

## Fullshare Holdings Limited

HKSE: 0607

Maintaining Rating & Target Price

BUY, HK\$4.00

September 15, 2017

### MARKET DATA

Share Price:	HK\$	3.04
Market Cap:	HK\$	59,976.34 M
52wk Range:	HK\$	2.52 - 4.84
Ave. Volume:		27,800,000
Basic S/O:		19,729.06 M
Fully Diluted S/O:		19,753.22 M
Float:		6,937.06 M
Board Lot:		2,500
Institutional (SDI) %:		13%
Insider %:		51%

### FINANCIAL DATA (mrq)

Cash:	RMB	5,986.30 M
ST Debt:	RMB	7,626.38 M
LT Debt:	RMB	3,114.28 M
Book Value:	RMB	21,495.19 M
EBITDA (ttm):	RMB	1,746.85 M
CFFO (ttm):	RMB	N/A

Auditor: Ernst & Young

	RMB	2015A	2016A	2017e	2018e
<b>Revenue (in Millions of RMB)</b>					
Jun		1,361.83	4,834.87A	6,271.22	
Dec		2,949.59	5,552.60	6,760.73	
<b>REV</b>	<b>3,095.61</b>	<b>4,311.42</b>	<b>10,387.47</b>	<b>13,031.95</b>	
<i>P/S</i>	16.28	11.69	4.85	3.87	

### Diluted EPS (in RMB cents/share)

Jun		10.42	(2.87)A	5.86
Dec		8.11	2.80	6.20
<b>EPS</b>	<b>8.69</b>	<b>18.47</b>	<b>(0.07)</b>	<b>12.06</b>
<i>P/E</i>	29.40	13.83	N/A	21.18

### Dividend (in RMB)

Jun	0.000	0.000	0.000	0.000
Dec	0.010	0.015	0.000	0.000
<b>DIV</b>	<b>0.010</b>	<b>0.015</b>	<b>0.000</b>	<b>0.000</b>
<i>Yield</i>	0.30%	0.44%	0.00%	0.00%

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## H1 Results Weaker Than Expected, But Show Signs Of The Diversified Company Fullshare Is Changing Into

**First Half Results Weaker Than Expected.** First half sales of RMB 4,834.9 million came in well below our estimate on much lower sales from CHST, as well as lower than expected Revenue from the Healthcare & Education segment. CHST's downturn was a function of the businesses sold and the weakness in the Chinese wind market, which saw both lower demand and greater pricing pressure. Management expects CHST's market will recover from the recent oversupply and resume its growth path. FS reported a RMB 1,329.8 million loss from the change in fair value of its listed equity holdings, which was almost wholly attributed to its large stake in Zall [HK: 2098]. Partially offsetting this was Other Income of RMB 721.6 million, highlighted by a RMB 431.9 million change in fair value of properties held for sale that were transferred to investment properties and RMB 122.3 million in gains from the resumption of land that was previously the site of a CHST plant. Net Loss for the period was RMB 538.0 million, or 2.87 cents per share. The loss was heavily influenced by the non-cash losses from its equity portfolio of listed companies, notably its large stake in Zall. While the first half was below our expectations, it is worth noting that the results were heavily negatively impacted by the short-term lag for CHST and the drop in Zall's share price. However, it provided the first glimpse of what the new Fullshare will look like after all its recent acquisitions finally being integrated into the financial statements, which will give investors a chance to better evaluate the results of its new model on a go-forward basis.

**Co-CEO Steps Down.** On August 14, Deng Xiaoxiong resigned as co-CEO of the Company to focus more on the Life Infinity and O2O businesses of Fullshare.

**Change in GSH Plaza Acquisition.** On July 26, Fullshare adjusted the purchase agreement for the GSH Plaza in Singapore, with Fullshare Value Fund I (A) now acting as the purchaser. As a result, this property will not be consolidated to 607's results, which will now see dividend income from 50% of the profit of the building and recognize price appreciation whenever the building is sold in the future.

