



CHINA
DEVELOPMENT
FINANCIAL

Accordia Golf Trust

(AGT SP/ACCO.SI)

BUY - Maintain

Price as of 20 Nov 2017	0.70
12M target price (\$\$)	0.78
Previous target price (\$\$)	0.80
Upside (%)	11.8

Trading data

Mkt Cap (\$\$m) / (US\$m)	769 / 568
Issued Shares (m)	1,099
Ave Daily Traded (3-Month) Vol / Val	1.7m / \$1.2m
52 week lo / hi	\$0.62 / \$0.78
Free Float	71.1%

Major Shareholders

Goldman Sachs	15.0%
Daiwa Securities	6.9%

Previous Recommendations

Date	Rating	Share Price (\$\$)	Target Price (\$\$)
16-Aug-17	BUY	0.720	0.800
29-May-17	BUY	0.750	0.800
17-Apr-17	BUY	0.730	0.800
16-Feb-17	BUY	0.710	0.800

AGT SP (1yr) VS STI



Source: Bloomberg

Joel Ng
65 6202 1192
joel.ng@kgi.com

See the last page for important disclosures.

DPU impacted by repayment of membership deposits

Event

Better-than-expected operational performance impacted by huge one-off repayment of membership deposits. 1H18 net profit grew 13% YoY but DPU declined 33% YoY to 1.65 SG cents from 2.45 SG cents in the prior year period. The decline in DPU was due to a large repayment of membership deposits at two of its golf courses, which was a legacy issue when AGT acquired them. As part of a court-approved bankruptcy agreement for many of these golf courses prior to their acquisition by AGT, membership deposits were locked in for 10 years before they could be returned. On a positive note, FY18 marks the biggest lot of membership deposits where the lock-up period will end.

Impact

FY18 and FY19 DPU shaded lower by 10-17%. Taking into account higher repayment of membership fees, we lower our DPU estimates to 4.9 and 5.4 SG cents for FY18 and FY19, implying a still-attractive 6.9% and 7.5% dividend yield.

Japan's economic recovery and potential contribution from tourism in the next three years. Japan's GDP increased by an annualised 1.4% in 3Q17, its seventh consecutive quarter and the longest economic expansion since 2001. In the next 2-3 years, Japan's tourism industry and economy may get an additional uplift from the two of the three biggest sporting events in the world to be held in the country – the Rugby World Cup 2019 (the first time to be held in Asia) and the Tokyo 2020 Olympics. We believe the inclusion of golf in the Olympics may attract younger players, which could benefit AGT.

Valuation & Action

We maintain our BUY recommendation on AGT as 1) 7.0 - 8.0% dividend yield remains attractive and 2) we believe there is still significant upside to our forecasts as we have not factored growth from any DPU-accretive acquisitions. AGT offers one of the highest yield among its business trust/SREITs peers, with a spread of 200-300 bps over SREITs and 400 bps over JREITs.

Risks

Forex risk as earnings are mostly in JPY while distributions are in SGD. Macroeconomic environment and adverse weather conditions also affect performance of its golf courses.

Financials & Key Operating Statistics

YE Mar JPY bn	2016	2017	2018F	2019F	2020F
Revenue	53.2	51.9	51.0	50.8	50.5
PATMI	6.5	4.0	5.3	5.3	5.3
Core PATMI	6.5	5.5	5.3	5.3	5.3
Core EPS (JPY)	0.6	0.5	0.5	0.5	0.5
Core EPSgrth (%)	151.6	-15.6	-3.1	-0.5	-0.5
DPS (SG Cents)	6.6	6.0	4.9	5.3	5.9
Div Yield (%)	9.5	8.6	7.0	7.6	8.4
Net Margin (%)	12.3	7.7	10.4	10.4	10.4
Loan-to-Value (%)	27.9	27.9	27.7	27.9	28.0
ROE (%)	7.9	5.0	6.6	6.5	6.5

Source: Company Data, KGI Research

Valuations

We maintain our BUY recommendation on AGT. AGT offers investors a stable and attractive dividend yield of 7.0 - 8.0% over our three-year forecast period. We see upside potential from the change in ownership of AGT's sponsor, which we expect to lead to acquisition-fuelled growth in the next three years. We utilised the following assumptions in our DDM based valuation:

