



Rating  
**Hold**

Asia  
Hong Kong

Consumer  
Hotels / Leisure /  
Gaming

Company  
**Shangri-La Asia**

Reuters 0069.HK	Bloomberg 69 HK	Exchange HSI	Ticker 0069
ADR Ticker SHALY	ISIN US81942Q1031		

Date  
26 March 2015

## Forecast Change

Price at 25 Mar 2015 (HKD)	10.78
Price target - 12mth (HKD)	10.80
52-week range (HKD)	13.02 - 9.66
HANG SENG INDEX	24,400

Karen Tang

Research Analyst  
(+852) 2203 6141  
karen.tang@db.com

# HK's woes outweigh China's recovery; trim earnings

## Early signs for luxury RevPAR recovery in China

Finally, after falling for two years, Shangri-la's mainland China RevPAR turned around, +2% yoy in 2M15. Tier 1 cities are recovering solidly (BJ +6% yoy, SH +6% yoy, SZ +10% yoy) while RevPAR declines in low-tier cities are narrowing to single-digits yoy. Unfortunately, the marginal recovery in mainland China is outweighed by the disappointing 6% yoy YTD RevPAR decline in HK & Spore. Forward bookings suggest such weak trends to persist in HK for at least 2Q as luxury Chinese travellers are going to weak currency destinations this year. We trim our 2015-16 core earnings by 10%, and our TP by 1% to HK\$10.8. Hold

## Outbound destinations not a big earnings contributor yet

In some destinations, such as Japan, Sydney, Kota Kinabalu and Maldives, Shangri-la's hotels are benefiting from the influx of outbound Chinese travelers seeking new holiday destinations with weak currencies. Mainland Chinese account for 10%-30% of guests in these hotels. Unfortunately, the weaker markets (HK/China/Spore) account for over 65% of the group's EBITDA. We think the drag on HK hotels will linger for longer, and cut 2015 RevPAR for Shanghai's HK hotels from +3% yoy to -4% yoy.

## FY14 weak as expected; property rental acting as a cushion

Shangri-La's FY14 results were weak: Group RevPAR flat but EBITDA margin slipped 1.8ppt to 25.7%, partly dragged by the new London hotel which opened in May 2014. After tax & depreciation, the mainland China hotels recorded a net loss of HK\$15m. Thankfully, property rental is ramping up, providing a tiny cushion against the downturn in hotels.

## Trim 2015-16 core earnings by 10%; risks

We trim our SOTP-derived TP by 1% to HK\$10.8. Operationally, the key risk is a prolonged downturn for the HK luxury hotel market. Another risk is US interest rate upcycle as the group has relatively high gearing. Key upside risk is non-core asset disposals at a good price.

### Key changes

Price target	10.90 to 10.80	↓	-0.9%
Sales (FYE)	2,353 to 2,293	↓	-2.5%
Op prof margin (FYE)	-	↑	0.1%
Net profit (FYE)	181.2 to 162.6	↓	-10.3%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	3.5	1.7	-11.3
HANG SENG INDEX	-1.5	4.5	12.3

Source: Deutsche Bank

### Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E
Sales (USDm)	2,081.1	2,111.6	2,293.0	2,450.1
EBITDA (USDm)	530.3	527.8	572.5	620.2
Reported NPAT (USDm)	392.3	180.9	162.6	202.5
Reported EPS FD(USD)	0.13	0.06	0.05	0.06
DB EPS FD(USD)	0.02	0.03	0.05	0.06
OLD DB EPS FD(USD)	0.02	0.04	0.05	0.06
% Change	0.0%	-30.4%	-10.2%	-10.0%
DB EPS growth (%)	-56.2	48.6	57.6	24.6
PER (x)	96.5	54.6	30.6	24.6
EV/EBITDA (x)	15.5	14.3	11.9	10.4
DPS (net) (USD)	0.02	0.02	0.02	0.02
Yield (net) (%)	0.8	1.0	1.1	1.4

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Deutsche Bank AG/Hong Kong

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Model updated: 25 March 2015

Running the numbers

Asia  
Hong Kong  
Hotels / Leisure / Gaming

Shangri-La Asia

Reuters: 0069.HK Bloomberg: 69 HK

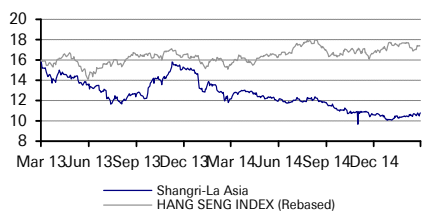
Hold

Price (25 Mar 15) HKD 10.78  
Target Price HKD 10.80  
52 Week range HKD 9.66 - 13.02  
Market Cap (m) HKDm 33,767  
USDm 4,354

