

Fullshare Holdings Limited

HKSE: 0607

Maintaining Rating & Reducing Target Price

BUY, HK\$1.50

April 15, 2019

MARKET DATA

Share Price:	HK\$	0.96
Market Cap:	HK\$	18,939.90 M
52wk Range:	HK\$	0.79 - 4.34
Ave. Volume:		38,100,000
Basic S/O:		19,729.06 M
Fully Diluted S/O:		19,805.85 M
Float:		7,707.29 M
Board Lot:		2,500
Institutional (SDI) %:		13%
Insider %:		51%

FINANCIAL DATA (mrq)

Cash:	RMB	5,475.97 M
ST Debt:	RMB	7,020.11 M
LT Debt:	RMB	5,864.40 M
Book Value:	RMB	20,695.50 M
EBITDA (ttm):	RMB	2,042.95 M
CFFO (ttm):	RMB	N/A

Auditor: PricewaterhouseCoopers

RMB	2017A	2018A	2019e	2020e
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Revenue (in Millions of RMB)

	2017A	2018A	2019e	2020e
Jun	4,834.87	3,883.88	5,735.25	6,059.73
Dec	6,191.59	6,404.76	6,543.72	7,003.27
REV	11,026.46	10,288.65	12,278.97	13,063.00
P/S	1.47	1.58	1.32	1.24

EPS (in RMB cents/share)

	2017A	2018A	2019e	2020e
Jun	10.42	2.79	(0.25)	2.70
Dec	8.11	(16.81)	2.83	3.57
EPS	18.47	(15.36)	2.58	6.27
P/E	5.53	N/A	31.94	13.11

Dividend (in RMB)

	2017A	2018A	2019e	2020e
Jun	0.000	0.000	0.000	0.000
Dec	0.015	0.000	0.000	0.000
DIV	0.015	0.000	0.000	0.000
Yield	1.82%	0.00%	0.00%	0.00%

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Related Company Debt Default Weighs Heavily On Near Term Outlook

Impact of Nanjing Fullshare's Debt Default. Media reports on December 26 noted Nanjing Fullshare Industrial Holding Group Co., Ltd. ("Nanjing Fullshare") and its subsidiaries defaulted on payments of approximately RMB 1,278 million in debt due to tight financial liquidity. Fullshare management indicated the source of the cash constraint for Nanjing Fullshare was that much of its Receivables were from SOEs for infrastructure projects and the payment on those Receivables were extended by the SOEs, thus creating a cash crunch. Fullshare halted the stock on December 27 and lifted the halt on December 31 in conjunction with information about Nanjing Fullshare, who claimed all debts had been fully repaid, and its relationship with Fullshare Holdings. Fullshare noted the controlling shareholder of Nanjing Fullshare is Ji Changrong, the younger brother of Chairman Ji Changqun, and that neither Fullshare Holdings nor Chairman Ji are shareholders of Nanjing Fullshare. We note that Chairman Ji was listed as a Director and Chairman of Nanjing Fullshare since 2002, and had directly and indirectly owned 79.74% of the equity of Nanjing Fullshare as of Fullshare's 2017 Annual Report. However, Ji Changrong, Chairman Ji's brother, now reportedly owns 62.6% of Nanjing Fullshare. The extent of the operating relationship between Fullshare Holdings and Nanjing Fullshare is that Fullshare Holdings provides overseas management services and green buildings services to Nanjing Fullshare and has provided financial assistance to Nanjing Fullshare on two deals, the Wonder City pledge on a BoComm line and the Ma'anshan pledge on a third party loan.

