

## Dafa Properties Group Limited

### Rapidly Rising Through the Ranks, beating Market expectations

Dafa Properties announced a 2019 full year contracted sales of RMB21bn (+67.8% YoY), which significantly beats our estimate of RMB15bn. The YoY growth of 67.8% is also one of the highest among HK-listed China Property companies. As Dafa announces contracted sales on a quarterly basis, this implies a strong 4Q19 contracted sales of RMB8.4bn.

#### Solid execution on projects acquired in 1Q19

Dafa Properties' specialty in smaller sized projects and execution capability is the key reason behind the positive contracted sales surprise, in our view. Projects acquired in 1Q19 are already key contributors to 4Q19 contracted sales. Projects on their land bank have an average project size of only ~100k sqm (vs industry average of ~200-300k sqm) underpinning their high asset turnover.

The developer acquired 13 projects totaling 1.3m sqm in 1H19 alone, which we believe are the key drivers for the 4Q19 contracted sales. We expect the momentum to extend into 1H20 with the follow-on launches at these projects together with new constructions started in 2H20.

#### We estimate that attrib. contracted sales grew at ~34% YoY

According to CRIC, a third-party data provider, Dafa Properties' 2019 contracted sales achieved through properties under "controlling management" was at RMB14.5bn. We believe the discrepancy reflects the increased number of JV projects acquired by Dafa during 2019.

We estimate that Dafa has an effective stake of ~64% (2018: ~88%) in the RMB21bn 2019 contracted sales. It would still imply a solid ~34% YoY growth in attributable contracted sales, beating our estimate of a 25% YoY growth.

#### Cash collection should remain tight amid property-financing policies

While the overall sentiment towards the property policies have seemingly loosened up in 2H19, we still expect cash collection to be tighter than previous years based on our anecdotal evidence in our site visits last month. Nonetheless, the recent monetary easing policies should provide a more favourable outlook for 2020, in our view. Based on our channel checks, we believe that there is a divergence in the ease of mortgage financing across different developers and across different cities. For smaller scale developers such as Dafa, more work needs to be done to increase the cash collection rates, in our view.

#### A laggard in the recent rally, stock trading at ~4.1x 2020E P/E

Dafa has been a laggard in the recent share price rally of property stocks, which we believe creates an investment opportunity for investors. Smaller scale developers with improving execution track record like Dafa should benefit from the recent monetary loosening policies, in our view. The stock is currently trading at 4.1x 2020E P/E, below the industry average of 5.6x. Meanwhile, Dafa's bonds are trading at YTM of ~17%.

**Stock code: 6111.HK**
**Rating: BUY**

|                                  |             |
|----------------------------------|-------------|
| <b>Price target (HK\$)</b>       | <b>6.98</b> |
| Current price (HK\$, 6 Jan 2020) | 5.20        |
| Upside/downside %                | 34%         |
| Market cap (HK\$ m)              | 4,305       |
| Market cap (US\$ m)              | 554         |
| 3M Avg daily turnover (US\$ m)   | 1.00        |

Source: Bloomberg, AMTD Equity Research

#### Key forecasts

| (RMB m)      | 2018   | 2019e | 2020e  | 2021e  |
|--------------|--------|-------|--------|--------|
| Revenue      | 5,946  | 8,863 | 10,636 | 12,763 |
| yoy %        | 30.1%  | 49.1% | 20.0%  | 20.0%  |
| Net profit   | 489    | 629   | 763    | 929    |
| yoy %        | 239.5% | 28.5% | 21.2%  | 21.7%  |
| Core Attr NP | 432    | 613   | 743    | 905    |
| yoy %        | 350.0% | 41.9% | 21.2%  | 21.7%  |
| Gross margin | 26.6%  | 25.0% | 25.0%  | 25.0%  |
| Net gearing  | 108.1% | 97.0% | 76.8%  | 58.3%  |
| EPS          | 0.66   | 0.94  | 1.14   | 1.39   |
| DPS          | 0.18   | 0.24  | 0.29   | 0.35   |
| BPS          | 4.74   | 5.45  | 6.31   | 7.35   |