**Australian Land Acquisitions Terminated.** On August 24, FS terminated its deal to acquire a series of Australian land assets from Chairman Ji, but will continue to manage these assets.

**Model Update.** We made a few changes to our model, including removing GSH, scaling back our near-term CHST projections, and updating the fair value changes to Fullshare's investment portfolio.

**Maintaining Rating & Target.** The changes made to our model had minimal impact on our valuation of Fullshare. As a result, we are reiterating our Buy rating and HK\$4.00 target price on Fullshare Holdings. Our target price is based on a discount model, which assumes Fullshare will acquire RMB 2 billion of EBITDA annually, at 5x EBITDA that will grow 15% per year, discounted at 8% annually.

## COMPANY UPDATE

**First Half Results Weaker Than Expected.** First half sales of RMB 4,834.9 million came in well below our estimate on much lower sales from CHST, as well as lower than expected Revenue from the Healthcare & Education segment. CHST's downturn was a function of the businesses sold and the weakness in the Chinese wind market, which saw both lower demand and greater pricing pressure. Management expects CHST's market will recover from the recent oversupply and resume its growth path. FS reported a RMB 1,329.8 million loss from the change in fair value of its listed equity holdings, which was almost wholly attributed to its large stake in Zall [HK: 2098]. Partially offsetting this was Other Income of RMB 721.6 million, highlighted by a RMB 431.9 million change in fair value of properties held for sale that were transferred to investment properties and RMB 122.3 million in gains from the resumption of land that was previously the site of a CHST plant. SG&A was RMB 1,004.2 million, up significantly from previous periods as numerous acquisitions, notably CHST, were included in this period. Net Loss for the period was RMB 538.0 million, or 2.87 cents per share. The loss was heavily influenced by the non-cash losses from its equity portfolio of listed companies, notably its large stake in Zall. While the first half was below our expectations, it is worth noting that the results were heavily negatively impacted by the short-term lag for CHST and the drop in Zall's share price. However, it provided the first glimpse of what the new Fullshare will look like after all its recent acquisitions finally being integrated into the financial statements, which will give investors a chance to better evaluate the results of its new model on a go-forward basis.

**Co-CEO Steps Down.** On August 14, Deng Xiaoxiong resigned as co-CEO of the Company to focus more on the Life Infinity and O2O businesses of Fullshare. Mr. Deng was the Vendor in the Life Infinity deal when Fullshare acquired it from him in 2016. This shift may indicate Fullshare is looking to place a greater focus on some of its other core areas, like Tourism and Childcare.

**Change in GSH Plaza Acquisition.** On July 26, Fullshare adjusted the purchase agreement for the GSH Plaza in Singapore, with Fullshare Value Fund I (A) now acting as the purchaser. The Fund is managed by Fullshare GP, which is 71% controlled by the listco, who is a 50% limited partner. As a result, this property will not be consolidated to 607's results, which will now see dividend income from 50% of the profit of the building and recognize price appreciation whenever the building is sold in the future. Given the price of the acquisition we see this change as a positive for Fullshare as it gives the Company the brand recognition in the Singapore market, income and appreciation potential without the entirety of the capital outlay.

**Australian Land Acquisitions Terminated.** On May 25, FS agreed to acquire a series of Australian land assets from Chairman Ji through the issuance of 158 million shares priced at HK\$2.96 per share. This deal was terminated on August 24 after determining the additional conditions required by the Foreign Investment Review Board of Australia made the development plans less favorable to Fullshare. Fullshare Holdings Australia Management will continue to provide management services to these assets, as it has since May 2015. Despite this, Fullshare has added to its Australian development team in recent months and is exploring plans to develop its existing Australian property assets, beyond the Sheraton Mirage. These assets, which would require considerable investment, could boost Fullshare's tourism portfolio in northeast Australia as it caters to Chinese tourists.

