

First Real Estate Investment Trust

16 November 2022

BUY

BBG	FIRT SP
Market cap	S\$525m
Price (9 September 2022)	S\$0.255x
52-week range	S\$0.23 – S\$0.33
Target Price	S\$0.33
Shares Outstanding	2.051m
Free Float	56%
Major Shareholder	OUE Lippo Healthcare 41.3%

P/BV (09/22)	0.8x
Aggregate leverage (09/22)	35.6x

Source: Company data, Bloomberg, SAC Capital

2.0 Growth Strategy Executing Well

3Q22 NPI increased to S\$24.1m (+26% qoq) while distributable amount rose to S\$13.7m (+31% qoq) fuelled by the acquisition of 12 nursing homes in Mar22 and 2 more in Sep22 in Japan. DPU rose to 1.98cts in 9M22. (+1.5% from 1.95 in 9M21). The acquisitions are partially funded by JPY1.66b non-recourse social loan.

These acquisitions have brought about:

- (i) increase of AUM in developed markets to 25.6% (target: >50% by 2027), thereby improving the risk profit of First REIT
- (ii) Decrease in all-in cost of debt to 4.0% in 9M22 from 4.2% in Dec 21
- (iii) Diversification of funding sources including, SGD debt, JPY debt and social loans
- (iv) Diversification of tenants with 5 different independent tenants in Japan
- (v) Ride on megatrends of the greying population in Japan

The strategic divestment of Surabaya (completed in Sep22) partially funded First REIT to buy back 45% of the S\$60m 4.98% perpetual notes. This tender offer generated an interest saving of ~S\$1.3m of the 3.0m.

The Group has hedged against the volatility in borrowing cost through swaps and caps, bringing the fixed portions to 61.7% as compared to 22.5% if without. Also, 26.9% of the debt is at relatively stable rates in JPY compared to none before the Japan acquisitions. S\$225.7m of the term loan is set to be refinanced in Mar23 where negotiations are ongoing.

Gearing stands at 35.6% in 9M22. This gives headroom of c.S\$97.4m for future acquisition of properties. We can expect the cost of debt to lower further as they take advantage of the JPY lower interest to fuel expansion.

BUY (maintain) at TP of S\$0.33. This prices First REIT at FY22E P/B of 0.8x and distribution yield of 10.4%.

We held a non-deal roadshow for First REIT a day after the release of the results where we summarized the event in the following pages.

Analyst

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FYE Dec (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	115.3	79.6	102.3	120.3	124.6
Net property income	112.9	77.5	100.2	117.9	122.1
Net return to unitholders	45.5	(355.8)	59.9	57.4	72.6
Distributable income	68.5	33.4	42.1	54.0	58.0
EPU (S cents)	5.7	(43.9)	3.7	2.8	3.5
DPU (S cents)	8.6	4.2	2.6	2.6	2.8
Net cash / (Net debt)	(453.4)	(469.7)	(298.0)	(322.1)	(286.9)
Valuation					
NPI margin (%)	97.9	97.3	97.9	98.0	98.0
NPI yield (%)	8.4	8.2	10.4	9.9	10.4
Distribution yield (%)	30.7	14.8	9.3	10.4	11.0

First REIT Non-Deal Roadshow

We are optimistic about the prospects of First REIT. The restructuring in 2020 marked a significant milestone in its next chapter and set the stage for its 2.0 growth strategy.

This year, First REIT made its maiden foray into the developed world - Japan. In Japan, First REIT owns a total of 14 nursing homes which takes up 24% of their total AUM. It intends to lift that number to more than 50% by 2027. And it has the balance sheet to do so. Currently, the gearing for First REIT is 36%. If the Group gears up to 40% and 45%, it will give them about \$100m and \$200 headroom respectively to acquire more properties.

Japan's properties yield are less than Indonesia and Singapore. However, due to the low cost of funding from JPY, the yield spread is similar, hence contributing to DPU positively.

After refinancing the term loan that will be expiring on Mar 22, First REIT need not worry about future refinancing of bonds and loans as the next debt maturing will be about 2 years later, in May 2025. The Group's weighted average debt to maturity has increased to 2years.

First REIT is guided by a team of experienced veterans in the industry. Victor Tan has been with First REIT for 14 years, 5 years as CEO (since 2017) and 9 years as CFO. Other management-level personnel (CFO, Investment team, legal and compliance team) are long-tenured with more than 12 years.

