



Company Report: Home Inns & Hotels (HMIN US)

公司报告：如家酒店 (HMIN US)

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Upgrade to "Accumulate" on Low Valuation

由于估值较低，上调为“收集”

- **2Q15 adjusted EBITDA decreased 19.3% YoY to RMB355.6 million, which was 8.2% below our forecast.** Net revenue decreased 1.6% YoY to RMB1,569 billion, which was below management's previous guidance range. L&O hotel expense ratio increased by 5.7 ppt YoY to 89.1%, better than we had expected. Operating profit decreased 39.5% YoY to RMB127.8 million.
- **Management revised down 2015 revenue guidance by 4.3%.** Given 1H15's lousy results and the ongoing weak economy hotel market conditions, the Company does not expect a market rebound in 2H15. For 3Q15, management expects total revenue to be in the range of RMB1.83 billion to RMB1.86 billion, the midpoint of which is 7.8% below our previous forecast.
- **We decrease 2015 to 2017 core EBITDA forecasts by 6.9%, 5.7% and 9.5% on lower revenue.** We expect the same number of hotel openings and hotel mix, but revise down our RevPAR assumptions. We expect Home Inn's overall RevPAR to decline by 5.1% to RMB 131 in 2015. We forecast 2015-2017 core EBITDA of RMB1,230 million, RMB1,338 million and RMB1,406 million, reflecting 11.6% CAGR.
- **Lower target price from US\$33.00 to US\$27.00 on lower earnings forecast but upgrade investment rating to "Accumulate" as we think the Company is oversold.**
- **2015 年 2 季度调整后 EBITDA 同比下降 19.3%至人民币 3.556 亿元，低于我们的预期 8.2%。** 净收入同比下滑 1.6%至人民币 15.69 亿元，低于管理层指引范围。租赁直营酒店费用比例同比提升 5.7 个百分点至 89.1%，好于我们预期。经营性利润同比下跌 39.5%至人民币 1.278 亿元。
- **管理层下调 2015 年全年收入指引范围 4.3%。** 由于 2015 年上半年比较差的业绩以及经济型酒店市场持续走弱的趋势，公司并不预期下半年实现好转。公司指引 3 季度总收入范围从人民币 18.3 亿元至人民币 18.6 亿元，中点低于我们上次预期 7.8%。
- **由于下调收入预期，我们分别下调 2015 年至 2017 年核心 EBITDA 预期 6.9%、5.7%及 9.5%。** 我们维持新开酒店数量和品牌比例假设，但是下调平均每间可供出租客房收入，预期它在 2015 年同比减少 5.1%至人民币 131 元。我们预期 2015 年至 2017 年核心 EBITDA 为人民币 12.30 亿元、人民币 13.38 亿元和人民币 14.06 亿元，相当于 11.6%的复合年增长率。
- **由于盈利预期比较低，将目标价从 33.00 美元下调至 27.00 美元但是由于公司被超卖我们上调投资评级至“收集”。**

Rating:

Accumulate

Upgraded

评级:

收集 (上调)

6-18m TP 目标价:

US\$27.00

Revised from 原目标价:

US\$33.00

Share price 股价:

US\$25.120

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 %	(13.2)	(6.6)	(17.0)
Rel. % to CCMP index 相对纳指变动 %	(8.6)	(2.8)	(22.7)
Avg. share price(US\$) 平均股价 (美元)	27.6	29.3	28.1

Source: Bloomberg, Guotai Junan International.

Year End 年结	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	Earnings / ADR 每份 ADR 净利 (RMB)	Earnings / ADR 每份 ADR 净利变动 (△%)	PER 市盈率 (x)	BV/ADR 每份 ADR 净资产 (RMB)	PBR 市净率 (x)	DP ADR 每份 ADR 股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2013A	6,353	196	4.245	831.8	35.8	95.632	1.6	0.000	0.0	4.7
2014A	6,683	513	10.755	153.4	14.5	106.037	1.5	0.000	0.0	10.8
2015F	6,592	246	5.157	(52.1)	30.7	110.650	1.4	0.000	0.0	4.8
2016F	7,077	308	6.484	25.7	25.6	117.938	1.4	0.000	0.0	5.6
2017F	7,371	339	7.148	10.2	22.5	125.986	1.3	0.000	0.0	5.9

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)	1,202.0	Free float (%) 自由流通比率 (%)	70.4
3 month average vol. 3 个月平均成交股数 ('000)	263.4	2015 Net gearing (%) 2015 净负债/股东资金 (%)	3.7
52 Weeks high/low (US\$) 52 周高/低	33.250 / 21.560	2015 Est. NAV (US\$) 2015 每股估值 (美元)	32.4

Source: the Company, Guotai Junan International.

2Q15 RESULTS

Home Inns (HMIN US)'s 2Q15 adjusted EBITDA decreased 19.3% YoY to RMB355.6 million, 8.2% below our forecast.

Adjusted diluted earnings per ADR plunged by 35.4% YoY to RMB2.18, which was 24% lower than our forecast and 16.4% below Bloomberg consensus. Gross revenue decreased by 1.8% YoY to RMB1,667 million, 0.2% below the lower bound of management's previous guidance, and 1.4% below our previous forecast.

Leased-and-operated ("L&O") hotel operating costs to revenue ratio grew by 4.8 ppt YoY to 87.7%, which was 1.0 ppt lower than our expectation. The higher cost ratio was mainly due to a decrease in RevPAR which resulted in a lower revenue base per hotel while a significant portion of the hotel costs were fixed in 2Q15. As a result, 2Q15 L&O hotel income was RMB90.5 million, down 43.3% YoY.

Operating profit decreased 39.5% YoY to RMB127.8 million. Total operating expense ratio increased 4.2 ppt YoY to 85.8%. The year-over-year decrease in operating income was mainly due to lower revenue base per hotel and a higher pre-opening cost of RMB19.9 million, compared to RMB6.8 million in 2Q14.

