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Daejan

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DJAN

GBP £40.00

Core

**LOW****B**

## Prudent Family Property

Daejan Holdings stands out in the UK listed real estate sector for its conservative level of debt and family control. Both factors should ensure resilience through the property market cycle. The group has a strong exposure to London and with a discount of a third to assets we rate it as a buy at £40.

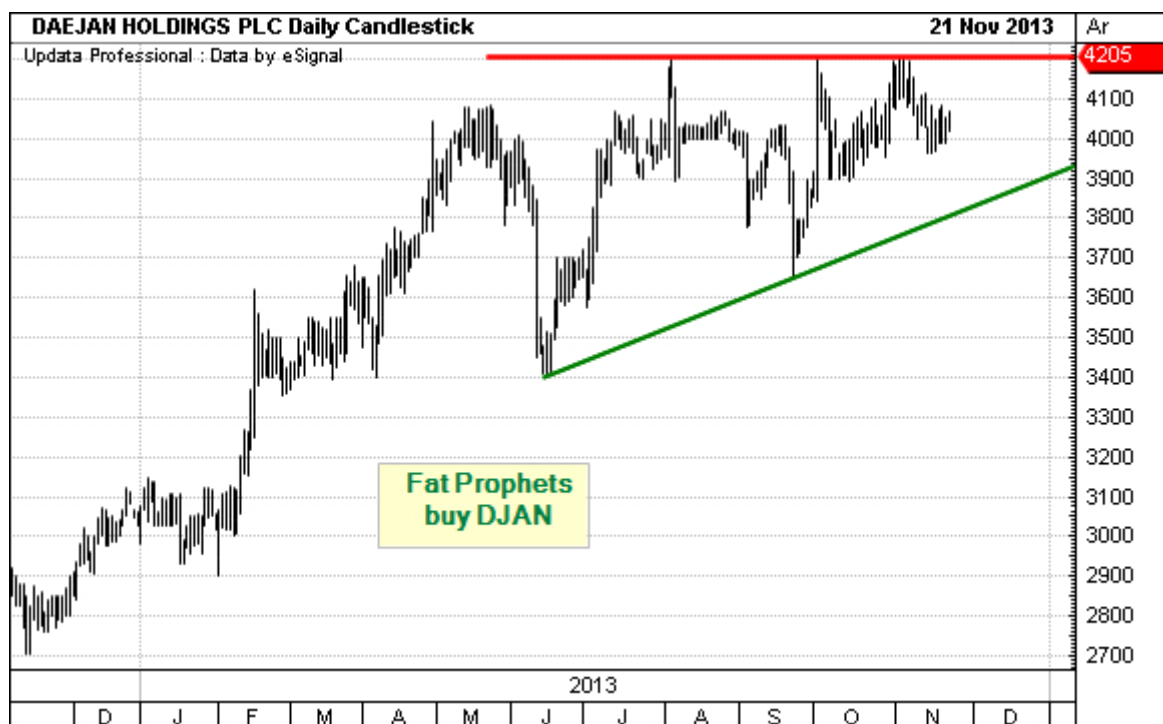
The first factor to evaluate when looking at listed property group Daejan Holdings is that it is controlled by the Freshwater family. This is enough to put some investors off due to low share liquidity and potential governance issues.

However, family companies also tend to focus on long-term stewardship and eschew high risk strategies. In the property world such an approach is welcome as downturns can wipe out the equity value of high risk groups.

### Daejan has been more resilient than the real estate sector since 2008

There is also some evidence that family companies in general outperform the overall stock market. This is due to strong oversight of company managers by a dominant shareholder.

**In any event the presence of a controlling shareholder at Daejan Holdings doesn't offset the group's attractions in our view. It does mean that the shares are illiquid, despite the £655m market value, and need to be bought over time.**



DJAN Daily Technical comment: As evident from the daily chart the prices have been confined to an ascending triangle and have been in an uptrend throughout this year. A sustained break above these levels would spark a new leg higher to follow over the longer term.

**With the last valuation at £60.44 on 31<sup>st</sup> March 13 the stock is at a discount of around a third to assets given a share price of around £40. This provides some comfort while the asset value increased by 9% in the year to 31<sup>st</sup> March 13.**

The stock offers a dividend yield of around 2% which leaves plenty of surplus rental income to reinvest in new property developments. A sign of Daejan's resilience is that the dividend wasn't cut during the global financial crisis.



## Daejan 101

Daejan's assets are focused on London and the South East while the business also has US property which is mainly in New York. The company has a large residential property position which is unusual for listed real estate groups and helps diversify the asset base.

