



Accordia Golf Trust

(AGT SP/ACCO.SI)

BUY - Maintain

Price as of 26 May 2017	0.75
12M target price (\$S)	0.80
Previous target price (\$S)	0.80
Upside (%)	7.0

Trading data

Mkt Cap (\$S\$m) / (US\$m)	819 / 593
Issued Shares (m)	1,099
Ave Daily Traded (3-Month) Vol / Val	1.3m / \$1.0m
52 week lo / hi	\$0.59 / \$0.78
Free Float	71.1%

Major Shareholders

Goldman Sachs	15.0%
Daiwa Securities	6.9%

Previous Recommendations

Date	Rating	Share Price (\$S)	Target Price (\$S)
17-Apr-17	BUY	0.730	0.800
16-Feb-17	BUY	0.710	0.800

AGT SP (1yr) VS STI



Source: Bloomberg

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Attractive dividend yield with potentially more upside

Event

FY17 full-year 6.04 SG cents in line. AGT's FY17 total distributable income per unit declined 8.9% YoY to 6.04 SG cents dividend (FY16: 6.63 SG cents), in line with our estimates. The lower-than-expected operational performance was offset by the proposed 100% payout ratio compared to our estimates of a 90% payout. DPU for 2H17 is 3.59 SG cents (ex-date: 9 Jun). There was a JPY 1.6 bn impairment loss due to the decline in valuation of eight of its golf courses. The impairment loss has no impact on distributable amount and loan-to-value (LTV) ratio remains at an industry low of 28.9%.

Impact

Financing overhang to be cleared closer to the maturity date. AGT has JPY 15 bn of loans maturing in Aug 2017 and it remains in negotiations with its banker on refinancing terms. We believe the successful refinancing of the loans would remove a short-term overhang as it would set precedence for the rest of AGT's outstanding loans. The terms of refinancing would usually be finalised within one week before maturity date. Such refinancing is common practice in Japan.

Japan's economic recovery and potential contribution from tourism in the next three years. Japan recently posted its longest economic growth in more than a decade, growing at 0.5% in 1Q17, its fifth straight quarter. Exporters contributed to the better-than-expected growth, backed by a competitive currency. In the next 2-3 years, tourism may get an additional uplift from the two of the three biggest sporting events in the world – the Rugby World Cup 2019 (the first time to be held in Asia) and the Tokyo 2020 Olympics. We believe the inclusion of golf in the Olympics may attract younger players.

Valuation & Action

We maintain our BUY recommendation on AGT despite our base-case scenario of 7% returns as 1) 8.0% dividend yield remains attractive and 2) we believe there is still significant upside to our forecasts as we have not factored growth from any DPU-accretive acquisitions. AGT offers one of the highest yield among its business trust/SREITs peers, with a spread of 100-200 bps over SREITs and 400 bps over JREITs.

Risks

Forex risk as earnings are mostly in JPY while distributions are in SGD. Macroeconomic environment and adverse weather conditions also affect performance of its golf courses.

Financials & Key Operating Statistics

YE Mar JPY bn	2016	2017	2018F	2019F	2020F
Revenue	53.2	51.9	51.0	50.8	50.5
PATMI	6.5	4.0	5.3	5.3	5.3
Core PATMI	6.5	5.5	5.3	5.3	5.3
Core EPS	0.6	0.5	0.5	0.5	0.5
Core EPS grth (%)	151.6	-15.6	-3.1	-0.5	-0.5
DPS (SGCents)	6.6	6.0	6.0	5.9	5.9
Div Yield (%)	8.9	8.1	8.0	8.0	7.9
Net Margin (%)	12.3	7.7	10.4	10.4	10.4
Loan-to-Value (%)	27.9	27.9	27.7	27.9	28.0
ROE (%)	7.9	5.0	6.7	6.7	6.7

Source: Company Data, KGI Research

See the last page for important disclosures.