- Discount rate of 7.0% and long-term growth rate of 0%, which we believe is reasonable based on the forward average DPU yield of business trusts in Singapore. Our discount rate is also higher than the average forward DPU yield for SREITs across all sectors, offering a spread of between 200-300bps.
- Long-term exchange rate of 80 JPY/SGD, derived from Bloomberg consensus' spot JPY/USD forecast over the next four years. Our assumption is 10% higher than the 20-year average of 72 JPY/SGD.
- Revenue from golf courses is a function of total number of visitors and playing fees per visitor. We used the six-years' annual visitor average given the volatility caused by the weather on some years (e.g., FY12 and FY14 saw a decline in visitors due to adverse weather conditions). We expect golf course revenue per visitor to decline 0.5% per year from our base of JPY 6,000. Golf course revenues per visitor have been on a downward trend (FY13: JPY 6,900 vs FY16: JPY 6,000), mainly as the use of caddies decline at AGT's golf courses. The profit margins from caddy fees are minimal and does not contribute to AGT's overall performance. An upside catalyst with lower playing fees is that it may make it more appealing to a wider range of players.
- Revenues from restaurants to remain stable throughout our forecast period. This segment makes up around a quarter of our revenue forecast. Restaurant revenue is driven by the total number of visitors, which has been increasing over the past five years (except in FY14, which was due to heavy snowfall). Number of visitors in FY16 was 5.81m compared to the 5.59m six-year average. We have assumed restaurant revenue per visitor of around JPY 2,223, which has been stable around these levels over the past four years.
- We expect membership fees to decline over the long term as more players come as visitors instead. Membership fees contributed around 9% of FY17 revenues. We expect a downward trend of around -3% YoY in our ten-year forecast period, and to stabilise thereafter.
- Adjustments to net income to arrive at distributable income mainly comes from membership revenue that is booked every quarter but collected in the fourth quarter (Jan-Mar), as well as membership deposits that are refunded at the request of members.
- We assumed a payout ratio of 90% for DPU, which we believe is conservative. AGT has historically paid out 100% of Distributable income available.
- Capex. Management has guided for capex to be around 3% to 5% of total group revenues. We have not included any acquisition capex in our forecasts, which could provide potential DPU growth.

Figure 1: DDM Valuation - Base case

JPY billion, YE 31 March	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
Number of golf courses	89	89	89	89	89	89	89	89	89	89	89	89
Annual visitors (million)	5.807	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617
Playing fees per visitor (thousand)	5.970	5.970	5.940	5.910	5.881	5.851	5.822	5.793	5.764	5.735	5.707	5.678
Restaurant revenue per visitor (thousand)	2.224	2.224	2.224	2.224	2.224	2.224	2.224	2.224	2.224	2.224	2.224	2.224
Revenue - Golf courses	34.8	34.4	33.4	33.2	33.0	32.9	32.7	32.5	32.4	32.2	32.1	31.9
YoY (%)		(1.3%)	(2.9%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Revenue - Restaurants	12.9	12.7	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
YoY (%)		(1.5%)	1.5%	-	-	-	-	-	-	-	-	-
Revenue - Membership	4.8	4.4	4.3	4.3	4.2	4.1	4.0	3.9	3.9	3.8	3.7	3.6
YoY (%)		(7.8%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)
Revenue - Total	53.2	51.9	51.0	50.8	50.5	50.3	50.0	49.8	49.6	49.3	49.1	48.9
YoY (%)		(2.4%)	(1.7%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Valuation - DDM	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
Net Income After Taxes	6.662	4.115	5.479	5.452	5.426	5.399	5.373	5.348	5.322	5.297	5.272	5.248
Depreciation and amortisation expenses	3.415	3.259	3.265	3.249	3.233	3.218	3.202	3.187	3.172	3.157	3.142	3.127
Interest and other financing costs	1.687	1.656	1.627	1.619	1.611	1.604	1.596	1.588	1.581	1.573	1.566	1.558
Income tax	0.479	0.801	1.067	1.061	1.056	1.051	1.046	1.041	1.036	1.031	1.026	1.021
Impairment loss	0.184	1.499										
EBITDA	12.427	11.330	11.438	11.382	11.326	11.272	11.217	11.164	11.111	11.058	11.006	10.954
Changes in working capital	0.102	(0.463)										
Interest and other financing costs	(0.989)	(0.951)	(0.914)	(0.909)	(0.905)	(0.900)	(0.896)	(0.892)	(0.888)	(0.883)	(0.879)	(0.875)
Income tax paid	(1.241)	(1.457)	(1.337)	(1.330)	(1.324)	(1.317)	(1.311)	(1.305)	(1.298)	(1.292)	(1.286)	(1.280)
Others	(2.503)	0.133	(2.837)	(2.428)	(1.819)	(1.810)	(1.801)	(1.793)	(1.784)	(1.776)	(1.767)	(1.759)
Cash from operations	7.796	8.592	6.351	6.715	7.279	7.244	7.209	7.175	7.141	7.107	7.073	7.040
Capex	(1.571)	(1.659)	(1.531)	(1.523)	(1.516)	(1.508)	(1.501)	(1.494)	(1.487)	(1.480)	(1.473)	(1.466)
Net cash used in financing activities		(1.755)										
Available for distribution	6.225	5.178	4.820	5.192	5.764	5.736	5.708	5.681	5.654	5.627	5.601	5.575
Payout ratio	100%	100%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Distributable income available	6.041	5.178	4.338	4.673	5.187	5.162	5.137	5.113	5.089	5.065	5.041	5.017
DPU (yen)	5.497	4.712	3.948	4.252	4.720	4.697	4.675	4.652	4.630	4.608	4.587	4.565
DPU (sgd cents)	6.623	6.040	4.934	5.315	5.900	5.872	5.843	5.815	5.788	5.760	5.733	5.706
JPY/SGD		78.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Dividend yield (%)	9.5%	8.6%	7.0%	7.6%	8.4%	8.4%	8.3%	8.3%	8.3%	8.2%	8.2%	8.2%
Discount rate		7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
PV of DPU		0.40										
PV Terminal		0.39										
Sum		0.78										
Upside/(downside)		11.8%										

