	39.9	30.7	12.4	11.1	10.1	3.6
Accor Sa	AC FP	EUR	35.635	11,156	2.8	14.6	15.3		22.4	19.4	17.6	9.4	8.6	7.9	1.5
Millennium & Cop	MLC LN	GBp	560.00	3,053	2.7	4.5	5.3		18.1	16.0	15.4	10.5	9.6	9.2	n.a.
Sunstone Hotel	SHO US	USD	13.890	2,519	0.0	5.5	5.3		18.9	16.2	28.3	13.7	12.6	11.8	3.2
Wyndham Worldwid	WYN US	USD	70.850	9,020	1.7	31.5	28.7		16.3	14.6	12.6	11.1	10.3	9.6	1.1
Marriott Intl-A	MAR US	USD	57.930	16,960	1.3	n.a.	n.a.		23.5	20.2	17.7	13.6	12.3	11.3	2.2
Hilton Worldwide	HLT US	USD	21.900	21,563	0.0	14.4	15.9		33.9	27.2	22.7	13.9	12.7	11.6	1.7
Starwood Hotels	HOT US	USD	77.850	14,947	2.2	17.4	19.3		27.6	24.2	21.6	13.0	11.8	10.9	3.2
Host Hotels & Re	HST US	USD	21.430	16,221	1.9	8.2	7.0		23.0	21.2	n.a.	14.4	13.4	12.4	2.1
Simple Average					1.7	12.4	12.7		25.9	22.0	20.6	12.4	11.4	10.5	2.4
Weighted Average					1.8	13.8	14.2		27.2	23.1	20.4	12.8	11.7	10.8	2.2

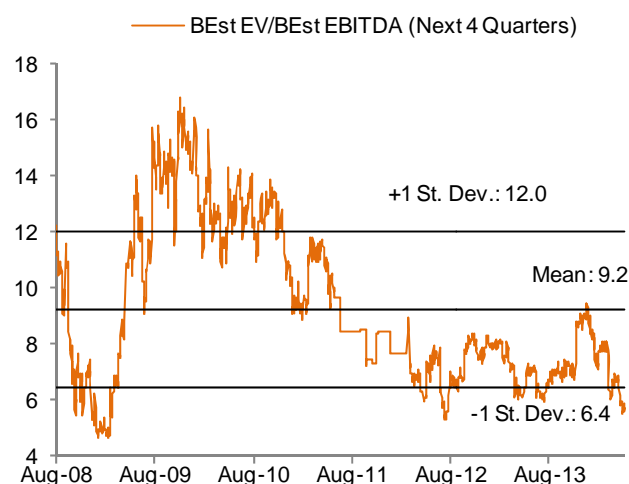
Source: Bloomberg.

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-5: Valuation and Target Price Based Multiples

	FY13A	FY14F	Next 4 Quarters	FY15F	FY16F
Target Price Based EV / EBITDA					
Target Price (US\$/ADR)	44.30				
ADR Outstanding, End Period, Fully Diluted (mn)	46.7	48.5	48.2	48.5	48.6
Market Capitalization (US\$ mn)	2,069	2,148	2,134	2,147	2,152
+ Yr End minority interest (US\$ mn)	3	3	3	3	3
+ Yr End Borrowings, not including CB's (US\$ mn)	118	117	118	121	123
- Yr End cash & equivalents (US\$ mn)	191	246	265	324	416
Year End Enterprise Value (US\$ mn)	1,998	2,022	1,989	1,948	1,863
Core EBITDA (US\$ mn)	215.8	209.6	216.1	242.7	274.1
TP Based EV/Core EBITDA	9.3	9.6	9.2	8.0	6.8
Target Price Based PER & PEG					
Target Price (US\$/ADR)	44.30				
Target Price (RMB/ADR)	273.33				
Core Earnings per ADR (RMB), Diluted	7.02	6.79	8.33	8.33	9.87
Target Price Based PER	39.0	40.2	32.8	32.8	27.7

Source: the Company, Guotai Junan International.

Table-6: DCF Based Valuation

DCF Assumptions		Calculation	
Perpetual growth rate	3.0%	PV FCFF (RMB mn)	9,184
		PV Terminal Value (RMB mn)	5,471
Risk free rate	2.11%	EV (RMB mn)	14,656
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)	15,682
Borrowing interest rate	4.0%		
Effective tax rate	29.1%	ADR Outstanding (fully diluted, as at 2014 year end, mn)	46.7
Cost of Debt	2.8%	NAV per share (RMB)	335.74
		US\$:RMB	6.23
Historical Average E/ (D+E)	74%	NAV per ADR (US\$)	53.89
Historical Average D/ (D+E)	26%		
WACC	13.74%		

