



## Company Report: Home Inns & Hotels (HMIN US)

公司报告：如家酒店 (HMIN US)

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26 May 2015

## Sector in the Doldrums, Downgrade to "Neutral"

行情忧郁，下调为“中性”

- **1Q15 adjusted EBITDA decreased 15.1% YoY to RMB215.7 million, 33.2% below our forecast.** Gross revenue increased 0.1% YoY to RMB1.470 billion. L&O hotel expense ratio increased by 5.6 ppt YoY to 99.9%, worse than our expectation and leading to operating loss of RMB10.7 million, compared to operating income of RMB42.4 million in 1Q14.
- **Management expects 2Q15 revenue to be in the range of RMB1,670 million to RMB1,700 million, the midpoint of which is 5.0% below our previous forecast and 3.2% below pre-announcement Bloomberg consensus forecast.** 1Q15 mature hotel RevPAR declined by 6.2% YoY, the largest decline since 4Q10 and worse than our expectation. Home Inns maintains its target of at least 400 new hotels in 2015, 30% of which are to be mid-scale brand hotels.
- **We forecast 2015-2017 core EBITDA of RMB1,321 million, RMB1,419 million and RMB1,553 million, reflecting 1.7% CAGR.** We have decreased 2015 to 2017 core EBITDA forecasts by 11.6%, 9.3% and 7.6%.
- **Lower target price from US\$29.00 to US\$28.50 on lower earnings forecast; downgrade investment rating to "Neutral".** We don't see any share price catalysts and expect the valuation to continue to be under pressure due to the weak sector outlook.
- **2015 年 1 季度调整后 EBITDA 同比下降 15.1%至人民币 2.16 亿元，低于我们的预期 33.2%。** 总收入同比增长 0.1%至人民币 14.70 亿元。租赁直营酒店的费用比例提升了 5.6 个百分点至 99.9%，差于我们预期而导致一季度经营性损失为人民币 1,071 万元，去年同期经营收益为人民币 4,239 万元。
- **管理层预期 2015 年 2 季度收入为人民币 16.70 亿元至 17.00 亿元之间，范围中点分别低于我们此前的预期和公司业绩公布前的彭博一致预期 5.0%和 3.2%。** 2015 年 1 季度成熟酒店同店平均每间可供出租客房收入同比下降 6.2%，为 2010 年 4 季度以来的最大跌幅，并且低于我们此前预期。公司维持于 2015 年新开至少 400 家酒店的计划，其中 30%为中档品牌酒店。
- **我们预期 2015 年至 2017 年核心 EBITDA 为人民币 13.21 亿元、人民币 14.19 亿元和人民币 15.53 亿元，相当于 1.7%的复合年增长率。** 我们已经分别下调 2015 年至 2017 年 EBITDA 预期 11.6%、9.3%及 7.6%。
- **由于盈利预期比较低，将目标价从 29.00 美元下调至 28.50 美元；下调投资评级至“中性”。** 我们看不到股价催化剂，并且由于行业前景不佳，预期估值将持续受压。

Rating:

**Neutral**

Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

**US\$28.50**

Revised from 原目标价:

US\$29.00

Share price 股价:

US\$27.980

### 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 %	1.9	(0.1)	(5.8)
Rel. % to CCMP index 相对纳指变动 %	1.9	(2.5)	(27.4)
Avg. share price(US\$) 平均股价 (美元)	27.4	25.7	29.5

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)	(%)	(%)
2013A	6,353	196	4.245	831.8	39.9	95.632	1.8	0.000	0.0	4.7
2014A	6,683	513	10.755	153.4	16.1	106.037	1.6	0.000	0.0	10.8
2015F	6,861	327	6.854	(36.3)	25.4	116.439	1.5	0.000	0.0	6.2
2016F	7,286	392	8.251	20.4	20.8	128.008	1.3	0.000	0.0	6.7
2017F	7,733	452	9.521	15.4	17.8	141.164	1.2	0.000	0.0	7.1

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)

1,338.9

Free float (%) 自由流通比率 (%)

70.4

3 month average vol. 3 个月平均成交股数 ('000)

196.0

2015 Net gearing (%) 2015 净负债/股东资金 (%)

Net Cash

52 Weeks high/low (US\$) 52 周高/低

36.840 / 21.560

2015 Est. NAV (US\$) 2015 每股估值 (美元)

33.7

Source: the Company, Guotai Junan International.

## 1Q15 RESULTS

**Home Inns (HMIN US)'s 1Q15 adjusted EBITDA decreased 15.1% YoY to RMB215.7 million, 33.2% below our forecast.**

Adjusted diluted earnings per ADR plunged by 93.9% YoY to RMB0.04, which was 98.0% lower than our forecast and 74.6% below Bloomberg consensus. Gross revenue decreased by 0.1% YoY to RMB1.470 billion, in line with management's previous guidance, but 5.0% below our previous forecast.

**Leased-and-operated (fiL&Ofi) hotel operating costs to revenue ratio grew by 5.6 ppt YoY to 99.9%, worse than our expectation.** This was mainly due to increased rent and utilities expenses and pre-opening cost, as well as lower revenue base. As a result, 1Q15 L&O hotel loss was RMB73.3 million, worse than the L&O hotel loss of RMB8.5 million in 1Q14. Operating expense ratio also increased 4.1 ppt YoY to 95.5%. Operating loss in 1Q15 was RMB10.7 million, compared to operating income of RMB42.4 million in 1Q14, mainly due to lower revenue base per hotel, and partially offset by increased mix of higher-margin Franchised-and-Managed (fiF&Mfi) hotels.

