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## A beneficiary of China tourism boom

## China Tourism

### Shanghai Jin Jiang International Hotels (2006 HK)

**Not Rated**

**Company profile.** Shanghai Jin Jiang International Hotels Group (Jin Jiang) is the largest state-owned domestic hotel group in China. As at 31 Oct., 2006, Jin Jiang held hotel interests in, managed or had granted franchises to 263 hotels with approximately 51,588 rooms spreading over 73 cities in 24 provinces and autonomous regions and four municipalities. Shanghai and Beijing represented over 50% of all of the operating hotels of Jin Jiang. There are 6 Landmark Hotels, 12 Luxury Hotels, 14 Commercial Hotels and 29 Jin Jiang Inn Budget Hotels operational in Shanghai and 7 Luxury Hotels, 5 Commercial Hotels and 7 Jin Jiang Inn Budget Hotels operational in Beijing.

**Dominate position in Commercial Hotel.** Jin Jiang is estimated to enjoy around 40% market share in the commercial hotel segment in China.

**Long-established famous brand.** Jin Jiang Hotel and the Peace Hotel were constructed in 1929. New Asia Group, the predecessor of Jin Jiang was established in 1995. Jin Jiang International, the largest shareholder (72.5% interest) of Jin Jiang is a state-own company. According to the Hotel's Corporate 300 Ranking published in July 2006 by the HOTELS Magazine, Jin Jiang was ranked 22<sup>nd</sup> in the world in 2005 in terms of number of rooms.

**Table 1: Turnover breakdown**

| Year to Dec                 | 2003A        | 2004A        | 2005A        | 1H 2006A     |
|-----------------------------|--------------|--------------|--------------|--------------|
| Star-rated Hotels*          | 84.7         | 83.4         | 81.4         | 81.0         |
| Jin Jiang Inn Budget Hotels | 0.0          | 6.5          | 11.9         | 14.0         |
| Restaurants (F&B)**         | 9.8          | 4.3          | 3.2          | 3.1          |
| Star-rated Hotel Management | 1.7          | 1.5          | 1.3          | 1.3          |
| Others                      | 3.8          | 4.3          | 3.2          | 0.6          |
| <b>Total</b>                | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Source: Company data

\*Include Landmark Hotels, Luxury Hotels (5-star & 4-star hotels) and Commercial Hotels (3-star & 2-star hotels)

\*\* 24.5% Shanghai Kentucky Fried Chicken Co., 20% Shanghai Yoshinoya Co. and 25% Shanghai New Asia Café de Coral.

**Table 2: Offer statistics**

|                         |                         |
|-------------------------|-------------------------|
| Price range             | HK\$1.81-2.2            |
| No. of H shares offered | 1.1b                    |
| Fund raised:            | HK\$2.0b – HK\$2.42b    |
| Offer P/E (2005A F.D.)  | 19.1-23.2x              |
| FY05 net profit/EPS     | RMB312.8m/RMB9.48 cents |
| Total market cap        | US\$1.02b – US\$1.24b   |
| IPO close               | 7 Dec                   |
| Listing                 | 15 Dec                  |

Source: Company data

**Table 3: Use of proceeds**

|  |              |
|--|--------------|
| Development of Jin Jiang Inn Budget Hotels network     | HK\$1,091.6m |
| Refurbishment of the Landmark Hotels and Luxury Hotels | HK\$494.8m   |
| Repayment of a portion of the Group's bank borrowings  | HK\$494.8m   |

Source: Company data

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**Strategic investors** Starwood Capital Group Global L.L. C. (HOT US, NR)\*\*\* will invest US\$30m in Jin Jiang as a strategic investor. It lays down the foundation of further co-operations and provides synergy in terms of upgrading its management quality standard.

\*\*\* a leading global owner and operator of hotels, which owns brands such as Sheraton and Westin.