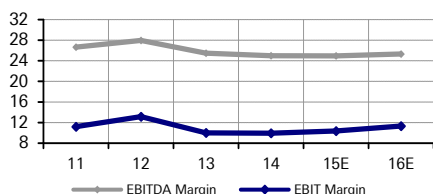
Company Profile

Shangri-La Asia is a hotel ownership and management company. Its business is organized into three lines, namely hotel operation, hotel management and property rentals. As at end 2008, Shangri-La owned or managed 60 hotels (45 owned and 15 managed) with a total room inventory of around 28,700. Its owns the brand names Shangri-La, Traders, Rasa, Summer Place and Shang Palace. Shangri-La's hotel pipeline includes 42 hotel projects (25 owned and 17 managed) with around 14,500 rooms set to open during 2009-2012.

Price Performance



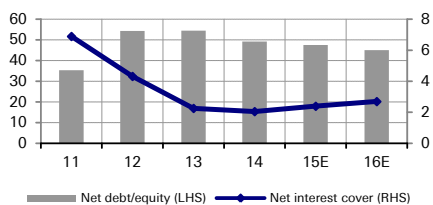
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

	2011	2012	2013	2014	2015E	2016E
<b>Financial Summary</b>						
DB EPS (USD)	0.04	0.04	0.02	0.03	0.05	0.06
Reported EPS (USD)	0.08	0.11	0.13	0.06	0.05	0.06
DPS (USD)	0.03	0.03	0.02	0.02	0.02	0.02
BVPS (USD)	1.8	1.9	2.0	1.9	2.0	2.0
Weighted average shares (m)	3,093	3,121	3,122	3,134	3,580	3,580
Average market cap (USDm)	7,235	6,308	5,844	4,931	4,354	4,354
Enterprise value (USDm)	8,283	9,079	8,208	7,539	6,840	6,456
<b>Valuation Metrics</b>						
P/E (DB) (x)	66.4	45.7	96.5	54.6	30.6	24.6
P/E (Reported) (x)	28.6	17.6	14.9	27.3	30.6	24.6
P/BV (x)	0.96	1.03	0.97	0.72	0.71	0.70
FCF Yield (%)	nm	nm	nm	nm	nm	2.1
Dividend Yield (%)	1.1	1.3	0.8	1.0	1.1	1.4
EV/Sales (x)	4.3	4.4	3.9	3.6	3.0	2.6
EV/EBITDA (x)	16.3	15.8	15.5	14.3	11.9	10.4
EV/EBIT (x)	38.7	33.6	39.4	35.9	28.8	23.3
<b>Income Statement (USDm)</b>						
Sales revenue	1,912	2,057	2,081	2,112	2,293	2,450
Gross profit	1,072	1,176	1,174	1,199	1,284	1,372
EBITDA	510	575	530	528	572	620
Depreciation	282	284	304	300	318	326
Amortisation	13	21	18	18	17	17
EBIT	214	271	208	210	238	278
Net interest income/(expense)	-31	-63	-92	-102	-99	-103
Associates/affiliates	166	262	417	207	124	129
Exceptionals/extraordinaries	12	15	19	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	361	484	551	315	263	303
Income tax expense	77	102	110	107	79	76
Minorities	31	23	49	27	21	25
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	253	359	392	181	163	203
DB adjustments (including dilution)	-144	-221	-332	-91	0	0
DB Net profit	109	138	61	90	163	203
<b>Cash Flow (USDm)</b>						
Cash flow from operations	455	293	383	367	416	459
Net Capex	-490	-996	-683	-437	-442	-355
Free cash flow	-36	-703	-300	-71	-26	104
Equity raised/(bought back)	604	1	0	637	0	0
Dividends paid	-93	-96	-93	-64	-69	-84
Net inc/(dec) in borrowings	179	1,294	486	195	-206	-230
Other investing/financing cash flows	-393	-486	202	-79	-46	101
Net cash flow	262	10	296	618	-349	-110
Change in working capital	107	-55	60	6	0	0
<b>Balance Sheet (USDm)</b>						
Cash and other liquid assets	800	821	1,111	1,442	1,309	1,199
Tangible fixed assets	6,284	7,551	7,802	8,153	8,035	8,049
Goodwill/intangible assets	93	94	93	91	90	88
Associates/investments	2,382	2,956	3,397	3,585	3,775	3,825
Other assets	414	497	495	469	469	469
Total assets	9,972	11,919	12,898	13,740	13,678	13,631
Interest bearing debt	2,928	4,365	4,853	5,106	4,900	4,669
Other liabilities	1,018	1,026	1,178	1,195	1,236	1,276
Total liabilities	3,946	5,392	6,031	6,301	6,136	5,945
Shareholders' equity	5,605	6,025	6,313	6,904	7,018	7,156
Minorities	422	503	555	535	536	541
Total shareholders' equity	6,026	6,528	6,867	7,439	7,554	7,697
Net debt	2,128	3,544	3,742	3,664	3,591	3,470
<b>Key Company Metrics</b>						
Sales growth (%)	21.4	7.6	1.2	1.5	8.6	6.9
DB EPS growth (%)	-19.3	25.6	-56.2	48.6	57.6	24.6
EBITDA Margin (%)	26.7	28.0	25.5	25.0	25.0	25.3
EBIT Margin (%)	11.2	13.1	10.0	9.9	10.4	11.3
Payout ratio (%)	31.5	22.4	12.3	26.8	35.0	35.0
ROE (%)	4.9	6.2	6.4	2.7	2.3	2.9
Capex/sales (%)	26.5	48.5	33.1	20.7	19.3	14.5
Capex/depreciation (x)	1.7	3.3	2.1	1.4	1.3	1.0
Net debt/equity (%)	35.3	54.3	54.5	49.2	47.5	45.1
Net interest cover (x)	6.9	4.3	2.3	2.0	2.4	2.7

