

# First Real Estate Investment Trust

4 August 2023

## BUY (Maintained)

<b>BBG</b>	FIRT SP
<b>Market cap</b>	S\$537.6m
<b>Current Price</b>	S\$0.260
<b>52-week range</b>	S\$0.230 – S\$0.285
<b>Target Price</b>	S\$0.295
<b>Shares Outstanding</b>	2067.8m
<b>Free Float</b>	55.3%
<b>Major Shareholder</b>	OUE Limited 44.7%

	1H23	1Q23
<b>P/BV (x)</b>	0.8	0.8
<b>Aggregate leverage (%)</b>	38.7	39.0
<b>WADM (yrs)</b>	4.1	3.1
<b>COD (%)</b>	4.9	3.7
<b>ICR (x)</b>	4.1	4.7
<b>% fixed/hedged debt (%)</b>	86.0	62.8
<b>WALE (yrs)</b>	12.0	12.2

Source: Company, Bloomberg, SAC Capital

### Analyst

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## Embracing fixed JPY loan for stability and potential higher rent escalation

**1H23 DPU** fell by 6.1% yoy to 1.24 Scts, forming 51.5% of our FY23E forecast, while 2Q23 DPU remains flat at 0.62 Scts qoq. The drop was a result of higher financing costs, 431.1m units (20.9% of enlarged share cap) issued in part to finance the Japan nursing home, and depreciation of IDR/SGD (c.6.0% yoy) and JPY/SGD (c.10.8% yoy). FIRT aims to ensure a sustainable distribution by hedging at least 50% of its rental collection, thereby reducing the risks related to currency exchange.

**FIRT reported S\$54.0m (+0.4% yoy)** in rental income and S\$25.5m (+1.0% yoy) in distributable amount driven by full six-month rental collection from its Japan properties and higher contribution from its Indonesia and Singapore properties. This is negated by the currency translation impact. In rupiah terms, Indonesia's properties (exc. Cikarang) rental income for rose by 8.8% yoy. These are in tune with our forecast. Developed markets properties comprise over a quarter of total AUM while generating 17.9% of total revenue. NPI dipped 0.6% yoy to S\$52.4m due to higher property operating expenses in Japan where most are on single net leases. NPI margins of JPY properties are around the high 80s while Indonesian properties are c.99%.

**BOJ doubled the range within which 10-year yields can fluctuate**, up to 1%. Coupled with inflationary pressure of 3.3% yoy, tweaking interest rates upwards is likely, in our view. FIRT refinanced its S\$114 million TMK bond due to expire in May 2025, extending the maturity date to 2030 and converted all JPY debt to fixed-rate. The nominal interest rate of the TMK bond increased from 1% to 1.5% and there is no need for any refinancing until May 2026. Cost of debt stood at 4.9% (4.7% in 1Q23). 86.0% of debt is fixed/hedged in 1H23 (62.8% in 1Q23), the rest of 14% which includes S\$50m from term loan facility and S\$15.7m from revolving credit facility will not be able to fix. A 100bp rise in interest rate is estimated to raise finance costs by 3.1% or S\$0.7m.

**Rent arrears are in check but continue to monitor.** S\$4.2m of rent arrears are outstanding as at 30Jun23 (S\$2.6m as at 31Mar23). MPU had repaid S\$2.0m as at 31Jul23 and provided c.S\$2.3m of security deposits, which altogether exceeds the outstanding amount. MPU is a co-tenant of 3 Indonesian properties, contributing c.6.1% of rental income in FY22. Management indicated that they are in constant engagement with MPU.

**Siloam defied seasonal factors, reporting strong double-digit growth momentum** with 1H23 revenue/EBITDA/net profit growth of 19.1%/47.6%/142.5% yoy fueled by cost efficiency measures and higher patient volume which translated to higher APRD. Inpatient admissions/inpatient days/outpatient volume growth of 33.7%/22.7%/29.9% yoy. Siloam's successful efforts in enhancing their performance augur well for First REIT, as they will benefit from an 8.0% rent escalation based on the hospital's GOR. Thus far, 3 of 14 Indonesian properties (exc. Cikarang) achieved this milestone.

