



## Desane Group Holdings Ltd (DGH)

### Development pipeline beginning to take shape

#### Our View

DGH reported a solid 1H24 result, generating operating EBIT of \$0.2m before a \$3.4m valuation uplift on its Penrith development site which resulted in a statutory NPAT of \$2.2m. NTA/sh increased to \$1.64, equating to a current trading discount of 43% based DGH's last price of 94c. We believe there is value in the stock, emphasised by its steep trading discount as well as:

- A pipeline of development projects on the balance sheet, several of which are likely to commence in FY25.
- \$13m of cash/financial assets which will allow near-term development to be largely internally funded.
- An experienced management team that has demonstrated sensible capital management in recent years amidst inflationary pressures and rate rises.

With a multi-year view, we believe there is potential for DGH to close its discount to NTA as development activity increases and investors gain visibility on the reinstatement of dividends. Hence, we retain our **Outperform** recommendation.

#### Key Points

**Potential Lane Cove sale to fast track Wacol expansion** – Previously considered a long-term hold, DGH has listed one of its two Lane Cove assets (13 Sirius Road) for sale. The property currently sits on DGH's balance sheet for \$8.7m, with management seeing greater value-add in deploying this capital into its development pipeline. Should a sale occur, \$3.8m in capital gains would be offset by DGH's \$4.4m in carry forward tax losses. Therefore, we would expect the released capital to be used to strengthen the balance sheet as well as bring forward the 3,250m<sup>2</sup> expansion of DGH's Wacol asset in Brisbane, which we estimate will cost ~\$6.5m. This would allow DGH to expand Wacol alongside the Penrith Lot 1 development rather than afterwards, bringing forward an estimated \$0.5m in annual rental income by several years.

**Penrith value uplift of 35% as development approaches** – DGH's Penrith site was independently revalued at \$13.5m in 1H24, equating to an uplift of \$3.4m (35%). We remain of the view that Penrith's Lot 1 development – which makes up 7,000m<sup>2</sup> of a total 11,650m<sup>2</sup> – is a major upcoming catalyst for DGH, with the group recently engaging a builder to explore the initial subdivision into two lots. As such, we expect construction of the Lot 1 industrial facility (comprising 32 industrial units and 60 storage units) to begin in 1H25 with completion in FY26 at which time the group will assess its plans for Lot 2. The Lot 1 development is estimated to cost \$11.0-13.8m and will likely be sold in order to reinstate dividends and fund future projects. We note DGH's balance sheet, which we discuss below, should allow for this development to be largely internally funded.

**Protected balance sheet leaves capital ready for deployment** – Management's decision to halt development activity and safeguard assets during Covid uncertainty has seen DGH maintain a healthy balance sheet. The group holds \$12.9m in cash and financial assets which leaves a small net debt position of \$1.0m. Reported gearing of 40% is calculated as total liabilities vs total assets and includes \$21m of deferred tax liabilities relating largely to CGT on the existing portfolio. We note DGH's loan-to-value ratio of investment properties sits at only 17%. Coupled with the low net debt position, we believe this illustrates a strong balance sheet that will allow DGH to fund near term opportunities – namely Penrith Lot 1 and the Wacol expansion – without borrowing significant capital. As a result, DGH's development pipeline can be viewed as attractive option value for shareholders in the absence of associated borrowings liabilities.

13 March 2024

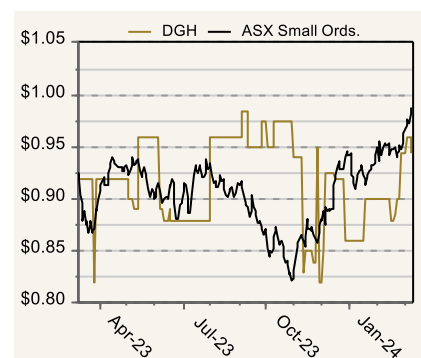
### Speculative Investment

### Recommendation: Outperform

#### Summary (AUD)

Market Capitalisation	\$38.5M
Share price	\$0.94
52 week low	\$0.82
52 week high	\$0.985

#### Share price graph (AUD)



#### Key Financials (AUD)

	1H24A	FY24E	FY25E
Revenue (\$m)	1.6	3.0	2.6
Op. EBITDA (\$m)	0.2	0.2	(0.4)
Op. EBIT (\$m)	0.2	0.1	(0.4)
Asset Reval. (\$m)	3.4	3.4	0.0
Statutory NPAT (\$m)	2.2	1.8	(1.8)
<b>EPS (c)</b>	<b>5.4</b>	<b>4.5</b>	<b>(4.4)</b>
DPS (c)	0.0	0.0	0.0
<b>Div Yield</b>	0%	0%	0%
Franking	0%	0%	0%
Net Debt:Equity %	13%	13%	12%
NAV/sh (\$)	1.64	1.72	1.67

