



## Desane (DGH)

13 April 2021

### H1 FY21 – Discount to NTA with Potential Upside

#### Our View

DGH trades at a 15% discount to its post-tax NTA and potentially around \$0.75 per share of development revaluation upside on a pre-tax basis. DGH has sufficient internal funding to complete all pending construction projects based on its net cash position of \$12.2m, ability to take on further debt and profits generated on smaller projects without diluting current shareholders. Current yields on investment properties cover the Group's operating expenses.

In the event of slower than expected project completion DGH offers a 2.5% dividend yield. **We therefore maintain our Buy recommendation.**

#### Investment Thesis

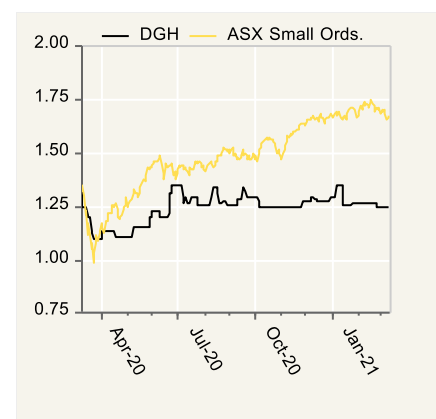
- **Post-tax NTA is \$1.46 per share (property \$1.55 per share with \$0.14 secured debt)** - Comprised of two light industrial/mixed use properties in Lane Cove (Sydney) and an industrial property in Wacol (Brisbane). DGH has two properties approved for development in Leichhardt and land in Penrith which could be rezoned for residential development.
- **Lane Cove properties – Est. Book Value \$17.9m (NTA \$0.44 per share)** – In October 2020 DGH agreed to new five-year leases with existing tenants. This provides \$800k per annum of rental income for the next five years which underpins the recent revaluation of the properties.
- **Wacol (Brisbane) – Book Value \$10.1m (NTA \$0.25 per share)** – DGH has 5,039 sqm of lettable space which its current valuation is based upon. DGH has received approval to add a further 3,250 sqm which should increase rent by \$600k per annum. Construction is expected to begin later this year and based on market rates we believe will cost \$4.9m. Post expansion we believe that the property has valuation upside based on a cap rate of 8% of \$0.05 per share.
- **Allen Street, Leichhardt – Book Value - \$22.9m (NTA \$0.56 per share)** – DGH has received planning approval to build a five-story apartment complex comprising 46 residential properties. Once completed, our internal modelling suggests \$0.18 per share upside. Construction is expected to begin in FY22 and cost around \$20m.
- **Norton Street, Leichhardt - Book Value - \$3.7m (NTA \$0.09 per share)** – DGH has received planning approval to build nine apartments on top of two commercial premises. Preliminary estimates are for the project budget of approximately \$4.4m. Based on our internal modelling, we believe there could be upside of \$0.06 per share. Construction is expected to begin later this year.
- **Penrith 1.2Ha property – Thornton Dr – Est. Book Value \$8.7m (NTA \$0.21 per share)** – DGH is currently engaged in discussions with the Penrith Council relating to the rezoning of the property to medium density residential. Currently the focus of the Penrith Council is on the Badgerys's Creek Airport redevelopment and thus any rezoning decision is unlikely before FY23. Assuming the property was rezoned to medium residential, there is the potential for between 150 – 250 units to be built. According to our modelling, the development and sale of 150 – 250 units could result in upside to the NTA of \$0.50 per share.

### Recommendation: Buy

#### Summary (AUD)

Market capitalisation	\$50.1M
Share price	\$1.24
52 week low	\$1.110
52 week high	\$1.350

#### Share price graph (AUD)



#### Key Financials (AUD)

	FY20A	FY21E	FY22E
Revenue	2.3	2.6	2.7
EBITDA	0.0	0.2	0.3
NPAT	2.3	2.8	3.2
EPS c	5.5	6.9	7.8
EPS growth	n.m	n.m	n.m
PE Ratio (x)	22.5	18.0	15.8
DPS c	5.2	4.5	4.5
Div Yield	3.6%	2.4%	2.2%
Franking	0.0%	0.0%	0.0%
EV	37.6	38.5	39.6
NTA	\$1.44	\$1.46	\$1.49

## Desane - Summary of Forecasts

\$ 1.240

PROFIT & LOSS SUMMARY (A\$m)				
Year end June	FY20A	1H21A	FY21E	FY22E
<b>Total Revenue</b>	<b>2.3</b>	<b>1.3</b>	<b>2.6</b>	<b>2.7</b>
EBITDA	(0.0)	0.2	0.2	0.3
Dep'n/Other Amort'n	(0.1)	(0.0)	(0.1)	(0.1)
EBIT -operating	(0.1)	0.2	0.2	0.2
Property revaluation/s:	3.5	2.5	4.0	4.5
EBIT - reported	3.4	2.7	4.2	4.7
Interest Expense	(0.1)	(0.1)	(0.1)	(0.1)
Pre-Tax Profit	3.2	2.7	4.0	4.6
Tax Expense	(1.0)	(0.8)	(1.2)	(1.4)
<b>NPAT</b>	<b>2.3</b>	<b>1.9</b>	<b>2.8</b>	<b>3.2</b>
Margins on Sales Revenue				
EBITDA	-12%	19.1%	9.2%	11.1%
Operating EBIT	-3.5%	17.1%	6.9%	8.7%
NPAT	n.m	n.m	n.m	n.m
Change on pcp				
Total Revenue	-44.4%	84.7%	12.0%	3.0%
Total EBIT	n.m	n.m	n.m	n.m
NPAT	n.m	-13.5%	25.0%	13.7%