**Model Update.** We made a few changes to our model, including removing GSH, scaling back our near-term CHST projections, and updating the fair value changes to Fullshare's investment portfolio.

**Maintaining Rating & Target.** The changes made to our model had minimal impact on our valuation of Fullshare. As a result, we are reiterating our Buy rating and HK\$4.00 target price on Fullshare Holdings. Our target price is based on a discount model, which assumes Fullshare will acquire RMB 2 billion of EBITDA annually, at 5x EBITDA that will grow 15% per year, discounted at 8% annually.

## RISKS

### Shift From Property

There are no assurances that a shift in focus from property development to health, education and tourism assets will produce the returns the Company and our model anticipates.

### Conglomerate-Style Investments

Fullshare has rapidly changed from a property developer to a conglomerate with a number of investments in various industries. While conglomerates can succeed through cost savings synergies and management expertise, some struggle due to lack of focus across industries its investments compete in.

### Continued Dilution

Current shareholders may experience dilution in the future as Fullshare continues to acquire companies or equity stakes in companies, whether through equity-based financings, share exchanges or payment through the issuance of shares.

### Ongoing Financial Restatements

Due to the nature of Fullshare's M&A strategy the Company is continually restating its past financials, which may make historic comparisons difficult.

### Likely Acquisitions with More Third Party Companies

The Fullshare listco has acquired a number of assets held by Chairman Ji or his associates, many of which have been done with share payments. There are no assurances the listco will be able to acquire assets at similar valuations or without the need for cash payments.

### Development of Subsidiaries

There are no assurances the smaller subsidiaries, like Sparrow and the O2O business will develop as rapidly as management expects.

### Significant Shareholder

Chairman Ji Changqun owns 10,131,770,454 shares, or 51% of the Company's common stock, which gives him control over the future of the Company.

### Related Party Transactions

The Company has engaged in a number of transactions with Chairman Ji, including the original RTO assets, Nanjing Fullshare Technology, the Zall shares, Anke High-Tech, and the Sheraton Mirage Port Douglas hotel.

### Foreign Currency Exchange

Fullshare's stock trades in Hong Kong Dollars, while its reporting currency and bulk of its business is done in Chinese Yuan, along with Australian Dollars. Movement in these currencies could have an adverse effect on financial performance and/or asset values.

**ESTIMATED INCOME STATEMENT**

(in 000s of RMB)	2015A	H1:16A	H2:16A	2016A	H1:17A	H2:17e	2017e	H1:18e	H2:18e	2018e
<b>Revenue</b>	<b>3,095,611</b>	<b>1,393,944</b>	<b>2,917,479</b>	<b>4,311,423</b>	<b>4,834,865</b>	<b>5,552,601</b>	<b>10,387,466</b>	<b>6,271,217</b>	<b>6,760,731</b>	<b>13,031,948</b>
Cost of Sales	(2,708,273)	(985,187)	(2,454,241)	(3,439,428)	(3,635,163)	(3,836,651)	(7,471,814)	(3,986,635)	(4,320,294)	(8,306,929)
<b>Gross Profit</b>	<b>387,338</b>	<b>408,757</b>	<b>463,238</b>	<b>871,995</b>	<b>1,199,702</b>	<b>1,715,950</b>	<b>2,915,652</b>	<b>2,284,583</b>	<b>2,440,437</b>	<b>4,725,019</b>
FV Change in Financial Assets	621,095	1,768,319	1,593,140	3,361,459	(1,329,786)	181,900	(1,147,886)	258,207	271,118	529,325
Other Income	142,408	20,385	218,105	238,490	721,659	106,592	828,251	110,012	110,330	220,342
Selling & Distribution Expenses	(136,441)	(69,279)	(159,524)	(228,803)	(240,136)	(221,586)	(461,722)	(220,310)	(237,475)	(457,785)
Administrative Expenses	(168,346)	(143,328)	(368,124)	(511,452)	(764,057)	(594,157)	(1,358,214)	(604,650)	(655,243)	(1,259,893)
Finance Costs	(104,641)	(12,173)	(77,823)	(89,996)	(323,979)	(334,375)	(658,354)	(334,375)	(334,375)	(668,750)
FV Change in HFS to Investment Property	147,464	-	-	-	-	-	-	-	-	-
Change in FV of Investment Properties	-	-	-	-	-	-	-	-	-	-
Change in FV of CBs	-	-	-	-	-	-	-	-	-	-
Gain on Disposal of Subsidiaries	194,047	14,283	84,219	98,502	29,297	-	29,297	-	-	-
Gain on Bargain Purchase of Subsidiaries	363,428	-	3,752	3,752	-	-	-	-	-	-
Share of JV Income	-	-	(7)	(7)	78,395	-	78,395	-	-	-
Share of Associates Income	-	-	5,501	5,501	56,739	-	56,739	-	-	-
<b>Profit Before Tax</b>	<b>1,446,352</b>	<b>1,986,964</b>	<b>1,762,477</b>	<b>3,749,441</b>	<b>(572,166)</b>	<b>854,323</b>	<b>282,157</b>	<b>1,493,467</b>	<b>1,594,791</b>	<b>3,088,258</b>
Income Tax Expense	(226,430)	(364,983)	(351,453)	(716,436)	34,151	(167,013)	(132,862)	(190,454)	(201,880)	(392,334)
<b>Net Profit</b>	<b>1,219,922</b>	<b>1,621,981</b>	<b>1,411,024</b>	<b>3,033,005</b>	<b>(538,015)</b>	<b>687,311</b>	<b>149,296</b>	<b>1,303,014</b>	<b>1,392,911</b>	<b>2,695,925</b>
Non-Controlling Interests	(2,095)	16,104	(88,295)	(72,191)	(29,059)	(134,314)	(163,373)	(147,307)	(169,194)	(316,501)
<b>Net Profit to Shareholders</b>	<b>1,217,827</b>	<b>1,638,085</b>	<b>1,322,729</b>	<b>2,960,814</b>	<b>(567,074)</b>	<b>552,997</b>	<b>(14,077)</b>	<b>1,155,707</b>	<b>1,223,716</b>	<b>2,379,423</b>
<b>Basic EPS</b>	<b>8.69</b>	<b>10.47</b>	<b>8.06</b>	<b>18.47</b>	<b>(2.87)</b>	<b>2.80</b>	<b>(0.07)</b>	<b>5.86</b>	<b>6.20</b>	<b>12.06</b>
Basic S/O		15,643,328	16,418,904	16,031,116	19,729,062	19,729,062	19,729,062	19,729,062	19,729,062	19,729,062
<b>Dividend Per Share (RMB cents/share)</b>	<b>1.0</b>			<b>0.0</b>			<b>0.0</b>			<b>0.0</b>

Source: 0607 documents filed with the HKEX and Greenridge Global estimates

**NOTE:** Estimates do not include the presumed RMB 2 billion in EBITDA to be acquired annually, but rather include only what Fullshare currently owns.

**DISCLOSURES****Distribution of Ratings**

Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	8	80%	0	0%
HOLD	0	0%	0	0%
SELL	1	10%	0	0%
NO RATING	1	10%	0	0%

**Explanation of Ratings**

- BUY:** Describes undervalued stocks we expect to provide a total return (capital appreciation + yield) of 15% or more in the next twelve month period.
- HOLD:** Describes fully valued stocks we expect to provide a total return (capital appreciation + yield) of plus or minus 15% in the next twelve month period.
- SELL:** Describes overvalued stocks we expect to provide a total negative return (capital depreciation + yield) of 15% or more in the next twelve month period.
- NO RATING:** Describes stocks that have their investment rating and/or target price temporarily removed for fundamental or compliance-based reasons.

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**Other Disclosures**

<u>Company</u>	<u>Disclosures</u>
Fullshare Holdings Limited	8

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