

## Company Report: Jinjiangcapital (02006 HK)

公司报告: 锦江资本 (02006 HK)

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# Merger Pre-Condition Has Been Fulfilled as Expected

吸收合并前提条件已经达成, 符合预期

- **The merger pre-condition has been fulfilled, in line with our expectations.** On 28 March, the Company announced that the merger has been approved by all relevant government authorities. Thus, the pre-condition has been satisfied, and the Company expects that the Composite Document, which will have further details of the Merger and a detailed timetable, will be dispatched on 1 April 2022. As previously announced, the Company and its parent company had entered into a merger agreement in November 2021 whereby the parent company will buy the Company's H shares for HK\$3.10 per share. If the deal goes through, the Company would delist from the Hong Kong Stock Exchange and the Company's H shares would be cancelled.
- **We believe that the biggest potential hurdle is the possibility that over 10% of Independent H shareholders votes against the merger.** The merger must be approved by special resolution with 75% of voting independent H shareholders in favor and not more than 10% voting against it. Given the significant premium of the merger price, we expect that the merger will most likely pass this hurdle. We expect the merger to close some time in 2Q2022.
- **We increase the Company's target price from HK\$2.90 to HK\$3.00 and maintain "Neutral" investment rating.** Since there is risk that the merger does not finalize, and considering the Company's strong fundamentals, our target price is a 3.3% discount to the merger price of HK\$3.10. Should the merger not go through, we would expect the share price to decline, but that it would be limited.
- **吸收合并前提条件已经达成, 符合我们的预期。** 3月28日, 公司公布所有相关政府组织已经批准此次吸收合并。由于前提条件已获达成, 公司预计综合文件(包含合并细节和详细时间表)将于2022年4月1日寄发。正如此前所公布的, 公司与其母公司在2021年11月签订了合并协议, 其母公司将以前每股3.10港元的价格收购公司的H股股份。若合并成功, 公司将从香港交易所退市, 其H股股份将予以注销。
- **我们认为合并最大的潜在障碍在于超过10%的独立H股股东投票反对的可能性。** 合并还必须获得至少75%的独立H股股东投票通过并且不超过10%的股东投票反对的特别决议案通过后方可批准。鉴于合并价格溢价显著, 我们预计合并协议将大概率通过以上条件。我们预计合并将于2022年2季度完成。
- **我们将公司目标价由2.90港元上调至3.00港元, 维持“中性”投资评级。** 鉴于合并仍有无法完成的风险, 同时考虑到公司的良好基本面, 我们的目标价较3.10港元的合并价格有3.3%的折让。若合并失败, 我们预计公司股价将下跌, 但下跌空间有限。

Rating:

**Neutral**

Maintained

评级:

中性 (维持)

6-18m TP 目标价:

**HK\$3.00**

Revised from 原目标价:

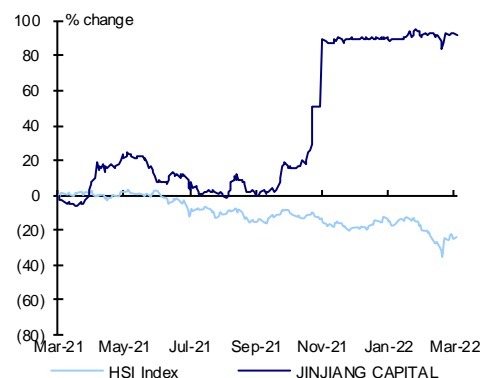
HK\$2.90

Share price 股价:

HK\$2.960

## Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(0.3)	1.4	91.0
Rel. % to HS Index 相对恒指变动 %	4.2	7.4	114.1
Avg. Share price(HK\$) 平均股价 (港元)	2.9	2.9	2.1

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2019A	20,977	676	0.121	(11.3)	21.5	1.650	1.6	0.000	0.0	5.3
2020A	14,201	298	0.054	(55.8)	45.4	1.706	1.4	0.000	0.0	3.2
2021F	16,613	47	0.009	(84.1)	285.8	1.769	1.4	0.000	0.0	0.5
2022F	17,979	104	0.019	118.7	130.7	1.686	1.4	0.000	0.0	1.1
2023F	19,064	400	0.072	286.1	33.8	1.759	1.4	0.000	0.0	4.2
Shares in issue (m) 总股数 (m)				5,566.0	Major shareholder 大股东				Jin Jiang International 75.0%	
Market cap. (HK\$ m) 市值 (HK\$ m)				16,475.4	Free float (%) 自由流通比率(%)				25.0	
3 month average vol. 3 个月平均成交股数('000)				3,057.1	FY21 Net gearing (%) FY21 净负债/股东资金 (%)				41.0	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				3.000 / 1.440	FY21 Est. NAV (HK\$) FY21 每股估值 (港元)				3.6	

Source: the Company, Guotai Junan International.