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	5,733	6,049	6,373
Franchised-and-managed hotels	605	765	930	1,133	1,337
Total Gross Revenue	5,770	6,353	6,663	7,182	7,709
Business tax	(353)	(392)	(427)	(460)	(494)
Net revenue	5,416	5,961	6,236	6,723	7,216
L&O hotel operating costs	(4,642)	(4,867)	(5,135)	(5,454)	(5,759)
F&M hotel personnel costs	(125)	(157)	(193)	(238)	(281)
Hotel income	649	937	908	1,030	1,175
Sales & marketing	(77)	(110)	(113)	(122)	(131)
G&A	(315)	(313)	(326)	(353)	(379)
Other income	17	11	21	14	14
Operating Income	274	525	489	568	679
Interest expense	(108)	(48)	(43)	(42)	(41)
Non-operating income & gains	(53)	(74)	119	49	49
Income before tax	114	403	566	576	687
Income tax	(136)	(207)	(165)	(173)	(206)
Minority interests	(4)	0	(1)	0	0
Net Income attributable to shareholders	(27)	196	400	403	481
Gain (loss) on change in fair value of convertible					
Early extinguishment of Term Loan	(87)	(133)	86	0	0
FX gain/(loss), net	0	(42)	0	0	0
MOTEL 168 acquisition & integration expenses	0	50	(15)	0	0
Core Net Income	(97)	(15)	0	0	0
EBITDA	157	337	329	403	481
Core EBITDA	851	1,166	1,360	1,442	1,601
Earnings per ADR					
-Basic (RMB)					
-Diluted (RMB)	(0.580)	4.235	8.372	8.470	10.008
Core earnings per ADR					
-Basic (RMB)	(0.580)	4.201	6.766	8.334	9.868
-Diluted (RMB)	3.535	7.227	6.933	8.470	10.008

Growth

Year end Dec.	2012A	2013A	2014F	2015F	2016F
Net Revenue	46.0%	10.1%	4.6%	7.8%	7.3%
L&O hotels hotel income	-44.9%	82.1%	-38.5%	-10.3%	-1.1%
Hotel income	-4.2%	44.3%	-3.1%	13.4%	14.1%
Operating income	-8.0%	91.6%	-6.7%	16.1%	19.4%
Income before tax	-78.4%	254.8%	40.3%	1.8%	19.4%
Net income attributable to shareholders	-107.6%	832.8%	103.8%	0.8%	19.4%
Core net income	-26.0%	114.4%	-2.1%	22.3%	19.4%
EBITDA	-10.3%	37.0%	16.6%	6.0%	11.1%
Core EBITDA	27.9%	26.2%	-1.3%	11.8%	11.1%
Earnings per ADR, basic	-106.9%	830.1%	97.7%	1.2%	18.2%
Earnings per ADR, diluted	-123.1%	824.3%	61.1%	23.2%	18.4%
Core earnings per ADR, basic	-29.9%	104.5%	-4.1%	22.2%	18.2%
Core earnings per ADR, diluted	-25.6%	109.6%	-3.2%	22.7%	18.4%

Balance Sheet

As at 31 December (RMB m)	2012A	2013A	2014F	2015F	2016F
Cash and equivalent	663	1,157	1,513	1,922	2,428
Restricted Cash	206	173	164	164	164
Inventories	42	41	41	44	46
Receivables	278	287	301	324	348
Deferred tax assets	80	79	63	66	79
Current assets	1,268	1,737	2,081	2,519	3,064
Affiliate investments	7	6	6	6	6
P&E	3,847	4,049	4,432	4,781	5,081
Goodwill & intangibles	3,404	3,367	3,356	3,356	3,356
Other	117	86	87	93	100
Deferred tax assets	311	408	346	363	433
Non-current assets	7,686	7,916	8,226	8,599	8,977
Total assets	8,954	9,653	10,307	11,118	12,041
Payables & Accruals	1,498	1,577	1,588	1,675	1,782
Borrowings	13	0	0	0	0
Deferred tax liability	29	52	46	48	51
Deferred revenue	203	203	213	230	247
Current liabilities	1,743	1,832	1,847	1,953	2,080
Borrowings	735	713	720	720	720
Convertible notes	1,067	1,157	1,082	1,082	1,082
Deferred revenue	45	54	57	61	66
Deferred tax liability	288	284	251	251	251
Deposits	91	115	150	180	211
Deferred rental	632	691	709	749	789
Other	383	358	325	292	259
Non-current Liabilities	3,241	3,373	3,294	3,335	3,377
Total liabilities	4,984	5,205	5,142	5,289	5,457
Total equity	3,970	4,448	5,165	5,830	6,584
Minority interest	12	16	17	18	19
Shareholders' equity	3,957	4,431	5,148	5,811	6,564
BV per ADR (RMB)	87.163	95.632	108.230	122.215	136.619

