First REIT

First Class 2Q10 Results

Increase Exposure

- Intrinsic Value **S$1.130**
- Prev Closing **S$0.895**

Update: *First REIT ("Company") announced its financial year 2010 second quarter results on 26th July 2010. We maintain our* ***Increase Exposure*** *rating on the Company, based on an upgraded intrinsic value of S$1.130 - representing an upside of 26.3% over its last traded price of S$0.895.*

Key Developments:

- On the back of a robust 1Q10 financial performance, First REIT further improved on their results in 2Q10 by recording a gross revenue amount of S$7.85m and net property income figure of S$7.76m over the financial period 1st April 2010 to 30th June 2010
- On a year-on-year ("YoY") basis, First REIT has again impressively grown its three core income statement areas of gross revenue (+4.6%), net property income (+4.8%) as well as distributable income (+0.4%). Total distributable amount for the quarter stood at S$5.3m with distribution per unit ("DPU") at S$0.0192.
- For 2Q2010, First REIT's interest coverage and debt-to-property ratio stands at very respectable 11.4 times and 16.0% respectively. The Company's debt level remains significantly below the regulatory gearing limit of 35%.

Outlook:

First REIT's 2Q10 earnings have come in above our expectations with the performance of the Company's Indonesian assets again impressing. Despite noting a lack of familiarity and understanding of First REIT's overseas properties amongst institutional and retail investors, the earnings capability of the Company's assets is apparent. In addition, we foresee First REIT's Singapore properties further increasing their contribution as well. We maintain our position on the counter as a first-rate defensive income generator backed by an astute management team and believe that First REIT is still undervalued.

Main Activities

First Real Estate Investment Trust ("Company") invests in a diversified portfolio of income producing real estate used for healthcare and/or healthcare-related purposes. The Company's assets are located in Singapore and Indonesia.

Financial Highlights

Dec YE (S$m)	FY08A	FY09A	FY10E
Gross Revenue	29.9	30.2	31.3
Net Prop Income	29.8	29.9	30.2
Distr Earnings	20.8	20.9	21.1
Distr Per Unit (S$)	0.0762	0.0762	0.0763
Non-Curr Assets	324.9	340.9	339.1
Op Cash Flow	20.6	22.7	23.3

Source: Company, Bloomberg, SIAS Research estimates

Key Ratios

Price Earnings (x)	6.91
Price Book (x)	0.92
Return on equity (%)	13.67
Return on assets (%)	10.36

Source: Bloomberg

Indexed Price Chart

First REIT (White)
Straits Times Index (Orange)
FTSE ST Real Estate Index (Yellow)

Source: Bloomberg

52wks High-Low	*S$0.895/S$0.655*
Shares Outstanding	*276.281 m*
Market Capitalization	*S$247.27 m*

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Impressive 2Q10 Performance

Further Improving On 1Q10's Results: First Real Estate Investment Trust ("Company") announced their financial year 2010 second quarter earnings on 26th July 2010. After a robust 1Q10 financial performance that saw the Company record gross revenue of S$7.5m and net property income of S$7.3m, First REIT continues to impress by posting further improved 2Q10 earnings. For the financial period 1st April 2010 to 30th June 2010, the Company recorded a gross revenue amount of S$7.85m and net property income figure of S$7.76m.

On a year-on-year ("YoY") basis, First REIT has again impressively grown its three core income statement areas of gross revenue (+4.6%), net property income (+4.8%) as well as distributable income (+0.4%). Total distributable amount for the quarter stood at S$5.3m. Distribution per unit ("DPU") was also superior quarter-on-quarter ("QoQ") to 1Q10's figure of S$0.0192 but remained the same on a YoY basis.

As at 23rd July 2010, based on a share of price of S$0.890, the Company's distribution yield stood at a sturdy 8.7%. Geographically, First REIT's Indonesian assets generated 86.7% (S$6.8m) of the Company's 1Q2010 revenues - representing a 0.3% YoY growth over 2009's performance. Encouragingly, we understand that First REIT will be able to enjoy a variable rental growth component of 1.25% of total gross revenue from their four Indonesian assets in FY2010.

