



Company Report: Home Inns & Hotels (HMIN US)

公司报告：如家酒店 (HMIN US)

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Valuation Still Attractive, Expect High Growth in 3Q13, "Buy".

估值仍有吸引力，预期2013年3季度盈利高速增长，“买入”。

- **Home Inns' 2Q13 adjusted EBITDA increased 18.7% YoY to RMB394 million and was 7.5%/5.7% higher than Bloomberg consensus/our expectations.** The Company achieved another quarter of YoY margin expansion driven by cost controls as well as increased contribution from franchised-and-managed ("F&M") hotels. We expect this to continue in 2H13.
- **Lower revenue growth expected but profit margin will continue rising.** Management lowered guidance for 2013 revenue growth range to 10.1%-12.7% (down from 14.4%-17.9% previously). The lower revenue growth is expected to be mitigated by higher EBITDA margin in 2H13 and 2014 due to 1) further improvement in Motel 168 operating results and 2) increasing contribution from franchised-&-managed hotels.
- **We increase our 2013-2015 core EBITDA forecasts by 6.7%, 4.3% and 4.1%, respectively, to RMB1.363 billion, RMB1.574 billion and RMB1.742 billion, reflecting 19.0% CAGR.**
- **Double digit 3Q13 EBITDA growth and improving sentiment for U.S. listed China stocks could be catalysts for share price appreciation.** We forecast Home Inns 3Q13 core EBITDA YoY growth of 46%.
- **We reiterate our 'Buy' rating and increase our target price to US\$50.00, which is equivalent to 10.2x 2013 EV/Core EBITDA.**
- **如家酒店 2013 年 2 季度调整后 EBITDA 同比增长 18.7%至人民币 3.94 亿元，分别高于市场和我们的预期 7.5%和 5.7%。**公司的盈利率再次实现了同比增长，是因为进行成本控制措施而且加盟管理酒店做出更大的贡献，我们预期此趋势将在 2013 年下半年持续。
- **预期较低收入增长率，但是预期利润率将持续提高。**管理层下调 2013 年收入增长指引范围从 14.4%-17.9%至 10.1%-12.7%。由于 1) 莫泰 168 品牌的酒店经营业绩将继续改善，及 2) 加盟并管理酒店的比重将继续上升，预期 2013 年下半年和 2014 年较高的 EBITDA 率将弥补较低的收入增长。
- **我们分别上调 2013 年至 2015 年核心 EBITDA 6.7%、4.3%和 4.1%。**调整以后我们分别预期 2013 年至 2015 年核心 EBITDA 为人民币 13.63 亿元、人民币 15.74 亿元和人民币 17.42 亿元，相当于 19.0%的复合年增长率。
- **2013 年 3 季度 EBITDA 双位数增长和市场对在美国上市的中概股情绪在改善或成股价的催化剂。**我们预期如家 2013 年 3 季度核心 EBITDA 同比增长 46%。
- **我们重申'买入'评级并上调目标价至 50.00 美元，相当于 10.2 倍 2013 年 EV/核心 EBITDA。**

Rating:

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

US\$50.00

Revised from 原目标价:

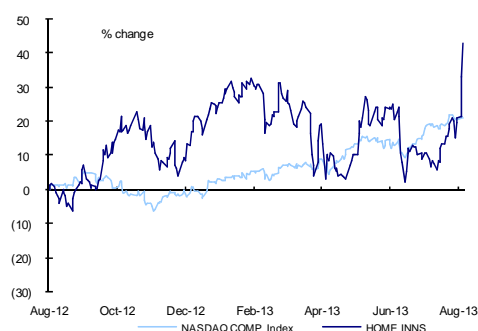
US\$40.00

Share price 股价:

US\$34.300

Stock performance

股价表现



Change in ADR Price ADR 价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	29.2	22.4	42.1
Rel. % to NASDAQ index 相对纳指变动 %	29.7	16.4	20.5
Avg. ADR price(US\$) 平均 ADR 价 (美元)	27.8	28.1	27.7

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)	(%)	(%)
2011A	3,960	352	8.348	(6.1)	25.1	91.789	2.3	0.000	0.0	10.6
2012A	5,770	(27)	(0.580)	(106.9)	n.a.	87.163	2.4	0.000	0.0	(0.7)
2013F	6,454	368	7.938	1468.7	26.4	98.843	2.1	0.000	0.0	8.6
2014F	7,108	511	10.867	36.9	19.3	114.112	1.8	0.000	0.0	10.3
2015F	7,663	591	12.427	14.4	16.9	130.399	1.6	0.000	0.0	10.2

Shares in issue (m) 总股数 (m) 46.5
Market cap. (US\$ m) 市值 (US\$ m) 1,595.1
3 month average vol. 3 个月平均成交股数 ('000) 200.5
52 Weeks high/low (US\$) 52 周高/低 35.810 / 22.140

Major shareholder 大股东 Ctrip 18.0%
Free float (%) 自由流通比率 (%) 62.9
2013 Net gearing (%) 2013 净负债/股东资金 (%) 16.5%
2013 Est. NAV (US\$) 2013 每股估值 (美元) 54.3

Source: the Company, Guotai Junan International.

Home Inns' 2Q13 adjusted EBITDA increased 18.7% YoY to RMB394 million and was 7.5%/5.7% higher than Bloomberg consensus/our expectations.

Total net revenue of RMB1.503 billion increased 10.4% YoY and was within management's previous guidance range.

The overall market environment remained sluggish and management does not see any impetus for recovery on the horizon. Smaller cities are faring worse compared to better established larger markets. Home Inns' business travel volume remained weak, somewhat offset by a modest increase in leisure travelers, which currently account for about 22% to 25% of revenue.

Hotel operating expense ratio was down 1.4 ppt YoY as staff to room ratio was reduced contributing to 23.9% YoY increase in leased-and-operated hotel income (excluding pre-opening costs). Home Inns is continuing productivity programs that it started to implement last year. The main driver of the increased productivity is reduced head count at hotels as the Company increased personnel to hotel coverage ratio and eliminated certain redundant positions. Ratio of staff to 100-rooms was 24-25 in prior years, and by now the Company has gradually brought that down to 21-22 while aiming to maintain service levels at hotels. Going forward, as the minimum wage and labor costs are expected continue to rise, the Company will be looking into IT solutions to replace staff where possible. Home Inns management expects to continue increasing staff efficiency to counter increasing wage pressures over the next year or so.