Table-1: Results Summary

(RMB million)	2Q14	3Q14	4Q14	1Q15	2Q15	2Q15 (% or ppt.)	
						YoY	QoQ
Leased-and-Operated ("L&O") hotels gross revenue	1,459	1,612	1,391	1,245	1,411	(3.4%)	13.3%
Manachised & Franchised gross revenue	239	264	244	226	257	7.4%	13.7%
Gross revenue	1,699	1,876	1,635	1,470	1,667	(1.8%)	13.4%
Business tax & surcharges	(105)	(112)	(100)	(88)	(98)	(5.9%)	11.4%
Net revenue	1,594	1,764	1,535	1,382	1,569	(1.6%)	13.5%
L&O hotel op. costs (Ex pre-open costs)*	(1,217)	(1,296)	(1,299)	(1,264)	(1,257)	3.3%	(0.6%)
% of L&O hotel gross revenue	83.4%	80.4%	93.3%	101.6%	89.1%	5.7 ppt	(12.5) ppt
L&O hotels income (excluding pre-open costs)	160	233	26	(73)	91	(43.3%)	n.a.
% of total L&O net revenue	10.9%	14.5%	1.8%	-5.9%	6.4%	(4.5) ppt	12.3 ppt
Hotel income (all hotels)**	327	411	221	95	266	(18.6%)	180.7%
% of net revenue	20.5%	23.3%	14.4%	6.9%	17.0%	(3.5) ppt	10.1 ppt
L&O hotels pre-opening costs	(7)	(14)	(19)	(21)	(20)	192.6%	(4.8%)
SG&A and staff costs of F&M hotels	(170)	(184)	(134)	(140)	(175)	2.7%	24.5%
% of net revenue	10.7%	10.4%	8.8%	10.1%	11.1%	0.5 ppt	1.0 ppt
Operating income	211	284	102	(11)	128	(39.5%)	n.a.
Effective tax rate	38.4%	25.4%	38.3%	-42.3%	40.2%	1.8 ppt	82.5 ppt
Net Income	108	246	85	(38)	72	(33.4%)	n.a.
Less non-core items:							
Gain (loss) on CB fair value change	(35)	29	(8)	(10)	(17)	(51.4%)	77.6%
Foreign exchange gain (loss), net	(0)	(1)	5	(4)	4	n.a.	n.a.
Motel 168 acquisition costs (in G&A)	(1)	12	0	0	0	n.a.	n.a.
Motel 168 integration costs (in G&A & hotel costs)	(2)	(2)	(2)	(1)	(2)	(0.4%)	9.6%
Total non-core items	(37)	39	(5)	(15)	(15)	(60.6%)	(2.6%)
Core Net Income	144	204	88	(24)	87	(39.7%)	n.a.
Less share based compensation	(23)	(18)	(21)	(24)	(17)	(27.2%)	(31.7%)
Adjusted Net Income	168	224	111	2	105	(37.7%)	5253.9%
Earnings per ADR, diluted (RMB)	2.27	4.29	1.77	(0.78)	1.50	(34.0%)	n.a.
Core Earnings per ADR, diluted (RMB)	3.02	3.97	1.84	(0.50)	1.80	(40.3%)	n.a.
Adj. Earnings per ADR, diluted (RMB)	3.38	4.47	2.32	0.04	2.18	(35.4%)	5229.5%
EBITDA	380	536	333	176	323	(15.2%)	83.1%
Core EBITDA	416	507	337	190	337	(19.0%)	77.6%
Adjusted EBITDA	441	515	360	216	356	(19.3%)	64.8%

MARGINS

L&O hotels hotel income margin	11.2%	14.5%	0.6%	(8.1%)	5.3%	(5.8) ppt	13.4 ppt
Hotel income margin	20.1%	22.5%	13.2%	5.3%	15.7%	(4.4) ppt	10.3 ppt
Operating margin	12.4%	15.2%	6.3%	(0.7%)	7.7%	(4.8) ppt	8.4 ppt
EBITDA margin	22.4%	28.6%	20.4%	12.0%	19.4%	(3.0) ppt	7.4 ppt
Core EBITDA margin	24.5%	27.0%	20.6%	12.9%	20.2%	(4.3) ppt	7.3 ppt
Adjusted EBITDA margin	25.9%	27.4%	22.0%	14.7%	21.3%	(4.6) ppt	6.7 ppt
Net income margin	6.4%	13.1%	5.2%	(2.6%)	4.3%	(2.0) ppt	6.9 ppt
Core net income margin	8.5%	10.9%	5.4%	(1.6%)	5.2%	(3.3) ppt	6.8 ppt
Adjusted net income margin	9.9%	12.0%	6.8%	0.1%	6.3%	(3.6) ppt	6.2 ppt

Source: the Company, Guotai Junan International.

Note*: Leased-and-operated hotels hotel income is L&O hotels net revenue less L&O hotel operating expenses

Note**: Hotel income (all hotels) is net revenue from all hotels less L&O hotel operating expenses staff costs of F&M hotels.

Note***: We include both "core" and "adjusted" earnings figures. "Adjusted" figures, which are provided by the Company, exclude several non-operating items as well as share based compensation expense and are used by consensus and the Company to illustrate YoY comparisons. "Core" figures (derived by us) also exclude several non-operating items but include share based compensation expense, and are a better reflection than "adjusted" figures of the Company's true economic performance, in our view.

The previously announced buyout offer is being reviewed by a committee of independent directors. As per previously reported (see our June 12 Company Report), a consortium of investors offered to take the Company private in a cash buyout for 100% of the Company's shares at a price of US\$32.81 per ADR. Since then, the Company's board has set up a committee of three independent directors to evaluate the offer with the help of an outside independent financial advisor.

Home Inns' 2Q15 mature hotels RevPAR declined by 4.8% YoY, mainly due to continued difficult market conditions.

The Company's 2Q15 mature hotel revenue-per-available-room (RevPAR) was RMB145, and the 4.8% YoY decline was worse than the 4.1% decline seen by competitor China Lodging (HTHT US) for the same quarter. Home Inns had 2,103 mature (in operation at least 18 months) hotels at the end of 2Q15. The same-hotel ADR decreased by 0.6% YoY to RMB163 in 2Q15, and occupancy rate declined by 3.4 ppt from 88.1% in 2Q14, to 84.7% in 2Q15.

