



Desane (DGH)

Update – Leichhardt Purchase adds to NTA

Our View

DGH trades at a 16% discount to its post-tax NTA and has up to \$0.75 per share of development revaluation upside on a pre-tax basis. DGH has sufficient internal funding to complete all pending construction projects, including the recent purchase in Leichhardt, without diluting current shareholders. DGH can take on further debt and will have profits generated on smaller projects to reinvest. Current yields on investment properties cover the Group's operating expenses.

In the event of slower than expected project completion DGH offers a 3.7% dividend yield. We therefore maintain our **Outperform** recommendation.

Update

- Post-tax NTA is \$1.46 PS (property pre-tax \$1.72 PS 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 three properties approved for residential development in Leichhardt and land in Penrith which could also be rezoned too residential. All redevelopments will add substantial value to DGH and increase the NTA.
- 270 - 278 Norton Street, Leichhardt – Purchased for \$7.25m (Pre-tax NTA \$0.18 per share)** – In June 2021 DGH announced the purchase of a property on Norton Street, Leichhardt. Management anticipates when fully let the property will generate \$450k per annum in revenue. The extra rent enables DGH's operating expenses to be covered by rental income.

 Longer term there is significant upside to the property in the event of redevelopment. However, at this stage management anticipate locking in new tenants for 5-year rentals and adding to the rental base.
- Allen Street, Leichhardt – Book Value \$22.9m (Pre-tax NTA \$0.56 per share)** – DGH has received planning approval to build a five-story apartment complex comprising of 46 residential properties. Once completed, our modelling suggests \$0.18 per share upside. Construction is expected to begin in FY22 and cost around \$20m.
- Lane Cove properties – Est. Book Value \$17.9m (Pre-tax NTA \$0.44 per share)** – DGH has five-year leases on the property which contribute \$800k per annum of rental income which underpin the valuation of the property.
- Wacol (Brisbane) – Book Value \$10.1m (Pre-tax NTA \$0.25 per share)** – DGH has 5,039 sqm of lettable space with approval to add a further 3,250 sqm which would increase rent by \$600k per annum. Construction is expected to begin this year and will cost around \$4.9m. Post expansion the property has a valuation upside of \$0.05 per share based on a cap rate of 8%.
- Thornton Drive, Penrith – Est. Book Value \$8.7m (Pre-tax 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. There is unlikely to be a decision made before FY23 on the rezoning. According to our modelling the development and sale of 150-200 units which is possible under medium density rezoning could result in upside of \$0.50 per share in NTA.
- Norton Street, Leichhardt – Est. Book Value \$3.7m (Pre-tax NTA \$0.09 per share)** – DGH has received planning approval to build nine apartments. Estimates are that the project could add \$0.06 per share in NTA.
- Renegotiated Bank Loan** – DGH has renegotiated its bank loan with Commonwealth Bank 1.9% saving DGH \$35k per annum in interest expense.

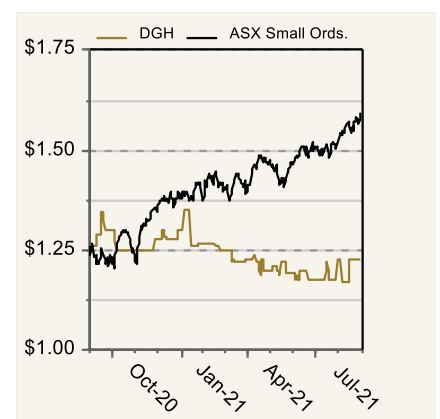
1 September 2021

Recommendation: Outperform

Summary (AUD)

Market capitalisation	\$50.3M
Share price	\$1.23
52 week low	\$1.16
52 week high	\$1.35

Share price graph (AUD)



Key Financials (AUD)

	FY20A	FY21A	FY22E
Revenue	2.3	2.6	3.2
EBITDA	0.0	0.2	0.8
NPAT	2.3	1.8	3.6
EPS c	5.5	4.4	8.7
EPS growth	n.m	-20.0%	97.8%
PE Ratio (x)	22.3	27.9	14.1
DPS c	5.2	4.5	4.5
Div Yield	4.3%	3.7%	3.7%
Franking	0.0%	0.0%	0.0%
EV	37.1	43.1	52.8
NTA	\$1.44	\$1.44	\$1.48

