



Company Report: Home Inns & Hotels (HMIN US)

公司报告：如家酒店 (HMIN US)

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Solid 2Q14 Results and Low Valuation, "Buy"

2014年2季度业绩良好而且估值低，“买入”

- **2Q14 adjusted EBITDA increased by 12.0% YoY to RMB440 million, 2% below Bloomberg consensus but 9.8% higher than our forecast.** Net revenue increased by just 6.1% YoY to RMB1.594 billion. Total operating expense ratio decreased by 1.0 ppt YoY due to larger contribution from franchised-and-managed hotels, leading to a 1.4 ppt YoY increase in adjusted EBITDA margin to 25.9%. Adjusted net income for the quarter was RMB168 million, up 20.6% YoY.
- **Management expects total 3Q14 revenue to increase by between 7.8% and 9.2% YoY to between RMB1,875 mn and RMB1,895 mn.** 2Q14 mature hotel RevPAR declined by 1.3% YoY, but the Company aims to achieve flat YoY RevPAR in 3Q14. While management sees some stabilization in the market, so far there has not been a dramatic recovery.
- **Increase 2014-2016 core EBITDA forecasts by 11.7%, 7.6% and 7.0%, respectively, on higher revenue and lower hotel operating expense ratio.** We forecast 2014-2016 core EBITDA of RMB1.440 billion, RMB1.551 billion and RMB1.712 billion, respectively, reflecting 9.4% CAGR.
- **Valuation is attractive as the Company is currently trading at a 29.3% discount to its historical average forward EV/EBITDA.** Maintain fiBuyfl investment rating and increase target price from US\$44.30 to US\$48.00.
- **2014 年 2 季度调整后 EBITDA 同比增长 12.0%至人民币 4.40 亿元，低于彭博市场预期 2%但是高于我们预期 9.8%。** 净收入同比略增长 6.1%至人民币 15.94 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 1.0 个百分点，令调整后 EBITDA 利润率同比提升 1.4 个百分点至 25.9%。2 季度的调整后净利润为人民币 1.68 亿元，同比增长 20.6%。
- **管理层指引 2014 年 3 季度总收入将增长 7.8%至 9.2%到人民币 18.75 亿元至 18.95 亿元的范围之间。** 2014 年 2 季度成熟酒店的可租房平均收益出其不意地同比下降 1.3%，但是公司目标是在 3 季度实现持平的可租房平均收益增长率。尽管管理层已经看到市场趋于稳定，但是并没有很明显的好转。
- **由于较高的收入、较低酒店费用对收入比例，分别上调 2014 年至 2016 年核心 EBITDA 预测 11.7%、7.6%和 7.0%。** 我们分别预期 2014 年至 2016 年核心 EBITDA 为人民币 14.40 亿元、人民币 15.51 亿元和人民币 17.12 亿元，相当于 9.4%的复合年增长率。
- **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 29.3%的折让。** 维持“买入”投资评级，而且上调目标价从 44.30 美元至 48.00 美元。

Rating:

Buy

Maintained

评级:

买入 (维持)

6-18m TP 目标价:
Revised from 原目标价:

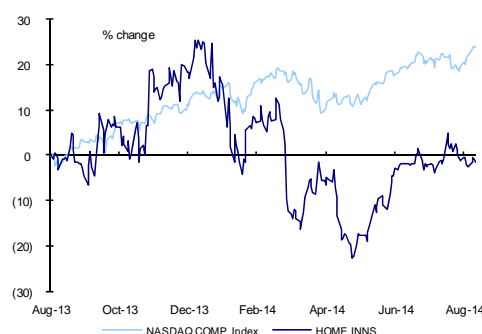
US\$48.00
US\$44.30

Share price 股价:

US\$33.460

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 %	(4.8)	6.2	(0.6)
Rel. % to HS index 相对恒指变动 %	(10.0)	(1.8)	(28.2)
Avg. share price(US\$) 平均股价 (美元)	34.8	33.9	35.2

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)	n.a.	n.a.	87.163	2.4	0.000	0.0	(0.7)
2013A	6,353	196	4.235	n.a.	47.8	95.632	2.1	0.000	0.0	4.7
2014F	6,779	412	8.631	103.8	23.4	103.867	1.9	0.000	0.0	8.8
2015F	7,305	390	8.205	(4.9)	24.7	113.907	1.8	0.000	0.0	7.5
2016F	7,833	464	9.653	17.6	21.0	124.077	1.6	0.000	0.0	8.2

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)	1,603.2	Free float (%) 自由流通比率 (%)	70.4
3 month average vol. 3 个月平均成交股数 ('000)	127.1	2014 Net gearing (%) 2014 净负债/股东资金 (%)	17.3
52 Weeks high/low (US\$) 52 周高/低	44.170 / 26.550	2014 Est. NAV (US\$) 2014 每股估值 (美元)	56.8

Source: the Company, Guotai Junan International.