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

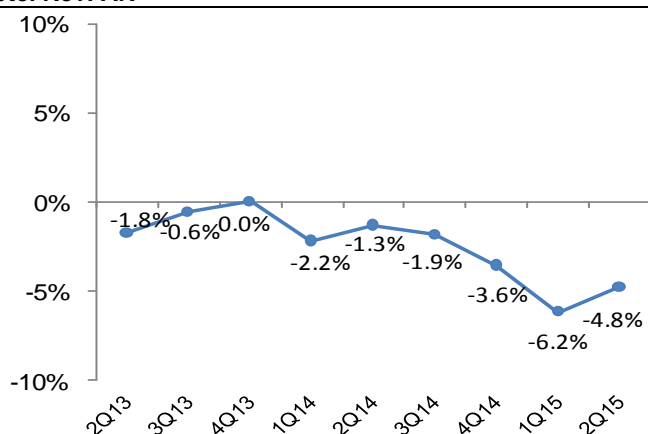
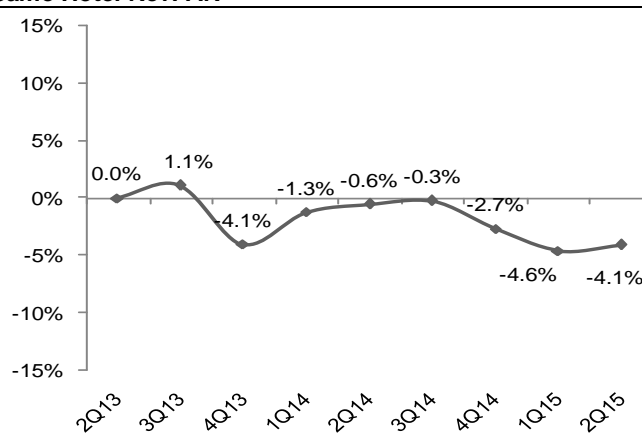


Figure-2: China Lodging Mature Hotel YoY Change in Same Hotel RevPAR



Source: the Company, Guotai Junan International.

Source: China Lodging, Guotai Junan International.

The Company opened 89 new hotels on a net basis during 2Q15, less than the 113 we had expected. In 2Q15, Home Inns opened a total of 126 hotels (14 leased-and-operated; 112 franchised-and-managed) but also closed 37 hotels; seven leased-and-operated hotels were closed due to conversion to Homeinn Plus and two leased-and-operated hotels were closed and converted to franchised-and-managed hotels. Home Inns entered four new cities during 2Q15, with a total of 2,750 hotels in operation across 342 Chinese cities under its five brands. At the end of 2Q15, 66.7% of all hotels in operation were F&M hotels, up from 62.2% in 2Q14 and 65.7 in 1Q15. The Company is expected to open more hotels in the second half of the year and so is still on track to meet its full year target for number of hotel additions.

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

	Hotels by Brand					Hotels
	Home Inn	Motel 168	Fairyland	Yitel	Homeinn Plus	Total
Leased-and-Operated	699	163	22	23	8	915
Franchised-and-Managed	1,551	247	9	27	1	1,835
Total Number of Hotels in Operation	2,250	410	31	50	9	2,750
Hotels Contracted or Under Construction						
Leased-and-Operated	6	5	0	8	8	27
Franchised-and-Managed	116	23	1	11	6	157
Total	122	28	1	19	14	184
Hotels Under Due Diligence	134	19	0	4	8	165
Total Hotels Under Development	256	47	1	23	22	349

Source: the Company.

There were a total of 349 hotel projects in the Company development pipeline as of June 30, 2015, including 184 hotels contracted or under construction with another 165 hotels under due diligence. Of the hotels contracted or under construction, 85.3% were franchised-and-managed hotels and 66.3% were under the core Homeinn economy brand.

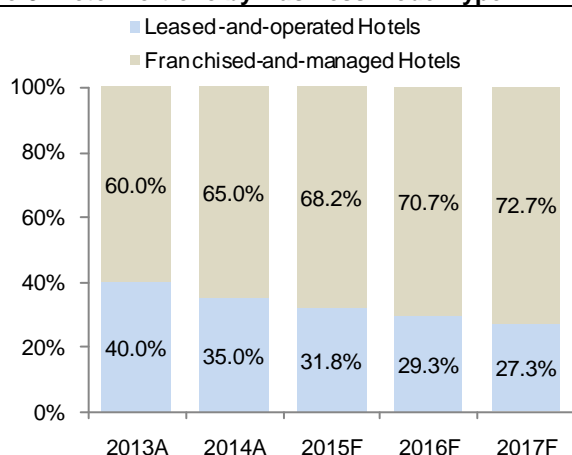
Mobile app bookings accounted for 27% of total bookings during the second quarter of 2015. Since the launch of HMIN's mobile apps in October 2013, more than 4.2 million users have downloaded the app as of June 30, 2015, up 27.3% QoQ. Additionally, WeChat is emerging as a sales platform for the Company, accounting for 2% of total bookings in 2Q15.

Home Inns collaborated with Alibaba's online travel platform by placing flagship stores on the Alibaba website in 2Q15. The Company continues to cooperate with leading online platforms including Ctrip and Alibaba to build brand loyalty.

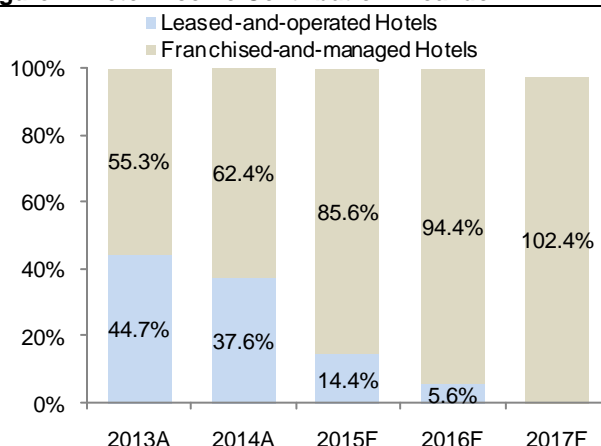
OUTLOOK

Management revised down full year 2015 revenue guidance by 4.3%. The Company now expects 2015 gross revenue to be in the range of RMB6.55 billion to RMB 6.65 billion, down from previous guidance of between RMB6.80 billion to RMB7.00 billion. Given 2015's first half year performance and the ongoing softer-than-expected market conditions, the Company does not expect a market rebound for the second half of 2015. Management expected 3Q15 total revenue to be in the range of RMB1.83 billion to RMB1.86 billion, the midpoint of which is 7.8% below our previous forecast.