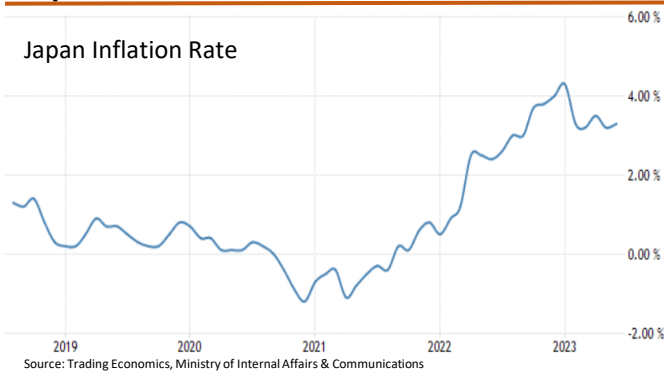
**New Health Bill** was enacted in Indonesia in Jul2023 to permit foreign medical specialists to practice and establish their base in the country. We foresee this to have positive implications for Siloam, a renowned international hospital with global collaborations, as it (i) encourages the middle-class and affluent population to favor local medical treatment over seeking it overseas; (ii) facilitates the transfer of technology and knowledge-sharing, upskilling local healthcare professionals and leveraging these to enhance its medical services and patient care; and (iii) alleviates the shortage of medical professionals and improve the hospital's capacity to provide quality healthcare services.

**Reiterate BUY** at a lower TP of S\$0.295 (COE: 8.9%), factoring in change in DPU of +1.6% in FY23E and -2.9% in FY24E, 0.5% increased in units and 0.2pp increased in higher financing cost. This priced First REIT at 0.8x price-to-book and distribution yield of 9.4% for FY23E. Upside re-rating includes (i) new acquisition of yield-accretive healthcare properties in other developed markets such as Australia; (ii) capital recycling and sale of IAHCC (appraised value of c.S\$27.5m as at 31Dec22); (iii) more Indonesian hospitals achieving 8.0% rental reversion; (iv) appreciation of IDRSGD and JPYSGD. Risks include further weakening of IDR&JPY against SGD, inability of MPU to pay rent and higher financing costs.

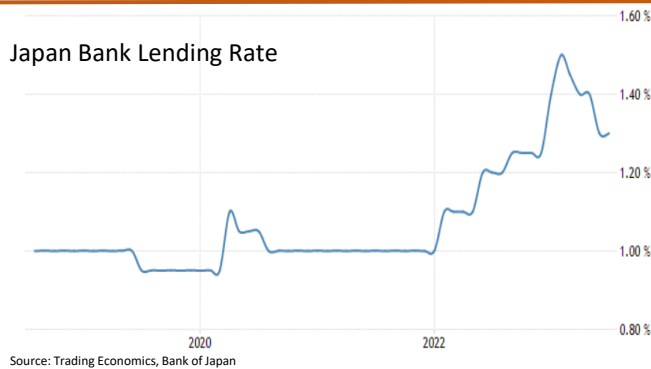
FYE Dec (S\$ 'm)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	79.6	102.3	111.3	111.2	118.7
Net property income	77.5	100.2	108.6	108.2	115.6
Net return to unitholders	(355.8)	59.9	31.0	54.0	59.9
Distributable income	33.4	42.1	52.4	50.8	49.1
EPU (S cents)	(43.9)	4.0	1.6	2.6	2.9
EPU growth (%)	(871.6)	(109.1)	(61.0)	67.2	9.9
DPU (S cents)	4.1	2.8	2.5	2.4	2.4
DPU growth (%)	(52.0)	(32.0)	(9.2)	(3.9)	(4.0)
Net cash / (Net debt)	(469.7)	(298.0)	(405.0)	(389.9)	(363.3)
Valuation					
PB (x)	0.4	0.8	0.8	0.8	0.8
NPI margin (%)	97.3	97.9	97.6	97.3	97.4
NPI yield (%)	8.2	10.4	9.5	9.6	10.4
DPU yield (%)	19.3	8.6	10.2	9.4	9.0

