RESULTS UPDATE

Business Trust ▪ Singapore

KGI CHINA DEVELOPMENT FINANCIAL

Accordia Golf Trust

(AGT SP/ACCO.SI)

Tee time; consolidation in the industry likely to benefit the largest players

Joel Ng / 62 6202 1192 / joel.ng@kgi.com

- 3Q19 results showed operational improvement from favourable weather and lower financing costs.
- AGT's parent company is now the largest golf course operator in Japan; we think it's only a matter of time for AGT to re-rerate higher as the industry consolidates.
- We upgrade our recommendation to BUY. Most of the overhang we cited in our previous reports are now behind it, and we see an attractive risk-reward opportunity for investors. AGT's 9.3% FY20F dividend yield should offer downside support.

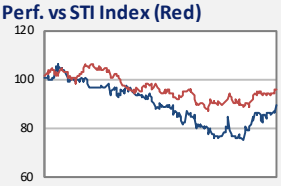
Financials & Key Operating Statistics

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 (%)	10.7	6.8	7.1	9.3	9.3
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

BUY - Upgrade

Price as of 14 Feb 19 (SGD)	0.57	**Performance (Absolute)**	
12M TP ($)	0.61	1 Month (%)	3.6
Previous TP ($)	0.61	3 Month (%)	15.9
Upside, incl div (%)	15.9	12 Month (%)	-4.6
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap ($mn)	626		
Issued Shares (mn)	1,099		
Vol - 3M Daily avg (mn)	2.7		
Val - 3M Daily avg ($mn)	1.2		
Free Float (%)	71.1%		
Major Shareholders		**Previous Recommendations**	
MBK Partners	28.9%	11-Jan-19	HOLD $0.61
Hibiki Path Advisors	6.2%	15-Nov-18	HOLD $0.61
Daiwa Securities	6.0%	17-Aug-18	BUY $0.70



Operational improvement. Operating income rose 4.9% YoY to JPY 14,626mn while total distributable income rose an even higher 9.1% YoY to JPY 1,720mn. The stronger bottom line was due to lower interest expense and income tax as a result of the new 5-year refinancing. The number of players increased by 5.6% YoY in the quarter due to good weather. Another positive trend is that revenue per player increased to JPY 8,507 for 9M19 from JPY 8,442 in the prior year period.

Roller coaster ride; valuations still cheap. AGT's unit price dropped to an all-time low of 48 SG cents after a year of extremely bad weather and selling pressure from Goldman Sachs divesting its stake. Although its unit price has recovered 20% from the lows, AGT's current 0.65x P/B is still below its long-term historical average.

Upside for 2H19 dividend. We understand that management was able to hedge some of its dividends when JPY appreciated against SGD in Dec 2018-Jan 2019. Thus, there could be upside potential to our 2.35 SG cents dividend forecast for 2H19 (FY 4.0 cents). AGT paid out 1.64 cents in 1H19.

Interesting developments on DPU-accretive acquisitions. Orix Corp (Orix Co) announced in Nov 2018 that it transferred its golf business to MBK Partners, who is also the parent company of AGT. Given this development, MBK is now the largest golf course operator with a total of 173 golf courses. Hence, we believe that all the pieces are falling into place for AGT to embark on its DPU-accretive acquisitions to enhance shareholder value. AGT 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%.

Strong support at 50 cents. Hibiki Path Advisors had emerged with a 6.2% stake in AGT in November 2018, making it the second largest shareholder after MBK's 28.9% interest. 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. However, it does lend confidence that institutional investors are willing to come in when AGT's unit price drops below 50 SG cents.

Valuation & Action: We upgrade our recommendation to BUY. We believe AGT's current unit price offers an attractive opportunity for investors to collect 7-9% dividend yield while waiting for DPU-accretive acquisitions or corporate action by its sponsor.

AGT's fundamental performance is in a much better position compared to the same period last year while most of the key overhangs that we cited in previous reports are behind it. We believe that FY20F will be a pivotal year for AGT as Japan's golf industry consolidates, therefore leading 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 largest 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

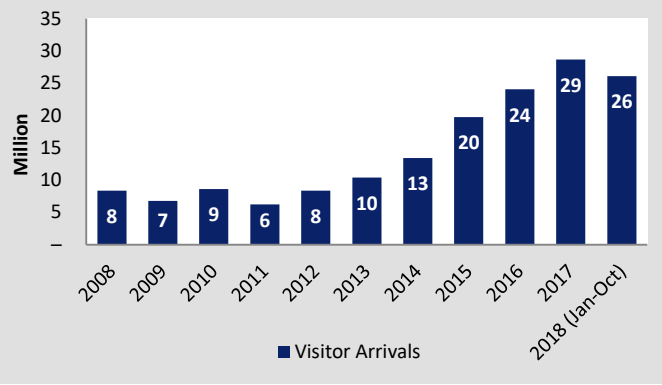
From Orix's point of view. In Orix Co's announcement dated 14 November 2018, the company stated that it was transferring its golf business under its wholly owned subsidiary ORIX Golf Management Corporation (OGM) to MBK Partners. Subsequently, ORIX Co will acquire around 5% equity interest in the holding 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 spill over effects given that the sporting events may 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 Oct)



*Source: Japan National Tourism Organisation (JNTO) *2018 figures only include Jan-Oct*

Japan attracted a record 28.7mn visitors in 2017, representing a 19% YoY increase and its sixth straight annual increase. 2018 is expected to be another record year as January to October arrivals have already reached 26.1mn.

Valuations

We upgrade our recommendation to BUY 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 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 visitc	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)	**2.0% upfront fee for new JPY43.5bn loan**	(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	[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 (%)	*11.7%*	*10.7%*	*6.8%*	*7.1%*	*9.3%*	*9.3%*	*9.2%*	*9.2%*	*9.1%*	*9.1%*	*9.0%*	*9.0%*	*9.0%*
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)				*8.4%*									

Source: Company data, KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

SGX StockFacts Research Programme

This report is prepared by KGI Securities (Singapore) Pte. Ltd. ("KGISS") under the SGX StockFacts Research Programme ("Programme") administered by Singapore Exchange ("SGX"). KGISS will receive fees from the account maintained by SGX for providing research coverage on each participating company ("Listco") under the Programme.