



# ACCORDIA GOLF TRUST

MARKET CAP: USD 568.2M

AVG DAILY TURNOVER: USD 0.6M

7 Apr 2017  
Company Report

## LEADING A NEW GAME?

- Invests in Japan's golf course assets
- No asset injections since listing
- But may change with sponsor privatisation

### One of a kind

Listed on the SGX in Aug 2014, Accordia Golf Trust (AGT) is the first and only business trust so far that focuses on investments in golf course assets in Japan. Indeed, the principal investment strategy of AGT is to invest, directly or indirectly, in the business of owning a portfolio of stabilised, income generating golf courses, driving ranges and golf course related assets worldwide, with an initial focus on Japan. AGT is managed by Accordia Golf Trust Management Pte Ltd (Trustee-Manager), which is 49% held by Accordia Golf Co. Ltd (sponsor) and 51% held by Daiwa Real Estate Asset Management.

### Visited its golf courses in Greater Tokyo

We visited six of AGT's golf courses in the Greater Tokyo region recently to learn more about the business as well as the culture of golf in Japan. AGT's initial portfolio comprises 89 golf courses located across Japan with 86.0% of them (based on their appraised values as at 31 Dec 2016) located in the three largest metropolitan areas in Japan. The initial portfolio had an appraised value of JPY150.9b as at 31 Dec 2016. Utilisation rates in FY16 averaged at 77.9%, while the number of plays in Japan has remained stable over the years. A discernible trend, however, is the increase in proportion of plays by senior members.

### To finally see asset injections?

Since AGT's IPO in 2014, it has not added any golf courses to its portfolio. We understand that this is due to financing issues and most of its golf courses are already pledged as collateral to creditors. Should AGT be able to reach a refinancing deal with its lenders and achieve lower borrowing costs with the help of MBK Partners which recently privatised AGT's sponsor, it may pave the way for more asset injections by the sponsor. We understand that there are about 20 stabilised golf courses out of the 43 or so golf courses that the sponsor has but not yet injected into AGT. Based on Bloomberg consensus, the stock is currently trading at 0.78x FY18 P/B with a 9.2% forward dividend yield. We **do not** have a rating on AGT.

### Key financial highlights

Year Ended Mar 31 (JPY m)	FY15	FY16	9MFY16	9MFY17
Revenue	33,163	52,537	42,503	41,718
Labour and outsourcing expense	-10,509	-16,325	-12,505	-12,587
Operating profit	4,063	8,828	9,449	8,893
Income available for distribution	5,673	6,041	4,491	3,881
DPU (S cents)	5.7	6.6	4.5	4.4
DPU (JPY)	5.16	5.5	3.9	3.5
NAV per share (S\$)	0.9	0.9	0.9	0.9
P/NAV (x)	0.8	0.8	0.8	0.8
Distribution to revenue (%)	17.1	11.5	10.6	9.3
ROA (%)	1.4	3.6	4.1	3.8

## NOT RATED

Fair value	na
add: 12m dividend forecast	na
versus: Current price	S\$0.725
<b>12m total return forecast</b>	<b>na</b>

### Analysts

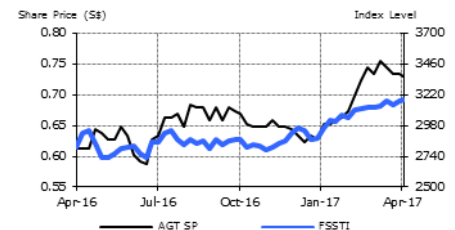
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### Key information

Market cap. (m)	S\$796.9 / USD568.2
Avg daily turnover (m)	S\$0.9 / USD0.6
Avg daily vol. (m)	1.3
52-wk range (S\$)	0.585 - 0.76
Free float (%)	71.1
Shares o/s. (m)	1,099.1
Exchange	SGX
BBRG ticker	AGT SP
Reuters ticker	ACCO.SI
SGX code	ADQU
GICS Sector	Consumer Services
GICS Industry	Consumer Discretionary
Top shareholder	Accordia Golf Co- 28.9%

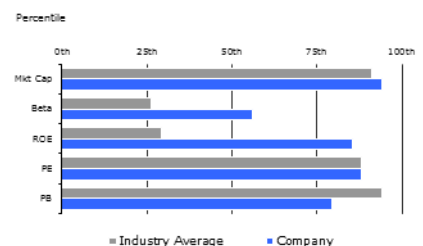
Relative total return	1m	3m	12m
Company (%)	3	19	71
STI-adjusted (%)	-1	4	62