Source: Company data, Deutsche Bank estimates



## FY14 results weak though largely expected

Shangri-la's FY14 headline net profit dropped 54% yoy to US\$181m, mainly driven by lower net fair value gains. Excluding one-offs (mainly property revaluation gains), the Group's core earnings rose from a very low base of US\$61m in FY13 to US\$90m in FY14.

Figure 1: Shangri-La 2014 results

US\$m	2014	2013	yoy	DB comment
<b>Revenue breakdown</b>				
Hotel operation	1,983	1,968	1%	RevPAR flat yoy as the group lowered ADR (-3% from US\$200 to US\$194) to bring in marginally higher occupancy (+1ppt to 62%) Driven by opening of new hotels and higher project management fees on hotel projects under development.
Hotel management	52	47	11%	
Property rentals	77	67	15%	
<b>Group turnover</b>	<b>2,112</b>	<b>2,081</b>	<b>1%</b>	
<b>Reported EBITDA</b>	<b>542</b>	<b>572</b>	<b>-5%</b>	<b>Despite revenue +1% yoy, margins down 1ppt</b>
Less: forex gains	1	(5)	-110%	
<b>Clean EBITDA</b>	<b>543</b>	<b>566</b>	<b>-4%</b>	<b>Dragged by 1ppt margin contraction</b>
<b>Clean EBITDA margin</b>	<b>26%</b>	<b>27%</b>	<b>-1ppt</b>	
Depreciation	(300)	(304)	-1%	In 2014, Shangri-La opened 5 hotels in China and 1 hotel in London.
Amortisation of intangibles	(17)	(17)	0%	
<b>Operating EBIT</b>	<b>210</b>	<b>208</b>	<b>1%</b>	<b>Dragged by 4% yoy decline in reported EBITDA</b>
Interest & dividend income	15	13	17%	
Non-recurring incomes	0	19	na	
Finance costs	(117)	(105)	12%	Gross finance costs +12% yoy on higher bank loans drawn down to fund new projects
Associates and JVs	207	417	-50%	Fair value gains not as high as in FY13
Taxation	(107)	(110)	-3%	Higher deferred tax
Minorities	(27)	(49)	-45%	
<b>Headline net profit</b>	<b>181</b>	<b>392</b>	<b>-54%</b>	<b>Mainly due to lower property revaluation gains</b>
Less: non-recurring items (post tax)	(91)	(326)	36%	Management expect recurring post-tax profits to grow steadily in 2015.
Less: net forex gains	1	(5)	na	
<b>DB core earnings</b>	<b>90</b>	<b>61</b>	<b>49%</b>	
<b>DPS (HK cent)</b>	<b>12</b>	<b>12</b>	<b>0%</b>	

Source: Company data, Deutsche Bank adjustments

## Weak ADR in 2014, dragged by China

Shangri-La's group RevPAR was flat yoy in 2014 as slight growth of occupancy rate (+1ppt yoy to 62%) was offset by lower ADR (-3% yoy from US\$200 to US\$194). As government introduced policies to crack down on lavish spending, the group's China hotels saw average RevPAR down 2% yoy with ADR dropped 8% in 2014. In Hong Kong, Shangri-La's RevPAR remain flat in 2014 (ADR down 1% yoy although occupancy up 2ppts yoy to 82%). Japan was the bright spot with RevPAR up 11%, mainly driven by JPY depreciation. Malaysia's RevPAR dropped 4% due to decline in visitor arrivals after Malaysia Airline tragedies, while Thailand's RevPAR dropped 20% due to the political environment in the country.