The Company remains on track to meet its target of opening no fewer than 400 new hotels in 2015, with approximately 10% as leased-and-operated hotels and 90% as franchised-and-managed hotels. At the end of 2Q15, franchised-and-managed hotels represented 66.7% of HMIN's total operated hotels, up 4.5 ppts from 62.2% in 2Q14. Also, around 25% of 2015 hotel additions are planned to be under the Company's mid-scale brands, as the Company plans to further diversify its product offerings in the mid-scale business through Homeinn Plus and Yitel. Overall, in the mid-scale sector, Homeinn Plus' price premium is 1.3x to 1.5x times that of the Homeinn economy brand, and Yitel is positioned at 1.6x to 2.0x that of the Homeinn economy brand.

Figure-3: Hotel Portfolio by Business Model Type


Source: the Company, Guotai Junan International.

Figure-4: Hotel Income Contribution Breakdown


Source: the Company, Guotai Junan International.

The Company expected to strengthen HMIN's own sales channel as main source to grow memberships, together with existing OTAs. As of June 30, 2015, HMIN's frequent guest program reached a record high of 38.6 million unique non-corporate members (6 million e-club members), with 95.9% YoY growth. The Company had planned two ways to further grow its membership: 1) synergize its own network with Alipay as a new third party platform for fresh customers; 2) initiate a 'pay program' by requiring new members to pay RMB4 to enter the e-club membership, and also upgrading their membership status by accumulated points accordingly. Meanwhile, as the percentage of customers from OTAs (Online Travel Agencies) stabilized at around 8% to 12% of total customers, the Company expected to emphasize on its own channel. We believe that since HMIN's own platform accounted for around 75% of the total bookings, the Company might use OTAs as complementary channels, while the percentage of bookings using HMIN's own channel would increase in the second half of 2015.

FORECAST UPDATES

We decrease 2015 to 2017 net revenue forecasts by 3.7%, 2.6% and 4.5% to RMB6,201 million, RMB6,659 million and RMB6,936 million, reflecting growth of -1.1%, 7.4% and 4.1%, respectively. We expect the same number of hotel openings and hotel mix, but revise down our RevPAR assumptions. We expect Home Inn's overall RevPAR to decline by 5.1% to RMB 131 in 2015.

We cut 2015 to 2017 operating income forecasts by 20.2%, 20.2% and 27.3% to RMB390 million, RMB416 million and RMB440 million, reflecting growth of -39.2%, 6.7% and 5.9%, respectively. We expect the Company's operating costs ratio to increase in 2015, mainly due to lower revenue base and increased hotel operating expense ratio. 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.

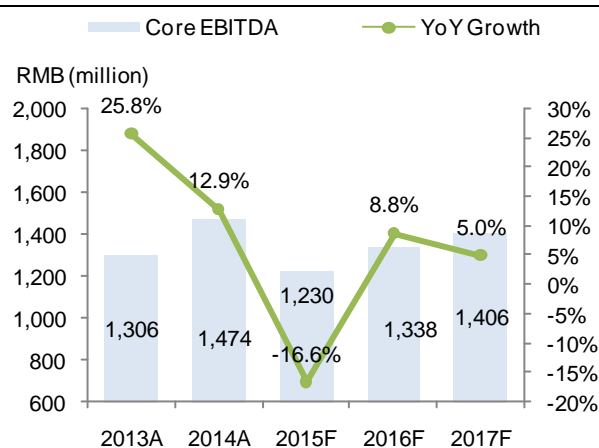
We forecast 2015 to 2017 core EBITDA of RMB1,230 million, RMB1,338 million and RMB1,406 million, reflecting growth of -16.6%, 8.8% and 5.0%, respectively. We have decreased 2015 to 2017 core EBITDA forecasts by 6.9%, 5.7% and 9.5%, respectively.

We forecast 2015 to 2017 core diluted earnings per ADR of RMB5.69, RMB6.42 and RMB7.10, respectively, reflecting growth of -36.4%, 12.8% and 10.5%, respectively. We have decreased 2015-2017 core diluted earnings per ADR forecasts by 19.1%, 21.4% and 24.9%, respectively.