Valuations

We maintain our BUY recommendation on AGT. AGT offers investors a stable and attractive dividend yield of ~8.0% over our three-year forecast period. We see upside potential from the change in ownership of AGT's sponsor, which we expect to lead to acquisition-fuelled growth in the next three years. We utilised the following assumptions in our DDM based valuation:

- Discount rate of 7.0% (previously 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 100-200bps.
- 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 margins from caddy fees are minimal and does not impact AGT. 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 revenues 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 a 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 FY16 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. In a regular fiscal year, cash inflows and outflows should offset each other, resulting in similar net income and distributable income. We assumed a payout ratio of 90% (previously 100%).
- Capex. Management has guided for capex to be around 3% 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	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
Number of golf courses	89	89	89	89	89	89	89	89	89	89	89	89
Annual visitors (million)	5.807	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617
Playing fees per visitor (thousand)	5.970	5.970	5.940	5.910	5.881	5.851	5.822	5.793	5.764	5.735	5.707	5.678
Restaurant revenue per visitor (thousand)	2.224	2.224	2.224	2.224	2.224	2.224	2.224	2.224	2.224	2.224	2.224	2.224
Revenue - Golf courses	34.8	34.4	33.4	33.2	33.0	32.9	32.7	32.5	32.4	32.2	32.1	31.9
YoY (%)		(1.3%)	(2.9%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Revenue - Restaurants	12.9	12.7	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
YoY (%)		(1.5%)	1.5%	-	-	-	-	-	-	-	-	-
Revenue - Membership	4.8	4.4	4.3	4.3	4.2	4.1	4.0	3.9	3.9	3.8	3.7	3.6
YoY (%)		(7.8%)	(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	51.0	50.8	50.5	50.3	50.0	49.8	49.6	49.3	49.1	48.9
YoY (%)		(2.4%)	(1.7%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Valuation - DDM	2016	2017	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
Net Income After Taxes	6.662	4.115	5.479	5.452	5.426	5.399	5.373	5.348	5.322	5.297	5.272	5.248
Depreciation and amortisation expenses	3.415	3.259	3.265	3.249	3.233	3.218	3.202	3.187	3.172	3.157	3.142	3.127
Interest and other financing costs	1.687	1.656	1.627	1.619	1.611	1.604	1.596	1.588	1.581	1.573	1.566	1.558
Income tax	0.479	0.801	1.067	1.061	1.056	1.051	1.046	1.041	1.036	1.031	1.026	1.021
Impairment loss	0.184	1.499	-	-	-	-	-	-	-	-	-	-
EBITDA	12.427	11.330	11.438	11.382	11.326	11.272	11.217	11.164	11.111	11.058	11.006	10.954
Changes in working capital	0.102	(0.463)	-	-	-	-	-	-	-	-	-	-
Interest and other financing costs	(0.989)	(0.951)	(0.914)	(0.909)	(0.905)	(0.900)	(0.896)	(0.892)	(0.888)	(0.883)	(0.879)	(0.875)
Income tax paid	(1.241)	(1.457)	(1.337)	(1.330)	(1.324)	(1.317)	(1.311)	(1.305)	(1.298)	(1.292)	(1.286)	(1.280)
Others	(2.503)	0.133	(1.837)	(1.828)	(1.819)	(1.810)	(1.801)	(1.793)	(1.784)	(1.776)	(1.767)	(1.759)
Cash from operations	7.796	8.592	7.351	7.315	7.279	7.244	7.209	7.175	7.141	7.107	7.073	7.040
Capex	(1.571)	(1.659)	(1.531)	(1.523)	(1.516)	(1.508)	(1.501)	(1.494)	(1.487)	(1.480)	(1.473)	(1.466)
Net cash used in financing activities	-	(1.755)	-	-	-	-	-	-	-	-	-	-
Available for distribution	6.225	5.178	5.820	5.792	5.764	5.736	5.708	5.681	5.654	5.627	5.601	5.575
Payout ratio	100%	100%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Distributable income available	6.041	5.178	5.238	5.213	5.187	5.162	5.137	5.113	5.089	5.065	5.041	5.017
DPU (yen)	5.497	4.712	4.766	4.743	4.720	4.697	4.675	4.652	4.630	4.608	4.587	4.565
DPU (sgd cents)	6.623	6.040	5.958	5.929	5.900	5.872	5.843	5.815	5.788	5.760	5.733	5.706
JPY/SGD		78.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Dividend yield (%)	8.9%	8.1%	8.0%	8.0%	7.9%	7.9%	7.8%	7.8%	7.8%	7.7%	7.7%	7.7%
Discount rate		7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
PV of DPU		0.41	-	-	-	-	-	-	-	-	-	-
PV Terminal		0.39	-	-	-	-	-	-	-	-	-	-
Sum		0.80	-	-	-	-	-	-	-	-	-	-
Upside/(downside)		7.0%	-	-	-	-	-	-	-	-	-	-

