

Fullshare Holdings Limited

HKSE: 0607

Maintaining Rating & Target Price

BUY, HK\$4.00

July 5, 2018

MARKET DATA

Share Price:	HK\$	3.57
Market Cap:	HK\$	70,432.74 M
52wk Range:	HK\$	3.03 - 4.95
Ave. Volume:		28,400,000
Basic S/O:		19,729.06 M
Fully Diluted S/O:		19,729.06 M
Float:		7,707.29 M
Board Lot:		2,500
Institutional (SDI) %:		13%
Insider %:		51%

FINANCIAL DATA (mrq)

Cash:	RMB	8,332.17 M
ST Debt:	RMB	8,688.80 M
LT Debt:	RMB	5,283.63 M
Book Value:	RMB	27,203.70 M
EBITDA (ttm):	RMB	2,513.28 M
CFFO (ttm):	RMB	1,981.80 M

Auditor: Ernst & Young

	RMB	2016A	2017A	2018e	2019e
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Revenue (in Millions of RMB)

Jun	1,361.83	4,834.87	5,353.63	5,796.26
Dec	2,949.59	6,191.59	5,757.20	6,127.40
REV	4,311.42	11,026.46	11,110.83	11,923.66
<i>P/S</i>	<i>13.81</i>	<i>5.40</i>	<i>5.36</i>	<i>4.99</i>

EPS (in RMB cents/share)

Jun	10.42	(2.87)	6.85	5.13
Dec	8.11	17.06	4.64	4.74
EPS	18.47	14.19	11.49	9.88
<i>P/E</i>	<i>16.51</i>	<i>21.27</i>	<i>26.27</i>	<i>30.57</i>

Dividend (in RMB)

Jun	0.000	0.000	0.000	0.000
Dec	0.015	0.015	0.000	0.000
DIV	0.015	0.015	0.000	0.000
<i>Yield</i>	<i>0.50%</i>	<i>0.50%</i>	<i>0.00%</i>	<i>0.00%</i>

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M&A Deals Look To Reshape FS Assets

China High Speed Sale Update. On July 2, Fullshare and Neoglory Prosperity Inc. [SZ: 2147] announced additional terms to the prospective deal, which calls for CHS to divest a series of non-core assets prior to closing, including machine tool products, diesel engines, boilers and semiconductors. The purchase price per share is expected to be in the range of RMB 9.99 to RMB 11.25 (HK\$ 11.81 to HK\$ 13.30), which is a significant premium to the HK\$8.34 acquisition price. On April 24, Neoglory agreed to provide RMB 1 billion in earnest money to Fullshare, which will be refundable if both parties agree not to proceed with the transaction or if a definitive purchase and sale agreement has not been entered by September 30, 2018. The cash from this deal will likely go towards announced projects like Joyu, Yiwu, education business expansion, and the distressed real estate assets, along with others in the pipeline.

Acquisitions Backed By Real Estate. In recent conversations with the Company, we noticed most of its investment pillars will be based on a real estate foundation, which should result in better returns and a rising NAV over time. Investments in this model would align closer to the Yiwu Projects, which combines tourism and property development; senior living centers, which combines elder care and property development; or special situation investment opportunities, like CHS or distressed real estate assets, which now look to be abundant given the tightening of credit for smaller developers. We do note, though, that management appears to be fully invested in growing its education business and transitioning its Fullshare Top O2O platform into a travel-related app, both of which are operating assets.

Model Update. Despite a number of bigger initiatives in the pipeline and the CHS deal in progress, we made relatively small changes to our model, mostly surrounding the expansion of its distressed real estate asset business. Until the CHS deal is completed or the Joyu or Yiwu deals are finalized we will exclude the impact of those from our model.

Maintaining Rating & Target. As previously noted, the big changes coming to the model have not taken effect yet, as the CHS deal will transform Fullshare's financials. We remain confident in the management team's ability to deploy its capital wisely between the above-mentioned projects and new acquisition or JV prospects. As such, 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 1.5 billion of EBITDA annually, at 5x EBITDA that will grow 15% per year, discounted at 6% annually.

COMPANY UPDATE

China High Speed Sale Update. On July 2, Fullshare and Neoglory Prosperity Inc. [SZ: 2147] announced additional terms to the prospective deal, which calls for CHS to divest a series of non-core assets prior to closing, including machine tool products, diesel engines, boilers and semiconductors. The purchase price per share is expected to be in the range of RMB 9.99 to RMB 11.25 (HK\$ 11.81 to HK\$ 13.30), which is a significant premium to the HK\$8.34 acquisition price. On April 24, Neoglory agreed to provide RMB 1 billion in earnest money to Fullshare, which will be refundable if both parties agree not to proceed with the transaction or if a definitive purchase and sale agreement has not been entered by September 30, 2018. The cash from this deal will likely go towards announced projects like Joyu, Yiwu, education business expansion, and the distressed real estate assets, along with others in the pipeline.

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RMB 10 Billion Financing Package From BOCOM. On March 28, Fullshare announced it received a RMB 10 billion financing credit from the Bank of Communications Jiangsu Province Branches. The five-year financing agreement shall cover financing and credit, tourism business acquisition finance, supply-chain finance, commercial real estate finance, debt financing services, financial advisor services, account management services, asset management services and other offshore banking services. The interest rate on the package will be dependent on the specific use.