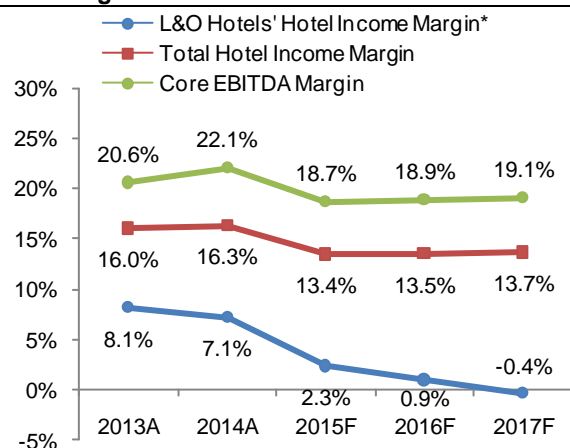
Table-3: Forecast Updates

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	992	1,031	953	992	1,031	0.0%	0.0%	0.0%
Total F&M hotels in operation	2,044	2,396	2,751	2,044	2,396	2,751	0.0%	0.0%	0.0%
Overall RevPAR	135	136	136	131	135	134	(3.1%)	(0.3%)	(1.2%)
Net revenue	6,442	6,839	7,259	6,201	6,659	6,936	(3.7%)	(2.6%)	(4.5%)
L&O hotel operating costs (excluding pre-open costs)	(5,242)	(5,539)	(5,797)	(5,085)	(5,434)	(5,619)	(3.0%)	(1.9%)	(3.1%)
% of L&O hotel gross revenue	91.4%	92.8%	93.4%	91.8%	93.2%	94.5%	0.4 ppt	0.3 ppt	1.1 ppt
L&O hotel income (excluding pre-open costs)	142	61	31	127	53	(24)	(10.6%)	(12.6%)	(177.8%)
% of L&O hotels gross revenue	2.5%	1.0%	0.5%	1.1%	(0.3%)	(1.8%)	(1.4) ppt	(1.4) ppt	(2.3) ppt
L&O hotels pre-opening costs	(47)	(53)	(58)	(66)	(73)	(81)	39.1%	39.1%	39.1%
SG&A	(436)	(459)	(487)	(433)	(467)	(487)	(0.8%)	1.8%	(0.1%)
% of total net revenue	(6.8%)	(6.7%)	(6.7%)	(7.0%)	(7.0%)	(7.0%)	(0.2) ppt	(0.3) ppt	(0.3) ppt
F&M hotel personnel costs	(241)	(280)	(323)	(231)	(271)	(310)	(4.2%)	(3.1%)	(3.9%)
Other income	13	13	13	3	2	2	(77.4%)	(81.8%)	(81.8%)
Operating income	488	521	606	390	416	440	(20.2%)	(20.2%)	(27.3%)
Net interest expense	(11)	(7)	(4)	(6)	(3)	18	(49.9%)	(58.4%)	(531.9%)
Income tax expense	(182)	(184)	(212)	(138)	(145)	(159)	(24.4%)	(21.4%)	(24.9%)
effective tax rate	35.5%	31.8%	31.8%	35.6%	31.8%	31.8%	0.1 ppt	0.0 ppt	0.0 ppt
Net income	327	392	452	246	308	339	(24.7%)	(21.4%)	(24.9%)
(-) Non-core items	(14)	0	0	(28)	0	0	107.0%	n.a.	n.a.
Core net income	341	392	452	275	308	339	(19.4%)	(21.4%)	(24.9%)
(-) share based comp expense	(100)	(112)	(128)	(51)	(15)	(31)	(48.9%)	(86.9%)	(76.0%)
(-) integration expense	(7)	(7)	(7)	(6)	(7)	(7)	(1.8%)	(2.3%)	(2.3%)
Adjusted net income	447	511	587	332	330	376	(25.7%)	(35.5%)	(35.8%)
Earnings per ADR, diluted (RMB)	6.75	8.17	9.45	5.10	6.42	7.10	(24.5%)	(21.4%)	(24.9%)
Core earnings per ADR (RMB), diluted	7.04	8.17	9.45	5.69	6.42	7.10	(19.1%)	(21.4%)	(24.9%)
Adjusted earnings per ADR (RMB), diluted	9.24	10.65	12.28	6.89	6.86	7.88	(25.5%)	(35.5%)	(35.8%)
EBITDA	1,307	1,419	1,553	1,201	1,338	1,406	(8.1%)	(5.7%)	(9.5%)
Core EBITDA	1,321	1,419	1,553	1,230	1,338	1,406	(6.9%)	(5.7%)	(9.5%)
Adjusted EBITDA	1,421	1,531	1,681	1,281	1,353	1,436	(9.9%)	(11.6%)	(14.6%)

Source: the Company, Guotai Junan International.

Figure-5: Core EBITDA & Growth


Source: the Company, Guotai Junan International.

Figure-6: Margins


Source: the Company, Guotai Junan International.

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

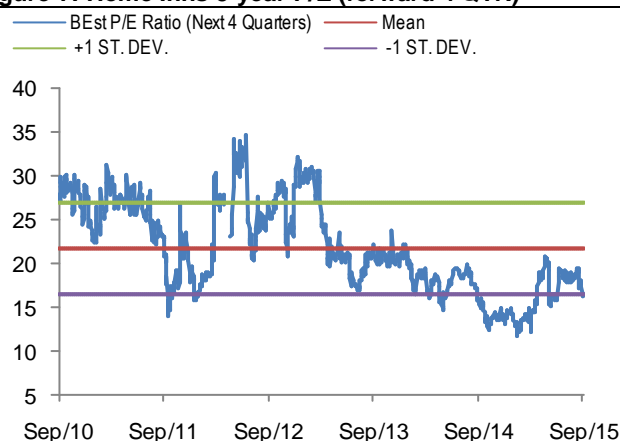
VALUATION

The Company's ADR looks cheap compared to peers as well as compared to its own 2-year and 5-year historical average valuations. The U.S. listed peers group is currently trading at 11.4x forward EV/EBITDA, which is an 11.1% discount to its historical average forward EV/EBITDA of 12.8x. Home Inns last closed at just 5.6x forward EV/EBITDA, which is a 50.9% discount to the U.S. listed peers group, in-line with the 49.4% discount the Company has historically traded at on average relative to U.S. listed peers. The Company is also trading at 28.4% and 14.4% discounts to its own 5-year and 2-year historical average forward EV/EBITDA ratios, respectively.

Potential upside if Home Inns goes private. As per previously reported (see our June 12 Company Report), a consortium of investors offered to take the Company private in a cash buyout for 100% of the Company's shares at a price of US\$32.81 per ADR, which is 20.0% greater than the average share price during the 20 trading days before the announcement. The 20.0% premium is less than the 34.3% premium 7 Days Group (formerly SVN US) was initially offered for its ADRs back in 2012. In the end, 7 Days Group went private at an ADR price premium of 35.4% nine months after it received the initial buyout offer. We think that the Company might be able to negotiate a higher buyout price. However, the buyout price could also go down due to recent equity market volatility. There is also risk that the buyout might not occur at all, if the Company refuses the offer or if the buyers change their minds (the offer is non-binding).

