

fatPROPHETS™

1300 881 177

Daejan

29/03/2018 FAT-UK-727

DJAN

GBP £59.50

Core

LOW

Fat Prophets take Profits

Members following our UK reports over the past month would know that we've been steadily exiting from the UK property sector. This is mainly due to the broader market sending warning signs that the property boom has already ended and that it is set to be on the decline. Meanwhile, rising uncertainty from the Brexit proceedings will cause significant disruption in the sector. As such, we have added another property related stock to the list in [recommending an exit from the real estate group Daejan Holdings \(LSE: DJAN\)](#).

Recap

There haven't been many updates on the company's front since our last coverage in December 2017 (FAT-UK-714) wherein we focussed on the company's interim results (ended 30 September 2017). The graphic below summarises the company's performance which has been negatively impacted by the unfavourable currency movements, as well as initial signs of weakness in the property market with lower reported rental income in the UK.

29 November 2017

DAEJAN HOLDINGS PLC

INTERIM RESULTS ANNOUNCEMENT for the half year ended 30 September 2017

The Board is pleased to present the Interim Statement for the half year ended 30 September 2017.

	30 Sep 2017 £000	30 Sep 2016 £000	31 Mar 2017 £000
Profit before tax	56,643	65,112	198,396
Profit after tax	45,474	61,477	162,130
Basic and diluted earnings per share	£2.79	£3.76	£9.93
Equity shareholders' funds per share	£103.28	£95.81	£101.61

Source: 29 November 2017 Company Filing

Since then however, the more salient developments were in the broader market which has shifted our view on the property sector. In fact, members following our UK reports over the past month would note that we've been steadily exiting from the property market given the prevalence of negative economic data and shifting sentiment that the property boom has ended.

A brief summary: transaction volumes have been gradually declining over the past few months as the boom in property prices put numerous properties out of buyers reach. That aside, the decline in mortgage approvals have also made it more difficult for the buyers to actually even get in on the market.

Below, using one of the graphics in our previous [report](#) this captures the downward pressure on London property prices, with more and more sellers reducing their asking prices as buyers have dried up. Even worse, higher property taxes along with the impact of Section 24 of the Finance Act 2015 – where landlords will no longer be able to deduct the full cost of mortgage interest payments – has kept buyers on the sidelines. No wonder the property market has been weak.

Downward Pressure

London home sellers are cutting prices to shift property



Source: Rightmove

Source: Rightmove, Bloomberg

This is even more striking for Daejan given that 3/4 of its UK portfolio is located in London which has been the most impacted. Going forward, and given the prevailing weakness this will likely deteriorate the company's Net Asset Value with lower market prices rerating it downward. The outlook for rental income is looking bleak with numerous reports of renters looking outside of London for more affordable housing as well.

UK Property Sector Updates

Following on from the above, we've also seen more updates on the property market, the latest tally according to Hometrack research shows that some 42% of London postcodes have reported further falls in prices to record the worst performances since the GFC. According to their report, the declines are most pronounced in higher priced boroughs such as Wandsworth which reported average price drops of circa £120,000 or 15% year-on-year.

Even worse, it's taking longer to sell homes in London with reports that it now takes 18 weeks to sell property and double the time in other locations. Transaction volumes have also worsened in London which is now down 17% from its 2014 peak.

Also, recent data from the National Association of Estate Agents show that the number of house-hunters registered at estate agents across the UK was 16% lower in February compared to January, and lower by 28% year-on-year indicating that the pipeline of buyers are steadily declining further darkening the outlook.

These developments are indeed troubling, given that the Bank of England is preparing to raise benchmark rates this May which could compound pressure in the mortgage market already reeling from already lower approvals.

In summary, the property market's boom phase is over and while it is still at a high level, we implore members to consolidate the gains thus far and exit from the market while still ahead.

Daejan Holdings Plc - DJAN (LSE) - 1 Month CandleStick Chart - GBP



Summary

Daejan Holdings' interim results were definitely a mixed performance showing weakness in rental income leading to a lower bottom-line, despite a higher NAV from price appreciation. While more recently, the broader market continues to show signs that the property market's boom phase is over with London properties showing weakness ahead of the other locations.

