



Company Report: Home Inns & Hotels (HMIN US)

公司报告：如家酒店 (HMIN US)

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Forecast Increasing EBITDA Margin in 2013 & 2014.

预期在2013年和2014年EBITDA率将提升。

- Home Inns' 1Q13 adjusted EBITDA came in at RMB216 million, 35% higher than Bloomberg consensus and 9% above our last forecast. Adjusted earnings per ADR was RMB0.23 compared with consensus expectation of RMB0.40. Revenue for the quarter of RMB1,402 million was at the mid-point of the Company's guidance range. L&O hotel operating expense to revenue ratio declined YoY for the first time since 4Q12 as the Company was able to better control costs.
- We expect higher EBITDA margin in 2013 and 2014 due to 1) further improvement in Motel 168 operating results and 2) increasing proportion of Franchised-&-Managed hotels. We adjust 2013-2015 forecasted fully diluted core earnings per ADR by +8.0%, +5.1% and -1.6%, respectively. Our revised forecast calls for 2013-2015 fully diluted core earnings per ADR of RMB6.07, RMB8.67 and RMB11.35, respectively, equivalent to 48.3% CAGR.
- We reiterate our 'Buy' rating and increase our target price to US\$40.00, which is equivalent to 8.5x 2013 EV/EBITDA. We think Home Inns' valuation is attractive as it continues to trade at a discount to international peers, which are currently trading at 12.1x 2013 EV/EBITDA.
- 如家酒店 2013 年 1 季度的经调整 EBITDA 为人民币 216 百万元，分别高于市场预期和我们此前的预期 35% 和 9%。每份 ADR 经调整净利为人民币 0.23 元，高于市场预期范围的人民币 -0.40 元预期。1 季度的收入为人民币 14.02 亿元，在管理层指引范围的中间。由于公司能更好地控制费用，2013 年 1 季度自营酒店经营费用对收入比率首次从 2012 年 4 季度以来同比下降。
- 我们预期 2013 年和 2014 年 EBITDA 率将提升，是因为：1) 莫泰 168 品牌的酒店经营业绩将继续改善，而 2) 加盟及管理酒店的比重将继续上升。我们分别调整 2013 年至 2015 年全面摊薄的每 ADR 核心净利+8.0%、+5.1%和-1.6%。调整以后我们分别预期 2013 年至 2015 年全面稀释的每 ADR 核心净利为人民币 6.07 元、人民币 8.67 元和人民币 11.35 元，相当于 48.3%的复合年增长率。
- 我们重申'买入'评级并上调目标价至 40.00 美元，相当于 8.5 倍 2013 年 EV/EBITDA。我们认为如家的估值有吸引力，因为相对国际同业目前的 12.1 倍 2013 年 EV/EBITDA 估值仍然有折让。

Rating:

Maintained

评级:

买入 (维持)

6-18m TP 目标价:

US\$40.00

Revised from 原目标价:

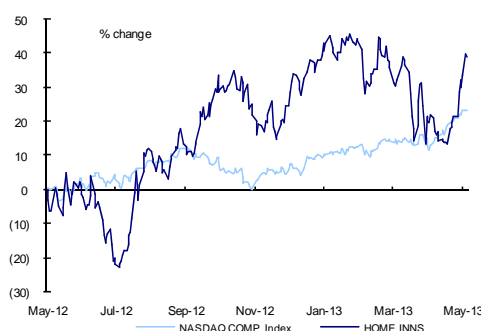
US\$37.20

Share price 股价:

US\$30.330

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 %	15.1	5.6	39.1
Rel. % to NASDAQ index 相对纳指变动 %	6.8	(5.2)	15.7
Avg. ADR price(US\$) 平均 ADR 价 (美元)	26.6	27.9	25.9

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	Earnings / ADR 每份 ADR 净利 (RMB)	Earnings / ADR 每份 ADR 净利变动 (△%)	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 (%)
2011A	3,960	352	8.348	(6.1)	22.3	91.789	2.0	0.000	0.0	10.6
2012A	5,770	(27)	(0.580)	-106.9	n.a.	87.163	2.1	0.000	0.0	-0.7
2013F	6,544	282	6.062	1145.3	30.7	82.509	2.3	0.000	0.0	7.3
2014F	7,549	440	9.064	49.5	20.5	95.372	1.9	0.000	0.0	10.6
2015F	8,496	556	11.755	29.7	15.8	110.272	1.7	0.000	0.0	11.5

Shares in issue (m) 总股数 (m)

46.4

Major shareholder 大股东

Ctrip 18.0%

Market cap. (US\$ m) 市值 (US\$ m)

1,408.7

Free float (%) 自由流通比率 (%)

62.9

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

280.2

2013 Net gearing (%) 2013 净负债/股东资金 (%)

16.1%

52 Weeks high/low (US\$) 52 周高/低

32.000 / 16.320

2013 Est. NAV (US\$) 2013 每股估值 (美元)

50.6

Source: the Company, Guotai Junan International.

Home Inns' 1Q13 adjusted EBITDA came in at RMB216 million, 35% higher than Bloomberg consensus and 9.4% above our last forecast. Adjusted earnings per ADR was RMB0.23 compared with consensus expectation of RMB-0.40. Revenue for the quarter of RMB1,402 million was at the mid-point of the Company's guidance range. Operating income turned from -2.9% a year ago to 0.9% in 1Q13 as Franchised-and-Managed ("F&M") hotels made a larger contribution.