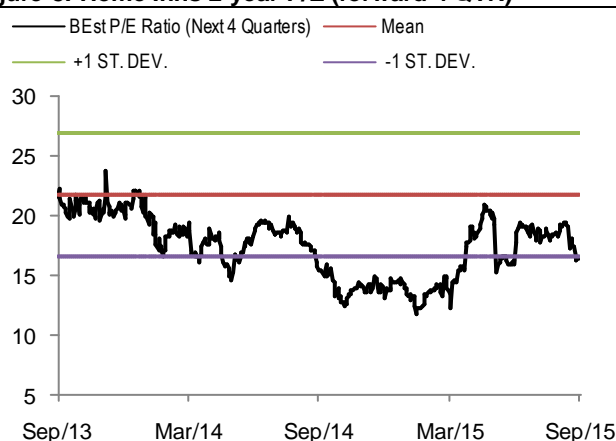
Lower target price from US\$33.0 to US\$27.00 on lower earnings forecast but upgrade to "Accumulate" as we think the Company is oversold. The Company's 5-year and 2-year historical average forward EV/EBITDA ratios are 7.8x and 6.5x, respectively. We expect the valuation to remain under pressure for the foreseeable future due to the Company's weak expected growth and so we use a forward (next four quarters) EV/EBITDA multiple of 6.5x, deriving our new target price of US\$27.00. Our new target price reflects 7.5% upside potential. We also use DCF analysis to cross-check our target price, which is a 16.6% discount to our DCF derived NAV of US\$32.38.

Figure-7: Home Inns 5-year P/E (forward 4 QTR)



Source: Bloomberg, Guotai Junan International.

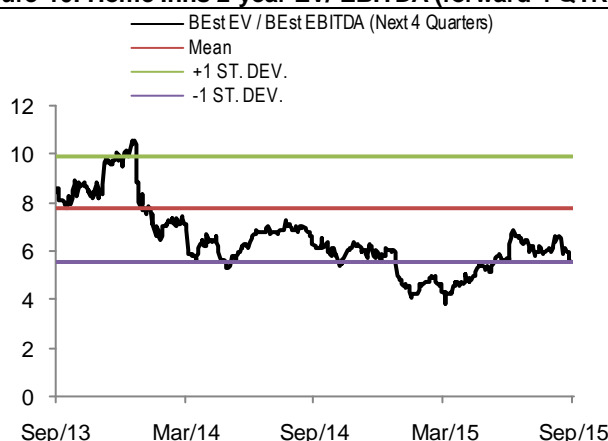
Figure-8: Home Inns 2-year P/E (forward 4 QTR)



Source: Bloomberg, Guotai Junan International.

Figure-9: Home Inns 5-year EV/ EBITDA (forward 4 QTR)


Source: Bloomberg, Guotai Junan International.

Figure-10: Home Inns 2-year EV/ EBITDA (forward 4 QTR)


Source: Bloomberg, Guotai Junan International.

Table-4: Peers Comparison

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	25.12	1,202	16.4	20.4	17.7	16.3	5.6	5.6	4.8	n.a.	7.5	1.5	
China Lodgin-Ads	HTHT US	USD	25.61	1,591	28.9	28.9	23.6	17.9	8.2	8.2	6.9	5.5	10.4	2.9	
Intercontin-Adr	IHG US	USD	37.19	8,781	19.2	n.a.	n.a.	n.a.	12.7	12.7	11.7	10.5	(59.2)	n.a.	
Marriott Intl-A	MAR US	USD	72.42	19,256	21.0	23.1	19.0	16.4	12.7	13.4	12.2	10.6	(32.7)	(5.9)	
Hilton Worldwide	HLT US	USD	25.35	25,032	27.9	31.0	25.2	21.1	11.7	12.2	10.7	9.5	16.5	4.5	
Extended Stay Am	STAY US	USD	18.05	3,693	18.8	19.5	17.0	14.1	11.3	11.8	10.9	9.7	15.1	3.0	
Starwood Hotels	HOT US	USD	72.33	12,324	23.1	24.1	21.3	18.0	11.3	11.9	10.8	9.9	36.0	9.3	
Host Hotels & Re	HST US	USD	17.58	13,205	17.8	17.2	15.3	15.8	11.5	12.1	11.1	10.4	7.2	1.9	
Wyndham Worldwid	WYN US	USD	78.03	9,216	14.9	15.6	14.1	12.1	8.9	9.2	8.5	8.1	48.6	8.2	
Hyatt Hotels-A	H US	USD	51.55	7,376	37.8	54.4	33.9	27.6	10.4	10.9	10.2	9.3	3.1	1.8	
Sunstone Hotel	SHO US	USD	13.77	2,874	16.7	16.0	15.0	18.9	11.6	12.0	11.1	10.8	6.3	1.2	
Simple Average					22.0	25.0	20.2	17.8	10.5	10.9	9.9	9.4	5.3	2.8	
Weighted Average					22.9	25.9	21.0	18.2	11.4	11.9	10.8	9.8	3.6	2.6	
HK - Listed															
Hk&S Hotels	45 HK	HKD	8.37	1,658	19.3	19.3	18.2	18.6	n.a.	n.a.	n.a.	n.a.	1.8	n.a.	
Shangri-La Asia	69 HK	HKD	7.35	3,395	30.6	30.4	20.6	15.7	14.7	14.7	13.9	13.7	1.7	0.5	
Shanghai Jin J-H	2006 HK	HKD	2.47	1,774	16.1	16.0	15.0	13.7	7.9	7.9	6.5	5.9	10.0	1.2	
Dorsett Hospital	2266 HK	HKD	1.42	385	8.4	10.1	8.4	5.1	n.a.	n.a.	n.a.	n.a.	6.5	0.7	
Magnif Estates	201 HK	HKD	0.22	254	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	0.91	184	n.a.	5.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.4	n.a.	
Simple Average					18.6	16.2	15.5	13.3	11.3	11.3	10.2	9.8	5.7	0.8	
Weighted Average					21.9	22.8	18.0	15.3	8.3	12.3	11.3	11.0	4.1	0.7	

Source: Bloomberg, Guotai Junan International.

Table-5: Valuation and Target Price Based Multiples

	FY13A	FY14A	Next 4 Quarters	FY15F	FY16F
Target Price Based EV / EBITDA					
Target Price (US\$/ADR)	27.00				
ADR Outstanding, Period End, Fully Diluted (mn)	47.8	48.4	48.4	47.9	47.9
Market Capitalization (US\$ mn)	1,291	1,308	1,308	1,292	1,293
+ Period End Minority Interest (US\$ mn)	3	3	3	2	3
+ Period End Borrowings, including CB's (US\$ mn)	166	162	151	144	149
- Period End Cash & Equivalents (US\$ mn)	153	130	121	133	142
Year End Enterprise Value (US\$ mn)	1,307	1,343	1,341	1,306	1,303
Core EBITDA (US\$ mn)	237.6	205.5	195.1	202.7	219.6
TP Based EV/Core EBITDA	5.5	6.5	6.9	6.4	5.9
Target Price Based PER & PEG					
Target Price (US\$/ADR)	27.00				
Target Price (RMB/ADR)	171.72				
Core Earnings per ADR (RMB), Diluted	8.95	5.69	5.69	6.42	7.10
Target Price Based PER	19.2	30.2	30.2	26.7	24.2

Source: the Company, Guotai Junan International.