Since the announcement, Nanjing Fullshare changed its name to Nanjing Jiangong Industrial Group Co., Ltd., ("Nanjing Jiangong") and has begun a government-backed restructuring plan, which includes creditors being forced to continue providing capital to Nanjing Jiangong and forcing it to begin selling off non-engineering construction assets, of which it has many diverse holdings. On March 29, Fullshare agreed to sell Ma'anshan Haixin Travel Investment Co. to a third party, which removes the Ma'anshan Project from Fullshare's assets, thus removing the Company from the Saiqing pledge. This leaves the Wonder City pledge as its only ongoing core financial relationship with Nanjing Jiangong. While not directly tied to Nanjing Jiangong, Fullshare has been impacted by this as it no longer has easy access to its bank lines. This may also make any potential sale of China High Speed much more difficult, especially if the buyer is not China-based. These items will likely make it difficult for Fullshare to acquire traditional real estate development projects, distressed real estate projects or larger acquisitions. We are also unsure what financial contribution Chairman Ji can provide Fullshare in the near term given his guarantees on Nanjing Jiangong-related debts and having pledged roughly two-thirds of his shares of Fullshare.

See page 2 for a full discussion on Nanjing Fullshare and Fullshare Holdings.

COMPANY UPDATE

Impact of Nanjing Fullshare's Debt Default. Media reports on December 26 noted that Nanjing Fullshare Industrial Holding Group Co., Ltd. ("Nanjing Fullshare") and its subsidiaries had defaulted on payments of approximately RMB 1,278 million in debt due to tight financial liquidity, which triggered an early repayment obligation of Nanjing Fullshare. Fullshare management indicated the source of the cash constraint for Nanjing Fullshare was that much of its Receivables were from SOEs for infrastructure projects and the payment on those Receivables were extended by the SOEs, thus creating a cash crunch. Fullshare noted the controlling shareholder of Nanjing Fullshare is Ji Changrong, the younger brother of Chairman Ji Changqun, and that neither Fullshare Holdings nor Chairman Ji are shareholders of Nanjing Fullshare. We note that Chairman Ji was listed as a Director and Chairman of Nanjing Fullshare since 2002, and had directly and indirectly owned 79.74% of the equity of Nanjing Fullshare as of Fullshare's 2017 Annual Report. However, Ji Changrong, Chairman Ji's brother, now reportedly owns 62.6% of Nanjing Fullshare. We have not received a clear answer in regards to this change. Fullshare Holdings has no relationship with the debt that defaulted by Nanjing Fullshare. Fullshare halted the stock on December 27 and lifted the halt on December 31 in conjunction with information about Nanjing Fullshare, who claimed all debts had been fully repaid, and its relationship with Fullshare Holdings. The extent of the operating relationship between Fullshare Holdings and Nanjing Fullshare is that Fullshare Holdings provides overseas management services and green buildings services to Nanjing Fullshare and has provided financial assistance to Nanjing Fullshare on two deals as described below.

On June 13, 2018, Nanjing Deying pledged Wonder City, a 100,605m² shopping mall in Nanjing, as security on a RMB 710 million 39-month floating rate loan Nanjing Jiangong (a Nanjing Fullshare subsidiary) received for working capital from Bank of Communications ("BoComm"). On the same day, Chairman Ji executed a guarantee letter stating that he or his companies would have at least RMB 900 million of loans to Fullshare Holdings that the Company would not have to repay until Nanjing Jiangong repays its loan from BoComm or the Wonder City pledged asset is released. On September 20, 2018, Nanjing Deying further pledged the same Wonder City asset for a six-month floating rate loan for RMB 440 million from BoComm to Nanjing Fullshare, and Chairman Ji expanded his guarantee letter by another RMB 550 million, thus totaling RMB 1,450 million. In exchange for the asset pledge, Nanjing Jiangong is paying Nanjing Deying a fee equal to 3% of the principal amount of the BoComm loans. As of the end of 2018, the loans had an aggregate balance of RMB 1,150 million plus RMB 111.81 million of unpaid interest.

On September 26, 2018, Nanjing Fullshare lent RMB 970 million to Fullshare Dazu (a Fullshare Holdings subsidiary) for a period of three years at 12% interest, payable quarterly. Nanjing Fullshare received the funds from China Orient Asset in exchange for Nanjing Fullshare transferring a RMB 970 million loan outstanding to Nanjing Saiqing Technology, a third party, after restructuring the loan to three years at 12% interest. Fullshare Dazu pledged the commercial property of the Ma'anshan Project, with a GFA of 384,044.78m², located in Ma'anshan, Anhui, and a 35% equity interest in Ma'anshan Haixin Travel Investment Co. (a company Fullshare Dazu has a 65% equity interest in) as collateral for its loan and Saiqing's loan. Fullshare Dazu's loan is only repayable if Saiqing repays its loan to China Orient Asset. If Fullshare suffers any loss it can deduct the loss from the repayment of its loan. The funds are to be used to develop the Ma'anshan Project, however, as of December 30, 2018, Fullshare Dazu had not received the funds. Chairman Ji has since provided a personal guarantee against any loss caused by this agreement, as has Nanjing Longjin Property Development Co., Ltd, an independent third party that pledged its commercial property assets valued at roughly RMB 1,389,590,000.

