

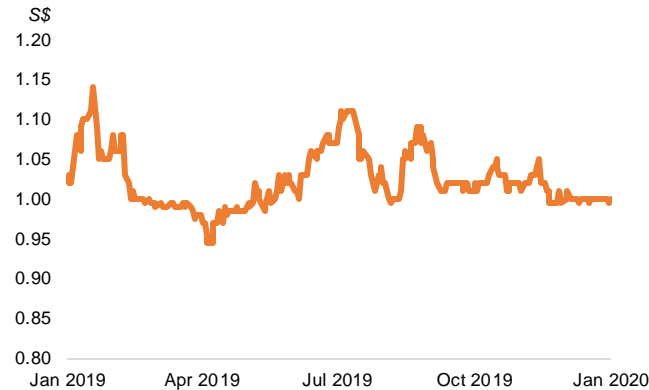
First Real Estate Investment Trust

Date: 23 January 2020

Non-Rated

AW9U / FRET.SI

Price: S\$1.00 (as at 22 January 2020)



| Share price | 1M | 3M | 6M | 1Y |
|---------------------|------|-------|-------|-------|
| First REIT | 0.5% | -1.0% | -6.5% | -2.9% |
| Straits Times Index | 1.3% | 2.9% | -3.1% | 1.9% |

| | |
|--|---|
| Market capitalisation | S\$797.7 million |
| Current Price | S\$1.00 |
| Units outstanding | 797.7 million |
| Free Float | 75.09% |
| Major unitholders | OLH Healthcare Investments Pte. Ltd. 10.48% Bowsprit Capital Corporation Limited 8.28% Bridgewater International Ltd 3.10% PT Menara Tirta Indah 3.04% |
| Recommendation of other brokers | 1 Buy |

Source: Company data, Bloomberg, SGX Stockfacts, SAC Capital

Analyst

Terence Chua +65 6232 3236
tchua@saccapital.com.sg

Analyst

Nicholas Neo +65 6232 3224
nneo@saccapital.com.sg

Chow Zheng Jie +65 6232 3239
chow_zj@saccapital.com.sg

Riding the wave of healthcare growth in Indonesia

First Real Estate Investment Trust (“First REIT” or the “Trust”) is Singapore’s first real estate investment trust with a focus on healthcare real estate. The Trust’s portfolio consists of 20 properties across Asia, which include 16 properties in Indonesia (comprising 12 hospitals, 2 integrated hospitals & malls, 1 integrated hospital & hotel and 1 hotel & country club), 3 nursing homes in Singapore, and 1 hospital in South Korea.

Backing by well established sponsors in the Asian healthcare space. First REIT’s sponsors are PT Lippo Karawaci Tbk (“Lippo Karawaci”) and OUE Lippo Healthcare Limited (“OUE LH”). Lippo Karawaci is the largest property developer listed in Indonesia, and OUE LH is the healthcare focused subsidiary of real estate player OUE Limited (“OUE”). In relation to the 2018 acquisition of First REIT’s manager Bowsprit Capital Corporation Limited (“Bowsprit” or the “Manager”) by OUE and OUE LH, Lippo Karawaci and OUE LH have each granted a Right of First Refusal (collectively the “ROFRs”) to First REIT’s trustee for the disposal of any interest in healthcare properties in Indonesia and Singapore. While not explicitly covered in the ROFRs, access to the broader asset pool of OUE LH opens up the potential for diversification into other countries in Asia, bolstering the Trust’s stability and growth strategy.

Stable financial performance and attractive distribution yield. Between FY2014 and FY2018, First REIT’s gross revenue grew at a CAGR of 5.7%, supported by the Trust’s resilient rental structure. Additionally, the Trust’s properties are leased out on a triple-net lease basis, resulting in minimal property operating expenses incurred by the Trust. The three distributions made in 9M2019 represent an annualised amount of 8.60 Singapore cents, which equates to a 8.6% yield on last close. As of 30 September 2019, First REIT’s Weighted Average Lease Expiry (“WALE”) stood at 7.8 years and it had a 100% committed occupancy rate.

Key Risks: (i) Counterparty concentration risk, (ii) geographic concentration risk.

Key Historical Financials

| Year ended 31 Dec (S\$'000) | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
|--|--------|---------|---------|---------|---------|
| Gross Revenue | 93,255 | 100,698 | 107,017 | 110,993 | 116,198 |
| % Growth | 12.0% | 8.0% | 6.3% | 3.7% | 4.7% |
| Net Property Income | 91,873 | 99,276 | 105,835 | 109,476 | 114,391 |
| Basic and Diluted EPU[^] (S\$ cents) | 12.59 | 9.10 | 5.04 | 9.02 | 9.23 |
| NAV per unit (S\$ cents) | 101.81 | 103.88 | 100.79 | 101.47 | 102.51 |
| P/E (x) | 7.9 | 11.0 | 19.8 | 11.1 | 10.8 |
| P/B (x) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Distribution per unit (S\$ cents) | 8.05 | 8.30 | 8.47 | 8.57 | 8.60 |
| Distribution yield | 8.1% | 8.3% | 8.5% | 8.6% | 8.6% |
| Net Debt/Equity | 49.4% | 52.6% | 45.3% | 54.1% | 53.9% |
| Cost of debt | - | - | - | - | 3.8% |
| Total committed occupancy | 100% | 100% | 100% | 100% | 100% |

[^]EPU is computed based on the profit from continuing operations attributable to owners of the company divided by total shares outstanding

Investment Highlights

First Real Estate Investment Trust is Singapore's first real estate investment trust with a focus on healthcare real estate. The Trust's portfolio consists of 20 properties across Asia, which include 16 properties in Indonesia (comprising 12 hospitals, 2 integrated hospitals & malls, 1 integrated hospital & hotel and 1 hotel & country club), 3 nursing homes in Singapore, and 1 hospital in South Korea.

