

# First Real Estate Investment Trust

31 March 2023

## BUY (Initiation)

<b>BBG</b>	FIRT SP
<b>Market cap</b>	S\$546.9m
<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 Lippo Healthcare 41.8%

<b>P/BV (12/22)</b>	0.8x
<b>Aggregate leverage (12/22)</b>	38.5%

Source: Company data, Bloomberg, SAC Capital

## Analyst

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## Sustainable DPU with improved risk profile

**First Real Estate Investment Trust** (First REIT) is the first Singapore-based investment trust that focuses on investing in healthcare-related real estate assets in Asia. The Trust's approach is to own income-generating properties that are intended for healthcare-related purposes. Its portfolio consists of 32 properties across Indonesia (15), Singapore (3), and Japan (14 acquired in 2022). First REIT's sponsors are OUE Limited and OUE Lippo Healthcare Limited.

**Risk profile has improved** due to several strategies adopted which include (i) less reliance on collecting rental from PT Lippo Karawaci Tbk (LPKR) as Siloam became a direct counterparty to each of LPKR MLA; (ii) increasing AUM in developed markets to more than a quarter through the acquisition of nursing homes in Japan; (iii) tenant and operator diversification; and (iv) more mixture of funding sources (SGD debt, JPY loan, social loan) with next debt (23.5% of total debt) maturing only in 2025.

**Riding on the tailwinds** of supply shortage in Indonesia and megatrends in Japan. Under-penetration in the healthcare sector in Indonesia leaves the number of beds per 1000 people at 1.2 in 2021, missing the median set by OCED of 3.4. Ageing population is becoming a serious problem with those aged 65 or older projected to reach 31.4% of the total population in Japan by 2030 and 33.3% by 2025 in Singapore. This demographic shift has created strong demand for First REIT's healthcare services and facilities.

**Solid rental structure with an attractive dividend yield.** After the new master lease agreement took effect in Jan 2021, its Indonesia properties (excl. Lippo Cikarang) have a fixed 4.5% rental escalation or 8.0% of the hospital's gross operating revenue in the previous FY. Singapore properties have fixed base rental fees and fixed annual rental increments of 2%. For 12 of the 14 Japan properties, rental may be revised, pegged to its CPI and interest rates, upon negotiation. FY22 DPU was 2.64 Singapore cents, translating to a 10.2% yield.

**Risk** includes tenant concentration, foreign exchange fluctuation, and the end of Japan's loose monetary policy.

**Initiate a BUY** 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.

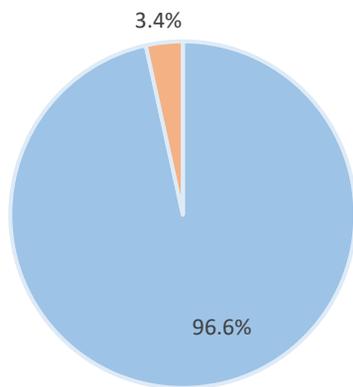
FYE Dec (S\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	79.6	102.3	111.3	112.5	114.5
Net property income	77.5	100.2	108.6	110.2	112.2
Net return to unitholders	(355.8)	59.9	31.0	62.9	63.8
Distributable income	33.4	42.1	52.4	48.2	49.1
EPU (S cents)	(43.9)	4.0	1.6	3.1	3.2
DPU (S cents)	4.1	2.8	2.6	2.4	2.4
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

## Investment Thesis

**Improved risk profile** buoyed by First REIT's 2.0 Growth Strategies, enabling sustainable rental collection and distribution. The Trust made its maiden foray into the Japanese healthcare real estate market in FY22 to diversify its tenant and geographical assets and tap into the tailwinds of Japan's healthcare sector. They completed the acquisition of 12 nursing homes in Japan on Mar 2022 and 2 more in Sep 2022, adding 5 more 3rd party tenants, totaling to 11 in FY22. With these, the combined AUM is more than a quarter in the developed markets, targeting to have more than half of its AUM there by 2027. 15.2% of FY22 rental income comes from the developed markets. Japan's acquisition allowed a more dependable and foreseeable stream of rental income as the majority of its leases are designed as long-term with extended periods and pre-determined rental increases.

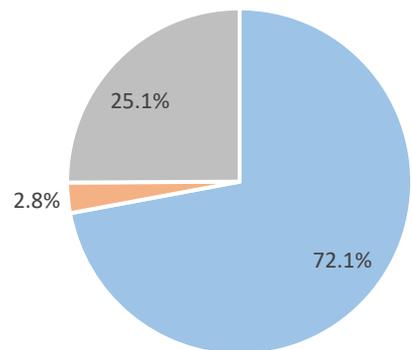
The WALE for First REIT properties is 12.5 with 16.9% / 10.0% / 73.0% expiring within 5 / 5-10 / >10 years. The Indonesia and Singapore properties have the option to renew for 15 and 10 years respectively.

FY21 AUM by Geography



■ Indonesia ■ Singapore ■ Japan

FY22 AUM by Geography



■ Indonesia ■ Singapore ■ Japan

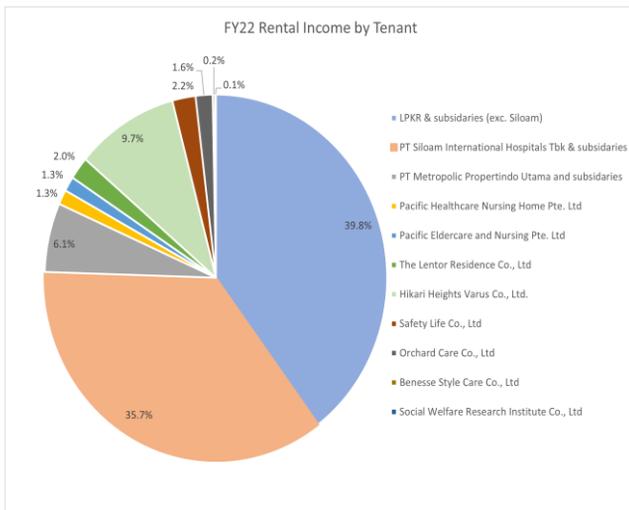
Source: SAC Capital

## Properties / Tenants

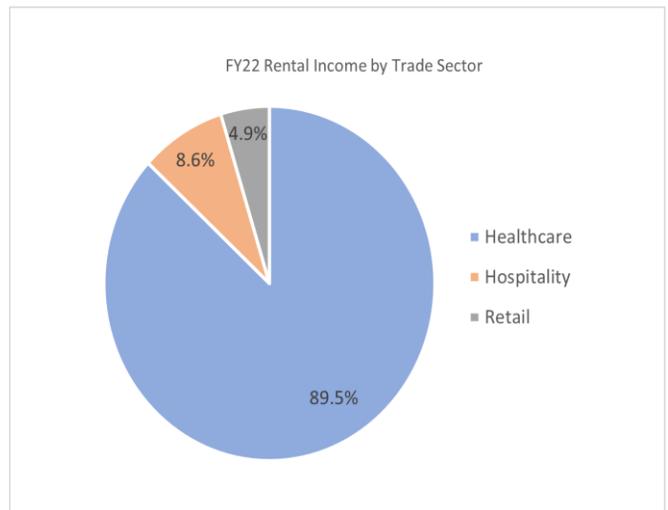
Properties	Type	Tenant	Lease Expiry	Net Lease Agreement
<b>Indonesia</b>				
Siloam Hospitals Lippo Village	Hospital	Siloam + LPKR	Dec 2035	Triple
Siloam Hospitals Kebon Jeruk	Hospital	Siloam + LPKR	Dec 2035	
Imperial Aryaduta Hotel & Country Club	Integrated Hotel & Country Club	LPKR	Dec 2023	
Siloam Hospitals Lippo Cikarang	Hospital	Siloam	Dec 2025	
Mochtar Riady Comprehensive Cancer Centre	Hospital	Siloam + LPKR	Dec 2035	
Siloam Hospitals Makassar	Hospital	Siloam + LPKR	Dec 2035	
Siloam Hospitals Manado & Hotel Aryaduta Manado	Integrated Hospital & Hotel	Siloam + LPKR	SHMD: Dec 2035 HAMD: Nov 2027	
Siloam Hospitals TB Simatupang	Hospital	Siloam + LPKR	Dec 2035	
Siloam Hospitals Bali	Hospital	Siloam + LPKR	Dec 2035	
Siloam Hospitals Purwakarta	Hospital	Siloam + MPU	Dec 2035	
Siloam Sriwijaya	Hospital	Siloam + MPU	Dec 2035	
Siloam Hospitals Kupang (SHKP) & Lippo Plaza Kupang (LPK)	Integrated Hospital & Mall	SHKP: Siloam + MPU LPK: LPKR	SHKP: Dec 2035 LPK: Dec 2030	
Siloam Hospitals Labuan Bajo	Hospital	Siloam + LPKR	Dec 2035	
Siloam Hospitals Buton (SHBN) & Lippo Plaza Buton (LPB)	Integrated Hospital & Mall	SHBN: Siloam + LPKR LPK: LPKR	SHBN: Dec 2035 LPB: Oct 2032	
Siloam Hospitals Yogyakarta	Hospital	Siloam + LPKR	Dec 2035	
<b>Singapore</b>				
Pacific Healthcare Nursing Home @ Bukit Merah	Nursing Home	Pacific Healthcare Nursing Home Pte. Ltd	Apr 2027	Triple
Pacific Healthcare Nursing Home @ Bukit Panjang	Nursing Home	Pacific Eldercare and Nursing Pte. Ltd	Apr 2027	Triple
The Lentor Residence	Nursing Home	The Lentor Residence Co., Ltd	Jun 2027	Double
<b>Japan</b>				
Hikari Heights Varus Ishiyama	Nursing Home	Hikari Heights Varus Co., Ltd	Apr 2043	Single
Hikari Heights Varus Tsukisamu Koen	Nursing Home			
Hikari Heights Varus Fujino	Nursing Home			
Hikari Heights Varus Kotoni	Nursing Home			
Hikari Heights Varus Makomanai Koen	Nursing Home			
Varus Cuore Yamanote	Nursing Home			
Varus Cuore Sapporo-Kita & Annex	Nursing Home	Safety Life Co., Ltd		
Elysion Gakuenmae	Nursing Home			
Elysion Mamigaoka & Annex	Nursing Home	Orchard Care Co., Ltd		
Orchard Amanohashidate	Nursing Home			
Orchard Kaichi North	Nursing Home			
Orchard Kaichi West	Nursing Home			
Medical Rehabilitation Home Bon Séjour Komaki	Nursing Home	Benesse Style Care Co., Ltd	May 2027	Triple
Loyal Residence Ayase	Nursing Home	Social Welfare Research Institute Co., Ltd	Sep 2043	Single