**The merger pre-condition has been fulfilled, in line with our expectations.** On 28 March, Shanghai Jin Jiang Capital (the "Company") announced that the merger (see below paragraph) has been approved by all relevant government authorities (the National Development and Reform Commission of the PRC, Ministry of Commerce of the PRC, State Administration of Foreign Exchange of the PRC, State-owned Assets Supervision and Administration Commission of the State Council, and such other applicable governmental approvals). Thus, the pre-condition has been satisfied, and the Company expects that the Composite Document, which will have further details of the Merger and a detailed timetable, will be dispatched on 1 April 2022.

**As previously announced in November 2021, the Company and its parent company entered into a merger agreement whereby the parent company will buy the Company's H shares for HK\$3.10 per share.** On 24 November 2021, the Company and its parent company, Jin Jiang International Holding Company Limited (the "Offeror"), a company incorporated in the PRC and the controlling shareholder interested in 75% of the issued share capital of the Company, entered into a merger agreement. If the deal goes through, the Offeror would pay HK\$3.10 per H share to the H shareholders in cash and the Company would delist from the Hong Kong Stock Exchange and the Company's H shares would be cancelled.

The merger must also be approved by special resolution with 75% of voting independent H shareholders in favor and not more than 10% voting against it. Now that the pre-condition is satisfied, the merger must first pass special resolution by a majority of not less than two-thirds of votes cast at an extraordinary general meeting to approve the merger. We expect that this condition will be met since the Offeror has 75% interest in the Company. Secondly, an H shareholders' meeting would be convened and at least 75% of voting independent H shareholders (voting H shareholders other than the Offeror) would need to vote in favor of the merger. Moreover, the merger would not be approved if more than 10% of the independent H shareholders vote against it. If these conditions are not satisfied by 23 November 2022, the merger agreement will be terminated. **We believe that the biggest potential hurdle is the possibility that over 10% of independent H shareholders votes against the merger.** However, given the significant premium of the merger price, we expect that the merger will most likely pass this hurdle.

**The merger price of HK\$3.10 per H share is a premium of 86.8% over the average closing price of HK\$1.66 per for the 90 trading days prior to and including 16 November 2021, the last full trading day prior to the H shares trading halt.** It is also a premium of 63.2%, 77.1% and 85.6% over the average closing prices 5, 30, and 60 trading days prior to and including 16 November 2021.

**We expect the merger to close some time in 2Q2022.** The merger has until 23 November 2022 to close, otherwise the merger agreement would be terminated. Upon satisfaction of all the conditions, the Company would apply to the Hong Kong stock exchange for voluntary withdrawal of its H shares from the Hong Kong stock exchange. The Company would also issue separate announcements notifying H shareholders of the proposed withdrawal of listing and the exact dates the last day for dealing in H shares as well as when the formal delisting of the H shares would become effective. The listing of the H shares on the Hong Kong stock exchange will not be withdrawn if the merger is not approved or lapses or does not become unconditional for any reason.

**We increase the Company's target price from HK\$2.90 to HK\$3.00 and maintain "Neutral" investment rating.** Now that the pre-condition has been fulfilled, there is less risk that the merger will not go through. However, since there is still risk that the merger will not finalize, and taking into account the Company's strong fundamentals, our target price is a 3.3% discount to the merger price of HK\$3.10. Should the merger not go through, we would expect the share price to decline, but that it would be limited. With most (80.4% in 2019, 87.1% in 2020 and 89.0% in 1H2021) of its revenue being generated within mainland China, we think that the Company is well positioned to take advantage of China's ongoing travel recovery, which we expect to continue in 2022. Our target price is equivalent to 8.2x and 7.2x 2021F and 2022F EV/adjusted EBITDA, respectively, and is an 18.4% discount to our DCF derived NAV of HK\$3.55 per share.

**Table-1: Jinjiangcapital Valuation and Target Price Based Multiples**

		2020A	2021F	2022F	2023F
Target Price (HKD)	3.00				
Target Price (RMB)	2.50				
Shares Outstanding, Period End, Fully Diluted (mn)		5,566	5,566	5,566	5,566
TP Based Market Cap (RMB mn)		13,909	13,909	13,909	13,909
+ Period End Minority Interest (RMB mn)		10,360	9,459	9,385	9,164
+ Period End Borrowings (RMB mn)		17,478	18,207	18,368	17,514
- Period End Cash & Equivalents (RMB mn)		9,496	10,180	10,114	9,581
Year End Enterprise Value (RMB mn)		32,251	31,396	31,548	31,006
Adjusted EBITDA (RMB mn)		2,517	3,750	4,314	4,966
<b>TP Based EV/Adjusted EBITDA</b>		<b>12.8</b>	<b>8.4</b>	<b>7.3</b>	<b>6.2</b>

Source: the Company, Guotai Junan International.