Source: Company data, AMTD Equity Research

#### Valuation

|            | 2018  | 2019e | 2020e | 2021e |
|------------|-------|-------|-------|-------|
| P/E        | 7.0   | 5.0   | 4.1   | 3.4   |
| P/BV       | 1.0   | 0.9   | 0.7   | 0.6   |
| Div. yield | 3.9%  | 5.1%  | 6.1%  | 7.5%  |
| ROE        | 14.0% | 17.3% | 18.1% | 18.9% |
| ROA        | 2.2%  | 2.7%  | 3.0%  | 3.4%  |

Source: Bloomberg, AMTD Equity Research

#### Share price performance



Source: Bloomberg

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## Valuation and Risks

Figure 1: Peers Valuation comparison

| Date                             | 6/1/2020       | Share Price<br>(HK\$) | Mkt cap<br>(USD mn) | FY18 P/E    | FY19E P/E   | FY20E P/E   | FY18 P/B    | FY19E P/B   | FY20E P/B   | Div. yield   |
|----------------------------------|----------------|-----------------------|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| <b>Equity</b>                    |                |                       |                     |             |             |             |             |             |             |              |
| <b>China Property Developers</b> |                |                       |                     |             |             |             |             |             |             |              |
| 2202 HK                          | Vanke          | 32.90                 | 50,634              | 9.8x        | 8.0x        | 7.0x        | 2.1x        | 1.8x        | 1.5x        | 3.61%        |
| 688 HK                           | COLI           | 29.50                 | 41,596              | 9.3x        | 7.3x        | 6.1x        | 1.2x        | 1.0x        | 0.9x        | 3.22%        |
| 3333 HK                          | Evergrande     | 21.75                 | 36,889              | 6.9x        | 5.8x        | 5.5x        | 1.9x        | 1.6x        | 1.4x        | NA           |
| 2007 HK                          | Country Garden | 12.32                 | 34,636              | 7.0x        | 5.8x        | 5.1x        | 2.0x        | 1.6x        | 1.3x        | 4.85%        |
| 1109 HK                          | CR Land        | 37.70                 | 34,598              | 12.2x       | 10.0x       | 8.6x        | 1.7x        | 1.5x        | 1.3x        | 3.33%        |
| 960 HK                           | Longfor        | 36.05                 | 27,733              | 14.7x       | 11.6x       | 9.6x        | 2.4x        | 2.1x        | 1.8x        | 3.29%        |
| 1918 HK                          | Sunac          | 46.20                 | 26,418              | 12.2x       | 7.0x        | 5.6x        | 3.2x        | 2.3x        | 1.7x        | 2.03%        |
| 813 HK                           | Shimao         | 29.70                 | 12,619              | 10.4x       | 7.9x        | 6.4x        | 1.5x        | 1.3x        | 1.1x        | 4.38%        |
| 3380 HK                          | Longan         | 12.80                 | 9,056               | 9.2x        | 6.4x        | 5.2x        | 2.4x        | 1.8x        | 1.5x        | 6.64%        |
| 884 HK                           | CIFI           | 6.63                  | 6,733               | 8.5x        | 6.6x        | 5.3x        | 1.8x        | 1.5x        | 1.2x        | 4.86%        |
| 2777 HK                          | R&F            | 14.54                 | 6,541               | 4.4x        | 3.5x        | 2.9x        | 0.6x        | 0.6x        | 0.5x        | 9.67%        |
| 3383 HK                          | Agile          | 11.76                 | 5,928               | 5.8x        | 5.4x        | 4.7x        | 1.0x        | 0.9x        | 0.8x        | 9.35%        |
| 1813 HK                          | KWG            | 10.62                 | 4,342               | 7.9x        | 5.9x        | 4.8x        | 1.1x        | 0.9x        | 0.8x        | 6.63%        |
| 3883 HK                          | Aoyuan         | 12.48                 | 4,321               | 11.8x       | 6.8x        | 4.8x        | 2.5x        | 2.0x        | 1.5x        | 3.28%        |
| 1233 HK                          | Times          | 15.50                 | 3,874               | 6.1x        | 5.0x        | 4.1x        | 1.5x        | 1.2x        | 1.0x        | 5.05%        |