## Japan Economic Data

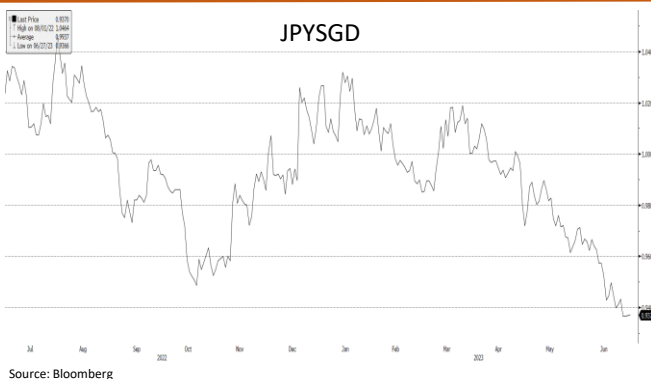
### Japan Inflation Rate



### Japan Bank Lending Rate

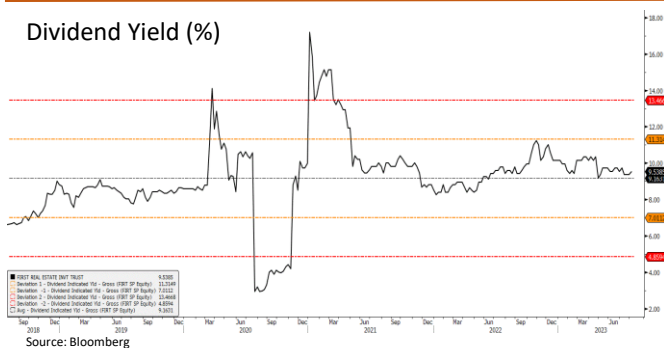


## Foreign Currency



## Valuation

### Dividend Yield (%)



### Price-to-Book (x)



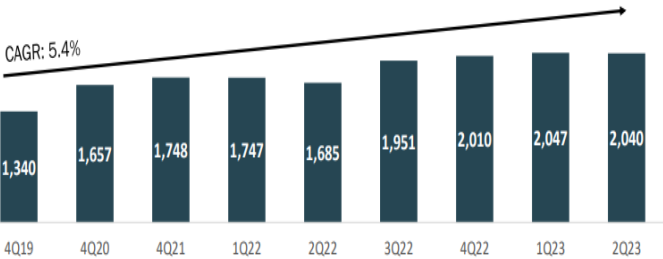
## Peers Comparison

Company	BBG Ticker	Mkt Cap (\$\$ 'm)	Revenue (\$\$ 'm)	NM (%)	ROE (%)	P/B (x)	Dividend Yield
FIRST REAL ESTATE INVST TRUST	FIRT SP	548.0	111.3	30.2	5.1	0.9	9.4
PARKWAYLIFE REAL ESTATE	PREIT SP	2,311.1	130.0	31.6	2.8	1.6	3.8
AL-'AQAR HEALTHCARE REAL EST	AQAR MK	306.9	34.9	54.1	6.1	1.0	6.5
Mean						1.3	5.1
Median						1.3	5.1
MEDICAL PROPERTIES TRUST INC	MPW US	7,919.7	2,127.4	58.5	3.5	0.7	11.8
PRIMARY HEALTH PROPERTIES	PHP LN	2,108.1	262.5	36.5	(0.7)	0.8	7.2
NORTHWEST HEALTHCARE PROPERT	NWH-U CN	1,657.7	475.7	14.3	(4.9)	0.7	11.7
COMMUNITY HEALTHCARE TRUST I	CHCT US	1,290.9	134.7	22.5	1.9	1.9	5.0
VITAL HEALTHCARE PROPERTY TR	VHP NZ	1,267.1	132.9	211.3	-	0.7	4.1
UNIVERSAL HEALTH RLTY INCOME	UHT US	883.8	125.0	23.3	8.2	3.0	6.0
GLOBAL MEDICAL REIT INC	GMRE US	849.8	189.3	13.9	2.1	1.2	8.7
DIVERSIFIED HEALTHCARE TRUST	DHC US	753.3	1,769.9	(1.2)	(11.3)	0.2	1.7
CARE PROPERTY INVEST	CPINV BB	701.2	78.9	163.2	17.0	0.7	7.4
IMPACT HEALTHCARE REIT PLC	IHR LN	635.3	73.1	39.3	4.0	0.8	7.5
HEALTHCARE TRUST INC	HLTC US	598.4	463.1	(23.7)	(10.6)	0.6	-
HEALTHCARE & MEDICAL INVESTM	3455 JP	495.5	51.0	45.2	6.6	1.4	4.4
Mean						1.1	6.9
Median						0.8	7.2

Source: Bloomberg

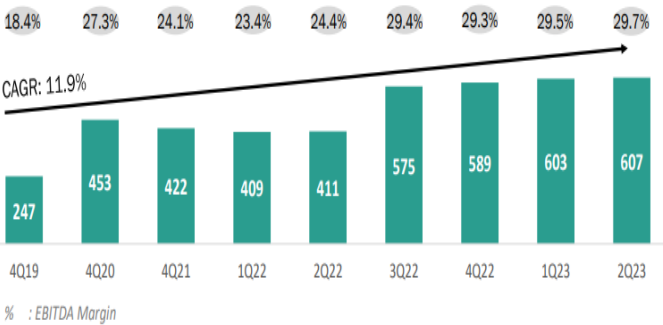
# Siloam 2Q2023 Performance (Yr End Dec)