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Company Report

Cash Flow Statement

Year end Dec. (RMB m)	2012A	2013A	2014F	2015F	2016F
Income after tax	(23)	196	401	403	481
Depreciation. and amortization	677	714	752	824	873
Other non cash, net	58	70	85	111	68
Increase (decrease) in WC	36	197	60	143	165
Cash from operations	748	1,177	1,297	1,481	1,587
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)	6	0	0
Other	(18)	184	8	0	0
Cash from financing	(864)	279	121	91	81
Effect of X-rate	(5)	0	0	0	0
Net increase in cash	(1,123)	494	356	409	506
Cash at 1 Jan.	1,786	663	1,157	1,513	1,922
Cash at 31 Dec.	663	1,157	1,513	1,922	2,428

Ratios

	2012A	2013A	2014F	2015F	2016F
<i>Margins:</i>					
L&O hotels hotel income (excluding pre-open expense)	6.0%	8.1%	5.4%	4.6%	4.4%
L&O hotels hotel income (including pre-open expense)	4.0%	6.7%	4.0%	3.4%	3.2%
Hotel income (excluding pre-open expense)	13.1%	16.0%	14.8%	15.4%	16.2%
Hotel income (including pre-open expense)	12.0%	15.7%	14.6%	15.3%	16.3%
Operating	4.7%	8.3%	7.3%	7.9%	8.8%
Net income	-0.5%	3.1%	6.0%	5.6%	6.2%
Core net income	2.7%	5.3%	4.9%	5.6%	6.2%
EBITDA	14.7%	18.3%	20.4%	20.1%	20.8%
Core EBITDA	17.9%	20.6%	19.3%	20.1%	20.8%
<i>Return:</i>					
ROE	-0.7%	4.7%	8.3%	7.4%	7.8%
ROA	-0.3%	2.1%	4.0%	3.8%	4.2%
<i>Leverage & liquidity:</i>					
Net gearing (%)	29.3%	17.0%	6.0%	net cash	net cash
Debt/equity (%)	45.7%	42.1%	34.9%	30.9%	27.4%
Current ratio (x)	0.7	0.9	1.1	1.3	1.5

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	1,455	1,567	1,432	1,352	1,541	1,653	1,504
F&M hotels revenue	193	220	248	268	240	281	310	302
Gross Revenue	1,472	1,675	1,816	1,700	1,592	1,822	1,963	1,806
Business tax & surcharges	(94)	(107)	(116)	(109)	(102)	(117)	(126)	(116)
Net revenue	1,378	1,568	1,699	1,591	1,490	1,706	1,837	1,690
Total L&O hotel operating costs	(1,212)	(1,277)	(1,342)	(1,305)	(1,283)	(1,363)	(1,427)	(1,381)
Total operating expenses	(1,346)	(1,434)	(1,514)	(1,474)	(1,439)	(1,543)	(1,622)	(1,564)
% of total revenue	91.4%	85.6%	83.4%	86.7%	90.4%	84.7%	82.6%	86.6%
Other income	11	3	3	3	3	3	3	3
Operating Income	42	138	189	121	54	166	219	129
Interest expense	(11)	(11)	(11)	(11)	(11)	(11)	(10)	(10)
Other	69	9	19	21	0	9	19	21
Tax	(25)	(41)	(59)	(39)	(13)	(50)	(68)	(42)
Net Income	75	95	138	92	31	116	159	98
YoY	-486.2%	0.6%	27.8%	613.2%	-59.2%	21.3%	15.3%	6.7%
Core Net Income	7	95	138	92	31	116	159	98
YoY	-154.4%	-18.4%	-13.7%	27.0%	361.9%	21.3%	15.3%	6.7%
Earnings/ADR, Basic (RMB)	1.58	1.99	2.88	1.93	0.65	2.43	3.34	2.05
Earnings/ADR, Diluted (RMB)	0.11	1.95	2.82	1.89	0.63	2.39	3.29	2.02
EBITDA	297	332	395	336	255	380	445	361
YoY	58.4%	-4.8%	5.5%	31.6%	-14.1%	14.5%	12.7%	7.6%
Core EBITDA	229	332	395	336	255	380	445	361
YoY	17.5%	-10.5%	-7.3%	6.8%	11.6%	14.5%	12.7%	7.6%
Income Margins								
Operating margin	2.9%	8.2%	10.4%	7.1%	3.4%	9.1%	11.1%	7.2%
Net Income margin	5.1%	5.7%	7.6%	5.4%	1.9%	6.3%	8.1%	5.4%
Core Net Income margin	0.4%	5.7%	7.6%	5.4%	1.9%	6.3%	8.1%	5.4%
EBITDA margin	20.2%	19.8%	21.8%	19.7%	16.0%	20.9%	22.7%	20.0%
Core EBITDA margin	15.5%	19.8%	21.8%	19.7%	16.0%	20.9%	22.7%	20.0%

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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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk