

Industrials
Hotels Restaurants & Leisure
Equity – Hong Kong

Shangri-La Asia Ltd (69 HK)

Buy

Target price (HKD)	12.00
Share price (HKD)	10.70
Upside/Downside (%)	12.1

Performance	1M	3M	12M
Absolute (%)	2.7	1.3	-12.0
Relative ^A (%)	4.2	-3.0	-21.2

Index^A HANG SENG INDEX

RIC 0069.HK
 Bloomberg 69 HK

Market cap (USDm) 4,939
 Market cap (HKDm) 38,306

Enterprise value (USDm) 5,122
 Free float (%) 46

Buy: China hotel operations improved in 2015 YTD

- ▶ **FY14 recurring net profit was up 36% y-o-y and in line with our forecast**
- ▶ **Outlook was more encouraging with China hotel RevPAR improving in 2015 YTD**
- ▶ **We establish a Buy rating and set a fair value target price of HKD12**

Decent 2014 results despite weak China hotel operations. Shangri-La (SHLA) reported net profit of USD181m, down 57% y-o-y mainly due to lower investment property revaluation. Recurring net profit was USD90m, up 36% from 2013 and 3% above our forecast (we do not compare with consensus earnings due to too few analysts covering this stock.) Despite a weak China hotel market (China hotel revenue was down 5% and became loss-making again at the net profit level), stringent cost control along with lower pre-opening cost at the hotel segment led to a stable EBIT, while increased contribution from the Jing An Kerry Centre at the AJCE level led the y-o-y growth. Overall RevPAR was USD121, flat y-o-y with HK RevPAR being flat and China down 2%.

China hotel operations improved in early 2015. Management guidance was positive, with China RevPAR appearing to finally turn around. Management guided that during the first two months of 2015, China RevPAR grew 2% y-o-y: Beijing had 6% RevPAR growth, Kerry Pudong and Shangri-La Pudong had 20% RevPAR growth, and while many lower-tier cities still faced RevPAR declines, these have narrowed from double-digit falls in 2014 to single-digits in 2015. Management attributes this to a weak improvement in underlying demand while supply growth moderated somewhat. HK remains weak with a 6% y-o-y RevPAR decline in Jan-Feb 2015 although management said there are no signs of further deterioration, and Singapore RevPAR also declined 6% y-o-y from a high 2014 base. The capex cycle is also likely to end by 2017, and we forecast FCF yield will turn positive by 2016-17. We made minimal changes to our earnings, and introduce 2017e forecasts.

We establish a Buy rating. We see fair value at 11x EV/EBITDA for SHLA's subsidiaries and 0.9x PB for its Associates. We make minimal changes to our appraised valuation and set a fair value target price of HKD12. The main downside risk is unexpected events, such as natural disasters or political unrest in China, where the majority of Shangri-La's portfolio is situated. An additional downside risk is lower rent trends.

26 March 2015

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Financials & valuation

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (USDm)				
Revenue	2,112	2,384	2,648	2,765
EBITDA	523	584	597	606
Depreciation & amortisation	-318	-360	-363	-364
Operating profit/EBIT	205	225	233	242
Net interest	-103	-110	-112	-108
PBT	315	234	252	270
HSBC PBT	219	234	252	270
Taxation	-107	-103	-111	-119
Net profit	181	98	106	113
HSBC net profit	90	98	106	113

Cash flow summary (USDm)

Cash flow from operations	611	756	742	708
Capex	-670	-650	-200	-200
Cash flow from investment	-975	-650	-200	-200
Dividends	-52	-57	-61	-65
Change in net debt	-54	162	-240	-196
FCF equity	-372	-166	254	212

Balance sheet summary (USDm)

Intangible fixed assets	91	91	91	91
Tangible fixed assets	8,172	8,462	8,299	8,135
Current assets	1,871	1,706	1,977	2,187
Cash & others	1,442	1,280	1,520	1,716
Total assets	13,740	13,925	14,099	14,213
Operating liabilities	889	999	1,110	1,158
Gross debt	5,107	5,107	5,107	5,107
Net debt	3,665	3,827	3,587	3,390
Shareholders funds	6,904	6,963	7,007	7,055
Invested capital	7,802	7,980	7,737	7,539

Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Y-o-y % change				
Revenue	1.5	12.9	11.1	4.4
EBITDA	-0.6	11.7	2.1	1.6
Operating profit	0.4	9.4	3.9	3.7
PBT	-42.9	-25.7	7.6	7.2
HSBC EPS	35.9	-4.2	7.6	7.2

Ratios (%)

Revenue/IC (x)	0.3	0.3	0.3	0.4
ROIC	1.8	1.6	1.7	1.8
ROE	1.4	1.4	1.5	1.6
ROA	2.1	1.5	1.5	1.6
EBITDA margin	24.8	24.5	22.5	21.9
Operating profit margin	9.7	9.4	8.8	8.7
EBITDA/net interest (x)	5.1	5.3	5.3	5.6
Net debt/equity	49.3	50.9	47.3	44.4
Net debt/EBITDA (x)	7.0	6.5	6.0	5.6
CF from operations/net debt	16.7	19.8	20.7	20.9