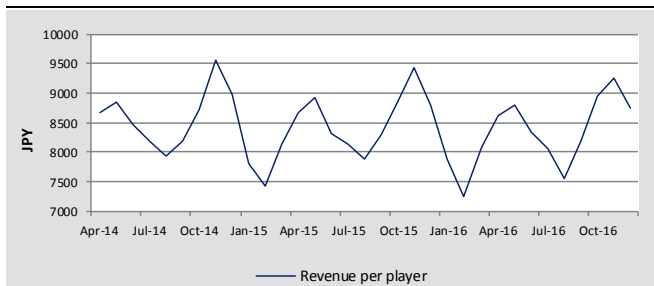
Source: KGI Research

Figure 2: Company profile

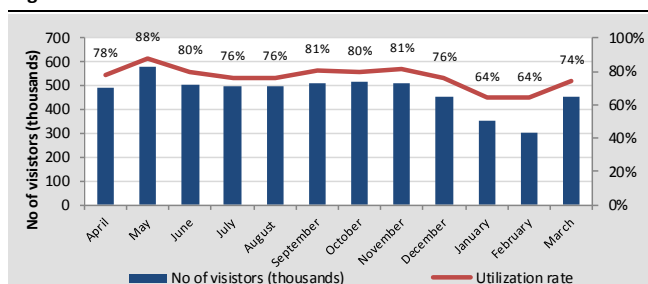
Accordia Golf Trust (AGT) is a business trust comprising of investments in 89 golf courses in Japan. Around 70% of its golf courses are located in the three largest metropolitan areas in Japan, namely the Greater Tokyo Region, the Greater Nagoya Region and the Greater Osaka Region.

As at 31 March 2016, AGT's 89 golf courses had a total appraisal value of JPY 150.98 billion.

Source: KGI Research

Figure 4: Revenue per player (JPY)


Source: KGI Research

Figure 3: Visitor numbers and utilisation rates


Source: KGI Research

Figure 5: Key statistics of golf courses

Regions	FY2017				
	Revenue (JPY bil)	Utilisation Rates (%)	NOI (JPY bil)	NOI Margin (%)	NOI Yield (%)
Greater Tokyo	22.98	78.9%	5.74	25.0%	7.8%
Greater Osaka	12.08	87.2%	3.01	24.9%	8.0%
Greater Nagoya	6.8	80.9%	1.4	20.5%	7.8%
3 Major Metropolitan areas	41.86	81.4%	10.15	24.2%	7.8%
Others	10.55	67.0%	1.76	16.7%	8.3%
Total	52.41	77.6%	11.91	22.7%	7.9%