Desane Group Holdings Ltd - Summary of Forecasts					DGH \$ 0.94				
PROFIT & LOSS SUMMARY (A\$m)					BALANCE SHEET SUMMARY (A\$m)				
June Year End	FY23A	1H24A	FY24E	FY25E	June Year End	FY23A	1H24A	FY24E	FY25E
Operating Revenue	3.0	1.6	3.0	2.6	Cash & Equivalents	2.7	5.1	4.5	2.5
Operating Expenses	(2.9)	(1.4)	(2.9)	(2.9)	Trade & Receivables	0.4	0.1	0.4	0.4
Operating EBITDA	0.1	0.2	0.2	(0.4)	Financial Assets	10.7	7.8	4.3	0.0
Dep'n & Amort'n	(0.0)	(0.0)	(0.0)	(0.0)	Other Current Assets	0.5	0.4	0.5	0.5
Operating EBIT	0.1	0.2	0.1	(0.4)	Total Current Assets	14.3	22.2	18.5	3.4
Property development expenses	0.0	0.0	0.0	0.0	PPE	2.3	2.3	2.3	2.3
Property Sales/Revaluations	2.5	3.4	3.4	0.0	Investment/Development Assets	81.9	80.3	84.2	94.3
Interest Expense	(0.7)	(0.4)	(0.9)	(0.7)	Financial Assets	0.2	0.0	0.0	0.0
Profit Before Tax	1.9	3.1	2.6	(1.1)	Other Non-Current Assets	0.1	0.1	0.1	0.1
Tax (Expense)/Benefit	(0.6)	(0.9)	(0.8)	(0.7)	Total Non-Current Assets	84.5	82.7	86.6	96.8
<b>NPAT</b>	<b>1.3</b>	<b>2.2</b>	<b>1.8</b>	<b>(1.8)</b>	<b>TOTAL ASSETS</b>	<b>98.8</b>	<b>104.9</b>	<b>105.2</b>	<b>100.2</b>
Operating Margins					Trade & Payables	0.3	3.3	0.3	0.4
EBITDA	4.1%	12.9%	5.1%	-14.0%	Provisions	0.1	0.0	0.2	0.2
EBIT	2.6%	11.4%	3.7%	-15.7%	Borrowings	13.9	13.9	0.0	0.0
					Total Current Liabilities	14.3	17.3	0.5	0.6
					Borrowings	0.0	0.0	13.9	11.0
					Deferred Tax Liability	19.7	20.6	20.5	20.2
					Other Non-Current Liabilities	0.1	0.1	0.1	0.1
					Total Non-Current Liabilities	19.8	20.7	34.5	31.2
					<b>TOTAL LIABILITIES</b>	<b>34.0</b>	<b>38.0</b>	<b>35.0</b>	<b>31.7</b>
					<b>TOTAL EQUITY</b>	<b>64.7</b>	<b>66.9</b>	<b>70.2</b>	<b>68.4</b>
PER SHARE DATA					CASH FLOW SUMMARY (A\$m)				
June Year End	FY23A	1H24A	FY24E	FY25E	June Year End	FY23A	1H24A	FY24E	FY25E
EPS (c)	3.2	5.4	4.5	(4.4)	NPAT	1.3	2.2	1.8	(1.8)
Growth (pcp)	-72%	188%	40%	-197%	Add: D&A	0.0	0.0	0.0	0.0
Dividend (c)	0.0	0.0	0.0	0.0	(Gain)/Loss on Asset Revaluations	(2.5)	(3.4)	(3.4)	0.0
Franking	0%	0%	0%	0%	Change in Working Capital	(0.2)	0.0	0.8	(0.3)
Dividend Yield (%)	0%	0%	0%	0%	<b>Operating Cash Flow</b>	<b>(1.4)</b>	<b>0.0</b>	<b>(0.7)</b>	<b>(2.0)</b>
Dividend Payout Ratio (%)	0%	0%	0%	0%	Payments for PPE	(0.1)	(0.0)	(0.0)	(0.0)
					Capital Costs of Properties	(0.3)	(0.2)	(0.5)	(10.1)
					(Purchase)/Sale of Properties	(0.0)	(0.5)	(3.5)	8.8
					(Purchase)/Sale of Financial Assets	2.4	3.0	6.5	4.3
					Dividends Paid	0.0	0.0	0.0	0.0
					Proceeds/(Repayment) of Borrowings	0.0	0.0	0.0	(3.0)
					Other Financing Cash Flow	0.0	0.0	0.0	0.0
					<b>Net Cash Flow</b>	<b>0.6</b>	<b>2.4</b>	<b>1.8</b>	<b>(2.0)</b>
BALANCE SHEET RATIOS									
June Year End	FY23A	1H24A	FY24E	FY25E					
Gearing (Net Deb/tProperty Assets)	14%	11%	11%	9%					
Net Debt:Equity (%)	17%	13%	13%	12%					
EBIT Interest Cover (x)	3.8	8.3	4.0	0.6					
Current Ratio (x)	1.0	1.3	35.8	5.8					
VALUATION MULTIPLES									
June Year End	FY23A	1H24A	FY24E	FY25E					
NTA per share (c)	1.58	1.64	1.72	1.67					
PER (x)	29.2	17.5	20.9	(21.5)					

Our forecasts do not include any external revaluation of investment properties.