**Table-2: Jinjiangcapital DCF Valuation**

Risk free rate	1.76%	Sum of PV FCFF (RMB mn)	14,524
Market return	6.92%	+ PV Terminal Value (RMB mn)	19,588
Market risk premium	5.16%	Enterprise Value (RMB mn)	34,112
Adj. beta	1.1	- Net Debt/(cash) (RMB mn)	8,254
Equity discount rate	7.44%	- Minority Interest (RMB mn)	9,385
		Total NAV (RMB mn)	16,473
After tax cost of debt	4.2%		
D/(D+E)	30.0%	Shares Outstanding (mn)	5,566
E/(D+E)	70.0%	NAV per Share (RMB)	2.96
WACC	6.5%	Exchange Rate	0.83
		NAV per Share (HKD)	3.55
Long-term growth rate	2.5%		

Source: Bloomberg, the Company, Guotai Junan International.

**Table-3: Peers Comparison**

Company	Stock	Cncy	Last	Mkt	PE				EV / Adjusted EBITDA				ROE(%)	PBR
	Code		Price	Cap	20A	21F	22F	23F	20A	21F	22F	23F	21F	21F
HK Listed														
Huazhu Group Ltd	01179 HK	HKD	24.900	81,360	n.a.	n.a.	n.a.	n.a.	n.a.	49	30	14	n.a.	n.a.
Shangri-La Asia	069 HK	HKD	6.090	21,836	n.a.	n.a.	n.a.	24	n.a.	61	28	17	n.a.	0
Hk&S Hotels	045 HK	HKD	8.490	14,004	n.a.	n.a.	n.a.	37	76	70	n.a.	n.a.	n.a.	0
Shanghai Jin-H	02006 HK	HKD	2.960	16,475	49	n.a.	37	78	8	n.a.	n.a.	n.a.	1	1
Regal Hotel Intl	078 HK	HKD	3.320	2,984	n.a.	n.a.	n.a.	n.a.	44	n.a.	n.a.	n.a.	n.a.	n.a.
Sino Hotels	01221 HK	HKD	2.120	2,422	n.a.	n.a.	n.a.	n.a.	330	82	n.a.	n.a.	n.a.	1
Paliburg Hldgs	0617 HK	HKD	2.080	2,318	n.a.	n.a.	n.a.	n.a.	120	n.a.	n.a.	n.a.	n.a.	n.a.
Century City Int	0355 HK	HKD	0.340	1,052	n.a.	n.a.	n.a.	n.a.	125	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average					49.1	n.a.	37.0	46.4	117.1	65.4	29.1	15.8	15.8	0.7
Weighted Avg.					49.1	n.a.	37.0	44.6	64.6	54.1	29.4	15.0	15.0	0.3
U.S. Listed														
Huazhu Group-Adr	HTHT US	USD	32.560	10,639	n.a.	n.a.	105	31	69	50	30	15	n.a.	6
Bluegreen Vacati	BVH US	USD	29.740	642	n.a.	11	9	8	n.a.	n.a.	n.a.	n.a.	8	3
Choice Hotels	CHH US	USD	141.230	7,847	104	27	29	26	17	18	19	17	195	30
Greentree Ho-Adr	GHG US	USD	5.180	534	14	15	11	9	n.a.	9	6	5	10	2
Hyatt Hotels-A	H US	USD	94.270	10,369	n.a.	n.a.	n.a.	61	68	69	20	13	n.a.	3
Hilton Grand Vac	HGV US	USD	52.230	6,274	n.a.	30	17	14	16	16	9	7	15	3
Hilton Worldwide	HLT US	USD	150.680	42,061	n.a.	103	37	27	38	39	21	17	n.a.	n.a.
Intercontin-Adr	IHG US	USD	70.060	12,892	n.a.	n.a.	n.a.	n.a.	n.a.	23	17	14	n.a.	n.a.
Marriott Intl-A	MAR US	USD	171.560	56,144	n.a.	51	31	24	30	29	19	16	119	40
Playa Hotels & R	PLYA US	USD	8.620	1,429	n.a.	n.a.	37	23	34	32	11	9	n.a.	2
Marriott Vacatio	VAC US	USD	154.990	6,526	n.a.	135	17	14	14	15	11	9	2	2
Wyndham Hotels &	WH US	USD	84.330	7,784	n.a.	32	25	21	18	19	16	14	24	7
Simple Average					59.0	50.4	31.6	23.3	33.9	29.1	16.1	12.5	53.4	9.7
Weighted Avg.					98.1	68.2	36.5	26.9	32.2	33.1	19.0	15.1	99.4	24.4

Source: Bloomberg, Guotai Junan International.

Note: All data and forecasts are taken from Bloomberg.

## Financial Statements and Ratios

[illegible]

Source: the Company, Guotai Junan International.

**Company Rating Definition**

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

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

**Sector Rating Definition**

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance>5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance<-5%; Or the fundamental outlook of the sector is unfavorable.

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