Operating margin increased by 2.9 ppt YoY to 11.2% and operating income surged 49.6% YoY to RMB180 mn, beating our forecast by 12.2%. The Company achieved another quarter of YoY margin expansion driven by effective cost control and productivity gains as well as increased contribution from franchised-and-managed ("F&M") hotels.

Core earnings per ADR surge of 87.3% YoY is not so meaningful since effective tax rate decreased from 58.6% in 2Q12 to 41.2% in 3Q12. Effective tax rate varies wildly quarter, but management generally expects it to be around 26% going forward. 2Q13 core net income, core EBITDA and core earnings per ADR exclude A) RMB41.9 mn accelerated fee amortization on early extinguishment of term loan, B) RMB0.4 mn gain on convertible note fair value change, C) RMB25.1 mn foreign exchange gain and D) RMB5.7 mn Motel 168 integration expense.

Table-1: Results Summary

(RMB million)	2Q12	3Q12	4Q12	1Q13	2Q13	2Q13 YoY	(% or ppt.) QoQ
Net revenue	1,361	1,501	1,376	1,314	1,503	10.4%	14.3%
L&O hotel op. costs (Ex pre-open costs)	(1,094)	(1,185)	(1,182)	(1,164)	(1,168)	-6.8%	-0.4%
<i>% of gross revenue</i>	<i>84.1%</i>	<i>82.8%</i>	<i>90.6%</i>	<i>94.0%</i>	<i>82.7%</i>	<i>(1.4)</i>	<i>(11.3)</i>
L&O hotels income (excluding pre-open costs)	127	160	43	-3	157	23.9%	4655.6%
Total operating expenses	(1,245)	(1,355)	(1,342)	(1,310)	(1,324)	-6.3%	-1.0%
<i>% of gross revenue</i>	<i>85.8%</i>	<i>84.8%</i>	<i>91.5%</i>	<i>93.4%</i>	<i>82.6%</i>	<i>(3.2)</i>	<i>(10.8)</i>
Operating Income	120	154	36	12	180	49.6%	1390.0%
Net Income	36	34	6	(19)	95	160.2%	588.8%
Core Net Income	62	94	57	(12)	117	88.0%	1060.5%
Adjusted Net Income	108	136	81	10	140	28.8%	1250.4%
Earnings per ADR, diluted (RMB)	0.75	0.73	0.14	(0.42)	1.68	124.0%	502.3%
Core Earnings per ADR, diluted (RMB)	1.24	2.03	1.24	(0.26)	2.33	87.3%	987.7%
Adjusted Earnings per ADR, diluted (RMB)	2.17	2.93	1.74	0.22	2.89	33.3%	1196.9%
EBITDA	285	284	188	187	349	22.4%	86.1%
Core EBITDA	311	344	239	195	371	19.4%	90.5%
Adjusted EBITDA	332	368	260	216	394	18.7%	82.1%
L&O hotels hotel income margin	8.0%	9.7%	1.3%	-2.6%	10.4%	2.4	13.0
Hotel income margin	17.5%	19.1%	12.1%	9.4%	21.0%	3.5	11.6
Operating margin	8.3%	9.6%	2.5%	0.9%	11.2%	2.9	10.4
Net Income margin	2.5%	2.1%	0.4%	-1.4%	5.9%	3.4	7.3
Core net income margin	4.3%	5.9%	3.9%	-0.9%	7.3%	3.0	8.2
EBITDA margin	19.6%	17.7%	12.8%	13.4%	21.8%	2.1	8.4
Core EBITDA margin	21.4%	21.5%	16.3%	13.9%	23.1%	1.7	9.3

Source: The Company, Guotai Junan International.

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 better reflect the Company's true economic performance, in our view. For a detailed list of excluded items, please see Appendix, Table 1.

New target of 400 hotel additions in 2013, up from 360-380 previously. Citing strong demand from existing and potential new franchisees, Home Inns increased its total new hotel openings target for 2013 to 400 (360-380 previously). This includes 65-70 leased-and-operated hotels (down from 80-90 previously) and 330-335 franchised-and-managed hotels (up from 270-300 previously). At the end of 2Q13, Home Inns had 1,953 hotels in operation across 271 cities in China under its three brands. Home Inns added 94 net hotels in 2Q13 and had another 206 in the pipeline as at end of 2Q13.

Table-2: Hotel Portfolio as at June 30, 2013

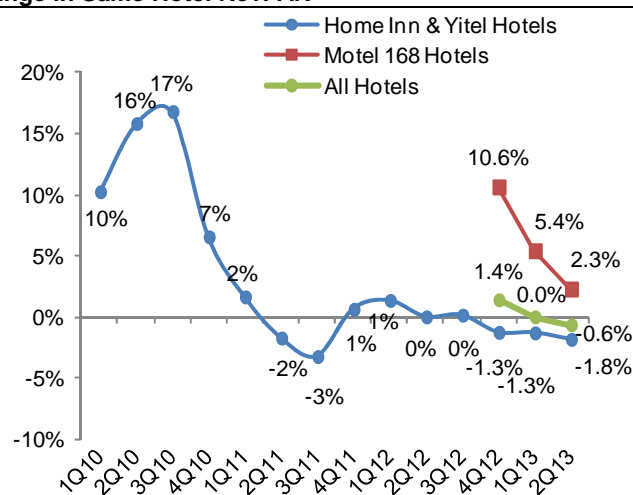
	Hotels in Operation				Quarterly Net Additions	Contracted or Under Construction
	Home Inn	Motel 168	Yitel	Total		
Leased-&-Operated	671	154	9	834	16	60
Franchised-&-Managed	931	187	1	1,119	78	146
Total Hotels	1,602	341	10	1,953	94	206

Source: The Company.