PER SHARE DATA				
Year end June	FY20A	1H21A	FY21E	FY22E
<b>EPS (c)</b>	<b>5.5</b>	<b>4.6</b>	<b>6.9</b>	<b>7.8</b>
Growth (pcp)	n.m	n.m	n.m	n.m
Dividend (c)	5.25	2.25	4.50	4.50
Franking	0%	0%	0%	0%
<b>NTA per share (\$)</b>	<b>1.44</b>	<b>1.46</b>	<b>1.46</b>	<b>1.49</b>

KEY RATIOS				
Year end June	FY20A	1H21A	FY21E	FY22E
Net Debt : Equity (%)	-22.4%	-20.5%	-18.6%	-8.5%
EBIT Interest cover (x)	22.7	40.9	28.1	31.8
Oper CF/EBITDA	n.m	n.m	n.m	n.m
Current ratio (x)	18.3	18.0	16.8	15.3
ROE (%)	3.8%	3.1%	4.7%	5.2%
Dividend Payout Ratio	95.1%	48.9%	65.2%	57.4%

VALUATION MULTIPLES				
Year end June	FY20A	1H21A	FY21E	FY22E
<b>PER (x)</b>	<b>22.5</b>	<b>27.0</b>	<b>18.0</b>	<b>15.8</b>
<b>Dividend Yield (%)</b>	<b>4.2%</b>	<b>1.8%</b>	<b>3.6%</b>	<b>3.6%</b>

Source: Taylor Collison estimates and actuals

BALANCE SHEET SUMMARY				
Year end June	FY20A	1H21A	FY21E	FY22E
Cash	10.2	0.3	8.2	2.2
Receivables	0.2	0.3	0.1	0.1
Inventories - Prop	3.5	3.7	3.7	7.7
Fixed Interest	8.9	17.8	8.9	8.9
Other	0.3	0.1	0.3	0.3
<b>Total Current Assets</b>	<b>23.1</b>	<b>22.2</b>	<b>21.2</b>	<b>19.3</b>
Investment Property	57.0	59.7	61.1	65.7
Inventories	0.0	0.0	0.0	0.0
Property Plant & Equip	2.4	2.4	2.5	2.5
Intangibles	0.0	0.0	0.0	0.0
<b>Total non current assets</b>	<b>59.5</b>	<b>62.0</b>	<b>63.6</b>	<b>68.2</b>
<b>TOTAL ASSETS</b>	<b>82.5</b>	<b>84.3</b>	<b>84.8</b>	<b>87.5</b>
Accounts Payable	(0.3)	(0.3)	(0.3)	(0.3)
Provisions	(0.9)	(0.9)	(0.9)	(0.9)
<b>Total current liabilities</b>	<b>(1.3)</b>	<b>(1.2)</b>	<b>(1.3)</b>	<b>(1.3)</b>
Borrowings	(5.9)	(5.9)	(5.9)	(5.9)
Provisions	(0.2)	(0.2)	(0.2)	(0.2)
Deferred tax liabilities	(16.4)	(17.2)	(17.6)	(19.0)
<b>Total non-current liabilities</b>	<b>(22.5)</b>	<b>(23.3)</b>	<b>(23.7)</b>	<b>(25.1)</b>
<b>TOTAL LIABILITIES</b>	<b>(23.7)</b>	<b>(24.5)</b>	<b>(25.0)</b>	<b>(26.4)</b>
<b>TOTAL EQUITY</b>	<b>58.8</b>	<b>59.8</b>	<b>59.8</b>	<b>61.2</b>

CASH FLOW SUMMARY				
Year end June	FY20A	1H21A	FY21E	FY22E
<b>NPAT</b>	<b>2.3</b>	<b>1.9</b>	<b>2.8</b>	<b>3.2</b>
Add: Depreciation	0.1	0.0	0.1	0.1
Less: Revaluation	(3.5)	(2.5)	(4.0)	(4.5)
Net working capital	1.0	0.8	1.3	1.3
<b>Gross Cash flows</b>	<b>(0.2)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>
Capex	(0.1)	(0.2)	(0.4)	(4.2)
Property asset sell/buy	(32.9)	(9.0)	0.0	0.0
<b>Free Cash flows</b>	<b>(33.2)</b>	<b>(9.0)</b>	<b>(0.2)</b>	<b>(4.1)</b>
Dividends Paid	(2.1)	(0.9)	(1.8)	(1.8)
Financing	0.0	0.0	0.0	0.0
<b>Net Cash flows</b>	<b>(35.4)</b>	<b>(9.9)</b>	<b>(2.0)</b>	<b>(5.9)</b>

SEGMENTS				
Year end June	FY20A	1H21A	FY21E	FY22E
Total recurring revenue	2.3	1.3	2.6	2.7
Asset sales	0.0	0.0	0.0	0.0
Revaluation	3.5	2.5	4.0	4.5
<b>Total Revenue</b>	<b>5.8</b>	<b>3.8</b>	<b>6.6</b>	<b>7.2</b>

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