Backing by well established sponsors in the Asian healthcare space. First REIT's sponsors are PT Lippo Karawaci Tbk, the largest property developer listed in Indonesia, and OUE Lippo Healthcare Limited, the healthcare specialised subsidiary of real estate player OUE Limited. The Trust is managed by Bowsprit Capital Corporation Limited. Following an acquisition from Lippo Karawaci in October 2018, Bowsprit is now 60% and 40% owned by OUE and OUEHL respectively. The Trust's Indonesian healthcare properties are operated by PT Siloam International Hospitals Tbk ("**Siloam**"), an Indonesian-listed subsidiary of Lippo Karawaci, which is the largest hospital chain in Indonesia.

Business Overview:

First Real Estate Investment Trust is Singapore's first healthcare focused real estate investment trust which has a portfolio of 20 properties located in Indonesia, Singapore and South Korea. Its sponsors are PT Lippo Karawaci Tbk and OUE Lippo Healthcare Limited, and it is managed by Bowsprit Capital Corporation Limited.

In relation to the acquisition of Bowsprit by OUE and OUEHL, Lippo Karawaci and OUEHL have each granted a Right of First Refusal to Perpetual (Asia) Limited (First REIT's trustee) for the disposal of any interest in healthcare properties in Indonesia and Singapore. As at 30 September 2019, Lippo Karawaci has 22 more healthcare properties excluding the 15 hospitals already in the Trust's portfolio. While not explicitly covered in the ROFRs, access to the broader asset pool of OUEHL (and by extension, OUE) opens up the potential for diversification into other countries in Asia, bolstering the Trust's stability and growth strategy. Notably, OUEHL owns a portfolio of 12 nursing homes in Japan which are currently fully master-leased out to independent local operators. These could be attractive properties given the lower cost of debt in Japan, typically below 1%, and with business supported by the trend of an ageing population in the country.

Stable financial performance and attractive distribution yield. Between FY2014 and FY2018, First REIT's gross revenue grew at a CAGR of 5.7%, supported by the Trust's resilient rental structure. First REIT's Indonesian properties have an annual base rental escalation of two times the percentage increase of Singapore CPI, capped at 2%, coupled with an additional variable growth component based on total gross revenue from Indonesia. Singapore and South Korean properties have a fixed base rental increment of 2%. Additionally, the Trust's properties are leased out on a triple-net lease basis, resulting in minimal property operating expenses incurred by the Trust. Correspondingly, net property income has grown at a similar CAGR of 5.6%.

Stable distributable income has been able to support consistent distribution per unit ("**DPU**") of 2.15 Singapore cents for the past eight quarters. The three distributions made in 9M2019 represent an annualised amount of 8.60 Singapore cents, which equates to a 8.6% yield based on the closing price of S\$1.00 on 22 January 2020. As of 30 September 2019, First REIT's WALE stood at 7.8 years and it had a 100% committed occupancy rate.

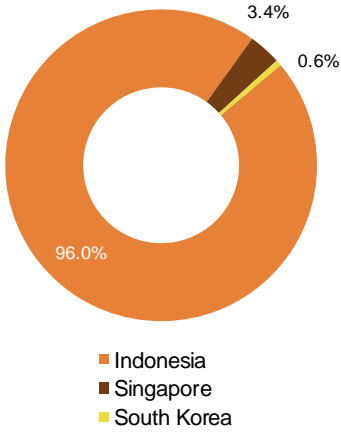
Trust Overview

First REIT is Singapore’s first real estate investment trust with a focus on healthcare real estate. On 11 December 2006, First REIT was listed on the Singapore Exchange with 4 properties in Indonesia. Over the years, the Trust’s portfolio has grown to consist of 20 properties across Asia, which includes 16 properties in Indonesia (comprising 12 hospitals, 2 integrated hospitals & malls, 1 integrated hospital & hotel and 1 hotel & country club), 3 nursing homes in Singapore, and 1 hospital in South Korea.

First REIT’s sponsors are PT Lippo Karawaci Tbk, the largest property developer listed in Indonesia, and OUE Lippo Healthcare Limited, the healthcare specialised subsidiary of real estate player OUE Limited. The Trust is managed by Bowsprit Capital Corporation Limited. Following an acquisition from Lippo Karawaci in October 2018, Bowsprit is now 60% and 40% owned by OUE and OUELH respectively.

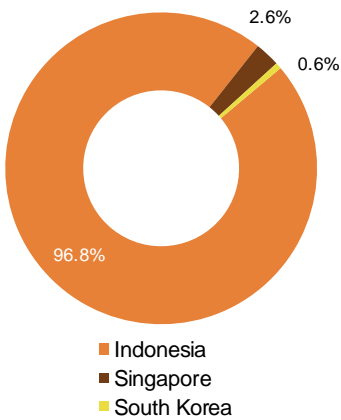
The Trust’s Indonesian healthcare properties are operated by PT Siloam International Hospitals Tbk, an Indonesian-listed subsidiary of Lippo Karawaci, which is the largest hospital chain in Indonesia.

Rental Income Breakdown by Geography (FY2018)



Source: Company data

Asset Carrying Value Breakdown by Geography (FY2018)



Source: Company data

Portfolio Summary

| Property | Description | Lease Expiry |
|--|-----------------------------|--------------|
| Sarang Hospital | Hospital | Aug 2021 |
| Siloam Hospitals Lippo Village | Hospital | Dec 2021 |
| Siloam Hospitals Kebon Jeruk | Hospital | Dec 2021 |
| Siloam Hospitals Surabaya | Hospital | Dec 2021 |
| Imperial Aryaduta Hotel & Country Club | Hotel & Country Club | Dec 2021 |
| Mochtar Riady Comprehensive Cancer Centre | Hospital | Dec 2025 |
| Siloam Hospitals Lippo Cikarang | Hospital | Dec 2025 |
| Pacific Healthcare Nursing Home @ Bukit Merah | Nursing Home | Apr 2027 |
| Pacific Healthcare Nursing Home II @ Bukit Panjang | Nursing Home | Apr 2027 |
| The Lantor Residence | Nursing Home | Jun 2027 |
| Siloam Hospitals Manado & Hotel Aryaduta Manado | Integrated Hospital & Hotel | Nov 2027 |
| Siloam Hospitals Makassar | Hospital | Nov 2027 |
| Siloam Hospitals Bali | Hospital | May 2028 |
| Siloam Hospitals TB Simatupang | Hospital | May 2028 |
| Siloam Hospitals Purwakarta | Hospital | May 2029 |
| Siloam Sriwijaya | Hospital | Dec 2029 |
| Siloam Hospitals Kupang & Lippo Plaza Kupang | Integrated Hospital & Hotel | Dec 2030 |
| Siloam Hospitals Labuan Bajo | Hospital | Dec 2031 |
| Siloam Hospitals Buton & Lippo Plaza Buton | Integrated Hospital & Hotel | Oct 2032 |
| Siloam Hospitals Yogyakarta | Hospital | Dec 2032 |