### Price performance chart



Sources: Bloomberg, OIR estimates

### Industry-relative metrics



Note: Industry universe defined as companies under identical GICS classification listed on the exchanges in Asia-Pacific (Developed).  
Sources: Bloomberg, OIR estimates

## BUSINESS OVERVIEW

### One of a kind

Listed on the SGX in Aug 2014, Accordia Golf Trust (AGT) is the first and only business trust so far that focuses on investments in golf course assets in Japan. Indeed, the principal investment strategy of AGT is to invest, directly or indirectly, in the business of owning a portfolio of stabilised, income generating golf courses, driving ranges and golf course related assets worldwide, with an initial focus on Japan.

AGT is managed by Accordia Golf Trust Management Pte Ltd (Trustee-Manager); the latter is 49% held by Accordia Golf Co. Ltd (sponsor) and 51% held by Daiwa Real Estate Asset Management.

### Sponsor is largest corporate golf course owner in Japan

With a total of about 2,317 golf courses in Japan, ownership is highly diverse. AGT's sponsor, Accordia Golf, is the largest corporate golf course owner in Japan, followed by Pacific Golf Management (PGM), ORIX, Seibu Group and Tokyu Group. Accordia Golf and PGM have been actively acquiring golf courses since the 2000s and they specialise in the management of golf courses and driving ranges. ORIX, Seibu Group and Tokyu Group have a wide range of business lines including real estate, financial, transportation and retail services.

### Exhibit 1: Top 20 golf operators/owners in Japan

No.	Company Name	No. of Golf Courses <sup>(1)</sup>	Market Share <sup>(2)</sup>
1	Accordia Golf <sup>(3)</sup>	132	5.69%
2	PGM Group	130	5.39%
3	Orix Group	40	1.71%
4	Seibu Group	31	1.20%
5	Tokyu Group	27	1.20%
6	Ichikawa Golf Kogyo Group	24	1.11%
7	Cherry Golf Group	22	0.98%
8	OIG Group	22	0.98%
9	Unimat Group	18	0.81%
10	Taiheyo Club	17	0.73%
11	Chateraise	16	0.68%
12	GCE Group	16	0.68%
13	RESOL Group	15	0.64%
14	Resort Trust	14	0.56%
15	Tokyo Tatemono (J Golf)	12	0.51%
16	JGM Golf Group	12	0.51%
17	Kamori Kanko	11	0.47%
18	Akechi Club & Boso Country Club Group	10	0.43%
19	Daiwa House	10	0.43%
20	Hotel Monterey	10	0.43%

(1) Source: Gold-jo Kigyo Group & Keiretsu 2016

(2) Based on the total number of golf courses in Japan in 2015 (2,317) from Nihon Golf-jo Keieisha Kyokai

(3) Combined AGT and Accordia Golf

Source: Company, OIR

### Visited its golf courses in Tokyo

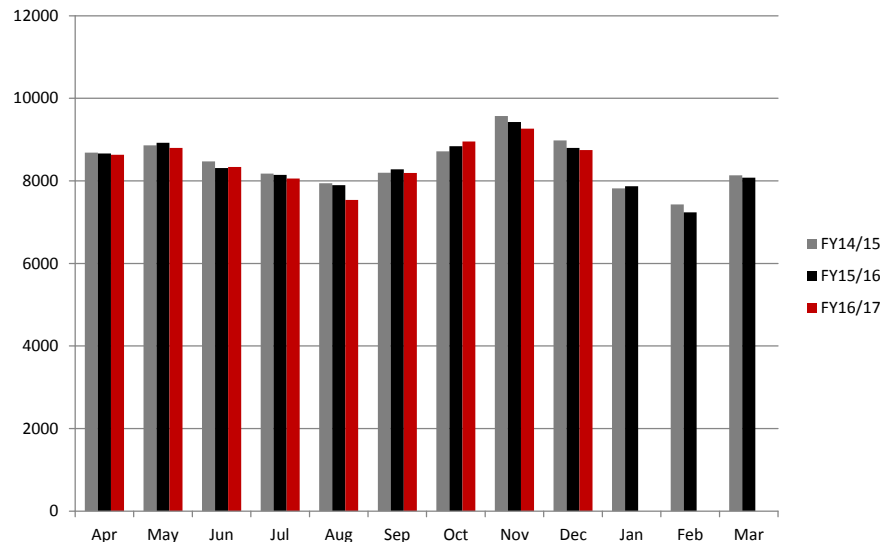
We visited six of AGT's golf courses recently in the Greater Tokyo region to learn more about the business as well as the culture of golf in Japan. AGT's "initial portfolio" comprises 89 golf courses located across Japan with 86.0% of them (based on their appraised values as at 31 Dec 2016) located in the three largest metropolitan areas in Japan. The initial portfolio had an appraised value of JPY150.9b as at 31 Dec 2016. Utilisation rates in FY16 averaged at 77.9%, while the number of plays in

