RESULTS UPDATE

Business Trust ▪ Singapore

Accordia Golf Trust

(AGT SP/ACCO.SI)

Attractive valuations but lack of near-term re-rating catalysts; downgrade to HOLD

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- AGT maintained its 1.64 SG cents dividend for 1H19, similar to the prior year period, even as it experienced its worst quarter in its operating history due to a series of natural disasters.
- We expect FY2019E (YE March) DPU to decline to 4.0 SG cents (8.1% div yield) due to the one-off expenses. Thereafter, we expect DPU to recover to at least 5.2 SG cents, which would offer an attractive normalised 10.7% div yield.
- Although valuations are attractive, we **downgrade our recommendation to HOLD** due to the lack of near-term re-rating catalysts and a more cautious macro outlook.
- Investors with a longer investment horizon may wish to keep this in their portfolios as we believe all the bad news have been priced into the current depressed share price.

Financials & Key Operating Statistics

YE Mar JPY bn	2017	2018	2019F	2020F	2021F
Revenue	51.9	51.5	50.7	50.5	50.3
PATMI	4.0	4.1	5.3	5.3	5.3
Core PATMI	5.5	5.8	5.3	5.3	5.3
Core EPS (JPY)	0.5	0.5	0.5	0.5	0.5
Core EPS grth (%)	-15.6	5.7	-8.6	-0.5	-0.5
DPS (SG Cents)	6.0	3.9	4.0	5.3	5.2
Div Yield (%)	12.3	7.9	8.1	10.7	10.7
Net Margin (%)	7.7	8.0	10.5	10.5	10.5
Loan-to-Value (%)	31.3	29.4	29.3	29.5	29.6
ROE (%)	5.0	5.1	6.5	6.5	6.4

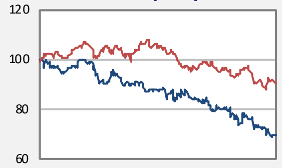
Source: Company Data, KGI Research

Weather gone wild. In what would have been a peak season for golf in Japan, the country experienced earthquakes, a heat wave, flooding and the worst typhoon (Typhoon Jebi) to hit in 25 years. Even the positive trend of increasing revenue per player was not enough to offset the 4.3% points decline in 2Q19 utilisation rate to 78% (-190,000 players YoY).

Share price weakness also due to selling from a major shareholder. The recent share price weakness has also been due to non-fundamental reasons – mainly from a major shareholder selling its shares in the market. We have to point out that the Goldman Sach's fund, being the second largest shareholder of AGT, has been paring down its stake over the last two weeks. We are neutral on this news as the share sales may possibly be due to a change in investment mandate or fund redemptions, and unless we can confirm the reason, we would prefer not to speculate.

Bad news priced in. AGT is currently trading at 0.55x P/B, which is -1SD below its historical average. Thus, at these valuations, we believe downside risks are limited. This year is a year to forget given the confluence of negative factors. On the bright side, barring further bad weather, we can't think of any other negative news that may derail its operational recovery next year.

HOLD - Downgrade

Price as of 14 Nov 18 (SGD	0.49	**Performance (Absolute)**	
12M TP ($)	0.61	1 Month (%)	-5.8
Previous TP ($)	0.70	3 Month (%)	-13.3
Upside, incl div (%)	33.1	12 Month (%)	-26.7
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	539		
Issued Shares (mn)	1,099		
Vol - 3M Daily avg (mn)	1.0		
Val - 3M Daily avg ($mn)	0.5		
Free Float (%)	71.1%		
Major Shareholders		**Previous Recommendations**	
MBK Partners	28.9%	17-Aug-18	BUY $0.70
Goldman sachs	14.0%	31-May-18	BUY $0.70
Daiwa Securities	6.0%	24-Apr-18	BUY $0.78

Recovery under way. Although this year's DPU is expected to drop to 4.0 SG cents due to the reasons stated earlier and one-off expenses related to refinancing, we expect DPU to recover to 5.2 SG cents in FY2019, which would offer an attractive dividend yield of 11% at its current price.

Valuation & Action: We adjust our DDM-backed valuation of AGT, mainly by raising the discount rate to 8.0% from 7.0% previously. As a result, our fair value declines to 61 cents, or an implied 0.7x P/B.

Despite the 33% upside potential, we downgrade our recommendation to HOLD given the lack of near-term re-rating catalysts and our more cautious macro outlook. Japan's economy contracted by an annualised 1.2% in 3Q due to the natural disasters and a decline in exports as trade protectionism starts to take its toll on global demand.

What would excite us. We would turn more positive when AGT begins to acquire golf courses. It has the debt headroom to conservatively acquire 10 golf courses at an average price of JPY 2bn each. Doing so would only increase its loan-to-value (LTV) ratio by 5% points to 35% but raise DPU by 10%.

