**Mingfa Group International (846 HK): Poor Results, Stressed Cash Position; Maintain Underperform**

**Rating UNDERPERFORM**

Price Target HK$1.70

Price HK$2.04

## Key Takeaway

**Mingfa's 1H12 core earnings declined 45% yoy to Rmb95mn given weak delivery. YTD presales were only Rmb2bn, locking in 36% of its full year target, much below industry average. In addition, we are also concerned about its stretched balance sheet due to its high net gearing and significant cash outflow in 2H12. Maintain Underperform.**

**Core earnings declined 45% yoy.** Mingfa reported weak 1H12 core earnings of Rmb95mn, down 45% yoy. Its revenue fell 46% to Rmb852mn on GFA booking of 104k sqm (-42% yoy) and ASP of Rmb7,000/sqm (-17% yoy). Revenues from commercial property and residential property account for 37% and 49% of the total. No interim dividend was declared, same as in 1H11.

**Presales challenging:** As of July, Mingfa has achieved contract sales of Rmb2bn, only locking in 36% of its Rmb5.5bn full year target, much below industry average given its less competitive products and weak execution. While management maintain the target unchanged and expect strong presales in the remaining months, we see its presales as challenging given intensifying competition and tightening property policies.

**Financial position remains tight:** Given lacklustre presales performance, Mingfa's net gearing stayed high at 75% at interim with total debt rising to Rmb7.1bn from Rmb6.5bn. We are also concerned about its stressed cash flow in 2H12, as the company needs to repay Rmb1.5bn short-term borrowing with other cash outflow of Rmb2bn.

**Rich valuation hard to justify, stay Underperform:** Mingfa is trading at 32% discount to NAV (vs. 52% of industry average), 19x 12E P/E (vs. 7.8x on average) and 1.3x 12E P/B (vs. 1.0x on average); we see valuation as demanding given its weak fundamentals, slow presales and stretched balance sheet. Maintain Underperform.

**Valuation/Risks**

Our price target of HK$1.7 is based on a 45% discount to 2012 NAV estimate of HK$3.1 (WACC: 12.5%). Risks: improvement in property management and stronger-than-expected presales.