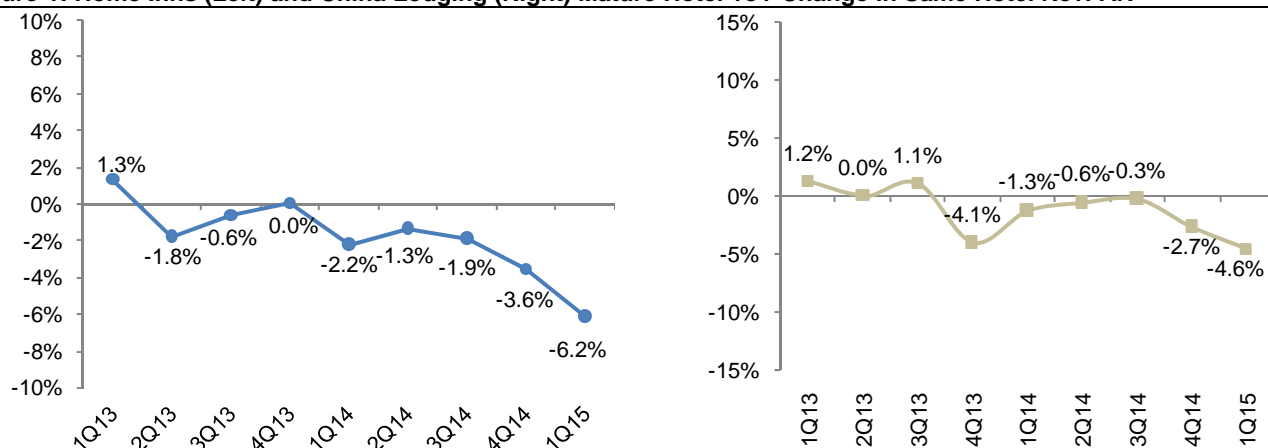
**Table-1: Results Summary**

(RMB million)	1Q14	2Q14	3Q14	4Q14	1Q15	1Q15 (% or ppt.)	
						YoY	QoQ
L&O hotels revenue	1,279	1,459	1,612	1,391	1,245	(2.7%)	(10.5%)
F&M hotels revenue	193	239	264	244	226	16.8%	(7.6%)
Gross revenue	1,472	1,699	1,876	1,635	1,470	(0.1%)	(10.1%)
Business tax & surcharges	(94)	(105)	(112)	(100)	(88)	6.3%	11.9%
Net revenue	1,378	1,594	1,764	1,535	1,382	0.3%	(10.0%)
L&O hotel op. costs (Ex. pre-open costs)	(1,206)	(1,210)	(1,283)	(1,280)	(1,243)	3.1%	2.9%
% of L&O hotel gross revenue	94.3%	82.9%	79.6%	92.0%	99.9%	5.6 ppt	7.9 ppt
L&O hotels income (Ex. pre-open costs)	(8)	160	233	26	(73)	(763.2%)	n.a.
Total operating expenses	(1,346)	(1,387)	(1,480)	(1,433)	(1,404)	4.3%	2.0%
% of gross revenue	91.4%	81.6%	78.9%	87.6%	95.5%	4.1 ppt	7.9 ppt
Operating Income	42	211	284	102	(11)	n.a.	n.a.
Net Income	75	108	246	85	(38)	n.a.	n.a.
Less non-core items:							
Gain (loss) on CB fair value change	86	(35)	29	(8)	(10)	n.a.	(22.1%)
Foreign exchange gain (loss), net	(15)	(0)	(1)	5	(4)	73.2%	n.a.
Motel 168 acquisition costs (in G&A)	0	(1)	12	0	0	n.a.	n.a.
Motel 168 integration costs (in G&A & hotel costs)	(2)	(2)	(2)	(2)	(1)	28.8%	16.7%
Total non-core items	68	(37)	39	(5)	(15)	n.a.	(200.4%)
Core Net Income	7	144	204	88	(24)	n.a.	n.a.
Less share based compensation	25	23	18	21	24	(4.7%)	14.0%
Adjusted Net Income	32	168	224	111	2	(93.9%)	(98.2%)
<b>Earnings per ADR, diluted (RMB)</b>	0.11	2.27	4.29	1.77	(0.78)	n.a.	n.a.
Core Earnings per ADR, diluted (RMB)	0.13	3.02	3.97	1.84	(0.50)	n.a.	n.a.
Adj. Earnings per ADR, diluted (RMB)	0.67	3.38	4.47	2.32	0.04	(93.9%)	(98.2%)
<b>EBITDA</b>	297	380	536	333	176	(40.6%)	(47.1%)
Core EBITDA	229	416	507	337	190	(16.9%)	(43.6%)
Adjusted EBITDA	254	441	515	360	216	(15.1%)	(40.0%)
<b>Margins:</b>							
L&O hotels hotel income margin	(1.2%)	11.2%	14.5%	0.6%	(8.1%)	(6.9) ppt	(8.6) ppt
Hotel income margin	9.3%	20.1%	22.5%	13.2%	5.3%	(3.9) ppt	(7.8) ppt
Operating margin	2.9%	12.4%	15.2%	6.3%	(0.7%)	(3.6) ppt	(7.0) ppt
EBITDA margin	20.2%	22.4%	28.6%	20.4%	12.0%	(8.2) ppt	(8.4) ppt
Core EBITDA margin	15.5%	24.5%	27.0%	20.6%	12.9%	(2.6) ppt	(7.7) ppt
Adjusted EBITDA margin	17.3%	25.9%	27.4%	22.0%	14.7%	(2.6) ppt	(7.3) ppt
Net income margin	5.1%	6.4%	13.1%	5.2%	(2.6%)	(7.6) ppt	(7.7) ppt
Core net income margin	0.4%	8.5%	10.9%	5.4%	(1.6%)	(2.1) ppt	(7.0) ppt
Adjusted net income margin	2.2%	9.9%	12.0%	6.8%	0.1%	(2.0) ppt	(6.7) ppt

Source: the Company, Guotai Junan International.

**Home Inns' 1Q15 mature hotel RevPAR declined by 6.2% YoY, the largest decline since 4Q10 and worse than our expectation.** The Company's 1Q15 mature hotel revenue-per-available-room (RevPAR) was RMB134, 3.7% less than our previous forecast, and worse than the 4.6% decline seen by its competitor China Lodging (HTHT US). There were 1,991 mature (in operation at least 18 months) hotels in operation at the end of 1Q15. The same-hotel ADR decreased by RMB5 YoY to RMB151 in 1Q15, and occupancy rate declined from 83.5% in 1Q14 to 80.8% in 1Q15.

**Figure-1: Home Inns (Left) and China Lodging (Right) Mature Hotel YoY Change in Same Hotel RevPAR**



Source: the Companies.