Figure 2: Owned hotel performance

Group	2014			2013			yoy chg		
	ADR	Occ	RevPAR	ADR	Occ	RevPAR	ADR	Occ	RevPAR
	US\$	%	US\$	US\$	%	US\$	%	Ppts	%
<b>Group</b>	<b>194</b>	<b>62%</b>	<b>121</b>	<b>200</b>	<b>61%</b>	<b>121</b>	<b>-3%</b>	<b>1</b>	<b>0%</b>
Hong Kong	327	82%	267	331	80%	266	-1%	2	0%
Mainland China	152	55%	83	166	51%	85	-8%	4	-2%
Malaysia	148	74%	110	148	78%	115	0%	-4	-4%
Singapore	249	76%	190	256	75%	193	-3%	1	-2%
Thailand	154	54%	83	157	66%	104	-2%	-12	-20%
The Philippines	199	72%	143	209	67%	140	-5%	5	2%
Japan	460	86%	397	444	81%	357	4%	5	11%
France	1,339	75%	1,000	1,320	70%	920	1%	5	9%
Australia	235	81%	189	241	81%	195	-2%	0	-3%
Turkey	na	na	na	548	39%	214	na	Na	na
Other countries	219	64%	140	208	62%	128	5%	2	9%

Source: Company data

## 2015 – Reversing trends

Year-to-February, the group's mainland Chinese RevPAR turned around, +2% yoy, largely driven by demand recovery in Beijing and Shanghai. But Hong Kong and Singapore's RevPAR came down 6% yoy in 2M15. Management expects Hong Kong's RevPAR decline trend to remain at a similar rate at least for the next few months. For Singapore, management explained that the RevPAR decline year-to-February was due to a very strong base in early 2014 as Singapore took on many business travelers who avoided Thailand in early 2014. As such, the yoy trend in Singapore may improve as comps get easier into the 2H of the year.

## Maintain Hold with HK\$10.8 TP

After factoring in lower RevPAR growth forecasts, we cut our TP by 1% to HK\$10.8. We value Shangri-La's hotel operation on 13x 2015 EV/EBITDA (previously on 2014 estimates). On back of weak RevPAR growth outlook, our target EV/EBITDA multiple (12.6x) is below 1 standard deviation of the historical average (since 1996) of 16x. For the Group's property business, we value it on a 45% discount to our estimated market value NAV. As this is a relative new business for Shangri-La, our NAV discount is wider than our property team's average target discount for other China property developers (40%). At current valuation, we see limited excitement ahead. That said, with the stock's inexpensive valuation (0.7x PB), we believe risks and rewards are largely balanced at current share price. As such, we maintain our Hold rating on the stock.

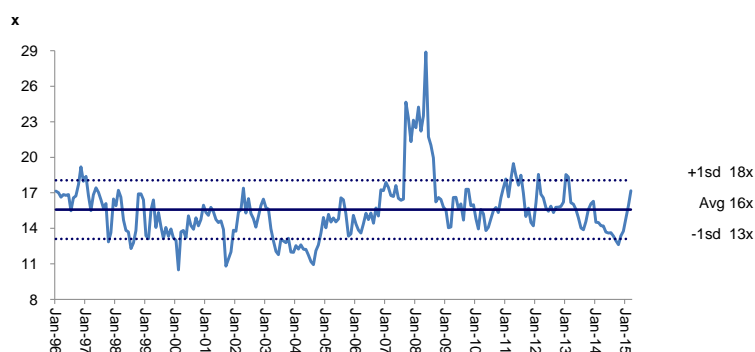


Figure 3: Shangri-La: Sum-of-the-parts valuation

	2015 EBITDA		Multiple	Valuation		% of EV
	US\$m	HK\$m		HK\$m	HK\$/shr	
Hotel operation	561	4,347 x	13	57,381	16.0	74%
Hotel management	46	356 X	13	4,698	1.3	6%
Investment properties	35	45% NAV disc		22,591	6.3	29%
Development property for sale		45% NAV disc		365	0.1	1%
Corporate expenses	(69)	(538) x	13	(7,101)	(2.0)	-9%
<b>Enterprise value</b>	<b>572</b>			<b>77,934</b>	<b>20.8</b>	<b>100%</b>
Hotel associates & JV	37	284 x	13	3,754	1.1	
Less: net debt				(37,757)	(10.8)	
Less: minorities				(4,156)	(1.2)	
<b>Target price</b>				<b>38,775</b>	<b>10.8</b>	