L&O hotel operating expense to revenue ratio declined YoY for the first time since 4Q12. The Company's L&O hotel operating costs (excluding pre-opening costs) to revenue ratio decreased by 1.5 ppt YoY in 1Q13 to 94.0%. This was the first YoY decline since 4Q12 as the Company was able to better control costs. One of the largest causes for the previous increasing cost ratio has been the rising wages of personnel costs. However, in 1Q13, personnel costs equaled 22.2% of L&O hotel revenue, down slightly from 22.6% in 1Q12. Part of the cost savings comes from the Company assigning more responsibilities to each staff, thereby increasing efficiency. However, going forward, the Company will have to be careful not to sacrifice quality in the attempt to maintain margin.

Table-1: Results Summary

(RMB million)	1Q12	4Q12	1Q13	4Q12 (% or ppt.)	
				YoY	QoQ
Net revenue	1,179	1,376	1,314	11.5%	-4.5%
L&O hotel operating costs (excluding pre-open costs)	(1,077)	(1,182)	(1,164)	-8.0%	1.5%
% of gross revenue	95.5%	90.6%	94.0%	-1.5	3.4
L&O hotels income (excluding pre-open costs)	-19	43	-3	81.6%	-108.1%
Total operating expenses	(1,218)	(1,342)	(1,310)	-7.6%	2.3%
% of gross revenue	97.0%	91.5%	93.4%	-3.5	1.9
Operating Income	-37	36	12	132.7%	-66.7%
Net Income	-103	6	-19	81.2%	-408.7%
Core Net Income	-52	57	-12	76.8%	-121.3%
Adjusted Net Income	-25	81	10	142.1%	-87.2%
Earnings per ADR, diluted (RMB)	-2.28	0.14	-0.42	81.5%	-410.9%
Core Earnings per ADR, diluted (RMB)	-1.16	1.24	-0.27	77.1%	-121.4%
Adjusted Earnings per ADR, diluted (RMB)	-0.54	1.74	0.23	141.6%	-87.0%
EBITDA	93	188	187	101.3%	-0.4%
Core EBITDA	144	239	195	35.4%	-18.6%
Adjusted EBITDA	166	260	216	30.3%	-17.0%
Operating margin	-2.9%	2.5%	0.9%	3.8	-1.6
Net Income margin	-8.2%	0.4%	-1.4%	6.8	-1.8
Core net Income margin	-4.2%	3.9%	-0.9%	3.3	-4.8
EBITDA margin	7.4%	12.8%	13.4%	5.9	0.5
Core EBITDA margin	11.4%	16.3%	13.9%	2.4	-2.4

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 are a better reflection than "adjusted" figures of the Company's true economic performance, in our view. For a detailed list of excluded items, please see Appendix, Table 1.

Note: The Company had provided separate financial operating results data for Motel 168 from 4Q11 till the end of 2012, but has stopped providing such data as at 1Q13. The Company will provide limited hotel operating metrics and revenue information for Motel 168 from starting from 1Q13 and for the remainder of the integration period in 2013.

At the end of 1Q13, the Company had 1,859 hotels in operation across 266 cities in China under its three brands. With 87 hotels added in 1Q13 and another 216 in the pipeline, Home Inns is on track to meet its target of opening 360 to 380 hotels this year, including 80 to 90 L&O hotels and 270 to 300 F&M hotels (2013 hotel opening target remains unchanged since last quarter's guidance).

Table-2: Hotel Portfolio as at March 31, 2013

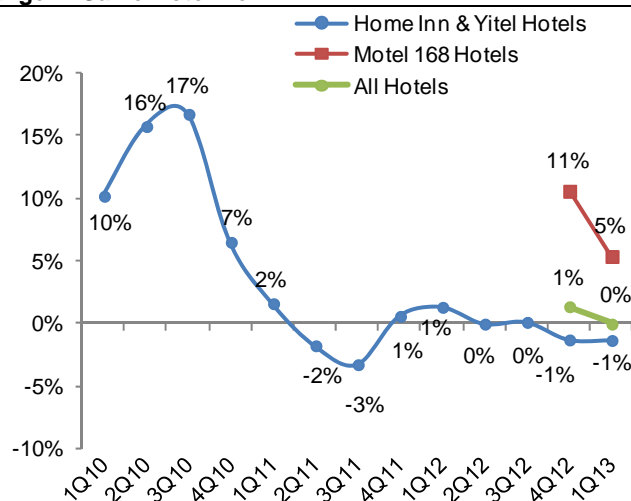
	Hotels in Operation				Quarterly Net Additions	Contracted or Under Construction
	Home Inn	Motel 168	Yitel	Total		
Leased-&-Operated	662	150	6	818	15	64
Franchised-&-Managed	855	185	1	1,041	72	152
Total Hotels	1,517	335	7	1,859	87	216

Source: The Company.