Income Statement

FYE Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Revenue	79.6	102.3	120.3	124.6
Direct operating expenses	(2.2)	(2.1)	(2.4)	(2.5)
Net property income	77.5	100.2	117.9	122.1
Interest income	1.4	0.1	0.0	0.0
Manager's management fees	(9.8)	(9.4)	(10.9)	(10.9)
Finance costs	(17.8)	(17.0)	(18.3)	(17.8)
Other expenses	(5.7)	(2.2)	(2.0)	(2.0)
Total return	45.5	71.7	86.7	91.4
Change in fair value of assets	(401.4)	(4.5)	(9.7)	0.0
Other gains/(loss)	(2.4)	8.7	(0.0)	0.0
Total return before tax	(358.2)	75.8	76.9	91.4
Tax	5.8	(12.7)	(16.3)	(15.5)
Net return	(352.4)	63.1	60.6	75.8
Perpetual securities holders	(3.4)	(3.2)	(3.2)	(3.2)
Net return to unit holders	(355.8)	59.9	57.4	72.6

Balance Sheet

FYE Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Assets				
Investment properties	939.7	962.4	1,196.4	1,177.5
PPE	0.0	0.0	0.0	0.0
Total non-current assets	939.7	962.5	1,196.4	1,177.5
Cash	19.3	51.2	43.7	49.0
Trade receivables	45.0	32.5	2.4	2.4
Other financial assets	0.0	0.0	0.1	0.0
Derivative financial instruments	0.0	0.0	0.0	0.0
Others	0.9	3.4	1.4	3.4
Total current assets	65.2	87.1	47.7	54.8
Total Assets	1,004.9	1,049.5	1,244.1	1,232.2
Liabilities				
Borrowings	(293.7)	(250.0)	(203.4)	(203.4)
Deferred tax	(20.0)	(20.6)	(50.9)	(50.9)
Derivative financial instruments	(3.9)	0.0	0.0	0.0
Other liabilities	0.0	0.0	(6.4)	(6.4)
Total non-current liabilities	(317.5)	(270.6)	(260.7)	(260.7)
Bank loans	(195.3)	(99.3)	(162.4)	(132.4)
Accounts payable	(17.3)	(18.9)	(20.3)	(20.3)
Other liabilities	(10.1)	(7.1)	(8.0)	(8.0)
Derivative financial instruments	0.0	(0.7)	0.0	0.0
Income tax payable	(0.7)	(1.2)	(4.8)	(4.0)
Total current liabilities	(223.4)	(127.2)	(195.5)	(164.7)
Total Liabilities	(540.9)	(397.7)	(456.3)	(425.5)
Net Assets	464.0	651.8	787.8	806.8
Net equity due to unitholders	403.1	591.1	727.0	746.2
Due to perpetual securities holders	60.9	60.7	60.7	60.7
Total Equity	464.0	651.8	787.7	806.9

Cash Flow Statement

FYE Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	(358.2)	75.8	76.9	91.4
Depreciation & Amortisation	0.0	0.0	0.0	0.0
Net interest expense	17.8	11.7	18.3	17.8
Non-fund items	402.0	(18.2)	18.9	18.9
Manager's fee settled in units	2.8	4.5	4.5	4.5
Changes in working capital	(0.3)	(3.1)	39.8	(1.8)
Interest paid	(16.5)	(10.5)	(18.3)	(17.8)
Tax paid	(12.4)	(4.4)	(12.7)	(16.3)
Operating cash flow	35.2	55.7	127.5	96.6
Capital expenditure	(1.7)	(0.7)	0.0	0.0
Net investment	0.0	0.0	0.0	0.0
Net fixed assets disposal	0.0	6.1	0.0	0.0
Others	0.0	0.0	0.0	0.0
Investing cash flow	(1.7)	5.5	0.0	0.0
Free cash flow	33.5	61.2	127.5	96.6
Dividends paid	(43.8)	(41.6)	(54.0)	(58.0)
Dist to perps	(3.4)	(4.8)	(3.4)	(3.4)
Borrowings	0.0	(140.8)	(77.0)	(30.0)
Equity issue	0.0	157.7	0.0	0.0
Financing cash flow	(47.2)	(29.4)	(134.4)	(91.4)
Net change in cash & equivalents	(13.7)	31.7	(7.0)	5.3

Ratios

FYE Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Profitability (%)				
NPI margin	97.3	97.9	98.0	98.0
EBIT margin	(429.3)	90.6	79.2	87.6
Liquidity (x)				
Interest Coverage ratio (x)	(19.2)	5.4	5.2	6.1
Net Debt to Equity (%)	116.5	50.4	44.3	38.4
Valuation				
ROE (%)	(87.4)	10.7	8.3	10.2
P/B (x)	0.6	0.8	0.8	0.8
FCF yield (%)	14.8	13.5	22.2	16.7

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