## Daejan properties as at March 2013 and change in value over year

### Investment properties

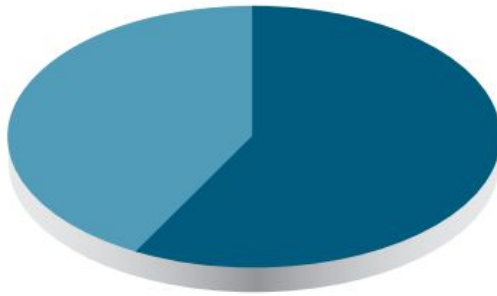
The table below shows a summary of the valuation of our investment property:

	Valuation March 2013 £m	Percentage change
<b>Commercial property</b>		
UK	639.0	+12.7%
USA	44.9	+16.1%
<b>Residential property</b>		
UK	464.3	+8.9%
USA	262.4	+16.8%
<b>Total</b>	<b>1,410.6</b>	<b>+12.2%</b>

In total 51% of the group's assets are in residential property with the remainder in commercial property. The UK assets are mainly focused on commercial real estate while the bulk of US assets are in residential real estate.

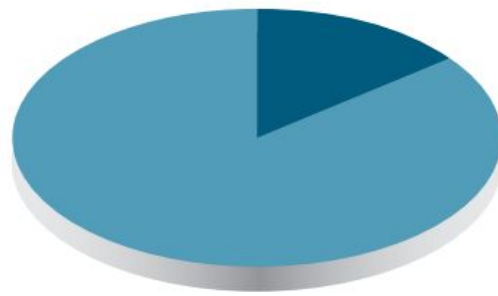
*Property UK*

Commercial £639.0m Residential £464.3m



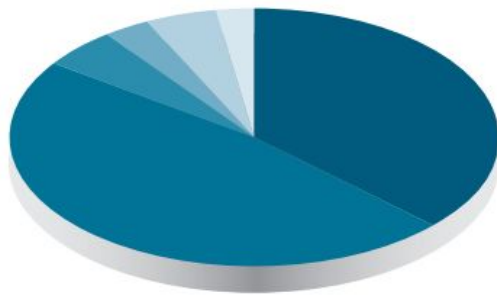
*Property USA*

Commercial £44.9m Residential £262.4m



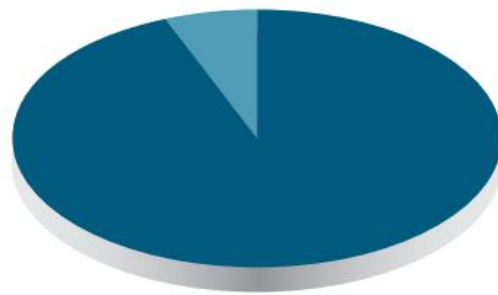
*Commercial Property UK*

Offices £237.7m Retail £303.9m  
Leisure £33.1m Land & Development £18.8m  
Industrial £30.3m Care Homes £15.2m



*Commercial Property USA*

Offices £42.2m Retail £2.7m

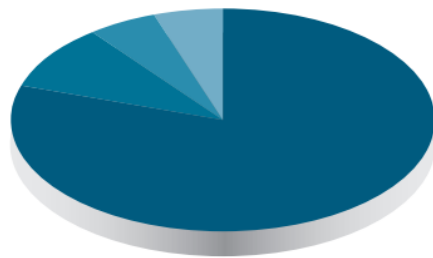


Looking in more detail at the geographic split and the US is 22% of assets while the UK has the remaining 78%. London & the South are 62.6% of total assets while New York is 11.36% and as such both together are 74%.

**Analysis by location**

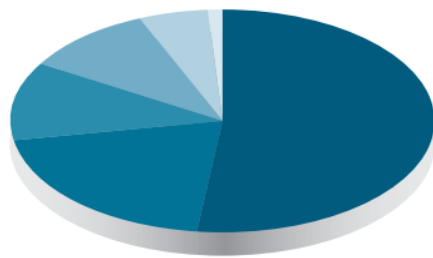
*UK Valuations*

London & the South £883.3m  
Midlands & East Anglia £105.9m  
Wales & West £59.0m  
North & Scotland £55.2m



*USA Valuations*

New York £160.3m Florida £62.2m  
Boston £35.1m New Jersey £30.7m  
Baltimore £16.3m Pennsylvania £2.7m



Daejan is therefore a play on two leading global cities that have diversified economies with financial services and a host of other industries. The residential sector in the US is also seeing momentum which supports the valuation.

**Strategy**

Daejan states that: "Our long term and prudent approach to development activity means that it can take several years to bring projects to completion."

