COMPANY UPDATE

Business Trust ▪ Singapore

KGI CHINA DEVELOPMENT FINANCIAL

Accordia Golf Trust

(AGT SP/ACCO.SI)

Improving operations marred by impairment losses

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- AGT declared a 2.13 Sing cents DPU for 2H19, down from 2.20 Sing cents in 2H18. Its full-year 3.77 Sing cents DPU made up 95% of our full-year forecast.
- An otherwise good operating performance was marred by JPY17.9bn of impairment losses, resulting in NAV dropping to S$0.71 as at end Mar-19 from S$0.90 as at end Mar-18.
- We maintain our OUTPERFORM recommendation on the back of a recovery of its DPU in FY20F.

Financials & Key Operating Statistics

YE Mar JPY bn	2018	2019	2020F	2021F	2022F
Revenue	51.5	51.2	50.3	50.1	49.8
PATMI	4.1	-12.6	5.9	5.9	5.9
Core PATMI	5.8	5.4	5.9	5.9	5.9
Core EPS (JPY)	0.5	0.5	0.5	0.5	0.5
Core EPS grth (%)	5.7	-7.0	9.2	-0.5	-0.5
DPU (SG Cents)	3.9	3.9	5.2	5.2	5.2
Div Yield (%)	6.6	6.7	8.9	8.9	8.8
Net Margin (%)	8.0	-24.5	11.7	11.7	11.7
Loan-to-Value (%)	29.4	30.9	30.7	30.8	31.0
ROE (%)	5.1	-19.5	9.1	9.0	8.8

Source: Company Data, KGI Research

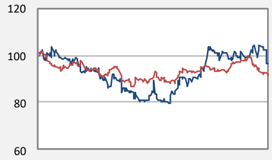
BUY - Outperform

Price as of 31 May 19 (SGD)	0.59	**Performance (Absolute)**	
12M TP ($)	0.70	1 Month (%)	-3.3
Previous TP ($)	0.72	3 Month (%)	-6.4
Upside, incl div (%)	26.5	12 Month (%)	3.5

Trading data

Mkt Cap ($mn)	643
Issued Shares (mn)	1,099
Vol - 3M Daily avg (mn)	1.0
Val - 3M Daily avg ($mn)	0.6
Free Float (%)	71.1%

Perf. vs STI Index (Red)



Major Shareholders		**Previous Recommendations**		
MBK Partners	28.9%	4-Apr-19	OP	$0.72
Hibiki Path Advisors	6.2%	15-Feb-19	OP	$0.61
Daiwa Securities	6.0%	11-Jan-19	N	$0.61

4Q19 review. Operating income in the quarter rose 5.5% YoY to JPY 10.1bn, driven by increased marketing efforts and better weather conditions. However, it reported a loss of JPY18.5bn due to impairments. AGT would have reported a smaller loss of JPY1.1bn if stripping out the impairments.

Impairment details. AGT recognised total impairment losses of JPY17.9bn, of which, JPY13.1bn was for goodwill. The primary driver for the goodwill impairment was due to the decline in corporate valuation, triggered by the potential reduction in cashflows from Northern Country Club Nishikigahara Golf Course.

The remaining impairment loss was for the decline in appraisal value of Nishikigahara Golf Course from JPY4.6bn to JPY0.9bn, classified under Property, Plant and Equipment (PPE). AGT's valuer had taken a conservative approach to reduce the value of this golf course because of the impact of a flood prevention project by the government, even though the details of the project – such as timing and nature of survey – have not yet been determined.

Impact. The impairment losses are non-cash and have no impact on the distributable income. Rather, the impairment losses impacted the loan-to-value (LTV) ratio and NAV. LTV increased to 31% from 29%, while NAV declined to S$0.71 from S$0.90.

