

Dafa Properties Group (6111 HK)

Business model upgrade would lead to earnings recovery

We think Dafa's business model has been further optimised as 1) strategy-wise, it will concentrate more on YRD and Chengdu/Chongqing regions instead of national expansion so this could bring regional advantage and operating leverage. 2) Operation-wise, Dafa has focused on acquiring lands with GFA <200k sq m so it could utilise its high-asset-turn model and quickly achieve cashflow breakeven. 3) Maintain a relatively short land bank life of 2-2.5 years for a healthy balance sheet. Therefore, we think this may drive sustainable sales growth (30% YoY in 2021E) and earnings recovery in the future. As for 2021E, management guided 15-20% top/bottom line growth with GPM at 21-22% after 2020 missed on MI. Maintain Buy rating.

- **Transition from 1+5+X to 1+1+X would lead to sustainable profitability recovery and more optimal asset turnover model.** We like management's key strategical change from national expansion to focusing on YRD and Chengdu/Chongqing regions. Firstly, the market size of the two regions can support Dafa's road to RMB50-100bn sales. Secondly, the high asset turnover model could work and optimize given most of the lands are supplied in the public channel. This would suit Dafa's key strength. Lastly deep-root strategy would also support its profitability recovery due to operating leverage such as SG&A and funding costs.
- **Land bank – Chengdu became the centre of expansion.** In 2020, Dafa has bought 22 plots with total GFA of 2.8mn sq m (RMB16bn). 4 plots were acquired in Chengdu which took 18% of total, just behind its home base Wenzhou. So this has improved Chengdu/Chongqing exposure to 13% of its 6.7mn land bank and will serve as a good diversification due to robust demand. YRD will remain the key focus and contribute 80% of the land bank.
- **Sales may reach RMB40bn (+30% YoY) in 2021E.** After achieving 44% sales growth in 2020 to RMB30.3bn, the Company set 2021E target at RMB36bn (+18% YoY). We think it's slightly conservative given that 1) the Company has prepared RMB65bn sellable resources with 80% from new projects/phases. So 55% sell through rate would achieve the target vs. 70% in 2020. 2) 1Q sales has surged 256% YoY to RMB10.8bn or 30% of annual target. 3) 80% of sellable resources would be located in YRD region. Therefore, we think Dafa may beat its guidance to achieve RMB40bn in 2021E. However, the attributable sales ratio may stay at the current level of 45% (2020) given similar ratio at land acquisitions and reserves.

- **Maintain Buy:** We keep earnings and TP unchanged.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	5,946	7,398	9,188	10,205	11,346
YoY growth (%)	30.1	24.4	24.2	11.1	11.2
Net income (RMB mn)	477	517	339	629	721
EPS (RMB)	0.58	0.62	0.41	0.76	0.87
YoY growth (%)	N.A.	8.4	-33.9	85.3	14.6
Consensus EPS (RMB)	N.A.	N.A.	N.A.	0.65	0.76
P/E (x)	10.1	9.3	8.6	7.6	6.7
P/B (x)	1.6	1.4	1.3	1.1	1.0
Yield (%)	1.3	1.6	2.0	2.8	3.1
ROE (%)	15.5	15.1	14.6	14.9	15.2
Net gearing (%)	107.2	77.8	61.2	97.4	86.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$8.32**
 Up/Downside **+30.0%**
 Current Price **HK\$6.40**

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	5,298
Avg 3 mths t/o (HK\$ mn)	7.28
52w High/Low (HK\$)	8.48/3.67
Total Issued Shares (mn)	828

Source: Bloomberg

Shareholding Structure

GE Yiyang	72.5%
Free float	27.5%

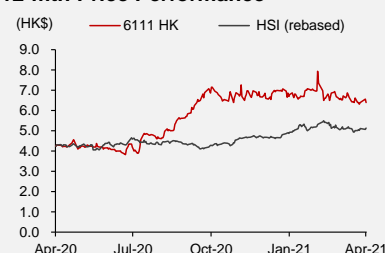
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.5%	0.0%
3-mth	-2.1%	-5.9%
6-mth	-4.4%	-19.2%
12-mth	54.4%	30.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

- **2020 results: Improving B/S into green category but earnings missed on MI:** Dafa delivered a strong revenue growth of 24% YoY to RMB9.2bn thanks to the fast-growing sales in 2017/18. GP Margin declined by 2ppt YoY to 21% in 2020 in line with the industry trend. Net profits (before MI) grew 19% YoY to RMB7.2bn, however rapid increase in MI has diluted the attributable earnings to Dafa which was RMB339mn (-34% YoY). Company declared a full-year dividend of RMB0.08/share in 2020 (20% payout ratio). On the B/S side, it has met all the “three red lines” requirements with net gearing at 50%, cash/ST Debt at 1.4x and liability/asset (excl. pre-sales) at 68.6%.