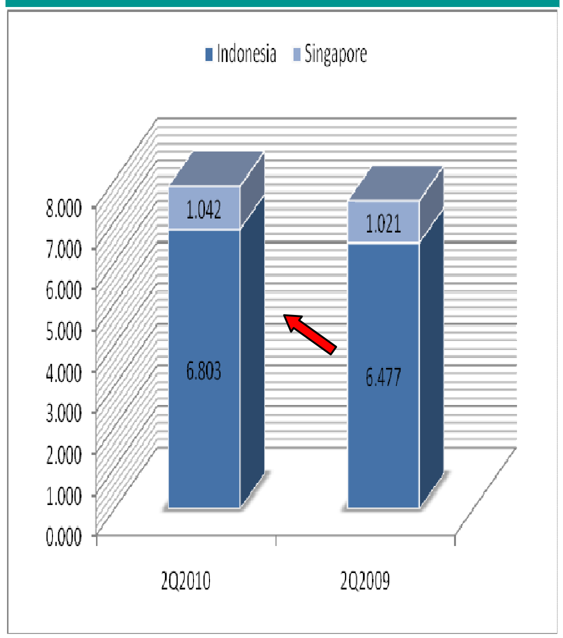
For 2Q10, the Company's Singapore assets contributed 13.3% to First REIT's top line - a 3.6% QoQ growth rate. We expect the contribution from these assets to expand further going forward with the completion of asset enhancement works on the Company's Pacific Cancer Centre@Adam Road. Management has guided that this project is on track to be completed by mid-2011.

Figure 1: First REIT 2Q2010 YoY performance

S$m	2Q2010	2Q2009	% Change
Gross Revenue	7.84	7.49	+4.6
Net Property Income	7.76	7.40	+4.8
Distributable Amount	5.30	5.28	+0.8
Distribution Per Unit (S$)	0.0192	0.0192	-

Source: Company, SIAS Research

Figure 2: Rental income by geography, 2Q2010 against 2Q2009 (S$m)



Source: Company, SIAS Research

Working Capital Is Healthy

Balance Sheet Still Sturdy: As at 30th June 2010, First REIT's balance sheet position remained sturdy with net asset value ("NAV") per unit standing at S$0.9796 - against end-FY2009's NAV per unit of S$0.9839. At end-2Q2010, the Company's total assets amounted to S$356.9m, consisting of S$343.0m of non-current assets and S$13.9m of current assets. Total liabilities stood at a total of S$86.5m, accounted for as S$76.2m of non-current liabilities and S$10.3m of current liabilities. Total unit holders' fund was a sound S$270.4m. First REIT's working capital, defined as current assets net of current liabilities, increased by a healthy 3.6% (S$3.6m) YoY as at end-June 2010.

Taken relative to the Company's 31st December 2009 position, First REIT had expanded its asset base in the second quarter of 2010 with total asset growth of 0.6%. This can be attributed to an increase in investment properties, trade and other receivables as well as cash and cash equivalents recorded in the Company's books. Total liabilities also increased, by 3.5% YoY, on the back of bank borrowings amounting to S$54.6m as well as deferred rental income of S$600,000 in relation to Pacific Cancer Centre@Adam Road.

Gearing Still Well Managed: First REIT's total debt as at 30th June 2010 was recorded at S$55.0m - an increase of S$2.2m over end-2009's amount. Interest coverage had fallen from 13.5 times to 11.4 times with the Company's debt-to-property ratio rising by 0.5% to 16.0% as at 30th June 2010. We maintain our view that First REIT's gearing is well managed as the Company's current levels are significantly below the regulatory limit of 35%.