Source: KGI Research

YE 31 Mar

INCOME STATEMENT JPY bn					
	2016	2017	2018F	2019F	2020F
Revenue	53.2	51.9	51.0	50.8	50.5
Total operating expenses	(44.3)	(43.8)	(42.9)	(42.6)	(42.4)
Profit from Operations	8.8	8.1	8.2	8.1	8.1
Finance income/(expenses)	(1.7)	(1.7)	(1.6)	(1.6)	(1.6)
Share of JV results	0.0	0.0	0.0	0.0	0.0
Exceptionals/Investment income	0.0	(1.5)	0.0	0.0	0.0
Profit before Tax	7.1	4.9	6.5	6.5	6.5
Income tax	(0.5)	(0.8)	(1.1)	(1.1)	(1.1)
Non-controlling interests	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)
PATMI	6.5	4.0	5.3	5.3	5.3
PATMI Normalized	6.5	5.5	5.3	5.3	5.3
BALANCE SHEET JPY bn					
	2016	2017	2018F	2019F	2020F
Cash and cash equivalents	11.2	10.3	7.8	7.9	8.1
Trade and other receivables	2.4	2.4	2.4	2.4	2.3
Inventory	0.2	0.3	0.3	0.3	0.3
Other current assets	1.2	1.2	1.2	1.2	1.2
Current Assets	15.1	14.1	11.6	11.8	11.9
Property, plant and equipment	148.7	146.5	144.8	143.1	141.4
Other non-current assets	17.9	17.7	17.7	17.7	17.7
Non-current Assets	166.5	164.3	162.5	160.8	159.1
Total assets	181.6	178.4	174.1	172.5	171.0
Trade and other payables	5.1	5.6	5.6	5.6	5.6
Borrowings (current)	1.0	14.8	14.6	14.5	14.4
Other current liabilities	15.7	17.1	17.1	17.1	17.1
Current Liabilities	21.8	37.6	37.3	37.3	37.2
Borrowings (non-current)	45.3	31.0	30.5	30.3	30.2
Other non-current liabilities	32.3	29.2	29.2	29.2	29.2
Non-current liabilities	77.7	60.2	59.6	59.5	59.4
Shareholders equity	81.9	80.3	78.7	77.2	75.6
Non-controlling interests	0.2	0.3	0.5	0.6	0.8
Total Equity	82.1	80.6	79.2	77.8	76.4
Total Liabilities and Equity	181.6	178.4	176.2	174.5	172.9
CASH FLOW STATEMENT JPY bn					
	2016	2017	2018F	2019F	2020F
Net income before tax	7.1	4.9	6.5	6.5	6.5
Depreciation & non cash adjustments	6.2	6.1	2.9	4.9	4.9
Change in Working Capital	(0.1)	0.5	0.1	0.0	0.0
Income Tax Paid	(1.2)	(1.2)	(1.1)	(1.1)	(1.1)
Interest Paid	(1.7)	(1.7)	(1.6)	(1.6)	(1.6)
CF from operating activities	10.3	8.6	6.8	8.7	8.7
Purchase/Disposal of PPE	(1.6)	(1.7)	(1.5)	(1.5)	(1.5)
Other CFI	0.0	0.0	0.0	0.0	0.0
CF from investing activities	(1.6)	(1.7)	(1.5)	(1.5)	(1.5)
Dividends Paid	(7.9)	(5.8)	(6.9)	(6.9)	(6.8)
Debt Raised / (Repaid)	(1.0)	(1.1)	(0.8)	(0.2)	(0.2)
Equity Raised / (Bought Back)	0.0	0.0	0.0	0.0	0.0
Other Cash from Financing	(1.4)	(0.6)	0.0	0.0	0.0
CF from financing activities	(10.3)	(7.5)	(7.7)	(7.1)	(7.0)
Net increase in cash & cash equiv.	(1.5)	(0.5)	(2.4)	0.1	0.1
FX effects	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Beginning Cash	12.3	10.8	10.2	7.8	7.9
Ending Cash	10.8	10.2	7.8	7.9	8.1
KEY RATIOS					
	2016	2017	2018F	2019F	2020F
Profitability					
Core EPS	0.6	0.5	0.5	0.5	0.5
Core EPS Growth (%)	151.6	(15.6)	(3.1)	(0.5)	(0.5)
DPS (SGD Cents)	6.6	6.0	6.9	6.9	6.8
Dividend Yield (%)	8.9	8.1	9.3	9.2	9.2
Profitability					
Gross margin	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA margin	23.0%	21.8%	22.4%	22.4%	22.4%
Net margin	12.3%	7.7%	10.4%	10.4%	10.4%
ROE	7.9%	5.0%	6.7%	6.8%	6.9%
ROA	3.6%	2.2%	3.1%	3.1%	3.1%
Financial Structure (x)					
Interest coverage	5.2	4.9	5.0	5.0	5.0
Total Debt/Equity	0.56	0.57	0.57	0.58	0.58
Loan-to-Value	0.28	0.28	0.28	0.28	0.28

Source: 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

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