# Ming Fai International Holdings Limited

## *Latest corporate announcement…*

***to summarize…***

- On January 16th, 2012, the group announced profit warning for the year ended 31 December 2011. The decrease is attributed to increasing in cost pressures in the PRC, disappointing sales from the new retail business: 7 Magic. The new laundry business and everyBody Labo brand continues to record losses.
- We believe that sales for the hotel and airline business should continue to have strong growth, but profit will be hurt from higher operating costs. Gross margin at the end of 1H FY06/11A is around 24%, down from 27% at the end of FY2010A. We estimate that there's a chance for full year gross margin to be around twenty percent.
- We estimate that 7 Magic should have approximately 1,700 shops by the end of FY12/11F. 2H FY12/11F performance was disappointing due to economic slowdown and increased in operating cost, thus may fall short of the management previous expectation.
- We revised our revenue for FY12/11F to be HK$1,376.8m from HK$1,429.4m, a 27% YoY increase. With HK$1,169.6m contribution from the hotel and airlines amenities business and HK$198.4m contribution from the retail business. We forecast net profit to be HK$78.0m for FY12/11F, representing a 29% YoY decrease.
- We maintain our coverage with a Hold recommendation at a target price of HK$1.30. Our target price represents 8.5x FY12/12F P/E and 6.3x FY12/13F P/E.

**Latest announcement:** On January 16th, 2012, the group announced profit warning for the year ended 31 December 2011. The decrease is attributed to increasing in cost pressures in the PRC, disappointing sales from the new retail business: 7 Magic. The new laundry business and everyBody Labo brand continues to record losses.

**Hotel and Airlines business:** We believe that sales for this segment of business should continue to have strong growth due to hotel sector in China with high-end luxury hotels opening and upgrading trend from lower-end hotels into a 4-star or 5-star hotels. However, profit will be hurt from higher operating costs. Gross margin at the end of 1H FY06/11A is around 24%, down from 27% at the end of FY2010A. We estimate that there's a chance for full year gross margin to be around twenty percent.

**7 Magic:** We estimate that there should be approximately 1,700 shops by the end of FY12/11F. At the end of 1H 06/11A there was total of 1,512 shops. Sales for 1H FY06/11A amounted to HK$129.5m with a net profit of HK$27.9m. 2H FY12/11F performance was disappointing due to economic slowdown and increased in operating cost. Thus performance will fall short of the management previous expectation, an RMB50m in profit guarantee for the full year.

**Laundry & everyBody Labo:** Both Laundry business and everyBody Labo continues to be lost making. The Laundry business amounted to a loss of HK$6.3m in the 1H FY06/11A; we expect the same magnitude to continue for the second half. The everyBody Labo business amounted to a loss of HK$2.1m in 1H FY2011. The amount decreased from HK$2.8m lost in 2010 as the self-operating store in Causeway Bay was closed in December 2010, resulted in reducing rental expenses. The Mongkok store was close down by the end of FY12/11F. Previously the target was to achieve breakeven by the end of FY12/11F, we estimate that a full year lost of around HK$5m due to continue lost in the 2H FY12/11F.

| Ticker | 3828 HK |
|---|---|
| Rating | HOLD |
| Price (HK$) | 0.81 |
| Target Price (HK$) | 1.30 |
| 12m Price Range (HK$) | 0.73-3.12 |
| Market cap. (US$m) | 69.5 |
| Daily t/o (US$m) | 0.2 |
| Free float (%) | 62.4 |

***Financial summary***

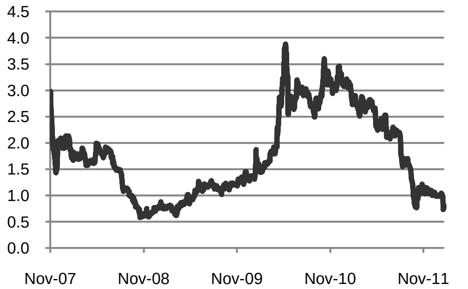
| Year to Dec | 09A | 10A | 11F | 12F | 13F |
|---|---|---|---|---|---|
| Turnover (HK$) | 811.3 | 1,085.9 | 1,376.8 | 1,566.8 | 1,827.4 |
| Net Profit (HK$) | 96.3 | 109.7 | 78.0 | 100.0 | 117.6 |
| EPS (HK$) | 0.163 | 0.184 | 0.105 | 0.140 | 0.197 |
| P/E (x) | 5.0 | 4.3 | 7.2 | 5.4 | 4.0 |
| P/B (x) | 0.61 | 0.53 | 0.52 | 0.49 | 0.44 |
| EV/EBITDA (x) | (0.2) | 2.0 | 2.7 | 2.4 | 1.4 |
| Yield (%) | 9.9 | 9.9 | 6.7 | 8.6 | 10.1 |
| ROE (%) | 12.4 | 12.4 | 7.8 | 9.4 | 10.1 |
| ROCE (%) | 14.1 | 14.4 | 9.0 | 11.0 | 11.9 |
| N. Gear. (%) | Cash | Cash | Cash | Cash | Cash |

*Source: SBI*

| | 11F | 12F | |
|---|---|---|---|
| Consensus EPS (HK$) | 0.17 | 0.20 | - |

***Price performance***

| Year to Dec | 1m | 3m | 12m |
|---|---|---|---|
| Relative to HSI (%) | (27.9) | (31.7) | (67.8) |
| Actual price changes (%) | (19.8) | (63.2) | (73.0) |




*Source: Bloomberg*

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**Forecasts:** We revised our revenue for FY12/11F to be HK$1,376.8m from HK$1,429.4m, a 27% YoY increase. With HK$1,169.6m contribution from the hotel and airlines amenities business and HK$198.4m contribution from the retail business. We forecast net profit to be HK$78.0m for FY12/11F, representing a 29% YoY decrease. We estimate that revenue for full year FY12/12F to be HK$1,566.8m, a 14% YoY increase, with HK$1,345.0m contribution from the hotel and airlines amenities business and HK$212.5m contribution from the retail business. We forecast net profit to be HK$100.0m for FY12/12F which represents a 28% YoY increase.

**Our view & target price:** Our new DCF-derived target price is HK$1.30 based on 2% terminal growth and 18% discount rate. We change our rating to Hold. The target price represents 8.5x FY12/12F P/E and 6.3x FY12/13F P/E. We believe that the company is going through its rough patches due to the adverse market and operating condition in the current economics period. However, Ming Fai has a good reputation and a stable existing hotel & airlines amenities business. We hope that the retail business will have a potential to become a significant contributor after the current consolidation period through FY2012. At the moment we're advising a hold rating on this stock counter.



**SBI E2-Capital stock ratings:**

**STRONG BUY :** absolute upside of >50% over the next three months

**BUY :** absolute upside of >10% over the next six months

**HOLD :** absolute return of -10% YoY to +10% over the next six months

**SELL :** absolute downside of >10% over the next six months