

Jinjiang Hotels (2006.HK)

All the way to the sail route!

China | Tourism & Hotel | Company Initiation

8 JULY 2016

Company Profile:

Jin Jiang Hotels is a leading hotel group in China and mainly engaged in 1) the operation and management of high star-rating hotels, 2) franchising of budget hotels & operation of restaurants, 3) passenger transportation logistics and 4) travel agency business. To be specific, hotel business accounts for 60% of the company's total revenue and 50% of total EBITDA. The later three businesses are operated by holding subsidiaries which have been listed on A share market, including Jin Jiang Hotels Development (600754.SH/900934.SH), Jin Jiang Investment (600650.SH /900914.SH) and Jin Jiang Travel (900929.SH). Jin Jiang International Group holds 75% of equity in the company and the de facto controller is the State-Owned Assets Supervision and Administration Commission of Shanghai Municipal Government ("Shanghai SASAC").

M&A

In 2015, the company acquired Louvre Hotels Group (GDL) and Keystone Lodging Holdings Limited with a consideration of nearly RMB 20 billion. After the completion of the acquisition, the company's total number of hotels doubled to more than 6000 as compared with the previous hotels, and the total number of rooms exceeded 650,000. Based on the number of rooms, Jinjiang Hotels is among the world's top five hotel groups and takes the first spot in China.

Currently, the company's brands encompass J. Hotel, Jin Jiang, Metropolo, Jin Jiang Inn and other series, series brands under the acquired Louvre Hotels Group, 7 Days Inn and Portofino Hotels & Resorts, Lavande Hotels and James Joyce Coffete, and other high-end hotels of Keystone Lodging.

SWOT Analyst Strengths

- The company has devoted itself to the hotel industry for many years and its brands are renowned in China with a huge business network and abundant management experience;
- It is well-established in Shanghai with the domestic hotels located in the prime areas within Shanghai. After the acquisition of Keystone Lodging, geographically, it further expands to South China, Central China and other regions;
- The company owns a multi-level and diversified hotel asset portfolio and hence can satisfy a wide range of market demand;
- It employs advanced scientific information direct sales and management systems and CRS, CRM, PMS and other central information systems to guarantee the customer experience;

Weakness

- In terms of brand awareness and customer experience, there is a gap between the company and international hotel giants (such as Intercontinental, Hilton and Shangri-la). Also, the business profitability of the company's high-end hotel is far lower than that of the latter;
- The medium and high end hotels of Keystone Lodging are in the transition period and recorded slight loss in 2015;

Accumulate (Initiation)

CMP: HKD 2.49

(Closing price as at 6 July 2016)

TARGET: HKD 2.98 (+19.7%)

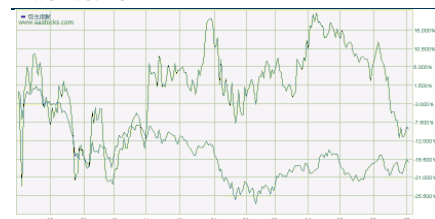
COMPANY DATA

O/S SHARES (MN) :	5566
MARKET CAP (CNY MN) :	3465
52 - WK HI/LO (CNY):	3.44/ 2.02

SHARE HOLDING PATTERN, %

Jinjiang International group	75
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PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	9,364	12,160	15,795	17,789
Net Profit	621	866	898	1,034
EPS, CNY	0.11	0.16	0.16	0.19
P/E, x	17.6	13.4	13.0	11.3
BVPS, CNY	1.55	1.67	1.78	1.95
P/BV, x	1.3	1.3	1.2	1.1
DPS (CNY)	0.05	0.07	0.07	0.08
Div. Yield (%)	2.5%	3.1%	3.3%	3.6%

Source: Company reports, Phillip Securities Est.

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Opportunities

- By means of continuous M&A, the company rapidly expands its scale. If its brand management, channel marketing, integration of back office management and other aspects can be smoothly advanced, it is expected to form scale advantage;
- The transportation, accommodation, catering and tourism demand brought by the opening of Shanghai Disneyland Resort and the establishment of the Shanghai Free Trade Zone will promote the development of the company's business in the long run;
- Chinese outbound tourism demand is continuously exploding;
- Potential SOE reform expectation contributes to large room for improving operational efficiency;