- Lease expiry within 5 years

Source: SAC Capital



Source: SAC Capital



Source: SAC Capital

## Investment Thesis

**Riding on the megatrends in the healthcare industry.** In Indonesia, the healthcare sector is underpenetrated, household incomes are rising, and healthcare expenditures are increasing. However, the number of hospital beds per 1000 people is 1.2 in 2021, far below the median of 3.4 beds per 1000 people set by the Organization for Economic Cooperation and Development (OECD). Its out-of-pocket (OOP) expenditure is far above international standards and other countries in the region. The Universal Healthcare Program, which was rolled out in 2014, is expected to provide coverage for 98% of the population (2017: ~70%).

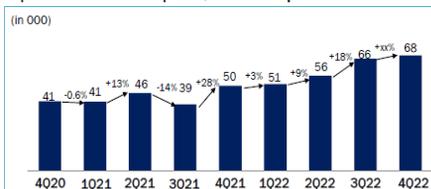
In Japan, the ageing population demographics are worsening with 29.9% of the population aged 65 or older in 2022, projecting to rise to 31.4% by 2030 and plateauing at c.40% only in 2040-2050. Similarly, in Singapore greying population is a social problem with those aged 65 and above at 18.4% of the total population and forecasted to reach 23.8%/33.3% in 2023/2025 respectively. This demographic shift has created strong demand for healthcare services and facilities, including nursing homes. Government initiatives such as insurance policies, increasing the supply of beds and alleviating the headcount of care providers are ongoing.

**Solid rental structure with an attractive dividend yield.** Indonesia properties (excl. Lippo Cikarang) have a rental escalation of either a fixed 4.5% or 8.0% of the hospital's gross operating revenue in the preceding financial year, whichever is higher. Singapore properties have fixed base rental fees and fixed annual rental increments of 2%. For 12 of the 14 Japan properties, rental may be revised, pegged to its CPI and interest rates, upon negotiation. Most of the Trust's properties are leased out in a triple net lease contract, meaning that First REIT does not have to bear property taxes, insurance, operating expenses, and is not impacted by inflation-related escalating costs.

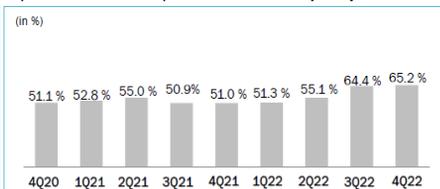
Siloam's 4Q22 operational performances have improved and their revenue growth initiatives includes, offering uniform pricing packages, optimizing pricing across network, automation, optimizing efficiency of BPJS service delivery, maximizing equipment utilization and maximizing capacity utilization. Cost management strategies includes consolidating and renegotiating with suppliers. These initiatives will increase the chances of First REIT's 8.0% rental escalation.

First REIT is committed and has been paying out at least 90% of its taxable and tax-exempt income. For the past 8 quarters, DPU were 0.65/0.66 Singapore cents. FY22 DPU was 2.64 Singapore cents, translating to a 10.2% yield.

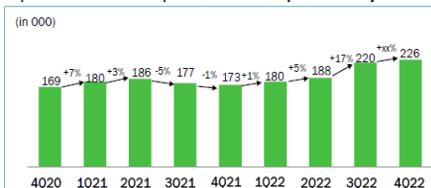
Operational Results per Quarter – Inpatient Admissions



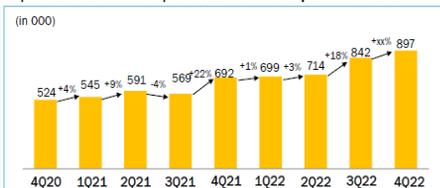
Operational Results per Quarter – Occupancy Rate



Operational Results per Quarter – Inpatient Days



Operational Results per Quarter – Outpatient Visits



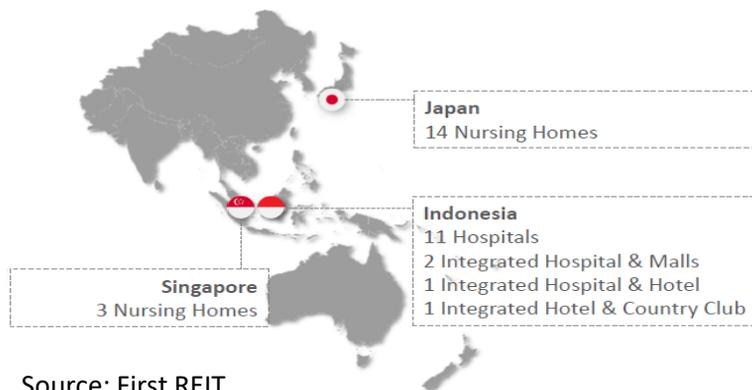
DISTRIBUTION PER UNIT (DPU)  
(Singapore cents)



## Overview

First Real Estate Investment Trust (First REIT), listed on SGX in Dec 2006 with 4 Indonesian properties, is the first Singapore-based investment trust that focuses on investing in healthcare-related real estate assets in Asia. The Trust's approach is to own income-generating properties that are intended for healthcare-related purposes. These may include hospitals, healthcare facilities, real estate properties used for healthcare research, education, or the production and storage of healthcare-related products like medicine and devices, among others.

### 32 ASSETS ACROSS ASIA



Source: First REIT

The Trust's portfolio consists of 32 properties across Indonesia (15), Singapore (3), and Japan (14 acquired in 2021) valued at over S\$1.15b. First REIT's sponsors are OUE Limited, a leading pan-Asian, full service real estate development, investment and management company, and OUE Lippo Healthcare Limited, the healthcare specialized subsidiary of real estate player OUE Limited. The operator of its Indonesia hospitals is PT Siloam International Hospitals Tbk, a subsidiary of LPKR while the properties in Singapore and Japan are operated by third-party operators.

First REIT is handled by First REIT Management Limited, where OUE Limited owns 60% and OUE Lippo Healthcare Limited (OUELH) owns 40%. First REIT has the right-of-first-refusal (ROFR) from OUELH, allowing them to benefit from its expanding healthcare network across Pan-Asia, and also has ROFR to Lippo Karawaci's hospitals, which holds 58.7% stake in Siloam.

## Capital Recycling

Reshaping portfolio for capital efficient growth through recycling of non-core and mature assets is one of the Trust's 2.0 Growth Strategy.

