

# First Real Estate Investment Trust

5 August 2022

## BUY (previously HOLD)

<b>BBG</b>	FIRT SP
<b>Market cap</b>	S\$574m
<b>Price (5 Aug 2022)</b>	S\$0.28
<b>52-week range</b>	S\$0.20 – S\$0.33
<b>Target Price</b>	S\$0.33 (from S\$0.32)
<b>Shares Outstanding</b>	2,051m
<b>Free Float</b>	56%
<b>Major Shareholder</b>	OUE Lippo Healthcare 41.3%
<b>P/BV (06/22)</b>	0.8x
<b>Aggregate leverage (06/22)</b>	35.6%

Source: Company data, Bloomberg, SAC Capital

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## Improved risk profile and asset quality

1H22 NPI rose 40.2% to S\$52.7m, with maiden contribution from the 12 Japan nursing homes acquired in March 2022, and higher rental income from the Indonesian hospitals. Contributions from Indonesia account for 88.1% of total NPI (FY21: 95.4%), Japan 8.4% and rest from Singapore. The results would have been better, if not for the weaker Yen (-13.4%) and IDR (-1.1%) against S\$, which resulted in lower translated returns.

Net returns rose by a modest 4.0% to S\$18.2m, after a S\$9.7m decline in the value of the investment properties. DPU growth was marginally 1.3% higher, due to 431.1m new units at S\$0.305 each issued to sponsor OUE Lippo Healthcare for the acquisition of the Japan assets.

Concern over rising rates is weighing down on REITs, in terms of the impact on the cost of funds and asset valuation. First REIT is no exception. But its risk profile has improved with the conclusion of new master leases for the Indonesian assets at late 2021 (which provides for a minimum annual rental reversion of +4.5% with guarantee from the operator), and the addition of the Japan assets in March 2022. It enjoyed a 1.2% decline in finance cost in 1H22 to S\$8.4m, in spite of higher total debt of S\$456m as at Jun 2022. The inclusion of lower-cost Yen borrowings has reduced cost of fund to 3.7% (FY21: 4.2%).

We are positive on the outlook of the Indonesian economy, and the strength of IDR. This is due to 1) strong trade surplus in the country underpinned by strong manufacturing output and higher commodity prices; 2) relatively stable bond yield (10Y: 7.2%); 3) Bank Indonesia projects a positive current account surplus of up to 0.3% of GDP by end 2022; and 4) with inflation contained at 4.9%, the central bank has held key 7-day reverse repurchase rate unchanged at 3.5%.

Still, it is looking to diversify its geographical footprint to developed markets, to reduce the share of revenue from developing markets to 50%.

We raise our target price to S\$0.33 (from S\$0.32), which prices it at FY22E P/B of 0.9x and distribution yield of 8%. Upgrade to BUY.

YE 31 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)	5.69	(43.89)	3.71	2.80	3.51
DPU (S cents)	8.60	4.15	2.61	2.64	2.80
Net cash / (debt)	(453.4)	(469.7)	(298.0)	(322.1)	(286.9)
<b>Valuation</b>					
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	9.4	10.0

## Income Statement

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>79.6</b>	<b>102.3</b>	<b>120.3</b>	<b>124.6</b>
Direct operating expenses	(2.2)	(2.1)	(2.4)	(2.5)
<b>Net property income</b>	<b>77.5</b>	<b>100.2</b>	<b>117.9</b>	<b>122.1</b>
Interest income	1.4	0.1	-	-
Manager's fees & expenses	(9.8)	(9.4)	(10.9)	(11.0)
Finance costs	(17.8)	(17.0)	(18.3)	(17.8)
Other expenses	(5.7)	(2.2)	(2.0)	(2.0)
<b>Total return</b>	<b>45.5</b>	<b>71.7</b>	<b>86.7</b>	<b>91.4</b>
Change in fair value of assets	(401.4)	(4.5)	(9.7)	-
Other gains/(loss)	(2.4)	8.7	-	-
<b>Total return before tax</b>	<b>(358.2)</b>	<b>75.8</b>	<b>76.9</b>	<b>91.4</b>
Tax expense	5.8	(12.7)	(16.3)	(15.5)
<b>Net return</b>	<b>(352.4)</b>	<b>63.1</b>	<b>60.6</b>	<b>75.8</b>
Due to perpetual securities holders	(3.4)	(3.2)	(3.2)	(3.2)
<b>Net return to unitholders</b>	<b>(355.8)</b>	<b>59.9</b>	<b>57.4</b>	<b>72.6</b>