South Korea
Indonesia
Singapore

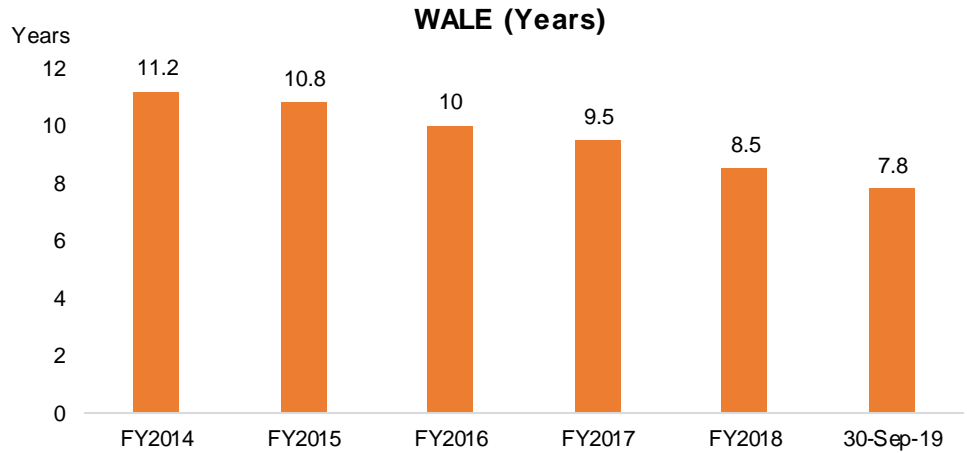
Source: Company data, SAC Capital

First REIT's 20 properties account for over S\$1.3 billion in assets under management, with a total gross floor area of 350,850 m² that translates to 5,092 beds and saleable rooms. The master leases are generally long-term, 10 or 15 year leases with an option exercisable by the master lessee to renew for the same number of years.

Exposure to foreign exchange risk has been substantially mitigated as the Indonesian properties' rentals are pegged to Singapore dollars. The Singapore properties' rentals are in Singapore dollars, while the Korean property's rental is in US dollars.

As the vast majority of the properties are Siloam hospitals and associated hotels, First REIT derives over 80% of its annual rental income from Lippo Karawaci, which is the master lessee of these properties.

Portfolio Summary



Source: Company data, SAC Capital

As of 30 September 2019, First REIT’s WALE was 7.8 years, and its committed occupancy rate stood at 100%, a rate which it has consistently been able to achieve. The earliest lease expiry dates will be coming up in the tail end of 2021. In particular, Siloam Hospitals Lippo Village, Siloam Hospitals Kebon Jeruk, Siloam Hospitals Surabaya and Imperial Aryaduta Hotel & Country Club (refer to Appendix A for more details) are the Trust’s original 4 properties at its IPO and as at 31 December 2018, they collectively represent S\$327,200,000 or 24.3% of assets under management. We note that negotiations on the lease renewal between First REIT and Lippo Karawaci are currently taking place, and management is exploring different options and will release details in due course.

Portfolio Highlights

| Property | Siloam Hospitals Lippo Village | Siloam Hospitals Kebon Jeruk | Siloam Hospitals Surabaya | Imperial Aryaduta Hotel & Country Club |
|---|---|--|--|--|
| Type | Hospital | Hospital | Hospital | Hotel & Country Club |
| Centre of Excellence | Cardiology , Emergency & Trauma, Neuroscience, Orthopaedics | Cardiology , Emergency & Trauma, Orthopaedics, Urology | Cardiology , Emergency & Trauma | - |
| Land Area | 17,442 sqm | 11,420 sqm | 4,306 sqm | 54,410 sqm |
| Gross Floor Area | 27,284 sqm | 18,316 sqm | 9,227 sqm | 17,427 sqm |
| Purchase Price | S\$94.3 m | S\$50.6 m | S\$16.8 m | S\$21.2 m |
| Appraised Value | S\$162.3 m | S\$96.2 m | S\$28.1 m | S\$40.6 m |
| Max no. of Beds / Saleable Rooms | 274 | 215 | 160 | 190 |
| Year of Building Completion | 1995 | 1991 | 1977 | 1994 |
| Lease Commencement Date | 11 Dec 2006 | 11 Dec 2006 | 11 Dec 2006 | 11 Dec 2006 |
| Lease Terms | 15 years with option to renew for 15 years | 15 years with option to renew for 15 years | 15 years with option to renew for 15 years | 15 years with option to renew for 15 years |
| Lease Expiry Date | 10 Dec 2021 | 10 Dec 2021 | 10 Dec 2021 | 10 Dec 2021 |

