

# Accordia Golf Trust

(AGT SP/ACCO.SI)

## Back in the game; highest interim dividend since 2014

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- 1H FY2020 DPU increased 54% YoY to 2.61 Sing cents, the highest interim dividend since its IPO in 2014.
- The good performance was due to an increase in players and lower operating expenses.
- We maintain our OUTPERFORM recommendation as AGT plays on favourable tailwinds, strengthening its position as the second largest golf course owner in Japan.
- We believe big plans are ahead for AGT in CY2020 given that its major shareholder, MBK Partners, is now the largest golf course owner in the Japan.

Financials & Key Operating Statistics					
YE Mar JPY bn	2018	2019	2020F	2021F	2022F
Revenue	51.5	51.2	50.9	49.9	49.6
PATMI	4.1	-12.6	6.0	5.9	5.8
Core PATMI	5.8	5.4	6.0	5.9	5.8
Core EPS (JPY)	0.5	0.5	0.5	0.5	0.5
Core EPS grth (%)	5.7	-7.0	10.4	-1.8	-0.6
DPU (SG Cents)	3.9	3.9	5.1	5.0	5.0
Div Yield (%)	6.4	6.5	8.4	8.2	8.2
Net Margin (%)	8.0	-24.5	11.7	11.7	11.7
Loan-to-Value (%)	29.4	30.9	31.0	30.8	30.9
ROE (%)	5.1	-19.5	9.2	8.9	8.7

Source: Company Data, KGI Research

**2Q FY2020 review.** Revenues in 2Q FY2020 increased 6% YoY to JPY12.8bn, driven mainly by the growth in player numbers. Total players rose 8.4% YoY to 1.5mn in 2Q FY2020 as management took active steps to boost utilisation rates during weekdays. As a result of the better revenue performance and lower operating expenses, operating profits jumped 77% YoY to JPY2.1bn.

**2.61 Sing cents DPU for 1H FY2020**, a significant improvement from 1.64 Sing cents declared in the prior year period. Ex-date is on 3 December 2019 and date payable on 18 December 2019.

**Impact of Typhon Hagibis in October.** All three golf courses which were closed following Typhoon Hagibis (one of the strongest typhoons to hit the Tokyo region) have resumed operations as of 1 November. The closure had caused an estimated JPY500mn in lost revenue, as well as a similar amount in repair costs. As a result of the typhoon and flooding, the number of players in October fell 9% YoY and utilisation declined 4% YoY to 78.3%. However, the impact on overall performance in FY2020 is expected to be manageable as the lost revenue makes up less than 1% of full-year revenues.

**Stronger yen.** Although JPY has recently fallen from its 3-year high against the SGD, we note that JPY is still 13% stronger than the trough of 92 SGD/JPY reached in 2015. The appreciation of the JPY from end March 2019 has resulted in a 5 Sing cents increase in AGT's NAV to 76 Sing cents.

Outperform - Maintained			
Price as of 14 Nov 19 (SGD)	0.61	<b>Performance (Absolute)</b>	
12M TP (\$)	0.67	1 Month (%)	6.1
Previous TP (\$)	0.70	3 Month (%)	16.3
Upside, incl div (%)	17.7	12 Month (%)	32.5
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	665		
Issued Shares (mn)	1,099		
Vol - 3M Daily avg (mn)	0.8		
Val - 3M Daily avg (\$mn)	0.5		
Free Float (%)	71.1%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
MBK Partners	28.9%	16-Aug-19	OP \$0.67
Hibiki Path Advisors	6.2%	31-May-19	OP \$0.70
Daiwa Securities	6.0%	4-Apr-19	OP \$0.72

Figure 1: SGD/JPY



Source: Bloomberg, KGI Research

**Valuation & Action:** We maintain our Outperform recommendation. Despite the 16% gain in AGT's unit price since our last report in August, AGT still offers an attractive 8% dividend yield and trades at a 20% discount to its 76 Sing cents NAV. More importantly, we expect interest in golf and in AGT to increase as Japan prepares to host the Summer Olympics in 2020.

**Pivotal year for AGT.** CY2020 will be a pivotal year for AGT as Japan's golf industry continues to consolidate. We expect the ongoing consolidation to lead to increased market share for the largest players – specifically AGT – and therefore, improved economies of scale, enhanced branding and ultimately, better valuations.

**Strong dividend support.** Even if DPU were to decline to its lowest level of 3.9 Sing cents – as was the case in FY2018 and FY2019 – it would still represent a 6% dividend yield based on its current price.

**Risks:** Forex risk to DPU as earnings are mostly in JPY while distributions are in SGD. Macroeconomic environment and adverse weather conditions have the most significant impact on visitor numbers to golf courses.