| 123 HK                           | Yuexiu         | 1.79                  | 3,567               | 7.1x        | 7.4x        | 6.6x        | 0.6x        | 0.6x        | 0.6x        | 5.81%        |
| 6158 HK                          | Zhenro         | 5.51                  | 3,097               | 10.4x       | 6.8x        | 5.1x        | 1.5x        | 1.3x        | 1.2x        | 2.72%        |
| 1638 HK                          | Kaisa          | 3.84                  | 3,007               | 4.4x        | 5.3x        | 3.9x        | 1.0x        | 0.8x        | 0.7x        | 3.12%        |
| 3900 HK                          | Greentown      | 10.42                 | 2,911               | 20.3x       | 8.0x        | 8.0x        | 0.7x        | 0.7x        | 0.6x        | 2.50%        |
| 1628 HK                          | Yuzhou         | 4.29                  | 2,883               | 4.8x        | 5.2x        | 4.3x        | 1.0x        | 0.9x        | 0.8x        | 8.28%        |
| 1238 HK                          | Powerlong      | 5.13                  | 2,736               | 9.9x        | 7.4x        | 4.3x        | 0.7x        | 0.6x        | 0.6x        | 6.28%        |
| 1966 HK                          | China SCE      | 4.68                  | 2,519               | 7.4x        | 5.4x        | 4.2x        | 1.1x        | 0.9x        | 0.8x        | 5.13%        |
| 3301 HK                          | Ronshine       | 10.30                 | 2,274               | 6.7x        | 4.2x        | 3.3x        | 1.2x        | 0.9x        | 0.8x        | 3.54%        |
| 272 HK                           | Shui On Land   | 1.74                  | 1,805               | 4.7x        | 17.4x       | 15.7x       | 0.3x        | 0.3x        | 0.3x        | 6.90%        |
| 95 HK                            | Lvgem          | 2.74                  | 1,781               | 14.0x       | 12.3x       | 6.4x        | 1.1x        | 1.0x        | 0.9x        | 1.93%        |
| 832 HK                           | CCRE           | 4.76                  | 1,676               | 14.2x       | 7.5x        | 4.8x        | 1.3x        | 1.2x        | 1.1x        | 6.55%        |
| 119 HK                           | Poly Prop      | 3.44                  | 1,621               | 6.0x        | 3.4x        | 4.1x        | 0.4x        | 0.4x        | 0.4x        | 3.58%        |
| 1098 HK                          | Roadking       | 15.08                 | 1,454               | NA          | NA          | NA          | 0.7x        | NA          | NA          | 7.82%        |
| 1996 HK                          | Redsun         | 2.54                  | 1,085               | 4.0x        | 5.5x        | 3.8x        | 0.4x        | 0.6x        | 0.5x        | 4.21%        |
| 230 HK                           | Minmetals      | 1.31                  | 564                 | 4.5x        | 4.9x        | 4.6x        | 0.5x        | 0.4x        | 0.4x        | 6.11%        |
| 6111 HK                          | Dafa           | 5.20                  | 554                 | 7.0x        | 5.0x        | 4.1x        | 1.0x        | 0.9x        | 0.7x        | 4.88%        |
| <b>Total</b>                     |                |                       | <b>339,452</b>      | <b>8.7x</b> | <b>7.0x</b> | <b>5.6x</b> | <b>1.3x</b> | <b>1.1x</b> | <b>1.0x</b> | <b>4.99%</b> |

Source: Bloomberg Estimates, AMTD Equity Research Estimates

Note: As of 6<sup>th</sup> Jan, 2020; \*Div Yield is Trailing Dividend Yield

### Key Risks

Key risks for the stock includes (1) a slowdown in contracted sales; (2) unexpected tightening in monetary policy; (3) government introduction of property tax which curbs property purchase sentiment.; (4) Increasing JV/Asso projects also raises the execution risks.

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### AMTD Investment Ratings

#### Stock Rating

|             |   |
|-------------|---|
| <b>Buy</b>  | Stock with potential return of over 20% over the next 12 months     |
| <b>Hold</b> | Stock with potential return of -20% to +20% over the next 12 months |
| <b>Sell</b> | Stock with potential loss of over 20% over the next 12 months       |

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