**After accounting for 18 hotels closed, on a net basis, the Company added 52 hotels in 1Q15, less than the 55 we had in our last forecast.** The Company entered three new cities in 1Q15 and by the end of the quarter had a total of 2,661 hotels in operation across 338 cities in China under its four brands. At the end of 1Q15, 65.7% of all hotels in operation were F&M hotels, up from 60.9% in 1Q14.

**Table-2: Home Inns' Hotel Portfolio, 1Q15**

	Hotels by Brand					Hotels Total
	Home Inn	Motel 168	Fairyland	Yitel	Homeinn Plus	
Leased-and-Operated	703	164	25	20	0	912
Franchised-and-Managed	1,476	236	9	28	0	1,749
<b>Total Number of Hotels in Operation</b>	<b>2,179</b>	<b>400</b>	<b>34</b>	<b>48</b>	<b>0</b>	<b>2,661</b>
<b>Hotels Contracted or Under Construction</b>						
Leased-and-Operated	6	6	1	9	6	28
Franchised-and-Managed	136	30	1	8	6	181
<b>Total</b>	<b>142</b>	<b>36</b>	<b>2</b>	<b>17</b>	<b>12</b>	<b>209</b>
<b>Hotels Under Due Diligence</b>	<b>150</b>	<b>19</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>172</b>
<b>Total Hotels Under Development</b>	<b>292</b>	<b>55</b>	<b>2</b>	<b>20</b>	<b>12</b>	<b>381</b>

Source: the Company.

**There were a total of 381 hotel projects in the development pipeline as of March 31, 2015,** including 209 hotels contracted or under construction (181 of which were franchised-and-managed hotels) and 172 hotels under due diligence (all of which were for F&M hotels), demonstrating continued strong interest from franchise partners in all of the Company's hotel brands.

**Growing role of social media and mobile app.** Since the Company introduced its mobile APP in October 2013, over 3.3 million users have downloaded it as of March 31, 2015. As a proportion of total bookings, mobile APP bookings accounted for 26% of total bookings in 1Q15 and 3% of total room bookings were from WeChat. As of March 31, 2015, the Company's frequent guest program reached a record high of 28.1 million unique non-corporate members, 54.4% higher than 1Q14.

## OUTLOOK

Management expects 2Q15 revenue to be in the range of RMB1,670 million to RMB1,700 million, the midpoint of which is 5.0% below our previous forecast and 3.2% below pre-announcement Bloomberg consensus forecast. Management indicated that they are not expecting a significant market rebound in 2015, and they also expect a continued YoY decline in RevPAR in 2Q15.

The Company maintained its target to open at least 400 new hotels in 2015, 30% of which are to be mid-scale brand hotels. Of its 2015 new hotel additions, the Company plans approximately 10% to be L&O hotels with the remaining 90% being F&M hotels. The Company also indicated that 40% of the new mid-scale brand hotels will be L&O hotels because this could help the newly launched Homeinn Plus to build up good management system and operation system. Given the seasonal underperformance of 1Q15, 65% to 70% of the new hotel additions are planned to open in the second half of 2015.

The Company's new midscale brand Homeinn Plus was launched in April 2015. Given the Company's multi-brand strategy and proven success of its upscale Yitel Hotels, Home Inns is planning to open 60 to 80 Homeinn Plus hotels in 2015 and to accelerate the expansion of the Yitel brand as well. Yitel Hotels' 1Q15 RevPAR gained a mid-single digit growth while other brands suffered a decline. We think that by adding more mid-scale and upscale brand hotels, the Company will better diversify its hotel portfolio, making overall RevPAR more resilient.

## FORECAST UPDATES

Decrease 2015 to 2017 net revenue forecasts by 0.6%, 0.6% and 0.1% to RMB6.442 billion, RMB6.839 billion and RMB7.259 billion, reflecting growth of 2.7%, 6.2% and 6.1%, respectively. Although 1Q15 RevPAR was worse than our expectation, we revise up the RevPAR forecast for 2015 since the Company is now adding more midscale and upscale hotels, which have higher RevPAR. We expect Home Inn's overall RevPAR to decline by 2.1% to RMB 135 in 2015, better than our previous forecasted decline of 3.8%. However, the Company plans to have a higher proportion (65%-70%) of hotels opened in 2H15 than we previously expected (55%), so we reduce our 2015 net revenue forecast. Our 2015 gross revenue forecast of RMB6.861 billion is in the middle of management's guidance range of RMB6.8 billion to RMB7.0 billion.

Decrease 2015 to 2017 operating income forecasts by 10.0%, 9.2% and 5.4% to RMB488 million, RMB521 million and RMB606 million, reflecting growth of -23.8%, 6.8% and 16.2%, respectively. We expect the Company's operating costs ratio to increase in 2015, mainly due to lower revenue base and increased rents and utilities expenses. We also expect higher personnel costs, leading to a decline in operating income in 2015. However, with more mid and upscale hotels being added, we expect operating income growth to rebound in 2016 and especially in 2017.

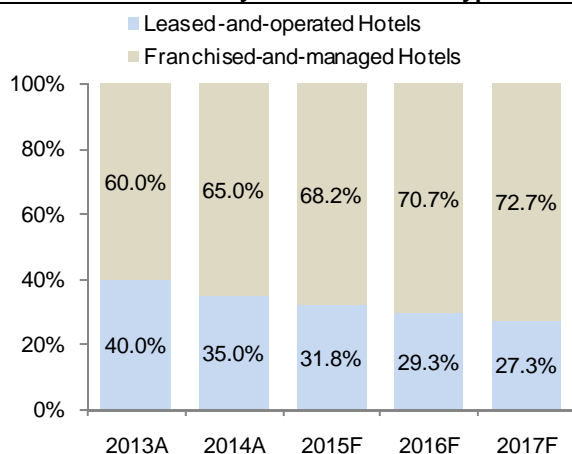
We forecast 2015-2017 core EBITDA of RMB1,321 million, RMB1,419 million and RMB1,553 million, reflecting growth of -10.4%, 7.4% and 9.4%, respectively. We have decreased 2015 to 2017 core EBITDA forecasts by 11.6%, 9.3% and 7.6%, respectively.

We forecast 2015-2017 core diluted earnings per ADR of RMB7.04, RMB8.17 and RMB9.45, respectively, reflecting growth of -21.4%, 16.1% and 15.7%, respectively. We have decreased 2015-2017 core diluted earnings per ADR forecasts by 33.5%, 27.1% and 23.5%, respectively.

