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# Accordia Golf Trust

(AGT SP/ACCO.SI)

## Company presentation update; rock-bottom valuations

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- We recently hosted AGT's management for a presentation to investors.
- Key points are 1) rock-bottom valuations, 2) operational improvement, 3) upside from JPY strength, and 4) DPU-accretive acquisitions.
- Although valuations are attractive, we **maintain our HOLD** recommendation due to the lack of near-term re-rating catalysts and a more cautious macro outlook, but will assess our rating post 3Q FY19 results in Feb 2019.
- 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 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 (%)	11.4	7.3	7.5	9.9	9.9
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

**Share price at an all-time low.** AGT's share price recently dropped to an all-time low of 48 SG cents after a year of extremely bad weather and selling pressure from Goldman Sachs paring down its stake over the last two months. AGT is currently trading at 0.55x P/B, which is -1SD below its historical average. Thus, we believe that downside risks are limited. Also, we may see less volatile downside share price movements given that Goldman Sachs, which previously held 14%, had largely exited its position in 2018.

**Recovery underway; golf operations are improving.** Operations have already shown signs of improvement in Oct and Nov 2018, where player numbers have increased 2-3% above the 3-year average.

**Upside from JPY strength.** The JPY strengthened by as much as 4% against the SGD in the past 1 month, rising to a 20-month high, partly driven by a flight to safe-haven assets. Locking in below 80 JPY/SGD would provide upside to our 4.0 SG cents dividend forecast for FY19F.

**Interesting developments on acquisition potential.** Orix Corp (Orix) announced in Nov 2018 that it transferred its golf business to MBK Partners, who is also the same owner of the sponsor of AGT. Given this development, MBK would now have the most golf courses in Japan, totalling 173. Hence, we believe that all the pieces are falling into place for AGT to embark on its DPU-accretive acquisitions to enhance shareholder value.

HOLD - Maintain			
Price as of 11 Jan 19 (SGD)	0.53	<b>Performance (Absolute)</b>	
12M TP (\$)	0.61	1 Month (%)	8.2
Previous TP (\$)	0.61	3 Month (%)	0.4
Upside, incl div (%)	23.0	12 Month (%)	-17.8
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	583		
Issued Shares (mn)	1,099		
Vol - 3M Daily avg (mn)	2.6		
Val - 3M Daily avg (\$mn)	1.2		
Free Float (%)	71.1%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
MBK Partners	28.9%	15-Nov-18	HOLD \$0.61
Hibiki Path Advisors	6.2%	17-Aug-18	BUY \$0.70
Daiwa Securities	6.0%	31-May-18	BUY \$0.70

**New shareholder.** It was announced on 29 November 2018 that Hibiki Path Advisors had acquired 53mn shares for S\$22.9mn, implying a price of 43 SG cents, from a major shareholder. As a result, Hibiki had emerged with a 6.2% stake in AGT, making it the second largest shareholder. Hibiki is a Japanese-managed fund specialising in Japanese equities. We view the change of major shareholder as neutral news as it does not have any impact on the operations of AGT, but it does lend confidence that institutional investors are willing to come in when AGT's share price drops below 50 SG cents.

**Valuation & Action:** Despite the 33% upside potential, we maintain our recommendation at HOLD given the lack of near-term re-rating catalysts and our more cautious macro outlook. We will review our assessment after AGT's 3Q FY19F results in February 2019. We expect FY20F (YE Mar) DPU to recover to 5.2 SG cents, which would offer an attractive 10% dividend yield at its current price.

**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.

**This report is prepared by KGI Securities (Singapore) under the SGX StockFacts Research Programme. See the last page for important disclosures.**

## Valuations

We maintain our HOLD recommendation on AGT based on the reasons stated earlier. 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 1: 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 (thousan)	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 visitor (	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%)
<b>Valuation - DDM</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019F</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	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 amortisation e	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 cos	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 cos	(0.989)		(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)		(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)		(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	8.392	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	4.624	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	5.185	5.137	5.117	5.113	5.090	5.066	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 (%)	12.5%	11.4%	7.3%	7.5%	9.9%	9.9%	9.8%	9.8%	9.7%	9.7%	9.6%	9.6%	9.6%
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)				15.5%									

Source: Company data, KGI Research

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<b>SELL</b>	<-10% total return over the next 12 months

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