Due to complications from a road subsidence event, an agreement in connection with development works adjacent to Siloam Hospitals Surabaya (SHS) was terminated, and First REIT received a full settlement amount of S\$30.6 million. First REIT saw an opportunity to recycle SHS (built in 1977), a mature asset, instead of taking on excessive development risk (arising from road subsidence event). In September 2022, First REIT completed the divestment of SHS for S\$40.3 million, which represents a 143.2% gross premium over the original purchase consideration

In total, First REIT received S\$70.9 million from the divestment of SHS and the termination of the development works agreement; proceeds were largely used to pare down loans and perpetual securities. The repurchase of approximately 45% of outstanding perpetual notes brought about estimated interest savings of about S\$1.3m.

The Trust classified Imperial Aryaduta Hotel & Country Club (IAHCC), with an assessed value of S\$27.5m as of Dec 22, as a non-core asset and is currently putting it out for sale. The lease had been renewed for a year until 31 Dec 2023.

## Master Lease Agreement (MLA)

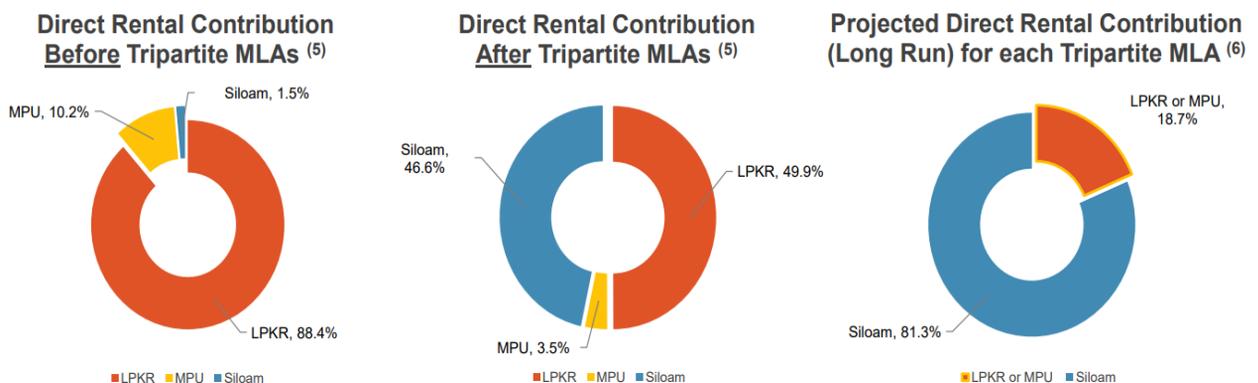
First REIT has undergone MLA restructuring for its hospital with PT. Lippo Karawaci Tbk (LPKR) in 2020 to avoid default and termination of leases. LPKR, First REIT's largest tenant then, was experiencing a significant lack of available funds due to ongoing expenses, poor cash flow from operations, and an inability to sell assets. The impact of the Covid-19 pandemic further weakened LPKR's financial performance. Additionally, the depreciation of the IDR/SGD (44.8% down since IPO) has added pressure on LPKR as rent payments were paid in SGD before the exercise.

		Prior to 2021	Since 2021
New Master Lease Agreements for 14 hospitals	Base Rent Escalation	2x of Singapore's consumer price index increase for the preceding calendar year (capped at 2%)	4.5% annually
	Variable / Performance-Based Rent	Variable rent factor (0%-2%) applied to a function of the gross operating revenue	8.0% of preceding financial year Hospital gross operating revenue
	Total Rent Payable	Base + Variable	Higher of Base or Performance Based Rent (asset by asset basis)
	Tenure	15 years + 15 years with mutual agreement	15 years + 15 years with mutual agreement
	Currency	SGD	IDR

Source: First REIT

After the completion of the MLA exercise, although the base rent decreased by 38% to S\$56.7m, rental escalations were more favourable due to higher volatility of IDR payment as compared to SGD previously, and the security deposit rose from six to eight months for every LPKR hospitals. The WALE extended from 7.4 to 12.6 years, offering a lease profile that is more stable and reliable to strategically position First REIT for its growth in the future.

Siloam has also been added as a party to each of the LPKR MLAs. Its direct rental contribution before/after the MLA exercise is 1.5%/46.6% and is projected to rise to 81.3% in the long run. This brings more assurance of future rental collections as well as sustainability as Siloam is a profitable cash cow in FY20 and FY21 while LPKR has been in the red since FY18.



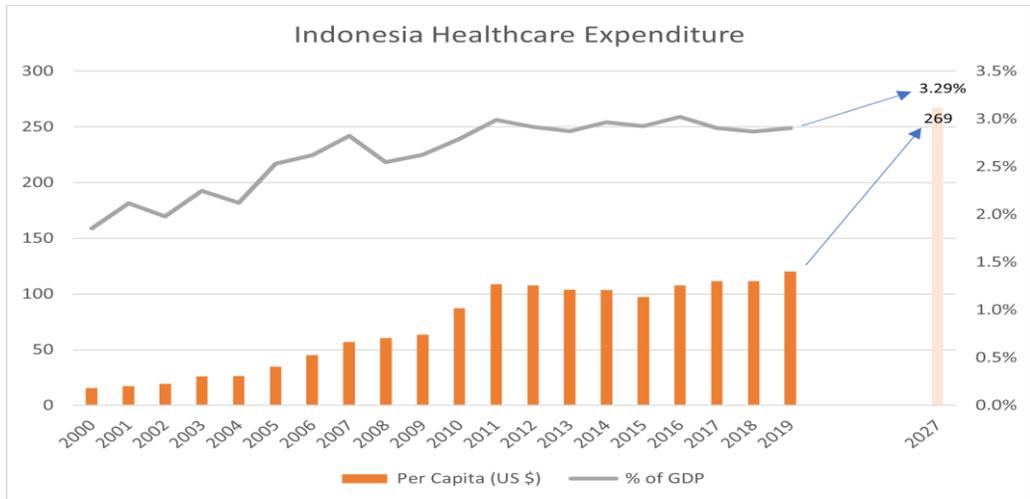
Source: First REIT

## Industry - Indonesia



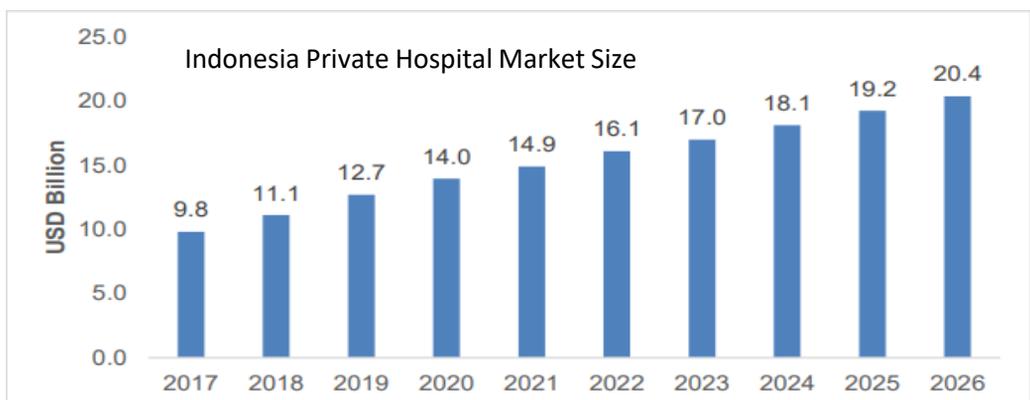
Source: Bloomberg, SAC Capital

Indonesia's GDP had been growing at a rate of ~5% for the past 20 years and is forecasted to continue the trend. Economists expect it to grow at 4.9% and 5.0% in 2023 and 2024 respectively.