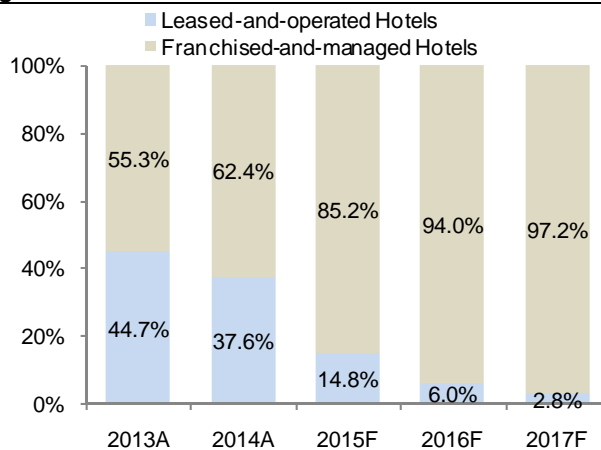
**Table-3: Model Updates**

RMB Million (except ADR)	Old			New			Change (% or ppt)		
	2015F	2016F	2017F	2015F	2016F	2017F	2015F	2016F	2017F
Total L&O hotels in operation	953	991	1,028	953	992	1,031	0.0%	0.1%	0.3%
Total F&M hotels in operation	2,044	2,387	2,724	2,044	2,396	2,751	0.0%	0.4%	1.0%
Overall RevPAR	133	133	134	135	136	136	1.8%	1.6%	1.6%
Total gross revenue	6,907	7,329	7,744	6,861	7,286	7,733	(0.7%)	(0.6%)	(0.1%)
Business tax & surcharges	(426)	(452)	(477)	(419)	(447)	(474)	(1.6%)	(1.1%)	(0.6%)
<b>Net revenue</b>	<b>6,481</b>	<b>6,878</b>	<b>7,266</b>	<b>6,442</b>	<b>6,839</b>	<b>7,259</b>	<b>(0.6%)</b>	<b>(0.6%)</b>	<b>(0.1%)</b>
L&O hotel operating costs (excluding pre-open costs)	(5,238)	(5,536)	(5,791)	(5,242)	(5,539)	(5,797)	0.1%	0.1%	0.1%
<i>% of L&amp;O hotel gross revenue</i>	<i>90.3%</i>	<i>91.6%</i>	<i>92.4%</i>	<i>91.4%</i>	<i>92.8%</i>	<i>93.4%</i>	<i>1.2 ppt</i>	<i>1.2 ppt</i>	<i>1.0 ppt</i>
<b>L&amp;O hotel income (excluding pre-open costs)</b>	<b>207</b>	<b>132</b>	<b>91</b>	<b>142</b>	<b>61</b>	<b>31</b>	<b>(31.4%)</b>	<b>(54.0%)</b>	<b>(65.6%)</b>
<i>% of L&amp;O hotels gross revenue</i>	<i>3.6%</i>	<i>2.2%</i>	<i>1.5%</i>	<i>2.5%</i>	<i>1.0%</i>	<i>0.5%</i>	<i>(1.1) ppt</i>	<i>(1.2) ppt</i>	<i>(0.9) ppt</i>
L&O hotels pre-opening costs	(43)	(44)	(45)	(47)	(53)	(58)	10.4%	19.6%	29.6%
Sales & marketing	(114)	(121)	(127)	(110)	(118)	(125)	(3.1%)	(2.0%)	(1.6%)
<i>% of total gross revenue</i>	<i>1.6%</i>	<i>1.6%</i>	<i>1.6%</i>	<i>1.6%</i>	<i>1.6%</i>	<i>1.6%</i>	<i>(0.0) ppt</i>	<i>(0.0) ppt</i>	<i>(0.0) ppt</i>
General & administrative	(323)	(342)	(362)	(326)	(341)	(362)	1.2%	(0.3%)	0.1%
<i>% of total gross revenue</i>	<i>5.0%</i>	<i>5.0%</i>	<i>5.0%</i>	<i>5.1%</i>	<i>5.0%</i>	<i>5.0%</i>	<i>0.1 ppt</i>	<i>0.0 ppt</i>	<i>0.0 ppt</i>
F&M hotel personnel costs	(236)	(276)	(316)	(241)	(280)	(323)	2.0%	1.4%	2.1%
Other income	15	15	15	13	13	13	(17.3%)	(17.3%)	(17.3%)
<b>Operating income</b>	<b>542</b>	<b>574</b>	<b>640</b>	<b>488</b>	<b>521</b>	<b>606</b>	<b>(10.0%)</b>	<b>(9.2%)</b>	<b>(5.4%)</b>
Net interest expense	(16)	(13)	(9)	(11)	(7)	(4)	(33.0%)	(41.3%)	(53.7%)
Income tax expense	(176)	(185)	(202)	(182)	(184)	(212)	3.8%	(0.2%)	4.8%
<i>effective tax rate</i>	<i>25.4%</i>	<i>25.4%</i>	<i>25.4%</i>	<i>35.5%</i>	<i>31.8%</i>	<i>31.8%</i>	<i>10.2 ppt</i>	<i>6.4 ppt</i>	<i>6.4 ppt</i>
Net income	512	539	591	327	392	452	(36.1%)	(27.3%)	(23.6%)
(-) Non-core items	0	0	0	(14)	0	0	n.a.	n.a.	n.a.
<b>Core net income</b>	<b>512</b>	<b>539</b>	<b>591</b>	<b>341</b>	<b>392</b>	<b>452</b>	<b>(33.4%)</b>	<b>(27.3%)</b>	<b>(23.6%)</b>
(-) share based comp expense	(117)	(147)	(163)	(100)	(112)	(128)	(15.0%)	(23.4%)	(21.1%)
(-) integration expense	(7)	(7)	(7)	(7)	(7)	(7)	(5.5%)	(2.9%)	(2.9%)
<b>Adjusted net income</b>	<b>637</b>	<b>693</b>	<b>761</b>	<b>447</b>	<b>511</b>	<b>587</b>	<b>(29.7%)</b>	<b>(26.2%)</b>	<b>(22.9%)</b>
Earnings per ADR, diluted (RMB)	10.58	11.22	12.36	6.75	8.17	9.45	(36.2%)	(27.1%)	(23.5%)
<b>Core earnings per ADR (RMB), diluted</b>	<b>10.58</b>	<b>11.22</b>	<b>12.36</b>	<b>7.04</b>	<b>8.17</b>	<b>9.45</b>	<b>(33.5%)</b>	<b>(27.1%)</b>	<b>(23.5%)</b>
Adjusted earnings per ADR (RMB), diluted	13.14	14.41	15.91	9.24	10.65	12.28	(29.7%)	(26.1%)	(22.8%)
EBITDA	1,494	1,565	1,681	1,307	1,419	1,553	(12.5%)	(9.3%)	(7.6%)
<b>Core EBITDA</b>	<b>1,494</b>	<b>1,565</b>	<b>1,681</b>	<b>1,321</b>	<b>1,419</b>	<b>1,553</b>	<b>(11.6%)</b>	<b>(9.3%)</b>	<b>(7.6%)</b>
Adjusted EBITDA	1,612	1,712	1,844	1,421	1,531	1,681	(11.9%)	(10.6%)	(8.8%)