MOU To Establish Fund To Develop Yiwu Real Estate Projects. The strategic cooperation agreement with Shanghai Joyu was taken a step further on April 13 when a MOU was announced whereby Fullshare, Shanghai Joyu, the Yiwu Government and the Zhejiang Tourism Fund to set up a fund to develop healthy tourism projects. Half of the RMB 10 billion fund will be put towards projects in Yiwu City, which we expect will be for real estate projects tied around cultural and healthy tourism. Yiwu is a multi-cultural city catering to international trade that was named a national-level international trade comprehensive reform pilot area. This looks to be an ideal situation for Fullshare as they are partnering with a large travel player and the local government to develop real estate projects, which falls into both its property development and its tourism pillars, while providing a sound return on capital via unit sales and longer term rental income streams.

Update on 30% Shanghai Joyu Acquisition. Fullshare's forward agreement to acquire a fund established to purchase a 30% equity interest in Joyu is still in progress. The forward interest rate will be roughly 9.0% annually.

H2:17 Results. Fullshare reported second half results with Revenue of RMB 6.19 billion, topping our RMB 5.56 billion estimate on stronger Revenue in the Property Development segment. CHS Revenue of RMB 4.35 billion and Healthcare & Education Revenue of RMB 0.24 billion both matched our estimates. Profit Before Tax of RMB 4.48 billion, which included RMB 3.24 billion in Fair Value Changes from Financial Assets, was just above our estimate. Net Profit to Shareholders of RMB 3.37 billion was just short of our estimate as its Deferred Taxes were higher than we modelled.

Dividend Announced. Fullshare approved the payment of a final dividend of RMB 1.5 (HK\$1.88) cents per share for the year ended December 31, 2017, which was paid out on June 15, 2018 for shareholders of record as of the close of trading on May 31, 2018.

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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 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.

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, 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.

Customer Concentration

Fullshare has one customer (a CHST client) who accounted for RMB 2.60 billion in sales in 2017. 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

(in 000s of RMB)	2016A	H1:17A	H2:17A	2017A	H1:18e	H2:18e	2018e	H1:19e	H2:19e	2019e
Revenue	4,311,423	4,834,865	6,191,592	11,026,457	5,353,630	5,757,203	11,110,834	5,796,255	6,127,404	11,923,660
Cost of Sales	(3,447,168)	(3,635,163)	(4,431,567)	(8,066,730)	(3,498,651)	(3,808,337)	(7,306,988)	(3,721,116)	(4,075,666)	(7,796,781)
Gross Profit	864,255	1,199,702	1,760,025	2,959,727	1,854,980	1,948,866	3,803,846	2,075,139	2,051,739	4,126,878
FV Change in Financial Assets	3,361,459	(1,329,786)	3,236,859	1,907,073	813,260	273,275	1,086,535	281,474	289,918	571,391
Other Income	243,882	721,659	(26,885)	694,774	176,521	177,598	354,119	181,532	182,921	364,453
Other Expenses	(7,490)			(794,058)						
Selling & Distribution Expenses	(228,803)	(240,136)	(304,758)	(544,894)	(194,437)	(209,362)	(403,799)	(214,754)	(224,757)	(439,511)
Administrative Expenses	(507,853)	(764,057)	(652,204)	(1,416,261)	(559,788)	(589,928)	(1,149,716)	(621,405)	(639,113)	(1,260,518)
Finance Costs	(89,996)	(323,979)	(407,072)	(731,051)	(334,375)	(334,375)	(668,750)	(334,375)	(334,375)	(668,750)
FV Change in HFS to Investment Property	-	-	416,137	416,137	-	-	-	-	-	-
Gain on Disposal of Subsidiaries	98,502	29,297	335,237	364,534	-	-	-	-	-	-
Gain on Bargain Purchase of Subsidiaries	3,752	-	38,038	38,038	-	-	-	-	-	-
Share of JV Income	(7)	78,395	74,555	152,950	-	-	-	-	-	-
Share of Associates Income	5,501	56,739	9,183	65,922	35,383	36,510	71,893	68,689	43,171	111,861
Profit Before Tax	3,743,202	(572,166)	4,479,115	3,906,949	1,791,544	1,302,585	3,094,129	1,436,300	1,369,504	2,805,803
Income Tax Expense	(740,918)	34,151	(1,010,578)	(976,427)	(314,530)	(241,449)	(555,979)	(279,701)	(268,338)	(548,038)
Net Profit	3,002,284	(538,015)	3,468,537	2,930,522	1,477,014	1,061,136	2,538,150	1,156,599	1,101,166	2,257,765
Non-Controlling Interests	(72,191)	(29,059)	(101,930)	(130,989)	(125,910)	(145,185)	(271,095)	(144,449)	(165,044)	(309,493)
Net Profit to Shareholders	2,930,093	(567,074)	3,366,607	2,799,533	1,351,104	915,951	2,267,055	1,012,150	936,122	1,948,272
Basic EPS	18.28	(2.87)	17.06	14.19	6.85	4.64	11.49	5.13	4.74	9.88
Basic S/O	16,031,116	19,729,062	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			1.5						

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

NOTE: Estimates do not include the presumed RMB 1.5 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	7	78%	0	0%
HOLD	0	0%	0	0%
SELL	1	11%	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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- The analyst serves as an officer, director, or advisory board member of the subject company.
- The analyst or a member of the analyst's household has a financial interest in the securities of the subject company, including, but not limited to a long position, short position, rights, warrants, futures, or options.
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DISCLOSURES (continued)

Other Disclosures

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