Source: Statista, SAC Capital

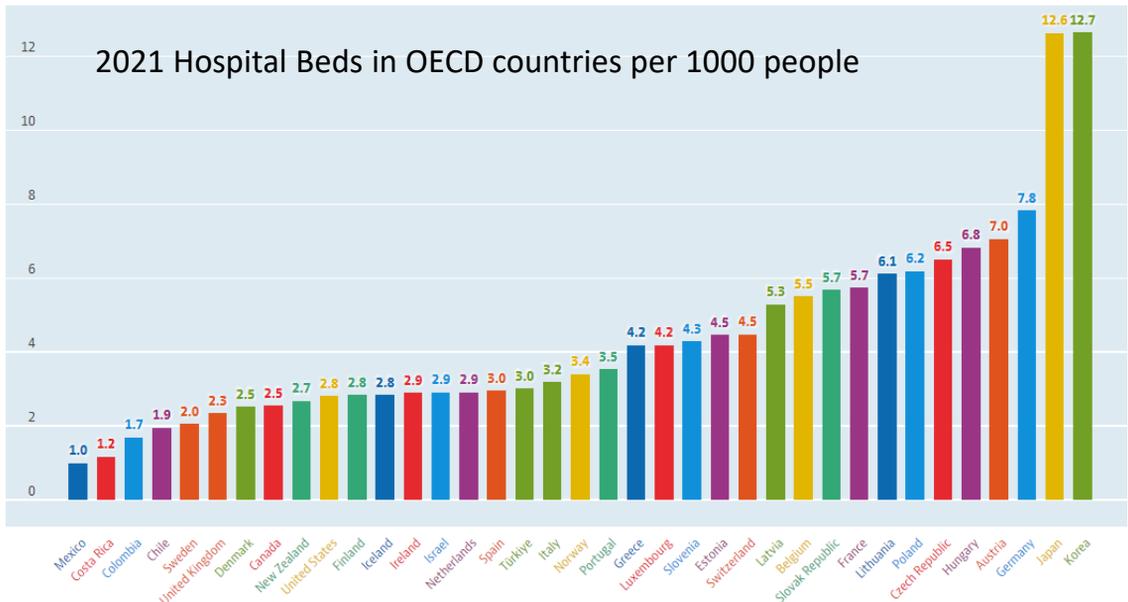
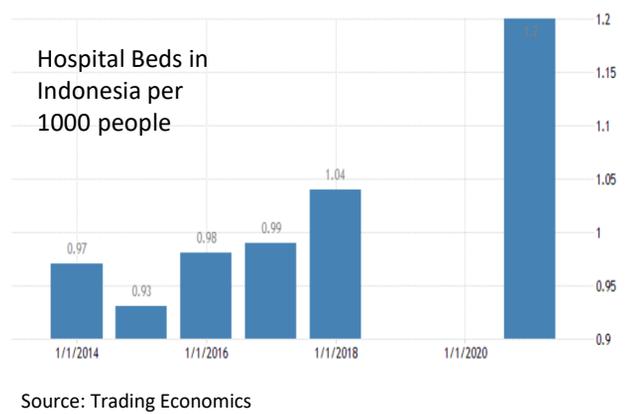
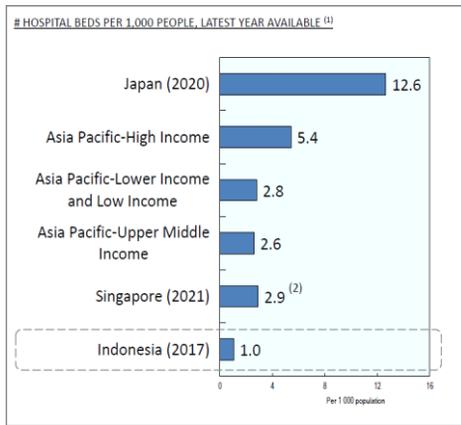
The healthcare sector is experiencing rapid expansion in Indonesia and healthcare expenditure is forecasted to grow at a CAGR of 14.3% from 2022 – 2025, according to Statista. As a percentage of GDP, health expenditure grew by 1.1pp to 2.9% and is expected to reach 3.29% by 2027. Healthcare expenditure per person is expected to increase by over two-fold to USD269 by 2027 based on data from BMI.



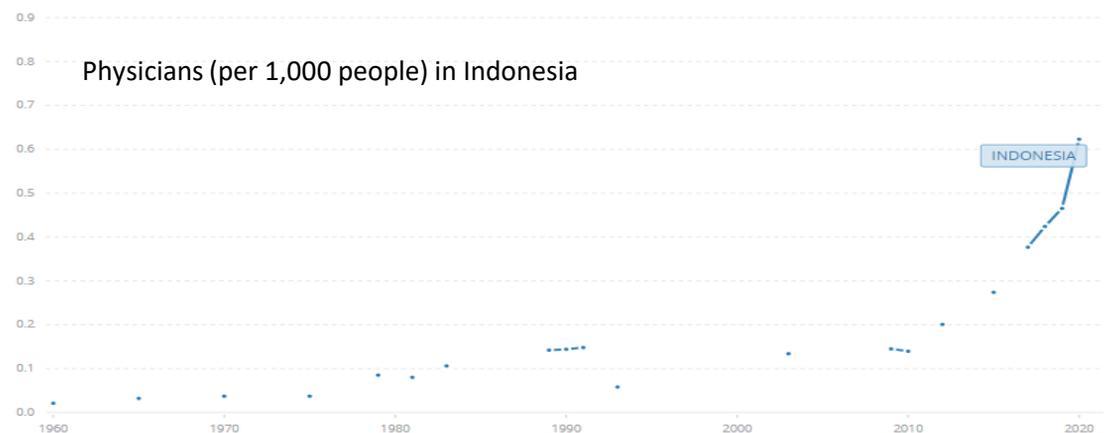
Source: Statista

Between 2022 and 2026, the private hospital industry is projected to experience a CAGR of 6.0%, resulting in a total market size of USD20.4 billion.

## Industry – Indonesia

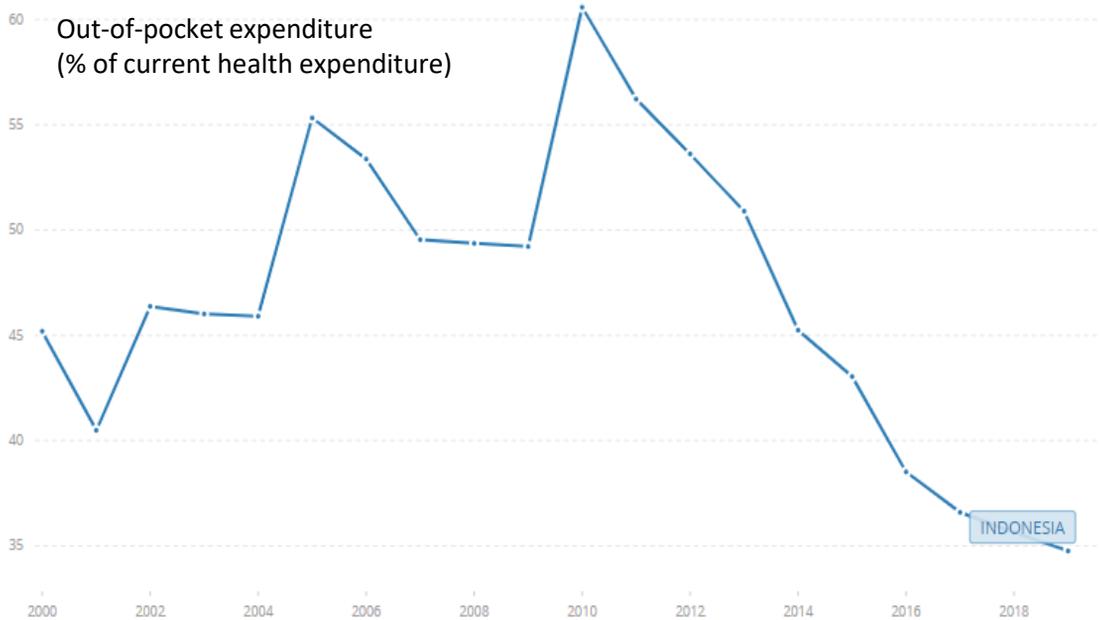


The number of hospital beds in Indonesia per 1000 inhabitants is 1.2 in 2021, which is significantly lower than the Asia Pacific's lower and low, and upper-middle-income region of 2.8 and 2.6 respectively. The Organization for Economic Cooperation and Development (OCED) median and average are c.3.4 and 4.3 beds per 1 000 people respectively.



There are ~6 physicians per 10,000 people in 2020 in Indonesia which are below the East Asia Pacific and WHO's population standard of 19 and 10 per 10,000 people respectively.

## Industry – Indonesia



Source: The World Bank

Indonesia's Out-of-pocket (OOP) expenditure is far above international standards and other countries in the region. Its OOP spending made up 34.8% of total health expenditure in 2019 far exceeding the World Health Organisation's (WHO) benchmark of 20%.

The Indonesian government had implemented several schemes to increase affordability and access to healthcare. One of them is the Universal Healthcare Programme, Jaminan Kesehatan Nasional (JKN), introduced in 2014 and administered by BPJS, which aims to increase the accessibility of healthcare through both public and participating private healthcare institutions. It is anticipated that by 2024, JKN will provide coverage for 98% of the population (2017: ~70%)..