DPU cut. AGT declared a 2.13 Sing cents DPU for 2H19, down from 2.20 Sing cents in the prior year period. This was slightly below our estimates and was due to higher reserve items. Reserved items increased to JPY1.2bn in 4Q19 from JPY0.3bn in 4Q18 due to cash needed for withholding tax (JPY559mn), property tax (JPY224mn), trust operations (JPY278mn) and unwinding of upfront fee (JPY225mn).

Looking forward. AGT's full-year DPU of 3.77 Sing cents made up 95% of our 4.0 Sing cents forecast and would have surprised on the upside if not for the increase in reserved items in 4Q19. The absence of the reserve items could have added between 0.5-1.0 Sing cents to the 2H19 dividends. Even with the normalisation of reserved items going forward, we have opted to remain conservative and maintain our FY2020-21F DPU forecasts of 5.2 Sing cents, which implies an attractive 8.9% dividend yield.

Valuation & Action: We maintain our Outperform recommendation. Although the discount to NAV has narrowed to 18% because of the impairments, we believe its 8.9% dividend yield provides an attractive spread over REITs and other business trusts.

From a wider perspective, we believe that FY20F will be a pivotal year for AGT as Japan's golf industry consolidates, which we expect to lead to increased market share for the largest players, improved economies of scale and possibly better valuations.

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.

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

Accordia Group + Orix Co = Largest golf operator in Japan

We understand from our meetings with local management in Japan that smaller and independently-run golf courses are closing down. Given this prevailing trend, 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 5.99% in the latest quarterly update.

Thus, 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 173 golf courses and a 7.7% market share in the country.

Figure 1: Top golf course operators in Japan

No	Company Name	No of golf courses	Market share
1	PGM Group	137	*6.12%*
2	Accordia Group (Accordia Golf + AGT)	134	*5.99%*
3	Orix Group	39	*1.74%*
4	Seibu Group	29	*1.30%*
5	Ichikawa Golf Kogyo Group	28	*1.25%*
6	Tokyu Group	26	*1.16%*
7	Cherry Golf Group	20	*0.89%*
8	Unimat Group	18	*0.80%*
9	Taiheiyo Club	17	*0.76%*
10	Chateraise	16	*0.71%*
	Total	464	*20.7%*

Source: Company presentation, Golf Management July 2018, Golf Market Activity Committee

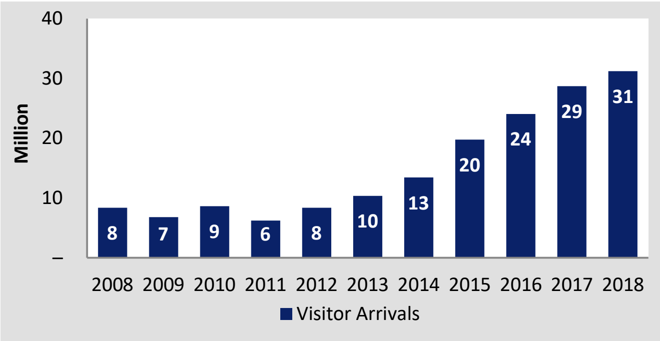
From Orix's point of view. In Orix Co's announcement dated 14 November 2018, the company stated that it was transferring its golf business under its wholly owned subsidiary ORIX Golf Management Corporation (OGM) to MBK Partners. Subsequently, ORIX Co will acquire around 5% equity interest in the holding company for the golf courses under MBK Partners. As per the announcement:

In light of recent changes in the industry, ORIX is implementing this business transfer in order for OGM to secure a stable business base to further enhance its customer service going forward. As the collaboration would make the body the largest golf course operator in Japan, ORIX decided that the best action to take is to encourage OGM and Accordia Golf to utilize their respective strengths and exhibit business synergy as subsidiaries of MBK Partners in order to maximize this scale merit and achieve growth together.

Economic stimulus from two of the world's largest sporting events

Japan will be hosting two of the world's largest sporting events: the Rugby World Cup (RWC) in 2019 and the Tokyo Olympics in 2020. Although it will be hard to argue the direct benefit to Japan's golf industry, we do think there will be spillover effects given that the sporting events is expected benefit the country's economy as a whole on the back of the expected surge in tourist arrivals and increased spending.