2Q14 RESULTS

Home Inns (HMIN US)'s 2Q14 adjusted diluted earnings per ADS increased by 17.0% YoY to RMB3.38, and was 35.3% higher than our forecast and 2.2% higher than Bloomberg consensus. Revenue increased by 6.0% YoY to RMB1.70 billion, which was at the mid-point of management's guidance range. Adjusted EBITDA increased 12.0% YoY to RMB440 million, beating our forecast by 9.8% but 2.0% below Bloomberg consensus.

Despite higher L&O hotel expense ratio, total 2Q14 operating expense ratio decreased by 1.0 ppt YoY due to growing proportion of franchised-and-managed (fiF&Mfl) hotels which do not incur hotel operating expenses Leased-and-operated (fiL&OfI) hotel costs for the quarter were equivalent to 82.9% of L&O hotel revenue, up 0.2 ppt YoY, which was mainly due to the decline in the Company's RevPAR. Revenue contribution from Franchised-and-Managed (fiF&Mfl) hotels made up 14.1% of total revenue in 2Q14, compared to just 11.8% in 2Q13, thereby increasing operating margin from 11.2% in 2Q13 to 12.4% in 2Q14. Operating income in 2Q14 was RMB211 million, up 17.3% YoY.

Table-1: Results Summary

(RMB million)	2Q13	3Q13	4Q13	1Q14	2Q14	2Q14 (% or ppt.)	
						YoY	QoQ
L&O hotels revenue	1,413	1,535	1,402	1,279	1,459	3.3%	14.1%
F&M hotels revenue	189	204	208	193	239	26.3%	23.7%
Gross revenue	1,602	1,739	1,610	1,472	1,699	6.0%	15.4%
Net revenue	1,503	1,633	1,511	1,378	1,594	6.1%	15.7%
L&O hotel op. costs (Ex pre-open costs)	(1,168)	(1,224)	(1,233)	(1,206)	(1,210)	-3.6%	-0.3%
% of L&O hotel gross revenue	82.7%	79.8%	87.9%	94.3%	82.9%	0.2	(11.4)
L&O hotels income (excluding pre-open costs)	157	217	83	-8	160	1.9%	1979.8%
Total operating expenses	(1,324)	(1,407)	(1,406)	(1,346)	(1,387)	-4.8%	-3.0%
% of gross revenue	82.6%	80.9%	87.4%	91.4%	81.6%	(1.0)	(9.8)
Operating Income	180	227	106	42	211	17.3%	398.5%
Net Income	95	108	13	75	108	14.2%	44.5%
Less non-core items:							
Total non-core items	(22)	(52)	(59)	68	(37)	-69.7%	n.a.
Core Net Income	117	160	72	7	146	24.6%	2101.8%
Less share based compensation	22	21	20	25	23	1.8%	-10.6%
Adjusted Net Income	140	181	92	32	168	20.6%	424.6%
Earnings/ADR, diluted (RMB)	1.68	2.31	0.27	0.11	2.27	35.1%	1963.6%
Core Earnings /ADR, diluted (RMB)	2.33	3.42	1.53	0.13	3.05	31.2%	2268.9%
Adj. Earnings per ADR, diluted (RMB)	2.89	3.70	1.92	0.67	3.38	17.0%	404.5%
EBITDA	349	375	255	297	380	9.1%	28.2%
Core EBITDA	371	427	314	229	418	12.7%	82.8%
Adjusted EBITDA	394	448	334	254	441	12.0%	73.4%
L&O hotels hotel income margin	10.4%	13.8%	5.3%	-1.2%	11.2%	0.8	12.4
Hotel income margin	21.0%	23.9%	17.5%	12.1%	23.7%	2.7	11.6
Operating margin	11.2%	13.0%	6.6%	2.9%	12.4%	1.2	9.6
EBITDA margin	21.8%	21.5%	15.8%	20.2%	22.4%	0.6	2.2
Core EBITDA margin	23.1%	24.5%	19.5%	15.5%	24.6%	1.5	9.1
Adjusted EBITDA margin	24.6%	25.7%	20.7%	17.3%	25.9%	1.4	8.7
Net income margin	5.9%	6.2%	0.8%	5.1%	6.4%	0.5	1.3
Core net income margin	7.3%	9.2%	4.5%	0.4%	8.6%	1.3	8.1
Adjusted net income margin	8.7%	10.4%	5.7%	2.2%	9.9%	1.2	7.7

Source: the Company, Guotai Junan International.

