

Dafa Properties Group (6111 HK)

Strong 1H21 results; 1+1 strategy pays off

- 1+1 strategy pays off:** More important than the strong 1H21 results (+42% YoY in core earnings), we think management followed through its strategic transition from “1+5” to “1+1” (focusing on YRD + Chongqing/Chengdu regions). This can be seen not just in terms of its disciplined land acquisitions in 1H21 (mainly Chongqing/Chengdu/YRD), but also strong sales (+113% YoY) in 7M21 mainly contributed by these two regions. Looking forward, we expect both gross margin and MI/PBT ratio to remain stable and then its solid sales growth in these two resilient markets will drive the earnings on a steady growth. Maintain Buy rating.
- Solid 1H21 results:** Dafa delivered strong 1H21 results with earnings growth of 42% YoY to RMB201mn, slightly higher than its 40% profit alert and accounting for 32% of our 2021E estimates (vs. 42% in FY20). Revenue increased 51% YoY to RMB5.25bn while GP margin stayed unchanged at 20.1% in 1H21. Dafa recorded RMB64mn disposal gain on Chongqing and Chengdu projects and this has offset the spike in MI from RMB243mn in 1H21 to RMB34mn in 1H20. Net margin eroded 0.2ppt YoY to 3.8% in 1H21. EPS was RMB0.24/share (+41% YoY) and it declared an RMB0.048/share interim dividend (20% payout ratio; same as 1H20).
- 2021 sales set to beat target and may reach RMB42bn+ (+40% YoY):** Dafa has achieved RMB28.8bn sales in 7M21 up 113% YoY. With the good momentum, we think it will beat Company's 2021E RMB36bn target and our forecast of RMB42bn given still resilient market in YRD and Chengdu/Chongqing regions. This proves that strategic refocus on YRD and Chengdu/Chongqing pays off on the market share gain.
- Healthy balance sheet puts Dafa in Green Category:** The Company has stayed within the green category fulfilling the RRR requirements with liability to Asset (excluding presales) at 69.0% (68.6% in FY20), net gearing at 56.4% (61.2% in FY20) and cash to short-term debt at 1.4x (1.4x in FY20). Total debt in 1H21 decreased to RMB12.3bn (-3% YoY).
- Disciplined land acquisition in 1H21 focusing on its 1+1 regions (YRD and Chengdu/Chongqing):** The Company with its JV and Asso only acquired 7 new land parcels in 1H21 (16 plots in 1H20) with total GFA of 1.1mn sq m (-42% YoY) and average land cost of RMB9k/sq m (+58% YoY), mounting RMB10.4bn (-9% YoY) in land costs. This accounted for 40% of contracted sales. Total land bank reached 6.7mn sq m, enough for 2.5 years development cycle. Sales ASP/land cost is maintained stable at 2.6x.

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	9.5	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**
 (Previous TP) **HK\$8.32**
Up/Downside **+34.6%**
Current Price **HK\$6.18**

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	5,116
Avg 3 mths t/o (HK\$ mn)	5.27
52w High/Low (HK\$)	8.48/5.00
Total Issued Shares (mn)	828

Source: Bloomberg

Shareholding Structure

GE Yiyang	72.5%
Free float	27.5%

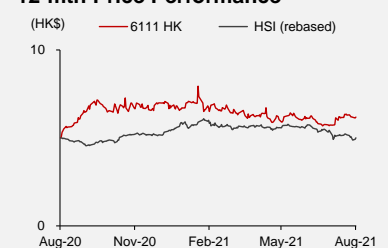
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.0%	16.4%
3-mth	1.5%	15.0%
6-mth	-8.5%	11.6%
12-mth	22.6%	22.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Figure 1: 1H2021 results summary

RMB mn	1H20	1H21	YoY	1H/2020	1H/2021E
Revenue	3,472	5,246	51%	38%	51%
- Property development	3,436	5,198	51%	38%	52%
- Rental	25	26	4%	49%	35%
- PM & consulting	11	22	96%	21%	39%
Gross profit	698	1,055	51%	36%	45%
Net profit	141	201	42%	42%	32%
EPS (RMB)	0.17	0.24	41%	41%	32%
DPS (RMB)	0.03	0.05	41%	43%	25%
Dividend payout ratio	20.0%	20.0%	0%		
GP Margin	20.1%	20.1%	0 ppt		
Net Margin	4.1%	3.8%	-0.2 ppt		
	FY20	1H21			
Net Gearing	61.2%	56.4%			
Debt to Aseet (excl. presales)	68.6%	69.0%			
Cash / ST Debt	1.4 x	1.4 x			

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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