A recent major scheme that was completed is Africa House in WC2 London which helped boost the group's valuation. Several smaller developments are currently ongoing and Daejan is hoping to announce new significant schemes in the years ahead.

**The group's strategy is to have low gearing with the figure at just 18.9% in the year to 31<sup>st</sup> March. This was an increase from last year's figure of 16.9% but is still very modest.**

Daejan hasn't converted to a Real Estate Investment Trust structure which means that it isn't required to pay 90% of rental income as dividends. In the year to March 2013 £12.38m was paid as dividends while net cash from operations was £24m.

Interest paid during the year was £11m which compares to cash from operations before interest payments at £35.3m. Thus both the dividend and interest payments look to be well covered.

### Results in year to 31<sup>st</sup> March 2013

The results in the year to the 31<sup>st</sup> March show steady progress with rents and the asset valuation rising. Rental income rose to £111m from £107.1m from the year before while operating costs fell by £1m to £67m which means that **net rental income rose by 12.5% to £44m.**

Looking to the bottom line and profits before tax was £111.7m versus £41.9m last year which was due to a jump in valuation gains. Last year the valuation gains were £15.7m but in the year to March 13 the figure was £82.7m.

### Rents show steady rise

	2013 £m	2012 £m
Total rental and related income from investment property	111.0	107.1
Property operating expenses	(67.0)	(68.0)
Net rental and related income from investment property	44.0	39.1
Profit on disposals of investment property	6.6	16.2
Administrative expenses	(10.9)	(11.1)
Net operating profit before net valuation gains	39.7	44.2
Net valuation gains on investment property	82.7	15.7
Net financing costs	(10.7)	(18.0)
Profit before taxation	111.7	41.9

Drilling down into earnings per share and the strong valuation gains lifted EPS to £5.50 from £2.20 the year before. **The equity value of the group was £60.44 which compares to £55.46 last year.**

### Daejan P&L

	<i>Year ended 31 March</i>	
	<b>2013</b>	2012
	<b>£000</b>	£000
Profit before taxation	<b>111,683</b>	41,849
Profit after taxation	<b>89,760</b>	33,030
Earnings per share	<b>£5.50</b>	£2.02
Dividends per share	<b>79p</b>	76p
Equity shareholders' funds per share	<b>£60.44</b>	£55.46

Final dividend of 54p per share payable on 8 November 2013 to shareholders on the register on 11 October 2013.

The driver of the group's total asset value change in the year was principally the £82.7m revaluation gain. However, other factors included a £13.6m FX gain, additions to existing properties of £20.5m and new acquisitions at £37.2m.

### **Total Asset value change in 2013**

	<b>2013</b>	2012
	<b>£m</b>	£m
Opening valuation	<b>1,254.1</b>	1,224.8
New acquisitions	<b>37.2</b>	15.1
Additions to existing properties	<b>20.5</b>	10.5
Disposals	<b>(0.6)</b>	(12.6)
	<b>1,311.2</b>	1,237.8
Revaluation gain	<b>82.7</b>	15.7
Foreign exchange gain	<b>13.6</b>	0.6
Closing valuation*	<b>1,407.5</b>	1,254.1

\*In this table and in the financial statements, the total valuation of £1,407.5 million (2012 - 1,254.1 million) is stated net of £3.1 million (2012 - £2.6 million) of lease incentives, as required by accounting standards - see Note 9 to the consolidated financial statements.

### **Summary and valuation**

Property stocks are long-term plays on real estate prices and growing rental income. Daejan Holdings looks to be a solid play on both factors and has a relatively low risk profile.

The focus on London and New York is attractive, in our view, while the residential aspect is another advantage. Both London and New York are diversified by industry and attract global companies due to their pool of skilled workers.

As a family controlled company Daejan's minority shareholders are clearly just passengers along for the ride. However, this is offset by the stewardship a large shareholder provides and the aversion to risk family owners have.

**The current discount of a third to assets may not narrow anytime soon but it does provide a margin of safety.** The fact that the group is not a REIT also provides scope to reinvest more rental income for future capital and income growth.

The current dividend yield is 2% which is less than peers but it is well covered and the payment is likely to grow faster than is the case with the UK's listed REITs. The resilience of Daejan has also been proven given

that dividend growth continued during the recent downturn.

**Accordingly, we recommend Daejan Holdings as a long-term conviction buy for all members. The stock is illiquid and as such it is prudent to buy over time. Interim financial results are likely to be reported before the end of November.**

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## Snapshot DJAN

### Daejan

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: £655m**

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