招銀国际
CMB INTERNATIONAL

Fixed Income
Credit Commentary

25 Aug 2021

CMBI Credit Commentary - DAFAPG

DAFAPG: Riding through the storm

Maintain Buy on DAFAPGs

Further to our comments on Dafa dated 7 Jul'21, we maintain Buy on DAFAPGs on the back of its strong operating performance and diversifying funding channels. DAFAPGs moved 2 pts higher post the strong 1H21 results. Offered at 96.5 and 94.1, DAFAPG 9.95% '22 and 12.375% '22 were trading at a YTM of 19.5% and 19.6%, respectively. We expect DAFAPGs to continue to outperform peers such as ZHLGHDs and SINHLDs and believe that Dafa is well-positioned to benefit from the "re-opening" of the capital markets given its improving credit story.

Strong 1H21 results

In 1H21, Dafa's revenue and estimated core net profit increased 51.1% and 57.8% to RMB5.2bn and RMB170.8mn, reflected its growing contract sales and improving contributions from JVs and associates. Over the past few years, Dafa has been growing significantly, party through formation of JVs, and the projects deliveries at JVs and associates contributed to the faster growth of estimated core net profit. Gross margin in 1H21 was 20.2%, compared with 20.3% in 1H20 and 20.9% in FY20 while estimated core profit margin was 3.3% in 1H21, compared with 3.1% in 1H20 and 3.8% in FY20. The strong 1H21 results were not too surprising after the company released the positive profit alert on 11 Aug'21. As the operating scale of Dafa has already expanded significantly since IPO in 2018, its revenue growth will be moderating to a range of 10-20% p.a. Taking cues of slightly lower margin of the new projects acquired, the gross margin of Dafa will be in the range of 18-20%.

Prudent tone reflected by not revising sales target upward

In 7M21, Dafa reported contracted sales of RMB28.8bn, up 112.3% yoy, driven by 85.2% and 14.6% increases in GFA sold and ASP, respectively. Dafa achieved 80% of its sales target of RMB36bn by end of Jul'21 and is amongst the best performing developer in terms of run-rate. As discussed before, we expect the growth pace to be moderating. In view of the 68% sell-through rate in 1H21 and saleable resources of RMB33.5bn for 2H21, we believe that Dafa can comfortably achieve contracted sales of over RMB40bn in FY21. That said, Dafa sounded out a prudent tone given the current credit and regulatory environment, and it maintains its sales target unchanged. Instead, it turned its focuses on deliveries and cash collection.

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Dafa targets to have a cash collection rate of 75% and requires down-payments of 40% or above for properties sold. Based on the attributable ratio of 43% for the contracted sales in 1H21, we estimated its cash collection rate was 74.8% in 1H21 (incl. collection for sales in FY20).

Stable credit profile, remaining in the green camp under "3 red-lines"

Dafa remains in the green camp under the "3 red-line. Its net gearing, adj. liabilities to asset and cash/ST debts ratios were at 56.4%, 69.0% and 1.4x in Jun'21, compared with 61.2%, 68.6% and 1.4x, respectively. Even if we exclude restricted cash, its cash (including pledged deposits as these are pledged for ST debts)/ST debts ratio is 1.0x as at Jun'21. We notice an increase in non-controlling interests (NCI) as the company has expanded partly through partnership. We take comfort that its major JV partners including developers such as Country Garden and Sunac instead of financial investors. As at Jun'21, the attributable net debts at JV and associates' level was cRMB1.4bn. Factoring these, its adj. net gearing ratio of 70.9%. We estimated the adj. net gearing to improve to mid-60% by FYE21.

Adequate liquidity for repayment of USD bonds due Jan'22

Dafa has a relatively simple capital structure with no onshore bonds outstanding and non-bank borrowings accounting for 15% (RMb1.9bn) of its total debts. Subsequent to the repayment of o/s USD200mn bonds maturing on 11 Jul'21, the major maturities over the next 6-12 months will be cRMB1bn non-bank borrowings due within FYE21, and the 364-day USD280mn due Jan'22 and USD360mn due Jul'22. Dafa obtained NDRC quota of USD430mn recently to refinance maturing USD bonds. It recently obtained USD30mn loan facility from Hang Seng Bank. The loan will be fully repaid 12 months (so not occupying its NDRC quota) after drawn down. We understand that the funding cost is lower than that of USD bonds. This is the first offshore loans Dafa obtained and has demonstrated the progress in diversifying funding channels. We estimate that Dafa will generate a small positive free cash flow in 2H21, and as discussed before, its unrestricted cash/ST debts ratio is 1.0x. Dafa should have adequate liquidity even if issuing new bonds could remain challenging in the near-term.

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