Japan has remained stable over the years. A discernible trend, however, is the increase in proportion of plays by senior members.

### Subjected to seasonality

The golf course business is subjected to seasonality, as demand fluctuates according not only to Japanese seasons but also weather conditions. For instance, the rainy season (Jun-Jul) typically sees low demand and high cancellation rates. The typhoon season (Sep-Oct) also sees high cancellation rates. Meanwhile, Jan-Mar has low demand due to snowfall.

**Exhibit 2: Revenue per player on a monthly basis (JPY)**



Note: Revenue is based on J-GAAP figures and includes play fees (green fees and cart fees), caddy fees, restaurant revenue and other revenue from the golf course. It does not include membership fees and Pro-shop business.

Source: Company, OIR

**Exhibit 3: Monthly number of players and utilisation rates**

FY16/17	Number of Players (thousands)			Utilization Rate <sup>(1)</sup>		
	Actual	YoY Change <sup>(2)</sup>	3 Year Average Change <sup>(3)</sup>	Actual	YoY Change Percentage Point <sup>(4)</sup>	3 Year Average Percentage Point <sup>(5)</sup>
Apr	491	1.0%	0.2%	77.9%	-0.3 ppt	-0.2 ppt
May	572	-4.0%	-1.0%	87.2%	-3.6 ppt	-0.8 ppt
Jun	492	-5.4%	-3.0%	77.8%	-4.2 ppt	-2.1 ppt
Jul	541	11.9%	8.6%	82.5%	8.3 ppt	6.3 ppt
Aug	497	-1.8%	-0.2%	76.4%	-1.2 ppt	0.1 ppt
Sep	477	-4.6%	-6.3%	75.3%	-4.6 ppt	-5.6 ppt
Oct	541	-2.3%	4.4%	82.4%	-2.0 ppt	2.7 ppt
Nov	498	-0.9%	-2.7%	80.9%	0.9 ppt	-0.3 ppt
Dec	473	-1.8%	3.7%	75.9%	-0.4 ppt	1.3 ppt
Jan	371	6.8%	5.0%	67.9%	1.9 ppt	3.9 ppt
Feb	334	-6.9%	10.1%	66.3%	0.2 ppt	2.1 ppt
<b>Total</b>	<b>5287</b>	<b>-1.1%</b>	<b>0.3%</b>	<b>79.6%</b>	<b>-0.8 ppt</b>	<b>0.1 ppt</b>
1Q	1,555	-3.2%	-1.3%	81.0%	-2.7 ppt	-1.0 ppt
2Q	1,515	1.7%	0.7%	78.1%	0.9 ppt	0.3 ppt
3Q	1,512	-1.7%	1.7%	79.7%	-0.5 ppt	1.2 ppt

(1) Utilization Rate = Total number of players per 18 holes / (Total operating days x 50 (flights) x 4 (persons)). Total operating days exclude closed days under specific circumstances such as typhoon and snow, among other factors.

(2) Year-on-Year (YoY) Change = (Current month data - corresponding month of the previous year)/corresponding month of the previous year.

(3) 3 Year Average Change = (Current month data - previous 3 Year Average)/previous 3 Year Average.

(4) 3 Year-on-Year (YoY) Change Percentage Point (ppt) = Current month data - corresponding month of the previous year

(5) 3 Year Average Percentage Point Change = Current month data - previous 3 Year Average

Source: Company, OIR

In its 9MFY17 results, golf course revenue accounted for 66.9% of total operating income, with restaurant revenue and membership revenue contributing 24.3% and 8.1%, respectively. This breakdown is very similar compared to a year ago.

