



Desane (DGH)

5 March 2020

1H20 result review

Our View

Desane is well positioned for this volatile and parsimonious economic environment with access excess capital and a proven track record of investing prudentially. Outperform.

We retain a risk weighted NTA valuation of \$1.76 per share after discounting the probability of development success for the latent property development portfolio.

Key Points

Result – strong outcome

- NPAT of \$2.1m boosted via a partial upward revaluation of the Lane Cove properties (underpinned by some recent rent increases).
- Cash and financial assets of \$20.3m.
- NTA of \$1.46 per share.
- Desane have lent some of the surplus capital to other 3rd party property projects – and this has delivered an 8% return. Given the underlying security is likely property and management extensive experience in the sector – we assess this is a reasonable risk/return proposition.
- The revaluation delivered a \$3.46m gain and helped underpin the result.
- Into the 2H20 we'd expect rental income to rise due to the rent rises in Lane Cove and a full contribution of the recently purchased Brisbane property.
- The recent deployment of some capital into 3rd party property loans should also deliver increased financial income into 2H20.

Property Portfolio

- Desane finalised the settlement of the Wacol (Brisbane) property during the period and has added a boutique 9-unit development in Norton St (Leichardt) to the other Allen St Leichardt (Sydney) holdings. Allen St has already been approved for residential development. We ideally will see further mobilisation around Leichardt holdings into 2020 and this would be a positive for investors.
- Desane also hold 1.2Ha site in Penrith – which has great promises in terms of value adding via master planning and possibly being rezoned from Industrial to residential. We also believe that Wacol industrial property in Brisbane holds redevelopment potential as well.

Changes to forecasts – NTA is King

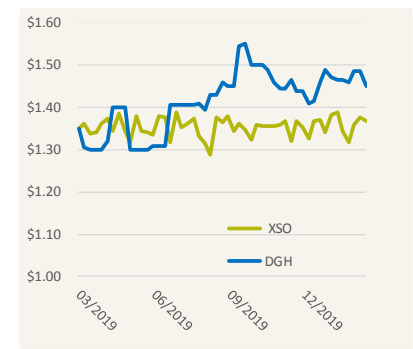
- We have updated the balance sheet to include the property loans and recast the divisional earnings for the revaluation and income movements from the various properties the business owns. The reported NTA is \$1.46. This business trades at a modest discount to this and as previously mentioned – we see upside to the NTA.
- Desane has plenty of surplus capital to deploy (and could also re-gear) and this is also set to add to earnings and NTA into the future.

Recommendation: Outperform

Summary (AUD)

Market Capitalisation	\$55M
Share price	\$1.35
52 week low	\$1.30
52 week high	\$1.55

Share price graph (AUD)



Key Financials (AUD)

June	FY19A	FY20E	FY21E
Revenue (\$m)	4.1	2.5	4.4
EBITDA (\$m)	0.3	0.2	2.1
NPAT Adj.	27.3	2.7	2.3
EPS Adj. (c)	66.7	6.6	5.6
Growth (pcp)	n.m	n.m	n.m
PE Ratio (x)	n.m	20.6	24.2
DPS (c)	4.5	2.5	3.0
Div Yield	3.3%	1.9%	2.2%
Franking	100.0%	0.0%	25.0%
EV (\$M)	15.5	38.2	49.9
NTA \$	\$1.43	\$1.46	\$1.49

Changes for forecasts

We are upgrading our NPAT forecast from \$1.9m to \$2.7m for FY20. EPS changes from 4.5 cps FY20 to 6.6 cps for FY20. The main change was the higher than expected property portfolio revaluation that occurred in 1H20. Recurring income should improve as capital is put to work (properties bought - start to contribute rent) and rents from some of the properties (Lane Cove) increases due to recent rent reviews.

The optimum valuation approach is NTA and we retain a risk adjusted NTA of \$1.76 cps.

Desane - overview

Desane is a Sydney based property investment and property development (residential and mixed use) business. The business method is to be integrated (both investment and development). The focus is on commercial real estate (with value added potential) and high quality commercial and residential development projects with a medium to longer term focus. Desane has been listed for over 30 years and this makes it one of the longest continuously operating listed operating (property) businesses on the ASX.

We have also recently issued an initiation report that is available on request.

Desane – risks

Risks include (but are not limited to) – loan risk with respect to lending portfolio, retention of tenants, development approval risk, property acquisition risk, construction cost risk, value added strategy execution risk, government policy risk, taxation risk, macro-economic risk and regulatory and statutory body risk and loss of key personnel.

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Analyst: Stephen Scott

Release Authorised by: Mark Pittman

TAYLOR COLLISON LIMITED
Sharebrokers and Investment Advisors
Established 1928

ADELAIDE
Level 16, 211 Victoria Square
Adelaide SA 5000
GPO Box 2046
Adelaide SA 5001
Telephone 08 8217 3900
Facsimile 08 8321 3506
broker@taylorcollison.com.au

SYDNEY
Level 10, 167 Macquarie Street
Sydney NSW 2000
GPO Box 4261
Sydney NSW 2001
Telephone 02 9377 1500
Facsimile 02 9232 1677
sydney1@taylorcollison.com.au

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ABN 53008172450
AFSL 247083