

# First Real Estate Investment Trust

25 April 2023

## BUY (Maintained)

<b>BBG</b>	FIRT SP
<b>Market cap</b>	S\$536.5m
<b>Price (30 March 2023)</b>	S\$0.260
<b>52-week range</b>	S\$0.230 – S\$0.315
<b>Target Price</b>	S\$0.300
<b>Shares Outstanding</b>	2063.6m
<b>Free Float</b>	55.31%
<b>Major Shareholder</b>	OUE Limited 44.35%

<b>P/BV (1Q23)</b>	0.85x
<b>Aggregate leverage (1Q23)</b>	39.0%

Source: Company data, Bloomberg, SAC Capital

## Steering a steadier ship

**1Q23** rental income rose 4.9% yoy to S\$26.8m on the back of (i) full quarter contribution from 14 Japan properties of which 12 were acquired in Mar 2022 and 2 in Sep 2022; and (ii) higher rental income from Singapore's and Indonesia's rent escalation model. This is offset by the divestment of Siloam Surabaya. NPI margin dipped by 1.2ppt to 96.3% due to Japan's contribution where most are in single net lease whereas all of Indonesia's properties are triple net lease.

Distributable income increased by 8.3% yoy to S\$12.7m while DPU decreased 6.1% to 0.62 SG cents due to higher financing cost and depreciation of IDR/SGD (-8% yoy) and JPY/SGD (-15% yoy). These are in tune with our forecast. Around 55% of its rental collection is being hedged to provide a sustainable distribution and reduce the risk associated with currency exchange. Management holds an optimistic view of Indonesia and believes IDR/SGD will strengthen.

**All-in cost of debt** rose to 4.7% in 1Q23 (3.7% in FY22) from the rising interest rates. 62.8% of debt is fixed/hedged in 1Q23 (59.6% in FY22). All of JPY debt (c.27.2%) is floating and if Ueda, the new BOJ Governor, ends Japan's low-interest rate era, First REIT's financing costs will increase. We estimate that a 0.25% rise in the interest rate will raise finance costs by 1.6% or S\$0.3m. The management is looking to hedge some of it and plans to have c.85% of total debt fixed/hedged by the end of 2023. WADM is 3.1 years with no refinancing needed till 2025. 1Q23 gearing ratio is 39.0%

**Rent arrears** of c.S\$2.6m from PT Metropolis Propertindo Utama and subsidiaries ("MPU"), a third-party developer who has been a joint venture partner of Lippo Karawaci, are outstanding. The Trust has received a payment plan stating that they will pay the full sum by 2023. MPU is a co-tenant of 3 Indonesian properties, contributing c.6.1% of rental income in FY22.

**Acquisition of FRM Japan Management**, an asset management company that is licensed by the Tokyo Metropolitan Government was completed in Mar 2023. By having boots on the ground, it provides crucial support for First REIT's current portfolio and future acquisition plans in Japan.

**BUY (maintained)** at a TP of S\$0.30 (COE: 9.1%), pricing First REIT at 0.8x price-to-book and distribution yield of 9.3% for FY23E. No changes to forecast.

## Analyst

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FYE Dec (S\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	79.6	102.3	111.3	112.5	114.5
Net property income	77.5	100.2	108.6	110.2	112.2
Net return to unitholders	(355.8)	59.9	31.0	62.9	63.8
Distributable income	33.4	42.1	52.4	48.2	49.1
EPD (S cents)	(43.9)	4.0	1.6	3.1	3.2
DPU (S cents)	4.1	2.8	2.6	2.4	2.4
Net cash / (Net debt)	(469.7)	(298.0)	(405.0)	(373.8)	(337.2)
<b>Valuation</b>					
NPI margin (%)	97.3	97.9	97.6	98.0	98.0
NPI yield (%)	8.2	10.4	9.5	9.8	10.1
Distribution yield (%)	19.3	8.6	10.2	9.3	9.4