Quarterly Revenue\*  
(in IDR bn)

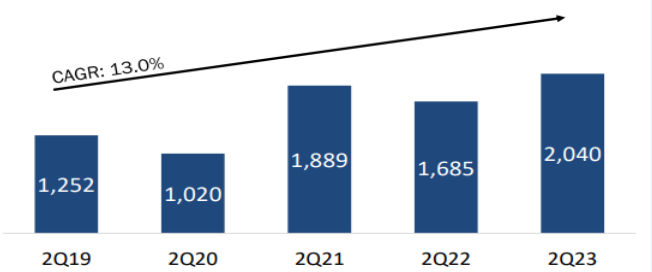


\*NOR for 2019  
\*Revenue 2020 onwards referring to non-specialist revenue

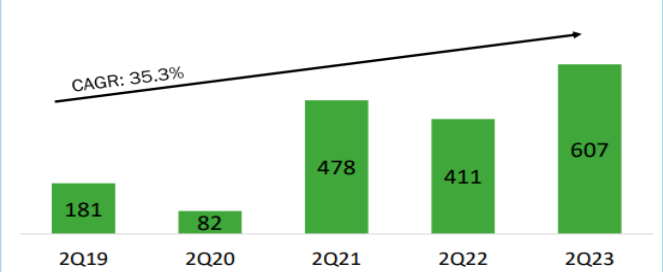
Quarterly EBITDA  
(in IDR bn)



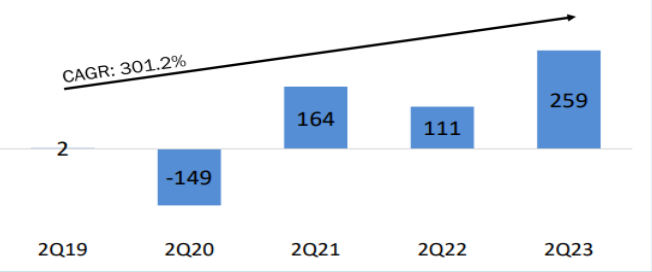
Revenue\* (IDR bn)



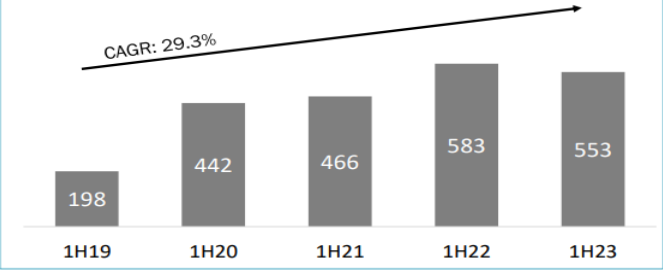
EBITDA (IDR bn)



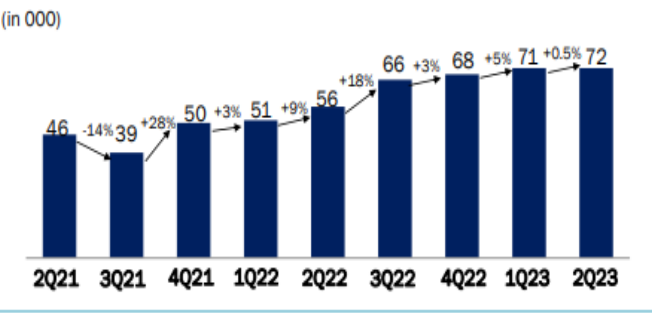
Net Profit (IDR bn)



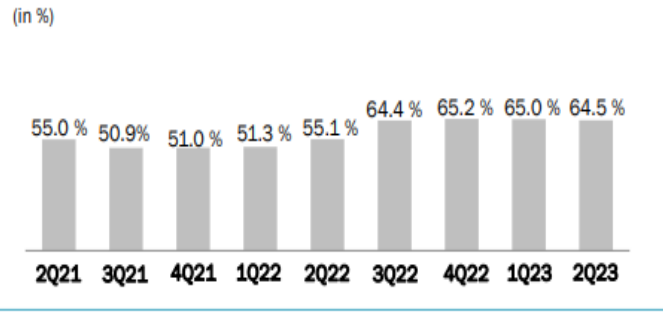
Operating Cash Flow (IDR bn)



