

Analyst: Kelvin Li

Main Board H-share Listing – Research

Shanghai Jin Jiang International Hotels (Group) Company Ltd. [Stock Code: 2006]
上海錦江國際酒店(集團)股份有限公司
Sole Sponsor

BNP Paribas Peregrine Capital

Joint global coordinators, joint bookrunners and joint lead managers

: BNP Paribas Peregrine Capital and UBS Investment Bank

Co- managers

: DBS Asia Capital, First Shanghai Securities, Shenyin Wanguo Capital (HK), Sun Hung Kai International

Sector : Hotels, restaurants and leisure

Business : Hotel operation and management, budget hotel operation and franchising

Total share offer: <u>1,100,000,000</u> H shares (25% of the enlarged share capital) Public Offer: 110,000,000 H shares (10%) Placing: 990,000,000 H shares (90%) Greenshoe: 165,000,000 H shares	<u>Business of Jin Jiang International Hotels (Jin Jiang)</u> Jin Jiang is one of the leading hotel operator in China principally engaged in star-rated hotel operation and management, budget hotel operation and franchising, restaurant operation and other businesses. It is horizontally integrated hospitality services provider tailored to all segments ranging from budget accommodation to five-star hotels. Jin Jiang was ranked 22 nd globally in 2005 in terms of number of hotel rooms according to the Hotel's Corporate 300 Ranking published in July 2006 by the HOTELS Magazine. At end of October 2006, Jin Jiang operates 263 hotels (self-owned and franchised) for a total of about 51,588 rooms. The diverse portfolio of hotels: Landmark Hotels, Luxury Hotels, Commercial Hotels and Jin Jiang Inn Budget Hotels spreads over 73 cities in the PRC. Jin Jiang has a strong geographical focus in Shanghai and Beijing, which are the two major financial and tourist centres in the PRC. Star-rated hotel operation, accounting for over 80% of Jin Jiang's turnover, includes ownership and operation of Landmark hotels, luxury hotels and commercial hotels.
Price: HK\$1.81 – HK\$2.20 per H share Market Cap: HK\$2,190.1– HK\$2,662.0 million Pro-forma FY06 PER: 24.30X – 29.53X Adjusted NTA per share: HK\$1.16 – HK\$1.26 Staffing: 17,383	
HK Public Offer period: 30 th November 06 – 7 th December 06 noon Receiving bank: Standard Chartered Bank (HK) ICBC (Asia) Bank of East Asia Bank of Communications Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 15 th December 2006	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Jin Jiang International Holdings Company	68.88%
Huating Group – a wholly-owned subsidiary of Jin Jiang International	3.62%
	<u>72.5%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$2,081.2 million. (Being the mid-point of the offer price range [HK\$2.005 per H share] and assuming the over-allotment option is not exercised)

	HK\$ million
For the development and expansion of Jin Jiang Inn Budget Hotels network	1,091.6
For the refurbishment of the Landmark Hotels and Luxury Hotels	494.8
For the repayment of a portion of bank borrowings	494.8

Financial Highlights

(RMB million)	Year ended 31 st December			Six months ended 30 th June
	2003	2004	2005	2006
Turnover	1,615.0	2,373.0	2,807.7	1,450.6
Gross profit	455.4	910.9	1,077.5	549.3
Operating profit	46.0	439.1	563.4	298.6
Net profit	(53.4)	255.0	414.2	215.2
Gross margin	28.2%	38.4%	38.4%	37.9%
Operating margin	2.8%	18.5%	20.1%	20.6%
Net margin	NA	10.7%	14.8%	14.8%

Revenue Breakdown (% of Total Revenues)

	Year ended 31 st December			Six months ended 30 th June
	2003	2004	2005	2006
Star-rated Hotel Operation	84.7%	83.4%	81.4%	81.0%
Jin Jiang Inn Budget Hotels	-	6.5%	11.9%	14.0%
Star-rated Hotel Management	1.7%	1.5%	1.3%	1.3%
Restaurants	9.8%	4.3%	3.2%	3.1%
Others	3.8%	4.3%	2.2%	0.6%
Total	100.0%	100.0%	100.0%	100.0%

Strengths/Opportunities

- ✓ **Strong brand recognition and extensive customer network** “Jin Jiang 錦江” and “Jin Jiang Inn 錦江之星” are award-winning trademarks that are widely recognized throughout the PRC.
- ✓ **Prime locations in Shanghai and Beijing** At the end of October 2006, Jin Jiang runs (self-owned and franchised) 61 hotels in Shanghai, most of which are located in prime locations encompassing city landmarks, tourist attractions, and commercial districts. This puts Jin Jiang in an advantageous position to ride on the growth in economic and tourism activities.
- ✓ **Experience management team and comprehensive training** As both an owner and manager of most of its hotels, Jin Jiang's management has demonstrated extensive management experience and dedication to staff development. It has set up Shanghai Jin Jiang International Management College with the aim to train employees on hotel operations.

Weaknesses/Threats

- × **Over-reliance on Shanghai's economy** Jin Jiang's current operations and future development depend heavily on the economy of Shanghai. As at the end of October 2006, over 80% of the total turnover was derived from hotels located in Shanghai.
- × **Competition is keen amid ample supply of new hotels** Jin Jiang's income has been derived from star-rated hotels. There is a trend of over-building of star-rated hotels in the PRC and especially in Shanghai and Beijing. For instance, hotel rooms for above four-star hotels are projected to increase by over 8,000 between 2006 and 2008 (CAGR of 32%) compared with the 26,200 rooms for this segment at the end of 2005. Occupancy rate and room rates may be severely affected should the competition intensify.
- × The pro-forma FY06E PER of 24.30X – 29.53X is a bit stretched. Close peers with sizable hotel operations in China - Shangri-La Asia (0069.HK) and the HongKong & Shanghai Hotels (0045.HK) are currently trading at 31X and 22X FY06E PER, respectively. Regal International (0078.HK) is trading at 15X FY06E PER.

Recommendation: Trading Buy

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Important Disclosure

South Valley Holdings Limited ("SVH") is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by **Dr. The Hon. Sir David Li Kwok-po and family**. Dr. The Hon. Sir David Li Kwok-po is a shareholder and chairman of the board of directors of The Bank of East Asia, Limited, which is one of the receiving banks in the Hong Kong Public Offering.

SVH is one of the cornerstone investors of the issue and has agreed to purchase some US\$20 million worth of shares of **Shanghai Jin Jiang International Hotels (Group) Company Ltd.** Assuming the mid-point Offer Price of HK\$2.005 (the exchange rate adopted being US\$1 to HK\$7.7859), SVH would purchase 77,664,000 Offer Shares representing approximately 1.765% of the issued and outstanding share capital of the Company after the Global Offering or approximately 7.06% of the Offer Shares, assuming the Over-allotment Option is not exercised.