Siloam Hospitals Lippo Village



Siloam Hospitals Kebon Jeruk



Siloam Hospitals Surabaya

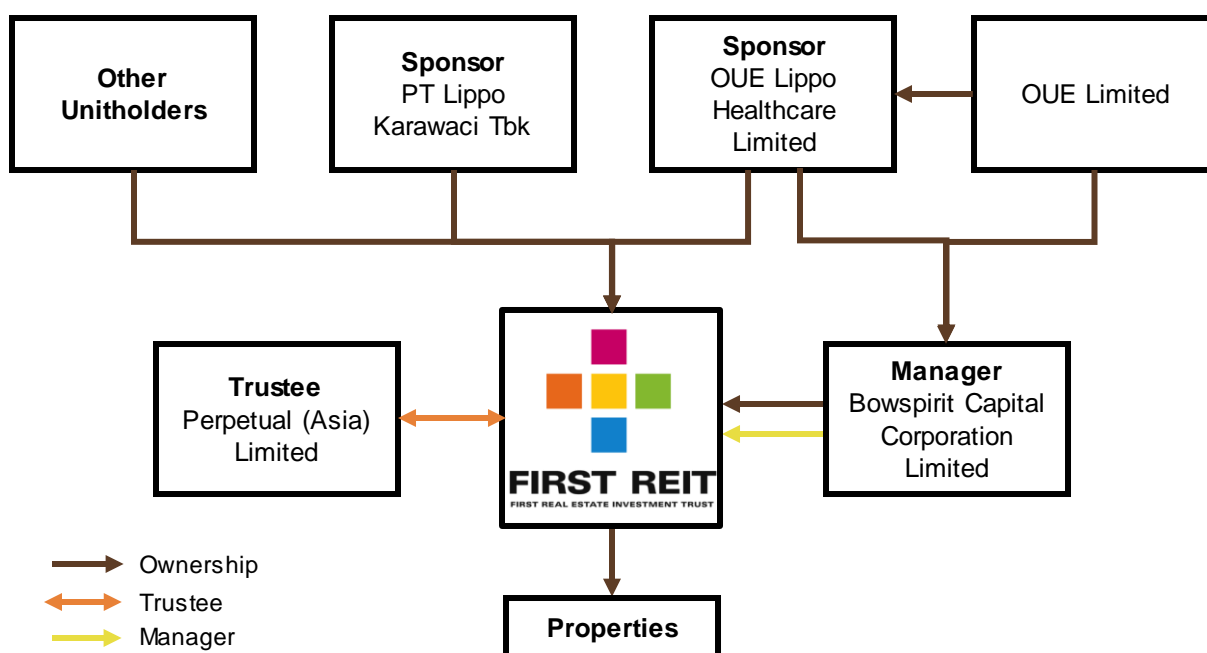


Imperial Aryaduta Hotel & Country Club



Source: Company data

Trust Structure



Note: This diagram has been simplified for illustrative purposes

Source: Company data, SAC Capital

Acquisitions by OUE and OUELH

On 26 October 2018, First REIT’s manager and Lippo Karawaci’s indirect wholly-owned subsidiary, Bowsprit, was fully and jointly acquired by OUE and OUELH for S\$99 million, resulting in each directly holding 60% and 40% respectively. Separately, units representing 10.6% of First REIT were acquired from Lippo Karawaci by OUELH for S\$103 million. SGX Mainboard-listed OUE is a diversified real estate owner, developer and operator with properties in Asia and the US. It is also the sponsor of its recently merged OUE Commercial REIT and OUE Hospitality Trust. OUELH is a Catalist-listed subsidiary of OUE, and mainly owns and manages a portfolio of healthcare properties in Japan and China, with a presence in Myanmar. The fresh funds from Lippo Karawaci’s disposals have provided it with much needed stability for its balance sheet, and can be seen as a good sign for the upcoming master lease renewals.

Locations of OUELH’s Japan properties

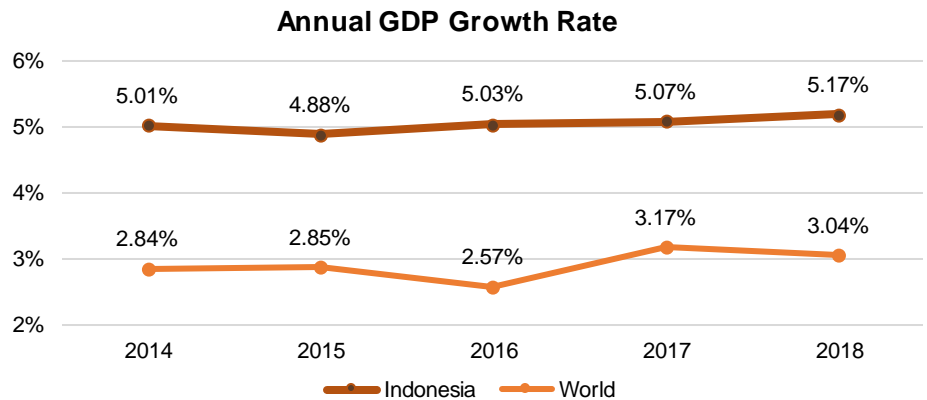


Source: OUELH

In connection with the acquisition, Lippo Karawaci and OUELH have each granted a Right of First Refusal to Perpetual (Asia) Limited (First REIT’s trustee) for the disposal of any interest in healthcare properties in Indonesia and Singapore. This introduces OUELH as a second sponsor to the Trust, building upon Lippo Karawaci’s pipeline of Indonesian healthcare institutions which is fueled by national demand. As at 30 September 2019, Lippo Karawaci has 22 more healthcare properties excluding the 15 hospitals already in the Trust’s portfolio. While not explicitly covered in the ROFRs, access to the broader asset pool of OUELH (and by extension, OUE) opens up the potential for diversification into other countries in Asia, bolstering the Trust’s stability and growth strategy. Notably, OUELH owns a portfolio of 12 nursing homes in Japan which are currently fully master-leased out to independent local operators. These could be attractive properties given the lower cost of debt in Japan, typically below 1%, and with business supported by the trend of an ageing population in the country.