## Income Statement

FYE Dec (\$\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenue</b>	<b>79.6</b>	<b>102.3</b>	<b>111.3</b>	<b>112.5</b>	<b>114.5</b>
Direct operating expenses	(2.2)	(2.1)	(2.7)	(2.2)	(2.3)
<b>Net property income</b>	<b>77.5</b>	<b>100.2</b>	<b>108.6</b>	<b>110.2</b>	<b>112.2</b>
Interest income	1.4	0.1	0.3	0.0	0.0
Manager's management fees	(9.4)	(9.1)	(9.5)	(9.5)	(9.5)
Finance costs	(17.8)	(17.0)	(19.4)	(19.4)	(20.3)
Other expenses	(6.1)	(2.6)	(3.0)	(3.6)	(3.6)
<b>Total return</b>	<b>45.5</b>	<b>71.7</b>	<b>77.0</b>	<b>77.8</b>	<b>78.9</b>
Change in fair value of assets	(401.4)	(4.5)	(22.7)	-	-
Other gains/(loss)	(2.4)	8.7	(2.3)	0.0	0.0
<b>Total return before tax</b>	<b>(358.2)</b>	<b>75.8</b>	<b>52.0</b>	<b>77.8</b>	<b>78.9</b>
Tax	5.8	(12.7)	(18.4)	(13.2)	(13.4)
<b>Net return</b>	<b>(352.4)</b>	<b>63.1</b>	<b>33.6</b>	<b>64.6</b>	<b>65.5</b>
Perpetual securities holders	(3.4)	(3.2)	(2.6)	(1.7)	(1.7)
<b>Net return to unit holders</b>	<b>(355.8)</b>	<b>59.9</b>	<b>31.0</b>	<b>62.9</b>	<b>63.8</b>

## Balance Sheet

FYE Dec (\$\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Assets</b>					
Investment properties	939.7	962.4	1,145.3	1,126.0	1,106.6
PPE	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	1.2	1.2	1.2
<b>Total non-current assets</b>	<b>939.7</b>	<b>962.5</b>	<b>1,146.6</b>	<b>1,127.2</b>	<b>1,107.8</b>
Cash	19.3	51.2	46.1	75.0	109.3
Trade receivables	45.0	32.5	5.0	5.0	5.0
Other financial assets	0.0	0.0	0.0	0.0	0.0
Derivative financial instruments	0.0	0.0	0.0	0.0	0.0
Others	0.9	3.4	0.9	0.9	0.9
<b>Total current assets</b>	<b>65.2</b>	<b>87.1</b>	<b>52.0</b>	<b>81.0</b>	<b>115.2</b>
<b>Total Assets</b>	<b>1,004.9</b>	<b>1,049.5</b>	<b>1,198.6</b>	<b>1,208.2</b>	<b>1,223.0</b>
<b>Liabilities</b>					
Borrowings	(293.7)	(250.0)	(449.6)	(449.6)	(449.6)
Deferred tax	(20.0)	(20.6)	(50.8)	(50.8)	(50.8)
Derivative financial instruments	(3.9)	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	(11.7)	(11.7)	(11.7)
<b>Total non-current liabilities</b>	<b>(317.5)</b>	<b>(270.6)</b>	<b>(512.1)</b>	<b>(512.1)</b>	<b>(512.1)</b>
Bank loans	(195.3)	(99.3)	(1.5)	(1.5)	(1.5)
Accounts payable	(17.3)	(18.9)	(15.0)	(15.0)	(15.0)
Other liabilities	(10.1)	(7.1)	(3.2)	(3.2)	(3.2)
Derivative financial instruments	0.0	(0.7)	(0.5)	(0.5)	(0.5)
Income tax payable	(0.7)	(1.2)	(1.1)	4.1	3.9
<b>Total current liabilities</b>	<b>(223.4)</b>	<b>(127.2)</b>	<b>(21.2)</b>	<b>(16.0)</b>	<b>(16.2)</b>
<b>Total Liabilities</b>	<b>(540.9)</b>	<b>(397.7)</b>	<b>(533.3)</b>	<b>(528.1)</b>	<b>(528.3)</b>
<b>Net Assets</b>	<b>463.9</b>	<b>651.8</b>	<b>665.4</b>	<b>680.1</b>	<b>694.7</b>
<b>Net equity due to unitholderes</b>	<b>403.1</b>	<b>591.1</b>	<b>632.1</b>	<b>646.8</b>	<b>661.4</b>
Due to perpetual securities holders	60.9	60.7	33.3	33.3	33.3
<b>Total Equity</b>	<b>464.0</b>	<b>651.8</b>	<b>665.4</b>	<b>680.0</b>	<b>694.7</b>