**Top of the game; benefitting from economies of scale**

Given the prevailing trend of smaller golf courses closing down in Japan, the largest golf operators such as Accordia Group (Accordia Golf + AGT) have been gradually increasing market share in Japan over the past few years. Accordia Group had a market of 5.83% in 1H18, increasing to 5.93% in the latest quarterly update.

It was an interesting development for us that MBK Partners, the parent company of AGT, acquired the golf business of Orix Co in November 2018. Orix Co is the third largest golf operator in Japan, with 39 golf courses under its management. The combined entity would be the largest golf operator in Japan with a total of 171 golf courses and a 7.7% market share in the country.

**Figure 2: Top golf course operators in Japan**

No	Company Name	No of golf courses	Market share
1	PGM Group	138	6.20%
2	Accordia Group (Accordia Golf + AGT)	132	5.93%
3	Next Golf Management (previously Orix)	39	1.75%
4	Seibu Group	29	1.30%
5	Ichikawa Golf Kogyo Group	28	1.26%
6	Tokyu Group	26	1.17%
7	Cherry Golf Group	18	0.81%
8	Unimat Group	18	0.81%
9	Taiheiyo Club	17	0.76%
10	Chateraise	16	0.72%
	Total	461	20.7%

Source: Company presentation, Golf Management May 2019, Golf Market Activity Committee

**Asset enhancement initiatives.** AGT budgets around 3% of its annual revenues on capex, which includes initiatives such as asset enhancements to maintain the relevance, safety, and improve aesthetics of its clubhouses. In 1H FY2020, AGT allocated around JPY600mn on asset enhancements at its Misaki Country Club, which include improvements such as increasing carpark lots and by optimising energy use to reduce operating costs.

**Figure 3: Asset enhancements at Misaki Country Club**



Source: Company

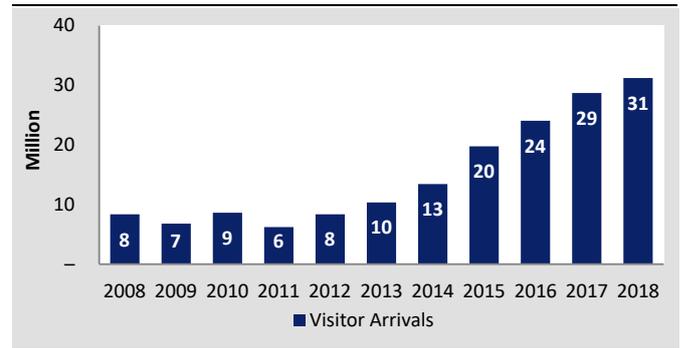
**Economic stimulus from 2020 Summer Olympics in Tokyo**

With the recently concluded Rugby World Cup (RWC), Japan will now be looking forward to hosting the 2020 Summer Olympics in July and August 2020.

Although it will be hard to argue the direct benefit to Japan's golf industry, we do think there will be spill over effects given that one of the world's largest sporting event is expected to benefit the country's economy as a whole on the back of an expected surge in tourist arrivals and spending.

Furthermore, golf will get a much needed popularity boost in the country as it will be included in the Olympics.

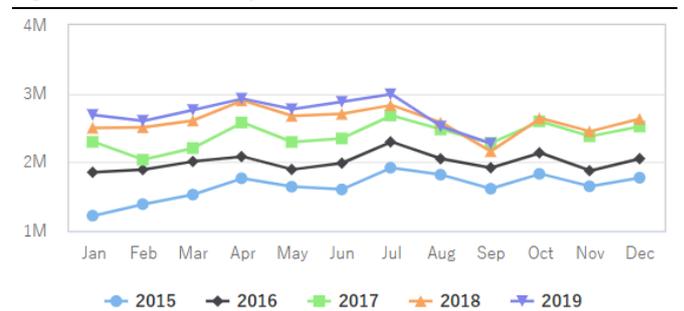
**Figure 4: Japan visitor arrivals (2008-2018)**



Source: Japan National Tourism Organisation (JNTO)

**Targeting 40mn visitors next year.** Japan attracted a record 31.2mn visitors in 2018, representing a 9% YoY increase and the seventh straight year of growth. 2019 is expected to be another record year, with January to September visitor arrivals at 24.4mn. Visitor arrivals declined by 5% in September due to Typhoon Jebi (strongest tropical cyclone to hit Japan in 25 years) and an earthquake. Prime Minister Shinzo Abe aims to attract 40 million foreign tourists by the Tokyo Olympics next year.