Hotel Portfolio

Home Inns opened 133 net new hotels in 2Q14, surpassing our expectations. By end of 2Q14, the Company had total 2,374 hotels in operation across 303 cities in China under its four brands, including its new acquisition of Yunshan Siji brand hotels, on May 1. The Company acquired 27 L&O hotels and 8 F&M hotels (approximately 3,500 rooms in total) principally located in Yunnan Province. As Yunshan Siji is a well regarded regional brand, the Company will keep these hotels under the Yunshan Siji brand and will even likely further expand the number of hotels under this brand in the southwest region in the future. After the acquisition, the Company now operates four hotel brands: Home Inn, Motel 168, Yitel and Yunshang Siji.

At the end of 2Q14, 62.21% of all hotels in operation were F&M hotels, up from 57.3% in 2Q13. The Company has a strong development pipeline, with 472 hotel projects under development as of June 30, 2014, including 213 hotels contracted or under construction (182 of which were F&M hotels) and 259 hotels under due diligence (all of which were F&M hotels).

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

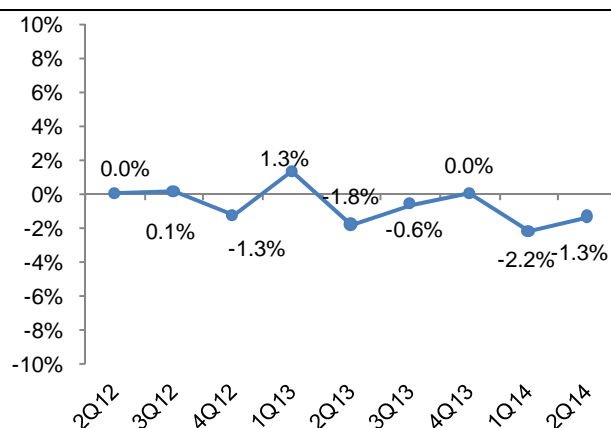
	Hotels				
	Total	Home Inn	Motel 168	Yunshang Siji	Yitel
Total Number of Hotels in Operation	2,374	1,938	383	31	22
Leased-and-Operated	897	695	164	24	14
Franchised-and-Managed	1,477	1,243	219	7	8
Hotels Contracted or Under Construction	213	171	22	5	15
Leased-and-Operated	31	17	7	2	5
Franchised-and-Managed	182	154	15	3	10
Hotels Under Due Diligence	259	217	34	0	8
Leased-and-Operated	0	0	0	0	0
Franchised-and-Managed	259	217	34	0	8

Source: the Company, Guotai Junan International.

Hotel Performance

2Q14 Mature hotel revenue-per-available-room (RevPAR) declined by 1.3% YoY. There were 1,732 hotels in operation for at least 18 months in 2Q14. This group hotels' ADR declined slightly by RMB2 YoY to RMB150 in 2Q13 to RMB148 in 2Q14 as occupancy rate was basically flat (89.0% in 2Q13 and 88.9% in 2Q14) while average-daily-rate declined by RMB2 to RMB166 in 2Q14. Mature Motel 168 brand hotels did better, as their same hotel RevPAR increased by 3.0% YoY to RMB139. However, this was not enough to offset the 2.7% decline in RevPAR for the Home Inn and Yitel brands combined.

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 June 30, 2014, almost 1.4 million users (up from 0.8 mn as at 1Q14 end) had downloaded the Company's mobile application, which was first introduced in October 2013. Approximately 57% (up from 45% in 1Q14) of the Company's bookings were from Home Inns members. Third party providers including OTA's brought in about 10% (down from 12% in 1Q14) of Home Inns' total bookings. Walk-in declined to about 4% (down from 5% in 1Q14).

Home Inns is aggressively promoting its mobile application, which accounted for 21% of all hotel bookings in 2Q14. The ADR decline in 2Q14 is partially due to the Company giving discounts for bookings done on its mobile app and We Chat. In order to promote its mobile app and We Chat bookings, the Company offers RMB5 discount if the booking is done through mobile app or We Chat. Mobile app booking for the last quarter represented 21% of total bookings. The Company plans to continue such promotion, so some negative pricing is expected to continue going forward.

OUTLOOK

Home Inns management expects total 3Q14 revenue to be in the range of RMB1,875 million to RMB 1,895 million, which is equivalent to YoY growth of 7.8% to 9.2%. The Company aims to achieve flat YoY RevPAR in 3Q14, most likely with slight ADR decline offset by slight increase in occupancy. While Home Inns management sees some stabilization in the marketplace, so far there had not been a dramatic recovery.