Figure 1: 2020 results summary

RMB mn	2019	2020	YoY	CMBI Est	Difference
Revenue	7,398	9,188	24%	9,089	1%
Gross profit	1,697	1,918	13%	2,011	-5%
Net profit	517	339	-34%	556	-39%
Core profit	517	339	-34%	556	-39%
EPS (RMB)	0.62	0.41	-34%	0.67	-39%
Core EPS (RMB)	0.62	0.41	-34%	0.67	-39%
DPS (RMB)	0.11	0.08	-26%	0.14	-41%
Dividend payout ratio	17.8%	20.0%	2.2 ppt	20.9%	-0.9 ppt
Margin	2019	2020	YoY	CMBI Est	Difference
GP margin	22.9%	20.9%	-2.1 ppt	22.1%	-1.2 ppt
Net margin	7.0%	3.7%	-3.3 ppt	6.1%	-2.4 ppt
Core net margin	7.0%	3.7%	-3.3 ppt	6.1%	-2.4 ppt
Margin	2019	2020	YoY	CMBI Est	Difference
Net gearing	77.8%	61.2%	-16.6 ppt	105.9%	-44.7 ppt
Debt to asset (excl. presales)	74.8%	68.6%	-6.2 ppt	72.5%	-3.9 ppt
Cash/ST debt	1.4	1.4	-1%	1.4	0%

Source: Company data, CMBIS

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	5,946	7,398	9,188	10,205	11,346
Property development	5,879	7,294	9,085	10,075	11,192
Rental	65	54	50	73	88
PM & consulting	1	50	54	57	66
Cost of sales	(4,364)	(5,702)	(7,271)	(7,874)	(8,682)
Gross profit	1,582	1,697	1,918	2,332	2,664
Other income and gains	55	99	372	85	88
Distribution expenses	(177)	(269)	(290)	(337)	(363)
Administrative expenses	(375)	(393)	(450)	(520)	(567)
Other expenses	(20)	(36)	(26)	(20)	(23)
Operating profit	1,065	1,097	1,524	1,539	1,799
Finance expenses	(133)	(250)	(235)	(345)	(365)
Associates/JV	(4)	47	(25)	53	56
Exceptional	61	57	(14)	-	-
Pre-tax profit	989	952	1,250	1,319	1,567
Profits tax	(500)	(350)	(535)	(481)	(565)
After-tax profit	489	602	715	839	1,001
Minority interest	(13)	(85)	(376)	(210)	(280)
Perpetual	-	-	-	-	-
Net profit	477	517	339	629	721
Core profit	477	517	339	629	721

Cash flow summary

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
EBIT	1,065	1,097	1,524	1,539	1,799
Depreciation and	18	25	33	33	31
Change in working capital	1,112	1,215	(3,607)	1,499	(989)
Income tax paid	(250)	(418)	(547)	(481)	(565)
Others	(1,515)	(1,818)	-	-	-
Net cash from operating	429	101	(2,597)	63	277
Capex	(52)	(24)	(30)	(32)	(35)
Associates/JV	(27)	(1,805)	403	-	-
Other	467	(1,934)	(601)	-	-
Net cash from investing	388	(3,763)	(228)	(32)	(35)
Equity raised	1,285	-	-	-	-
Change of Debts	(326)	3,868	3,556	1,265	1,391
Dividend paid	-	(120)	(183)	(119)	(220)
Other	(666)	1,238	-	-	-
Net cash from financing	293	4,987	3,373	1,146	880
Net change in cash	1,110	1,324	548	837	1,122
Cash at the beginning	377	1,487	2,812	3,360	4,196
Exchange difference	-	-	-	-	-
Cash at the end	1,487	2,812	3,360	4,196	5,318
Pledged deposit	6,223	8,153	8,153	8,153	8,153
Cash at BS	7,711	10,964	11,513	12,349	13,471

Balance sheet

YE Dec 31 (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	3,109	5,210	5,194	4,648	4,653
Fixed asset	160	138	137	112	111
Investment properties	2,582	2,799	2,801	2,728	2,736
Associates/JV	24	1,876	1,876	1,473	1,473
Intangible assets	5	10	9	7	5
Other non-current assets	337	388	372	328	328
Current assets	16,149	22,491	24,704	27,099	29,748
Cash	1,487	2,812	3,360	4,196	5,318
Account receivable	1,101	2,135	2,525	2,835	3,152
Inventories	12,097	12,709	13,984	15,232	16,443
Other current assets	1,463	4,835	4,835	6,784	6,784
Current liabilities	12,164	15,852	16,858	19,646	20,933
Borrowings	2,194	3,320	3,652	5,615	6,177
Trade and other payables	2,288	4,134	4,719	5,249	5,788
Contract liabilities	6,986	7,063	7,063	7,074	7,074
Deferred taxation	665	752	752	686	686
Other current liabilities	30	582	672	1,022	1,208
Non-current liabilities	3,847	6,192	6,767	8,770	9,600
Borrowings	3,451	5,773	6,350	8,299	9,129
Other non-current liabilities	396	419	417	471	471
Shareholders' equity	3,083	3,423	3,795	4,230	4,731
Minority interest	163	2,235	2,478	2,761	3,088
Perpetual bond	0	0	0	0	0

Key ratios

YE Dec 31	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Property development	98.9	98.6	98.9	98.7	98.6
Rental	1.1	0.7	0.5	0.7	0.8
PM & consulting	0.0	0.7	0.6	0.6	0.6
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	26.6	22.9	20.9	22.8	23.5
EBIT margin	17.9	14.8	16.6	15.1	15.9
Net margin	8.0	7.0	3.7	6.2	6.4
Effective tax rate	50.5	36.8	42.8	36.4	36.1
Balance sheet ratios					
Current ratio (x)	1.3	1.4	1.6	1.5	1.6
Receivable day	67.6	105.3	101.4	101.4	101.4
Payable day	191.4	264.7	243.3	243.3	243.3
Inventory day	1011.8	813.6	738.9	706.1	691.3
Net gearing ratio (%)	128.1	111.0	148.1	97.4	86.8
Returns (%)					
ROE	15.5	15.1	9.5	14.9	15.2
ROA	2.5	1.9	1.1	1.9	2.1
Per share data					
EPS (RMB)	0.58	0.62	0.41	0.76	0.87
DPS (RMB)	0.09	0.11	0.08	0.19	0.22
BVPS (RMB)	3.72	4.13	4.32	5.11	5.71

Source: Company data, CMBIS estimates

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