

**Fullshare Holdings Limited**  
**HKSE: 0607**

**Maintaining Rating & Target Price**  
**BUY, HK\$4.00**

**February 2, 2018**

**MARKET DATA**

Share Price:	HK\$	3.60
Market Cap:	HK\$	71,024.62 M
52wk Range:	HK\$	2.52 - 4.95
Ave. Volume:		41,800,000
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	1,333.43 M

Auditor: Ernst & Young

RMB	2015A	2016A	2017e	2018e
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**Revenue (in Millions of RMB)**

	2015A	2016A	2017e	2018e
Jun		1,361.83	4,834.87A	5,958.39
Dec		2,949.59	5,557.20	6,437.01
<b>REV</b>	<b>3,095.61</b>	<b>4,311.42</b>	<b>10,392.06</b>	<b>12,395.40</b>
<i>P/S</i>	<i>16.28</i>	<i>11.69</i>	<i>4.85</i>	<i>4.07</i>

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

	2015A	2016A	2017e	2018e
Jun		10.42	(2.87)A	10.45
Dec		8.11	17.62	7.04
<b>EPS</b>	<b>8.69</b>	<b>18.47</b>	<b>14.74</b>	<b>17.49</b>
<i>P/E</i>	<i>29.40</i>	<i>13.83</i>	<i>17.33</i>	<i>14.60</i>

**Dividend (in RMB)**

	2015A	2016A	2017e	2018e
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>	<i>0.22%</i>	<i>0.35%</i>	<i>0.00%</i>	<i>0.00%</i>

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**Potential M&A Deals Look To Reshape FS Assets**

**MOU To Sell China High Speed.** On January 17, the Company entered into a MOU with an independent third party based in China to acquire between 50% and 75% of the shares of China High Speed Transmission [HK: 658]. Fullshare currently owns 1,208,577,693 shares, or 73.91%, of CHST. Completing this deal would bring in a significant amount of capital to Fullshare for additional acquisitions, as the market value as of yesterday's close of its shares equals more than HK\$ 15.6 billion. The HK\$12.92 share price is a significant premium to the HK\$8.34 price on December 5, 2016, the day the deal to acquire the CHST shares was closed, which Fullshare paid for with its own shares issued at prices higher than today's share price.

**MOU To Acquire 30% of Shanghai Joyu.** On December 26, Fullshare entered into a MOU, which if ultimately completed would result in its acquisition of a 30% equity stake in Shanghai Joyu. The potential deal is significant in that it enables Fullshare to acquire a meaningful minority stake in another leading O2O travel operator (Ivmama), which fits into its stated objectives for the tourism pillar, while doing so without any initial outlay of funds.

**Fullshare Sells Controlling Stake in Anke.** On December 22, Fullshare agreed to sell a 53.10% equity stake in Anke to members of its management team for RMB 303,450,000. Fullshare will continue to earn returns on its original Anke investment as it will retain a 19.09% equity stake, which based on the sale price of the other interests is worth RMB 109,000,000.

**Impact Of The Deals Above.** A few takeaways from the three deals are that Fullshare is committed to finding the best assets in its five pillars (education, healthcare, new energy, real estate and tourism), but is open to monetizing those assets by way of sale should an offer be made that provides an attractive return for shareholders. We note here that in the early days of the CHST deal, many claimed it bought a fairly valued company with stagnant growth prospects and that it was selling off attractive assets at below market prices, neither of which coincide with where CHST currently trades. With both the CHST and Anke deals, the Company will have earned a significant return on the sold shares, as well as kept an equity stake in each deal to earn future returns. As deals are made, it seems like management is focusing more on education, real estate and tourism opportunities, and downplaying new energy as that whole pillar was made up of CHST. The Company is still focused on aggressively building a conglomerate of quality assets in its targeted pillars, but will continue to maintain the flexibility to shed any asset that provides an attractive return. In the short term, the sale of CHST would strip the financials of a considerable amount of Revenue, which we expect would be replaced soon through additional transactions.

## COMPANY UPDATE

**MOU To Sell China High Speed.** On January 17, the Company entered into a MOU with an independent third party based in China to acquire between 50% and 75% of the shares of China High Speed Transmission [HK: 658]. Fullshare currently owns 1,208,577,693 shares, or 73.91%, of CHST. Fullshare granted the potential acquirer a six month exclusivity window to agree to terms. Completing this deal would bring in a significant amount of capital to Fullshare for additional acquisitions, as the market value as of yesterday's close of its shares equals more than HK\$ 15.6 billion. The HK\$12.92 share price is a significant premium to the HK\$8.34 price on December 5, 2016, the day the deal to acquire the CHST shares was closed, which Fullshare paid for with its own shares issued at prices higher than today's share price. In short, the return on this deal could be significant and provide capital for future expansion, as well as a large one-time gain on its 2018 results.

**MOU To Acquire 30% of Shanghai Joyu.** On December 26, Fullshare entered into a MOU, which if ultimately completed would result in its acquisition of a 30% equity stake in Shanghai Joyu. Zhongbang Chanrong will establish a fund not larger than RMB 2,633,000,000 to acquire the 30% equity stake in Joyu, which will be acquired via purchases from existing Joyu shareholders or by way of capital injection. The MOU calls for Fullshare to purchase the entirety of the fund prior to expiration of the fund, at a price to be later negotiated. The complete terms of the formal agreement are expected to be completed by the end of February. The potential deal is significant in that it enables Fullshare to acquire a meaningful minority stake in another leading O2O travel operator (Ivmama), which fits into its stated objectives for the tourism pillar, while doing so without any initial outlay of funds. This proposed forward acquisition is not expected to interfere or supersede Fullshare's September 27 strategic cooperation announcement with Shanghai Joyu, which called for joint investment of RMB 5.0 billion in the tourism space.