**Exhibit 4: Midono Country Club**



**Exhibit 5: Chichibu Kokusai Country Club**



**Exhibit 6: Yorii Country Club**



**Exhibit 7: Mowing machines ~ S\$100k/machine**



Source: OIR

### **Perspective: Golf industry's history in Japan**

Following the Plaza Accord in 1985, Japan experienced a period of dramatic growth in the yen and asset prices, and the subsequent prolonged economic boom evolved into the so-called "bubble" economy. Buoyed by economic prosperity, Japan's golfing sector also flourished, and golf course memberships, deemed as investments, also increased rapidly. This was mainly driven by corporate demand, resulting in the term *settaigorufu* (mixing business and golf). The number of golf courses in Japan grew from around 1,500 in 1986 to a peak of 2,460 in 2002.

After the collapse of the "bubble economy", golf courses like other businesses fell on hard times, and the number of golf course bankruptcies spiked due to plummeting membership values and associated problems with returning deposits paid on memberships, as well as a slump in recruitment of new members.

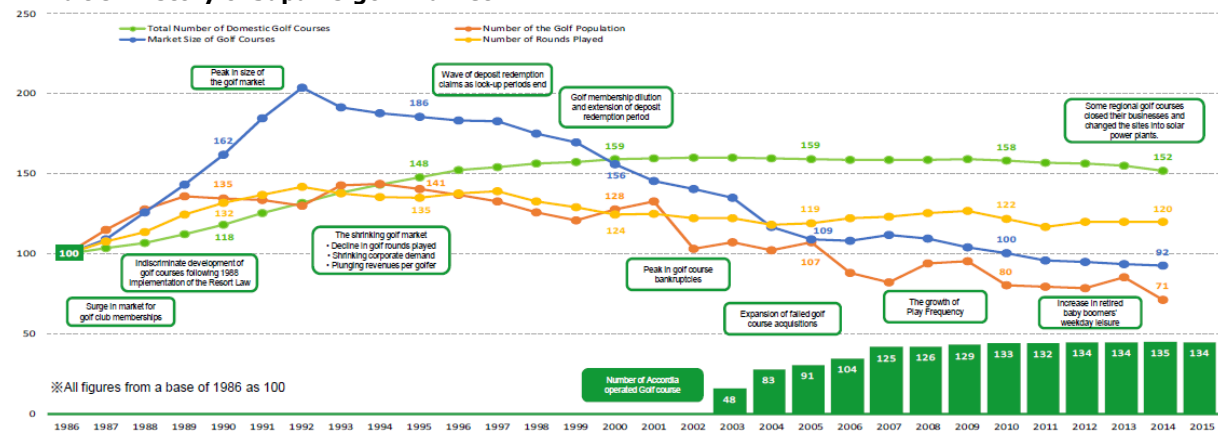
A large volume of golf course transactions were recorded from 2003 to 2007 as many domestic and foreign investors with real estate and tourism related companies entered the market to take advantage of 1) the lower selling price of golf courses and 2) the ability to synergise with other business lines. During this period, an average of 234 golf clubs were transacted every year through various means, including private negotiations, voluntary management changes or bankruptcy related mechanisms.

Taking advantage of the low prices, both Lone Star Capital and Goldman Sachs purchased many golf courses as part of a larger distressed debt investment strategy. PGM was set up by Lone Star Funds in 2001; shares listed in 2005, later privatised by Pachinko-manufacturer Heiwa. Goldman Sachs launched Accordia Golf in 2003, which was listed in 2006. Both Lone Star and Goldman have exited the investments; Goldman sold its last holding in Accordia in 2011.

Between 2006 and 2007, the severe competition between investors drove transaction prices up and the average transaction price was roughly US\$13m to US\$15m (i.e. JPY1.3b to JPY1.5b) for a golf course. From 2008 onwards, transactions made through the Civil Rehabilitation Act or the Corporate Reorganization Act started to decrease and a majority of the transactions have been made through normal sales procedures.

As for golf itself, previously a corporate demand-driven activity, it evolved into a sport for individuals. A new type of competition emerged based on which courses could offer “value” demanded by golfers, and playing fees declined across the board. With more interest from females and young people, the generation who took up golf during the bubble economy years became “active seniors”. Demand to play on weekdays thus increased while year-round demand stabilised.