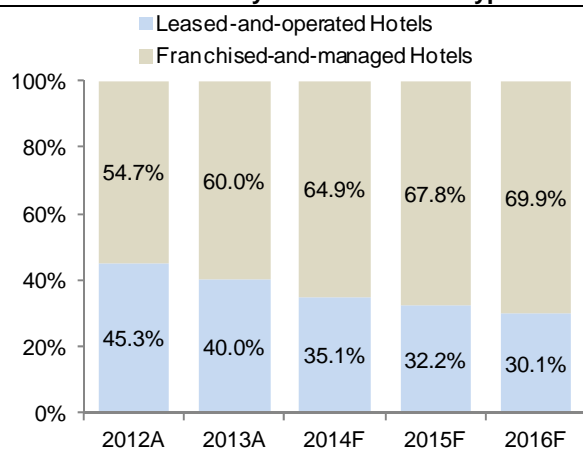
We increase our 2014-2016 core EBITDA forecasts by 11.7%, 7.6% and 7.0%, respectively, on higher revenue and lower L&O hotel operating expense ratio. Increase revenue forecasts as more hotels were added earlier in the year than we had expected. The Company's hotel operating expense ratio was lower than we had expected, so we adjust down forecasts for same, resulting in higher forecasted hotel income and operating profit.

We forecast 2014-2016 core EBITDA of RMB1.440 billion, RMB1.551 billion and RMB1.712 billion, respectively, reflecting 9.4% CAGR. Our revised forecast calls for 2014-2016 fully diluted core earnings per ADR of RMB7.94, RMB8.21 and RMB9.65, respectively, equivalent to 11.2% CAGR.

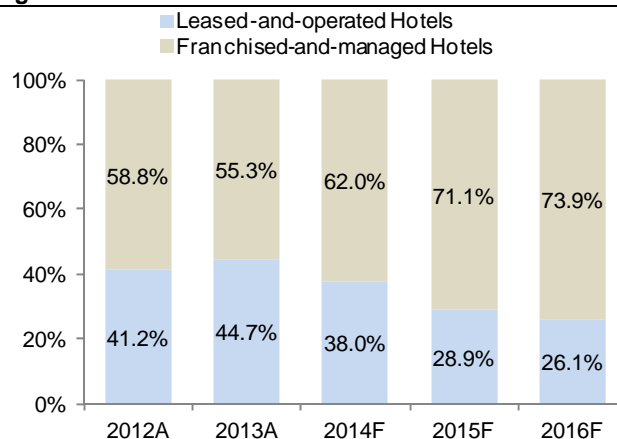
Table-3: Model Updates

(RMB million)	Old			New			Change (% or ppt)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Total L&O hotels in operation	932	987	1,042	922	977	1,032	-1.1%	-1.0%	-1.0%
Total F&M hotels in operation	1,698	2,043	2,388	1,708	2,053	2,398	0.6%	0.5%	0.4%
Net revenue	6,236	6,723	7,216	6,358	6,856	7,350	1.9%	2.0%	1.9%
L&O hotel operating costs (excluding pre-open costs)	(5,057)	(5,382)	(5,685)	(5,022)	(5,410)	(5,703)	-0.7%	0.5%	0.3%
% of L&O hotel gross revenue	88.2%	89.0%	89.2%	86.4%	88.2%	88.4%	-1.8	-0.7	-0.8
L&O hotel income (excluding pre-open costs)	309	280	280	427	345	352	38.1%	23.1%	26.0%
% of L&O hotels gross revenue	5.4%	4.6%	4.4%	7.4%	5.6%	5.5%	2.0	1.0	1.1
L&O hotels pre-opening costs	(78)	(73)	(74)	(65)	(73)	(74)	-16.7%	0.0%	0.0%
Sales & marketing	(113)	(122)	(131)	(126)	(143)	(153)	11.5%	17.0%	16.9%
% of total gross revenue	1.7%	1.7%	1.7%	1.9%	2.0%	2.0%	0.2	0.3	0.3
General & administrative	(326)	(353)	(379)	(331)	(360)	(386)	1.4%	1.9%	1.8%
% of total gross revenue	5.2%	5.3%	5.3%	5.2%	5.2%	5.2%	-0.0	-0.0	-0.0
Net Income	342	217	294	381	225	299	11.4%	3.5%	1.5%
(-) Non-Core items*	70	0	0	35	0	0	-49.9%	n.a.	n.a.
Core net income	272	217	294	346	225	299	27.2%	3.5%	1.5%
(-) share based comp expense	(110)	(130)	(151)	(98)	(114)	(135)	-10.9%	-12.3%	-10.6%
Adjusted net income	381	347	445	443	339	434	16.3%	-2.4%	-2.6%
Earnings per ADR, diluted (RMB)	5.58	4.49	6.04	6.42	4.64	6.13	15.2%	3.5%	1.5%
Core earnings per ADR (RMB), diluted	5.61	4.49	6.04	7.31	4.78	6.26	30.3%	6.5%	3.8%
Adjusted earnings per ADR (RMB), diluted	8.89	7.18	9.14	9.20	7.15	9.04	3.5%	-0.5%	-1.1%
EBITDA	1,360	1,442	1,601	1,475	1,551	1,712	8.5%	7.6%	7.0%
Core EBITDA	1,289	1,442	1,601	1,440	1,551	1,712	11.7%	7.6%	7.0%

