TAYLOR COLLISON

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Desane Group Holdings Ltd (DGH)

29 November 2023

Initiation – Coming out of development hibernation

Recommendation: Outperform

Our View

We view DGH as an attractive industrial property investment, based on:

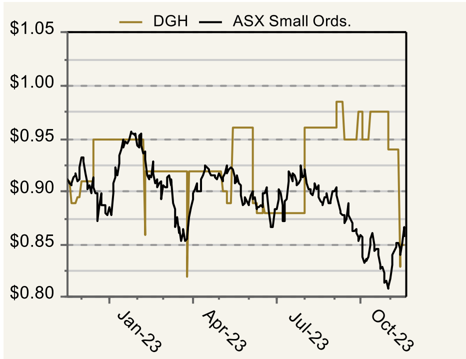
- Net debt of $0.3m at 30 June, with $82m in property assets and development inventory;
- A largely unencumbered project pipeline that should create development activity for the next five years;
- An experienced management team that has demonstrated sensible protection of shareholder capital in recent years.

We believe DGH's Penrith Lot 1 development should begin in 2H24, which is an important catalyst in kickstarting the company's development pipeline that was postponed throughout Covid and high-inflation years. While an ~18-month project pipeline will likely not see dividends return until 1H26, we do not see DGH relying on large debt funding to begin executing on its project pipeline. Further, DGH currently trades at a 48% discount to its NTA, which has upside potential as the group executes on its development pipeline. Therefore, we initiate coverage with an **Outperform** recommendation.

Summary (AUD)

Market Capitalisation	**$33.5m**
Share price	**$0.82**
52 week low	$0.82
52 week high	$0.985

Share price graph (AUD)



Key Points

Penrith development set to commence in FY24 – Amid inflationary pressures on construction materials and labour costs, DGH made the decision to postpone its planned Penrith development throughout CY23 to protect shareholder capital from potential cost blowouts. We expect this project to now commence in 2H24 with the ~7,000m^2 Lot 1 development, which is an important catalyst for DGH to restart development activities. Lot 1 is likely to be sold post completion (expected mid-late CY25) in order to recycle capital for additional projects and the reinstatement of dividends. DGH holds a pipeline of ready-to-develop projects, mostly unencumbered, which can be developed largely from cashflow pending the successful development and sale of Lot 1, mitigating debt risk for shareholders.

Multi-year development pipeline in existing assets – DGH's property assets make up a multi-year development pipeline to follow the Penrith Lot 1 project. This includes Penrith's ~5,000m^2 Lot 2 development, a 3,000m^2 extension on the Wacol (Brisbane) asset and several residential developments in Leichhardt (Sydney). These assets are unencumbered with the exception of Wacol (borrowings of $8m) and several are currently income generating, providing attractive potential of development upside for shareholders. We believe timing on this pipeline will depend largely on Penrith's Lot 1, with greater visibility to emerge throughout CY24.

Current balance sheet softens impact of higher rates – At 30 June, DGH had $13.9m gross borrowings versus $82m in investment properties and inventory, equating to an LVR of 17%. DGH also held $2.7m in cash and $10.9m in fixed interest securities which earned interest of $0.1m in FY23, outpacing the company's $0.7m cost of debt. Hence, DGH's balance sheet as it stands is well positioned to weather a higher interest rate environment. We anticipate DGH's cash position will be drawn down from 2H24 as it commences its Penrith development. However, as detailed on Page 4, we believe the large majority of this development can be covered by existing cash reserves, with only minimal extra debt required to maintain working capital. This sees DGH's balance sheet well-positioned to recommence development in the current interest rate environment.

