

Accordia Golf Trust

(AGT SP/ACCO.SI)

Highest number of players since 2014

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- AGT's distributable income rose 35% YoY to JPY 2.3bn in 1Q FY2019 on the back of an increase in number of players and the absence of refinancing costs that was incurred in 1Q FY2019.
- Total number of players in the quarter rose 3% YoY to 1.6mn, the highest since its listing in 2014.
- We maintain our OUTPERFORM recommendation on the back of a recovery of its DPU in FY2020F.

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 (%)	7.2	7.3	9.5	9.3	9.3
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

1Q FY2020 review. Revenues in 1Q FY2020 increased 2% YoY to JPY13.8bn, which was driven mainly by an increase of around 47,000 players in the quarter. This was slightly offset by lower revenues per player, which declined 1% YoY, due to higher utilisation rate during weekdays when prices are lower.

Better disclosure on reserved items. AGT improved the disclosure of the breakdown under its reserved items. As a recap, AGT's 2H FY2019 DPU of 2.13 Sing cents was down from 2.20 Sing cents in the prior year period and came in below our estimates due to higher reserve items. Reserved items increased to JPY 1.2bn in 4Q FY2019 from JPY 0.3bn in 4Q FY2018. As a result, AGT's FY2019 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 4Q FY2019. The absence of the reserve items could have added between 0.5-1.0 Sing cents to the 2H FY2019 dividends.

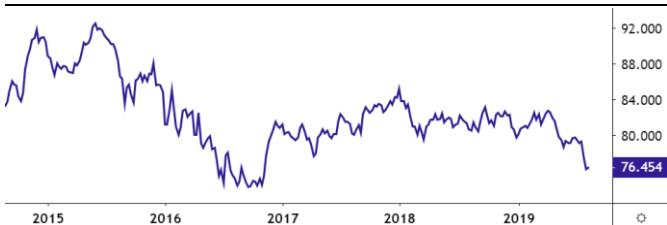
As of the 1Q FY2020 results, management has now given a breakdown of the reserved items to provide better clarity and explanation on the impact to its distributable income. Even with the normalisation of reserved items going forward, we have opted to remain conservative and adjust lower our FY2020-22F DPU forecasts to around 5.0 Sing cents, which implies an attractive 9.3% dividend yield.

Stronger Yen. The JPY has strengthened 5% against the SGD over the past year, and by almost 8% from the 1-year peak. The JPY is now at a 3-year high against the SGD. As AGT derives its earnings in JPY, this could potentially provide upside to DPU in the coming quarters.

Outperform - Maintained

Price as of 15 Aug 19 (SGD)	0.54	Performance (Absolute)
12M TP (\$)	0.67	1 Month (%) 0.0
Previous TP (\$)	0.70	3 Month (%) -10.3
Upside, incl div (%)	32.1	12 Month (%) 1.6
Trading data		Perf. vs STI Index (Red)
Mkt Cap (\$mn)	588	120
Issued Shares (mn)	1,099	100
Vol - 3M Daily avg (mn)	0.9	80
Val - 3M Daily avg (\$mn)	0.5	60
Free Float (%)	71.1%	
Major Shareholders		Previous Recommendations
MBK Partners	28.9%	31-May-19 OP \$0.70
Hibiki Path Advisors	6.2%	4-Apr-19 OP \$0.72
Daiwa Securities	6.0%	15-Feb-19 OP \$0.61

Figure 1: SGD/JPY - JPY is now near a 3-year high against SGD



Source: Bloomberg, KGI Research

Valuation & Action: We maintain our Outperform recommendation based on our DDM-derived valuations. AGT is currently trading at an attractive 27% discount to its 73 Sing cents NAV, while its >9% dividend yield provides an attractive spread over REITs and other business trusts. From a bigger perspective, we believe that FY2020F 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.

Near all-time lows again; strong dividend support. AGT's unit price is once again trading just 11% above the bottom of its 5-year trading range of between S\$0.48 and S\$0.92. We expect this to be a strong floor for its unit price given the 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 7% dividend yield.

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.

Economics 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 5.99% 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 173 golf courses and a 7.7% market share in the country.

Figure 2: Top golf course operators in Japan

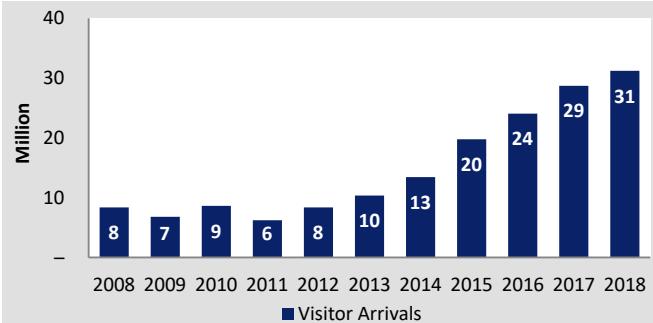
No	Company Name	No of golf courses	Market share
1	PGM Group	138	6.17%
2	Accordia Group (Accordia Golf + AGT)	134	5.99%
3	Next Golf Management (previously Orix)	39	1.74%
4	Seibu Group	29	1.30%
5	Ichikawa Golf Kogyo Group	28	1.25%
6	Tokyu Group	26	1.16%
7	Cherry Golf Group	18	0.80%
8	Unimat Group	18	0.80%
9	Taiheiyo Club	17	0.76%
10	Chateraise	16	0.71%
Total		463	20.7%

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

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.