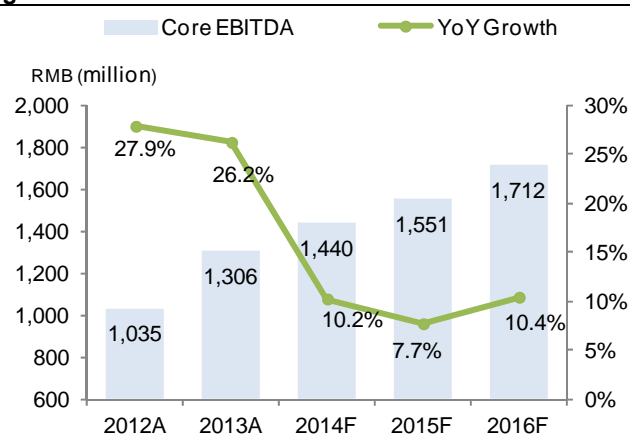
Source: the Company, Guotai Junan International.

Figure-2: Hotel Portfolio by Business Model Type


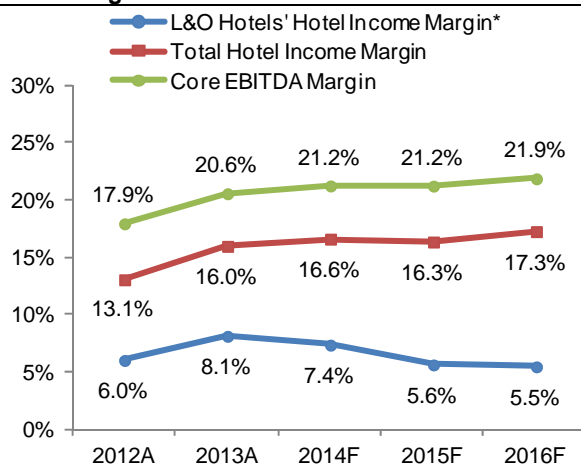
Source: the Company, Guotai Junan International.

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.

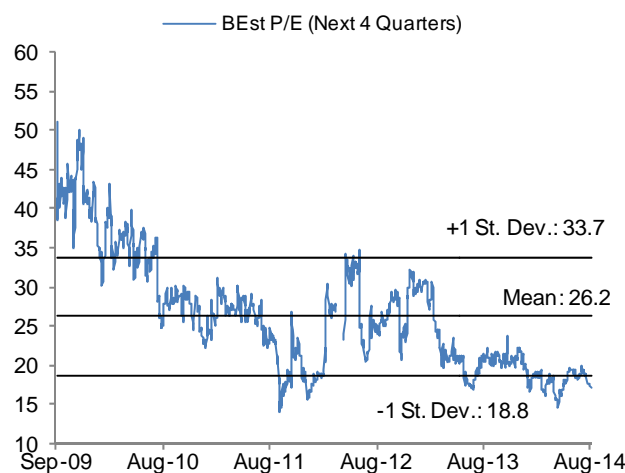
Reiterate fiBuyfl on low valuation and increasetarget price from US\$44.30 to US\$48.00. Home Inns is currently trading at 6.5x forward EV/EBITDA, which is a 29.3% discount to its historical average forward EV/EBITDA of 9.2x. Our US\$48.00 Target Price is based on Home Inn's historical average forward EV/EBITDA of 9.2x, and is equivalent to 9.8x 2014F EV/EBITDA, which is lower than U.S. listed peers currently trading at 16.9x 2014F EV/EBITDA. We also use DCF analysis to cross-check our target price, which is a 15.5% discount to our DCF derived NAV of US\$56.80. Our Target Price represents 43.5% upside potential.