Desane - Summary of Forecasts

\$ 1.23

PROFIT & LOSS SUMMARY (A\$m)				
Year end June	FY20A	1H21A	FY21A	FY22E
Total Revenue	2.3	1.3	2.6	3.2
EBITDA	(0.0)	0.2	0.2	0.8
Dep'n/Other Amort'n	(0.1)	(0.0)	(0.1)	(0.1)
EBIT -Operating	(0.1)	0.2	0.2	0.8
Property Revaluation/Sale	3.5	2.5	2.5	4.5
EBIT - Reported	3.4	2.7	2.7	5.3
Interest Expense	(0.1)	(0.1)	(0.1)	(0.1)
Pre-Tax Profit	3.2	2.7	2.6	5.1
Tax Expense	(10)	(0.8)	(0.8)	(15)
NPAT	2.3	1.9	1.8	3.6
Margins on Sales Revenue				
EBITDA	-12%	19.1%	9.1%	25.4%
Operating EBIT	-3.5%	17.1%	7.1%	23.7%
NPAT	n.m	n.m	n.m	n.m
Change on pcp				
Total Revenue	-44.4%	84.7%	13.6%	210%
Total EBIT	n.m	n.m	n.m	n.m
NPAT	n.m	-13.5%	-20.0%	97.8%
PER SHARE DATA				
Year end June	FY20A	1H21A	FY21A	FY22E
EPS (c)	5.5	4.6	4.4	8.7
Growth (pcp)	n.m	n.m	-20.0%	97.8%
Dividend (c)	5.25	2.25	4.50	4.50
Franking	0%	0%	0%	0%
NTA per Share (\$)	1.44	1.46	1.44	1.48
KEY RATIOS				
Year end June	FY20A	1H21A	FY21A	FY22E
Net Debt : Equity (%)	-22.4%	-20.5%	-12.4%	4.1%
EBIT Interest Cover (x)	22.7	40.9	20.4	35.3
Oper CF/EBITDA	n.m	n.m	n.m	n.m
Current Ratio (x)	18.3	18.0	3.2	9.5
ROE (%)	3.8%	3.1%	3.1%	5.9%
Dividend Payout Ratio (%)	95.1%	48.9%	1019%	515%
VALUATION MULTIPLES				
Year end June	FY20A	1H21A	FY21A	FY22E
PER (x)	22.3	26.8	27.9	14.1
Dividend Yield (%)	4.3%	1.8%	3.7%	3.7%
* FY22 sale of fixed income asset				
Source: Taylor Collison estimates and actuals				

BALANCE SHEET SUMMARY				
Year end June	FY20A	1H21A	FY21A	FY22E
Cash	10.2	0.3	0.4	16
Receivables	0.2	0.3	0.4	0.2
Inventories - Prop	3.5	3.7	4.0	8.0
Fixed Interest	8.9	17.8	12.8	18
Other	0.3	0.1	0.4	0.4
Total Current Assets	23.1	22.2	17.9	12.0
Investment Property	57.0	59.7	67.4	72.0
Inventories	0.0	0.0	0.0	0.0
Property Plant & Equip	2.4	2.4	2.4	2.4
Intangibles	0.0	0.0	0.0	0.0
Total non current assets	59.5	62.0	69.7	74.4
TOTAL ASSETS	82.5	84.3	87.6	86.4
Accounts Payable	(0.3)	(0.3)	(4.7)	(0.3)
Provisions	(0.9)	(0.9)	(0.9)	(0.9)
Total current liabilities	(1.3)	(1.2)	(5.6)	(1.3)
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)	(17.1)	(18.5)
Total non-current liabilities	(22.5)	(23.3)	(23.2)	(24.6)
TOTAL LIABILITIES	(23.7)	(24.5)	(28.9)	(25.9)
TOTAL EQUITY	58.8	59.8	58.8	60.5

CASH FLOW SUMMARY				
Year end June	FY20A	1H21A	FY21A	FY22E
NPAT	2.3	1.9	1.8	3.6
Add: Depreciation	0.1	0.0	0.1	0.1
Less: Revaluation	(3.5)	(2.5)	(2.5)	(4.5)
Net Working Capital	10	0.8	0.8	13
Gross Cash Flows	(0.2)	0.2	0.1	0.4
Capex	(0.1)	(0.2)	(0.6)	(4.2)
Asset Sell/Buy*	(32.9)	(9.0)	(7.6)	110
Free Cash Flows	(33.2)	(9.0)	(8.0)	7.2
Dividends Paid	(2.1)	(0.9)	(1.8)	(1.8)
Financing	0.0	0.0	0.0	0.0
Net Cash Flows	(35.4)	(9.9)	(9.8)	5.3

SEGMENTS				
Year end June	FY20A	1H21A	FY21A	FY22E
Total Recurring Revenue	2.3	1.3	2.6	3.2
Asset Sales	0.0	0.0	0.0	0.0
Revaluation	3.5	2.5	2.5	4.5
Total Revenue	5.8	3.8	5.1	7.7

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Date Prepared: September 2021

Analyst: Sam Pittman

Release Authorised by: Robin Morgan

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

Participant of the Australian Securities Exchange
(ASX) Group.

ABN 53008172450
AFSL 247083