Home Inn & Yitel brand hotels' 1Q13 mature hotel RevPAR showed negative YoY growth for the second consecutive quarter. By 1Q13, there were 989 mature (in operation at least 18 months) hotels, excluding Motel 168. Their 1Q13 RevPAR was RMB145. The same 989 hotels had a RevPAR of RMB147 in 1Q12, representing a YoY decline of 1.3% as the Company's hotels experienced continued market softness. However, for all mature hotels, YoY change in same hotel RevPar was flat, thanks to the 5% RevPAR improvement in the mature Motel 168 branded hotels.

According to management, there has not been any clear sign of market condition improvement in the near-term. Even for April, which typically is a month when business starts to pick up after the slow season, the market was still very sluggish. Also, the avian flu has had some negative impact, although has been limited to around the Shanghai area. So far, the year-over-year performance has been flattish or down, and looking into May, management sees the trend remaining to be challenging.

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



Source: The Company.

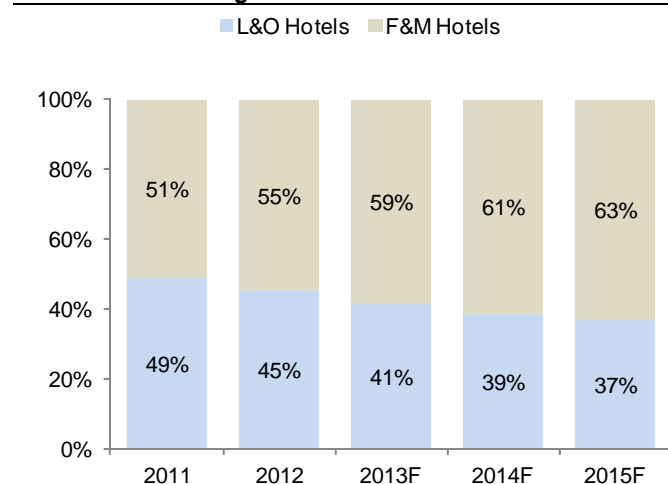
Note: Data for non-Shanghai hotels only available for 2Q11, 3Q11 & 4Q11.

We expect higher EBITDA margin in 2013 and 2014 due to 1) further 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. Motel 168 RevPAR increased by 4.5% YoY in 1Q13, primarily as a result of higher occupancy rates, which significantly increased to 76.7% from 70.4% YoY. 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 85% for 2013. 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 already improved Motel 168 hotels.

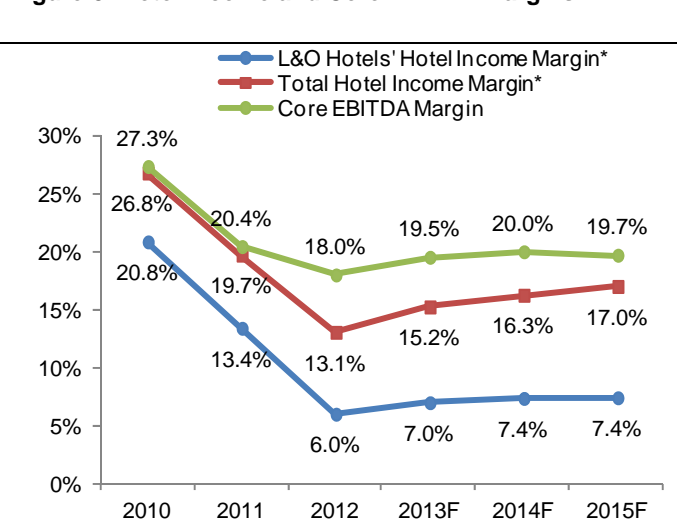
Proportion of Franchised-&Managed hotels to continue to increase and the Company has now shifted its focus to second and first tier cities. For 2013 and at least for the next few years, Home Inns is adding three new F&M hotels for each L&O hotel it adds. The Company expects that the increasing proportion of F&M hotels will result in YoY EBITDA margin increases of around 50 to 75 basis points each quarter. Also, going forward, the Company will be more selective when adding new hotels, focusing more on second tier and higher cities, which tend to have greater growth potential than lower tier cities. Management has said they currently already have an extended hotel network with sufficient exposure in up and coming lower-tier cities, and at least for the next couple of years they will re-focus expansion on second and first tier cities, which still show strong growth. We think this will also help the Company's EBITDA margin.

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*: The Company does not report gross margin, so we calculate "hotel income", which is hotel net revenue less hotel operating expenses, excluding pre-opening expenses.

Management maintains guidance for 2013 revenue growth of 14.4% to 17.9%. Home Inns expects total 2013 revenue to be in the range of RMB6.600 to RMB6.800 billion. For 2Q13, management guides for total revenue of RMB1.580-RMB1.610 billion.