Table-4: Peers Comparison

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	33.46	12,330	17.1	24.7	24.4	20.7	6.5	6.7	5.3	4.7	11.0	1.8	
China Lodgin-Ads	HTHT US	CNY	26.01	12,525	25.4	31.3	26.2	24.0	8.1	9.3	7.6	6.0	12.8	2.7	
Ctrip.Com-Adr	CTRP US	USD	64.17	64,365	48.9	92.1	52.4	39.9	36.4	57.9	28.9	16.1	14.0	5.3	
Intercontin-Adr	IHG US	USD	38.31	70,107	22.1	n.a.	n.a.	n.a.	14.0	14.3	13.2	11.9	54.4	n.a.	
Marriott Intl-A	MAR US	USD	69.40	156,289	25.6	27.7	23.5	20.5	14.9	15.8	14.1	12.6	(62.1)	(12.1)	
Hilton Worldwide	HLT US	USD	25.32	193,219	34.9	36.7	30.8	25.1	13.8	14.4	12.7	11.0	14.3	4.0	
Extended Stay Am	STAY US	USD	23.86	37,854	22.1	26.0	20.1	17.3	13.3	13.2	11.7	10.4	15.8	2.8	
Starwood Hotels	HOT US	USD	84.54	124,833	28.6	29.8	25.9	23.2	13.3	14.1	12.9	11.6	20.7	5.0	
Host Hotels & Re	HST US	USD	22.82	133,806	22.4	19.9	18.2	18.3	14.5	14.9	13.6	11.9	7.4	2.3	
Wyndham Worldwid	WYN US	USD	80.94	78,516	17.4	18.3	16.3	14.3	9.9	10.2	9.2	8.4	31.9	5.1	
Hyatt Hotels-A	H US	USD	61.09	72,750	50.3	55.3	43.4	33.8	12.5	13.2	11.7	10.2	4.3	1.9	
Sunstone Hotel	SHO US	USD	14.57	23,198	16.2	17.6	15.2	30.4	13.7	14.6	13.0	n.a.	4.4	1.4	
Simple Average					27.6	34.5	26.9	24.3	14.2	16.6	12.8	10.5	10.7	1.8	
Weighted Average					29.4	31.9	25.4	21.7	14.9	16.9	13.7	11.2	5.3	0.9	
HK - Listed															
Hongkong Shangha	45 HK	HKD	11.46	17,338	27.5	27.5	27.7	25.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Shangri-La Asia	69 HK	USD	12.00	37,590	34.4	34.2	26.9	23.3	16.1	16.1	14.4	13.4	2.6	0.7	
Shanghai Jin J-H	2006 HK	CNY	2.59	14,416	13.3	13.2	20.6	25.9	n.a.	n.a.	n.a.	n.a.	5.9	1.3	
Dorsett Hospital	2266 HK	HKD	1.57	3,294	12.6	12.6	12.6	9.8	11.8	10.6	11.8	10.2	6.0	0.7	
Magnif Estates	201 HK	HKD	0.38	3,400	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	1.14	1,767	6.7	7.1	6.7	n.a.	n.a.	n.a.	n.a.	n.a.	8.4	n.a.	
Simple Average					18.9	18.9	18.9	21.1	14.0	13.3	13.1	11.8	5.7	0.9	
Weighted Average					25.9	27.0	24.8	23.7	8.5	15.7	14.2	13.1	3.8	0.7	

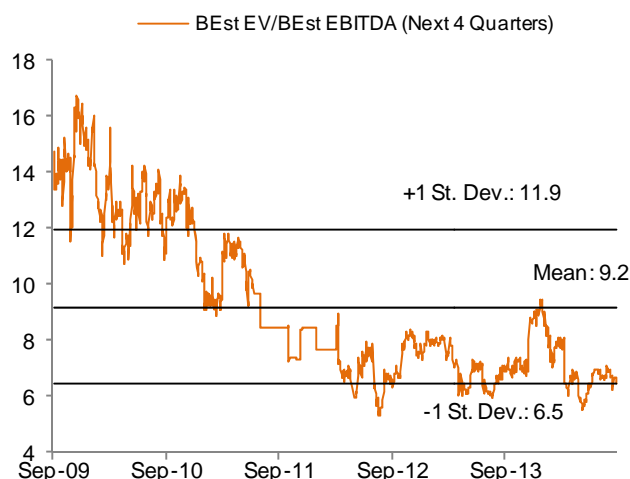
Source: Bloomberg, Guotai Junan International.

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)	48.00				
ADR Outstanding, End Period, Fully Diluted (mn)	46.7	48.5	48.3	48.5	48.6
Market Capitalization (US\$ mn)	2,242	2,327	2,317	2,327	2,332
+ Yr End minority interest (US\$ mn)	3	2	2	2	2
+ Yr End Borrowings, not including CB's (US\$ mn)	118	128	129	132	136
- Yr End cash & equivalents (US\$ mn)	191	178	190	227	281
Year End Enterprise Value (US\$ mn)	2,171	2,280	2,258	2,234	2,188
Core EBITDA (US\$ mn)	215.8	233.0	245.1	258.0	293.7
TP Based EV/Core EBITDA	10.1	9.8	9.2	8.7	7.5

Target Price Based PER & PEG

Target Price (US\$/ADR)	48.00				
Target Price (RMB/ADR)	295.68				
Core Earnings per ADR (RMB), Diluted	7.02	7.94	8.21	8.21	9.65
Target Price Based PER	42.1	37.2	36.0	36.0	30.6

Source: the Company, Guotai Junan International.