Table-6: DCF Based Valuation

DCF Assumptions		Calculation	
Perpetual growth rate	3.0%	PV FCFF (RMB mn)	4,176
Risk free rate	1.80%	PV Terminal Value (RMB mn)	5,924
Adjusted Beta	0.95	EV (RMB mn)	10,100
Market risk premium	12.07%	- Debt, including CB's (RMB mn)	953
Cost of Equity	13.27%	- Minority Interest (RMB mn)	16
		+ Cash & Equivalents (RMB mn)	792
Borrowing interest rate	4.0%	Total NAV (RMB mn)	9,923
Effective tax rate	35.6%		
Cost of Debt	2.6%	ADR Outstanding (fully diluted, as at 2014 year end, mn)	48.2
		NAV per share (RMB)	205.94
Historical Average E/ (D+E)	83%	US\$:RMB	6.36
Historical Average D/ (D+E)	17%	NAV per ADR (US\$)	32.38
WACC	11.46%		

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	5,540	5,831	5,946
Franchised-and-managed hotels	765	941	1,052	1,246	1,425
Gross Revenue	6,353	6,683	6,592	7,077	7,371
L&O hotels business tax	(345)	(353)	(328)	(344)	(351)
F&M hotels business tax	(47)	(58)	(62)	(74)	(84)
Business tax	(392)	(411)	(391)	(418)	(435)
L&O hotels net revenue	5,243	5,389	5,212	5,487	5,595
F&M hotels net revenue	718	883	989	1,172	1,341
Net revenue	5,961	6,272	6,201	6,659	6,936
L&O hotel operating costs	(4,867)	(5,023)	(5,151)	(5,507)	(5,700)
Hotel income of L&O hotels	376	365	61	(20)	(106)
F&M hotel personnel costs	(157)	(201)	(231)	(271)	(310)
Hotel income (total)	937	1,047	820	881	925
Sales & marketing	(110)	(110)	(105)	(116)	(121)
G&A	(313)	(312)	(328)	(351)	(366)
Other income	11	15	3	2	2
Operating Income	525	641	390	416	440
Interest expense	(48)	(32)	(6)	(3)	18
Non-operating income & gains	(74)	143	2	42	42
Income before tax	403	751	387	455	500
Income tax	(207)	(231)	(138)	(145)	(159)
Minority interests	0	(6)	(2)	(2)	(2)
Net Income attributable to shareholders	196	513	246	308	339
Gain (loss) on change in fair value of convertible	(133)	72	(27)	0	0
Early extinguishment of Term Loan	(42)	0	0	0	0
FX gain/(loss), net	50	(12)	(0)	0	0
Other	(15)	12	(2)	0	0
Core Net Income	337	441	275	308	339
EBITDA	1,166	1,547	1,201	1,338	1,406
Core EBITDA	1,306	1,474	1,230	1,338	1,406
Earnings per ADR					
-Basic (RMB)	4.245	10.755	5.157	6.484	7.148
-Diluted (RMB)	4.201	9.100	5.100	6.421	7.096
Core earnings per ADR					
-Basic (RMB)	7.227	9.277	5.749	6.484	7.148
-Diluted (RMB)	7.016	8.953	5.692	6.421	7.096

Source: the Company, Guotai Junan International.

Growth Rates

	2013A	2014A	2015F	2016F	2017F
Net revenue	10.1%	5.2%	(1.1%)	7.4%	4.1%
Hotel income of L&O hotels	82.1%	(2.8%)	(83.3%)	n.a.	n.a.
Hotel income	44.3%	11.8%	(21.7%)	7.5%	5.0%
Operating income	91.6%	22.1%	(39.2%)	6.7%	5.9%
Income before tax	254.8%	86.3%	(48.5%)	17.7%	10.0%
Net income attributable to shareholders	832.8%	161.5%	(52.0%)	25.1%	10.0%
Core net income	114.4%	30.9%	(37.6%)	12.2%	10.0%
EBITDA	37.0%	32.7%	(22.3%)	11.4%	5.0%
Core EBITDA	26.2%	12.9%	(16.6%)	8.8%	5.0%
Earnings per ADR, basic	831.8%	153.4%	(52.1%)	25.7%	10.2%
Earnings per ADR, diluted	n.a.	116.6%	(44.0%)	25.9%	10.5%
Core earnings per ADR, basic	104.5%	28.4%	(38.0%)	12.8%	10.2%
Core earnings per ADR, diluted	109.6%	27.6%	(36.4%)	12.8%	10.5%

Source: the Company, Guotai Junan International.

Balance Sheet

As at 31 December (RMB m)	2013A	2014A	2015F	2016F	2017F
Cash and equivalent	1,157	950	763	876	907
Restricted Cash	173	13	29	29	29
Inventories	41	44	47	51	52
Receivables	287	271	267	287	299
Deferred tax assets	79	130	160	192	227
Current assets	1,737	1,407	1,266	1,435	1,514
Affiliate investments	6	12	12	12	12
P&E	4,049	4,000	4,226	4,479	4,782
Goodwill & intangibles	3,367	3,450	3,468	3,490	3,517
Other	86	91	90	96	100
Deferred tax assets	408	435	465	499	538
Non-current assets	7,916	7,987	8,261	8,576	8,948
Total assets	9,653	9,395	9,527	10,010	10,462
Payables & Accruals	1,577	1,469	1,344	1,420	1,456
Borrowings	0	1,030	953	953	953
Deferred tax liability	52	61	59	62	63
Deferred revenue	203	225	222	239	249
Current liabilities	1,832	2,785	2,579	2,674	2,721
Borrowings	713	0	0	0	0
Convertible notes	1,157	0	0	0	0
Deferred revenue	54	51	51	54	57
Deferred tax liability	284	293	302	312	322
Deposits	115	145	169	192	213
Deferred rental	691	705	776	816	832
Other	358	344	337	329	322
Non-current Liabilities	3,373	1,538	1,634	1,704	1,746
Total liabilities	5,205	4,324	4,213	4,377	4,467
Total equity	4,448	5,071	5,315	5,633	5,995
Minority interest	16	16	16	16	16
Shareholders' equity	4,431	5,055	5,299	5,617	5,979
BV per ADR (RMB)	95.632	106.037	110.650	117.938	125.986

Source: the Company, Guotai Junan International.