Daejan Holdings Plc - DJAN (LSE) - 1 Day CandleStick Chart - GBP



This is despite a steady flow of headwinds which unsurprisingly continue to push investor sentiment lower. Thus, in our view and as we have noted over the past month, **members should take the opportunity to exit their position from Daejan Holdings at current price levels.**

Disclaimer: Dajejan Holdings is held in the Fat Prophets UK Concentrated model share portfolio.

DISCLAIMER

Fat Prophets has made every effort to ensure the reliability of the views and recommendations expressed in the reports published on its websites. Fat Prophets research is based upon information known to us or which was obtained from sources which we believed to be reliable and accurate at time of publication. However, like the markets, we are not perfect. This report is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular user have not been taken into consideration. Individuals should therefore discuss, with their financial planner or advisor, the merits of each recommendation for their own specific circumstances and realise that not all investments will be appropriate for all subscribers. To the extent permitted by law, Fat Prophets and its employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Fat Prophets hereby limits its liability, to the extent permitted by law, to the resupply of the said information or the cost of the said resupply. As at the date at the top of this page, Directors and/or associates of the Fat Prophets Group of Companies currently hold positions in: ASX-listed Australian stocks: AAC, AAD, AGO, AJA, AMP, ANZ, APA, APG, AVG, BCI, BHP, BKN, BOQ, BRL, BRU, BTR, BWP, CBA, CCL, CDD, CFE, CGL, CKF, CNQ, CVO, CWN, DLS, DNK, DUE, ELD, ENV, EVN, FID, FMG, FXJ, GJT, GMG, GNS, GOR, GPT, GXL, HUB, IAU, IFL, ILU, IMF, JHX, MFG, MGR, MML, MMS, MND, MNF, MPL, MTR, MTU, NAB, NCM, NMG, NUF, OBS, ORE, OSH, OVH, POS, PPS, PRG, PRT, PXG, QAN, QBE, RIO, RXL, RRS, S32, SDG, SFR, SGP, SIV, SLR, SPK, STO, SUN, SYD, TAM, TEN, TLS, TME, TTN, WBC, WFD, WES, WHC, WOW, WPL, WSA. International stocks 3i Group, Acacia Mining, Amec Foster Wheeler, Anglo American, Archipelago Resources, Arian Silver Corp, Aviva, Avocet Mining, Bank of China, Barratt Developments, BMW, Berkeley Energy, BG Group, BOLSAS Y MERCADOS ESPANOLES, SOCIEDAD, Bovis Homes, BP, Braemar Shipping Group, British American Tobacco, BT Group, Cairn Energy, Centamin Egypt, China Life Insurance, China Mobile, China Overseas, China Taiping, China Vanke, Country Garden, Daejan Holdings, Development Securities, Dragon, Enquest, Esure, Euronext, FedEx, Fresnillo, Ibiden, Infosys, Glaxosmithkline, Glencore International, Goldbridges Global Resources, Google (Alphabet), Grainger, Gulf Keystone Petroleum, Highland Gold Mining, HSBC, ICICI Bank, Ironvold, iShares Physical Metals, J Sainsbury, JKK Oil & Gas, John Wood Group, Kazakhmys, Legal & General, Lloyds, Low and Bonar, Market Vectors Junior Gold Miners, Market Vectors Oil Services, Market Vectors Vietnam, Marstons, Medusa Mining, Mitchells & Butlers, Mitsubishi Tokyo Financial, Mitsubishi UFJ, National Grid, Nippon Telegraph and Telephone, Panasonic, Paragon Group of Companies, Petra Diamonds, Petrofac, Petropavlovsk, PICC Property & Casualty, PPHE Hotel Group, Randgold Resources, Rank Group, Reckitt Benckiser, Royal Dutch Shell, Solgold, Sony Corporation, Standard Chartered,

STV Group, Sylvania Platinum, Tata Motors, Tencent, Tertiary Minerals, Teva Pharmaceutical, Toyota Motor, Tullow Oil, Unilever, Vedanta Resources, Vodafone, Walt Disney, Zillow.

Snapshot DJAN

Daejan

Latest Closing Price: £59.50

The Company, through its subsidiary, is engaged in property investment. The Company's property portfolio consists of commercial, industrial and residential premises throughout the United Kingdom. The Company also has a portfolio of commercial and residential properties on the eastern seaboard of the United States.

Market Capitalisation: £977.72m

Copyright © 2000 - 2016 Fat Prophets. All rights reserved. No portion of this website may be reproduced, copied, or in anyway reused without written permission from Fat Prophets.