

Fullshare Holdings Limited
HKSE: 0607

Maintaining Rating & Target Price
BUY, HK\$4.00

December 15, 2017

MARKET DATA

Share Price:	HK\$	3.17
Market Cap:	HK\$	62,541.12 M
52wk Range:	HK\$	2.52 - 3.67
Ave. Volume:		31,000,000
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
Revenue (in Millions of RMB)				
Jun		1,361.83	4,834.87A	6,280.18
Dec		2,949.59	5,557.20	6,770.07
REV	3,095.61	4,311.42	10,392.06	13,050.25
<i>P/S</i>	<i>17.11</i>	<i>9.98</i>	<i>5.10</i>	<i>4.06</i>

Diluted EPS (in RMB cents/share)

Jun		10.42	(2.87)A	6.58
Dec		8.11	12.76	6.96
EPS	8.69	18.47	9.89	13.55
<i>P/E</i>	<i>30.89</i>	<i>14.54</i>	<i>27.15</i>	<i>19.82</i>

Dividend (in RMB)

Jun	0.000	0.000	0.000	0.000
Dec	0.010	0.015	0.000	0.000
DIV	0.010	0.015	0.000	0.000
<i>Yield</i>	<i>0.27%</i>	<i>0.40%</i>	<i>0.00%</i>	<i>0.00%</i>

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Recent M&A Activity and Joint Projects Expand Reach In Targeted Areas With Less Required Capital Outlays

Entrance into JV for Wuxi Real Estate Project. On December 11, Fullshare entered into a 49%/51% JV with C&D International [HK: 1908] on the development of land with a total site area of 196,414m² and an estimated gross floor area of 314,262.4m² in Xidong New City, Wuxi, Jiangsu Province. The development, which is still being planned, is expected to be a mixed residential/commercial project and provide an attractive margin to the JV.

Investment in Tuniu. On November 17, Fullshare filed a Form 13G with the SEC announcing its ownership of 7.35% of Tuniu Corp [Nasdaq: TOUR], and 16.9% of the voting share. Tuniu is a leading online travel service provider based in China, offering over 2,000,000 tours globally, as well as an increasing offline presence inside and outside of China. Based on the price preceding the announcement, the value of the investment at market price would have been around US\$ 200 million, or roughly RMB 1.35 billion. By investing into a leading travel platform, the Tuniu investment appears to be a nice fit for Fullshare's tourism pillar, especially as Tuniu is experiencing rapid growth and has a focus on technology.

Strategic Cooperation with Ivmama.com Parent Shanghai Joyu. Fullshare entered into a strategic cooperation agreement with Shanghai Joyu (owner of the Ivmama travel site) to jointly invest in the cultural tourism and vacation market. The total investment is projected to be roughly RMB 5.0 billion, with an initial investment of RMB 1.0 billion.

ADHL Holding Divested. Fullshare sold its entire position of ADHL [HK: 519] for HK\$442,294,108, or HK\$0.79 per share, a 55% premium to the previous closing price. FS expects to record a loss of roughly HK\$149,000,000 on the sale of ADHL in the second half of 2017.

Additional Contribution to FS Fund. Fullshare made an additional US\$17.48 million capital contribution to Fullshare Global Opportunities Fund, increasing its ownership in the Fund to 44.11%. Chairman Wang holds the remainder and 75% of the General Partner; FS owns the other 25%. The Fund will invest in comprehensive healthcare companies.

Model Update. We made a few changes to our model, notably adding in the Tuniu investment and taking out the ADHL holding. We note that Fullshare looks to get a nice boost in profit in the second half on the run in Zall's [HK: 2098] stock price.

Maintaining Rating & Target. Outside of the big swing in H2:17 profit due to the increase in Zall's share price, the remainder of the changes did not have a significant impact on the model. We are encouraged by the expansion of the tourism pillar via an investment and potential partnership with two leading travel companies. 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

Entrance into JV for Wuxi Real Estate Project. On December 11, Fullshare entered into a 49%/51% JV with C&D International [HK: 1908] on the development of land with a total site area of 196,414m² and an estimated gross floor area of 314,262.4m² in Xidong New City, Wuxi, Jiangsu Province. The development, which is still being planned, is expected to be a mixed residential/commercial project and provide an attractive margin to the JV. C&D, via its Yi Yue subsidiary, won the bid for the land use rights on the land for RMB 3,003,360,000 on October 31, 2017. Fullshare will contribute 49% of the RMB 3,065,000,000 registered capital and 49% of the RMB 28,470,000 shareholder loan to the JV, which will be used for operating expenses. Fullshare owns 40,000,000 shares of C&D International, equivalent to roughly 9.35% of the shares outstanding.

Investment in Tuniu. On November 17, Fullshare filed a Form 13G with the SEC announcing its ownership of 7.35% of Tuniu Corp [Nasdaq: TOUR]. Tuniu is a leading online travel service provider based in China, offering over 2,000,000 tours globally, as well as an increasing offline presence inside and outside of China. Tuniu has two classes of stock, with the Class B having 10 votes per share. In acquiring 20,960,042 shares of Class A and 6,949,997 shares of Class B, Fullshare controls 16.9% of the votes. Based on the price preceding the announcement, the value of the investment at market price would have been around US\$ 200 million, or roughly RMB 1.35 billion. By investing into a leading travel platform, the Tuniu investment appears to be a nice fit for Fullshare's tourism pillar, especially as Tuniu is experiencing rapid growth and has a focus on technology.