**Exhibit 8: History of Japan’s golf market**



Source: Total Number of Domestic Golf Courses, Number of Rounds Played / NGK Number of the Golf Population, Market Size of Golf Courses / Leisure Whitepaper 2015 (Japan Productivity Center)

## RECENT DEVELOPMENTS AND OUTLOOK

### **Privatisation of sponsor...**

North Asia private equity firm MBK Partners announced in late Nov 2016 that it would acquire AGT's sponsor, Accordia Golf. By taking Accordia private, MBK said it can focus resources on longer-term projects such as the acquisition of golf courses at home and overseas and attract tourists even when the overall golf playing population in Japan is shrinking. On 23 Mar 2017, Accordia Golf was delisted from the Tokyo Stock Exchange.

### **... catalysts for AGT? Awaiting clarity**

Since AGT's IPO in 2014, it has not added any golf courses to its portfolio. We understand that this is due to financing issues and most of its golf courses are already pledged as collateral to creditors. Should AGT be able to reach a refinancing deal with its lenders (nine Japanese banks) and achieve lower borrowing costs, it may pave the way for more asset injections by the sponsor. Currently there are about 20 stabilised golf courses out of the 43 or so golf courses that the sponsor has but not yet injected into AGT.

We understand that the next refinancing date is on 1 Aug 2017, but do not exclude the possibility of MBK helping to secure new lines for AGT prior to that.

Meanwhile, we await more clarity from MBK regarding the corporate strategy going forward.

### **Golf's return to the Olympics**

Golf was featured in the Summer Olympic Games official programme in 1900 and 1904, but has not been part of the Olympics for about a century. At the IOC session in Copenhagen in Oct 2009, the IOC decided to reinstate golf for the 2016 Summer Olympics. Golf's return to the Olympics may have an impact on growing the game, and assist its continued growth around the world. More importantly, it may inject more interest in the younger population to take up the game, given likely increased coverage of the sport and sponsorship of golf programs and organisations.

### **Imperative to attract the younger generation**

Looking ahead, it is imperative that more of the younger generation take up the sport, which could be aided by discounts on green fees for younger players, alternative versions of the game (e.g. "pay-by-hole") as well as the relaxation of stiff dress codes.

## Financials

In its latest set of results, operating income for 9MFY17 was JPY42,007m, 1.7% YoY lower than a year ago. The performance of the golf course was slightly weaker mainly due to the earthquake in Kyushu area in Apr 2016, heavy rain in Jun 2016, torrential rain caused by typhoons in Aug and Sep 2016 and warm weather during the winter season in 3QFY16.

Operating expenses at JPY33,114m was 0.5% YoY lower, mainly due to decline in utility expenses and other expenses. This led to a 6.3% YoY decline in net profit attributable to unitholders to JPY6,838m in 9MFY17. Total distributable income available in 9MFY17 was JPY3,881m (-8.6%), but this is for illustrative purpose only as AGT makes distributions on a semi-annual basis.

Looking ahead, the Japanese golf market continues to remain stable with the support of weekday play demand from senior players. In addition, the higher life expectancy of seniors has also led to increasing demand as players can continue to play golf for a longer time. However, younger players are not increasing in proportion to older players due to Japan's aging population.

AGT's sponsor recognised this trend years ago and has focused on building the assets portfolio of golf courses located in key metropolitan area. Such golf courses can generate steadier cash flow. As mentioned earlier, as at 31 Dec 2016, 62 out of AGT's 89 courses (86% based on appraised value) are located in the three largest metropolitan areas. Significant inbound tourism to Japan could also have a positive impact on golf demand in the mid to long term. AGT has been making efforts to expand to a more varied player base to generate stable cash flow and distribution.

Based on Bloomberg consensus, the stock is currently trading at 0.78x FY18 P/B with a 9.2% forward dividend yield. There are currently two BUYs with a S\$0.83 consensus target price. We **do not** have a rating on AGT.

## Distribution policy

The Trustee-Manager will distribute at least 90% of AGT's distributable income, with the actual level of distribution to be determined at the Trustee-Manager board's discretion, having regard to funding requirements, other capital management considerations and ensuring the overall stability of distributions.

AGT will make distributions to unitholders on a semi-annual basis, with the amount calculated as at 31 Mar and 30 Sep each year for the six-month period ending on each of the two dates.

## **APPENDIX**

### **Tokumei Kumiai structure in Japan**

AGT's investment in the Initial Portfolio Golf Courses held by Accordia Golf Asset Godo Kaisha (SPC) is made through an investment structure known as a Tokumei Kumiai (TK) Structure. The relationship between SPC and AGT is governed under a TK agreement, being a silent partnership agreement. The TK is a contractual relationship between an investor and a business operator, whereby the investor makes certain contributions to the business operator in return for the right to receive distributions of profits generated from the business managed by the operator.