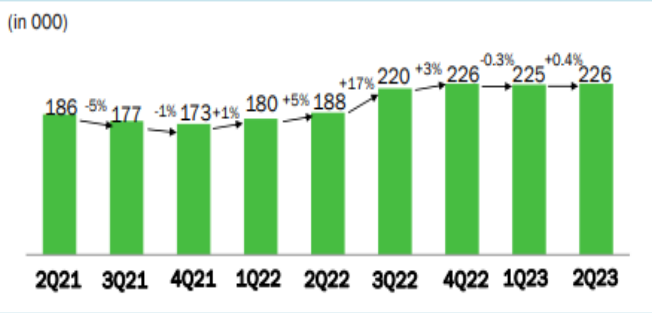
## Operational Results per Quarter – Inpatient Admissions



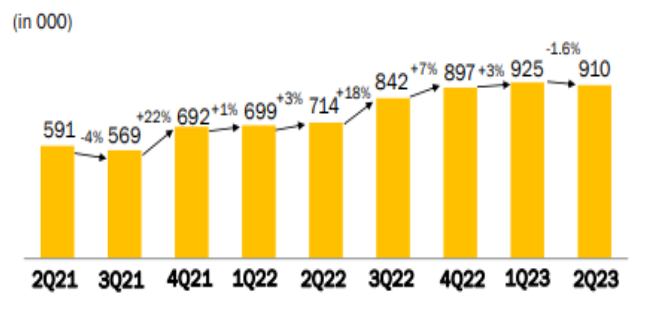
## Operational Results per Quarter – Occupancy Rate



## Operational Results per Quarter – Inpatient Days



## Operational Results per Quarter – Outpatient Visits



## Income Statement

FYE Dec (S\$ 'm)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenue</b>	<b>79.6</b>	<b>102.3</b>	<b>111.3</b>	<b>111.2</b>	<b>118.7</b>
Direct operating expenses	(2.2)	(2.1)	(2.7)	(3.0)	(3.1)
<b>Net property income (NPI)</b>	<b>77.5</b>	<b>100.2</b>	<b>108.6</b>	<b>108.2</b>	<b>115.6</b>
Interest income	1.4	0.1	0.3	0.5	0.5
Manager's management fees	(9.4)	(9.1)	(9.5)	(8.9)	(8.9)
Finance costs	(17.8)	(17.0)	(19.4)	(22.4)	(22.4)
Other expenses	(6.1)	(2.6)	(3.0)	(2.7)	(2.9)
<b>Total return</b>	<b>45.5</b>	<b>71.7</b>	<b>76.9</b>	<b>74.7</b>	<b>81.8</b>
Change in fair value of assets	(401.4)	(4.5)	(22.7)	0.0	0.0
Other gains/(loss)	(2.4)	8.7	(2.3)	(0.1)	0.6
<b>Total return before tax</b>	<b>(358.2)</b>	<b>75.8</b>	<b>52.0</b>	<b>74.6</b>	<b>82.4</b>
Tax	5.8	(12.7)	(18.4)	(18.9)	(20.8)
<b>Net return</b>	<b>(352.4)</b>	<b>63.1</b>	<b>33.6</b>	<b>55.7</b>	<b>61.6</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>54.0</b>	<b>59.9</b>

## Balance Sheet

FYE Dec (S\$ 'm)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Assets</b>					
Investment properties	939.7	962.4	1,145.3	1,130.1	1,114.9
PPE	0.0	0.0	0.0	1.4	2.7
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>1,132.8</b>	<b>1,118.9</b>
Cash	19.3	51.2	46.1	69.0	99.0
Trade receivables	45.0	32.5	5.0	6.1	6.1
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>76.0</b>	<b>105.9</b>
<b>Total Assets</b>	<b>1,004.9</b>	<b>1,049.5</b>	<b>1,198.6</b>	<b>1,208.8</b>	<b>1,224.8</b>
<b>Liabilities</b>					
Borrowings	(293.7)	(250.0)	(449.6)	(458.9)	(458.9)
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)	(10.8)	(10.8)
<b>Total non-current liabilities</b>	<b>(317.5)</b>	<b>(270.6)</b>	<b>(512.1)</b>	<b>(520.4)</b>	<b>(520.4)</b>
Bank loans	(195.3)	(99.3)	(1.5)	(0.9)	(0.9)
Accounts payable	(17.3)	(18.9)	(15.0)	(14.5)	(14.5)
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)	3.1	(2.2)
<b>Total current liabilities</b>	<b>(223.4)</b>	<b>(127.2)</b>	<b>(21.2)</b>	<b>(16.0)</b>	<b>(21.3)</b>
<b>Total Liabilities</b>	<b>(540.9)</b>	<b>(397.7)</b>	<b>(533.3)</b>	<b>(536.4)</b>	<b>(541.7)</b>
<b>Net Assets</b>	<b>464.0</b>	<b>651.8</b>	<b>665.4</b>	<b>672.4</b>	<b>683.1</b>
<b>Net equity due to unitholderes</b>	<b>403.1</b>	<b>591.1</b>	<b>632.1</b>	<b>639.1</b>	<b>649.9</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>672.4</b>	<b>683.1</b>