Mature hotel RevPAR for Home Inn & Yitel brand continued downward YoY growth trend for the third consecutive quarter, but started to recover in July. At the end of 2Q13, there were 1,095 mature (in operation at least 18 months) hotels, excluding Motel 168. Their 2Q13 RevPAR was RMB160. The same 1,095 hotels had a RevPAR of RMB163 in 1Q12, representing a YoY decline of 1.8%. While their ADR increased slightly to RMB174 from RMB173, occupancy rate decreased to 92.1% from 94.6%, still at a very high level. For all mature hotels, including Motel 168, YoY same hotel RevPar was down just 0.6%, thanks to the 2.3% RevPAR improvement in the mature Motel 168 branded hotels. Management remains confident that Motel 168 will continue to generate satisfactory YoY improvement in 2H13.

For 3Q13 into early August, mature hotels (excluding Motel 168) have showed a slight improvement of about a little less than 1% increase in same hotel YoY RevPAR increase. While Company management maintains a positive long-term view on China's travel industry, they do believe the market will continue to be challenging and will lack significant improvements in the near term.

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



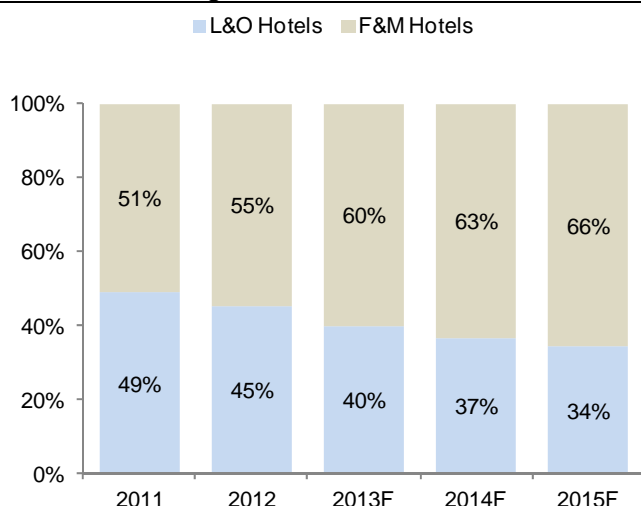
Source: The Company.

We expect higher core EBITDA margin YoY in 2H13 and 2014 due to 1) further YoY improvement in Motel 168 operating results and 2) increasing proportion of Franchised-&Managed ('F&M') hotels.

When Motel 168 was acquired, it was an underperforming business, and the post acquisition integration efforts continue to generate positive operating results. Integration of Motel 168 hotels have been ongoing since its acquisition by the Company on October 1, 2011 and the Company is on track to finish the integration in the second half of this year. The Company's strategy is to increase Motel 168's RevPAR by increasing the occupancy rate, which management is targeting to reach 80%-82% for 2013 (adjusted down from previous expectation of 85% due to continued market weakness). This year, we expect the higher RevPAR and subsequent higher revenue from the Motel 168 hotels to more than offset cost pressures, thereby putting upward pressure on the Company's EBITDA margin. However, starting from 4Q13 or early 2014, as the integration process will have been completed, we think there will be limited opportunity to further improve the then already improved Motel 168 hotels.

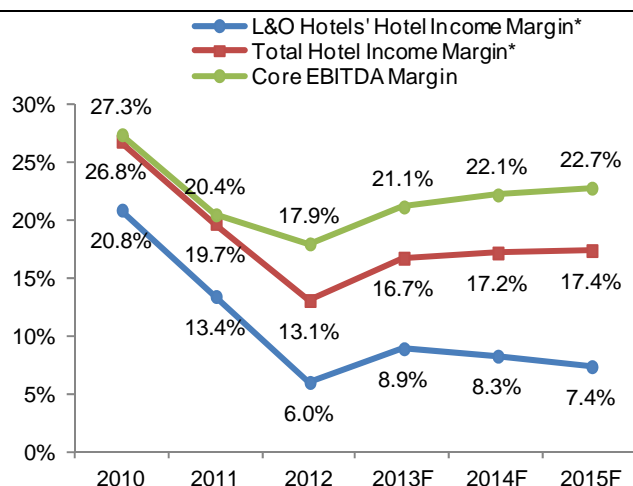
Proportion of Franchised-&Managed hotels will continue to increase. For 2013 about 83% of all hotels added will be F&M hotels, and the Company expects to follow this asset light strategy going forward. We think this will also help lift the Company's EBITDA margin since F&M hotels do not incur any hotel operating costs to the Company.

Figure-2: Proportion of Leased-&Operated Vs. Franchised-&Managed Hotels



Source: The Company, Guotai Junan International.

Figure-3: Hotel Income and Core EBITDA Margins



Source: The Company, Guotai Junan International.

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

Management lowered guidance for 2013 revenue growth range to 10.1%-12.7% (down from 14.4%-17.9% previously).

Company management expects revenue growth to decelerate, yet margin will continue to improve, resulting in bottom line growth surpassing that of revenue growth. For the full year 2013, Home Inns has revised down total revenue expectations to be in the range of RMB6,350 million to RMB 6,500 million, equivalent to growth of 10.1% to 12.7%. For 3Q13, management expects total revenues to be in the range of RMB1,735 million to RMB 1,765, up 8.5%-10.4% YoY.

We increase our 2013-2015 core EBITDA forecasts by 6.7%, 4.3% and 4.1%, respectively. Raise fully diluted core earnings per ADR forecasts by 37.5%, 22.9% and 7.7%, respectively. Our revised forecast calls for 2013-2015 fully diluted core earnings per ADR of RMB8.34, RMB10.66 and RMB12.23, respectively, equivalent to 54.0% CAGR, as we have lowered forecasted effective tax rate to 26%, in line with management's guidance. Our 2013-2015 core EBITDA forecasts are RMB1.363 billion, RMB1.574 billion and RMB1.742 billion, respectively, reflecting 19.0% CAGR.