## Cash Flow Statement

FYE Dec (\$\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Pretax profit</b>	<b>(358.2)</b>	<b>63.1</b>	<b>33.6</b>	<b>77.8</b>	<b>78.9</b>
Depreciation & Amortisation	0.0	5.2	5.4	0.0	0.0
Net interest expense	17.8	11.7	13.8	19.4	20.3
Non-fund items	402.0	(10.8)	21.9	19.4	19.4
Manager's fee settled in units	2.8	4.5	4.7	4.7	4.7
Changes in working capital	(0.3)	(3.1)	17.2	0.0	0.0
Interest paid	(16.5)	0.0	0.0	(19.4)	(20.3)
Tax paid	(12.4)	(4.4)	(5.3)	(18.4)	(13.2)
<b>Operating cash flow</b>	<b>35.2</b>	<b>66.2</b>	<b>91.3</b>	<b>83.5</b>	<b>89.7</b>
Capital expenditure	(1.7)	(0.7)	(35.4)	0.0	0.0
Net investment	0.0	0.0	38.0	0.0	0.0
Net fixed assets disposal	0.0	6.1	0.0	0.0	0.0
Capital repayment	0.0	0.0	0.0	0.0	0.0
Other flows	(0.0)	(0.0)	5.5	0.0	0.0
<b>Investing cash flow</b>	<b>(1.7)</b>	<b>5.5</b>	<b>8.1</b>	<b>0.0</b>	<b>0.0</b>
<b>Free cash flow</b>	<b>33.5</b>	<b>71.7</b>	<b>99.4</b>	<b>83.5</b>	<b>89.7</b>
Dividends paid	(43.8)	(41.6)	(52.5)	(48.2)	(49.1)
Dist to perps	(3.4)	0.0	0.0	(1.7)	(1.7)
Borrowings	0.0	(145.6)	(14.5)	0.0	0.0
Equity issue	0.0	157.7	0.0	(4.7)	(4.7)
Others	0.0	(10.6)	(33.8)	0.0	0.0
<b>Financing cash flow</b>	<b>(47.2)</b>	<b>(40.1)</b>	<b>(100.8)</b>	<b>(54.6)</b>	<b>(55.5)</b>
<b>Net change in cash &amp; equivalents</b>	<b>(13.7)</b>	<b>31.6</b>	<b>(1.4)</b>	<b>28.9</b>	<b>34.2</b>

## Ratios

FYE Dec (\$\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Profitability (%)</b>					
NPI margin	97.3	97.9	97.6	98.0	98.0
EBIT margin	(429.3)	90.6	63.9	86.4	86.6
<b>Liquidity (x)</b>					
Interest Coverage ratio (x)	(19.2)	5.4	3.7	5.0	4.9
Net Debt to Equity (%)	101.2	45.7	60.9	55.3	49.2
<b>Valuation</b>					
ROE (%)	(87.4)	10.7	5.3	10.0	9.9
P/B (x)	0.4	0.8	0.8	0.8	0.8
FCF yield (%)	19.2	15.7	19.3	16.1	17.1

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