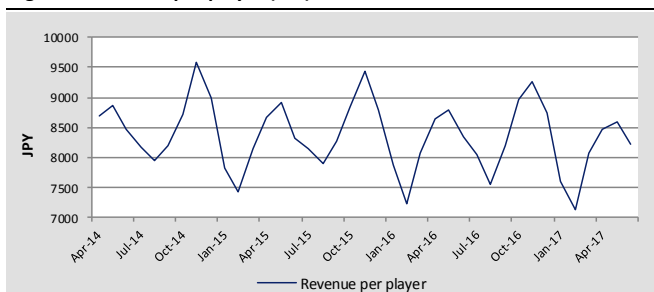
Source: KGI Research

Figure 2: Company profile

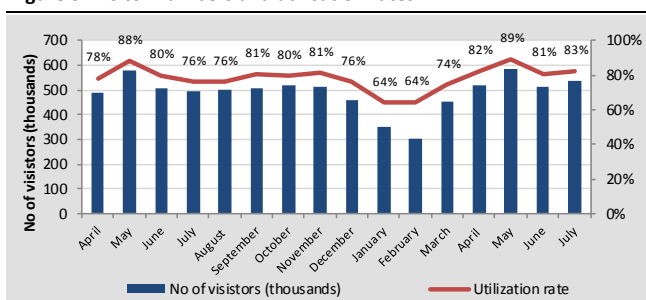
Accordia Golf Trust (AGT) is a business trust comprising of investments in 89 golf courses in Japan. Around 70% of its golf courses are located in the three largest metropolitan areas in Japan, namely the Greater Tokyo Region, the Greater Nagoya Region and the Greater Osaka Region.

As at 31 March 2016, AGT's 89 golf courses had a total appraisal value of JPY 150.98 billion.

Source: KGI Research

Figure 4: Revenue per player (JPY)


Source: KGI Research

Figure 3: Visitor numbers and utilisation rates


Source: KGI Research

Figure 5: Key statistics of golf courses

Regions	FY2017				
	Revenue (JPY bil)	Utilisation Rates (%)	NOI (JPY bil)	NOI Margin (%)	NOI Yield (%)
Greater Tokyo	22.98	78.9%	5.74	25.0%	7.8%
Greater Osaka	12.08	87.2%	3.01	24.9%	8.0%
Greater Nagoya	6.8	80.9%	1.4	20.5%	7.8%
3 Major Metropolitan areas	41.86	81.4%	10.15	24.2%	7.8%
Others	10.55	67.0%	1.76	16.7%	8.3%
Total	52.41	77.6%	11.91	22.7%	7.9%