Source: Deutsche Bank estimates

Figure 4: Shangri-La: 12-mth fwd EV/EBITDA



Source: Deutsche Bank estimates

Figure 5: Shangri-La NAV breakdown

HK\$m	# of rooms (2015E)		Attr. asset value (2015E)		% of GAV
	Total	Attr	Per room	Total	
<b>Owned hotels - operating</b>	<b>29,397</b>	<b>21,701</b>	<b>4.7</b>	<b>101,537</b>	<b>64%</b>
Hong Kong	1,540	1,235	12.1	14,957	9%
Mainland China	16,572	12,683	4.4	55,393	35%
Singapore	1,750	1,426	5.6	7,950	5%
The Philippines	2,086	2,053	3.0	6,159	4%
Malaysia	2,836	1,399	3.0	4,198	3%
Thailand	1,339	1,011	3.0	3,034	2%
Others	3,274	1,893	5.2	9,845	6%
<b>Owned hotels - upcoming</b>	<b>7,995</b>	<b>5,502</b>	<b>2.8</b>	<b>15,524</b>	<b>10%</b>
Hong Kong	572	572	4.6	2,615	2%
Mainland China	5,081	3,461	2.7	9,474	6%
Other	2,342	1,469	2.3	3,435	2%
Owned hotels total	37,392	27,203	4.3	117,061	74%
Investment property			7% cap rate	35,631	23%
Dev property for sales			11% WACC	735	0%
Hotel management contracts			15x EV/EBITDA	4,769	3%
<b>Gross Asset Value</b>				<b>158,196</b>	<b>100%</b>
Less net debt				(34,655)	
<b>NAV</b>				<b>123,541</b>	
<b>NAV/share (HK\$/shr)</b>				<b>34.5</b>	

Source: Deutsche Bank estimates



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## Risks

Key downside risks include additional frugality measures launched by Chinese government, delays in new hotel openings and execution risks in opening hotels in new jurisdictions outside China. Key upside risks include recovery in China's luxury hotels' RevPAR growth.



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Shangri-La Asia	0069.HK	10.78 (HKD) 25 Mar 15	NA

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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## Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Karen Tang

### Historical recommendations and target price: Shangri-La Asia (0069.HK)

(as of 3/25/2015)



#### Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

#### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9,2002

1.	22/08/2013:	Hold, Target Price Change HKD13.30	3.	28/10/2014:	Hold, Target Price Change HKD10.90
2.	19/03/2014:	Hold, Target Price Change HKD12.60			



Equity rating key

**Buy:** Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield ) , we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.

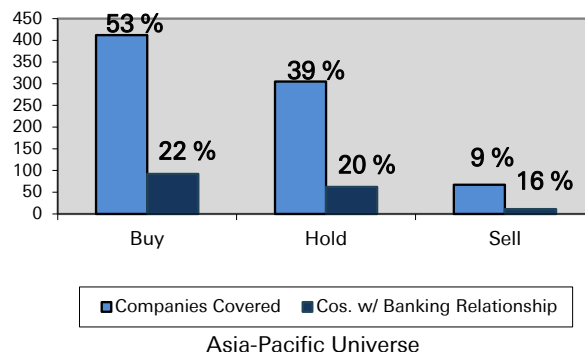
2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships







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Group Chief Economist  
Member of the Group Executive Committee

**Raj Hindocha**  
Global Chief Operating Officer  
Research

**Marcel Cassard**  
Global Head  
FICC Research & Global Macro Economics

**Richard Smith and Steve Pollard**  
Co-Global Heads  
Equity Research

**Michael Spencer**  
Regional Head  
Asia Pacific Research

**Ralf Hoffmann**  
Regional Head  
Deutsche Bank Research, Germany

**Andreas Neubauer**  
Regional Head  
Equity Research, Germany

**Steve Pollard**  
Regional Head  
Americas Research

## International locations

### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

### Deutsche Bank AG

Große Gallusstraße 10-14  
60272 Frankfurt am Main  
Germany  
Tel: (49) 69 910 00

### Deutsche Bank AG

Filiale Hongkong  
International Commerce Centre,  
1 Austin Road West, Kowloon,  
Hong Kong  
Tel: (852) 2203 8888

### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6770

### Deutsche Bank AG London

1 Great Winchester Street  
London EC2N 2EQ  
United Kingdom  
Tel: (44) 20 7545 8000

### Deutsche Bank Securities Inc.

60 Wall Street  
New York, NY 10005  
United States of America  
Tel: (1) 212 250 2500

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