Industry Overview

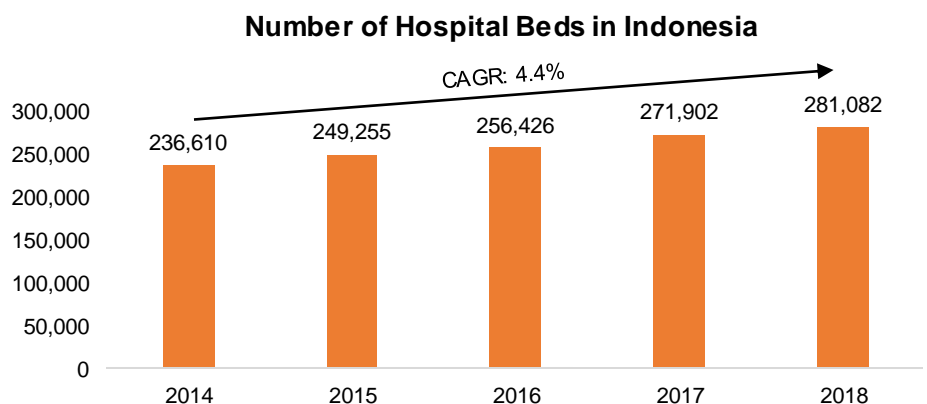
Continued growth in Indonesia's economy



Source: World Bank, SAC Capital

As Southeast Asia's largest economy, Indonesia has enjoyed a relatively high GDP growth rate averaging about 5% per annum in the last 5 years. Infrastructure spending has been a key aspect of Indonesian President Joko Widodo's strategy to boost economic growth. Under both his *Nawa Cita* programme from 2014 and *Indonesia Maju* programme from his 2019 re-election, infrastructure development was highlighted as a way to combat economic inequality. This decentralisation movement aims to foster and strengthen the regional economies outside the main island of Java through enhanced connectivity. In an interview from May 2019, then-Minister of National Development Planning Bambang Brodjonegoro announced the government's ambition of a record 5,957 trillion Rupiah (S\$564 billion) for infrastructure investments over the next 5 years, targeting GDP growth of 5.3% - 5.6% in 2020. The growth of Indonesia's periphery cities and villages opens up opportunities for new healthcare institutions as well, to address the nation's dire healthcare shortage.

Huge growth potential due to shortfall of healthcare resources in Indonesia



Source: Statista, SAC Capital

Oliver Wyman puts the estimated healthcare resource shortfall in Indonesia at US\$68 billion. According to data from Statista, Indonesia had 281,082 hospital beds and a population of over 264 million in 2018, translating to a measly 1.1 hospital beds per 1,000 people. In comparison, Singapore's hospital bed density is approximately 2.6 beds per 1,000 people (calculated using Singstat figures), and the OECD median is about 3.5 beds per 1,000 people.

Government-backed growth opportunities

The Indonesian government has recognised that healthcare development is one of the country's highest priorities; in early November 2019, the newly appointed Health Minister Terawan Agus Putranto announced his intention to fast-track the issuance process of government permits for private hospitals, which currently takes up to 20 months before a new hospital can be built. Simultaneously, the Indonesian government is pursuing initiatives to increase the supply of healthcare professionals.

Healthcare insurance in Indonesia

Launched in January 2014, Indonesia's national health insurance scheme, *Jaminan Kesehatan Nasional* ("JKN") aims to achieve universal health coverage for its entire population. The scheme is administered by *Badan Penyelenggara Jaminan Sosial Kesehatan* ("BPJS"), or the Social Security Administrator for Health. Those insured may seek treatment at both public and participating private healthcare institutions. Insured persons are first required to be treated or seek consultation at a government community health centre or a private clinic, following which they will be referred to secondary facilities such as hospitals if further treatment is needed. This scheme covers all Indonesian residents, as well as expatriates working in Indonesia. According to a report by Deloitte, as of May 2019, the number of people enrolled in BPJS was about 221.6 million people, out of an estimated population of over 260 million.

Unfortunately, concerns about JKN's sustainability have resulted in mandatory premiums being hiked. The most recent hike which will approximately double premiums effective from January 2020 could ultimately backfire, as unhappy citizens are currently observed banding together to boycott the system by avoiding payment.

Notwithstanding the aforementioned, the introduction of JKN has led to an influx of new private hospitals, with about 80% of new hospitals in recent years being privately managed as reported by Health Policy Plus. Data from Indonesia's Ministry of Health indicated that 63.5% of Indonesia's 2,813 hospitals are privately managed and as of September 2017, 78% of private hospitals were included in the JKN scheme.

Of the 15 First REIT properties operated by Siloam, 7 hospitals currently provide BPJS services to patients. The hospitals are:

- Siloam Hospitals Purwakarta
- Siloam Hospitals TB Simatupang
- Siloam Hospitals Manado
- Siloam Hospitals Makassar
- Siloam Hospitals Lippo Cikarang
- Siloam Hospitals Kebon Jeruk
- Siloam Hospitals Surabaya

The introduction of JKN has been positive for Hospital operator Siloam. In its 2018 annual report, the company noted that it gained 29% revenue contribution from BPJS. Of Siloam's 34 hospitals in operation, 25 serve BPJS patients, with plans to expand this to more hospitals. As of fiscal year 2018, Siloam also had 18 clinics registered to serve BPJS patients, which could provide a pipeline of referral patients to its hospitals.

Proposed increase of 45% leverage limit for Singapore REITs

The Monetary Authority of Singapore (“**MAS**”) announced in 2019 that it is considering raising the current 45% leverage limit for Singapore REITs, to enable them to better compete against private capital and foreign REITs when making acquisitions. The leverage limit is currently set at 45% as it seeks to ensure that REITs do not over-extend themselves by pursuing highly geared property acquisitions, and to mitigate the risk of a REIT having to liquidate a major asset in its portfolio in order to service or repay debts.

While the regulatory limit is set at 45%, it is noted that Singapore REITs often try to maintain a 5% buffer so that they can better respond to changing market conditions such as declining property prices. This leads to REITs generally keeping their leverage to within 40%. As such, MAS has received feedback to allow S-REITs to have a higher leverage limit so that they have more flexibility to optimise their capital structure given that debt tends to be a cheaper source of capital than equity and takes less time to raise. This is particularly important when S-REITs acquire overseas assets from third parties, which tend to involve a competitive bidding process and are highly time-sensitive.