Key Financials (AUD)

	FY23A	FY24E	FY25E
Revenue ($m)	3.0	2.8	2.5
Op. EBITDA ($m)	0.1	(0.1)	(0.5)
Op. EBIT ($m)	0.1	(0.1)	(0.6)
Asset Reval. ($m)	2.5	2.2	8.3
Statutory NPAT ($m)	1.3	(0.7)	(1.1)
EPS (c)	**3.2**	**(1.7)**	**(2.6)**
DPS (c)	0.0	0.0	0.0
Div Yield	0%	0%	0%
Franking	0%	0%	0%
Gearing (%)	14%	13%	18%
NAV/sh ($)	1.58	1.56	1.53

Desane Group Holdings Ltd - Summary of Forecasts

DGH $ 0.82

PROFIT & LOSS SUMMARY (A$m)

June Year End	FY22A	FY23A	FY24E	FY25E
Operating Revenue	2.5	3.0	2.8	2.5
Operating Expenses	(2.9)	(2.9)	(2.9)	(3.0)
Operating EBITDA	(0.3)	0.1	(0.1)	(0.5)
Dep'n & Amort'n	(0.0)	(0.0)	(0.0)	(0.0)
Operating EBIT	(0.4)	0.1	(0.1)	(0.6)
Property development expenses	0.0	0.0	(2.2)	(8.3)
Property Sales/Revaluations	7.2	2.5	2.2	8.3
Interest Expense	(0.2)	(0.7)	(0.9)	(1.0)
Profit Before Tax	6.6	1.9	(1.0)	(1.5)
Tax (Expense)/Benefit	(2.0)	(0.6)	0.3	0.5
NPAT	4.6	1.3	(0.7)	(1.1)
Operating Margins				
EBITDA	-13.1%	4.1%	-3.6%	-21.8%
EBIT	-15.1%	2.6%	-5.2%	-23.6%

PER SHARE DATA

June Year End	FY22A	FY23A	FY24E	FY25E
EPS (c)	11.4	3.2	(1.7)	(2.6)
Growth (pcp)	157%	-72%	-154%	51%
Dividend (c)	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%
Dividend Yield (%)	0%	0%	0%	0%
Dividend Payout Ratio (%)	0%	0%	0%	0%

BALANCE SHEET RATIOS

June Year End	FY22A	FY23A	FY24E	FY25E
Gearing (Net Deb/tProperty Assets)	15%	14%	13%	18%
Net Debt:Equity (%)	19%	17%	18%	27%
EBIT Interest Cover (x)	41.4	3.8	0.2	0.6
Current Ratio (x)	12.5	1.0	17.4	5.8

VALUATION MULTIPLES

June Year End	FY22A	FY23A	FY24E	FY25E
NTA per share (c)	**1.55**	**1.58**	**1.56**	**1.53**
PER (x)	7.2	25.5	(47.1)	(31.2)

BALANCE SHEET SUMMARY (A$m)

June Year End	FY22A	FY23A	FY24E	FY25E
Cash & Equivalents	2.1	2.7	2.4	1.8
Trade & Receivables	0.4	0.4	0.4	0.4
Financial Assets	11.2	10.7	4.3	0.0
Other Current Assets	0.4	0.5	0.5	0.5
Total Current Assets	14.0	14.3	7.7	2.7
PPE	2.3	2.3	2.3	2.3
Investment/Development Assets	79.0	81.9	87.5	95.8
Financial Assets	2.2	0.2	0.0	0.0
Other Non-Current Assets	0.1	0.1	0.1	0.1
Total Non-Current Assets	83.6	84.5	90.0	98.3
TOTAL ASSETS	97.6	98.8	97.6	101.0
Trade & Payables	0.9	0.3	0.3	0.3
Provisions	0.2	0.1	0.2	0.2
Borrowings	0.0	13.9	0.0	0.0
Total Current Liabilities	1.1	14.3	0.4	0.5
Borrowings	13.9	0.0	13.9	18.9
Deferred Tax Liability	19.1	19.7	19.4	18.9
Other Non-Current Liabilities	0.1	0.1	0.1	0.1
Total Non-Current Liabilities	33.1	19.8	33.3	37.9
TOTAL LIABILITIES	34.2	34.0	33.8	38.4
TOTAL EQUITY	63.4	64.7	63.9	62.7

CASH FLOW SUMMARY (A$m)