## Summary of Investment Assets

Table 1 below shows a summary of DGH's investment assets, along with its current strategy outlook for each. We note that individual asset strategy is dependent on the current economic and development landscape and is therefore subject to change, highlighted by the recent decision to put the 13 Sirius Road property up for sale in order to potentially bring forward the Wacol development. We expect DGH to remain nimble with its various asset strategies as management seek to be opportunistic in identifying development opportunities where they believe they can add material value.

Investment Asset	Value (as at 31 Dec '23)	Property Size	Borrowings	Strategy
Cash & financial assets	\$13.0m	N/A	N/A	Re-deploy into the construction of the Penrith Central industrial estate and acquisitions of property assets.
91 Thornton Drive PENRITH NSW	\$13.5m	11,650m <sup>2</sup>	Unencumbered	Subdivide property into Lot 1 (7,000m <sup>2</sup> ) and Lot 2 (4,650m <sup>2</sup> ). Progress construction of the industrial development project.
13 Sirius Road LANE COVE NSW	\$8.7m	2,181m <sup>2</sup>	\$2.95m	For Sale.
7 Sirius Road LANE COVE NSW	\$10.5m	2,778m <sup>2</sup>	\$2.95m	Leased. Long term industrial hold.
16 Industrial Avenue WACOL QLD	\$16.0m	21,750m <sup>2</sup>	\$8.0m	Leased. Long term industrial hold. Develop Stage 2 DA approved industrial facility.
159 Allen Street LEICHHARDT NSW	\$23.0m	2,782m <sup>2</sup>	Unencumbered	Leased. Progress to select a JV partner (developer/builder) to construct the DA approved 46 residential apartment project.
270-278 Norton Street LEICHHARDT NSW	\$9.2m	929m <sup>2</sup>	Unencumbered	Leased. Long term commercial hold.
322 Norton Street LEICHHARDT NSW	\$4.3m	607m <sup>2</sup>	Unencumbered	Engage builder and develop DA approved 9 residential apartments with ground floor retail suite and basement car park.
35 Norton Street LEICHHARDT NSW	\$3.6m	436m <sup>2</sup>	Unencumbered	Leased. Long term commercial hold.
Suite 4, 26-32 Pirrama Road PYRMONT NSW	\$2.3m	190m <sup>2</sup>	Unencumbered	Desane Group Holdings corporate head office.
<b>Total</b>	<b>\$104.0m</b>	<b>43,303m<sup>2</sup></b>	<b>\$13.9m</b>	

Table 1: Summary of DGH's investment assets and associated strategy.

## Disclaimer

### IMPORTANT INFORMATION

This report is a private communication to clients and those considering becoming a client and is not intended for public circulation or publication, or for the use of any third party without the approval of Taylor Collison Limited ABN 53 008 172 450 ("Taylor Collison"). It is distributed on the basis that no part of it will be reproduced, altered in any way, transmitted to, copied to or distributed to any other person without the prior express permission of Taylor Collison. Taylor Collison holds Australian Financial Services Licensee (No. 247083) and is a Trading Participant of more than one Relevant Exchange, including the Australian Securities Exchange (ASX), National Stock Exchange of Australia (NSX) and Cboe Australia Pty Ltd (Cboe). TC Corporate Pty Ltd ABN 31 075 963 352 ("TC Corporate") is a wholly owned subsidiary and Authorised Representative of Taylor Collison Limited.

The following **Warning**, **Disclaimer** and **Disclosure** relate to all material presented in this report and should be read before relying on any of its content to make an investment decision.

### Warning

This report presents information, being general advice (i.e., a rating, opinions and/or forecasts) and factual information, in relation to a particular financial product(s). The general advice, whether it be explicit or implied, is based solely on the Analyst's assessment of the merits and attributes of the product(s) concerned. Don't interpret it as indicating that taking a course of action in line with the general advice is appropriate for you personally. It is not personal (i.e., personalised) advice. The question of the product's suitability or appropriateness for your or anyone's particular investment objectives, financial circumstances or needs (i.e., your relevant circumstances) has not been considered. Personal advice addresses whether taking a course of action in relation to a financial product(s) is appropriate for you personally, based on what the adviser knows about the product(s) and your relevant circumstances. Therefore, before acting or otherwise relying on its general advice or other information, consider the appropriateness of doing so, in the light of your objectives and circumstances, or seek personal advice from your adviser at Taylor Collison. If you act without first consulting your adviser, you do so at your own risk.