Cash Flow Statement

Year end Dec. (RMB m)	2013A	2014F	2015F	2016F	2017F
Income after tax	196	519	249	310	341
Depreciation. and amortization	757	770	811	882	925
Other non cash, net	83	(45)	28	(41)	(32)
Increase (decrease) in WC	156	101	(34)	131	70
Cash from operations	1,192	1,345	1,054	1,282	1,304
PP&E, net	8	32	(924)	(1,024)	(1,124)
Acquisitions	(23)	(85)	0	0	0
Other	(847)	(453)	0	0	0
Cash from investing	(862)	(506)	(924)	(1,024)	(1,124)
New shares proceeds	193	26	39	52	65
Convertible bond	0	(60)	(77)	0	0
Share buybacks	0	0	(26)	(26)	(26)
Dividends to minority interests	(8)	(4)	0	0	0
Net borrowings	(12)	(852)	0	0	0
Other	(3)	(156)	(253)	(172)	(188)
Cash from financing	169	(1,046)	(317)	(146)	(149)
Effect of X-rate	(6)	0	0	0	0
Net increase in cash	494	(207)	(186)	112	31
Cash at 1 Jan.	663	1,157	950	763	876
Cash at 31 Dec.	1,157	950	763	876	907

Source: the Company, Guotai Junan International.

Ratios

	2013A	2014A	2015F	2016F	2017F
Margins:					
L&O hotels hotel income (excluding pre-open expense)	8.1%	7.1%	2.3%	0.9%	(0.4%)
L&O hotels hotel income (including pre-open expense)	6.7%	6.4%	1.1%	(0.3%)	(1.8%)
Hotel income (excluding pre-open expense)	16.0%	16.3%	13.4%	13.5%	13.7%
Hotel income (including pre-open expense)	15.7%	16.7%	13.2%	13.2%	13.3%
Operating	8.3%	9.6%	5.9%	5.9%	6.0%
Net income	3.1%	7.7%	3.7%	4.4%	4.6%
Core net income	5.3%	6.6%	4.2%	4.4%	4.6%
EBITDA	18.3%	23.1%	18.2%	18.9%	19.1%
Core EBITDA	20.6%	22.1%	18.7%	18.9%	19.1%
Return:					
ROE	4.7%	10.8%	4.8%	5.6%	5.9%
ROA	2.1%	5.4%	2.6%	3.2%	3.3%
Leverage & liquidity:					
Net gearing (%)	17.0%	1.7%	3.7%	1.4%	0.8%
Debt/equity (%)	42.1%	20.3%	17.9%	16.9%	15.9%
Current ratio (x)	0.9	0.5	0.5	0.5	0.6

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	1,411	1,543	1,342	1,381	1,451	1,609	1,390
F&M hotels revenue	226	257	310	259	298	311	331	306
Gross Revenue	1,470	1,667	1,853	1,601	1,679	1,762	1,939	1,696
Business tax & surcharges	(88)	(98)	(109)	(94)	(99)	(104)	(114)	(100)
Net revenue	1,382	1,569	1,744	1,506	1,580	1,658	1,825	1,596
Total L&O hotel operating costs	(1,264)	(1,257)	(1,309)	(1,321)	(1,383)	(1,330)	(1,396)	(1,399)
Total operating expenses	(1,404)	(1,431)	(1,514)	(1,465)	(1,552)	(1,526)	(1,612)	(1,555)
% of total revenue	95.5%	85.8%	81.7%	91.5%	92.4%	86.6%	83.1%	91.7%
Other income	12	(10)	1	1	1	1	1	1
Operating Income	(11)	128	230	42	29	133	213	41
Interest expense	(1)	(1)	(1)	(2)	(2)	(2)	(1)	2
Other	(15)	(6)	10	10	10	10	10	10
Tax	(11)	(49)	(64)	(14)	(12)	(45)	(71)	(17)
Net Income	(38)	72	175	37	25	96	151	36
YoY	(150.2%)	(33.4%)	(28.7%)	(56.3%)	(166.7%)	33.6%	(13.7%)	(2.8%)
Core Net Income	(24)	87	175	37	25	96	151	36
YoY	(460.4%)	(39.7%)	(14.4%)	(57.9%)	(205.2%)	11.0%	(13.7%)	(2.8%)
Earnings/ADR, Basic (RMB)	-0.78	1.50	3.67	0.77	0.52	2.02	3.18	0.76
Earnings/ADR, Diluted (RMB)	-0.78	1.50	3.62	0.76	0.52	2.00	3.15	0.75
EBITDA	176	323	441	261	256	362	445	275
YoY	(40.6%)	(15.2%)	(17.7%)	(21.8%)	45.0%	12.3%	0.8%	5.5%
Core EBITDA	190	337	441	261	256	362	445	275
YoY	(16.9%)	(19.0%)	(12.9%)	(22.5%)	34.6%	7.4%	0.8%	5.5%
Income Margins								
Operating margin	(0.7%)	7.7%	12.4%	2.6%	1.7%	7.5%	11.0%	2.4%
Net Income margin	(2.6%)	4.3%	9.4%	2.3%	1.5%	5.5%	7.8%	2.1%
Core Net Income margin	(1.6%)	5.2%	9.4%	2.3%	1.5%	5.5%	7.8%	2.1%
EBITDA margin	12.0%	19.4%	23.8%	16.3%	15.2%	20.6%	22.9%	16.2%
Core EBITDA margin	12.9%	20.2%	23.8%	16.3%	15.2%	20.6%	22.9%	16.2%

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.

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