June Year End	FY22A	FY23A	FY24E	FY25E
NPAT	4.6	1.3	(0.7)	(1.1)
Add: D&A	0.0	0.0	0.0	0.0
(Gain)/Loss on Asset Revaluations	(7.2)	(2.5)	(2.2)	(8.3)
Change in Working Capital	2.2	(0.2)	(0.3)	(0.5)
Operating Cash Flow	**(0.3)**	**(1.4)**	**(3.1)**	**(9.8)**
Payments for PPE	(0.0)	(0.1)	(0.0)	(0.0)
Capital Costs of Properties	(0.2)	(0.3)	(0.2)	(0.2)
(Purchase)/Sale of Properties	(4.4)	(0.0)	(3.5)	0.0
(Purchase)/Sale of Financial Assets	(0.5)	2.4	6.5	4.3
Dividends Paid	(0.9)	0.0	0.0	0.0
Proceeds/(Repayment) of Borrowings	8.0	0.0	0.0	5.0
Other Financing Cash Flow	0.0	0.0	0.0	0.0
Net Cash Flow	**1.7**	**0.6**	**(0.3)**	**(0.6)**

NB: Our forecasts do not assume any valuation uplift on property assets outside of capital spent on development/upgrades. Therefore, any asset appreciation will create upside to our statutory earnings and valuation estimates.

Company Overview

DGH operates as an investor and developer of Australian property. The group is focused largely on industrial property assets, however, is also experienced in commercial and residential development. While DGH is open to nationwide opportunities, it operates predominantly in Sydney, where it is headquartered and has familiarity with the market, zoning regulations and other market operators.

DGH owns a small number of income-generating assets – which we detail below – which cover the business' corporate and operating expenses. While the group is generally happy to hold assets for income (often after it has performed upgrades or development), management will typically sell completed projects and look to return capital to shareholders and recycle capital for future developments, assuming the sale price reflects fair value or greater. Therefore, operations tend to be mainly focused on development projects. In order to identify and execute on development projects, DGH relies on board and management's extensive industry experience. It seeks to be opportunistic in identifying sites where it can build, redevelop or upgrade properties in order to increase the rental yield and generate additional value that is then recognised in capital growth and/or asset sales. Pre-Covid, DGH also generated revenue from property management fees. However, this is largely a legacy part of the business and now only pertains to its two fully owned Lane Cove assets. Hence, we do not expect material future revenues from property management fees.

Due to the nature of its operations, DGH experienced significant disruptions throughout Covid-19. Supply chain complications and inflationary pressures on building materials saw the postponement of several large developments in a bid to protect shareholder capital. Management chose to maintain this conservative approach throughout FY23 as inflation levels remained high. Resultantly, DGH now holds a significant development pipeline consisting of its Penrith, Wacol and multiple Leichhardt properties, which management has indicated it will begin to develop in CY24. We discuss these properties in detail below, along with DGH's financial position which appears to see the group well-funded to progress.

Financial Commentary

At 30 June DGH held net assets of $64.7m, equating an NTA/share of $1.58 and a 93% premium to the current share price. Property assets were valued at $81.9m, not including DGH's head office in Pyrmont, NSW, which is accounted for as PPE and is valued at $2.1m. In addition, DGH held $2.7m in cash and $10.9m in fixed interest securities. DGH made the decision to purchase short-term fixed interest securities in order to gain a return on capital allocated towards development projects that were postponed due to the Covid pandemic. These securities earn an average interest rate of 7% per annum and have a weighted average maturity of 365 days, allowing DGH flexibility to access this capital when it is ready to resume development activities.