Risks: Forex risk to DPU as earnings are mostly in JPY while distributions are in SGD. Macroeconomic environment and adverse weather conditions also affect visitor numbers to golf courses.

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Acquisitions would make us excited again

DPU-accretive acquisition now a possibility. AGT had not been able to acquire new golf courses since it IPO in August 2014 due to refinancing issues with the previous syndicated loan. However, we understand that the new lenders, Aozora Bank and Orix Co, are more open to opportunities to fund acquisitions of such asset classes.

Huge debt headroom. AGT's loan-to-valuation (LTV) ratio currently stands at 30.4%. The maximum LTV ratio that AGT can leverage up to is 60.0%, or an additional debt headroom that would allow it to acquire up to JPY 130bn (S$1.6bn) of new assets. Assuming a conservative LTV ratio of 35.0%, this would allow AGT to acquire up to JPY 20bn worth of golf courses, or 10 golf courses at an average price of JPY 2.0bn each.

We believe that such acquisitions will be highly accretive at 5% net yield (pre-tax) as AGT is looking to acquire at around 8.0% net operating income yield (in-line with its current portfolio) while management intends to fund acquisitions by taking debt, which we think may cost 2.0%-3.0%.

Consolidation is positive for AGT, in our view. We understand from our meetings with local management in Japan that smaller and independently-run golf courses are closing down. For example, 9 golf courses closed down over the past five years around its Kasumi Golf Course, leaving only 12 golf courses remaining. As a result, the remaining golf courses around that area are operated by the largest golf companies in Japan, including Accordia (4 courses), Orix (3) and PGM (1).

Figure 1: Top golf course operators in Japan

No	Company Name	No of golf courses	Market share
1	PGM Group	137	*6.04%*
2	Accordia Group (Accordia Golf + AGT)	134	*5.91%*
3	Orix Group	39	*1.72%*
4	Seibu Group	29	*1.28%*
5	Ichikawa Golf Kogyo Group	28	*1.24%*
6	Tokyu Group	26	*1.15%*
7	Cherry Golf Group	20	*0.88%*
8	Unimat Group	18	*0.79%*
9	Taiheiyo Club	17	*0.75%*
10	Chateraise	16	*0.71%*
	Total	464	*20.5%*

Source: Golf Management July 2018

Accordia Group + Orix Co? Given this prevailing trend, the largest golf operators such as Accordia may eventually increase market share given the benefits from their size i.e. economies of scale. Thus, it was an interesting development for us that the new refinancing package was facilitated by Aozora Bank and Orix Co. Orix Co is the third largest golf operator in Japan, with 39 golf courses. A potential consolidation between Accordia Group and Orix Co would definitely be positive in our view, and would make the combined entity the largest golf operator in Japan with a total of 176 golf courses and a 7.5% market share of golf courses in the country.

Too cheap to ignore; longer investment horizon required. AGT's share price declined 25% over the past 1 year due to a disappointing FY2018 performance. DPU in FY2018 dropped to 3.85 SG cents from 6.04 SG cents in FY2017 due to a combination of bad weather, refinancing costs and one-off expenses from repayment of membership deposits. However, we believe its current share price offers an attractive buying opportunity for investors with a longer investment horizon.

Refinancing overhang removed. The successful refinancing of its debt removes a key overhang. AGT was able to refinance all its term loans worth a total of JPY 43.5 bn due August 2018 with two new lenders – Aozora Bank and ORIX Co. Ltd – for five years at a slightly lower interest rate of T+1.95% (previously T+2.0%; T=6mth Yen TIBOR). More interestingly, one of the two new lenders – ORIX Co – is the third largest golf operator in Japan with 39 golf courses. Accordia Group is the second largest golf operator in Japan with 133 courses, just below PGM Group that operates 137 courses. The 2% upfront fee will be paid in 2Q19 and will impact 2019F DPU by 20% or 1 SG cents.

Figure 2: New refinancing terms

July 2018 Refinancing	New loan terms	Previous Loan terms
Loan Term	August 2023	August 2018/August 2019
Interest Rate	T+1.95%	T+2% including swap rate
Upfront fee	2% (for 5 yrs)	2.80%
Annual amortisation	No	1.00%

Source: Company data, KGI Research

Leadership changes. The recent senior management changes may pave the way for DPU-accretive acquisitions. AGT recently announced a new Chief Financial Officer (CFO), Mr Fumihiko Niwa and a new Executive Director Mr Nakanishi Toyo. Mr Niwa was previously the Corporate Director of Accordia Golf Co, the sponsor of AGT. This development follows the resignation of AGT's Chief Operating Officer (COO), Mr Toshikatsu Makishima who was previously with the Daiwa Group. In our view, the management changes reflect the new direction and control that AGT's sponsor is taking – specifically acquisitions of new golf courses as a growth driver, a strategy that had lacked follow through since its IPO in August 2014.