**Figure 5: Tourist arrivals by months**



Source: Japan National Tourism Organisation (JNTO)

## Valuations

We maintain our OUTPERFORM recommendation on AGT based on the reasons stated earlier. 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 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 3% to 5% of total group revenues. We have not included any acquisition capex in our forecasts, which could provide potential DPU growth.

Figure 6: DDM Valuation

JPY billion, YE 31 March	2017	2018	2019	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Number of golf courses	89	89	89	88	88	88	88	88	88	88	88	88
Annual visitors (million)	5.753	5.695	5.720	5.723	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617
Playing fees per visitor (thousand)	5.975	6.011	5.988	5.958	5.928	5.899	5.869	5.840	5.811	5.781	5.753	5.724
Restaurant revenue per visitor (thousand)	2.212	2.195	2.231	2.231	2.231	2.231	2.231	2.231	2.231	2.231	2.231	2.231
Revenue - Golf courses	34.4	34.2	34.3	34.1	33.3	33.1	33.0	32.8	32.6	32.5	32.3	32.2
YoY (%)	(1.3%)	(0.4%)	0.0%	(0.5%)	(2.3%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Revenue - Restaurants	12.7	12.5	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
YoY (%)	(1.5%)	(1.8%)	2.1%	-	-	-	-	-	-	-	-	-
Revenue - Membership	4.4	4.1	3.7	3.6	3.6	3.5	3.4	3.4	3.3	3.2	3.2	3.1
YoY (%)	(7.8%)	(6.9%)	(9.8%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)
Revenue - Total	51.9	51.5	51.2	50.9	50.1	49.8	49.6	49.4	49.1	48.9	48.7	48.5
YoY (%)	(2.4%)	(0.9%)	(0.6%)	(0.4%)	(1.7%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
<b>Valuation - DDM</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>	<b>2027F</b>	<b>2028F</b>
Net Income After Taxes	4.115	4.132	(12.493)	5.952	5.851	5.824	5.797	5.770	5.744	5.718	5.692	5.666
Depreciation and amortisation expenses	3.259	3.168	3.290	3.260	3.204	3.189	3.175	3.160	3.145	3.131	3.117	3.103
Interest and other financing costs	1.656	1.603	1.566	1.559	1.533	1.525	1.518	1.511	1.504	1.498	1.491	1.484
Income tax	0.801	0.336	(0.291)	0.139	0.136	0.136	0.135	0.134	0.134	0.133	0.133	0.132
Impairment loss	1.499	1.720	17.962	-	-	-	-	-	-	-	-	-
EBITDA	11.330	10.959	10.034	10.910	10.725	10.675	10.625	10.576	10.528	10.480	10.432	10.385
Changes in working capital	(0.463)	(0.356)	0.041	-	-	-	-	-	-	-	-	-
Interest and other financing costs	(0.951)	(0.915)	(0.979)	(0.881)	(0.866)	(0.862)	(0.858)	(0.854)	(0.850)	(0.846)	(0.842)	(0.838)
Income tax paid	(1.457)	(1.290)	(0.980)	(1.244)	(1.223)	(1.217)	(1.211)	(1.206)	(1.200)	(1.195)	(1.189)	(1.184)
Others	0.133	(0.033)	(0.063)	(2.037)	(2.003)	(1.993)	(1.984)	(1.975)	(1.966)	(1.957)	(1.948)	(1.939)
Cash from operations	8.592	8.365	8.053	6.748	6.633	6.602	6.572	6.542	6.512	6.482	6.452	6.423
Capex	(1.659)	(2.340)	(1.317)	(1.783)	(1.752)	(1.744)	(1.736)	(1.728)	(1.720)	(1.712)	(1.705)	(1.697)
Net cash used in financing activities	(1.755)	(2.589)	(2.896)	-	-	-	-	-	-	-	-	-
Available for distribution	5.178	3.436	3.840	4.965	4.881	4.858	4.836	4.813	4.791	4.770	4.748	4.726
Payout ratio	100%	100%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Distributable income available	5.178	3.436	3.456	4.469	4.393	4.372	4.352	4.332	4.312	4.293	4.273	4.254
DPU (yen)	4.712	3.126	3.145	4.066	3.997	3.979	3.960	3.942	3.924	3.906	3.888	3.871
DPU (sgd cents)	6.040	3.860	3.931	5.083	4.996	4.973	4.950	4.927	4.905	4.882	4.860	4.838
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 (%)	10.0%	6.4%	6.5%	8.4%	8.3%	8.2%	8.2%	8.1%	8.1%	8.1%	8.0%	8.0%
Discount rate				7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
PV of DPU				0.32								
PV Terminal				0.35								
Sum				0.67								
Upside/(downside)				11.4%								
Implied Book value				0.89x								

Source: Company data, KGI Research

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