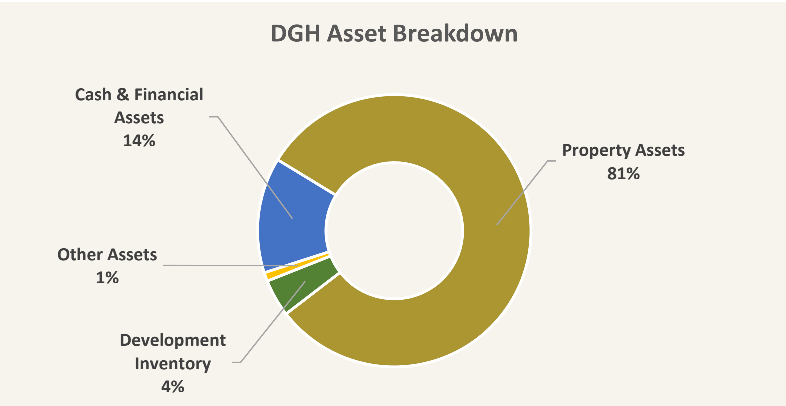


Figure 1: Breakdown of DGH's assets at 30 June, 2023.
Source: Company reports

Borrowings stood at $13.9m at 30 June, giving DGH an LVR of 17% (on total debt) and total liabilities as 34% of total assets. The group's debt is secured against its two Lane Cove Properties ($5.9m) and its Brisbane property ($8.0m) with interest incurred at a low margin rate of 1.8% plus BBSY (resulting in an average cost of debt of 6.05% in FY23). We note that borrowings are currently accounted for as current liabilities due to finance secured against the Lane Cove properties maturing in July 2024 and, in the case of the Wacol finance, EBITDA interest cover currently sitting below 2.0 times. We expect these borrowings to be extended and reclassified in 2H24, however, we are conscious this might incur a higher cost of debt for the $5.9m facility on the Lane Cove assets. The groups $8m facility against Wacol will maintain the 1.8% fixed margin rate until March 2027.

DGH also holds a $19.7m deferred tax liability, including $13.9m in deferred CGT after DGH's Rozelle property was compulsorily acquired in 1H19 by the NSW Government's Roads and Maritime Services department for $78.0m. While DGH's preference was to proceed with further development on the property, management are confident the sale price reflected the asset's fair value and that further litigation was not in shareholders' best interests. As part of the CGT rollover, DGH now has until June 2024 to restock assets which will in turn reduce the deferred CGT payable. We note the acquisition of 35 Norton Street in 1H24 for $3.5m is part of this restocking strategy and we expect further acquisitions may occur. It is also worth highlighting that DGH held $4.4m in carry forward tax losses at 30 June.

DGH has traditionally been a dividend-paying stock, distributing 5.25c/sh in FY19 and 4.50c/sh in both FY20 & FY21 (equating to yields of 6.4% & 5.5% on the current share price). However, Covid-19 related delays and a steep rise in building costs have stalled development activity in recent years, resulting in the suspension of dividends from FY22 and the stockpiling of existing cash reserves for the postponed development pipeline. As the cost of construction now appears to be stabilising, DGH have highlighted the reinstatement of dividends as a key priority for the group which we expect to resume when DGH can successfully develop Lot 1 of its Penrith asset (discussed in detail below). As we estimate the Lot 1 development will be completed around mid to late CY25, it is likely that dividends would be reinstated at a similar time.

Summary of Investment Properties & Operations

Summary of Assets

The below table summarises each of DGH's current property assets, followed by a detailed outline of each asset and its role in group operations.

Property	Value ($m)*	Size (m^2)	Borrowings ($m)	Strategy
91 Thornton Drive Penrith NSW	10.0	11,650	unencumbered	Sub-divide into two lots: Lot 1 (6,000sqm) and Lot 2 (5,650sqm). Progress construction of the industrial development project.
16 Industrial Avenue Wacol QLD	16.0	21,750	8.00	Leased. Long term hold industrial. Develop Stage 2 DA approved industrial facility.
7 Sirius Road Lane Cove NSW	10.5	2,778	2.95	Leased. Long term hold industrial.
13 Sirius Road Lane Cove NSW	8.7	2,181	2.95	Leased. Medium - long term hold industrial.
159 Allen Street Leichhardt NSW	23.0	2,782	unencumbered	Leased. Progress to select a joint venture partner (developer/builder) to construct the DA approved 46 residential apartment project.
322 Norton Street Leichhardt NSW	4.3	607	unencumbered	Engage builder and develop DA approved 9 residential apartments with ground floor retail suite and basement car park.
270-278 Norton Street Leichhardt NSW	9.2	929	unencumbered	Leased. Long term hold commercial.
35 Norton Street Leichhardt NSW	3.5	436	unencumbered	Leased. Long term hold commercial.
Suite 4, 26-32 Pirrama Road Pyrmont NSW	2.3	190	unencumbered	Corporate head office
Total	**87.5**	**43,303**	**13.9**	