According to the MAS, Malaysia imposes a 50% limit, and Thailand allows REITs to leverage up to 60% if they have an investment grade credit rating. As of 30 September 2019, First REIT’s total debt stood at S\$493 million with total assets of S\$1,429 million, giving it leverage of 34.5%. Based on the current 45% leverage limit, First REIT’s debt headroom would be approximately S\$150 million. If the leverage limit were to be raised to 50% or 60%, First REIT’s debt headroom would increase to S\$221 million and S\$364 million respectively.

Financial Summary

Gross Revenue, Net Property Income, Distributable Amount



Stable performance continues in FY2019

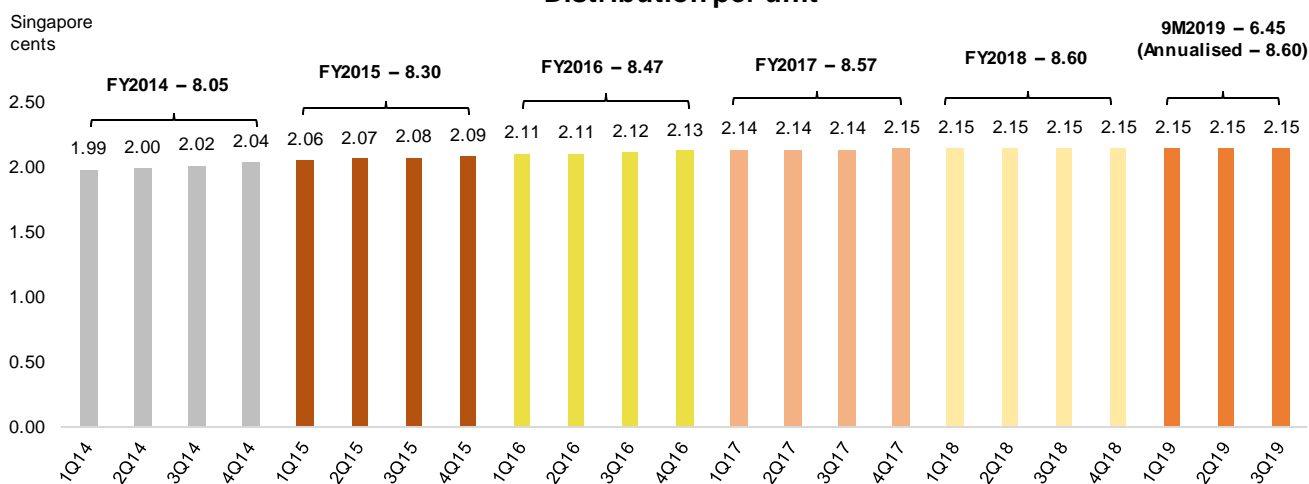
Between FY2014 and FY2018, First REIT's gross revenue grew at a CAGR of 5.7%, supported by the Trust's resilient rental structure. First REIT's Indonesian properties have an annual base rental escalation of two times the percentage increase of Singapore CPI, capped at 2%, coupled with an additional variable growth component based on total gross revenue from Indonesia. Singapore and South Korean properties have a fixed base rental increment of 2%. Additionally, the Trust's properties are leased out on a triple-net lease basis, where master lessees bear all operating costs relating to the properties including maintenance, certain taxes and insurance. As a result, property operating expenses incurred by the Trust are minimal. Correspondingly, net property income has grown at a similar CAGR of 5.6%.

Gross revenue in FY2018 increased by 4.7% to S\$116.2 million from S\$111.0 million in FY2017. This was due to rental escalations from existing properties as well as full year contributions from the Buton Property – an integrated development comprising a hospital and a mall, and Siloam Hospitals Yogyakarta. Property operating expenses increased by S\$0.3 million, caused by higher property expenses for the Indonesia properties and the Sarang Hospital in Korea. As a result, net property income rose 4.5% to S\$114.4 million for FY2018, and distributable income increased by 1.4% to S\$67.7 million.

For first 9 months of FY2019, ("9M2019"), gross revenue dipped 0.5% to S\$86.4 million compared to 9M2018, mainly as a result of lower variable component rental for Indonesia properties. Property operating expenses were higher, due to the higher professional expenses incurred for South Korea and Indonesia properties, resulting in a 1.5% decrease in net property income to S\$84.6 million. The Trust recorded higher positive adjustments to net income, contributing to a 1.2% increase in distributable income to S\$51.3 million.

Financial Summary

Distribution per unit

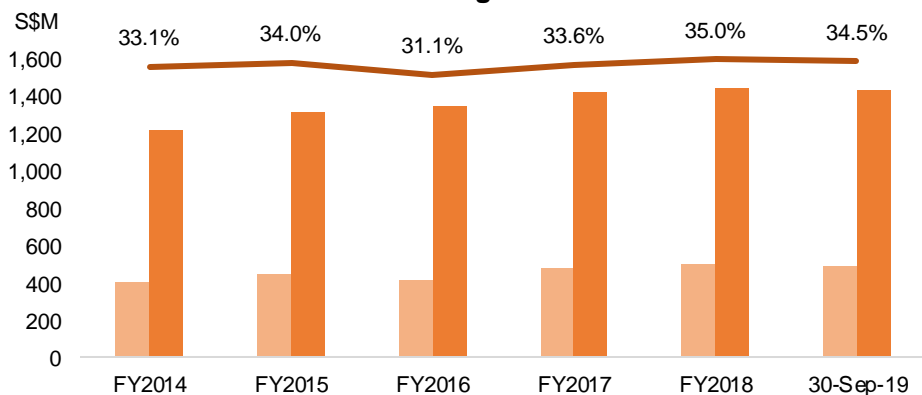


Source: Company data, SAC Capital

Stable distributable income has been able to support consistent distribution per unit (“DPU”) of 2.15 Singapore cents for the past eight quarters. Year on year, FY2018 DPU grew 0.4% to 8.60 Singapore cents, on the back of higher distributable income of S\$67.7 million. The three distributions made in 9M2019 represent an annualised amount of 8.60 Singapore cents, which equates to a 8.6% yield on last close.