**Fullshare Sells Controlling Stake in Anke.** On December 22, Fullshare agreed to sell a 53.10% equity stake in Anke to members of its management team for RMB 303,450,000, of which roughly half was paid at closing with the remainder to be paid within three months of closing. Upon completion, Anke will be controlled by PRC domestic shareholders, which will offer Anke more opportunities to bid on sales opportunities in China. Fullshare will continue to earn returns on its original Anke investment as it will retain a 19.09% equity stake, which based on the sale price of the other interests is worth RMB 109,000,000. Fullshare acquired its 72.19% equity stake on May 17, 2016 for RMB 140,000,000, meaning it will capture a nearly 200% return on the equity stake it is selling.

**Impact Of The Deals Above.** A few takeaways from the three deals are that Fullshare is committed to finding the best assets in its five pillars (education, healthcare, new energy, real estate and tourism), but is open to monetizing those assets by way of sale should an offer be made that provides an attractive return for shareholders. We note here that in the early days of the CHST deal, many claimed it bought a fairly valued company with stagnant growth prospects and that it was selling off attractive assets at below market prices, neither of which coincide with where CHST currently trades. With both the CHST and Anke deals, the Company will have earned a significant return on the sold shares, as well as kept an equity stake in each deal to earn future returns. As deals are made, it seems like management is focusing more on education, real estate and tourism opportunities, and downplaying new energy as that whole pillar was made up of CHST. The Company is still focused on aggressively building a conglomerate of quality assets in its targeted pillars, but will continue to maintain the flexibility to shed any asset that provides an attractive return. In the short term, the sale of CHST would strip the financials of a considerable amount of Revenue, which we expect would be replaced soon through additional transactions.

**Green Building Services MSA Renewed.** In late December 2017, Fullshare renewed its Master Agreement to provide Green Building Services (technical design, consulting and green management services) to Nanjing Fullshare through 2020. Services will be provided at cost plus margin, which is expected to range from 40% to 60%, with total Revenue to be capped at RMB 200 million annually.

**Model Update.** We removed Anke's financials from Fullshare's consolidated results and moved the remaining holding to minority interest. We have not removed CHST or included any effect from the potential Shanghai Joyu equity stake into the model as both are MOUs at this point. Expected profit for H2:17 and 2018 was increased on the continued sharp increase in Zall's [HK: 2098] stock price.

**Maintaining Rating & Target.** Despite the changes to our model and the prospective big changes that could be on the way should the CHST deal be formalized, we remain optimistic about the ability of Fullshare's management team to continue finding quality assets to acquire at terms advantageous to shareholders. 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 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

	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>5,557,196</b>	<b>10,392,061</b>	<b>5,958,390</b>	<b>6,437,007</b>	<b>12,395,397</b>
Cost of Sales	(2,708,273)	(985,187)	(2,454,241)	(3,439,428)	(3,635,163)	(3,839,522)	(7,474,685)	(3,765,117)	(4,091,042)	(7,856,159)
<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>1,717,673</b>	<b>2,917,375</b>	<b>2,193,274</b>	<b>2,345,965</b>	<b>4,539,238</b>
FV Change in Financial Assets	621,095	1,768,319	1,593,140	3,361,459	(1,329,786)	3,547,764	2,217,978	1,339,454	481,768	1,821,223
Other Income	142,408	20,385	218,105	238,490	721,659	(40,111)	681,548	112,999	113,442	226,441
Selling & Distribution Expenses	(136,441)	(69,279)	(159,524)	(228,803)	(240,136)	(221,701)	(461,837)	(220,460)	(237,630)	(458,090)
Administrative Expenses	(168,346)	(143,328)	(368,124)	(511,452)	(764,057)	(594,387)	(1,358,444)	(566,334)	(615,587)	(1,181,921)
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	-	-	-	-	-	-	-	-	-
Gain on Disposal of Subsidiaries	194,047	14,283	84,219	98,502	29,297	200,000	229,297	-	-	-
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	7,530	64,269	35,383	36,510	71,893
<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>4,282,393</b>	<b>3,710,227</b>	<b>2,559,942</b>	<b>1,790,092</b>	<b>4,350,034</b>
Income Tax Expense	(226,430)	(364,983)	(351,453)	(716,436)	34,151	(672,444)	(638,293)	(370,788)	(251,722)	(622,510)
<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>3,609,949</b>	<b>3,071,934</b>	<b>2,189,154</b>	<b>1,538,371</b>	<b>3,727,525</b>
Non-Controlling Interests	(2,095)	16,104	(88,295)	(72,191)	(29,059)	(134,314)	(163,373)	(127,562)	(148,757)	(276,319)
<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>3,475,635</b>	<b>2,908,561</b>	<b>2,061,592</b>	<b>1,389,614</b>	<b>3,451,206</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>17.62</b>	<b>14.74</b>	<b>10.45</b>	<b>7.04</b>	<b>17.49</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>1.5</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	7	88%	0	0%
HOLD	0	0%	0	0%
SELL	1	12%	0	0%
NO RATING	0	0%	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)

### Other Disclosures

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