Table 1: Summary of DGH's property assets.
**Valuations are book value at 30/6/23, except for 35 Norton Street which is listed at its acquisition value of $3.5m.*

91 Thornton Drive, Penrith NSW

Book Value: $10.0m

DGH's Penrith property is an 11,650m^2 block of land with 88 meters of frontage on Thornton Drive. The asset, which is unencumbered, was acquired for $4.2m in 2017 for development which was delayed due to COVID-19 after the lodging of a planning proposal in 2019. Subsequently, management made the decision over FY23 to further delay this development in a bid to protect shareholder capital amid a turbulent environment for building materials and labour costs.

With building costs seemingly stabilised, DGH plans to progress with the development of 91 Thornton Street over FY24/25. Development is planned in two lots of ~7,000m^2 ("Lot 1") and ~4,000m^2 ("Lot 2"), with Lot 1 to be developed first into a 5,500m^2 facility comprising of 32 industrial units and 60 storage units. The successful development and sale of Lot 1 will determine DGH's approach to developing Lot 2.

We anticipate build costs for Lot 1 to be in the range of $2,000-2,500/sqm, equating to a total cost of $11.0-13.8m. Noting that DGH held $13.6m in cash and fixed interest securities (with weighted average maturity of 365 days) at 30 June, this development can be almost entirely self-funded, with only minimal extra borrowings required to maintain working capital. On current book value plus cost alone (that is, with no additional value uplift) this would value Penrith's Lot 1 at $17.0-19.8m, equating to ~$2,400-

$2,800/m². Based on recent market sales and current listings, we believe a sale price of closer to $4,000/m² could be achieved which would unlock approximately $28m in capital for DGH.

Given DGH's relatively low gearing profile, proceeds from the sale of Lot 1 are expected to largely be deployed for additional development projects on existing assets, such as Lot 2, the Wacol expansion and several Leichhardt properties which are detailed below. This makes the Lot 1 development and sale an important catalyst for unlocking DGH's project pipeline. Beginning in 2H24, we estimate a build time of approximately 18 months, which would see the project completed in 1H26. We note DGH's current balance sheet would allow debt funding to begin other projects before Lot 1 is completed, particularly if the group expects to receive a significant capital inflow from the asset sale post completion.

16 Industrial Avenue, Wacol QLD

Book Value: $16.0m

DGH acquired 16 Industrial Avenue 2Q20 for $9.5m with an existing lease to the Brisbane City Council, which has since been extended until 30 June 2026. The lease agreement, which covers only 5,039m² of the 21,750m² property, is for $140/m² (equating to $0.71m) plus GST.

Figure 2: DGH's existing facility in Wacol, Brisbane, currently leased to Brisbane City Council.
Source: Company announcements.

Further development is planned for the Brisbane property, with development approval received in 2Q21 for a 3,250m² expansion, which will add a high clearance floor space to the existing facility. While construction was due to begin in CY21, the project was similarly delayed due to inflationary pressures on building materials. However, DGH expects to proceed with the development beginning over CY24/25, which we anticipate will cost around $6.5-7.0m (~$2,000/m²). Our expectation is that the Wacol project will be a significant priority for management behind Penrith's Lot 1 development. We note the proposed extension has the option of being leased to an existing or a separate tenant, creating a total of 8,289m² of net lettable area. At the current lease rate, this would generate $1.2m of revenue for DGH.