Table-3: Model Updates

(RMB million)	Old			New			Change (% or ppt)		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Total L&O hotels in operation	893	983	1,073	868	933	998	-2.8%	-5.1%	-7.0%
Total F&M hotels in operation	1,259	1,549	1,839	1,299	1,609	1,909	3.2%	3.9%	3.8%
L&O hotels gross revenue	5,763	6,573	7,310	5,674	6,136	6,500	-1.5%	-6.6%	-11.1%
F&M hotels gross revenue	781	976	1,186	780	972	1,162	-0.1%	-0.4%	-2.0%
Total gross revenue	6,544	7,549	8,496	6,454	7,108	7,663	-1.4%	-5.8%	-9.8%
Business tax & surcharges	-410	-473	-533	-401	-440	-475	-2.3%	-7.0%	-10.9%
L&O hotels net revenue	5,401	6,161	6,851	5,321	5,756	6,098	-1.5%	-6.6%	-11.0%
F&M hotels net revenue	732	915	1111	732	912	1,090	-0.1%	-0.3%	-1.9%
Net revenue	6,133	7,075	7,963	6,053	6,668	7,188	-1.3%	-5.8%	-9.7%
L&O hotel operating costs (excluding pre-open costs)	-4,998	-5,676	-6,309	-4,816	-5,248	-5,619	-3.6%	-7.5%	-10.9%
% of L&O hotel gross revenue	86.7%	86.4%	86.3%	84.9%	85.5%	86.4%	-1.9	-0.8	0.1
L&O hotel income (excluding pre-open costs)	403	484	543	506	508	479	25.3%	4.8%	-11.8%
% of L&O hotels gross revenue	7.0%	7.4%	7.4%	8.9%	8.3%	7.4%	1.9	0.9	-0.1
L&O hotels pre-opening costs	-104	-90	-94	-104	-104	-106	0.0%	15.6%	13.4%
Sales & marketing	-78	-83	-93	-76	-77	-83	-2.5%	-7.4%	-11.3%
% of total gross revenue	1.2%	1.1%	1.1%	1.2%	1.1%	1.1%	-0.0	-0.0	-0.0
General & administrative	-315	-356	-392	-313	-337	-356	-0.9%	-5.4%	-9.4%
% of total gross revenue	5.1%	5.0%	4.9%	5.2%	5.1%	4.9%	0.0	0.0	0.0
F&M hotel personnel costs	-138	-172	-209	-159	-200	-239	15.4%	16.1%	14.3%
Other income	25	23	23	19	19	19	-24.4%	n.a.	n.a.
Operating Income	525	720	888	604	720	804	15.1%	0.0%	-9.4%
Income Tax Expense	-219	-286	-375	-185	-179	-207	-15.4%	-37.4%	-44.7%
effective tax rate	43.4%	39.2%	40.2%	33.5%	26.0%	26.0%	-10.0	-13.2	-14.2
Net Income	282	440	556	368	511	591	30.5%	16.1%	6.4%
(-) Non-Core items*	-7	10	10	-31	0	0	357.0%	-100.0%	-100.0%
Core net income	289	430	545	399	511	591	38.1%	18.8%	8.4%
(-) share based comp expense	-99	-120	-125	-94	-113	-118	-5.5%	-6.1%	-5.8%
(-) other	187	0	0	0	0	0	-100.0%	n.a.	n.a.
Adjusted net income	377	550	670	493	623	709	30.8%	13.4%	5.7%
Earnings per ADR, diluted (RMB)	6.03	8.89	11.57	7.50	10.66	12.23	24.4%	19.9%	5.7%
Core earnings per ADR (RMB), diluted	6.07	8.67	11.35	8.34	10.66	12.23	37.5%	22.9%	7.7%
Adjusted earnings per ADR (RMB), diluted	8.19	11.18	14.26	10.43	13.01	14.99	27.4%	16.4%	5.1%
EBITDA	1,270	1,519	1,683	1,332	1,574	1,742	4.8%	3.6%	3.5%
Core EBITDA	1,277	1,509	1,673	1,363	1,574	1,742	6.7%	4.3%	4.1%

Source: the Company, Guotai Junan International.

Note*: For list of con-core items, please see Appendix.

Sentiment is improving for China stocks listed in the U.S. Bloomberg's China-US equity Index CH55BN (a market capitalization-weighted index of the top 55 Chinese equities trading in the U.S.) is up 11% over the last month, outperforming the NASDAQ Composite Index by 9.2 ppt. Additionally, as we noted in our June HK Market Monthly Outlook and Sector Update, on May 24 the China Securities Regulatory Commission and China's Ministry of Finance jointly agreed to give the U.S. Public Company Accounting Oversight Board (PCAOB) access to documents from Chinese accounting firms. Under the agreement, the PCAOB can share the documents it obtains with the SEC as long as it gives the Chinese advance notice. We think this will give investors more confidence in Chinese U.S. listed companies, whose reputation had been tarnished over the past few years with various accounting fraud scandals and SEC investigations.

We expect 3Q13 core EBITDA YoY growth of 46%, which could be a catalyst for further share price appreciation. We forecast 3Q13 core net income to surge by even more, increasing by 83%, helped by weak comparison base in 2Q12 when effective tax rate was abnormally high at 64.4%. And we are forecasting 3Q13 YoY net income growth of 404%, helped by non-core items in 2Q12 which caused 2Q12 GAAP net income to plunge 79.5% YoY (please see Appendix Table 2: Key Parameters & Forecasts (Quarterly)). We think excellent earnings growth headlines after 3Q13 results are posted will be a catalyst for the Company's share price.