Due to the continued challenging macro environment, we have reduced our forecast for 2013-2015 net revenue. However, we have increased 2013 and 2014 forecasted operating income due to better expected cost control. **We adjust our 2013-2015 forecasted fully diluted core earnings per ADR by +8.0%, +5.1% and -1.6%, respectively.**

Our revised forecast calls for 2013-2015 fully diluted core earnings per ADR of RMB6.07, RMB8.67 and RMB11.35, respectively, equivalent to 48.3% CAGR. Our 2013-2015 fully diluted earnings per ADR forecasts are 6.7%, 6.0% and 0.8% below Bloomberg consensus forecasts. Our 2013-2015 core EBITDA forecasts are RMB1.277 billion, RMB1.509 billion and RMB1.673 billion, respectively, and are 6.2%, 5.9% and 6.6% above Bloomberg consensus and reflect 17.2% 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	893	983	1,073	0.0%	0.0%	0.0%
Total F&M hotels in operation	1,259	1,549	1,839	1,259	1,549	1,839	0.0%	0.0%	0.0%
L&O hotels gross revenue	5,876	6,680	7,433	5,763	6,573	7,310	-1.9%	-1.6%	-1.6%
F&M hotels gross revenue	765	976	1,188	781	976	1,186	2.1%	0.0%	-0.2%
Total gross revenue	6,641	7,656	8,620	6,544	7,549	8,496	-1.5%	-1.4%	-1.4%
Business tax & surcharges	(403)	(465)	(523)	(410)	(473)	(533)	1.8%	1.9%	1.8%
L&O hotels net revenue	5,519	6,274	6,982	5,401	6,161	6,851	-2.1%	-1.8%	-1.9%
F&M hotels net revenue	719	917	1,116	732	915	1,111	1.9%	-0.2%	-0.4%
Net revenue	6,238	7,191	8,097	6,133	7,075	7,963	-1.7%	-1.6%	-1.7%
L&O hotel operating costs (excluding pre-open costs)	(5,124)	(5,805)	(6,413)	(4,998)	(5,676)	(6,309)	-2.5%	-2.2%	-1.6%
% of L&O hotel gross revenue	87.2%	86.9%	86.3%	86.7%	86.4%	86.3%	-0.5	-0.6	0.0
L&O hotel income (excluding pre-open costs)	395	469	569	403	484	543	2.2%	3.3%	-4.5%
% of L&O hotels gross revenue	6.7%	7.0%	7.6%	7.0%	7.4%	7.4%	0.3	0.3	-0.2
L&O hotels pre-opening costs	(104)	(90)	(94)	(104)	(90)	(94)	0.0%	0.0%	0.0%
Sales & marketing	(88)	(100)	(112)	(78)	(83)	(93)	-10.9%	-17.0%	-16.4%
% of total gross revenue	1.3%	1.3%	1.3%	1.2%	1.1%	1.1%	-0.1	-0.2	-0.2
General & administrative	(352)	(388)	(418)	(315)	(356)	(392)	-10.3%	-8.2%	-6.1%
% of total gross revenue	5.6%	5.4%	5.2%	5.1%	5.0%	4.9%	-0.5	-0.4	-0.2
F&M hotel personnel costs	(113)	(145)	(177)	(138)	(172)	(209)	22.4%	19.2%	18.1%
Other income	9	9	9	25	23	23	165.7%	n.a.	n.a.
Operating Income	467	672	893	525	720	888	12.5%	7.1%	-0.6%
Income Tax Expense	(216)	(314)	(430)	(219)	(286)	(375)	1.4%	-8.9%	-12.9%
effective tax rate	40.0%	40.0%	40.0%	43.4%	39.2%	40.2%	3.4	-0.8	0.2
Net Income	319	465	641	282	440	556	-11.5%	-5.4%	-13.3%
(-) Non-Core items*	48	60	60	(7)	10	10	-113.9%	-82.8%	-82.8%
Core net income	270	405	581	289	430	545	6.9%	6.0%	-6.1%
(-) share based comp expense	(103)	(123)	(129)	(99)	(120)	(125)	-3.3%	-2.7%	-2.6%
(-) other	(11)	0	0	(11)	0	0	0.0%	n.a.	n.a.
Adjusted net income	362	529	709	377	550	670	4.2%	3.9%	-5.5%
Earnings per ADR, diluted (RMB)	6.63	9.47	12.73	6.03	8.89	11.57	-9.0%	-6.2%	-9.2%
Core earnings per ADR (RMB), diluted	5.62	8.25	11.54	6.07	8.67	11.35	8.0%	5.1%	-1.6%
Adjusted earnings per ADR (RMB), diluted	7.78	10.77	14.41	8.19	11.18	14.26	5.3%	3.8%	-1.0%
EBITDA	1,249	1,520	1,780	1,270	1,519	1,683	1.7%	0.0%	-5.4%
Core EBITDA	1,201	1,460	1,721	1,277	1,509	1,673	6.3%	3.4%	-2.8%

Source: the Company, Guotai Junan International.

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

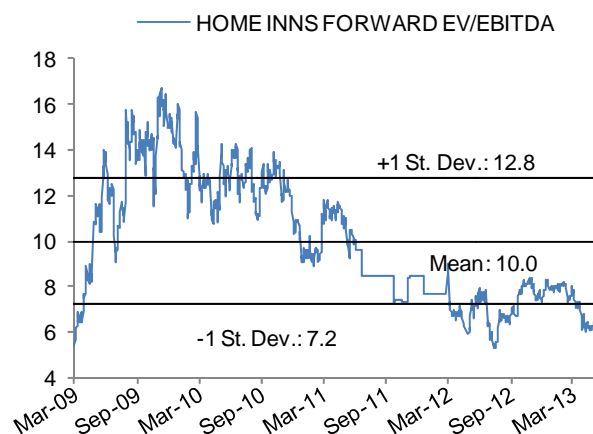
We reiterate our 'Buy' rating and increase our target price to US\$40.00, representing 8.5x 2013 EV/EBITDA. International peers are currently trading at 12.1x 2013 EV/EBITDA. We think Home Inns' valuation continues to be attractive as it is trading at a discount to international peers. It is also cheap based on its historical forward EV/EBITDA valuation. We also use DCF analysis to cross-check our target price, which is a 21.1% discount to our DCF derived NAV of US\$50.67. Our Target Price represents 20.9% upside potential.