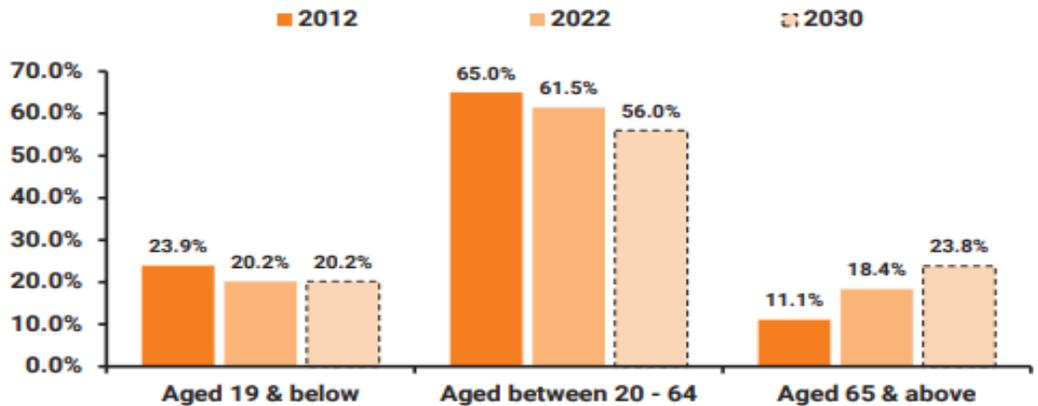
12 out of the 14 hospitals owned by First REIT offer BPJS to its patients, drawing in more patients to their hospitals from lower OOP costs. BPJS accounts for 17.5% of Siloam's 41 Hospitals in FY22, up by 4.9pp.

4 of its hospitals (Lippo Village, TB Simatupang, Kebon Jeruk, MRCCC) are in partnership with the Indonesian government to become the recommended hospitals tourists visiting Indonesia.

In order to meet the demand for healthcare services, the government raised the cap for medical students' enrolment to meet the demand for doctors on Jul 22 and introduced Indonesia Endowment Fund for Education (LPDP) scholarship for specialist doctor program students. The increasing prosperity in Indonesia is likely to result in a higher demand for hospital services that meet high standards of quality.

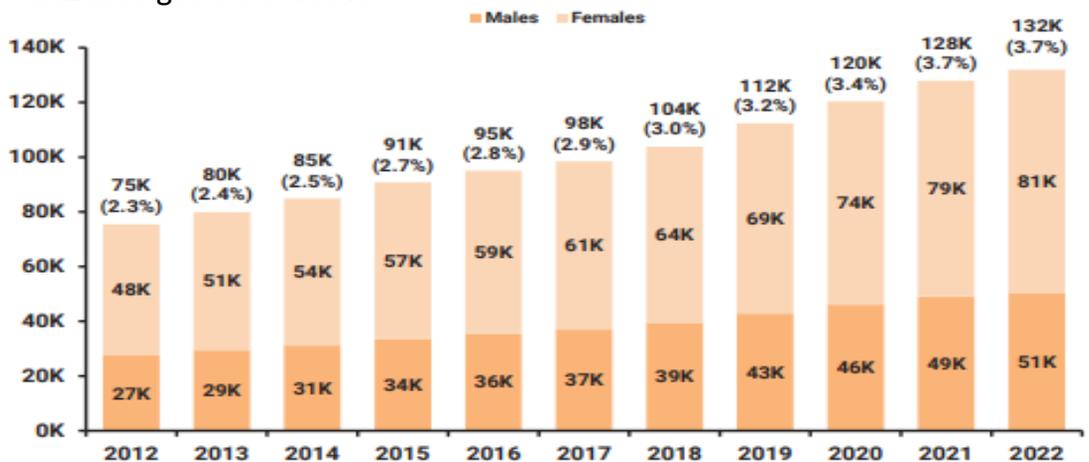
## Industry - Singapore

Citizen population by broad age bands



Source: Singapore Department of Statistics

Citizens Aged 80 & above

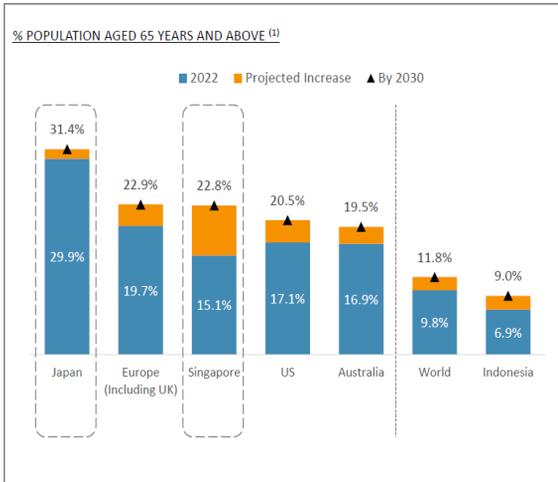


Source: Singapore Department of Statistics

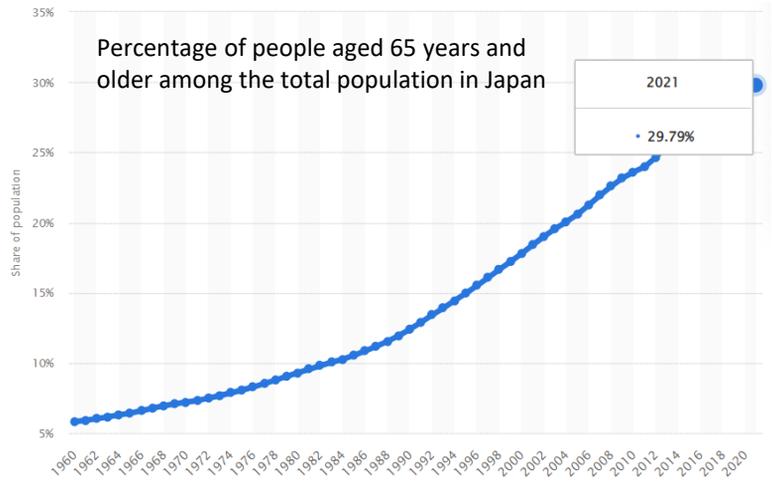
Singapore's population is ageing quickly due to longer life expectancies and low fertility rates. Based on data from Statista, in 2021, Singapore has one of the longest life expectancies globally and the lowest fertility rate at 1.15. From 2012-2022, those aged 65 and above had risen by 7.3pp to 18.4% and are projected to rise to 23.8% in 2030 and 33.3% in 2050. Those 80 and above had risen by 1.4pp from 2012 to 2022.

The government had come out with a lot of initiatives to tackle the greying population and shortage of care providers. Ministry of Health (MOH) increased the number of nursing home beds by 70% to 16,200 from 2010 to 2020 and plans to further expand it by more than 91% in the coming 10 years. They intend to increase the number of eldercare centres to 220 by 2025, almost twice the current amount. MOH's Community Care Salary Enhancement exercise, and Agency for Integrated Care's (AIC) investment in skills development of the sector's workforce, job redesigning, and digitalization will help to alleviate manpower shortages.