DPU And Yield Still Very Attractive

Providing Investors With Value: In our previous update report on the Company (First-Rate Performance, 27 April 2010), we had pointed out that First REIT has consistently maintained a very respectable quarterly DPU of S$0.0185 to S$0.0194 since 1Q2008. The Company has maintained this healthy trend with a 2Q10 distribution of S$0.0192 - representing a 1.1% QoQ growth over 1Q10's S$0.0190 amount.

Figure 3: First REIT balance sheet position still sturdy

S$m	As at 30 Jun 2010	As at 31 Dec 2009
Total Assets	356.9	354.7
Total Liabilities	86.5	83.6
Unitholders' Funds	270.4	271.0
NAV/unit (S$)	0.9796	0.9839

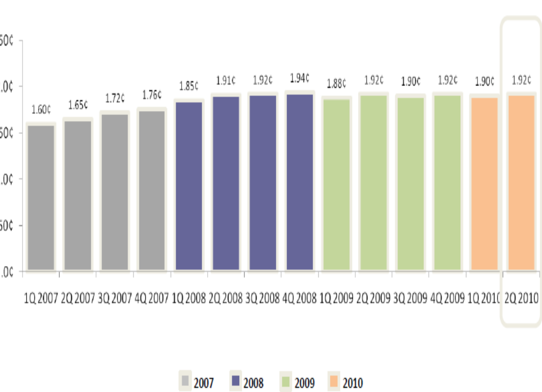
Source: Company, SIAS Research

Figure 4: First REIT debt levels well managed

	As at 31 Mar 2010	As at 31 Dec 2009
Total Debt (S$m)	55.0	52.8
Interest Cover (x)	11.4	13.5
Debt-To-Property (%)	16.0	15.5

Source: Company, SIAS Research

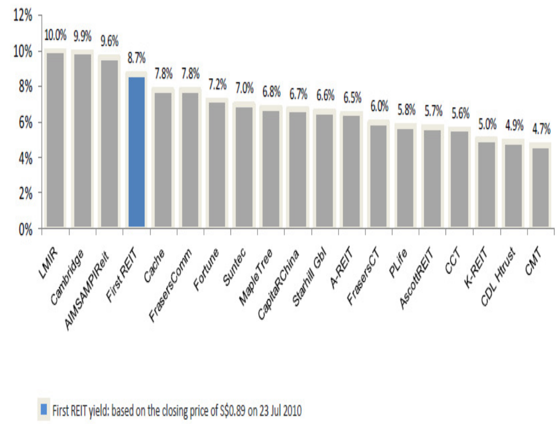
Figure 5: First REIT quarterly DPU breakdown



Source: Company

On an annualized basis, the Company's 2010 second quarter DPU equates to a full year figure of S$0.0770 (+1.0%YoY). For 2Q10, First REIT recorded a distribution yield of 8.7% (based on a closing price of S$0.890 as at 23rd July 2010). The decrease in yield on a QoQ and YoY basis can be attributed to the Company's higher closing share price of S$0.890 – as compared to S$0.865 for 1Q10 and S$0.675 for end-2009. That said, First REIT's yield currently still stands as one of the highest in the S-REIT sector.

Figure 5: First REIT quarterly DPU breakdown



Source: Company

First REIT Value Proposition

The Bottom Line: On the back of a robust portfolio of medical-related real estate investments, First REIT's 2Q10 earnings have come in above our expectations. The performance of the Company's Indonesian assets has again impressed, with all three core income statement areas of gross revenue, net property income as well as distributable income registering QoQ and YoY growth. This expansion can be largely attributed to the quality of the Company's Indonesia properties as well as higher rental income generated from these assets over the past quarter.

Going forward, in the near term, we are encouraged by management's guidance of a possible yield-accretive healthcare acquisition being made towards the latter part of 2010 or early 2011. In the medium term, we also expect First REIT's Singapore assets to contribute further to the Company's top and bottom lines on the completion of asset enhancement works at the Pacific Cancer Centre@Adam Road. In addition, First REIT has also confirmed with their tenant on a new extension block to the Company's Lentor Residence nursing home.