Table-4: Peers Comparison

Company	Stock Code	CNCY	Share Price	Mkt Cap (USD mn)	D/Y%	ROE %		PE			EV/EBITDA			11 PEG
						12A	13F	12A	13F	14F	12A	13F	14F	Bbg
US Listed Economy Chain Hotels in China														
Home Inns & -Adr	HMIN US	USD	30.330	1,375	0.0	10.2	3.3	43.4	21.5	15.8	9.5	7.6	6.3	2.0
7 Days Group-Adr	SVN US	USD	13.680	674	0.0	9.2	12.8	21.2	17.6	13.2	7.1	5.7	4.7	0.9
China Lodgin-Ads	HTHT US	USD	16.370	997	0.0	5.6	7.9	30.7	26.8	19.5	10.6	8.0	6.3	0.8
Simple Average				1,015	0.0	8.3	8.0	31.8	22.0	16.2	9.0	7.1	5.8	1.2
Weighted Average					0.0	8.5	6.9	34.4	22.4	16.4	9.3	7.3	6.0	1.4
Hong Kong Listed														
Hongkong Shangha	45 HK	HKD	14.080	2,725	0.9	1.9	1.2	51.6	41.4	34.3	20.0	17.1	14.8	1.0
Shangri-La Asia	69 HK	HKD	14.500	5,852	1.4	4.6	2.7	43.4	31.7	26.7	17.1	15.6	13.9	4.0
Shanghai Jin J-H	2006 HK	HKD	1.310	773	1.4	6.2	2.4	25.9	28.0	24.6	5.7	5.7	5.3	n.a.
Dorsett Hospital	2066 HK	HKD	2.140	551	3.4	6.7	11.0	19.8	16.7	12.4	11.8	10.8	9.3	n.a.
Magnif Estates	201 HK	HKD	0.450	519	0.4	5.7	6.8	15.0	11.3	10.2	15.6	11.7	10.1	n.a.
Simple Average				2,084	1.5	5.0	4.8	31.1	25.8	21.7	14.0	12.2	10.7	2.5
Weighted Average					1.3	4.2	2.9	41.6	32.1	27.0	16.6	14.8	13.1	3.0
International														
Intercontin-Adr	IHG US	USD	29.470	7,870	n.a.	93.4	95.7	19.0	18.8	17.4	n.a.	n.a.	n.a.	1.4
Hyatt Hotels-A	H US	USD	41.610	6,718	0.0	1.8	1.9	n.a.	n.a.	n.a.	11.7	11.1	10.0	5.2
Accor Sa	AC FP	EUR	27.290	8,016	2.5	7.6	5.2	20.1	19.6	16.8	8.0	8.2	7.9	2.0
Millennium & Cop	MLC LN	GBp	556.50	2,738	2.4	5.2	5.9	15.5	17.0	15.4	9.9	10.6	9.5	n.a.
Sunstone Hotel	SHO US	USD	13.090	2,131	0.3	4.3	4.2	n.a.	15.7	11.6	14.5	14.5	13.2	2.6
Wyndham Worldwid	WYN US	USD	61.320	8,332	1.5	15.6	20.0	19.2	16.5	14.6	12.4	11.3	10.6	0.8
Marriott Intl-A	MAR US	USD	43.480	13,354	1.1	36.7	-60.2	25.5	21.3	18.1	14.4	13.2	11.8	1.4
Starwood Hotels	HOT US	USD	68.350	13,298	1.8	15.4	17.3	26.7	24.2	23.1	12.3	12.0	11.7	1.9
Host Hotels & Re	HOT US	USD	18.510	13,785	1.5	3.1	1.7	n.a.	26.1	21.9	15.9	14.1	13.0	4.4
Simple Average				8,471	1.4	20.3	10.2	21.0	19.9	17.4	12.4	11.9	11.0	2.5
Weighted Average					1.5	22.3	5.9	22.5	21.4	18.8	12.9	12.1	11.2	2.5

Source: Bloomberg.

Figure-4: Home Inns Historical Forward EV/EBITDA



Source: Bloomberg, Guotai Junan International.

Table-5: Valuation and Target Price Based Multiples

	FY12	FY13	FY14	FY15
Target Price Based EV / EBITDA				
Target Price (US\$/ADR)	40.00			
ADR Outstanding, Year End, Fully Diluted (mn)	46.2	46.5	48.0	48.5
Market Capitalization (US\$ mn)	1,849	1,859	1,922	1,939
+ Yr End minority interest (US\$ mn)	2	2	2	2
+ Yr End Borrowings, not including CB's (US\$ mn)	120	69	37	2
- Yr End cash & equivalents (US\$ mn)	106	142	205	258
Year End Enterprise Value (US\$ mn)	1,864	1,788	1,756	1,686
EBITDA (US\$ mn)	136.3	211.4	261.5	289.7
TP Based EV/EBITDA	13.7	8.5	6.7	5.8

Source: The Company, Guotai Junan International.

