

Dafa Properties Group (6111 HK)

Rising YRD player with high asset turnover

As born (Wenzhou) and deep rooted in YRD region, Dafa has achieved a fast growth of >50% CAGR in 2018-20 to exceed RMB30bn sales. With sales growth remaining the key (+15-20% YoY in 2021E), we think Dafa will also focus on ROE and funding rate improvement via optimizing asset turnover, enhancing cash collection rate and clearing inventories. This would provide more margin upside and healthy B/S in the long run to fuel the earnings growth. Initiate with Buy.

- High concentration on YRD region to benefit from the booming demand.**
 Dafa has a total land bank of 6.5mn sq m/RMB91bn saleable resources (attributable 47%) with 84% located in the YRD regions (Wenzhou, Ningbo, Suzhou, Nanjing, etc.). We expect the Company to deliver 15-20% sales growth in 2021E to RMB35bn, > industry of 10% on its booming regional demand and debt advantage after meeting all “three red lines” by end-2020.
- “High asset turnover” approach to support expansion:** With only 2-2.5 years of land bank life, the Company still achieved a fast growth of >50% CAGR in 2018-20. Besides lower attributable ratio (from 60% in 2018 to 45% in 2020), the main reason behind is its consistent “high asset turnover” strategy (<12 months from land acquisition to cash flow breakeven) in the following ways: 1) Focus on YRD market as the demand side is more consistent than other regions. 2) Rely on public bidding channel for its land resources (100% in 2020). 3) JV with market leaders like Country Garden to further optimize. The drawback might be the limited margin upside given the increasing land price, but we think the amplifying sales scale could allow Dafa to strategically step into less-competitive regions to have more margin upside.
- The key to lower the funding rate:** We think the Company's 9.5% funding rate has room to improve via 1) repayment of trust loans (13% rate), as Dafa lowered its % of total debts to 20% by end-20 from 27% in 1H20. 2) Cash collection rate: Company has set the KPI of 90% in 2021E vs 75-80% in 2019-20. 3) Improvement in cash composition as the restricted and pledged cash remained high. 4) Clear inventory of RMB2.8bn (10% of current asset).
- Expect 12% core earnings CAGR in 2019-2022E on revenue growth.** Riding on strong sales in 2019/20, we forecast total revenue to grow at 15% CAGR in 2019-2022E to reach RMB11bn. GPM would stay stable at 21-22% due to fast asset turn. Core earnings are expected to grow at 12% CAGR in 2019-22E as increasing MI would offset the operating leverage. **Initiate with Buy with TP of HK\$8.32.** We derive TP by applying 45% discount to its NAV per share at HK\$15.1. **Risk:** policy tightening.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	5,946	7,398	9,089	10,205	11,346
YoY growth (%)	30.1	24.4	22.9	12.3	11.2
Net income (RMB mn)	477	517	556	629	721
EPS (RMB)	0.58	0.62	0.67	0.76	0.87
YoY growth (%)	N.A.	8.4	7.5	13.2	14.6
Consensus EPS (RMB)	0.58	0.62	0.57	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 (%)	128.1	111.0	105.9	97.4	86.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	HK\$8.32
Up/Downside	+19.5%
Current Price	HK\$6.96

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	5,787
Avg 3 mths t/o (HK\$ mn)	7.09
52w High/Low (HK\$)	7.60 / 3.67
Total Issued Shares (mn)	828

