TAYLOR COLLISON

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Desane (DGH)

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FY20 result review – cashed up and ready to pounce

Recommendation: Outperform

Our View

Retain Outperform. Desane has good optionality at this point in the property cycle. Given the very high probability of a shakeout in some parts property sector – we like its conservative balance sheet and cash-up position with net financial assets of $13.1m.

Desane owns property in Brisbane/Sydney (not Melbourne) and owns light industrial, not stranded retail. Management has been through recessions. Desane has projects in the early planning phase and is not trying to sell/lease now. Desane has no construction projects slowed by COVID-19 concerns. Desane's new projects are near transport and population growth (not in areas of decline/financial hardship).

In simple terms, we would rather be in Desane's position than many similar property developers and other industrial businesses. We believe that management will gradually deploy its cash overtime to rebuild the rental base after some major property sales that have been undertaken in recent years.

Key Points

Desane reported another solid result.

Recent result features

- NTA of $1.44 with a core light industrial/mixed-use property portfolio of Lane Cove (Sydney) and Wacol (Brisbane) producing about 7% return on these properties. There are 2 development projects and the Wacol expansion project also on the books.
- Final dividend 2.25 per share – full-year 4.5c per share
- Desane has net financial assets of $13.2m and liquid assets of $4.3m. Desane is under-geared with $57m worth of virtually ungeared property assets.
- The Brisbane (Wacol) property (valued at $10.1m) has received approval to add a further 3,250 sqm of space to the existing capacity of 5,039sqm. Construction is set for 2021 – so it will take some time to deliver on the expansion plans.
- The 1.2Ha Penrith – Thornton St (valued at $22.9m)- site has valuation upside for Desane if rezoned from light industrial to medium density mixed-use/residential. We assign a reasonable probability that this is possible.
- We believe that the Desane could use/acquire the underlying lending property in an interest default event within the Desane lending portfolio.

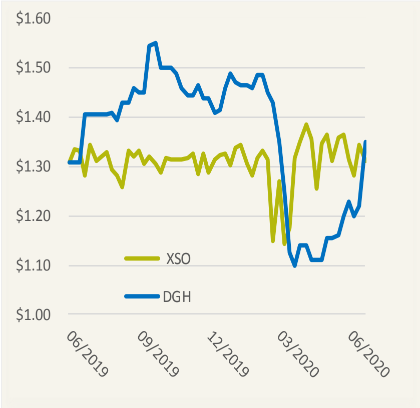
Balance sheet capacity, valuation changes to forecasts

1. When Desane sees the appropriate opportunity – it could gear up and create further income streams for investors and value uplift.
2. We have removed the forecast contribution from acquisitions for the FY21 year and reduced some income from the loan book into FY21 and beyond. **The key is the NTA, upside from the new projects, and the accretive deployment of further financial capital.**
3. We retain our Outperform recommendation with NTA of $1.44 and possibly risk weighted NTA of up to $1.75 if some rezoning and construction (at the right price) can be secured. Outperform.

Summary (AUD)

Market Capitalisation	**$51.5**
Share price	**$1.26**
52 week low	$1.095
52 week high	$1.555

Share price graph (AUD)



Key Financials (AUD)

	FY20A	FY21E	FY22E
Revenue	2.3	2.1	2.6
EBITDA	-0.1	-0.1	0.4
NPAT (adj)	2.3	1.9	2.3
EPS c	5.6	4.6	5.4
EPS growth	n.m	n.m	n.m
PE Ratio (x)	22.4	27.3	23.1
DPS c	4.5	3.0	2.7
Div Yield	3.6%	2.4%	2.2%
Franking	0.0%	0.0%	0.0%
EV	47.5	50.1	51.1
NTA	$1.44	$1.45	$1.47

Desane - Summary of Forecasts

DGH $ 1.260

PROFIT & LOSS SUMMARY (A$m)

Year end June	FY19A	FY20A	FY21E	FY22E
Total Revenue	**4.1**	**2.3**	**2.1**	**2.6**
EBITDA	0.3	(0.1)	(0.1)	0.4
Dep'n/Other Amort'n	0.0	0.0	(0.2)	(0.2)
EBIT -operating	0.3	(0.1)	(0.3)	0.2
Property revaluation/sale	38.9	3.5	3.0	3.0
EBIT - reported	39.2	3.4	2.7	3.2
Net Interest	(0.4)	(0.1)	0.0	0.0
Pre-Tax Profit	38.8	3.3	2.7	3.2
Tax Expense	(11.5)	(1.0)	(0.8)	(1.0)
NPAT Adj.	**27.3**	**2.3**	**1.9**	**2.3**
Reported NPAT	27.3	2.3	1.9	2.3
Margins on Sales Revenue				
EBITDA	7.3%	n.m	n.m	n.m
EBIT	n.m	n.m	n.m	n.m
NPAT Adj.	n.m	n.m	n.m	n.m
Change on pcp				
Total Revenue		-43.9%	-8.7%	23.8%
Total EBIT		n.m	n.m	n.m
NPAT		n.m	-17.4%	18.2%