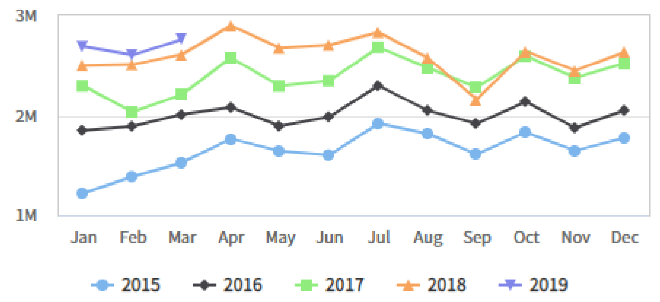
Figure 2: Japan visitor arrivals (2008-2018)



Source: Japan National Tourism Organisation (JNTO)

Japan attracted a record 31.2mn visitors in 2018, representing a 9% YoY increase and its seventh straight year of growth. 2019 is expected to be another record year, with March tourist arrivals increasing to around 2.8mn visitors, or a 5.8% YoY increase.

Figure 3: 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 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 4: DDM Valuation - Base case

JPY billion, YE 31 March	2017	2018	2019	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
Annual visitors (million)	5.753	5.695	5.720	5.617	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 (thousanc	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	33.5	33.3	33.1	33.0	32.8	32.6	32.5	32.3	32.2
YoY (%)	*(1.3%)*	*(0.4%)*	*0.0%*	*(2.3%)*	*(0.5%)*	*(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	50.3	50.1	49.8	49.6	49.4	49.1	48.9	48.7	48.5
YoY (%)	*(2.4%)*	*(0.9%)*	*(0.6%)*	*(1.7%)*	*(0.5%)*	*(0.5%)*	*(0.5%)*	*(0.5%)*	*(0.5%)*	*(0.5%)*	*(0.5%)*	*(0.5%)*
Valuation - DDM	**2017**	**2018**	**2019**	**2020F**	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Net Income After Taxes	4.115	4.132	(12.493)	5.879	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	3.220	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	1.540	1.533	1.525	1.518	1.511	1.504	1.498	1.491	1.484
Income tax	0.801	0.336	(0.291)	0.137	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	10.775	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)	(0.870)	(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)	(1.228)	(1.223)	(1.217)	(1.211)	(1.206)	(1.200)	(1.195)	(1.189)	(1.184)
Others	0.133	(0.033)	(0.063)	(1.811)	(1.802)	(1.794)	(1.786)	(1.778)	(1.769)	(1.761)	(1.753)	(1.745)
Cash from operations	8.592	8.365	8.053	6.866	6.834	6.802	6.770	6.739	6.708	6.678	6.647	6.617
Capex	(1.659)	(2.340)	(1.317)	(1.761)	(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	5.105	5.081	5.058	5.034	5.011	4.988	4.965	4.943	4.920
Payout ratio	*100%*	*100%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*	*90%*
Distributable income available	5.178	3.436	3.456	4.595	4.573	4.552	4.531	4.510	4.489	4.469	4.448	4.428
DPU (yen)	4.712	3.126	3.145	4.181	4.161	4.142	4.123	4.104	4.085	4.066	4.048	4.029
DPU (sgd cents)	6.040	3.860	3.931	5.226	5.201	5.177	5.153	5.129	5.106	5.083	5.060	5.037
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 (%)	*10.3%*	*6.6%*	*6.7%*	*8.9%*	*8.9%*	*8.8%*	*8.8%*	*8.8%*	*8.7%*	*8.7%*	*8.6%*	*8.6%*
Discount rate				7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
PV of DPU				0.33								
PV Terminal				0.37								
Sum				0.70								
Upside/(downside)				*19.8%*								

Source: Company data, KGI Research

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