Valuations

We downgrade our recommendation to HOLD on AGT based on the reasons stated earlier. After a challenging FY2018, we expect DPU to recover going forward. We utilised the following assumptions in our DDM-based valuation:

Discount rate of 8.0% 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 100-300bps.

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.

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 3: DDM Valuation - Base case

JPY billion, YE 31 March	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Number of golf courses	89	89	89	89	89	89	89	89	89	89	89	89	89
Annual visitors (million)	5.807	5.753	5.695	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617
Playing fees per visitor (thous	5.975	5.975	6.011	5.981	5.951	5.922	5.892	5.862	5.833	5.804	5.775	5.746	5.717
Restaurant revenue per visit	2.224	2.212	2.195	2.195	2.195	2.195	2.195	2.195	2.195	2.195	2.195	2.195	2.195
Revenue - Golf courses	34.8	34.4	34.2	33.6	33.4	33.3	33.1	32.9	32.8	32.6	32.4	32.3	32.1
YoY (%)		(1.3%)	(0.4%)	(1.9%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Revenue - Restaurants	12.9	12.7	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
YoY (%)		(1.5%)	(1.8%)	–	–	–	–	–	–	–	–	–	–
Revenue - Membership	4.8	4.4	4.1	4.0	4.0	3.9	3.8	3.7	3.7	3.6	3.5	3.4	3.4
YoY (%)		(7.8%)	(6.9%)	(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	51.5	50.7	50.5	50.3	50.0	49.8	49.5	49.3	49.1	48.9	48.6
YoY (%)		(2.4%)	(0.9%)	(1.4%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Valuation - DDM	**2016**	**2017**	**2018**	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Net Income After Taxes	6.662	4.115	4.132	5.365	5.340	5.314	5.289	5.264	5.240	5.215	5.191	5.167	5.144
Depreciation and amortisatio	3.415	3.259	3.168	3.247	3.232	3.216	3.201	3.186	3.171	3.156	3.142	3.127	3.113
Interest and other financing	1.687	1.656	1.603	1.530	1.523	1.515	1.508	1.501	1.494	1.487	1.480	1.473	1.467
Income tax	0.479	0.801	0.336	0.725	0.722	0.718	0.715	0.712	0.708	0.705	0.702	0.698	0.695
Impairment loss	0.184	1.499	1.720										
EBITDA	12.427	11.330	10.959	10.868	10.816	10.764	10.713	10.663	10.613	10.564	10.515	10.466	10.419
Changes in working capital	0.102	(0.463)	(0.356)										
Interest and other financing	(0.989)	[illegible]	(0.915)	(1.729)	(0.855)	(0.851)	(0.847)	(0.843)	(0.839)	(0.835)	(0.831)	(0.827)	(0.824)
Income tax paid	(1.241)	[illegible]	(1.290)	(1.244)	(1.238)	(1.232)	(1.226)	(1.220)	(1.215)	(1.209)	(1.203)	(1.198)	(1.192)
Others	(2.503)	[illegible]	(0.033)	(2.227)	(1.818)	(1.809)	(1.801)	(1.792)	(1.784)	(1.775)	(1.767)	(1.759)	(1.751)
Cash from operations	7.796	[illegible]	8.365	5.668	6.905	6.872	6.840	6.808	6.776	6.744	6.713	6.682	6.652
Capex	(1.571)	(1.659)	(2.340)	(1.776)	(1.767)	(1.759)	(1.751)	(1.742)	(1.734)	(1.726)	(1.718)	(1.710)	(1.702)
Net cash used in financing activities		(1.755)	(2.589)										
Available for distribution	6.225	5.178	3.436	3.893	5.138	5.113	5.089	5.065	5.042	5.018	4.995	4.972	4.949
Payout ratio	100%	100%	100%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Distributable income available	6.041	5.178	3.436	3.503	4.624	4.602	4.580	4.559	4.538	4.516	4.496	4.475	4.454
DPU (yen)	5.497	4.712	3.126	3.188	4.208	4.188	4.168	4.148	4.129	4.110	4.091	4.072	4.053
DPU (sgd cents)	6.623	6.040	3.860	3.985	5.259	5.234	5.210	5.185	5.161	5.137	5.113	5.090	5.066
JPY/SGD		78.0	81.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Dividend yield (%)	13.5%	12.3%	7.9%	8.1%	10.7%	10.7%	10.6%	10.6%	10.5%	10.5%	10.4%	10.4%	10.3%
Discount rate				8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
PV of DPU				0.34									
PV Terminal				0.28									
Sum				0.61									
Upside/(downside)				25.0%									

2.0% upfront fee for new JPY43.5bn loan

Source: Company data, KGI Research

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HOLD	-10% to +10% total return over the next 12 months
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