PER SHARE DATA

Year end June	FY19A	FY20A	FY21E	FY22E
EPS Adj. (c)	**66.7**	**5.6**	**4.6**	**5.4**
Growth (pcp)	n.m	n.m	n.m	n.m
Dividend (c)	4.50	4.50	3.00	2.72
Franking	100%	0%	0%	0%
NTA per share ($)	**1.43**	**1.43**	**1.45**	**1.47**

KEY RATIOS

Year end June	FY19A	FY20A	FY21E	FY22E
Net Debt : Equity (%)	-68.1%	-7.3%	-3.4%	-1.7%
EBIT Interest cover (x)	98.0	34.0	high	high
Oper CF/EBITDA	n.m	n.m	n.m	n.m
Current ratio (x)	3.8	10.1	4.5	3.5
ROE (%)	46.8%	3.9%	3.2%	3.7%
Dividend Payout Ratio (%)	6.7%	80.2%	65.1%	50.0%

VALUATION MULTIPLES

Year end June	FY19A	FY20A	FY21E	FY22E
PER (x)	**1.9**	**22.4**	**27.3**	**23.1**
Dividend Yield (%)	**3.6%**	**3.6%**	**2.4%**	**2.2%**

BALANCE SHEET SUMMARY

Year end June	FY19A	FY20A	FY21E	FY22E
Cash	45.6	10.2	2.0	1.1
Receivables	0.1	0.2	0.2	0.2
Inventories	0.0	0.0	0.0	0.0
Other	0.3	3.8	3.5	4.3
Total Current Assets	46.0	14.2	5.7	5.6
Investment Property	43.4	57.0	57.8	59.4
Inventories	0.0	0.0	0.0	0.0
Property Plant & Equip	2.4	2.4	2.1	2.6
Intangibles	0.0	0.1	0.2	0.3
3rd party loans	0.0	8.8	10.0	10.0
Total non current assets	45.8	68.3	70.1	72.3
TOTAL ASSETS	**91.8**	**82.5**	**75.7**	**77.9**
Accounts Payable	10.7	0.3	0.3	0.3
Borrowings	0.0	0.0	0.0	0.0
Deferred revenue	0.0	0.0	0.0	0.0
Other	1.4	1.1	1.0	1.2
Total current liabilities	12.1	1.4	1.3	1.6
Borrowings	5.9	5.9	0.0	0.0
Provisions	0.1	0.0	0.0	0.0
Deferred tax liabilities*	15.4	16.4	14.9	15.6
Total non-current liabilities	21.4	22.3	14.9	15.6
TOTAL LIABILITIES	**33.5**	**23.7**	**16.2**	**17.2**
TOTAL EQUITY	**58.3**	**58.8**	**59.6**	**60.7**
	58.3	58.8	59.5	60.6

CASH FLOW SUMMARY

Year end June	FY19A	FY20A	FY21E	FY22E
EBIT (excl Abs/Extr)	**0.3**	**(0.1)**	**(0.3)**	**0.2**
Add: Depreciation	0.0	0.0	0.2	0.2
Change in Pay.				
Less: Tax paid			(0.8)	(1.0)
Net Interest	(0.4)	(0.1)	0.0	0.0
Change in Rec.				
One offs/3rd party loans	1.2		1.8	2.7
Net working capital	-0.1			0.4
Gross Cashflows	1.0	(0.2)	0.9	2.5
Capex	(2.1)	0.0	0.0	(0.8)
Property asset sell/buy	44.3	(33.1)	(2.0)	(1.7)
Free Cashflows	43.2	(33.3)	(1.0)	0.1
Dividends Paid	(1.9)	(2.2)	(1.2)	(1.1)
Financing	(0.3)	35.4	2.3	1.0
Net Cashflows	**41.0**	**(0.1)**	**(0.0)**	**(0.0)**

SEGMENTS

Year end June	FY19A	FY20A	FY21E	FY22E
Total recurring revenue	4.1	2.3	2.1	2.6
Asset sales	38.9	0.0	0.0	0.0
Revaluation	0.0	3.5	3.0	3.0
Total sales	**43.0**	**5.8**	**5.1**	**5.6**

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 in December 2019, issued an initiation report that is available on request.

Desane – risks

Risks include (but are not limited to) – loan risk for 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, regulatory and statutory body risk and loss of key personnel.

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