**Table 4: Financials**

| Year to Dec (RMBm)   | 2003A   | 2004A   | 2005A   |
|----------------------|---------|---------|---------|
| Sales                | 1,615.0 | 2,373.0 | 2,807.7 |
| Gross profit         | 455.4   | 910.9   | 1,077.5 |
| Operating profit     | 46.10   | 439.1   | 312.1   |
| Finance costs        | (58.3)  | (34.3)  | (37.2)  |
| Pre-tax profit       | 41.1    | 470.2   | 582.5   |
| Net profit           | (77.0)  | 179.1   | 312.8   |
| Gross margin (%)     | 28.2    | 38.4    | 38.4    |
| Operating margin (%) | 2.9     | 18.5    | 20.1    |
| Pre-tax margin (%)   | 2.5     | 19.8    | 20.7    |
| Net margin (%)       | (4.8)   | 7.5     | 11.1    |
| Net gearing (%)      | 19.4    | (11.3)  | 15.2    |

Source: Company data

**Huge growth potential for budget hotels.** According to [www.inn.net.cn](http://www.inn.net.cn), China Budget Hotel Net, Jin Jiang, Home Inns & Hotels Management Inc. (HMIN US US\$31.57, NR) other two top budget hotel chains had 253 hotels and 35,293 rooms as at 1 Oct 2006. It is estimated that the growth of these budget hotel rooms amounted a CAGR of 36.5% from 2004 to 2006. Jin Jiang had 78 budget hotels in operation and another 87 under development as at 31 Oct 2006. Jin Jiang plans to increase the number of budget hotels to 180 by the end of 2006 and 600 by 2010 (Shanghai World EXPO). Its budget hotels contribution to turnover is projected to increase from 14% in 1H FY12/06F to 20% in FY12/07F. As at 1 Oct 2006, there were 768 budget hotels with 83,152 rooms in China.

**Table 5: Key operation statistics for Jin Jiang Inn Budget Hotels**

| Year to Dec                | 2003A | 2004A | 2005A | 1H 2005A | 1H 2006A |
|----------------------------|-------|-------|-------|----------|----------|
| No. of rooms               | 2,169 | 3,040 | 4,191 | 4,032    | 5,840    |
| Occupancy (%)              | 77    | 83    | 83    | 76       | 77       |
| Average Daily Rate         | 187   | 186   | 187   | 190      | 187      |
| Revenue per Available Room | 143   | 154   | 155   | 144      | 144      |

Source: Company data

**Table 6: Ranking of Top Budget Hotels in China as at 1 Oct 2006**

|                                    | Room number | No. of hotels in operation | Average daily room rate (RMB) |
|------------------------------------|-------------|----------------------------|-------------------------------|
| Home Inns & Hotels Management Inc. | 13,162      | 110                        | 211                           |
| Jin Jiang                          | 10,523      | 76                         | 186                           |
| Motel168.com                       | 8,267       | 36                         | 205                           |
| Super8.com                         | 3,341       | 31                         | 226                           |
| Eastravel.com                      | 2,310       | 17                         | 300                           |
| GreenTree.com                      | 1,914       | 14                         | 195                           |
| 7 days Inns                        | 1,779       | 16                         | 180                           |

Source: [www.inn.net.cn](http://www.inn.net.cn)

**Renovation of star-rated hotels.** Jin Jiang will renovate its Lankmark Hotels (historical buildings) and other old luxury hotels to resume its past glory in a bid to compete with other new star-rated hotels in China. For example, Peace Hotel is expected to start renovation in early 2007 and to be completed by 2008.

#### Risks:

- ❑ **Over-reliance on Shanghai hotel market.** It is estimated that over 80% of Jin Jiang's turnover is derived from hotels located in Shanghai as at 31 Oct. 2006.

- ❑ **New supply intensifies competition of the luxury hotels.** According to Jones Lang LaSalle Hotels, luxury hotel rooms are expected to increase at a CAGR of 32% between 2006- 2008.
- ❑ **Third party franchisees.** 44 out of 77 Jin Jiang Budget Hotels in operation are managed by third party franchisees. Jin Jiang's goodwill may be affected if some of the franchisees do not meet the required standards.
- ❑ **Jin Jiang's huge CAPEX requirements.** CAPEX is expected to be around RMB458m for FY12/06F and RMB1,274.3m for FY12/07F. The company may need to increase its debt level to cater for the funding needs.

**Valuation.** The counter is priced at between 18.1x to 22.0x FY12/06F P/E on fully diluted basis based on the forecast net profit of not less than RMB330m with an offer price range between HK\$1.81 to HK\$2.2. The closest comparable is Shangri-la Asia (69 HK, HK\$20.00 NR) which generated around 33% of its turnover from China in FY12/05. With Jin Jiang's strong presence in China, the prosperous tourism outlook and the high growth of budget hotel segment in China. We expect Jin Jiang to trade close its sector average.