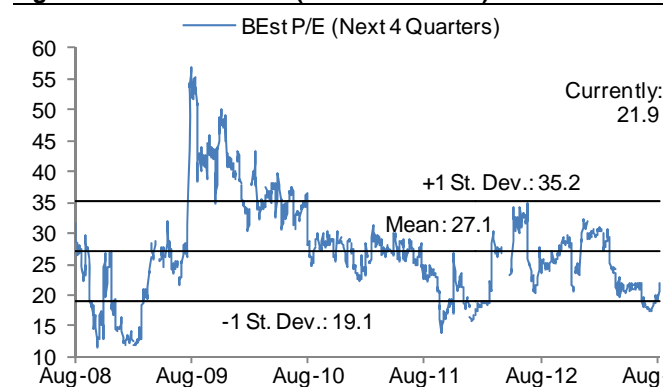
We increase our target price from US\$40.00 to US\$50.00, reiterate "Buy". We base our TP on 10.2x 2013 EV/Core EBITDA, higher than 8.5x we used in our last Company Report (but still lower than international peers now trading at 11.7x 2013 EV/EBITDA) since we think the share price has potential catalysts of improving sentiment on China stocks and our expectation of strong 3Q13 earnings growth. Home Inns' share price has increased already 17.6% since the Company announced its results two days ago. We think Home Inns' valuation continues to be attractive as it is still trading at a discount to international peers. It is also still cheap based on its historical forward PE and EV/EBITDA valuations. We also use DCF analysis to cross-check our target price, which is a 7.9% discount to our DCF derived NAV of US\$54.31. Our Target Price represents 45.8% upside potential.

Table-4: Peers Comparison

Company	Stock Code	CNCY	Share Price	Mkt Cap (USD mn)	D/Y%	ROE %		PE			EV/EBITDA			11 PEG Bbg
					12A	12A	13F	12A	13F	14F	12A	13F	14F	
US Listed Economy Chain Hotels in China														
Home Inns & -Adr	HMIN US	USD	34.300	1,555	0.0	10.2	3.3	49.0	27.1	19.8	10.3	8.2	6.8	2.7
China Lodgin-Ads	HTHT US	USD	19.990	1,217	0.0	5.6	7.9	37.4	31.5	23.0	12.9	9.8	7.7	0.9
Simple Average				1,386	0.0	7.9	5.6	43.2	29.3	21.4	11.6	9.0	7.2	1.8
Weighted Average					0.0	8.2	5.3	43.9	29.0	21.2	11.5	8.9	7.2	1.9
Hong Kong Listed														
Hongkong Shangha	45 HK	HKD	12.180	2,359	1.0	1.9	1.2	44.6	35.8	29.7	17.5	14.9	13.0	0.9
Shangri-La Asia	69 HK	HKD	12.140	4,903	1.7	4.6	2.7	36.4	30.1	24.1	15.5	14.9	13.3	3.8
Shanghai Jin J-H	2006 HK	HKD	1.330	954	1.3	6.2	2.4	26.2	26.2	23.3	6.4	5.9	5.6	n.a.
Dorsett Hospital	2066 HK	HKD	1.820	469	4.0	6.7	11.0	16.9	14.4	13.2	11.7	10.8	9.7	n.a.
Magnif Estates	201 HK	HKD	0.370	427	0.5	5.7	6.8	12.3	9.3	9.3	13.2	n.a.	n.a.	n.a.
Simple Average				1,823	1.7	5.0	4.8	27.3	23.2	19.9	12.8	11.6	10.4	2.3
Weighted Average					1.6	4.2	2.9	35.3	29.4	24.2	14.7	13.7	12.2	2.8
International														
Intercontin-Adr	IHG US	USD	30.830	8,139	n.a.	93.4	95.7	19.9	19.6	18.6	n.a.	n.a.	n.a.	n.a.
Hyatt Hotels-A	H US	USD	45.580	7,359	0.0	1.8	1.9	n.a.	n.a.	n.a.	12.8	11.7	10.7	n.a.
Accor Sa	AC FP	EUR	29.890	9,021	2.3	7.6	5.2	22.1	21.6	18.4	8.7	8.9	8.6	n.a.
Millennium & Cop	MLC LN	GBp	549.50	2,769	2.5	5.2	5.9	15.3	18.0	16.8	9.8	10.8	10.1	n.a.
Sunstone Hotel	SHO US	USD	12.790	2,083	0.3	4.3	4.2	n.a.	38.8	38.8	14.3	14.3	12.8	n.a.
Wyndham Worldwid	WYN US	USD	60.330	8,021	1.5	15.6	20.0	18.9	16.0	14.3	11.8	10.8	10.1	n.a.
Marriott Intl-A	MAR US	USD	41.080	12,455	1.2	36.7	-60.2	24.1	20.6	17.5	13.5	12.9	11.5	n.a.
Starwood Hotels	HOT US	USD	66.350	12,934	1.9	15.4	17.3	25.9	23.2	22.4	11.7	11.2	11.2	n.a.
Host Hotels & Re	HOT US	USD	17.390	13,043	1.6	3.1	1.7	n.a.	47.1	34.5	15.2	13.5	12.4	n.a.
Simple Average				8,425	1.4	20.3	10.2	21.0	25.6	22.7	12.2	11.8	10.9	n.a.
Weighted Average					1.5	22.3	6.9	22.3	26.1	22.2	12.5	11.7	11.0	n.a.

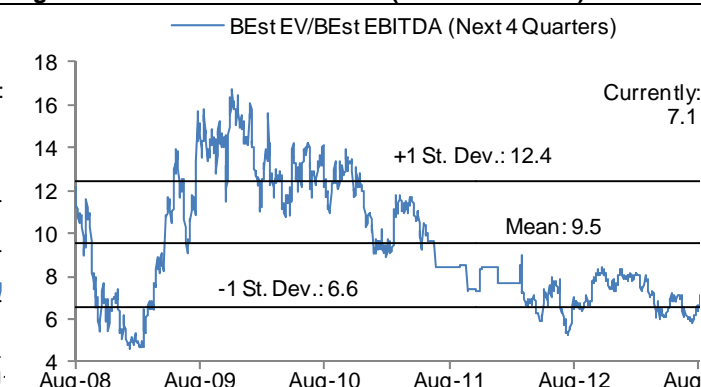
Source: Bloomberg.

Figure-4: Home Inns P/E (Next 4 Quarters)



Source: Bloomberg, Guotai Junan International.

Figure-5: Home Inns EV/ EBITDA (Next 4 Quarters)



Source: Bloomberg, Guotai Junan International.