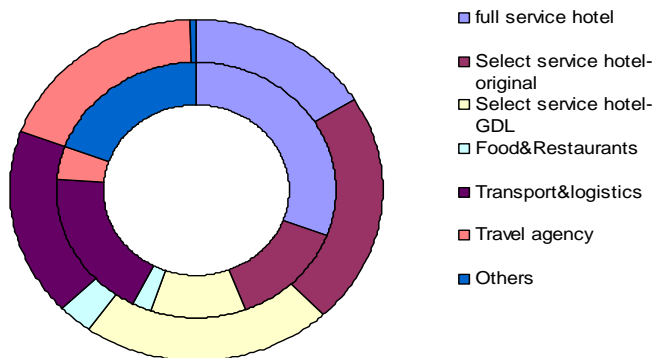
Threat

- Macroeconomic slowdown and decrease in demand growth caused by restrictions on "spending on official visits, official vehicles, and official hospitality" exceed expectation;
- The Internet+ sharing business model with the representatives of Airbnb and Bed & Breakfast may squeeze the market share of the traditional hotel industry;
- Continuous major acquisitions may increase the financing costs and the surge in financial expenses reduces profits;
- Uncertainties in the subsequent asset integration process;
- Exchange rate risk resulting from the expansion of overseas business;

Investment Thesis

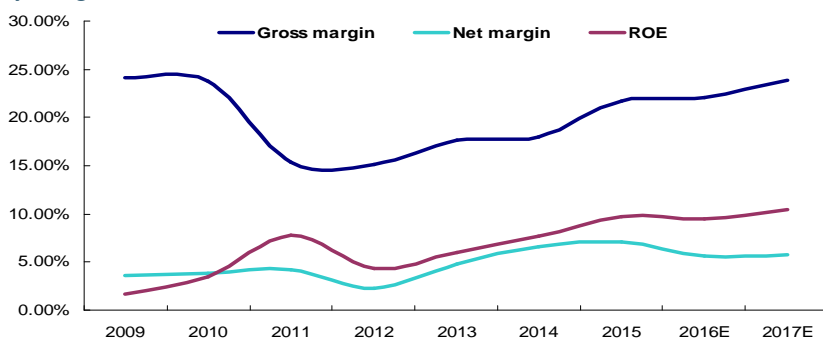
We cover Jinjiang Hotels initially and expect the company's EPS in 2016/2017 will reach RMB 0.161 / 0.186, respectively. The target price is HK\$2.98, equivalent to 15.5x/13.5x P/E ratio in 2016/2017. Also, the "Accumulate" rating is given. (Closing price as at 6 July 2016)

Main business breakdown (outer ring: revenue; inner ring: EBITDA)



Source: Company, Phillip Securities Hong Kong Research

Key margin trend



Source: Company, Phillip Securities Hong Kong Research

Financials

FYE DEC	FY11	FY12	FY13	FY14	FY15	FY16F	FY17F
Valuation Ratios							
P/E (X), adj.	21.0	35.4	24.5	17.6	13.4	13.0	11.3
P/B (X)	1.6	1.5	1.4	1.3	1.3	1.2	1.1
Dividend Yield (%)	2.0%	1.5%	2.3%	2.5%	3.1%	3.3%	3.6%
Dividend payout ratio (%)	41.5%	52.7%	56.4%	44.8%	41.8%	42.1%	40.9%
Per share data (RMB)							
EPS, reported	0.096	0.057	0.080	0.112	0.156	0.161	0.186
EPS, adj.	0.096	0.057	0.080	0.112	0.156	0.161	0.186
DPS(HKD)	0.04	0.03	0.05	0.05	0.07	0.07	0.08
BV/PS	1.29	1.31	1.36	1.55	1.67	1.78	1.95
Growth & Margins (%)							
Growth							
Revenue	44.6%	-6.2%	-33.1%	0.8%	29.9%	29.9%	12.6%
EBIT	54.9%	-34.0%	37.0%	20.7%	31.3%	8.5%	14.5%
Net Income, adj.	54.2%	-29.7%	40.1%	39.9%	39.5%	3.7%	15.2%
Margins							
Gross margin	15.4%	15.1%	17.6%	18.0%	21.7%	22.1%	23.9%
EBIT margin	8.6%	7.4%	15.3%	18.3%	18.5%	15.4%	15.7%
Net Profit Margin	4.2%	2.3%	4.8%	6.6%	7.1%	5.7%	5.8%
Key Ratios							
ROE (%)	7.8%	4.4%	5.97%	7.68%	9.67%	9.35%	9.96%
Income Statement (RMB mn)							
Revenue	12,653	13,884	9,288	9,364	12,160	15,795	17,789
Gross profit	1,946	2,100	1,633	1,682	2,636	3,491	4,252
Operating profit	904	889	1,286	1,568	2,010	2,082	2,343
EBIT	1,082	1,034	1,417	1,710	2,246	2,436	2,790
Profit before tax	992	896	1,276	1,551	1,892	1,951	2,228
Tax	(84)	(187)	(434)	(474)	(494)	(496)	(560)
Profit for the period	907	709	843	1,076	1,398	1,455	1,668
Minority interests	371	392	399	455	532	557	634
Total capital share	5,566	5,566	5,566	5,566	5,566	5,566	5,566
Net profit	536	317	444	621	866	898	1,034
Source: PSR							

(Financial figures as at 6 July 2016)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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