**Table 7: Peer comparisons**

| Company Name                          | Ticker    | Price     | Mkt cap.<br>(US\$m) | Hist P/E (x) | Fwd Yr1 P/E (x) | Fwd Yr2 P/E (x) | ROA (%)    | ROE (%)     | Margins Op. (%) | Margins Net (%) |
|---------------------------------------|-----------|-----------|---------------------|--------------|-----------------|-----------------|------------|-------------|-----------------|-----------------|
| <b>HK listed peers</b>                |           |           |                     |              |                 |                 |            |             |                 |                 |
| Shangri-la Asia                       | 69 HK     | HK\$20.00 | 6536.9              | 37.6         | 35.2            | 32.1            | 3.8        | 6.9         | 17.9            | 17.9            |
| HongKong & Shanghai Hotels            | 45 HK     | HK\$12.00 | 2196.5              | 8.0          | 21.2            | 23.7            | 12.4       | 19.6        | 25.9            | 81.5            |
| China Travel                          | 308 HK    | HK\$2.05  | 1501.2              | 16.3         | 19.2            | 16.4            | 4.8        | 6.9         | 4.1             | 10.9            |
| Harbour Centre                        | 51 HK     | HK\$12.52 | 507.1               | 6.7          | Na              | Na              | 12.6       | 13.6        | 37.5            | 98.2            |
| Sino Hotels                           | 1221 HK   | HK5.0     | 541.2               | 43.1         | Na              | Na              | 1.7        | 2.6         | 29.7            | 37.0            |
| <b>PRC listed peers</b>               |           |           |                     |              |                 |                 |            |             |                 |                 |
| Mediu                                 | 600175 CH | CNY4.06   | 86.3                | 52.8         | Na              | Na              | Na         | Na          | Na              | 1.7             |
| Shanghai JinJiang Int'l A             | 600754 CH | CNY11.76  | 838.4               | 36.8         | Na              | Na              | 8.5        | 10.0        | 14.5            | 25.0            |
| Shanghai JinJiang Int'l B             | 900934 CH | US\$1.069 | 107.0               | 26.2         | 23.8            | 21.4            | 8.5        | 10.0        | 14.5            | 25.0            |
| Hunan Huatian Great Hotel-A           | 000428 CH | CNY10.66  | 235.3               | 177.7        | Na              | Na              | Na         | Na          | Na              | Na              |
| <b>US listed peers</b>                |           |           |                     |              |                 |                 |            |             |                 |                 |
| Home Inns and Hotel                   | HMIN US   | US\$31.57 | 1017.7              | 618.3        | Na              | Na              | 4.2        | 7.8         | 11.4            | 7.8             |
| Starwood Hotels                       | HOT US    | US\$64.80 | 13737.7             | 24.8         | 25.4            | 26.3            | 3.4        | 8.4         | 14.0            | 7.1             |
| HILTON Hotels                         | HLT US    | US\$33.05 | 12777.5             | 31.5         | 28.8            | 25.6            | 5.4        | 17.1        | 17.3            | 10.4            |
| Marriott International                | MAR US    | US\$45.15 | 17851.9             | 27.2         | 27.9            | 24.2            | 7.8        | 18.3        | 4.8             | 5.8             |
| Choice Hotels                         | CHH US    | US\$45.72 | 3032.1              | 31.8         | 31.0            | 27.4            | 33.2       | Na          | 30.1            | 18.3            |
| <b>UK &amp; European listed peers</b> |           |           |                     |              |                 |                 |            |             |                 |                 |
| Millennium & Corp.                    | MLC LN    | GBp591.25 | 3392.3              | 27.8         | 28.2            | 23.6            | 2.6        | 5.1         | 20.4            | 10.3            |
| NH Hotels, SA                         | NHH SM    | EUR15.42  | 2529.6              | 26.2         | 27.1            | 22.8            | 3.0        | 8.4         | 11.2            | 9.0             |
| Sol Melia SA                          | SOL SM    | EUR14.86  | 3638.9              | 21.5         | 25.2            | 19.3            | 3.3        | 11.0        | 15.3            | 7.7             |
| Accor SA                              | AC FP     | EUR55.5   | 15,605.2            | 29.3         | 26.0            | 22.9            | 2.7        | 9.0         | 9.5             | 4.4             |
| <b>Average</b>                        |           |           |                     | <b>69.1</b>  | <b>26.8</b>     | <b>23.8</b>     | <b>7.4</b> | <b>10.3</b> | <b>17.4</b>     | <b>22.2</b>     |

Source: Bloomberg and SBI E2-Capital