Under the TK Agreement, AGT as the TK investor has veto rights in respect of certain key operational matters including any amendment to the articles of incorporation, cessation or change of principal business, entry into interested person transactions and preparing or amending the annual business plan.

SPC, as the TK operator, is a Godo Kaisha which is a Japanese limited liability company under the Companies Act of Japan. SPC is responsible for holding the Initial Portfolio Golf Courses and managing their day to day operation, subject to the veto rights of the Trustee-Manager. Under the TK Structure, as SPC is the legal owner in respect of the Initial Portfolio, generally, only SPC has rights against and obligations to third parties. Therefore, third parties have no recourse against AGT as the TK Investor and the liability of AGT is limited to the amount of its TK contribution to SPC.



**Company financial highlights**

Income statement

Year Ended Mar 31 (JPY m)	FY15	FY16	9MFY16	9MFY17
Revenue	33,163	52,537	42,503	41,718
Other operating income	262	638	225	289
Labour and outsourcing expense	-10,509	-16,325	-12,505	-12,587
Golf course management fee	-3,905	-6,048	-4,732	-4,631
Operating profit	4,063	8,828	9,449	8,893
Finance costs	-1,298	-1,687	-1,270	-1,246
Profit before tax	2,765	7,141	8,179	7,647
Profit after tax	2,648	6,662	7,406	6,906
Profit attrib to unitholders	2,590	6,517	7,294	6,838
Income available for distribution	5,673	6,041	4,491	3,881

Balance sheet

As at Mar 31 (JPY m)	FY15	FY16	9MFY16	9MFY17
Cash and bank balances	12,317	11,238	8,444	8,219
Other current assets	4,121	3,854	3,644	3,566
Property, plant, and equipment	149,826	148,670	149,422	148,687
Total assets	184,254	181,620	179,399	178,222
Debt and finance leases	45,534	45,981	46,190	46,741
Current liabilities excl. debt	20,336	20,799	16,442	18,449
Total liabilities	100,803	99,503	96,441	94,904
Unitholders' funds	81,086	81,086	81,086	81,086
Minority interests	58	203	170	271
Total equity and liabilities	83,451	82,117	82,958	83,318

Cash flow statement

Year Ended Mar 31 (JPY m)	FY15	FY16	9MFY16	9MFY17
Op profit before working cap. chg.	6,806	12,464	11,917	11,365
Working cap, taxes and int	2,632	2,128	5,478	5,877
Net cash from operations	4,174	10,336	6,439	5,488
Acquisition of PPE, golf business	-51,249	-1,546	-1,197	-1,396
Other investing flows	-2	-21	-13	2
Investing cash flow	-51,251	-1,567	-1,210	-1,394
Proceeds from units issuance	62,523	-	-	-
Financing cash flow	59,332	-10,259	-9,093	-6,673
Net cash flow	12,255	-1,490	-3,864	-2,579
Cash at end of year	12,317	11,238	8,444	8,219

Key rates & ratios

	FY15	FY16	9MFY16	9MFY17
DPU (S cents)	5.7	6.6	4.5	4.4
DPU (JPY)	5.2	5.5	3.9	3.5
NAV per share (S\$)	0.9	0.9	0.9	0.9
Distribution yield (%)*	7.9	9.1	8.3	8.0
P/NAV (x)	0.8	0.8	0.8	0.8
Distribution to revenue (%)	17.1	11.5	10.6	9.3
Total debt/total assets (x)	0.2	0.3	0.3	0.3
ROE (%)	3.2	8.0	9.0	8.4
ROA (%)	1.4	3.6	4.1	3.8
No. of units (m)	1,099.1	1,099.1	1,099.1	1,099.1

Sources: Company

\*9MFY16/17 figures are annualised

Note: AGT was a dormant private trust from 16 Jun 2014, being the date of its constitution, to 31 Jul 2014. The acquisition of the initial portfolio was only completed on the listing date, 1 Aug 2014. Consequently, the actual income derived from the initial portfolio for the financial period ended 31 Mar 2015 was from 1 Aug 2014 to 31 Mar 2015.

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The analyst/analysts who wrote this report holds/hold **NIL** shares in the above security.

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- For companies with market capitalization of S\$150m and below, OIR's BUY rating indicates a total expected return in excess of 30%; a HOLD rating indicates total expected returns within a +/-30% range; a SELL rating indicates total expected returns less than -30%.

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