Per share data (USD)

EPS reported (fully diluted)	0.06	0.03	0.03	0.03
HSBC EPS (fully diluted)	0.03	0.03	0.03	0.03
DPS	0.02	0.02	0.02	0.02
Book value	2.20	1.94	1.96	1.97

Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	2.3	2.4	2.0	1.8
EV/EBITDA	9.4	9.7	9.0	8.4
EV/IC	0.5	0.5	0.5	0.5
PE*	47.9	50.0	46.5	43.4
P/Book value	0.6	0.7	0.7	0.7
FCF yield (%)	-13.7	-2.5	6.1	5.3
Dividend yield (%)	1.2	1.2	1.2	1.3

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 24 Mar 2015

2014 earnings rebounded from a low base

1. Shangri-La 2014 results

USDm	2014	2013	Chge	HSBC		Comments
				2014e	Diff	
Revenue	2,112	2,081	1%	2,169	-3%	China hotel revenue declined by 5%
Cost of inventories	-280	-276	2%	-281	0%	
Salaries	-669	-657	2%	-679	-1%	
Marketing	-85	-84	1%	-85	0%	
Others	-554	-538	3%	-564	-2%	
Opex	-1,588	-1,555	2%	-1,608	-1%	Stringent cost control along with lower pre-opening expenses
EBITDA	523	526	-1%	562	-7%	
Depreciation	-318	-322	-1%	-322	-1%	
EBIT	205	204	0%	239	-14%	
Net interest	-103	-99	4%	-101	2%	
AJCE (recurring)	116	53	118%	104	12%	Growth mainly from the ramp-up of Jing An Kerry Centre
Reval gain	98	359	-73%	23	328%	
Other non-recurring	-1	34	-104%	-9	-84%	
PBT	315	551	-43%	256	23%	
Recurring PBT	219	159	38%	243	-10%	
Tax	-107	-110	-3%	-90	19%	
MI	-27	-49	-45%	-42	-36%	
NP	181	392	-54%	125	45%	
Recurring NP	90	66	36%	87	3%	Lower minority interest % than expected

Source: Company data, HSBC estimates

Valuation and risks

We apply unchanged valuation multiples, and make minimal changes to our appraised valuation. We set a fair value target price of HKD12. Our fair value target price implies 12.1% upside from the current share price; therefore, we establish a Buy rating on the stock.

2. HSBC appraised valuation of Shangri-La

USDm	New	Old	Assumptions
Enterprise Value	6,427	6,419	11x 2015e EV/EBITDA
Add: AJCE	3,280	3,173	0.9x 2015e PB
Less: Net debt	-3,627	-3,444	2015e Net Debt
Less: Others	-551	-657	Mostly 2015e Minority Interests
Equity Value	5,527	5,491	
TP (in HKD)	12.0	12.0	

Source: HSBC estimates.

The key downside risk is unexpected events, such as natural disasters or political unrest in China, where the majority of Shangri-La's portfolio is situated. An additional downside risk is lower rent trends.

Disclosure appendix

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

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Rating distribution for long-term investment opportunities

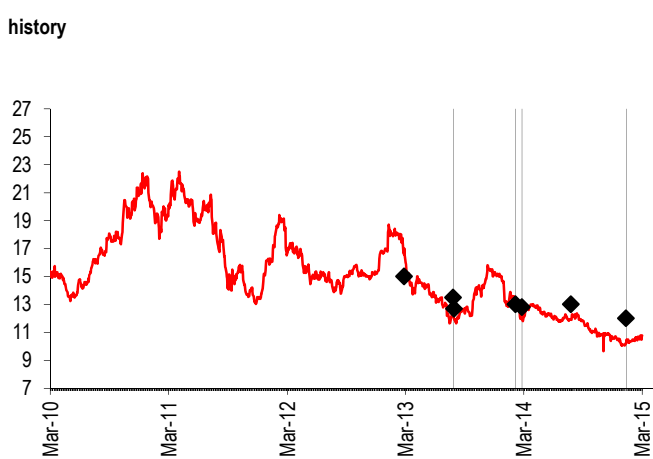
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Hold	39%	(28% of these provided with Investment Banking Services)
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For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

Share price and rating changes for long-term investment opportunities

Shangri-La Asia Ltd (0069.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Underweight	Neutral	19 August 2013
Neutral	Underweight	27 February 2014
Underweight	Neutral	19 March 2014
Neutral	Overweight	03 February 2015
Target Price	Value	Date
Price 1	15.00	21 March 2013
Price 2	13.50	19 August 2013
Price 3	12.70	22 August 2013
Price 4	13.00	27 February 2014
Price 5	12.80	19 March 2014
Price 6	13.00	17 August 2014
Price 7	12.00	03 February 2015

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SHANGRI-LA ASIA LTD	0069.HK	10.78	25-Mar-2015	6, 7

Source: HSBC

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