Table-5: Valuation and Target Price Based Multiples

	FY12A	FY13F	FY14F	FY15F
Target Price Based EV / EBITDA				
Target Price (US\$/ADR)	50.00			
ADR Outstanding, Year End, Fully Diluted (mn)	46.2	46.5	48.0	48.5
Market Capitalization (US\$ mn)	2,311	2,323	2,402	2,424
+ Yr End minority interest (US\$ mn)	2	2	2	2
+ Yr End Borrowings, not including CB's (US\$ mn)	120	118	120	121
- Yr End cash & equivalents (US\$ mn)	106	172	231	301
Year End Enterprise Value (US\$ mn)	2,327	2,270	2,294	2,246
Core EBITDA (US\$ mn)	165.7	221.6	262.3	292.8
TP Based EV/Core EBITDA	14.0	10.2	8.7	7.7
Target Price Based PER & PEG				
Target Price (US\$/ADR)	50.00			
Target Price (RMB/ADR)	306.00			
Core Earnings per ADR (RMB), Diluted	3.35	8.34	10.66	12.23
Target Price Based PER	91.4	36.7	28.7	25.0

Source: The Company, Guotai Junan International.

Table-6: DCF Based Valuation

DCF Assumptions		Calculation	
Perpetual growth rate	3.0%	PV FCFF (RMB mn)	8,993
		PV Terminal Value (RMB mn)	6,315
Risk free rate	1.49%	EV (RMB mn)	15,308
Adjusted Beta	1.30	- Debt, not including CB's (RMB mn)	116
Market risk premium	10.6%	- Minority Interest (RMB mn)	12
Cost of Equity	15.21%	+ Cash & Equivalents (RMB mn)	1,060
		Total NAV ((RMB mn)	16,240
Borrowing interest rate	4.0%		
Effective tax rate	26.0%	ADR Outstanding (fully diluted, as at 2011 year end, mn)	47.9
Cost of Debt	3.0%	NAV per share (RMB)	339.12
		US\$:RMB	6.24
Historical Average E/ (D+E)	72%	NAV per ADR (US\$)	54.31
Historical Average D/ (D+E)	28%		
WACC	11.80%		

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios
Income Statement

Year end Dec. (RMB m)	2011A	2012A	2013F	2014F	2015F
Leased-and-operated hotels	3,560	5,165	5,674	6,136	6,500
Franchised-and-managed hotels	400	605	780	972	1,162
Total Gross Revenue	3,960	5,770	6,454	7,108	7,663
Business tax	(249)	(353)	(401)	(440)	(475)
Net revenue	3,710	5,416	6,053	6,668	7,188
L&O hotel operating costs	(2,961)	(4,642)	(4,920)	(5,352)	(5,725)
F&M hotel personnel costs	(72)	(125)	(159)	(200)	(239)
Hotel income	678	649	974	1,115	1,224
Sales & marketing	(44)	(77)	(76)	(77)	(83)
G&A	(336)	(315)	(313)	(337)	(356)
Other income	0	17	19	19	19
Operating Income	297	274	604	720	804
Interest expense	(15)	(108)	(63)	(69)	(44)
Non-operating income & gains	245	(53)	13	37	37
Income before tax	527	114	554	689	798
Income tax	(169)	(136)	(185)	(179)	(207)
Minority interests	(6)	(4)	(0)	1	1
Net Income attributable to shareholders	352	(27)	368	511	591
Loss on change in fair value of interest rate swaps	(7)	0	0	0	0
Gain (loss) on change in fair value of convertible	199	(87)	(5)	0	0
Gain on buyback of convertible bonds	2	0	0	0	0
Early extinguishment of Term Loan	0	0	(42)	0	0
FX gain/(loss), net	16	0	28	0	0
One time credit to S&M	14	0	0	0	0
MOTEL 168 acquisition & integration expenses	(83)	(97)	(11)	0	0
Core Net Income	212	157	399	511	591
EBITDA	949	851	1,332	1,574	1,742
Core EBITDA	809	1,035	1,363	1,574	1,742
Earnings per ADR					
-Basic (RMB)	8.348	(0.580)	7.938	10.867	12.427
-Diluted (RMB)	2.511	(0.580)	7.505	10.657	12.227
Core earnings per ADR					
-Basic (RMB)	5.040	3.535	8.581	10.867	12.427
-Diluted (RMB)	4.502	3.348	8.339	10.657	12.227

Growth

Year end Dec.	2011A	2012A	2013F	2014F	2015F
Net Revenue	24.7%	46.0%	11.8%	10.2%	7.8%
L&O hotels hotel income	-33.0%	-44.9%	94.5%	0.5%	-7.6%
Hotel income	-15.4%	-4.2%	50.0%	14.5%	9.7%
Operating income	-43.9%	-8.0%	120.7%	19.2%	11.7%
Income before tax	4.0%	-78.4%	387.6%	24.3%	15.8%
Net income attributable to shareholders	-2.2%	-107.6%	1476.2%	38.5%	15.8%
Core net income	-48.6%	-26.0%	154.3%	27.9%	15.8%
EBITDA	16.8%	-10.3%	56.5%	18.2%	10.7%
Core EBITDA	-6.5%	27.9%	31.7%	15.5%	10.7%
Earnings per ADR, basic	-6.1%	-106.9%	1468.7%	36.9%	14.4%
Earnings per ADR, diluted	-70.3%	-123.1%	1393.9%	42.0%	14.7%
Core earnings per ADR, basic	-50.7%	-29.9%	142.7%	26.6%	14.4%
Core earnings per ADR, diluted	-53.8%	-25.6%	149.1%	27.8%	14.7%