We uphold our view that the full earnings potential of First REIT's underlying assets has not been fully priced in. The quality and income generation capability of the Company's Indonesian assets in particular is vastly understated. As evidenced over the past two financial quarters, this capability is very real.

Figure 6: First REIT real estate portfolio highlights

Source: Company

During our attendance at First REIT's 2Q10 results briefing, we had observed that knowledge of the Company's overseas properties was limited among other equity research and finance professionals in attendance. As such, we believe that at a retail investor level; understanding of First REIT's business is, to a greater extent, even more inadequate. Consequently, an unnecessarily high risk premium is still being placed on the Company's Indonesian properties - fuelled primarily by ignorance as opposed to logic and understanding.

That said, we continue to like First REIT as a first-rate defensive income generator that is backed by a highly astute management team from Bowsprit Capital. We upgrade the counter at a derived intrinsic value of S$1.13 - based on revised FY10 estimates. We believe that at its current price, First REIT is still undervalued. For prudence, we have not accounted for the DPU growth potential from the Company's arrangement with tenants that accords First REIT a percent of these tenant's earnings in our valuation. Recommendation: **Increase Exposure**

Figure 7: First REIT one year price-volume movement

Source: Bloomberg

Summary Financial Table

(Dec YE)				
Total Return (S$m)	**FY2007A**	**FY2008A**	**FY2009A**	**FY2010E**
Gross Revenue	28.3	29.9	30.2	31.3
Net Property Income	28.1	29.8	29.9	30.2
Distributable Earnings	19.3	20.8	20.9	21.1
Distribution Per Unit (S$)	0.0709	0.0762	0.0762	0.0763
Financial Position (S$m)	**FY2007A**	**FY2008A**	**FY2009A**	**FY2010E**
Non-current assets	325.6	324.9	340.9	339.1
Current assets	15.3	14.6	13.7	13.3
Current liabilities	11.9	61.4	10.2	11.1
Non-current liabilities	77.7	23.1	73.4	71.3
Cash Flow (S$m)	**FY2007A**	**FY2008A**	**FY2009A**	**FY2010E**
Operating cash flow	30.0	20.6	22.7	23.3
Investing cash flow	-234.5	0.3	-1.9	-1.1
Financing cash flow	218.1	-22.1	-25.6	-22.1

Source: Company, Bloomberg, SIAS Research estimates

Summary Ratios & Peer Comparison

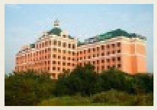
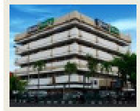
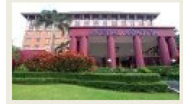
Specialty REITS	**P/E (x)**	**ROE (%)**	**P/B (x)**	**ROA (%)**
First REIT	6.91	13.67	0.92	10.36
CDL Hospitality Trusts	21.05	5.56	1.39	4.37
Parkway Life REIT	11.93	8.86	1.06	6.45

Source: Bloomberg

First REIT Portfolio Breakdown

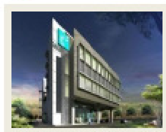
		Valuation (S$m)				
Description	**Country**	**2006**	**2007**	**2008**	**2009**	**% (2009)**
Siloam Hospitals Lippo Village	Indonesia	132.5	139.0	138.5	146.8	43%
Siloam Hospitals Kebon Jeruk	Indonesia	71.2	75.1	74.1	81.2	24%
Siloam Hospitals Surabaya	Indonesia	23.6	25.8	26.2	27.4	8%
Imperial Aryaduta Hotel & Country Club	Indonesia	29.8	31.8	32.2	30.9	9%
Subtotal		257.1	271.7	271.0	286.3	84%
Pacific Healthcare Nursing Home @ Bukit Merah	Singapore	-	12.0	12.0	11.4	3%
Pacific Healthcare Nursing Home II @ Bukit Panjang	Singapore	-	11.4	11.4	11.1	3%
The Lentor Residence	Singapore	-	13.0	13.0	12.5	4%
Pacific Cancer Centre @ Adam Road	Singapore	-	17.5	17.5	19.6	6%
Subtotal		-	53.9	53.9	54.6	16%
Grand Total		257.1	325.6	324.9	340.9	100%