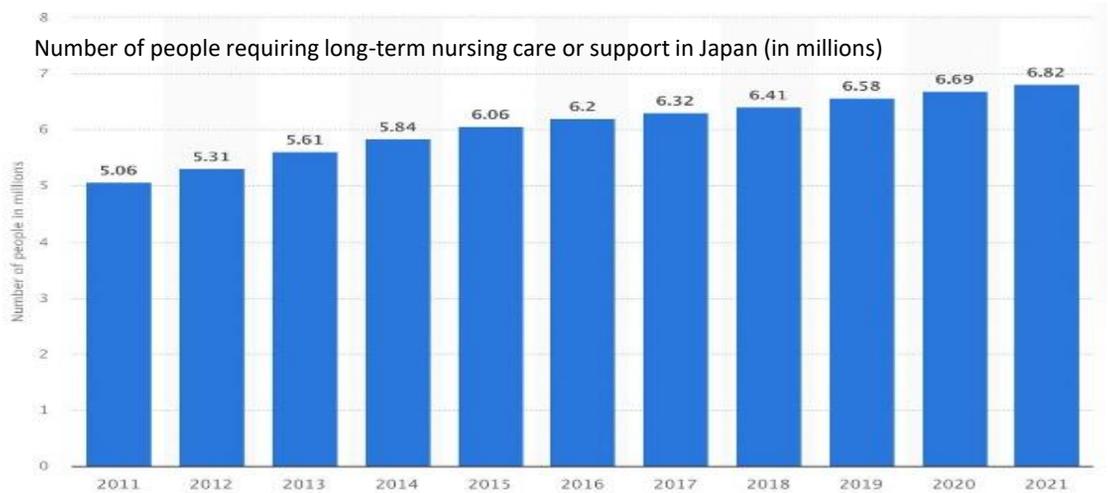
## Industry - Singapore



Source: First REIT



Source: Statista



Source: Statista

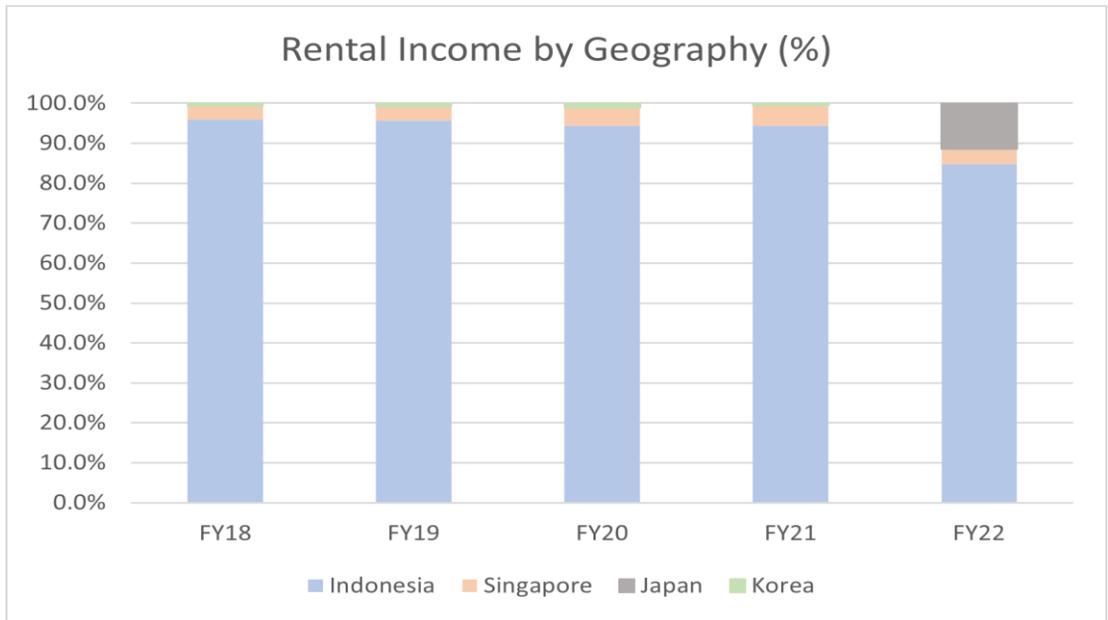
Japan has one of the quickest greying populations across the globe with 29.9% of the population aged 65 or older in 2022, projecting it to rise to 31.4% by 2030 and plateauing at c.40% only in 2040-2050. This demographic shift has created strong demand for healthcare services and facilities, including nursing homes. The number of people requiring nursing care in Japan had risen by 24.8% from 2011 to 2021.

The government implemented various policies such as the Long-term Care Insurance (LTCI) system in 2000 which includes covering the cost of nursing home care for elderly individuals. By 2030, the government aims to double the availability of senior housing to 4% from 2% in 2018, adding 600,000 more beds. According to a report by Euromonitor International, the market size for nursing care facilities in Japan was approximately \$131 billion in 2020, with an annual growth rate of around 1%.

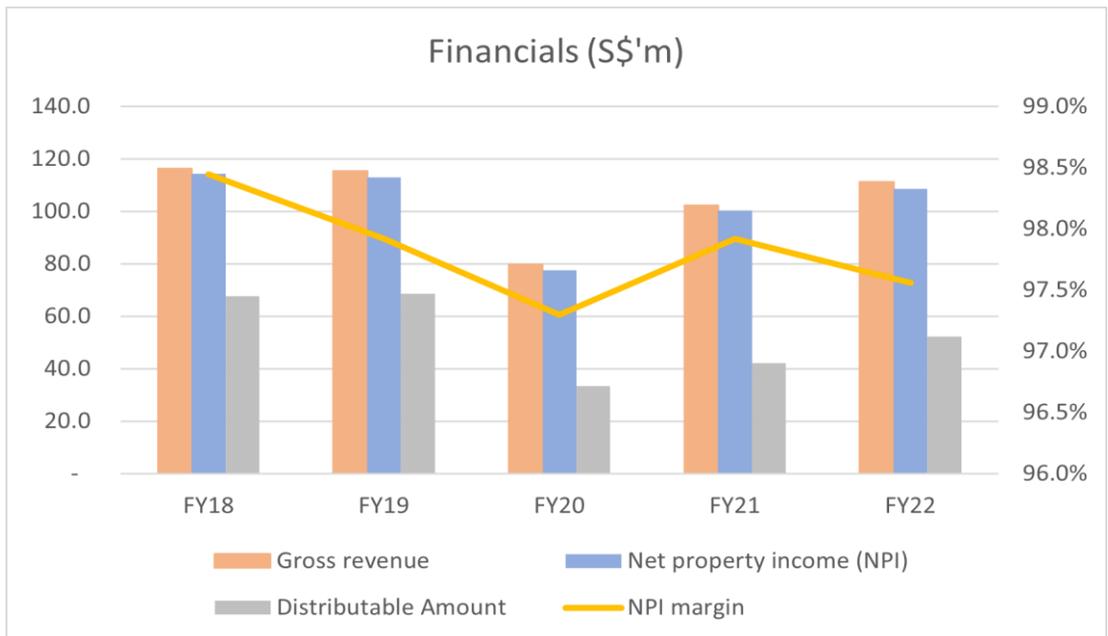
Other government measures include financial support through subsidies, simplifying the application process for nursing home licenses, reducing the minimum size requirements for facilities, and ramping up training and hiring programs to tackle a shortage of skilled caregivers.

The healthcare real estate market in Japan continues to be robust with steady demand and favorable investment conditions on the back of the ageing population and government policies promoting the industry.

## Financials



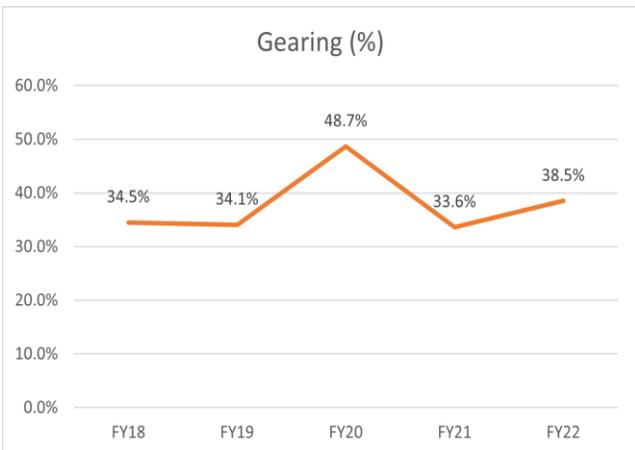
Source: SAC Capital



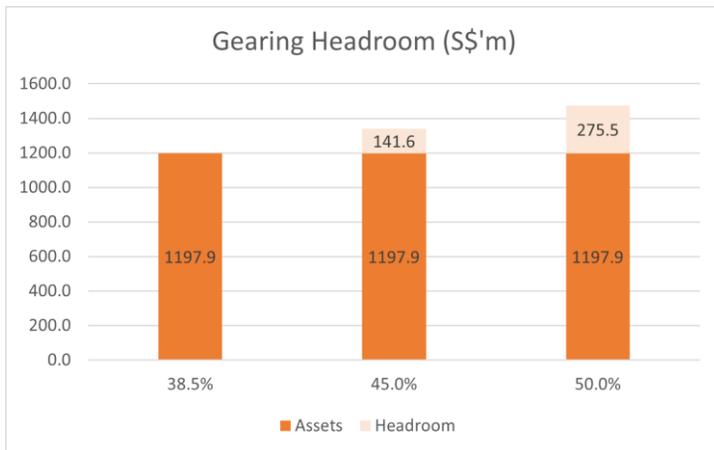
Source: SAC Capital

FY22 rental and other income rose 8.7% to S\$113m on the back of the acquisition of 14 Japan nursing homes and at least 4.5% rental escalation from its Indonesian properties, offset by lower rental income from IAHCC due to Covid's impact which hurt footfall and SHLC (not part of the MLA exercise) due to absence of variable rent in 2022. NPI increased by 8.3% to S\$108.6m and the distributable amount grew by 24.4% to S\$52.4m. DPU increased marginally by 1.1% to 2.64 Singapore cents due to the issuance of equity from the acquisition of Japanese properties.