7 Sirius Road & 13 Sirius Road, Lane Cove NSW

Book Value: $19.2m

DGH's two Lane Cove industrial properties have a combined size of 4,959m² and are located 100m from one another. DGH intends to maintain ownership of the sites as income-generating assets, with both currently leased on a long-term basis to national tenants. On a fully leased basis, the Lane Cove properties generate approximately $1.1m in net rental income.

159 Allen Street, Leichhardt NSW

Book Value: $23.0m

159 Allen Street is a 2,782m² unencumbered, industrial site located on the west end of Leichhardt. While the property is currently leased on a medium-term basis, it generates negligible net income after land tax, with development the likely catalyst to unlock future value. DGH currently holds development approval for 46 residential apartments on the site which we view as a more suitable

use for the land. The site is surrounded predominantly by residential dwellings, in addition to being located only 200m from the Hawthorne Light Rail Station, nearby to local schools, the University of Sydney and a 700m walk to Norton Street which is a popular restaurant hub in Leichhardt.

DGH will look to undertake the development as a JV with a developer/builder in order to prevent borrowing heavily against the project. Hence, timing will depend on the company's ability to secure a partner, as well as cash availability, which we expect to be dependent on the development and sale of Penrith Lot 1. We note the development approval is valid until November 2026.

Figure 3: 159 Allen Street, showing residential surrounds and proximity to public transport.
Source: Company announcements.

322 Norton Street, Leichhardt NSW

Book Value: $4.3m

DGH holds development approval for a four-storey residential apartment building at 322 Norton Street, to be comprised of 9 apartments, 10 basement car parks and a ground floor retail space. While the company initially planned to award the project to a builder in March 2023, management (in an approach consistent with the Penrith and Wacol projects) made the decision to postpone the development due to a rising cost of construction. DGH plans to continue with the development throughout 2024-25, assuming a stabilised cost of construction. We expect the development of Penrith's Lot 1 to take first priority, with progression of 322 Norton Street dependent on a successful development and sale in Penrith.

270-278 Norton Street, Leichhardt NSW

Book Value: $9.2m

DGH completed the acquisition of 270-278 Norton Street in 4Q22 for $7.25m and undertook upgrades throughout FY23 to the now unencumbered property. The site is now fully leased to six tenants on long-term leases. At an average of $300/m^2, the 1,550m^2 net lettable area should generate ~$0.45m in income for DGH. We expect the company to hold this asset in the medium term for income generation as it pursues other development opportunities. Subject to council approval, this property could also be redeveloped into residential apartments.

35 Norton Street, Leichhardt NSW

Book Value: $3.5m

35 Norton Street was acquired in 1H24 as a part of DGH's property restocking for the CGT rollover deferral following the compulsory acquisition of the company's Rozelle property in 2018 for $78.0m. The asset will be purchased for its current book value of $3.5m with settlement to occur on or before 15 February 2024 (a 10% deposit has been paid on exchange).

In addition to Leichhardt being a familiar area for DGH, the 436m² freestanding property was identified as strategically located for several reasons. The asset is easily accessible from Parramatta Road, has rear parking and is situated next door to the Norton Plaza shopping hub. Further, the property also backs on to Leichhardt's Italian Forum, which was acquired by local developer, Redstone, in early 2023. While Redstone has not released definite plans for the Italian Forum, a NSW state government policy to "revitalise" Parramatta Road will allow for high-rise construction above the forum and in some surrounding properties. Consequently, it is possible the forum to be heightened for residential apartments without rezoning, which would improve foot traffic in the area and potentially contribute to a capital uplift for DGH.

Figure 4: 35 Norton Street and surrounding assets which demonstrate its strategic positioning.
Source: Company presentation.

Suite 4, 26-32 Pirrama Road, Pyrmont NSW

Book Value: $2.3m

Pirrama road is an unencumbered property, located on the water-end of Pyrmont's Jones Bay Wharf which sits across Darling Harbour from Sydney's recently developed Barangaroo precinct. The 190m² suite is currently used by DGH as its corporate head office.