Indonesia Portfolio

	Siloam Hospitals Lippo Village	Siloam Hospitals Kebon Jeruk	Siloam Hospitals Surabaya	Imperial Aryaduta Hotel & Country Club
				
Type	Hospital	Hospital	Hospital	Hotel & Country Club
Land Area	17,442 sqm	11,420 sqm	6,862 sqm	54,410 sqm
Gross Floor Area ("GFA")	27,284 sqm	18,316 sqm	9,227 sqm	17,427 sqm
Purchase Price	S$94.3 million	S$50.6 million	S$16.8 million	S$21.2 million
Appraised Value[1]	S$146.8 million	S$81.2 million	S$27.4 million	S$30.9 million
Annual Rental	S$12,613,000	S$7,149,000	S$2,827,000	S$3,467,000
No. of Beds / Saleable rooms	188[2]	192	157	197
No. of Staff	205 full time & part time doctors and 361 nurses & medical staff	212 specialist doctors and 314 nurses & medical staff	108 full time & part time doctors and 238 nurses & medical staff	--
Year of Building Completion	1995	1991	1977	1994
Centre of Excellence	Neuro-science centre, Heart centre	Urology centre, Orthopaedics	Fertility centre, Stroke centre	--
Lease Terms	15 years with option to renew for 15 years wef 11 Dec 2006	15 years with option to renew for 15 years wef 11 Dec 2006	15 years with option to renew for 15 years wef 11 Dec 2006	15 years with option to renew for 15 years wef 11 Dec 2006

Source: Company

Singapore Portfolio

	Pacific Healthcare Nursing Home @ Bukit Merah	Pacific Healthcare Nursing Home II @ Bukit Panjang	The Lentor Residence	Pacific Cancer Centre @ Adam Road*
				
Type	Nursing Home	Nursing Home	Nursing Home	Hospital / Cancer Centre
Land Area	1,984 sqm	2,000 sqm	2,486 sqm	1,818 sqm
Gross Floor Area ("GFA")	3,593 sqm	3,563 sqm	2,983 sqm	-
Purchase Price	S$11.8 million	S$11.5 million	S$12.8 million	-
Appraised Value[1]	S$11.4 million	S$11.1 million	S$12.5 million	S$19.6 million
Annual Rental	S$952,000	S$928,000	S$1,030,000	S$1,196,000
No. of Beds	259	265	148	-
Year of Building Completion	2004	2006	1999	To be completed in mid-2011
Title	30 years leasehold from 22 Apr 2002	30 years leasehold from 14 May 2003	99 years leasehold from 20 Aug 1938	Freehold
Lease Terms	10 years with option to renew for 10 years wef 11 Apr 2007	10 years with option to renew for 10 years wef 11 Apr 2007	10 years with option to renew for 10 years wef 8 Jun 2007	New 10-year lease with option to renew for 10 years from date of completion

Source: Company

Rating Definition:

Increase Exposure – The current price of the stock is significantly lower than the underlying fundamental value higher level.
Invest – The current price of the stock is sufficiently lower than the underlying fundamental value of the firm. Readers can consider adding this stock to their portfolio.
Fairly Valued – The current price of the stock is reflective of the underlying fundamental value of the firm. Readers may not need to take actions at current price.
Take Profit – The current price of the stock is sufficiently higher than the underlying fundamental value of the firm. Readers can consider rebalancing their portfolio to take advantage of the profits.
Reduce Exposure - The current price of the stock is significantly higher than the underlying fundamental value of the firm. Readers can consider reducing their holdings in their portfolio.