Source: Guotai Junan International.

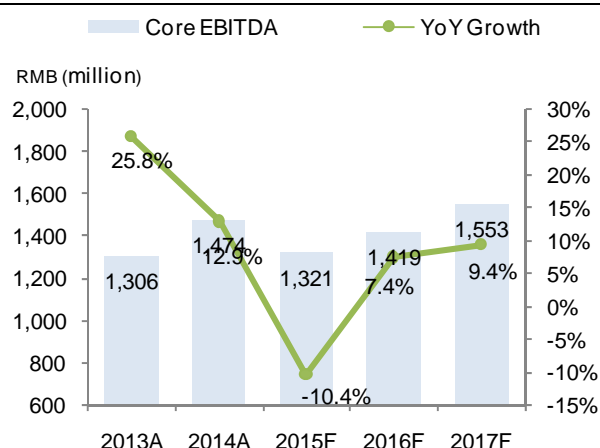
**Figure-2: Hotel Portfolio by Business Model Type**


Source: the Company, Guotai Junan International.

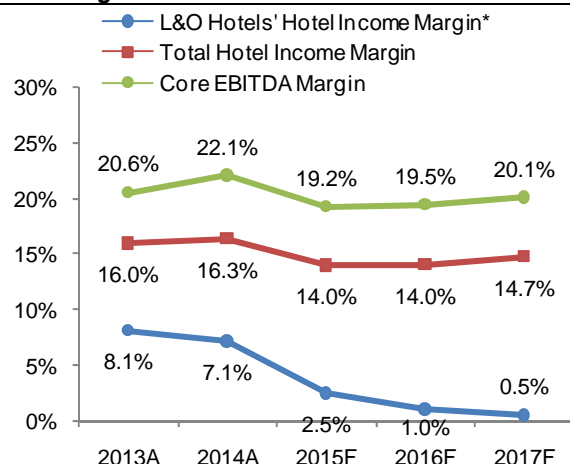
**Figure-3: Hotel Income Contribution Breakdown**


Source: the Company, Guotai Junan International.



**Figure-4: Core EBITDA & Growth**


Source: the Company, Guotai Junan International.

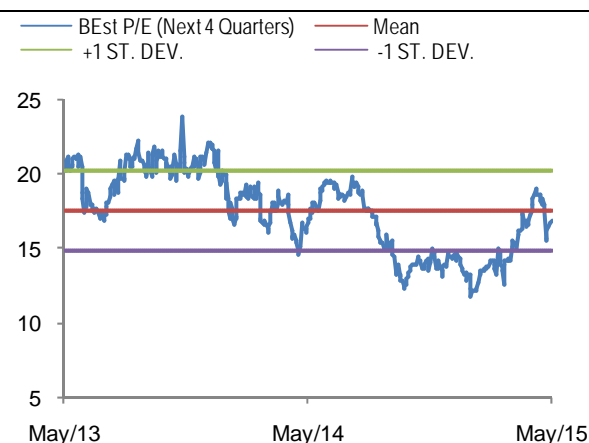
**Figure-5: Margins**


Source: the Company, Guotai Junan International.

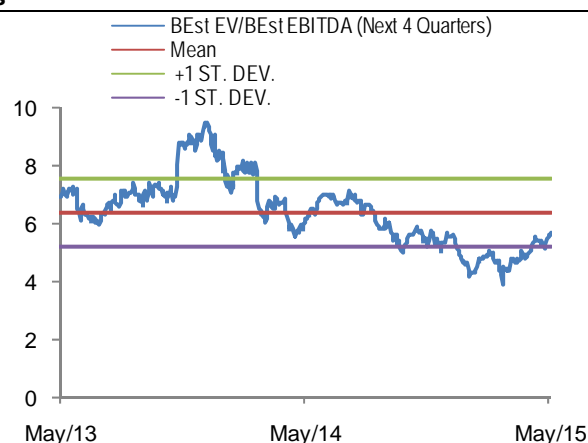
Note\*: \*Excludes pre-opening expenses, which are mainly a function of L&O hotels under development.

## VALUATION

The Company's stock looks cheap compared to peers as well as compared to its own two-year average valuation, but we don't see any share price catalysts. The U.S. listed peers group is currently trading at 13.0x forward EV/EBITDA, which is a 1.3% premium to its historical average forward EV/EBITDA of 12.8x. Home Inns, however, last closed at just 5.7x forward EV/EBITDA, which is a 56.4% discount to the U.S. listed peers group, somewhat more than the 50.2% discount the Company has historically traded at on average relative to U.S. listed peers. The Company is also trading at an 11.4% discount to its own two-year historical average forward EV/EBITDA of 6.4x. We expect that the low valuation will persist since we don't see any share price catalysts as the sector outlook is weak.

**Figure-6: Home Inns P/E (Next 4 Quarters), Last 2 Years**


Source: Bloomberg, Guotai Junan International.

**Figure-7: Home Inns EV/ EBITDA (Next 4 Quarters), Last 2 Years**


Source: Bloomberg, Guotai Junan International.

