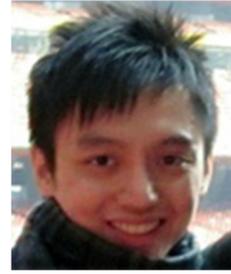


Accordia Golf Trust: Swinging For A 12.5% Distribution Yield

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Before we dive in, here is a round-up of [Accordia Golf Trust's](#) (AGT) financial performance between the reporting period of 1 August 2014 and 31 December 2014, while bearing in mind that the trust had only been incepted on the Singapore Exchange for five months since 1 August 2014.

For the five-month period, AGT posted a set of results that were largely in line with its forecasts except operating profit and distribution per unit which came in lower than expected.

Despite the slightly weaker than expected operating performance, income available for distribution came in 1 percent higher than forecast at JPY3.9 billion, translating into a 1.1 percent gain in available distribution per unit in Japanese Yen.

However, due to a foreign exchange translation loss between the Japanese Yen and Singapore dollar, distribution per unit came in 9.6 percent below expectations at \$0.0391.

Pumping Up Of Utilisation Rate

In 9M15, operating profit came in lower than estimates, coupled with the fact that the decline was not due to higher operating expenses incurred during the period, therefore a softer revenue performance can be inferred.

The weaker revenue performance was due to lower visitor patronage to golf courses under the trust's portfolio during the December period as a result of adverse weather conditions despite the holiday season.

Monthly visitors in December fell 6.5 percent year-on-year to 0.4 million while utilisation rate for the month fell 2.4 percentage points to 72.5 percent.

While weather conditions are externalities that can be managed but cannot be controlled, Yoshihiko Machida, chief executive officer of AGT, intends to boost utilisation rates through a series of promotional campaigns that will primarily target senior citizens, ladies and junior golfers to play golf during the weekdays.

He elaborated that utilisation rates during the weekends could reach as high as 90 percent and around the region of 70 percent during weekdays. The campaign will boost utilisation rates during the weekdays, and if successful, will lift the overall utilisation rate of the trust.

Boosting the utilisation rates of AGT's golf assets especially during the weekdays, is definitely a sensible strategy to not only counter the effects of weather, but ultimately could bolster the trust's top line as more visitors utilise the golf assets.

Absence Of A Hedging Policy

Similar to its real estate investment trust counterparts, investors pay close attention to a business trust's distribution yield considering that this is one of the main factors that prompts their investment decisions.

In other words, any investor would want to know the reason which has driven AGT's distribution per unit (DPU) to have experienced such a significant decline.

When asked on the DPU decline, Machida noted the absence of a hedging policy which has exposed the trust to currency fluctuations, as it repatriates Japanese Yen from its operations in Japan back to the reporting currency (Singapore dollar).

He further elaborated that it has been a common practice for institutional investors to hedge their currency exposures on their own, and therefore there was not a hedging policy in place. However, Machida mentioned the possibility of instating a hedging policy which the trust will keep investors informed should the plan be formalised.

Although not guaranteed at the moment, however, the move is largely welcomed considering how investors would have been able to bank in a DPU closer to \$0.0432 which is the forecasted amount by AGT, translating to a potential annualised distribution yield of 13.8 percent based on the closing price of \$0.75 on 6 April 2015.

Acquisitions To Propel Growth

Beyond organic growth via its existing golf assets, like most business trusts, AGT's growth relies on acquisitions of other golf assets for growth.

Machida shared that AGT plans to invest between \$100 and \$200 million for this year to acquire golf assets held under its sponsor, Accordia Golf's portfolio, which meet prevailing conditions such as a minimum hurdle operating profit before depreciation and amortisation margin.

In view of the trust's current conservative loan-to-value (LTV) ratio falling in the region of 30 percent there about, he sees that a 10-percentage point increase of LTV to 40 percent is a comfortable range of leverage for the trust to undertake.

Furthermore, granted with an interest coverage ratio of 7.9, where the measurement relates to a company's ability to finance its interest obligations and debt repayments, the trust's earning power is more than adequate to service its outstanding debt as well as undertake more for growth.

In addition, as long as Japan's economic strategy remains adamant towards spiralling the nation out of its 20-year of deflation, an interest rate hike is highly unlikely.

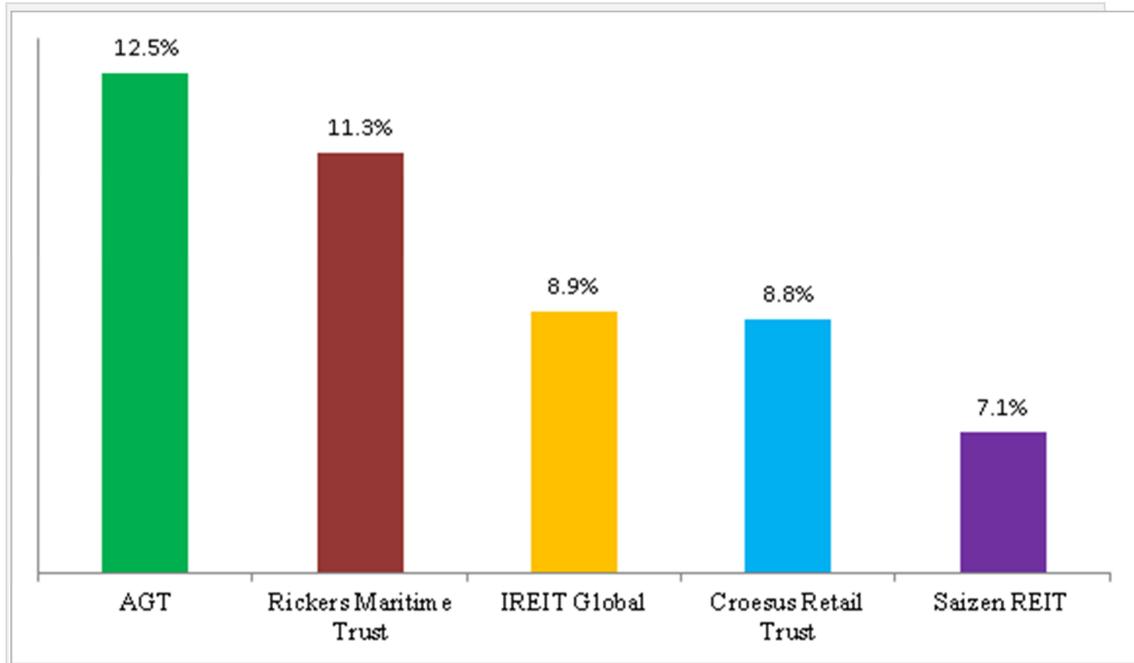
On the contrary, even if a rate hike should happen, excluding a subordinated loan from its sponsor, the trust's outstanding debt positions are locked into fixed rates for at least another two years.

Attractive Distribution Yield

Despite the fall in DPU, using the same closing price of \$0.75, AGT's annualised distribution yield stands at 12.5 percent which includes the distribution from non-recurring cash flow in FY15. The trust is not only one of the highest yielding counters among the business trusts and REITs that operate in Japan, but also likely the highest yielding counter among the rest of the investment trusts listed on the Singapore Exchange.

Barring any unforeseen circumstances, AGT is on track to walk the talk and deliver a double-digit yield.

Comparison Of Distribution Yield Between AGT And Other Business Trusts And REITs*



Source: Company Announcements

**Distribution yield is calculated based on annualised distributions and the closing prices of 6 April 2015*

*Backed by a strong interest in investments, **Peter's** research spans across a range of industries, with his focus placed on companies listed on the SGX.*

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