If the general advice promotes acquisition of a product for which there is a current Product Disclosure Statement (PDS) or a Prospectus, you should obtain and consider a copy before making a decision about whether to invest or to remain invested. You should be able to obtain a copy from or through us.

Although analysis of the level, nature and sustainability of past performance is a necessary element of the basis for the insights, statements and forecasts presented by the Analyst, be aware that the past performance itself is not a reliable indicator of future performance of a product or its issuer. Taylor Collison does not guarantee the capital you invest through us against loss, or the performance of (including the payment of income from) your investments, even when they are guided or managed by us.

### Disclaimer

This report includes, and was prepared using, information from sources Taylor Collison considers reliable, but we do not guarantee its accuracy and completeness. All opinions, conclusions, forecasts and ratings are reasonably held at the time this report was published but are subject to change without notice. If they do change after publication, Taylor Collison assumes no obligation to update and republish this report. It may include forecasts or statements about the future, including guidance on future earnings, financial position and performance. The words "expect", "should", "could", "may", "predict", "plan" and other similar expressions are intended to identify such "forward-looking statements". The forward-looking statements, opinions and estimates presented in this report are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions.

Except for any liability which by law cannot be excluded, Taylor Collison, its directors, officers, employees, representatives (e.g. our advisers) and agents accept no liability (whether in negligence or otherwise) for any error, inaccuracy in, or omission from the information presented in this report or any loss or damage suffered by the recipient or any other person directly or indirectly as a result of any action taken or not taken on the basis of any of the information presented in this report.

### Disclosure – This report was funded by the ASX Equity Research Scheme

This report was prepared solely by Taylor Collison Limited. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation, by Taylor Collison Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness, or reasonableness of the research reports.

## Disclaimer continued

### Disclosure – Analyst’s remuneration and other interests

Analyst remuneration is not linked to the rating, opinions or forecasts presented in any research, or to securing a mandate to provide corporate advisory or fund-raising services or to the successful completion of such a mandate (any other ‘*conflicted scenario*’). Brokerage paid by institutional clients for dealings (which may be in response to our research) facilitated by our institutional sales team is shared between Taylor Collison (for overheads) and to remunerate the institutional and research teams. The arrangement serves to reimburse Taylor Collison for payment of base salaries, and beyond a threshold, a pool is made available to be allocated quarterly as a discretionary bonus to members of the teams, based on merit, payable annually.

The Analyst does not hold shares in DGH.ASX, so Taylor Collison considers there not to be any materiality to compromise the rating, opinions or forecasts presented. The Analyst and/or their associate(s) may at any time, during its life, have a holding or interest in any products addressed in this report, or a derivative product, and these (if any) may change during the life of this report.

### Disclosure – The remuneration and interests of Taylor Collison and others

Taylor Collison Principal accounts directly or indirectly holds or has an interest in approximately 435K shares in DGH.ASX, but Taylor Collison does not consider this to be sufficiently material to have compromised the Analyst’s rating, opinions or forecasts. Taylor Collison and/or an associate(s) may at any time, during its life, have a position(s) in any products or options addressed in this report and these holdings (if any) may change during the life of this report.

Collectively, other staff (our advisers, and their associates) directly or indirectly hold 50K shares in DGH.ASX. This holding or interest may change during the life of this report.

Where this report is distributed to clients of advisers who aren’t members of either the research or institutional team, and the client transacts in response to the research, the brokerage paid by clients for dealings facilitated by the adviser is shared between Taylor Collison and the adviser.

### Disclosure - General

Taylor Collison, its directors, officers, employees, representatives and/or agents may during the preparation and the life of this report, for legitimate reasons, have a role or be engaging in activities in relation to the product(s) referred to in this report which do or appear to conflict with the Analyst’s views and rating. During the life of this report, we may transact or facilitate transactions in the product(s) concerned for clients or provide oral or written advice to clients which is not consistent with the rating or opinions presented. Taylor Collison may solicit business from any issuer mentioned and may sell or buy the product(s) concerned ‘*as principal*’. Taylor Collison receives fees (e.g., application fees), brokerage or commissions, and may receive other benefits, for acting in these various ways, which may be shared with those involved, including our advisers (other than members of our research or institutional teams), associated companies or introducers of business.

**Analyst Certification:** The Analyst certifies that the views expressed accurately reflect their personal, professional opinion about the product(s) addressed in this report.

Date Prepared: March 2024

Analyst: William Jordan

Release Authorised by: David Cutten

**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

Participant of the Australian Securities Exchange (ASX) Group.

ABN 53008172450  
AFSL 247083