Strategic Cooperation with Ivmama.com Parent Shanghai Joyu. On September 27, Fullshare entered into a strategic cooperation agreement with Shanghai Joyu Culture Communication Company Limited (owner of the Ivmama travel site) to jointly develop and explore the cultural tourism and vacation market. The strategic cooperation could include the joint acquisition of offline tourism companies, establishing culture and tourism JVs with local partners in the PRC, and joint establishment and expansion of tourism projects (projects that could be similar to the Sheraton Mirage) with a total investment projected to be roughly RMB 5.0 billion and an initial investment of RMB 1.0 billion. While the Company has not provided any concrete plans on the strategic cooperation, it appears to be another solid development for the tourism pillar by entering into prospective investments with a partner established in the space that can drive value to the projects via its travel site.

ADHL Holding Divested. On November 20, Fullshare sold its entire position of ADHL [HK: 519], comprised of 559,865,959 for HK\$442,294,108, or HK\$0.79 per share. The sale price was at a 55% premium to the previous closing price, with the premium due to the control position being transferred as FS controlled the management of ADHL. FS expects to record a loss of roughly HK\$149,000,000 on the sale of ADHL in the second half of 2017. The loss is made up of roughly HK\$49 million from the decline in share price since the purchase and the increase in carrying value of roughly HK\$100 million from the profit of ADHL applied to FS via the equity method.

Additional Contribution to FS Fund. On November 1, Fullshare made an additional US\$17.48 million capital contribution to the Fullshare Global Opportunities Fund, increasing its ownership in the Fund to 44.11%. Chairman Wang holds the remainder, and owns 75% of the General Partner; FS owns the other 25% as detailed in its April 6, 2017 announcement. The Fund will invest in a variety of healthcare-related companies. In April 2017, the Fund made its first two investments in US-based companies, one an R&D company focused on proteomics and the other an online medical data analysis company.

Model Update. We made a few changes to our model, notably adding in the Tuniu investment and taking out the ADHL holding. We note that Fullshare looks to get a nice boost in profit in the second half on the run in Zall's [HK: 2098] stock price.

Maintaining Rating & Target. Outside of the big swing in H2:17 profit due to the increase in Zall's share price, the remainder of the changes did not have a significant impact on the model. We are encouraged by the expansion of the tourism pillar via an investment and potential partnership with two leading travel companies. 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
Revenue	3,095,611	1,393,944	2,917,479	4,311,423	4,834,865	5,557,196	10,392,061	6,280,178	6,770,067	13,050,245
Cost of Sales	(2,708,273)	(985,187)	(2,454,241)	(3,439,428)	(3,635,163)	(3,839,522)	(7,474,685)	(3,990,368)	(4,324,184)	(8,314,553)
Gross Profit	387,338	408,757	463,238	871,995	1,199,702	1,717,673	2,917,375	2,289,810	2,445,883	4,735,693
FV Change in Financial Assets	621,095	1,768,319	1,593,140	3,361,459	(1,329,786)	2,664,886	1,335,100	418,078	438,982	857,061
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)	(604,948)	(655,554)	(1,260,503)
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	-	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	-	-	-
Profit Before Tax	1,446,352	1,986,964	1,762,477	3,749,441	(572,166)	3,191,985	2,619,819	1,661,105	1,770,747	3,431,851
Income Tax Expense	(226,430)	(364,983)	(351,453)	(716,436)	34,151	(540,012)	(505,861)	(215,151)	(227,807)	(442,958)
Net Profit	1,219,922	1,621,981	1,411,024	3,033,005	(538,015)	2,651,973	2,113,958	1,445,954	1,542,940	2,988,893
Non-Controlling Interests	(2,095)	16,104	(88,295)	(72,191)	(29,059)	(134,314)	(163,373)	(147,307)	(169,194)	(316,501)
Net Profit to Shareholders	1,217,827	1,638,085	1,322,729	2,960,814	(567,074)	2,517,659	1,950,585	1,298,647	1,373,746	2,672,392
Basic EPS	8.69	10.47	8.06	18.47	(2.87)	12.76	9.89	6.58	6.96	13.55
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
Dividend Per Share (RMB cents/share)	1.0			1.5			0.0			0.0

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.

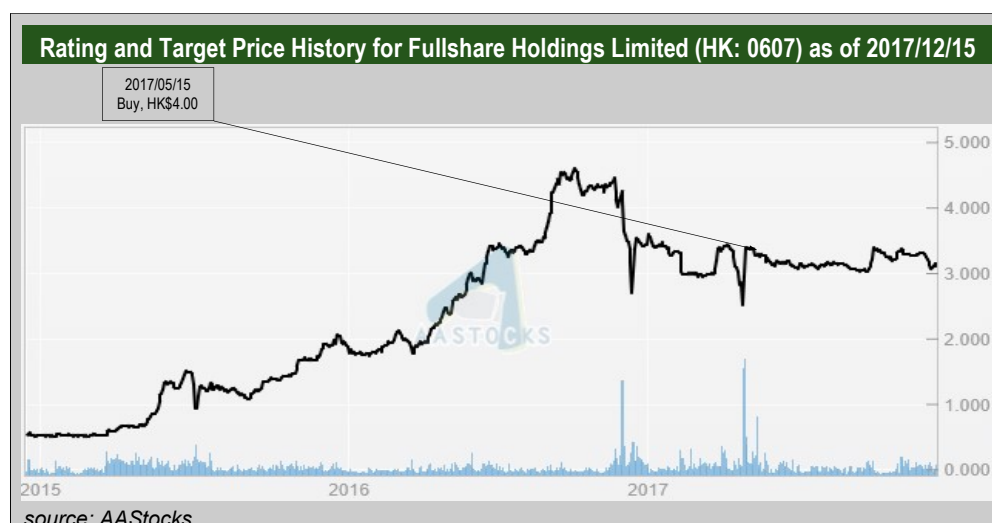
Other Disclosures

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

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