Fixed Income
Credit Commentary

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First take for Corporate Day: Dafa - An outperformer in pre-sales

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Maintain Buy on DAFAPGs

DAFAPGs moved 2-3 pts lower over past 3 months and have been performing more resiliently compared to peers such as ZHLGHDs and SINHLDs. Despite near-term volatility and concerns on refinancing of maturing USD bonds, we maintain buy on DAFAPGs in view of its adequate liquidity. We believe that Dafa is well-positioned to benefit from the "re-opening" of the capital markets given its improving credit story.

72% sales target achieved in 1H21

In 6M21, Dafa reported contract sales of RMB25.8bn (attributable ratio of 45%), up 130% yoy. This represents 72% of its contract sales target of RMB36bn. Cash collection rate was 90% (60% for same year sales), i.e. RMB10.5bn. Dafa is the best performer in terms of target completion. The gross margin of 1H21 contract sales is largely in line with its historical level (20-22%). We expect Dafa to revise up its contract sales target when the company announces 1H21 results. We also expect the company to remain disciplined in maintaining land premium payment at 50% of cash collection even if it revises its budget for land acquisitions.

Green camp under "3 red-lines"

Dafa was in green camp under "3 red-lines" with net gearing, adj. liab-to-asset and cash/ST debts ratios at 61%, 69% and 143%, respectively. Dafa is confident to remain in green camp based on its figures in 1H21.

Applying NDRC quota for USD refinancing

As per Dafa, funding is ready for its repayment of o/s USD200mn bonds maturing on 11 Jul'21. The next major maturities will be the 364-day USD280mn due Jan'22 and USD360mn due Jul'22. Dafa is applying for NDRC quota to refinance maturing USD bonds. It is also exploring

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other alternatives such as bank loans to broaden its funding channels. Regarding onshore funding, it repaid RMB780mn trust loans in 1H21, hence trust loans maturing in FY21 reduced to below RMB1bn. Dafa mentioned that its onshore funding costs on trust and construction loans did not change materially in 1H21. Taking cues from its expectation of cash/ST debts ratios to remain above 100%, the guidance of positive free cash flow for FY21 and continued access to onshore trust and construction loans, we believe that Dafa should have adequate liquidity even if issuing new bonds could remain challenging in the near-term.

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