## Debt Profile



Source: SAC Capital

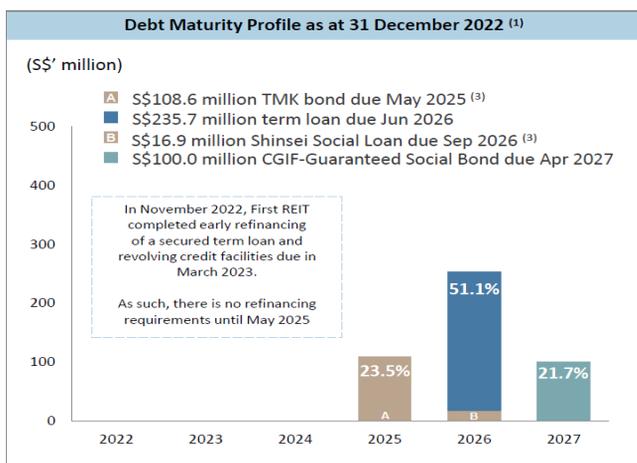


Source: SAC Capital

FY22 gearing ratio stands at 38.5%, leaving First REIT with S\$141.6m and S\$275.5m of headroom to borrow and acquire properties before it hits the 45% and 50% gearing cap respectively.

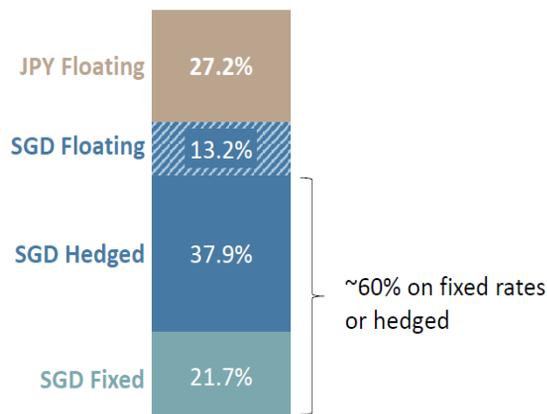
In Nov 2022, First REIT refinanced a S\$225.7m term loan which accounted for 50.6% of its total debt. There will be no refinancing needed until May 2025. As the Trust is in the healthcare sector which has a social impact on the local community, they are able to secure Singapore's first S\$100m healthcare social bond at a 3.25% rate maturing in early 2027 and JPY16.9m Shensei social loan due in late 2026.

The weighted average debt to maturity improved to 3.38 years as compared to 0.94 years in 2021, the cost of debt reduced to 3.7% (from 4.2% in 2021) due to JPY debt and the interest coverage ratio decreased to 5.0x (from 5.2x in 2021).



Source: First REIT

### Funding Sources, Interest Rate, % of Total Debt



Source: First REIT

After entering into SGD interest rate swaps and interest caps worth S\$175m, First REIT has 59.6% of its debt fixed. The Trust also engaged in non-deliverable forward contracts and call spreads as a means of hedging against net cashflow risks related to Indonesia.

The Group initially issued S\$60m perpetual securities at 5.68% in 2016. It was then reset to 4.98% in Jul 2021. The rest of the distribution rate will occur every 5 years. The strategic divestment of Surabaya partially funded First REIT to buy back 45% of the S\$60m 4.98% perpetual notes which were completed on Sep 22. This tender offer generated an interest saving of c.S\$1.3m of the S\$3.0m.

## **Management**

First REIT is led by a team of the long-tenured experienced management team.

Tan Kok Mian Victor is the Executive Director and CEO of the Board of the Manager. He joined the Manager in 2008 as a senior finance manager and became the CFO later that year. Before joining the Manager, he worked at Parkway Holdings Limited as an accountant and financial controller.

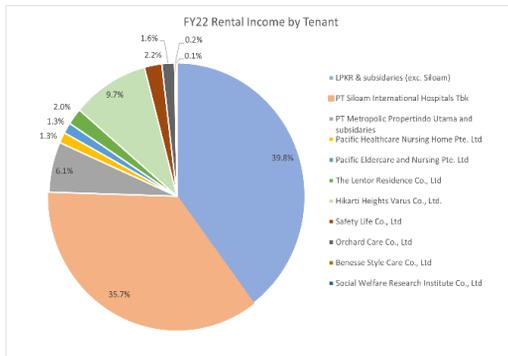
Mr Chan Seng Leong, Jacky has extensive real estate and property experience in Singapore, Hong Kong, and China. He graduated from the National University of Singapore and has a Master of Science in Real Estate and an MBA from the University of Western Australia. He was previously with Chesterton International Property Consultants as Assistant Valuation Manager and Executive Director, and with Ascendas-MGM Funds Management Ltd as an Investment Manager.

Ms Ng Chwee Ngor, Valerie joined the Manager in 2008 as Senior Finance Manager and was promoted to Chief Financial Officer in 2018. Before joining the Manager, she worked at Parkway Holdings Limited as a financial controller and at Osprey Maritime Limited as a group accountant, where she was responsible for financial reporting and treasury functions. She graduated from the Association of Chartered Certified Accountants (ACCA) and is a Chartered Accountant of the Institute of Singapore Chartered Accountants and a fellow member of ACCA.

Mr Koji Otani, with 17 years of experience in real estate asset management and investment management in Japan, was added to FRM Japan management in March 2023 as the General Manager. He leads the Manager's asset management activities in Japan.

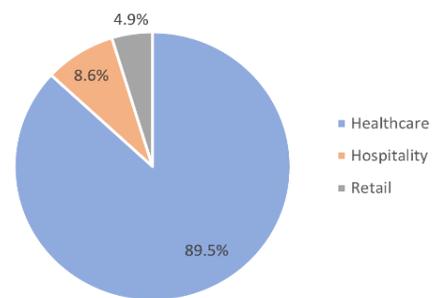
## Risks

**Tenant Concentration Risk.** Although the rental contribution from LPKR has reduced significantly from 88.4% (before MLA) to 49.9% (after MLA) to 39.9% (FY22), it is still significant and, in any event, where LPKR is unable to pay its rent, First REIT's DPU will be substantially affected. Bringing in Siloam as a counterparty has mitigated that risk as Siloam is seen as a more stable tenant. Rental from healthcare contributes 89.5% of the total rental income and the tailwind from the healthcare industry will likely benefit First REIT's business operations.



Source: SAC Capital

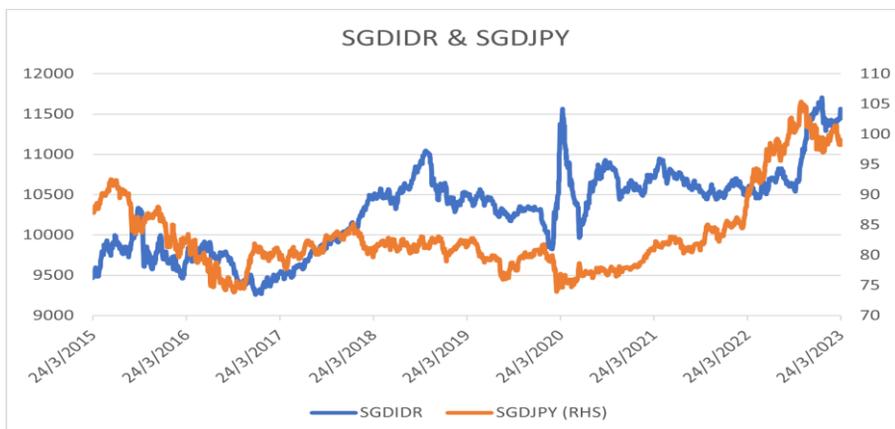
FY22 Rental Income by Trade Sector



Source: SAC Capital

**Foreign Exchange Risk.** As 85% of rental revenue from Indonesia is denominated in IDR after the MLA, First REIT is more exposed to exchange rate risk. A 10% weakening in rupiah against the SGD will translate to a 0.48cts drop in DPU without hedges. To address FX volatility, the Trust entered into non-deliverable forward and Call Spreads to hedge IDR net cash flow. Around 60% of the income in IDR has been hedged.

By using JPY funding, First REIT protected itself from potential fluctuations in currency value, which may arise from owning JPY-denominated assets. This creates a natural hedge against foreign exchange risks. In addition, the low correlation of 0.38 between SGD/IDR and SGD/JPY for the past 8 years translates to lower volatility in the exchange rate. The Trust's 2.0 strategy of diversifying more into developed markets will further reduce the reliance on IDR/SGD and improve its foreign exchange risk profile.