Peer Comparison

Company	Ticker	Market Cap ($m)	Share Price ($)	NTA/sh ($)	Discount to NTA	Asset Commentary
Charter Hall Long Wale	CLW	2,379	3.29	5.63	-42%	21% industrial & logistics, 18% office, 42% retail, 19% other.
Centuria Industrial REIT	CIP	1,911	3.01	3.96	-24%	
Garda Property Group	GDF	256.6	1.13	1.96	-42%	43% industrial, 19% land/development, 34% commercial, 4% mixed use.
Dexus Industria REIT	DXI	828.1	2.61	3.44	-24%	
Growthpoint Properties	GOZ	1,711	2.27	4.00	-43%	65% office, 35% industrial.
GPT Group	GPT	7,701	4.02	5.98	-33%	29% logistics, 36% office, 35% retail.
National Storage REIT	NSR	2,899	2.13	2.48	-14%	Largest self-storage provider in Australia & NZ.
Desane Group Holdings	**DGH**	**33.5**	**0.82**	**1.58**	**-48%**	

Table 2: DGH peer comparison.
Source: FactSet, Taylor Collison estimates.

DGH trades at a 48% discount to its NTA of $1.58/sh, which appears to be a steep discount relative to larger industry peers shown above in Table 2. However, DGH is largely a development story, with a pipeline of secured projects that it should begin executing on in 2H24. Therefore, we view DGH's NTA as having upside potential if projects can progress successfully which demonstrates management's business model of creating asset value through strategic development.

Board & Management

DGH's board and management holds extensive experience in property management and development which, in our view, is a key part of the company's competitive advantage in identifying opportunities where it can add value through construction activities. A large majority have significant tenures with DGH and are within the top 20 shareholders of the company. Cumulatively, board and management hold 15.3m shares, representing 37% of issued capital and demonstrating strong shareholder alignment.

Mr Phil Montrone OAM – Managing Director & CEO
DGH Shares: 14,596,074
Mr P Montrone was appointed Managing Director of DGH in 1987. He has over 30 years' experience in property investment, acquisitions, development and project management. Mr Montrone has served on multiple NSW Government boards, including as Deputy Chairperson of the Communities Relations Commission and Chairman of Multicultural NSW East Sydney Regional Advisory Council.

Prof. John Sheehan AM – Chairman
DGH Shares: 179,305
Professor Sheehan has been a board member since DGH's incorporation in 1987 and has served as Chairman since 1992. As a Chartered Town Planner and Certified Practising Valuer, he specialises in property compensation law, town and country planning and environmental law. Professor Sheehan is a Life Fellow member of the NSW division of the Australian Property Institute.

Mr Jack Sciara – CFO & Company Secretary
DGH Shares: 203,000
Mr Sciara joined DGH in 2001, since developing extensive experience in property reporting and finance. He is a member of the Institute of Public Accountants and a registered Tax Agent, responsible for the group's financial reporting, ASX compliance and corporate governance, and developing financial and tax strategies. Mr Sciara was appointed Company Secretary in 2016.

Mr Rick Montrone – Director
DGH Shares: 303,721
Mr R Montrone is a licensed real estate agent and has been an Associate Member of the Australian Property Institute since 2013. With over 20 years' experience in property services, he manages all aspects of DGH's property operations, including development site acquisitions and sales, strategic planning and asset fund raising. Mr Montrone was appointed as a Director of DGH in 2015.

Mr Peter Krejci – Independent Non-Executive Director
DGH Shares: Nil
Mr Krejci is a founding Principal of BRI Ferrier and was appointed as a Non-Executive Director of DGH in 2019. He is a member of Chartered Accountants Australia & New Zealand and a Graduate of the Australian Institute of Company Directors. Mr Krejci's professional experience covers financial services, property and construction, retail, logistics, manufacturing and mining.

Key Risks

Key Management Personnel
DGH's board and management team consists predominantly of individuals who have a significant tenure with the group. Its business model utilises the experience of board and management in identifying development opportunities where DGH can add value in order to unlock capital for future development and shareholder returns. Therefore, the loss of this current management experience is a risk for DGH's business model.