Table-6: DCF Based Valuation

DCF Assumptions		Calculation	
Perpetual growth rate	3.0%	PV FCFF (RMB mn)	6,895
		PV Terminal Value (RMB mn)	6,015
Risk free rate	0.60%	EV (RMB mn)	12,910
Adjusted Beta	1.18	- Debt, not including CB's (RMB mn)	66
Market risk premium	10.7%	- Minority Interest (RMB mn)	12
Cost of Equity	13.25%	+ Cash & Equivalents (RMB mn)	851
		Total NAV ((RMB mn)	13,683
Borrowing interest rate	8.0%		
Effective tax rate	43.4%	ADR Outstanding (fully diluted, as at 2011 year end, mn)	43.2
Cost of Debt	4.5%	NAV per share (RMB)	316.41
		US\$:RMB	6.24
Historical Average E/ (D+E)	72%	NAV per ADR (US\$)	50.67
Historical Average D/ (D+E)	28%		
WACC	10.81%		

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	5,763	6,573	7,310
Franchised-and-managed hotels	400	605	781	976	1,186
Total Gross Revenue	3,960	5,770	6,544	7,549	8,496
Business tax	(249)	(353)	(410)	(473)	(533)
Net revenue	3,710	5,416	6,133	7,075	7,963
yoy (%)	25%	46%	13%	15%	13%
Hotel operating costs	(2,961)	(4,642)	(5,102)	(5,766)	(6,402)
F&M hotel personnel	(72)	(125)	(138)	(172)	(209)
Sales & marketing	(44)	(77)	(78)	(83)	(93)
G&A	(336)	(315)	(315)	(356)	(392)
Other income	0	17	25	23	23
Operating Income	297	274	525	720	888
yoy (%)	-44%	-8%	92%	37%	23%
Interest expense	(15)	(108)	(66)	(51)	(14)
Non-operating income & gains	245	(53)	46	59	59
Income before tax	527	114	504	729	933
yoy (%)	4%	-78%	344%	45%	28%
Income tax	(169)	(136)	(219)	(286)	(375)
Minority interests	(6)	(4)	(3)	(3)	(3)
Net Income attributable to shareholders	352	(27)	282	440	556
yoy (%)	-2%	-108%	-1155%	56%	26%
Loss on change in fair value of interest rate swaps	(7)	(4)	0	0	0
Gain (loss) on change in fair value of convertible	199	(87)	(6)	0	0
Gain on buyback of convertible bonds	2	0	0	0	0
(Loss) on issuance of convertible bonds	0	0	0	0	0
FX gain/(loss), net	16	0	10	10	10
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	161	289	430	545
yoy (%)	-49%	-24%	80%	49%	27%
EBITDA	949	851	1,270	1,519	1,683
Core EBITDA	809	1,038	1,277	1,509	1,673
yoy (%)	-6%	28%	23%	18%	11%
Earnings per ADR					
-Basic (RMB)	8.348	(0.580)	6.062	9.064	11.755
yoy (%)	-6%	-107%	-1145%	50%	30%
-Diluted (RMB)	2.511	(0.580)	6.031	8.888	11.566
yoy (%)	-70%	-123%	-1140%	47%	30%

Ratios

Year end Dec. (RMB m)	2011A	2012A	2013F	2014F	2015F
<u>Margins:</u>					
L&O hotels gross Income excluding pre-open expense	13.4%	6.0%	7.0%	7.4%	7.4%
L&O hotels gross Income	10.5%	4.0%	5.2%	6.0%	6.1%
Operating	7.5%	4.7%	8.0%	9.5%	10.4%
Net Income	8.9%	-0.5%	4.3%	5.8%	6.5%
Core net Income	5.4%	2.8%	4.4%	5.7%	6.4%
EBITDA	24.0%	14.7%	19.4%	20.1%	19.8%
Core EBITDA	20.4%	18.0%	19.5%	20.0%	19.7%
<u>Return:</u>					
ROE	10.6%	-0.7%	7.3%	10.6%	11.5%
ROA	4.7%	-0.3%	3.2%	4.8%	5.6%
<u>Leverage & liquidity:</u>					
Net gearing (%)	24.7%	29.3%	16.1%	net cash	net cash
Debt/equity (%)	67.1%	45.7%	38.7%	28.5%	20.6%
Current ratio (x)	1.1	0.7	0.8	0.9	1.0