**Slightly lower target price from US\$29.00 to US\$28.50 on lower earnings forecast; downgrade investment rating from "Accumulate" to "Neutral".** Based on data of the past 5-years, 2-years and 1-year, the Company's own historical average forward EV/EBITDA is 8.0x, 6.4x and 5.6x. We expect the valuation to remain under pressure for the foreseeable future due to the weak sector outlook and so we use a forward (next four quarters) EV/EBITDA multiple of 6.4x, deriving our new target price of US\$28.50. Our new target price reflects 1.9% upside potential. We also use DCF analysis to cross-check our target price, which is a 15.4% discount to our DCF derived NAV of US\$33.71.

**Table-4: Peers Comparison**

Company	Stock Code	Cur.	Last Price	Mkt Cap		PE			EV/EBITDA				ROE(%)	PB	
				USD mn	Fwd	15F	16F	17F	Fwd	15F	16F	17F	15F	15F	
USA - Listed															
Homeinns Hot-Adr	HMIN US	USD	27.98	1,339	16.9	17.3	15.8	13.3	5.7	5.6	4.8	3.9	9.2	1.5	
China Lodgin-Ads	HTHT US	USD	25.51	1,585	23.7	28.9	22.9	20.6	7.9	8.3	6.7	5.6	10.2	2.8	
Intercontin-Adr	IHG US	USD	42.80	10,106	18.4	n.a.	n.a.	n.a.	14.4	14.4	13.0	11.8	(50.5)	n.a.	
Marriott Intl-A	MAR US	USD	80.15	22,037	24.8	26.0	21.4	18.1	14.3	14.9	13.4	11.9	(34.4)	(7.7)	
Hilton Worldwide	HLT US	USD	29.35	28,982	34.0	35.7	28.6	23.8	13.5	13.5	11.9	10.4	16.3	4.9	
Extended Stay Am	STAY US	USD	19.63	4,016	21.3	22.1	18.5	15.4	12.3	12.4	11.4	10.3	14.5	3.3	
Starwood Hotels	HOT US	USD	84.78	14,488	27.4	28.5	24.5	20.9	13.4	13.7	12.5	11.0	34.8	11.5	
Host Hotels & Re	HST US	USD	20.09	15,222	20.9	22.1	20.9	17.7	12.9	13.2	12.0	11.2	8.7	2.1	
Wyndham Worldwid	WYN US	USD	86.89	10,431	17.3	17.6	15.8	13.6	10.1	10.1	9.4	9.0	45.3	8.3	
Hyatt Hotels-A	H US	USD	58.59	8,518	43.2	49.9	36.1	28.2	11.8	12.2	11.2	10.2	3.8	2.0	
Sunstone Hotel	SHO US	USD	15.48	3,230	17.2	20.3	20.3	20.8	12.9	13.1	11.7	11.0	4.6	1.3	
Simple Average					24.1	26.8	22.5	19.2	11.7	11.9	10.7	9.7	5.7	3.0	
Weighted Average					26.5	26.6	22.0	18.5	13.0	13.2	11.9	10.7	3.7	2.5	
HK - Listed															
Hk&S Hotels	45 HK	HKD	11.10	2,172	24.3	24.3	23.0	24.4	n.a.	n.a.	n.a.	n.a.	2.1	n.a.	
Shangri-La Asia	69 HK	HKD	12.38	5,718	34.7	35.0	28.3	29.3	15.9	15.9	16.1	15.0	2.2	0.8	
Shanghai Jin J-H	2006 HK	HKD	3.72	2,671	23.4	23.5	24.8	22.0	10.4	10.4	9.0	7.3	9.2	1.8	
Dorsett Hospital	2266 HK	HKD	1.36	369	11.3	11.3	8.5	4.9	9.0	9.0	7.2	n.a.	5.9	0.7	
Magnif Estates	201 HK	HKD	0.39	444	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	1.17	237	6.9	6.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.4	n.a.	
Simple Average					20.1	20.2	21.1	20.2	11.8	11.8	10.8	11.1	5.6	1.1	
Weighted Average					27.5	28.8	25.7	25.7	10.5	13.9	13.6	12.5	4.1	1.1	

Source: Bloomberg, Guotai Junan International.

**Table-5: Valuation and Target Price Based Multiples**

	FY13A	FY14A	Next 4 Quarters	FY15F	FY16F
<b>Target Price Based EV / EBITDA</b>					
Target Price (US\$/ADR)	28.50				
ADR Outstanding, Period End, Fully Diluted (mn)	47.8	48.4	48.4	47.9	47.9
Market Capitalization (US\$ mn)	1,363	1,381	1,381	1,364	1,365
+ Period End Minority Interest (US\$ mn)	3	3	3	3	3
+ Period End Borrowings ,including CB's (US\$ mn)	166	166	166	168	170
- Period End Cash & Equivalents (US\$ mn)	153	186	186	228	271
Year End Enterprise Value (US\$ mn)	1,379	1,363	1,363	1,307	1,266
Core EBITDA (US\$ mn)	237.6	212.6	212.6	231.8	255.8
TP Based EV/Core EBITDA	5.8	6.4	6.4	5.6	5.0
<b>Target Price Based PER &amp; PEG</b>					
Target Price (US\$/ADR)	28.50				
Target Price (RMB/ADR)	174.42				
Core Earnings per ADR (RMB), Diluted	8.95	7.04	7.04	8.17	9.45
Target Price Based PER	19.5	24.8	24.8	21.3	18.5

Source: the Company, Guotai Junan International.