Balance Sheet

Year end Dec. (RMB m)	2011A	2012A	2013F	2014F	2015F
Cash and equivalent	1,786	663	1,060	1,387	1,791
Restricted Cash	206	206	206	206	206
Inventories	43	42	43	48	51
Receivables	236	278	310	342	369
Deferred tax assets	75	80	56	80	122
Current assets	2,347	1,268	1,676	2,063	2,538
Affiliate investments	8	7	7	7	7
P&E	3,453	3,847	4,308	4,868	5,341
Goodwill & intangibles	3,372	3,404	3,388	3,388	3,388
Other	170	117	131	145	156
Deferred tax assets	200	311	218	211	244
Non-current assets	7,203	7,686	8,053	8,618	9,136
Total assets	9,550	8,954	9,728	10,681	11,675
Payables & Accruals	1,389	1,498	1,608	1,730	1,841
Borrowings	460	13	0	0	0
Deferred tax liability	38	29	32	35	37
Deferred revenue	203	203	227	250	269
Current liabilities	2,089	1,743	1,867	2,015	2,147
Borrowings	1,166	735	723	723	723
Convertible notes	979	1,067	1,043	1,043	1,043
Deferred revenue	79	45	50	56	60
Deferred tax liability	295	288	288	288	288
Deposits	63	91	123	128	133
Deferred rental	594	632	694	750	795
Other	405	383	350	317	284
Non-current Liabilities	3,581	3,241	3,272	3,305	3,326
Total liabilities	5,670	4,984	5,139	5,320	5,473
Total equity	3,880	3,970	4,589	5,361	6,201
Minority interest	15	12	12	12	12
Shareholders' equity	3,865	3,957	4,577	5,348	6,189
BV per ADR (RMB)	91.789	87.163	98.843	114.112	130.399

Cash Flow Statement

Year end Dec. (RMB m)	2011A	2012F	2013F	2014F	2015F
Income after tax	358	(23)	369	510	590
Depr. and amort	418	677	715	816	899
Other non cash, net	(135)	58	188	97	42
Increase (dec.) in WC	85	36	184	160	142
Cash from operations	726	748	1,455	1,582	1,673
PP&E, net	(735)	(929)	(1,089)	(1,289)	(1,289)
Acquisitions	(1,732)	(69)	(69)	(69)	(69)
Other	(202)	(4)	(4)	(4)	(4)
Cash from investing	(2,669)	(1,002)	(1,162)	(1,362)	(1,362)
New shares proceeds	28	27	129	106	91
Convertible bond	(51)	(112)	0	0	0
Net borrowings	1,434	(761)	(25)	0	0
Other	(7)	(18)	(0)	1	1
Cash from financing	1,403	(864)	104	107	92
Effect of X-rate	(56)	(5)	0	0	0
Net increase in cash	(597)	(1,123)	397	327	403
Cash at 1 Jan.	2,383	1,786	663	1,060	1,387
Cash at 31 Dec.	1,786	663	1,060	1,387	1,791

Ratios

Year end Dec. (RMB m)	2011A	2012A	2013F	2014F	2015F
<i>Margins:</i>					
L&O hotels hotel income (excluding pre-open expense)	13.4%	6.0%	8.9%	8.3%	7.4%
L&O hotels hotel income (including pre-open expense)	10.5%	4.0%	7.1%	6.6%	5.7%
Hotel income (excluding pre-open expense)	19.7%	13.1%	16.7%	17.2%	17.4%
Hotel income (including pre-open expense)	18.3%	12.0%	16.1%	16.7%	17.0%
Operating	7.5%	4.7%	9.4%	10.1%	10.5%
Net income	8.9%	-0.5%	5.7%	7.2%	7.7%
Core net income	5.4%	2.7%	6.2%	7.2%	7.7%
EBITDA	24.0%	14.7%	20.6%	22.1%	22.7%
Core EBITDA	20.4%	17.9%	21.1%	22.1%	22.7%
<i>Return:</i>					
ROE	10.6%	-0.7%	8.6%	10.3%	10.2%
ROA	4.7%	-0.3%	3.9%	5.0%	5.3%
<i>Leverage & liquidity:</i>					
Net gearing (%)	24.7%	29.3%	16.5%	7.6%	-0.4%
Debt/equity (%)	67.1%	45.7%	38.5%	32.9%	28.5%
Current ratio (x)	1.1	0.7	0.9	1.0	1.2

Source: The Company, Guotai Junan International.

Appendix

Appendix Table 1: Results Details

(RMB million)	2Q12	3Q12	4Q12	1Q13	2Q13	2Q13 (% or ppt.)	
						YoY	QoQ
L&O hotels revenue	1,300	1,432	1,305	1,238	1,413	8.6%	14.1%
F&M hotels revenue	150	167	161	164	189	26.4%	15.3%
Gross revenue	1,450	1,598	1,466	1,402	1,602	10.5%	14.2%
Business tax & surcharges	-89	-97	-90	-88	-99	11.1%	12.8%
Net revenue	1,361	1,501	1,376	1,314	1,503	10.4%	14.3%
L&O hotel operating costs (excluding pre-open costs)	-1,094	-1,185	-1,182	-1,164	-1,168	6.8%	0.4%
% of L&O hotels gross revenue	84.1%	82.8%	90.6%	94.0%	82.7%	-1.4 ppt	-11.3
L&O hotels income (excluding pre-open costs)	127	160	43	-3	157	23.9%	-4655.6%
% of L&O hotels gross revenue	9.7%	11.2%	3.3%	-0.3%	11.1%	1.4 ppt	11.4 ppt
L&O hotels pre-opening costs	-29	-29	-27	-27	-19	-33.7%	-29.8%
Sales & Marketing	-16	-18	-25	-21	-17	11.3%	-19.0%
% of total gross revenue	1.1%	1.1%	1.7%	1.5%	1.1%	0.0 ppt	-0.4 ppt
General & Administrative	-74	-78	-83	-69	-77	3.6%	11.6%
% of total gross revenue	5.1%	4.9%	5.7%	4.9%	4.8%	-0.3 ppt	-0.1 ppt
F&M hotels personnel costs	-33	-45	-25	-29	-42	29.1%	46.1%
Total operating expenses	-1,245	-1,355	-1,342	-1,310	-1,324	6.3%	1.0%
% of total gross revenue	85.8%	84.8%	91.5%	93.4%	82.6%	-3.2 ppt	-10.8 ppt
Other income	5	8	2	8	1	-73.0%	-84.6%
Operating Income	120	154	36	12	180	49.6%	1390.0%
Non-operating income and gains, net	-28	-57	-28	-14	-19	-30.6%	35.5%
Income tax expense	-54	-62	-1	-16	-66	22.0%	303.9%
Non controlling interests	-2	-1	-1	-1	0	-112.4%	-130.3%
Net Income	36	34	6	-19	95	160.2%	588.8%
Early extinguishment of Term Loan	0	0	0	0	-42		
(Loss) on change in fair value of interest swap	0	0	0	0	0		
Gain (loss) on CB fair value change	10	-27	-45	-6	0		
(Loss) on issuance of CB	0	0	0	0	0		
Foreign exchange gain (loss), net	-10	-7	15	3	25		
One-time credit to S&M	0	0	0	0	0		
Motel 168 acquisition costs (in G&A)	0	0	0	0	0		
Motel 168 integration costs (in G&A & hotel costs)	-25	-27	-20	-4	-6		
Non-Core items	-26	-60	-51	-7	-22	14.1%	-205.7%
Core net Income	62	94	57	-12	117	88.0%	1060.5%
Share based compensation expense	25	24	22	23	22	-9.5%	2.0%
Other	22	18	1	0	0	-97.8%	-143.7%
Adjusted Net income	108	136	81	10	140	28.8%	1250.4%
Earnings per ADR, basic (RMB)	0.80	0.74	0.14	-0.42	2.06	156.7%	593.3%
Earnings per ADR, diluted (RMB)	0.75	0.73	0.14	-0.42	1.68	124.0%	502.3%
Core earnings per ADR, diluted (RMB)	1.24	2.03	1.24	-0.26	2.33	87.3%	987.7%
Adjusted earnings per ADR, diluted (RMB)	2.17	2.93	1.74	0.22	2.89	33.3%	1196.9%
EBITDA	285	284	188	187	349	22.4%	86.1%
Core EBITDA	311	344	239	195	371	19.4%	90.5%
Operating margin	8.3%	9.6%	2.5%	0.9%	11.2%	2.9 ppt	10.4 ppt
Net Income margin	2.5%	2.1%	0.4%	-1.4%	5.9%	3.4 ppt	7.3 ppt
Core net Income margin	4.3%	5.9%	3.9%	-0.9%	7.3%	3.0 ppt	8.2 ppt
EBITDA margin	19.6%	17.7%	12.8%	13.4%	21.8%	2.1 ppt	8.4 ppt
Core EBITDA margin	21.4%	21.5%	16.3%	13.9%	23.1%	1.7 ppt	9.3 ppt