## Cash Flow Statement

FYE Dec (S\$ 'm)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Pretax profit</b>	<b>(358.2)</b>	<b>63.1</b>	<b>33.6</b>	<b>74.6</b>	<b>82.4</b>
Depreciation & Amortisation	0.0	5.2	5.4	0.0	0.2
Net interest expense	17.8	11.7	13.8	22.4	22.4
Non-fund items	402.0	(10.8)	21.9	15.2	15.2
Manager's fee settled in units	2.8	4.5	4.7	4.5	4.5
Changes in working capital	(0.3)	(3.1)	17.2	(2.5)	0.0
Interest paid	(16.5)	0.0	0.0	(22.4)	(22.4)
Tax paid	(12.4)	(4.4)	(5.3)	(18.4)	(18.9)
<b>Operating cash flow</b>	<b>35.2</b>	<b>66.2</b>	<b>91.2</b>	<b>73.4</b>	<b>83.4</b>
Capital expenditure	(1.7)	(0.7)	(35.4)	(1.4)	(1.5)
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>(1.4)</b>	<b>(1.5)</b>
<b>Free cash flow</b>	<b>33.5</b>	<b>71.7</b>	<b>99.4</b>	<b>71.9</b>	<b>81.9</b>
Dividends paid	(43.8)	(41.6)	(52.5)	(50.8)	(49.1)
Dist to perps	(3.4)	0.0	0.0	(1.7)	(1.7)
Borrowings	0.0	(145.6)	(14.5)	8.8	0.0
Equity issue	0.0	157.7	0.0	(4.5)	(4.5)
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>(48.1)</b>	<b>(55.3)</b>
<b>Net change in cash &amp; equivalents</b>	<b>(13.7)</b>	<b>31.6</b>	<b>(1.5)</b>	<b>23.8</b>	<b>26.6</b>

## Ratios

FYE Dec (S\$ 'm)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Profitability (%)</b>					
NPI margin	97.3	97.9	97.6	97.9	97.9
EBIT margin	(429.3)	90.6	63.9	87.3	87.6
<b>Liquidity (x)</b>					
Interest Coverage ratio (x)	(19.2)	5.4	3.7	4.3	4.5
Net Debt to Equity (%)	101.2	45.7	60.9	58.1	52.8
<b>Valuation</b>					
ROE (%)	(87.4)	10.7	5.3	9.4	9.0
P/B (x)	0.4	0.8	0.8	0.8	0.8
FCF yield (%)	19.2	15.7	18.6	13.3	15.1

## Breakdown by Country

FYE Dec (S\$ 'm)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenue</b>	<b>78.8</b>	<b>101.8</b>	<b>111.3</b>	<b>111.2</b>	<b>118.7</b>
Indonesia	75.1	96.6	94.4	93.4	100.3
Singapore	3.7	5.1	4.2	4.2	4.4
Japan	0.0	0.0	12.7	13.5	14.0
<b>NPI</b>	<b>77.6</b>	<b>100.3</b>	<b>108.6</b>	<b>108.2</b>	<b>115.6</b>
Indonesia	74.2	95.6	93.7	92.7	99.5
Singapore	3.4	4.7	3.8	3.7	3.8
Japan	NA	NA	11.0	11.8	12.2
<b>Blended NPI margin (%)</b>	<b>98.5</b>	<b>98.6</b>	<b>97.6</b>	<b>97.3</b>	<b>97.4</b>
Indonesia	98.8	99.0	99.3	99.3	99.3
Singapore	91.2	91.2	89.3	87.9	87.9
Japan	NA	NA	87.1	87.1	87.1

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Nature of Business Relation	Date of Business Relation
Issue Manager	31 December 2021

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