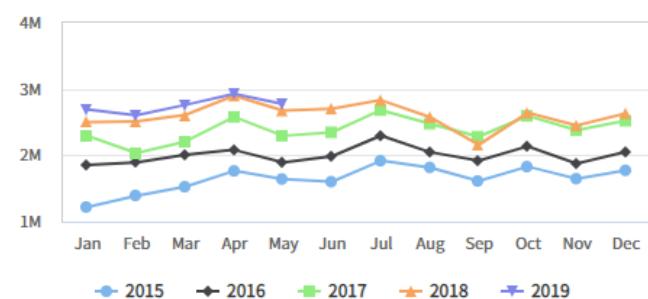
Figure 3: Japan visitor arrivals (2008-2018)



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 May tourist arrivals increasing to around 2.8mn visitors, or a 3.7% YoY increase. Japan had already attracted a record 13.8mn visitors for the January to May period.

Figure 4: 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 5: 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	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	5.946	5.904	5.863	5.822	5.781	5.741	5.701	5.661	5.621
Restaurant revenue per visitor (thous.)	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	34.0	33.2	32.9	32.7	32.5	32.2	32.0	31.8	31.6
YoY (%)	(1.3%)	(0.4%)	0.0%	(0.7%)	(2.5%)	(0.7%)	(0.7%)	(0.7%)	(0.7%)	(0.7%)	(0.7%)	(0.7%)
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	49.9	49.6	49.3	49.0	48.8	48.5	48.2	47.9
YoY (%)	(2.4%)	(0.9%)	(0.6%)	(0.6%)	(1.8%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)
Valuation - DDM	2017	2018	2019	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Net Income After Taxes	4.115	4.132	(12.493)	5.944	5.836	5.801	5.766	5.732	5.698	5.665	5.632	5.599
Depreciation and amortisation expns	3.259	3.168	3.290	3.255	3.196	3.177	3.158	3.139	3.120	3.102	3.084	3.066
Interest and other financing costs	1.656	1.603	1.566	1.557	1.529	1.519	1.510	1.501	1.492	1.484	1.475	1.466
Income tax	0.801	0.336	(0.291)	0.138	0.136	0.135	0.134	0.134	0.133	0.132	0.131	0.130
Impairment loss	1.499	1.720	17.962	—	—	—	—	—	—	—	—	—
EBITDA	11.330	10.959	10.034	10.895	10.696	10.632	10.569	10.506	10.444	10.382	10.322	10.261
Changes in working capital	(0.463)	(0.356)	0.041	—	—	—	—	—	—	—	—	—
Interest and other financing costs	(0.951)	(0.915)	(0.979)	(0.880)	(0.864)	(0.858)	(0.853)	(0.848)	(0.843)	(0.838)	(0.833)	(0.828)
Income tax paid	(1.457)	(1.290)	(0.980)	(1.242)	(1.219)	(1.212)	(1.205)	(1.198)	(1.191)	(1.184)	(1.177)	(1.170)
Others	0.133	(0.033)	(0.063)	(2.035)	(1.997)	(1.985)	(1.974)	(1.962)	(1.950)	(1.939)	(1.927)	(1.916)
Cash from operations	8.592	8.365	8.053	6.739	6.616	6.576	6.537	6.498	6.460	6.422	6.384	6.347
Capex	(1.659)	(2.340)	(1.317)	(1.780)	(1.748)	(1.737)	(1.727)	(1.717)	(1.706)	(1.696)	(1.686)	(1.677)
Net cash used in financing activities	(1.755)	(2.589)	(2.896)	—	—	—	—	—	—	—	—	—
Available for distribution	5.178	3.436	3.840	4.958	4.868	4.839	4.810	4.781	4.753	4.725	4.698	4.670
Payout ratio	100%	100%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Distributable income available	5.178	3.436	3.456	4.463	4.381	4.355	4.329	4.303	4.278	4.253	4.228	4.203
DPU (yen)	4.712	3.126	3.145	4.061	3.987	3.963	3.939	3.916	3.893	3.870	3.847	3.825
DPU (sgd cents)	6.040	3.860	3.931	5.076	4.983	4.953	4.924	4.895	4.866	4.837	4.809	4.781
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 (%)	11.3%	7.2%	7.3%	9.5%	9.3%	9.3%	9.2%	9.1%	9.1%	9.0%	9.0%	8.9%
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 Sum				0.35								
Upside/(downside)				0.67								
				24.8%								

Source: Company data, KGI Research

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