Source: KGI Research

YE 31 Mar

INCOME STATEMENT JPY bn					
	2016	2017	2018F	2019F	2020F
Revenue	53.2	51.9	51.0	50.8	50.5
Total operating expenses	(44.3)	(43.8)	(42.9)	(42.6)	(42.4)
Profit from Operations	8.8	8.1	8.2	8.1	8.1
Finance income/(expenses)	(1.7)	(1.7)	(1.6)	(1.6)	(1.6)
Share of JV results	0.0	0.0	0.0	0.0	0.0
Exceptionals/Investment income	0.0	(1.5)	0.0	0.0	0.0
Profit before Tax	7.1	4.9	6.5	6.5	6.5
Income tax	(0.5)	(0.8)	(1.1)	(1.1)	(1.1)
Non-controlling interests	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)
PATMI	6.5	4.0	5.3	5.3	5.3
PATMI Normalized	6.5	5.5	5.3	5.3	5.3
BALANCE SHEET JPY bn					
	2016	2017	2018F	2019F	2020F
Cash and cash equivalents	11.2	10.3	11.8	13.4	14.5
Trade and other receivables	2.4	2.4	2.4	2.4	2.3
Inventory	0.2	0.3	0.3	0.3	0.3
Other current assets	1.2	1.2	1.2	1.2	1.2
Current Assets	15.1	14.1	15.6	17.2	18.3
Property, plant and equipment	148.7	146.5	144.8	143.1	141.4
Other non-current assets	17.9	17.7	17.7	17.7	17.7
Non-current Assets	166.5	164.3	162.5	160.8	159.1
Total assets	181.6	178.4	178.1	178.0	177.3
Trade and other payables	5.1	5.6	5.6	5.6	5.6
Borrowings (current)	1.0	14.8	14.6	14.5	14.4
Other current liabilities	15.7	17.1	17.1	17.1	17.1
Current Liabilities	21.8	37.6	37.3	37.3	37.2
Borrowings (non-current)	45.3	31.0	30.5	30.3	30.2
Other non-current liabilities	32.3	29.2	29.2	29.2	29.2
Non-current liabilities	77.7	60.2	59.6	59.5	59.4
Shareholders equity	81.9	80.3	80.7	80.7	80.0
Non-controlling interests	0.2	0.3	0.5	0.6	0.8
Total Equity	82.1	80.6	81.1	81.3	80.8
Total Liabilities and Equity	181.6	178.4	178.1	178.0	177.3
CASH FLOW STATEMENT JPY bn					
	2016	2017	2018F	2019F	2020F
Net income before tax	7.1	4.9	6.5	6.5	6.5
Depreciation & non cash adjustments	6.2	6.1	4.9	4.9	4.8
Change in Working Capital	(0.1)	0.5	0.1	0.0	0.0
Income Tax Paid	(1.2)	(1.2)	(1.1)	(1.1)	(1.1)
Interest Paid	(1.7)	(1.7)	(1.6)	(1.6)	(1.6)
CF from operating activities	10.3	8.6	8.8	8.7	8.7
Purchase/Disposal of PPE	(1.6)	(1.7)	(1.5)	(1.5)	(1.5)
Other CFI	0.0	0.0	0.0	0.0	0.0
CF from investing activities	(1.6)	(1.7)	(1.5)	(1.5)	(1.5)
Dividends Paid	(7.9)	(5.8)	(4.9)	(5.3)	(5.9)
Debt Raised / (Repaid)	(1.0)	(1.1)	(0.8)	(0.2)	(0.2)
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(1.4)	(0.6)	0.0	0.0	0.0
CF from financing activities	(10.3)	(7.5)	(5.7)	(5.5)	(6.1)
Net increase in cash & cash equiv.	(1.5)	(0.5)	1.6	1.7	1.0
FX effects	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Beginning Cash	12.3	10.8	10.2	11.8	13.4
Ending Cash	10.8	10.2	11.8	13.4	14.5
KEY RATIOS					
	2016	2017	2018F	2019F	2020F
Profitability					
Core EPS	0.6	0.5	0.5	0.5	0.5
Core EPS Growth (%)	151.6	(15.6)	(3.1)	(0.5)	(0.5)
DPS (SGD Cents)	6.6	6.0	4.9	5.3	5.9
Dividend Yield (%)	9.5	8.6	7.0	7.6	8.4
Profitability					
Gross margin	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA margin	23.0%	21.8%	22.4%	22.4%	22.4%
Net margin	12.3%	7.7%	10.4%	10.4%	10.4%
ROE	7.9%	5.0%	6.6%	6.5%	6.5%
ROA	3.6%	2.2%	3.0%	3.0%	3.0%
Financial Structure (x)					
Interest coverage	5.2	4.9	5.0	5.0	5.0
Total Debt/Equity	0.56	0.57	0.56	0.55	0.55
Loan-to-Value	0.28	0.28	0.28	0.28	0.28

Source: KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

SGX StockFacts Research Programme

This report is prepared by KGI Securities (Singapore) Pte. Ltd. ("KGISS") under the SGX StockFacts Research Programme ("Programme") administered by Singapore Exchange ("SGX"). KGISS will receive fees from the account maintained by SGX for providing research coverage on each participating company ("Listco") under the Programme.

Copyright 2017. KGI Securities (Singapore) Pte. Ltd. All rights reserved.