

Dafa Properties Group Limited

Project launches in 2Q20 Holds the Key to Full Year Growth Outlook

Dafa Properties has set a 15% contracted sales growth target for 2020E, which we believe is conservative, considering its RMB43bn sellable resources and lowering attributable stake in the new projects. We believe 2Q20 will be the key quarter for Dafa's full year performance, as 35% of its scheduled 2020 new launches are expected for 2Q20.

Conservative 15% contracted sales growth target

Management has set a contracted sales target of RMB24bn, implying a 15% YoY growth. We believe this is a conservative target, considering the sellable resources of RMB43bn expected for 2020 and a lower attributable stake (~55%) in these sellable resources. If the developer can maintain its 2019 70% sell-through rate into 2020, they would achieve a RMB30bn contracted sales (43% YoY growth). Whether they will achieve this, we believe hinges on the property related policies, as well as the economic growth outlook of the export-oriented Yangtze River Delta, where 83% of their land bank is located.

Core Net Profit missed consensus estimate on lower revenue recognition

Dafa's reported a shareholders' net profit of RMB516m, up 8.1% YoY. If we exclude the fair value gains from Inv Prop, we calculate that the core net profit to be at ~RMB479m, up 11% YoY, but 22% and 30% below AMTD and Consensus estimates, respectively. This is mainly due to the lower than expected revenues recognized during the period, with 2019 revenues 17% below our estimate at RMB7,398m. GP Margins were slightly down to 22.9% (2018: 26.6%), in-line with industry trend.

Lower financial leverage a major positive

Dafa's Net Debt to Equity has been lowered sharply to 78% (1H19: 132%), which we believe is a major positive to its financing cost and access to capital going forward. Refinancing risks and financing costs has been one of investors' key concerns on Dafa Properties in the past 6-9 months, in our view. We believe the improved balance sheet financial leverage, together with a more accommodative onshore credit environment should ease investor's concerns on the stock, in our view.

Completed Property Held For Sale rose sharply due to Wuhu Project

We have noted that the completed properties held for sale on a Balance Sheet at end-2019 has risen to RMB2.86bn (2018: RMB1.09bn). This represents ~50% of 2019 COGS, rising sharply from the 2018 levels of ~25% of COGS. Within this Completed Properties Held for Sale, RMB1.2bn is attrib. to a project in Wuhu. If this portion is already pre-sold but just not yet being recognized into revenue for technical reasons, we believe it explains and fills the 2019 revenue shortfall. If it is indeed unsold inventory, then we believe it is a major concern and it will become a drag on the developers' balance sheet and cash flow.

Stock is trading at inexpensive valuations of 3.6x 2020E P/E

We believe the stock is trading at inexpensive valuations of 3.6x 2020E P/E which has reflected the challenges that the developer faces, amid the slower macroeconomic growth around Yangtze River Delta Region amid the COVID-19 pandemic. Our target price of HK\$6.98/sh is based on a target 2020E P/E of 5.5x. Key downside risks include: (1) slower than expected contracted sales in Yangtze River Delta region due to macroeconomic slowdown; and (2) Further margin compression if property prices are under pressure.

Stock code: 6111.HK

Rating: BUY

Price target (HK\$)	6.98
Current price (HK\$, 30 Mar 2020)	4.60
Upside/downside %	52%
Market cap (HK\$ m)	3,808
Market cap (US\$ m)	491
Avg daily turnover (US\$ m)	1.00

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019	2020e	2021e
Revenue	5,946	7,398	10,636	12,763
yoy %	30.1%	24.4%	43.8%	20.0%
Net profit	489	601	763	929
yoy %	239.5	22.8%	27.0%	21.7%
Core Net Profit	432	479	743	905
yoy %	350.0	10.8%	55.0%	21.7%
Gross margin	26.6%	22.9%	25.0%	25.0%
Net gearing	108.1	77.8%	76.8%	58.3%
EPS	0.66	0.58	1.14	1.39
DPS	0.18	0.14	0.29	0.35
BPS	3.72	4.13	6.31	7.35

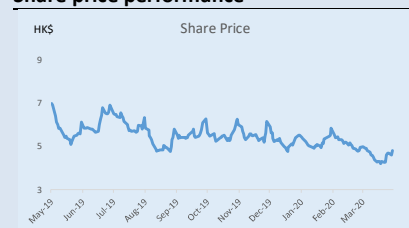
Source: Company data, AMTD Equity Research

Valuation

	2018	2019	2020e	2021e
P/E	6.2	7.2	3.6	3.0
P/BV	1.1	1.0	0.7	0.6
Div. yield	3.5%	3.5%	7.0%	8.4%
ROE	14.0%	14.0%	18.5%	19.2%
ROA	2.2%	1.7%	2.4%	2.8%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: 2019 Dafa Final Results Analysis

FY19 Results (RMB '000)	FY19A	FY18A	YoY	FY19E	Diff
Sale of properties	7,294,137	5,879,356	24%	8,782,979	-17%
Property management services	7,638	1,479	416%	1,775	330%
Rental income	54,435	65,212	-17%	78,254	-30%
Management consulting service income	42,035	-	N/A	-	N/A
Total Revenue	7,398,245	5,946,047	24%	8,863,009	-17%
Cost of sales	(5,701,515)	(4,364,068)	31%	(6,647,256)	-14%
Gross profit	1,696,730	1,581,979	7%	2,215,752	-23%
Finance income	18,262	17,740	3%	24,847	-27%
Other income and gains	21,706	37,672	-42%	52,764	-59%
Selling and distribution expenses	(269,258)	(176,814)	52%	(212,177)	27%
Administrative expenses	(393,259)	(375,071)	5%	(450,085)	-13%
Other expenses	(35,690)	(20,284)	76%	(28,410)	26%
Impairment losses of financial assets, net	(423)	(395)	7%	-	N/A
Fair value gains, net:					
Financial assets at fair value through profit or loss	58,363	-	N/A	-	N/A
Fair value gains on investment properties	57,476	61,295	-6%	-	N/A
Share of profits and losses of:					
Joint ventures	(23,176)	-	N/A	-	N/A
Associates	70,235	(3,969)	-1870%	(5,559)	-1363%
Finance costs	(249,760)	(132,711)	88%	(145,055)	72%
Profit before tax	951,206	989,442	-4%	1,452,078	-34%
Income tax expense	(350,466)	(500,067)	-30%	(823,033)	-57%
Net profit	600,740	489,375	23%	629,044	-4%
Owners of the Company	515,821	476,817	8%	612,902	-16%
Non-controlling interests	84,919	12,558	576%	16,142	426%
Core attributable NP	478,807	432,025	11%	612,902	-22%
Key Ratios					
GP Margins	22.9%	26.6%		25.0%	
Core Net Margins	6.5%	7.3%		6.9%	
	FY19A	1HFY19		FY19E	
Net Debt to Equity	77.8%	132%		97.0%	
Total Assets to Total Equity	490%	601%		614%	

Source: Bloomberg Estimates, E=AMTD Equity Research Estimates
AMTD Equity Research Calculated Core Attributable Net Profit

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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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