Source: Bloomberg

Shareholding Structure

GE Yiyang	72.5%
Free float	27.5%

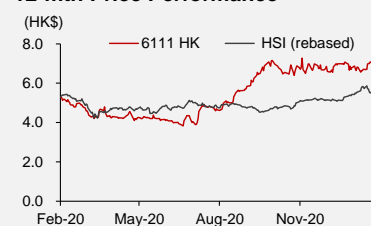
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	4.5%	-1.7%
3-mth	1.7%	-10.7%
6-mth	50.9%	26.4%
12-mth	32.1%	23.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	5,946	7,398	9,089	10,205	11,346	EBIT	1,065	1,097	1,304	1,539	1,799
Property development	5,879	7,294	8,981	10,075	11,192	Depreciation and amortization	18	25	33	32	32
Property investment	65	54	61	73	88	Change in working capital	1,112	1,215	(1,080)	(1,028)	(989)
Hotel	1	50	48	57	66	Income tax paid	(250)	(418)	(405)	(481)	(565)
Cost of sales	(4,364)	(5,702)	(7,079)	(7,874)	(8,682)	Others	(1,515)	(1,818)	-	-	-
Gross profit	1,582	1,697	2,011	2,332	2,664	Net cash from operating	429	101	(147)	63	277
Other income and gains	55	99	93	85	88	Capex	(52)	(24)	(30)	(32)	(35)
Selling expenses	(177)	(269)	(309)	(337)	(363)	Associates/JV	(27)	(1,805)	-	-	-
Administrative expenses	(375)	(393)	(473)	(520)	(567)	Other	467	(1,934)	-	-	-
Other expenses	(20)	(36)	(18)	(20)	(23)	Net cash from investing	388	(3,763)	(30)	(32)	(35)
Operating profit	1,065	1,097	1,304	1,539	1,799	Equity raised	1,285	-	-	-	-
Finance expenses	(133)	(250)	(255)	(273)	(289)	Change of Debts	(326)	3,868	909	1,000	1,100
Associates/JV	(4)	47	50	53	56	Dividend paid	-	(120)	(183)	(194)	(220)
Exceptional	61	57	-	-	-	Other	(666)	1,238	-	-	-
Pre-tax profit	989	952	1,099	1,319	1,567	Net cash from financing	293	4,987	726	806	880
Profits tax	(500)	(350)	(405)	(481)	(565)	Net change in cash	1,110	1,324	548	837	1,122
After-tax profit	489	602	695	839	1,001	Cash at the beginning	377	1,487	2,812	3,360	4,196
Minority interest	(13)	(85)	(139)	(210)	(280)	Exchange difference	-	-	-	-	-
Perpetual	-	-	-	-	-	Cash at the end	1,487	2,812	3,360	4,196	5,318
Net profit	477	517	556	629	721						

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	3,109	5,210	5,194	5,195	5,198	Sales mix (%)					
Fixed asset	160	138	137	135	134	Property development	98.9	98.6	98.8	98.7	98.6
Investment properties	2,582	2,799	2,801	2,805	2,812	Property investment	1.1	0.7	0.7	0.7	0.8
Associates/JV	24	1,876	1,876	1,876	1,876	Hotel	0.0	0.7	0.5	0.6	0.6
Intangible assets	5	10	9	7	5	Total	100.0	100.0	100.0	100.0	100.0
Other non-current assets	337	388	372	372	372	Profit & loss ratios (%)					
Current assets	16,149	22,491	24,704	27,099	29,748	Gross margin	26.6	22.9	22.1	22.8	23.5
Cash & cash equivalents	1,487	2,812	3,360	4,196	5,318	Operating margin	17.9	14.8	14.3	15.1	15.9
Account receivable	1,101	2,135	2,525	2,835	3,152	Net margin	8.0	7.0	6.1	6.2	6.4
Inventories	12,097	12,709	13,984	15,232	16,443	Effective tax rate	50.5	36.8	36.8	36.4	36.1
Other current assets	1,463	4,835	4,835	4,835	4,835	Balance sheet ratios					
Current liabilities	12,164	15,852	16,858	17,900	19,027	Current ratio (x)	1.3	1.4	1.5	1.5	1.6
Borrowings	2,194	3,320	3,652	4,017	4,419	Receivable day	67.6	105.3	101.4	101.4	101.4
Trade and other payables	2,288	4,134	4,719	5,249	5,788	Payable day	191.4	264.7	243.3	243.3	243.3
Contract liabilities	6,986	7,063	7,063	7,063	7,063	Inventory day	1011.8	813.6	721.0	706.1	691.3
Deferred taxation	665	752	752	752	752	Net gearing ratio (%)	128.1	111.0	105.9	97.4	86.8
Other current liabilities	30	582	672	819	1,005	Returns (%)					
Non-current liabilities	3,847	6,192	6,767	7,402	8,101	ROE	15.5	15.1	14.6	14.9	15.2
Borrowings	3,451	5,773	6,350	6,985	7,683	ROA	2.5	1.9	1.9	2.0	2.1
Other non-current liabilities	396	419	417	417	417	Per share data					
Shareholders' equity	3,083	3,423	3,795	4,230	4,731	EPS (RMB)	0.58	0.62	0.67	0.76	0.87
Minority interest	163	2,235	2,478	2,761	3,088	DPS (RMB)	0.09	0.11	0.14	0.19	0.22
Perpetual bond	0	0	0	0	0	BVPS (RMB)	3.72	4.13	4.58	5.11	5.71
Total equity	3,246	5,657	6,273	6,991	7,819						

Source: Company data, CMBIS estimates

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