Development/Construction Inflation
In the current inflationary environment there is risk of sharp increases in building materials, with a persistently low unemployment rate also resulting in high labour costs. Hence, any development projects undertaken carry an inherent risk of cost blowouts which may erode shareholder returns. It is worth highlighting management's recent decisions to postpone the commissioning of the construction of the Penrith project, the Wacol industrial expansion and the residential project at 322 Norton Street due to the increasing cost of construction, demonstrating awareness and active management of inflation risk.

Liquidity
DGH's top 20 shareholders hold approximately 72% of shares on issue, including 37% held by board and management. As a result, DGH shares are thinly traded on market. This results in difficulty in building or exiting a position, as well as creating risk of

large share price fluctuations occurring on small trade volumes. We do not anticipate DGH will raise equity in the near future, or that management will sell down shares. Therefore, we view liquidity as an ongoing risk.

Interest Rate Rises

In our view, high interest rates pose low risk to DGH with the group's current balance sheet. At 30 June, DGH held $13.6m in cash and fixed interest securities (average interest rate of 7% p.a.), $81.9m in property assets and $13.9m in borrowings (average interest rate of 6.05%). However, future interest rises may pose risk to acquisition or development opportunities that would require DGH to increase its gearing position.

Geographical Concentration of Assets

Approximately 80% of DGH's property asset value is located in NSW, including 46% in the inner West suburb of Leichhardt. This is due to familiarity with these areas and their local councils, as well as the area zoning and regulations, allowing the company more opportunity to identify attractive assets. However, this carries risk if the demand for leases and/or sales in Leichhardt or the broader Sydney area drops substantially. While we view this as low risk, we note it would have a significantly detrimental impact on DGH's ability to generate profits.

Property Valuations

In the valuation of investment properties, DGH directors utilise the capitalisation rate, a discounted cash flow model and direct comparison to market sales evidence. Additionally, properties are independently valued at least every three years. However, there is no certainty that any of DGH's investment properties would realise their book value in a sale event. Further, property values are often dictated by a number of macroeconomic factors outside of management's control.

Top 20 Shareholders

	Name	Shares Held	% of Total
1	**Cupara Pty Ltd**	11,270,878	27.55
2	**J P Morgan Nominees Australia Pty Limited**	4,390,617	10.73
3	**Montevans Pty Ltd <M & M Super A/C>**	2,610,400	6.38
4	**Horrie Pty Ltd (Horrie Superannuation A/C>**	2,210,294	5.4
5	**Glencairn Pty Limited**	1,470,000	3.59
6	**PFPT Management Pty Ltd <Pellarini Super Fund A/C>**	938,831	2.29
7	**Cordata Partners (Superannuation) Ptd Ltd <Cordato Partners S/F A/C>**	790,409	1.93
8	**National Nominees Limited**	769,893	1.88
9	**Dotnric Pty Ltd <Famiglia di Riccardo S/F A/C>**	593,579	1.45
10	**John & Judith Pty Ltd <Joju Superannuationfund A/C>**	582,677	1.42
11	**Keiser Investments Pty Ltd <Gann Family Retirement A/C>**	556,158	1.36
12	**Hillmorton Custodians Pty Ltd <The Lennox Unit A/C>**	552,051	1.35
13	**Mansfield Holdings Pty Ltd**	400,632	0.98
14	**Mr Peter Howells**	400,000	0.98
15	**Oakmount Nominees Pty Ltd <Narromine Super Fund A/C>**	330,000	0.81
16	**Woodtrone Pty Ltd <Woodtrone Superannuation A/C>**	303,721	0.74
17	**Waratah Property Services (No 1) Pty Ltd <Rayner Family S/F A/C>**	302,005	0.74
18	**Whimplecreek Pty Ltd <Stawell Family A/C>**	280,000	0.68
19	**Joe Scardino & Felicia Scardino**	273,555	0.67
20	**BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>**	270,526	0.66
	Total	29,296,226	71.59

Table 3: DGH top 20 shareholders (data as of 1 August 2023).
Source: DGH FY23 annual report.

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