



## Taking off with the Jetsons

Our expectation that Astro Japan Property Trust (ASX, AJA) would attract the interest of a predator has come to fruition with the company last week announcing that it has agreed to sell its property interests to Jetsons Holding II Pte Ltd (incorporated in Singapore with funds managed by Blackstone Real Estate).

Under the deal security holders will receive net consideration of around \$7.18 per security in October, along with a normal HY distribution of 21 cents per security. Further winding up distributions of 14 cents per security are expected to be received before next January. AJA shares have rallied with the offer price a 13.1% premium to the closing price of \$6.35 per security on 31 July, the last trading day prior to the announcement.

### Proposed Consideration

The table below sets out the calculation of the Proposed Consideration to Astro Group securityholders.

	JPY (billion)	A\$ (million)	A\$ per security
Blackstone's implied value for portfolio	98.642	1,114.6	18.38
Provisions <sup>4</sup>	(58.782)	(664.2)	(10.95)
Facilitation and Termination Payment payable to Spring Group	(1.952)	(22.1)	(0.36)
<b>Net consideration from Blackstone</b>	<b>37.908</b>	<b>428.3</b>	<b>7.06</b>
Disposal fee payable to Spring	(0.247)	(2.8)	(0.05)
Receipt for AJCO's interest in the Spring TK Agreement	0.523	5.9	0.10
Net liquid assets in Australia	0.797	9.0	0.15
Estimated transaction costs	(0.418)	(4.7)	(0.08)
<b>Net consideration to AJA securityholders</b>	<b>38.563</b>	<b>435.7</b>	<b>7.18</b>

Source: ASX announcement

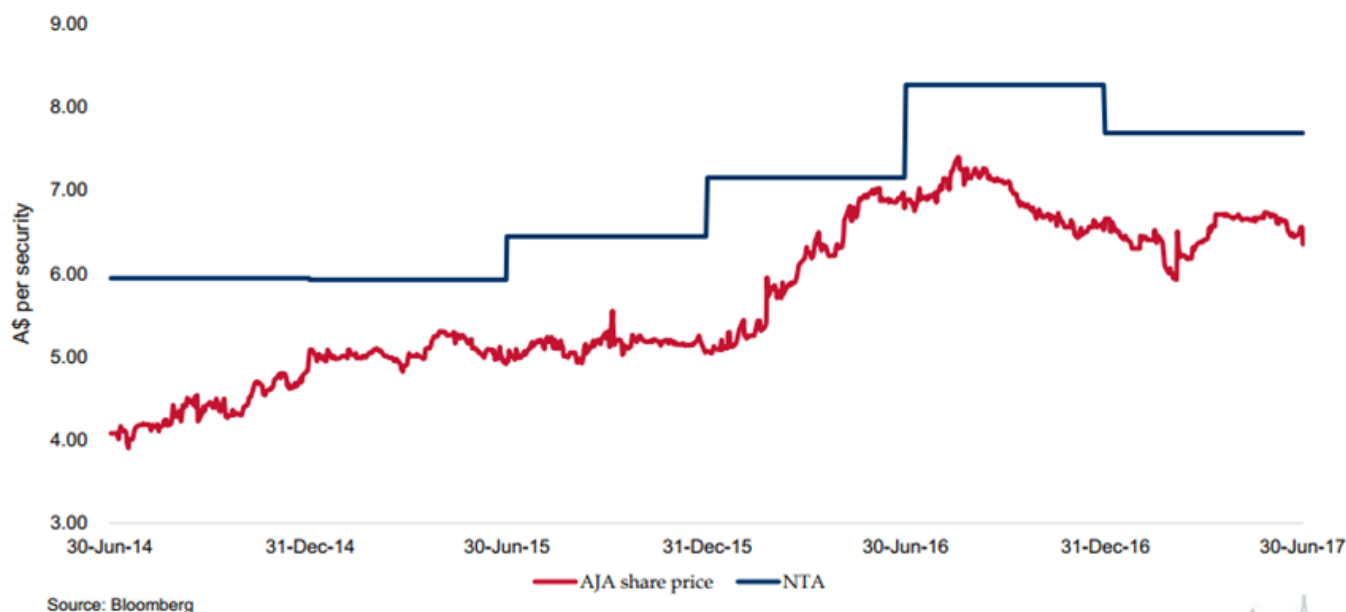
The swoop comes as no surprise, and indeed we noted in our last buy report that takeover action was likely given a strengthening outlook for Japanese property. We have held the view that that cap rates on Japanese property would continue to compress, with this translating to a higher net asset base for the company. A discount to net tangible assets per share left AJA open, although the window of opportunity was also narrowing.

Astro has effectively been 'in play' since it fended off an approach from Lone Star Investments in late 2016. Management did not consider their proposal to 'deliver acceptable value' to security holders, and has since received a number of further approaches.

The Board has considered the Blackstone proposal delivers ‘the most compelling and certain’ value proposition or all alternatives considered. Other initiatives on the table included re-establishing the portfolio as a newly listed REIT in Japan, or a simple sale of the underlying properties. The proposal also addresses the Trust’s consistent discount to Net tangible assets.

## ADDRESSES DISCOUNT TO NTA

Proposal seeks to address AJA’s persistent trading discount to NTA



Source: AJA presentation

The Board has recommended the Blackstone proposal and has also put in place FX hedging arrangements to provide a level of certainty with respect to the A\$ consideration. The ‘collar’ will see prosed consideration of \$7.11 - \$7.38 depending on the exchange rate at the implementation date.

A number of arrangements have also been made with Spring Group, controlled by Eric Lucas, who owns around 11.6% of Astro Group securities. This will facilitate the transaction and procure the required termination of Spring’s asset management agreements.

The Board has recommended the proposal, with the bid implying at 2.38% premium to recently completed property valuations. The deal requires the majority approval of security holders with a meeting convened for 13<sup>th</sup> September 2017.

# INDICATIVE TIMETABLE

Event	Date
Announcement of Proposal	1 August 2017
Notice of Meeting, Explanatory Memorandum and Independent Expert's Report sent to securityholders	On or about 9 August 2017
AJA securityholders' meeting to vote on the resolutions to implement the Proposal	13 September 2017
Implementation date	Target 4 October 2017
Delisting date and AJT and AJCo to commence wind up	Target 10 October 2017

Note: Indicative timetable subject to change

Source: ASX announcement

## Summary

We said at the time of the takeout of the smaller Galileo Japan Trust, and several times since, that Astro Japan would likely come onto the radar of another bidder, and so it has transpired. Overall, we think this is a strong outcome of investors.

While there is always the chance of a superior proposal, on the other hand a left of field event or a blocking vote could also not be ruled out. We therefore on reflection believe it is prudent to take some gains off the table at this juncture.



Astro has been a very strong performing recommendation with a return of over 500% (excluding distributions) since our initial buy. This also means (with Galileo also having departed) that there are no compelling ASX listed exposures to Japanese property, although we continue to pursue opportunities elsewhere, with the bulk covered in our Asian equities report.



**Accordingly, we now recommend Members sell half their shares in Astro Japan Property Trust.**

Disclosure: Astro Japan Property is held in the Fat Prophets Australian Share Income and Small & Mid-Cap models.

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## Snapshot AJA

### **Astro Japan Property**

**Latest Closing Price: \$7.16**

Astro Japan Property (formerly Babcock & Brown Japan Property Trust) invests in, manages and develops a portfolio of office and retail properties located in the central and greater Tokyo area.

**Market Capitalisation:\$433.06M**

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