## Balance Sheet

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
<b>Assets</b>				
Investment properties	939.7	962.4	1,186.4	1,177.5
Plant and equipment	-	-	-	-
<b>Total non-current assets</b>	<b>939.7</b>	<b>962.4</b>	<b>1,186.4</b>	<b>1,177.5</b>
Cash	19.3	51.2	43.7	49.0
Trade receivables	45.0	32.5	2.4	2.4
Other financial assets			0.1	
Others	0.9	3.4	1.4	3.4
<b>Total current assets</b>	<b>65.2</b>	<b>87.1</b>	<b>47.7</b>	<b>54.8</b>
<b>Total assets</b>	<b>1,004.9</b>	<b>1,049.5</b>	<b>1,244.1</b>	<b>1,232.2</b>
<b>Liabilities</b>				
Bank loans	195.3	99.3	162.4	132.4
Trade payables	17.3	18.9	20.3	20.3
Other liabilities	10.1	7.1	8.0	8.0
Derivative financial instruments		0.7		
Tax provisions	0.7	1.2	4.8	4.0
<b>Current liabilities</b>	<b>223.4</b>	<b>127.2</b>	<b>195.5</b>	<b>164.7</b>
Bank loans	293.7	250.0	203.4	203.4
Deferred tax	20.0	20.6	50.9	50.9
Derivative financial instruments	3.9			
Other liabilities			6.4	6.4
<b>Non-current liabilities</b>	<b>317.5</b>	<b>270.6</b>	<b>260.7</b>	<b>260.7</b>
<b>Net assets</b>	<b>464.0</b>	<b>651.8</b>	<b>787.8</b>	<b>806.8</b>
<b>Net equity due to unitholders</b>	<b>403.1</b>	<b>591.1</b>	<b>727.0</b>	<b>746.2</b>
Due to perpetual securities holders	60.9	60.7	60.7	60.7
<b>Total equity</b>	<b>464.0</b>	<b>651.8</b>	<b>787.7</b>	<b>806.9</b>

## Cash Flow

FYE 31 Dec (\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	(358.2)	75.8	76.9	91.4
Depreciation & amortisation	-	-	-	-
Net finance 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
Working capital changes	(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)
<b>Operating cash flow</b>	<b>35.2</b>	<b>55.7</b>	<b>127.5</b>	<b>96.6</b>
Capex	(1.7)	(0.7)	-	-
Net investments	-	-	-	-
Fixed assets disposal	-	6.1	-	-
Others	-	-	-	-
<b>Investing cash flow</b>	<b>(1.7)</b>	<b>5.4</b>	<b>-</b>	<b>-</b>
<b>Free cash flow</b>	<b>33.5</b>	<b>61.2</b>	<b>127.5</b>	<b>96.6</b>
Dividend paid	(43.8)	(41.6)	(54.0)	(58.0)
Distribution to perps holders	(3.4)	(4.8)	(3.4)	(3.4)
Borrowings		(140.8)	(77.0)	(30.0)
Equity		157.7		
<b>Financing cash flow</b>	<b>(47.2)</b>	<b>(29.5)</b>	<b>(134.4)</b>	<b>(91.4)</b>
<b>Net change</b>	<b>(13.7)</b>	<b>31.7</b>	<b>(7.0)</b>	<b>5.3</b>

## Ratios

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E
<b>Profitability</b>				
NPI margin (%)	97.3	97.9	98.0	98.0
EBIT margin (%)	(429.3)	90.6	79.2	87.6
<b>Liquidity</b>				
EBIT/interest (x)	(19.2)	5.4	5.2	6.1
Net Debt to Equity (%)	116.5	50.4	44.3	38.4
<b>Valuation</b>				
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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