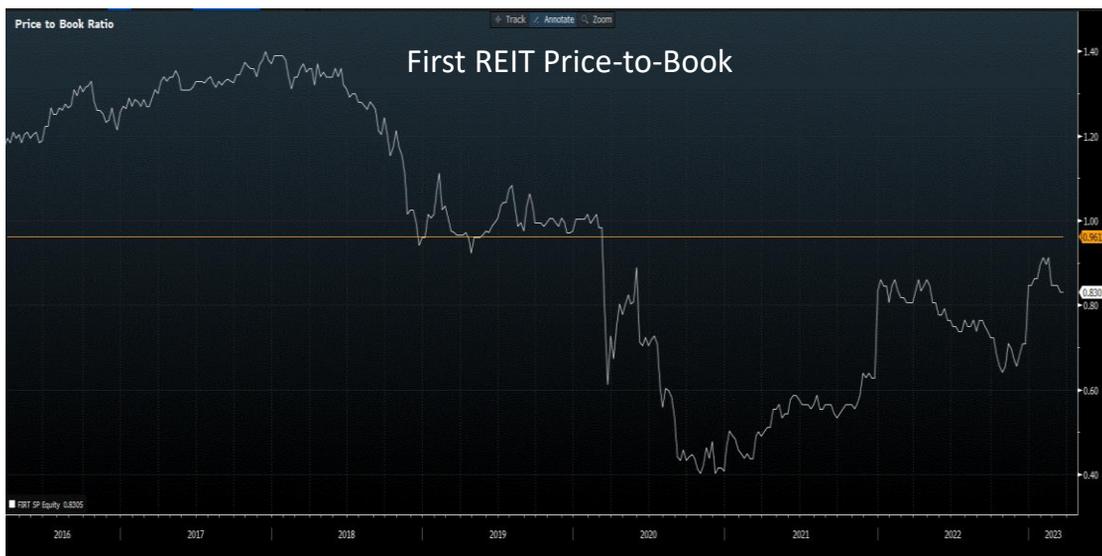
Source: Bloomberg, SAC Capital

**Potential end to Japan's loose monetary policy.** Kuroda doubled the cap on the 10-year yield in December 2022 due to rising inflation, gesturing that Japan might end its decade-long extra low or negative interest rate strategy. Kazuo Ueda, known for his neutrality in monetary policy, will be the next Governor of BOJ from April 2023. As of 31 Dec 22, JPY floating debt amounts to S\$125.5m, 27.2% of total debt. A 0.25% increase in interest rate will raise finance costs by 1.6% or S\$0.3m. However, this will be mitigated by upwards rental revision of Japanese properties pegged to CPI and interest rates.

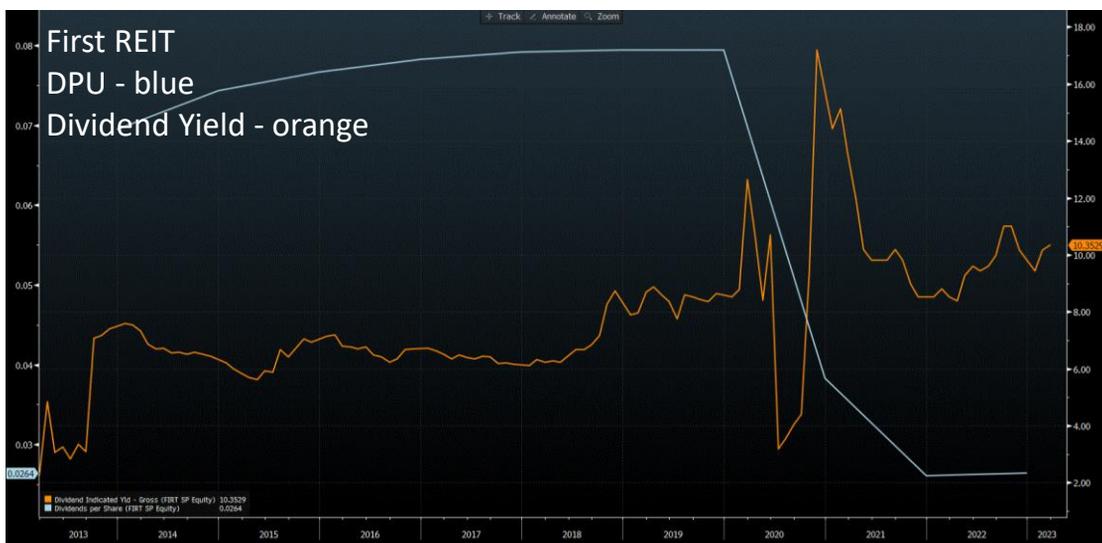
## Valuation

Parkway Life REIT is the closest listed peer in Singapore. Though Parkway Life's lease expiry and financials are better overall, First REIT offers an attractive yield of 10.2% at a 0.85 price to book. Future growth would include more yield-accretive acquisition into the developed markets, larger rental collection from better performance of its Indonesia hospital. We initiate a BUY at a TP of S\$0.30 (COE: 9.1%).

Peer Comparison	Market Cap (S\$ 'm)	P/B (x)	DPU Yield (%)	WALE	Gearing (%)	Weighted average debt to maturity (yrs)	Cost of debt (% per annum)	Interest coverage ratio (x)
First REIT	536.5	0.85	10.2%	12.5	38.5%	3.38	3.70%	5.0
Parkway Life REIT	2329.3	1.65	3.8%	17.0	36.4%	3.40	1.04%	18.3



Source: Bloomberg, SAC Capital



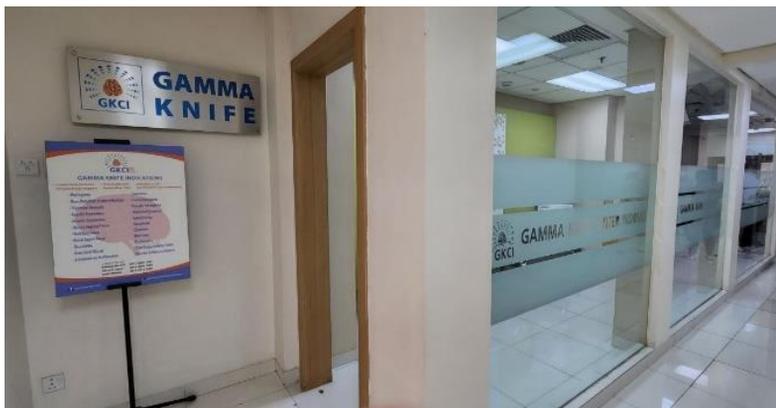
Source: Bloomberg, SAC Capital

## Site Visit

We were hosted by the management to a site visit in Jakarta on the 21 – 22nd March 23 to Siloam Hospitals (Lippo Village, Mochtar Riady Comprehensive Cancer Centre, TB Simatupang, Kebon Jeruk) and Imperial Aryaduta Hotel & Country Club. All the hospitals we visited are undergoing Asset Enhancement Initiatives (AEI) to expand their useable area and improve customer experience, in turn, generating higher gross revenue.

Imperial Aryaduta Hotel & Country Club (IAHCC) is a non-core asset and is currently marketed for sale. LPKR is the tenant and operator. Located next to Lippo Village, it provides accommodation for out-of-town, in/outpatients and day-surgery patients. The occupancy was c.50% during the trip as it was a festive season. The average occupancy is around 80%. In 2020-2022, the hotel was sublet to the government for corporate and government events. Since removing of restrictions, most revenues had come from MICE events.

Siloam Hospitals Lippo Village's Centre of Excellence (CoE) are Neurology and Cardiology where 40% of its revenue is generated. It houses 1 out of 2 Gamma Knife Technology in Indonesia, with the other one owned by the government. Gamma Knife, an alternative to open surgery, is an advanced non-invasive radiation treatment for certain brain disorders, such as tumors and lesions, with the benefits of shorter recovery time and lower risk of complications. In addition, they have their in-house nursing training school. LINAC had been placed to support the strategic expansion of oncology business in Banten Area.



Mochtar Riady Comprehensive Cancer Centre is the first private hospital in Indonesia that offers a comprehensive suite of cancer treatments. They have their in-house research and claim to be the only one, besides a government hospital, that offers the most comprehensive cancer treatments, hence referrals from other hospitals are common. They are also the only private player that manufactures the Cyclotron machine and chemicals which are used for generating high-energy particles in a variety of scientific and medical applications. It is a Centre of Excellence for Oncology, Gastroenterology and Emergency & Trauma



## Site Visit



Siloam Hospitals TB Simatupang has its CoE in orthopedics and paternity treatment. As Japanese companies are being set up in Jakarta, this hospital is tied up with Japanese insurance to provide affordable healthcare to the Japanese. Siloam Hospitals Kebon Jeruk has established a CoE for orthopedics, heart, emergency room (ER), digestion, urology, children, and neurology. In addition to medical services, Siloam Hospitals Kebon Jeruk also provides health-related education and prevention programs to promote healthy living and prevent illness.

The hospitals that we visited had undergone revamps and are still renovating some parts to improve and expand their facilities such as increasing the number of beds, and surgical rooms and enhancing equipment. These AEI are paid by the operators themselves and will translate to higher rental income if 8.0% of the previous year's hospital's gross revenue exceeds the 4.5% of rental escalation.

## 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 unitholders</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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