

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

Price target (HK\$)	6.98
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 (HK\$)	Mkt cap (USD mn)	FY18 P/E	FY19E P/E	FY20E P/E	FY18 P/B	FY19E P/B	FY20E P/B	Div. yield
Equity										
China Property Developers										
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%
Total		339,452		8.7x	7.0x	5.6x	1.3x	1.1x	1.0x	4.99%

Source: Bloomberg Estimates, AMTD Equity Research Estimates

Note: As of 6th 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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Stock Rating	
Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

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