Gearing Ratio and Debt Maturity Profile

Gearing Ratio



Source: Company data, SAC Capital

First REIT’s gearing ratio has consistently been at or below 35%, displaying disciplined and prudent capital management. With total debt of S\$493 million and total assets of S\$1,429 million as of 30 September 2019, First REIT’s gearing ratio stood at 34.5%, with a debt headroom of approximately S\$150 million based on the 45% leverage limit. As of 30 September 2019, the Trust had no refinancing requirements due in 2020, and S\$196.3 million in debt maturing in 2021. Its weighted average cost of debt stood at 4.1%.

First REIT’s compares favourably with Parkway Life REIT, its closest listed peer in Singapore

| Name | Ticker | Market Cap (S\$m) | P/E (x) | Dividend yield % | WALE (years)* |
|-------------------|----------|-------------------|---------|------------------|---------------|
| First REIT | FIRT SP | 798 | 11.0 | 8.6% | 8.5 |
| Parkway Life REIT | PREIT SP | 2,033 | 16.5 | 4.0% | 6.5 |

Source: Bloomberg, extracted 22 January 2020, Company Data

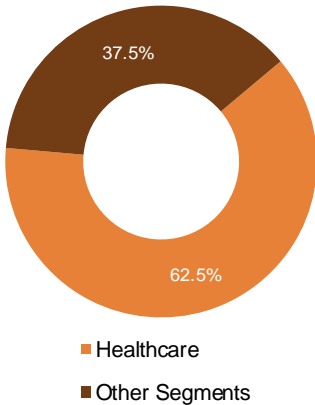
*Based on Company data as of 30 September 2019. Parkway Life REIT’s WALE is based on Gross Revenue

Investment Risks

Counterparty concentration risk

First REIT’s portfolio is substantially composed of hospitals leased by Siloam, which poses counterparty concentration risk. Also given Lippo Karawaci’s reduced stake in the Trust, there are concerns over its incentive and ability to continue supporting and renewing master leases under favourable terms in upcoming years. However, the promising Indonesian healthcare industry is a mitigating factor that could bring much needed stability to Lippo Karawaci, as 62.5% of its 1H2019 revenue was attributable to healthcare.

Lippo Karawaci’s Revenue Breakdown by Segment (1H2019)



Source: Lippo Karawaci 1H2019 results presentation, SAC Capital

Geographic concentration risk

On a related note, First REIT’s portfolio is also substantially composed of properties in Indonesia, with limited exposure to Singapore and South Korea. While foreign currency exchange risk has been mitigated by pegging the leases to Singapore dollars, it remains to be seen if they will eventually be renewed under similar terms. The introduction of OUE and OUE LH as stakeholders also opens up the possibility of geographic diversification in the future. However, as the ROFR agreement only encompasses healthcare properties in Indonesia and Singapore, there is no guarantee that properties in other regions will be injected by the sponsors into the Trust.

Income Statement (\$S'000)

| Year Ended 31 Dec | Period Ended | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
| Rental and other income | 93,255 | 100,698 | 107,017 | 110,993 | 116,198 |
| Property operating expenses | (1,382) | (1,422) | (1,182) | (1,517) | (1,807) |
| Net property and other income | 91,873 | 99,276 | 105,835 | 109,476 | 114,391 |
| Interest income | 199 | 231 | 1,131 | 1,429 | 1,690 |
| Manager's management fees | (9,138) | (9,881) | (10,584) | (10,877) | (11,435) |
| Trustee fees | (341) | (372) | (398) | (405) | (427) |
| Finance costs | (15,217) | (16,538) | (17,768) | (17,818) | (21,614) |
| Other expenses | (1,864) | (2,738) | (3,318) | (1,056) | (2,298) |
| Net income before the undernoted | 65,512 | 69,978 | 74,898 | 80,749 | 80,307 |
| Net fair value (losses)/gains on investment properties | 47,174 | 24,168 | (8,915) | 13,367 | (5,358) |
| Gains on divestment of investment property | | | 512 | | |
| Net fair value (losses)/gains of derivatives financial instruments | | 2,131 | (2,249) | (558) | (174) |
| Total return for the year before income tax | 112,686 | 96,277 | 64,246 | 93,558 | 74,775 |
| Income tax benefit/(expense) | (22,083) | (28,499) | (23,905) | (20,120) | 1,100 |
| Total return for the year after income tax | 90,603 | 67,778 | 40,341 | 73,438 | 75,875 |
| Total return attributable to: | | | | | |
| Unitholders of Trust | 90,603 | 67,778 | 38,688 | 70,030 | 72,467 |
| Perpetual securities holders | | | 1,653 | 3,408 | 3,408 |
| | 90,603 | 67,778 | 40,341 | 73,438 | 75,875 |
| Exchange differences on translating foreign operations, net of tax | 331 | 598 | 143 | (649) | 370 |
| Total comprehensive return for the year | 90,934 | 68,376 | 40,484 | 72,789 | 76,245 |
| Total comprehensive return attributable to: | | | | | |
| Unitholders of Trust | 90,934 | 68,376 | 38,831 | 69,381 | 72,837 |
| Perpetual securities holders | | | 1,653 | 3,408 | 3,408 |
| | 90,934 | 68,376 | 40,484 | 72,789 | 76,245 |
| Earnings per unit in cents, basic and diluted | 12.59 | 9.10 | 5.04 | 9.02 | 9.23 |