Source: The Company, Guotai Junan International.

Appendix Table 2: Key Parameters & Forecasts (Quarterly)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
L&O hotels revenue	1,128	1,300	1,432	1,305	1,238	1,413	1,557	1,466
F&M hotels revenue	128	150	167	161	164	189	211	216
Gross Revenue	1,256	1,450	1,598	1,466	1,402	1,602	1,768	1,682
Business tax & surcharges	-77	-89	-97	-90	-88	-99	-110	-104
Net revenue	1,179	1,361	1,501	1,376	1,314	1,503	1,658	1,578
Total L&O hotel operating costs	(1,097)	(1,122)	(1,214)	(1,209)	(1,191)	(1,187)	(1,280)	(1,261)
Total operating expenses	(1,218)	(1,245)	(1,355)	(1,342)	(1,310)	(1,324)	(1,426)	(1,408)
% of total revenue	97.0%	85.8%	84.8%	91.5%	93.4%	82.6%	80.7%	83.7%
Other income	2	5	8	2	8	1	5	5
Operating Income	(37)	120	154	36	12	180	237	175
Interest expense	(24)	(41)	(27)	(17)	(15)	(12)	(18)	(18)
Other	(23)	11	(31)	(12)	0	(7)	10	10
Tax	(19)	(54)	(62)	(1)	(16)	(66)	(60)	(43)
Net Income	(103)	36	34	6	(19)	95	170	123
YoY	-417.3%	-70.2%	-79.5%	-80.8%	-81.2%	160.2%	403.5%	1865.3%
(-) Non-Core items:								
Loss on swap	(4)	0	0	0	0	0	0	0
Gain on CB fair value change	(25)	10	(27)	(45)	(6)	0	0	0
Amortization on early extinguishment of Term Loan	0	0	0	0	0	(42)	0	0
(Loss) on issuance of CB	0	0	0	0	0	0	0	0
For-X gain (loss), net	2	(10)	(7)	15	3	25	0	0
One time credit to S&M	0	0	0	0	0	0	0	0
Motel168 acquisition cost (in G&A)	0	0	0	0	0	0	0	0
Motel 168 integration expense	(25)	(25)	(27)	(20)	(4)	(6)	(2)	0
Core Net Income	(52)	62	94	57	(12)	117	171	123
YoY	n.a.	-27.1%	10.1%	405.2%	-76.8%	n.a.	82.5%	115.9%
Earnings/ADR, Basic (RMB)	(2.28)	0.80	0.74	0.14	(0.42)	2.06	3.65	2.65
Earnings/ADR, Diluted (RMB)	(2.28)	0.75	0.73	0.14	(0.42)	1.68	3.65	2.59
EBITDA	93	285	284	188	187	349	425	371
YoY	-32.3%	13.7%	-14.6%	-17.9%	101.3%	22.4%	49.9%	96.9%
Core EBITDA	144	311	344	239	195	371	427	371
YoY	6.1%	45.4%	36.0%	15.0%	35.4%	19.4%	24.1%	55.0%
Income Margins								
Operating margin	-2.9%	8.3%	9.6%	2.5%	0.9%	11.2%	13.4%	10.4%
Net Income margin	-8.2%	2.5%	2.1%	0.4%	-1.4%	5.9%	9.6%	7.3%
Core net Income margin	-4.2%	4.3%	5.9%	3.9%	-0.9%	7.3%	9.7%	7.3%
EBITDA margin	7.4%	19.6%	17.7%	12.8%	13.4%	21.8%	24.0%	22.0%
Core EBITDA margin	11.4%	21.4%	21.5%	16.3%	13.9%	23.1%	24.1%	22.0%

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance >15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance >5%; or the fundamental outlook of the sector is favorable.
Neutral	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	Relative Performance <-5%; or the fundamental outlook of the sector is unfavorable.

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 Shandong Chenming Paper Holdings Limited-H shares (01812) and China City Railway Transportation Technology Holdings Company Limited (08240), 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.
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