Table-6: DCF Based Valuation

DCF Assumptions		Calculation	
Perpetual growth rate	3.0%	PV FCFF (RMB mn)	9,125
		PV Terminal Value (RMB mn)	6,379
Risk free rate	1.95%	EV (RMB mn)	15,504
Adjusted Beta	1.30	- Debt, not including CB's (RMB mn)	114
Market risk premium	12.22%	- Minority Interest (RMB mn)	16
Cost of Equity	17.84%	+ Cash & Equivalents (RMB mn)	1,157
		Total NAV (RMB mn)	16,530
Borrowing interest rate	4.0%		
Effective tax rate	36.3%	ADR Outstanding (fully diluted, as at 2014 year end, mn)	46.7
Cost of Debt	2.5%	NAV per share (RMB)	353.89
		US\$:RMB	6.23
Historical Average E/ (D+E)	72%	NAV per ADR (US\$)	56.80
Historical Average D/ (D+E)	28%		
WACC	13.58%		

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	5,810	6,133	6,453
Franchised-and-managed hotels	605	765	969	1,173	1,380
Total Gross Revenue	5,770	6,353	6,779	7,305	7,833
Business tax	(353)	(392)	(421)	(450)	(482)
Net revenue	5,416	5,961	6,358	6,856	7,350
L&O hotel operating costs	(4,642)	(4,867)	(5,087)	(5,483)	(5,778)
F&M hotel personnel costs	(125)	(157)	(211)	(251)	(296)
Hotel income	649	937	1,060	1,121	1,277
Sales & marketing	(77)	(110)	(126)	(143)	(153)
G&A	(315)	(313)	(331)	(360)	(386)
Other income	17	11	23	17	17
Operating Income	274	525	626	635	754
Interest expense	(108)	(48)	(44)	(44)	(44)
Non-operating income & gains	(53)	(74)	75	53	53
Income before tax	114	403	656	644	764
Income tax	(136)	(207)	(238)	(247)	(293)
Minority interests	(4)	0	(6)	(7)	(7)
Net Income attributable to shareholders	(27)	196	412	390	464
Gain (loss) on change in fair value of convertible	(87)	(133)	50	0	0
Early extinguishment of Term Loan	0	(42)	0	0	0
FX gain/(loss), net	0	50	(15)	0	0
MOTEL 168 acquisition & integration expenses	(97)	(15)	0	0	0
Core Net Income	157	337	377	390	464
EBITDA	851	1,166	1,475	1,551	1,712
Core EBITDA	1,035	1,306	1,440	1,551	1,712
Earnings per ADR					
-Basic (RMB)	(0.580)	4.235	8.631	8.205	9.653
-Diluted (RMB)	(0.580)	4.201	7.061	8.073	9.518
Core earnings per ADR					
-Basic (RMB)	3.535	7.227	8.047	8.343	9.790
-Diluted (RMB)	3.348	7.016	7.943	8.209	9.653

Balance Sheet

As at 31 December (RMB m)	2012A	2013A	2014F	2015F	2016F
Cash and equivalent	663	1,157	1,098	1,363	1,641
Restricted Cash	206	173	174	174	174
Inventories	42	41	41	44	47
Receivables	278	287	327	352	378
Deferred tax assets	80	79	91	94	112
Current assets	1,268	1,737	1,731	2,028	2,351
Affiliate investments	7	6	6	6	6
P&E	3,847	4,049	4,403	4,707	4,969
Goodwill & intangibles	3,404	3,367	3,473	3,473	3,473
Other	117	86	95	102	110
Deferred tax assets	311	408	680	705	836
Non-current assets	7,686	7,916	8,656	8,993	9,393
Total assets	8,954	9,653	10,387	11,020	11,744
Payables & Accruals	1,498	1,577	1,692	1,783	1,900
Borrowings	13	0	73	73	73
Deferred tax liability	29	52	64	67	71
Deferred revenue	203	203	237	256	274
Current liabilities	1,743	1,832	2,066	2,179	2,318
Borrowings	735	713	720	720	720
Convertible notes	1,067	1,157	1,117	1,117	1,117
Deferred revenue	45	54	58	62	67
Deferred tax liability	288	284	291	291	291
Deposits	91	115	151	181	211
Deferred rental	632	691	714	754	793
Other	383	358	322	289	256
Non-current Liabilities	3,241	3,373	3,372	3,414	3,455
Total liabilities	4,984	5,205	5,438	5,592	5,773
Total equity	3,970	4,448	4,949	5,428	5,971
Minority interest	12	16	14	11	9
Shareholders' equity	3,957	4,431	4,935	5,416	5,962
BV per ADR (RMB)	87.163	95.632	103.867	113.907	124.077