Cash Flow Statement (\$S'000)

| Year Ended 31 Dec | Period Ended | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
| Total return before income tax | 112,686 | 96,277 | 64,246 | 93,558 | 74,775 |
| Interest income | (199) | (231) | (1,131) | (1,429) | (1,690) |
| Interest expense | 13,376 | 15,103 | 16,076 | 15,733 | 16,500 |
| Amortisation of borrowing costs | 1,841 | 1,435 | 1,692 | 2,085 | 5,114 |
| Foreign exchange losses/(gains) | 792 | 1,283 | 461 | (1,526) | 380 |
| Gains on divestment of investment property | | | (512) | | |
| Net losses/(gains) in fair value of investment properties | (47,174) | (24,168) | 8,915 | (13,367) | 5,358 |
| Net losses in fair value of derivatives financial instruments | | (2,131) | 2,249 | 558 | 174 |
| Manager's management fees settled in units | 6,715 | 6,706 | 3,578 | 4,419 | 4,718 |
| Trade and other receivables, current | 15,679 | (5,503) | 2,677 | (14,178) | (6,211) |
| Other assets, current | (813) | (75) | (1,048) | (893) | (260) |
| Trade and other payables, current | (8,553) | 569 | 520 | 3,882 | (6,907) |
| Other liabilities, current | 2,577 | 371 | 693 | 848 | (2) |
| Income taxes paid | (16,160) | (15,325) | (16,960) | (17,010) | (18,611) |
| Net cash flows from/(used in) operating activities | 80,767 | 74,311 | 81,456 | 72,680 | 73,338 |
| Increase in investment properties | (67,717) | (56,542) | (21,209) | (63,479) | (1,178) |
| Interest received | 207 | 226 | 1,148 | 1,432 | 1,690 |
| Others | 0 | 0 | (9,874) | (9,000) | (94) |
| Net cash flows from/(used in) investing activities | (67,510) | (56,316) | (29,935) | (71,047) | 418 |
| Distribution to unitholders | (39,842) | (50,048) | (56,729) | (63,006) | (65,382) |
| Increase in borrowings | 206,843 | 70,774 | 25,945 | 63,070 | 24,000 |
| Repayment of borrowings | (167,537) | (26,500) | (57,000) | | |
| Interest paid | (13,822) | (13,624) | (16,213) | (16,124) | (16,949) |
| Distribution to perpetual securities holders | | | | (3,408) | (3,408) |
| Net proceeds from issuance of perpetual securities | | | 59,225 | | |
| Net cash flows used in financing activities | (14,358) | (19,398) | (44,772) | (19,468) | (61,739) |
| Net increase/(decrease) in cash and cash equivalents | (1,101) | (1,403) | 6,749 | (17,835) | 12,017 |
| Cash and cash equivalents, statement of cash flows, ending balance | 28,230 | 26,827 | 33,576 | 15,741 | 27,758 |

Balance Sheet (\$S'000)

| Year Ended 31 Dec | Period Ended | | | | |
|--|------------------|------------------|------------------|------------------|------------------|
| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
| Plant and equipment | | | | | 68 |
| Investment properties | 1,172,015 | 1,268,306 | 1,273,159 | 1,349,303 | 1,345,295 |
| Deferred tax assets | 595 | 754 | 971 | 1,213 | 1,368 |
| Other receivable, non-current | | | 18,035 | 27,035 | 27,035 |
| Derivatives financial instruments | | 2,131 | | | |
| Total non-current assets | 1,172,610 | 1,271,191 | 1,292,165 | 1,377,551 | 1,373,766 |
| Trade and other receivables, current | 8,988 | 14,512 | 11,754 | 25,982 | 32,391 |
| Loan receivable, current | | | | | 26 |
| Other financial assets, current | 2,557 | 2,632 | 3,680 | 4,573 | 4,833 |
| Cash and cash equivalents | 28,230 | 26,827 | 33,576 | 15,741 | 27,758 |
| Total current assets | 39,775 | 43,971 | 49,010 | 46,296 | 65,008 |
| Total assets | 1,212,385 | 1,315,162 | 1,341,175 | 1,423,847 | 1,438,774 |
| Deferred tax liabilities | 29,103 | 42,104 | 48,849 | 51,396 | 31,850 |
| Other financial liabilities, non-current | 370,090 | 398,291 | 271,642 | 278,125 | 386,761 |
| Total non-current liabilities | 399,193 | 440,395 | 320,609 | 330,033 | 418,661 |
| Income tax payable | 445 | 778 | 1,194 | 2,000 | 1,989 |
| Trade and other payables, current | 20,429 | 17,360 | 16,879 | 18,216 | 16,135 |
| Other financial liabilities, current | 26,485 | 44,274 | 141,967 | 198,324 | 109,658 |
| Other liabilities, current | 20,883 | 21,254 | 21,947 | 22,795 | 22,793 |
| Derivatives financial instruments | | | | 164 | 185 |
| Total current liabilities | 68,242 | 83,666 | 181,987 | 241,499 | 150,760 |
| Total liabilities | 467,435 | 524,061 | 502,596 | 571,532 | 569,621 |
| Net assets attributable to unitholders | 744,950 | 791,101 | 777,701 | 791,437 | 808,275 |
| Perpetual securities holders | | | 60,878 | 60,878 | 60,878 |
| Total net assets | 744,950 | 791,101 | 838,579 | 852,315 | 869,153 |
| Units in issue ('000) | 731,702 | 761,567 | 771,579 | 779,955 | 788,480 |
| NAV per unit in cents attributable to unitholders | 101.81 | 103.88 | 100.79 | 101.47 | 102.51 |

Ratios

| Year Ended 31 Dec | Period Ended | | | | |
|-------------------------|--------------|--------|--------|--------|--------|
| | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 |
| Liquidity (x) | | | | | |
| Current ratio | 0.6 | 0.5 | 0.3 | 0.2 | 0.4 |
| Quick ratio | 0.5 | 0.5 | 0.2 | 0.2 | 0.4 |
| Interest coverage ratio | 8.4 | 6.8 | 4.6 | 6.3 | 4.5 |
| Net Debt to Equity | 49.4% | 52.6% | 45.3% | 54.1% | 53.9% |
| Valuation (x) | | | | | |
| P/E | 7.9 | 11.0 | 19.8 | 11.1 | 10.8 |
| P/B | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Returns | | | | | |
| Return on equity | 12.2% | 8.6% | 4.8% | 8.6% | 8.7% |
| Return on asset | 7.5% | 5.2% | 3.0% | 5.2% | 5.3% |
| Distribution yield | 8.1% | 8.3% | 8.5% | 8.6% | 8.6% |

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