Since the announcement of the changes, Nanjing Fullshare changed its name to Nanjing Jiangong Industrial Group Co., Ltd., ("Nanjing Jiangong") and has begun a government-backed restructuring plan, which includes creditors being forced to continue providing capital to Nanjing Jiangong and forcing it to begin selling off non-engineering construction assets, of which it has many diverse holdings, ranging from real estate assets to non-strategic equity investments. On March 29, Fullshare agreed to sell Ma'anshan Haixin Travel Investment Co. to a third party for RMB 80,000,000 and the assumption of a RMB 423,673,000 loan. This deal removes the Ma'anshan Project from Fullshare's assets, thus removing the Company from the Saiqing pledge. This leaves only the Wonder City pledge as its only ongoing core financial relationship with Nanjing Jiangong. While not directly tied to Nanjing Jiangong, Fullshare has been impacted by this as it no longer has easy access to its bank lines. This may also make any potential sale of China High Speed [HK: 658] much more difficult, especially if the buyer is not China-based. These issues will likely make it difficult for Fullshare to acquire traditional real estate development projects, distressed real estate projects or larger acquisitions. We are also unsure what financial contribution Chairman Ji can provide Fullshare in the near term given his guarantees on Nanjing Jiangong-related debts and having pledged roughly two-thirds of his shares of Fullshare.

COMPANY UPDATE

Change in Auditors. The Company changed auditors, from Ernst & Young to PricewaterhouseCoopers in December due to the Board's inability to reach an agreement on audit fees for the year ending December 31, 2018. Ernst & Young had no issues or concerns with Fullshare's financials. The Board switched to PwC as it believed it could better meet Fullshare's needs as it grows in mainland China and internationally with its tourism and education platforms. The change was confirmed on January 2, 2019.

Option & Share Grant. In December, Fullshare granted 77,232,200 options and 17,521,400 Award Shares. The ten-year options have an exercise price of HK\$2.56 per share and were granted to 32 members of management and one Executive Director with a five-year vesting schedule. The Award Shares will be purchased in the open market and granted at HK\$1.28 per share to 46 members of management and one Executive Director, with shares vesting 60% in 24 months and 40% in 36 months.

Model Update. We made a number of big changes to our model, including removing all investment into distressed real estate, which we expected would become an area Fullshare would rapidly deploy capital. We have taken out all acquisition expectations out of our model pending an increase in access to capital. This made a significant impact on our earnings outlook as we had expected Fullshare management to aggressively acquire EBITDA rapidly through M&A transactions each of the next several years. We do, however, expect to see strong growth from the Education and Tourism businesses and continued growth in China High Speed.

Maintaining Rating & Reducing Target. The relative inability to obtain capital due to the financial difficulties of Nanjing Jiangong has significantly impaired our outlook for Fullshare Holdings as it will have a more difficult time in the near term making large, strategic acquisitions. We do still expect it to make smaller deals and potentially use stock as currency. We also continue to look for growth from the Education and Tourism segments, and see continued growth from China High Speed. Based on the current stock price, which is below its Net Assets, we are reiterating our Buy rating on Fullshare Holdings, but reducing our target price from HK\$4.00 per share to HK\$1.50 per share due to the scaled back growth outlook. Our target price is based on a EV/EBITDAS multiple of roughly 10 times our 2020 EBITDAS estimate of RMB 3.55 billion and a P/E multiple of roughly 20 times our 2020 Diluted EPS estimate of RMB 6.27.

RISKS

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 saving 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.

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.

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 from third party sellers.