Cash Flow Statement

Year end Dec. (RMB m)	2012A	2013A	2014F	2015F	2016F
Income after tax	(23)	196	418	397	471
Depreciation. and amortization	677	714	781	869	911
Other non cash, net	58	70	(214)	86	(13)
Increase (decrease) in WC	36	197	161	147	174
Cash from operations	748	1,177	1,145	1,499	1,543
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)	80	0	0
Other	(18)	184	(327)	(163)	(184)
Cash from financing	(864)	279	(141)	(72)	(102)
Effect of X-rate	(5)	0	0	0	0
Net increase in cash	(1,123)	494	(58)	265	278
Cash at 1 Jan.	1,786	663	1,157	1,098	1,363
Cash at 31 Dec.	663	1,157	1,098	1,363	1,641

Ratios

	2012A	2013A	2014F	2015F	2016F
<i>Margins:</i>					
L&O hotels hotel income (excluding pre-open expense)	6.0%	8.1%	7.4%	5.6%	5.5%
L&O hotels hotel income (including pre-open expense)	4.0%	6.7%	6.2%	4.4%	4.3%
Hotel income (excluding pre-open expense)	13.1%	16.0%	16.6%	16.3%	17.3%
Hotel income (including pre-open expense)	12.0%	15.7%	16.7%	16.4%	17.4%
Operating	4.7%	8.3%	9.2%	8.7%	9.6%
Net income	-0.5%	3.1%	6.1%	5.3%	5.9%
Core net income	2.7%	5.3%	5.6%	5.3%	5.9%
EBITDA	14.7%	18.3%	21.8%	21.2%	21.9%
Core EBITDA	17.9%	20.6%	21.2%	21.2%	21.9%
<i>Return:</i>					
ROE	-0.7%	4.7%	8.8%	7.5%	8.2%
ROA	-0.3%	2.1%	4.1%	3.6%	4.1%
<i>Leverage & liquidity:</i>					
Net gearing (%)	29.3%	17.0%	17.3%	10.6%	4.7%
Debt/equity (%)	45.7%	42.1%	38.6%	35.2%	32.0%
Current ratio (x)	0.7	0.9	0.8	0.9	1.0

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	1,610	1,461	1,358	1,539	1,696	1,541
F&M hotels revenue	193	239	280	256	244	297	326	306
Gross Revenue	1,472	1,699	1,890	1,717	1,602	1,835	2,021	1,847
Business tax & surcharges	(94)	(105)	(116)	(106)	(99)	(113)	(124)	(114)
Net revenue	1,378	1,594	1,774	1,611	1,503	1,722	1,897	1,733
Total L&O hotel operating costs	(1,212)	(1,217)	(1,339)	(1,319)	(1,283)	(1,360)	(1,445)	(1,395)
Total operating expenses	(1,346)	(1,387)	(1,529)	(1,492)	(1,446)	(1,550)	(1,654)	(1,587)
% of total revenue	91.4%	81.6%	80.9%	86.9%	90.3%	84.5%	81.8%	85.9%
Other income	11	4	4	4	4	4	4	4
Operating Income	42	211	249	123	61	176	247	150
Interest expense	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
Other	69	(23)	12	12	12	12	12	12
Tax	(25)	(68)	(96)	(48)	(24)	(69)	(96)	(58)
Net Income	75	108	153	76	38	108	152	92
YoY	-486.2%	14.2%	41.7%	489.1%	-49.8%	0.2%	-0.6%	21.7%
Core Net Income	7	146	155	77	39	110	154	94
YoY	-154.4%	24.6%	-3.2%	7.2%	493.1%	-24.4%	-0.6%	21.3%
Earnings/ADR, Basic (RMB)	1.58	2.27	3.19	1.59	0.79	2.28	3.20	1.93
Earnings/ADR, Diluted (RMB)	0.11	2.27	3.13	1.56	0.78	2.25	3.14	1.90
EBITDA	297	380	458	340	286	404	478	383
YoY	58.4%	9.1%	22.2%	33.3%	-3.7%	6.2%	4.3%	12.8%
Core EBITDA	229	418	460	342	287	406	479	385
YoY	17.5%	12.7%	7.7%	8.7%	25.8%	-3.0%	4.3%	12.7%
Income Margins								
Operating margin	2.9%	12.4%	13.2%	7.2%	3.8%	9.6%	12.2%	8.1%
Net Income margin	5.1%	6.4%	8.1%	4.4%	2.3%	5.9%	7.5%	5.0%
Core Net Income margin	0.4%	8.6%	8.2%	4.5%	2.4%	6.0%	7.6%	5.1%
EBITDA margin	20.2%	22.4%	24.2%	19.8%	17.8%	22.0%	23.6%	20.7%
Core EBITDA margin	15.5%	24.6%	24.3%	19.9%	17.9%	22.1%	23.7%	20.8%

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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