**Table-6: DCF Based Valuation**

DCF Assumptions		Calculation	
Perpetual growth rate	3.0%	PV FCFF (RMB mn)	5,653
Risk free rate	1.75%	PV Terminal Value (RMB mn)	4,828
Adjusted Beta	0.95	EV (RMB mn)	10,480
Market risk premium	11.44%	- Debt, including CB's (RMB mn)	1,030
Cost of Equity	12.62%	- Minority Interest (RMB mn)	16
		+ Cash & Equivalents (RMB mn)	1,170
Borrowing interest rate	4.0%	Total NAV (RMB mn)	10,604
Effective tax rate	35.5%		
Cost of Debt	2.6%		
		ADR Outstanding (fully diluted, as at 2014 year end, mn)	51.4
		NAV per share (RMB)	206.28
Historical Average E/ (D+E)	83%	US\$:RMB	6.12
Historical Average D/ (D+E)	17%	NAV per ADR (US\$)	33.71
WACC	10.92%		

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**
**Income Statement**

Year end Dec. (RMB m)	2013A	2014A	2015F	2016F	2017F
Leased-and-operated hotels	5,587	5,742	5,734	5,965	6,209
Franchised-and-managed hotels	765	941	1,127	1,321	1,524
Gross Revenue	6,353	6,683	6,861	7,286	7,733
L&O hotels business tax	(345)	(353)	(350)	(366)	(381)
F&M hotels business tax	(47)	(58)	(69)	(81)	(93)
Business tax	(392)	(411)	(419)	(447)	(474)
L&O hotels net revenue	5,243	5,389	5,384	5,599	5,828
F&M hotels net revenue	718	883	1,058	1,240	1,431
Net revenue	5,961	6,272	6,442	6,839	7,259
L&O hotel operating costs	(4,867)	(5,023)	(5,289)	(5,591)	(5,855)
Hotel income of L&O hotels	376	365	95	8	(27)
F&M hotel personnel costs	(157)	(201)	(241)	(280)	(323)
Hotel income (total)	937	1,047	912	968	1,080
Sales & marketing	(110)	(110)	(110)	(118)	(125)
G&A	(313)	(312)	(326)	(341)	(362)
Other income	11	15	13	13	13
Operating Income	525	641	488	521	606
Interest expense	(48)	(32)	(11)	(7)	(4)
Non-operating income & gains	(74)	143	35	65	65
Income before tax	403	751	513	579	667
Income tax	(207)	(231)	(182)	(184)	(212)
Minority interests	0	(6)	(3)	(3)	(3)
Net Income attributable to shareholders	196	513	327	392	452
Gain (loss) on change in fair value of convertible	(133)	72	(10)	0	0
Early extinguishment of Term Loan	(42)	0	0	0	0
FX gain/(loss), net	50	(12)	(4)	0	0
Other	(15)	12	(0)	0	0
Core Net Income	337	441	341	392	452
EBITDA	1,166	1,547	1,307	1,419	1,553
Core EBITDA	1,306	1,474	1,321	1,419	1,553
Earnings per ADR					
-Basic (RMB)	4.245	10.755	6.854	8.251	9.521
-Diluted (RMB)	4.201	9.100	6.751	8.173	9.452
Core earnings per ADR					
-Basic (RMB)	7.227	9.277	7.141	8.251	9.521
-Diluted (RMB)	7.016	8.953	7.038	8.173	9.452

**Growth Rates**

	2013A	2014A	2015F	2016F	2017F
Net revenue	10.1%	5.2%	2.7%	6.2%	6.1%
Hotel income of L&O hotels	82.1%	(2.8%)	(74.1%)	(91.3%)	n.a.
Hotel income	44.3%	11.8%	(12.9%)	6.1%	11.6%
Operating income	91.6%	22.1%	(23.8%)	6.8%	16.2%
Income before tax	254.8%	86.3%	(31.7%)	13.0%	15.1%
Net income attributable to shareholders	832.8%	161.5%	(36.2%)	19.8%	15.2%
Core net income	114.4%	30.9%	(22.6%)	15.0%	15.2%
EBITDA	37.0%	32.7%	(15.5%)	8.5%	9.4%
Core EBITDA	26.2%	12.9%	(10.4%)	7.4%	9.4%
Earnings per ADR, basic	831.8%	153.4%	(36.3%)	20.4%	15.4%
Earnings per ADR, diluted	n.a.	116.6%	(25.8%)	21.1%	15.7%
Core earnings per ADR, basic	104.5%	28.4%	(23.0%)	15.5%	15.4%
Core earnings per ADR, diluted	109.6%	27.6%	(21.4%)	16.1%	15.7%



**Balance Sheet**

As at 31 December (RMB m)	2013A	2014A	2015F	2016F	2017F
Cash and equivalent	1,157	950	1,157	1,392	1,644
Restricted Cash	173	13	13	13	13
Inventories	41	44	47	51	54
Receivables	287	271	278	295	313
Deferred tax assets	79	130	192	267	360
<b>Current assets</b>	<b>1,737</b>	<b>1,407</b>	<b>1,686</b>	<b>2,019</b>	<b>2,383</b>
Affiliate investments	6	12	12	12	12
P&E	4,049	4,000	4,251	4,550	4,894
Goodwill & intangibles	3,367	3,450	3,468	3,490	3,517
Other	86	91	93	99	105
Deferred tax assets	408	435	465	499	538
<b>Non-current assets</b>	<b>7,916</b>	<b>7,987</b>	<b>8,290</b>	<b>8,650</b>	<b>9,065</b>
<b>Total assets</b>	<b>9,653</b>	<b>9,395</b>	<b>9,976</b>	<b>10,669</b>	<b>11,448</b>
Payables & Accruals	1,577	1,469	1,504	1,597	1,697
Borrowings	0	1,030	0	0	0
Deferred tax liability	52	61	61	63	66
Deferred revenue	203	225	231	246	261
<b>Current liabilities</b>	<b>1,832</b>	<b>2,785</b>	<b>1,796</b>	<b>1,906</b>	<b>2,024</b>
Borrowings	713	0	1,030	1,030	1,030
Convertible notes	1,157	0	0	0	0
Deferred revenue	54	51	53	56	59
Deferred tax liability	284	293	302	312	322
Deposits	115	145	169	192	213
Deferred rental	691	705	704	733	763
Other	358	344	337	329	322
<b>Non-current Liabilities</b>	<b>3,373</b>	<b>1,538</b>	<b>2,595</b>	<b>2,651</b>	<b>2,709</b>
<b>Total liabilities</b>	<b>5,205</b>	<b>4,324</b>	<b>4,390</b>	<b>4,557</b>	<b>4,733</b>
<b>Total equity</b>	<b>4,448</b>	<b>5,071</b>	<b>5,586</b>	<b>6,113</b>	<b>6,715</b>
Minority interest	16	16	16	16	16
<b>Shareholders' equity</b>	<b>4,431</b>	<b>5,055</b>	<b>5,570</b>	<b>6,096</b>	<b>6,699</b>
<b>BV per ADR (RMB)</b>	<b>95.632</b>	<b>106.037</b>	<b>116.439</b>	<b>128.008</b>	<b>141.164</b>