Development of Subsidiaries

There are no assurances the smaller subsidiaries will develop as rapidly as management expects.

Significant Shareholder

Chairman Ji Changqun owns 9,798,370,454 shares, or just under 50% of the Company's common stock, which gives him control over the future of the Company.

Reliance on CHS

A large part of Fullshare's consolidated results are derived from its equity stake in China High Speed. Should the Company divest its holdings in CHS, most of Fullshare's income and assets would be derived from investments in other projects and entities.

Customer Concentration

Fullshare has one customer (a CHS client) who accounted for RMB 3.00 billion in Revenue in 2018, up from RMB 2.60 billion in the year ago period. The loss of this customer could have an adverse impact on future results.

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

	2017A	2018A	H1:19e	H2:19e	2019e	H1:20e	H2:20e	2020e
	(in 000s of RMB)							
Revenue	11,026,457	10,288,651	5,735,249	6,543,721	12,278,970	6,059,726	7,003,277	13,063,003
Cost of Sales	(8,066,730)	(8,320,984)	(3,970,879)	(4,552,017)	(8,522,896)	(4,115,895)	(4,723,520)	(8,839,414)
Gross Profit	2,959,727	1,967,667	1,764,370	1,991,704	3,756,074	1,943,832	2,279,757	4,223,589
FV Change in Financial Assets	1,907,073	(3,555,856)	(501,882)	114,274	(387,608)	117,702	121,233	238,936
Credit Impairment Loss on Financial Assets	-	(161,281)	-	-	-	-	-	-
Other Income	694,774	809,718	274,843	279,406	554,249	279,369	283,051	562,420
Other Expenses	(794,058)	-	-	-	-	-	-	-
Selling & Distribution Expenses	(544,894)	(418,525)	(200,612)	(228,058)	(428,670)	(214,162)	(243,062)	(457,223)
Research & Development Expenses	(327,135)	(347,707)	(180,808)	(184,424)	(365,231)	(186,232)	(189,957)	(376,188)
Administrative Expenses	(1,282,631)	(1,047,603)	(542,488)	(616,734)	(1,159,222)	(594,806)	(659,370)	(1,254,177)
Other Gains, Net	402,572	168,264	21,690	22,558	44,248	22,341	23,235	45,576
Finance Costs	(731,051)	(948,747)	(465,661)	(465,661)	(931,322)	(465,661)	(465,661)	(931,322)
FV Change in HFS to Investment Property	416,137	-	-	-	-	-	-	-
Share of JV Income	152,950	(22,327)	(9,620)	(9,620)	(19,239)	(4,662)	(9,439)	(14,102)
Share of Associates Income	65,922	14,369	3,204	3,204	6,408	3,204	3,204	6,408
Profit Before Tax	4,040,579	(3,542,028)	163,037	906,650	1,069,688	900,924	1,142,992	2,043,917
Income Tax Expense	(976,427)	479,571	(116,039)	(225,712)	(341,751)	(239,586)	(286,655)	(526,241)
Net Profit	3,064,152	(3,062,457)	46,998	680,939	727,937	661,338	856,337	1,517,676
Non-Controlling Interests	(130,989)	32,503	(96,311)	(123,502)	(219,813)	(128,560)	(151,374)	(279,934)
Net Profit to Shareholders	2,933,163	(3,029,954)	(49,313)	557,437	508,124	532,779	704,964	1,237,742
Basic EPS	14.87	(15.36)	(0.25)	2.83	2.58	2.70	3.57	6.27
Basic S/O	19,729,062	19,729,062	19,729,062	19,729,062	19,729,062	19,729,062	19,729,062	19,729,062
Dividend Per Share (RMB cents/share)	1.5	-	-	-	-	-	-	-

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

DISCLOSURES**Distribution of Ratings**

Rating	Count	Percent	<u>I.B. last 12 months</u>	
			Count	Percent
BUY	8	89%	0	0%
HOLD	0	0%	0	0%
SELL	0	0%	0	0%
NO RATING	1	11%	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.

Analyst Certification

I, William Gregozeski, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and subject company. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Other Disclosures

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

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DISCLOSURES (continued)

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