Balance Sheet

Year end Dec. (RMB m)	2011A	2012A	2013F	2014F	2015F
Cash and equivalent	1,786	663	851	1,190	1,497
Restricted Cash	206	206	206	206	206
Inventories	43	42	40	45	50
Receivables	236	278	315	363	409
Deferred tax assets	75	80	67	127	221
Current assets	2,347	1,268	1,478	1,932	2,383
Affiliate investments	8	7	7	7	7
P&E	3,453	3,847	4,140	4,446	4,813
Goodwill & intangibles	3,372	3,404	2,676	2,634	2,594
Other	170	117	133	154	173
Deferred tax assets	200	311	258	337	442
Non-current assets	7,203	7,686	7,214	7,578	8,028
Total assets	9,550	8,954	8,692	9,510	10,411
Payables & Accruals	1,389	1,498	1,646	1,892	2,128
Borrowings	460	13	13	13	13
Deferred tax liability	38	29	(1)	(2)	(2)
Deferred revenue	203	203	230	265	299
Current liabilities	2,089	1,743	1,887	2,168	2,437
Borrowings	1,166	735	400	200	0
Convertible bonds	979	1,067	1,067	1,067	1,067
Deferred revenue	79	45	51	59	66
Deferred tax liability	295	288	288	288	288
Deposits	63	91	120	124	129
Deferred rental	594	632	705	804	894
Other	405	372	339	306	273
Non-current Liabilities	3,581	3,241	2,981	2,859	2,728
Total liabilities	5,670	4,984	4,868	5,027	5,165
Total equity	3,880	3,970	3,824	4,482	5,246
Minority interest	15	12	12	12	12
Shareholders' equity	3,865	3,957	3,812	4,470	5,234
BV per ADR (RMB)	91.789	87.163	82.509	95.372	110.272

Cash Flow Statement

Year end Dec. (RMB m)	2011A	2012F	2013F	2014F	2015F
Income after tax	358	(23)	285	443	558
Depr. and amort	418	677	703	743	739
Other non cash, net	(135)	58	161	(30)	(84)
Increase (dec.) in WC	85	36	230	317	300
Cash from operations	726	748	1,379	1,474	1,515
PP&E, net	(735)	(929)	(908)	(964)	(1,022)
Acquisitions	(1,732)	(69)	(69)	(69)	(69)
Other	(202)	(4)	(4)	(4)	(4)
Cash from investing	(2,669)	(1,002)	(982)	(1,037)	(1,095)
New shares proceeds	28	27	129	106	91
Convertible bond	(51)	(112)	0	0	0
Net borrowings	1,434	(761)	(335)	(200)	(200)
Other	(7)	(18)	(4)	(4)	(4)
Cash from financing	1,403	(864)	(210)	(98)	(113)
Effect of X-rate	(56)	(5)	0	0	0
Net increase in cash	(597)	(1,123)	188	339	307
Cash at 1 Jan.	2,383	1,786	663	851	1,190
Cash at 31 Dec.	1,786	663	851	1,190	1,497

Source: The Company, Guotai Junan International.

Appendix

Appendix Table 1: Results Details

(RMB million)	1Q12	2Q12	3Q12	4Q12	1Q13	1Q13 (% or ppt.)	
						YoY	QoQ
L&O hotels revenue	1,128	1,300	1,432	1,305	1,238	9.8%	-5.1%
F&M hotels revenue	128	150	167	161	164	28.3%	2.1%
Gross revenue	1,256	1,450	1,598	1,466	1,402	11.7%	-4.3%
Business tax & surcharges	(77)	(89)	(97)	(90)	(88)	14.2%	-2.4%
Net revenue	1,179	1,361	1,501	1,376	1,314	11.5%	-4.5%
L&O hotel operating costs (excluding pre-open costs)	(1,077)	(1,094)	(1,185)	(1,182)	(1,164)	8.0%	-1.5%
% of L&O hotels gross revenue	95.5%	84.1%	82.8%	90.6%	94.0%	-1.5	3.4
L&O hotels income (excluding pre-open costs)	-19	127	160	43	-3	-81.6%	-108.1%
% of L&O hotels gross revenue	-1.7%	9.7%	11.2%	3.3%	-0.3%	1.4	-3.5
L&O hotels pre-opening costs	(20)	(29)	(29)	(27)	(27)	39.5%	1.5%
Sales & Marketing	(18)	(16)	(18)	(25)	(21)	17.6%	-13.8%
% of total gross revenue	1.4%	1.1%	1.1%	1.7%	1.5%	0.1	-0.2
General & Administrative	(80)	(74)	(78)	(83)	(69)	-14.1%	-17.7%
% of total gross revenue	6.4%	5.1%	4.9%	5.7%	4.9%	-1.5	-0.8
F&M hotels personnel costs	(23)	(33)	(45)	(25)	(29)	28.3%	17.9%
Total operating expenses	(1,218)	(1,245)	(1,355)	(1,342)	(1,310)	7.6%	-2.3%
% of total gross revenue	97.0%	85.8%	84.8%	91.5%	93.4%	-3.5	1.9
Other income	2	5	8	2	8	308.6%	239.9%
Operating Income	(37)	120	154	36	12	132.7%	-66.7%
Non-operating income and gains, net	(51)	(28)	(57)	(28)	(14)	-71.6%	-48.2%
Income tax expense	(19)	(54)	(62)	(1)	(16)	-13.5%	1597.6%
Non controlling interests	(0)	(2)	(1)	(1)	(1)	169.6%	-42.8%
Net Income	(103)	36	34	6	(19)	81.2%	-408.7%
(Loss) on change in fair value of interest swap	(4)	0	0	0	0		
Gain (loss) on CB fair value change	(25)	10	(27)	(45)	(6)		
Gain on buyback of CB	0	0	0	0	0		
(Loss) on issuance of CB	0	0	0	0	0		
Foreign exchange gain (loss), net	2	(10)	(7)	15	3		
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)	(25)	(27)	(20)	(4)		
Non-Core items	(51)	(26)	(60)	(51)	(7)	85.8%	85.8%
Core net Income	(52)	62	94	57	(12)	76.8%	-121.3%
Share based compensation expense	22	25	24	22	23	15.4%	-6.4%
Other	6	22	18	1	0	-83.4%	-94.6%
Adjusted Net income	(25)	108	136	81	10	142.1%	-87.2%
Earnings per ADR, basic (RMB)	-2.28	0.80	0.74	0.14	-0.42	81.4%	-406.1%
Earnings per ADR, diluted (RMB)	-2.28	0.75	0.73	0.14	-0.42	81.5%	-410.9%
Core earnings per ADR, diluted (RMB)	-1.16	1.24	2.03	1.24	-0.27	77.1%	-121.4%
Adjusted earnings per ADR, diluted (RMB)	-0.54	2.17	2.93	1.74	0.23	141.6%	-87.0%
EBITDA	93	285	284	188	187	101.3%	-0.4%
Core EBITDA	144	311	344	239	195	35.4%	-18.6%
Operating margin	-2.9%	8.3%	9.6%	2.5%	0.9%	3.8	-1.6
Net Income margin	-8.2%	2.5%	2.1%	0.4%	-1.4%	6.8	-1.8
Core net Income margin	-4.2%	4.3%	5.9%	3.9%	-0.9%	3.3	-4.8
EBITDA margin	7.4%	19.6%	17.7%	12.8%	13.4%	5.9	0.5
Core EBITDA margin	11.4%	21.4%	21.5%	16.3%	13.9%	2.4	-2.4