26 May 2015

Home Inns 如家酒店 (HMIN US)

Company Report

**Cash Flow Statement**

Year end Dec. (RMB m)	2013A	2014F	2015F	2016F	2017F
Income after tax	196	519	330	395	455
Depreciation. and amortization	757	770	787	835	885
Other non cash, net	83	(45)	30	12	8
Increase (decrease) in WC	156	101	52	137	146
Cash from operations	1,192	1,345	1,200	1,380	1,494
PP&E, net	8	32	(924)	(1,024)	(1,124)
Acquisitions	(23)	(85)	(84)	(83)	(81)
Other	(847)	(453)	152	150	148
Cash from investing	(862)	(506)	(855)	(956)	(1,057)
New shares proceeds	193	26	39	52	65
Convertible bond	0	(60)	(1,030)	0	0
Share buybacks	0	0	(26)	(26)	(26)
Dividends to minority interests	(8)	(4)	(0)	4	7
Net borrowings	(12)	(852)	1,030	0	0
Other	(3)	(156)	(150)	(217)	(232)
Cash from financing	169	(1,046)	(137)	(188)	(186)
Effect of X-rate	(6)	0	0	0	0
Net increase in cash	494	(207)	207	236	251
Cash at 1 Jan.	663	1,157	950	1,157	1,392
Cash at 31 Dec.	1,157	950	1,157	1,392	1,644

**Ratios**

	2013A	2014A	2015F	2016F	2017F
<i>Margins:</i>					
L&O hotels hotel income (excluding pre-open expense)	8.1%	7.1%	2.5%	1.0%	0.5%
L&O hotels hotel income (including pre-open expense)	6.7%	6.4%	1.7%	0.1%	n.a.
Hotel income (excluding pre-open expense)	16.0%	16.3%	14.0%	14.0%	14.7%
Hotel income (including pre-open expense)	15.7%	16.7%	14.2%	14.2%	14.9%
Operating	8.3%	9.6%	7.1%	7.2%	7.8%
Net income	3.1%	7.7%	4.8%	5.4%	5.8%
Core net income	5.3%	6.6%	5.0%	5.4%	5.8%
EBITDA	18.3%	23.1%	19.0%	19.5%	20.1%
Core EBITDA	20.6%	22.1%	19.2%	19.5%	20.1%
<i>Return:</i>					
ROE	4.7%	10.8%	6.2%	6.7%	7.1%
ROA	2.1%	5.4%	3.4%	3.8%	4.1%
<i>Leverage &amp; liquidity:</i>					
Net gearing (%)	17.0%	1.7%	net cash	net cash	net cash
Debt/equity (%)	42.1%	20.3%	18.4%	16.8%	15.3%
Current ratio (x)	0.9	0.5	0.9	1.1	1.2

Source: the Company, Guotai Junan International.

## Appendix

**Appendix Table 1: Key Parameters & Forecasts (Quarterly)**

RMB million	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
L&O hotels revenue	1,245	1,417	1,648	1,425	1,285	1,478	1,718	1,485
F&M hotels revenue	226	275	342	284	280	330	370	341
Gross Revenue	1,470	1,692	1,990	1,709	1,565	1,808	2,088	1,826
Business tax & surcharges	(88)	(104)	(122)	(105)	(96)	(111)	(128)	(112)
Net revenue	1,382	1,588	1,868	1,605	1,469	1,697	1,960	1,714
Total L&O hotel operating costs	(1,264)	(1,264)	(1,379)	(1,382)	(1,325)	(1,342)	(1,460)	(1,463)
Total operating expenses	(1,404)	(1,435)	(1,596)	(1,532)	(1,478)	(1,533)	(1,691)	(1,628)
% of total revenue	95.5%	84.8%	80.2%	89.6%	94.5%	84.8%	81.0%	89.2%
Other income	12	0	0	0	12	0	0	0
Operating Income	(11)	154	272	73	2	164	269	86
Interest expense	(1)	(4)	(3)	(3)	(2)	(2)	(2)	(2)
Other	(15)	16	16	16	16	16	16	16
Tax	(11)	(53)	(91)	(28)	(5)	(57)	(90)	(32)
Net Income	(38)	112	194	59	10	121	193	68
YoY	(150.2%)	4.0%	(21.1%)	(30.7%)	n.a.	7.7%	(0.6%)	15.7%
Core Net Income	(24)	112	194	59	10	121	193	68
YoY	(460.4%)	(21.9%)	(5.2%)	(33.2%)	n.a.	7.7%	(0.6%)	15.7%
Earnings/ADR, Basic (RMB)	(0.78)	2.35	4.07	1.22	0.22	2.54	4.06	1.43
Earnings/ADR, Diluted (RMB)	(0.78)	2.31	4.01	1.21	0.22	2.52	4.02	1.42
EBITDA	176	361	482	288	222	387	495	314
YoY	(40.6%)	(5.1%)	(10.2%)	(13.6%)	26.2%	7.3%	2.7%	9.1%
Core EBITDA	190	361	482	288	222	387	495	314
YoY	(16.9%)	(13.2%)	(5.0%)	(14.4%)	17.1%	7.3%	2.7%	9.1%
<b>Income Margins</b>								
Operating margin	(0.7%)	9.1%	13.7%	4.3%	0.1%	9.1%	12.9%	4.7%
Net Income margin	(2.6%)	6.7%	9.7%	3.4%	0.7%	6.7%	9.2%	3.7%
Core Net Income margin	(1.6%)	6.7%	9.7%	3.4%	0.7%	6.7%	9.2%	3.7%
EBITDA margin	12.0%	21.3%	24.2%	16.8%	14.2%	21.4%	23.7%	17.2%
Core EBITDA margin	12.9%	21.3%	24.2%	16.8%	14.2%	21.4%	23.7%	17.2%

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.

### DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for China All Access (Holdings) Limited (00633), Guangshen Railway Company Limited-H shares (00525), Guotai Junan International Holdings Limited (01788) and Binhai Investment Company Limited (02886), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.

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