Source: The Company, Guotai Junan International.

Appendix Table 2: Key Parameters & Forecasts (Quarterly)

RMB million	1Q12A	2Q12A	3Q12A	4Q12A	1Q13F	2Q13F	3Q13F	4Q13F
L&O hotels revenue	1,128	1,300	1,432	1,305	1,238	1,451	1,584	1,489
F&M hotels revenue	128	150	167	161	164	190	213	215
Gross Revenue	1,256	1,450	1,598	1,466	1,402	1,641	1,797	1,704
Business tax & surcharges	(77)	(89)	(97)	(90)	(88)	(103)	(113)	(107)
Net revenue	1,179	1,361	1,501	1,376	1,314	1,538	1,684	1,597
Total L&O hotel operating costs	(1,097)	(1,122)	(1,214)	(1,209)	(1,191)	(1,254)	(1,325)	(1,331)
Total operating expenses	(1,218)	(1,245)	(1,355)	(1,342)	(1,310)	(1,383)	(1,467)	(1,473)
% of total revenue	97.0%	85.8%	84.8%	91.5%	93.4%	84.3%	81.6%	86.5%
Other income	2	5	8	2	8	6	6	6
Operating Income	(37)	120	154	36	12	161	223	129
Interest expense	(24)	(41)	(27)	(17)	(15)	(19)	(17)	(15)
Other	(23)	11	(31)	(12)	0	14	14	14
Tax	(19)	(54)	(62)	(1)	(16)	(63)	(88)	(52)
Net Income	(103)	36	34	6	(19)	93	132	77
YoY	-417.3%	-70.2%	-79.5%	-80.8%	-81.2%	156.3%	290.3%	1123.9%
(-) 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
Gain on buyback of CB	0	0	0	0	0	0	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	3	3	3
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)	(2)	0	0
Core Net Income	(52)	62	94	57	(12)	93	129	74
YoY	n.a.	-27.1%	10.1%	405.2%	-76.8%	n.a.	37.4%	30.0%
Earnings/ADR, Basic (RMB)	(2.28)	0.80	0.74	0.14	(0.42)	2.01	2.83	1.65
Earnings/ADR, Diluted (RMB)	(2.28)	0.75	0.73	0.14	(0.42)	2.01	2.83	1.61
EBITDA	93	285	284	188	187	349	411	323
YoY	-32.3%	13.7%	-14.6%	-17.9%	101.3%	22.5%	44.9%	71.9%
Core EBITDA	144	311	344	239	195	348	408	321
YoY	6.1%	45.4%	36.0%	15.0%	35.4%	12.1%	18.8%	34.2%
Income Margins								
Operating margin	-2.9%	8.3%	9.6%	2.5%	0.9%	9.8%	12.4%	7.6%
Net Income margin	-8.2%	2.5%	2.1%	0.4%	-1.4%	5.7%	7.3%	4.5%
Core net Income margin	-4.2%	4.3%	5.9%	3.9%	-0.9%	5.7%	7.2%	4.4%
EBITDA margin	7.4%	19.6%	17.7%	12.8%	13.4%	21.3%	22.9%	19.0%
Core EBITDA margin	11.4%	21.4%	21.5%	16.3%	13.9%	21.2%	22.7%	18.8%

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

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

Sector Rating Definition

The Benchmark: NASDAQ Composite Index

Time Horizon: 6 to 18 months

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

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