First Real Estate Investment Trust

Healthy Finish for the Year

*First Real Estate Investment Trust (First REIT) announced a healthy set of 4Q 2010 results on 21 January 2011. Revenue for the quarter rose 3.8% YoY to S$8.0m (inclusive of S$0.3m deferred rental income from Pacific Cancer Centre @ Adam Road) while distributable amount inched up 2.8% YoY to S$5.4m. Our dividend discount model values the company at an intrinsic value of S$0.910, representing an upside of 19.7% over its last traded price of S$0.760. Maintain **Increase Exposure.***

Key Developments:

- **Results Summary:** The rise in 4Q 2010 revenue was largely due to higher contribution from the four Indonesian assets. Revenue from the Indonesian assets rose 4.1% YoY to S$6.9m as First REIT was able to attain a variable rental growth component of 1.25% of the tenants' total gross revenue. Operating expenses were largely in-line with our forecasts while other expenses climbed to S$597,000, due to one-off rights issue related fees. Consequently, net income for the period dipped 11.6% YoY to S$5.6m.

- **Dividend Yield is Likely to Remain Strong:** Owing to the recent rights issue, DPU fell 54.7% YoY to 0.87 S cents – the adjusted DPU would have been 1.96 S cents if we exclude the new rights units. FY2011F distributable income is projected to increase by 88% YoY to S$40.2m following contributions from the newly acquired Mochtar Riady Comprehensive Cancer Centre and Siloam Hospitals Lippo Cikarang. The former building is expected to contribute a base rent of S$18.6m per annum (yield of 10.7% based on acquisition price of S$174.6m) while the latter building will generate a base rent of S$3.8m per annum (yield of 10.5% based on acquisition price of S$35.9m). As both acquisitions are yield accretive, FY2011F dividend yield is likely to remain firm at 8.4% based on the last traded price of S$0.760.

Increase Exposure

- Intrinsic Value S$0.910
- Prev Close S$0.760

Main Activities

First Real Estate Investment Trust ("First REIT") 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			
(Y/E Dec) S$m	**FY09**	**FY10**	**FY11F**
Gross Revenue	30.2	30.3	54.5
Net Prop Income	29.9	29.9	54.0
Distr Earnings	21.0	21.3	40.2
Distr Per Unit(S$)	0.076	0.066	0.064
Non-Curr Assets	340.9	612.8	622.8
Op Cash Flow	22.7	27.6	45.4

Source: Company, Bloomberg, SIAS Research Estimates

Key ratios (FY11F)	
PER	10.7
P/BV	0.99
ROE	9.2%
ROA	6.8%
Current ratio	1.11

Source: SIAS Research Estimates

Indexed Price Chart

Green (FSSTI)
White (First REIT)

Source: Bloomberg

52wks High-Low	*S$0.77 /S$0.578*
Number of Shares	*623.2m*
Market Capitalization	*S$473.6m*

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Confident of Our FY2011F: First REIT's business model is stable with steady rental structure, making their performance foreseeable. FY2010's performance was on the whole in-line with our projections – gross revenue missed our estimates by merely 3.3% while total available for distribution exceeded our forecasts by only 1.2%. Going forward, we do not expect the company's FY2011F results to deviate significantly from our forecasts.

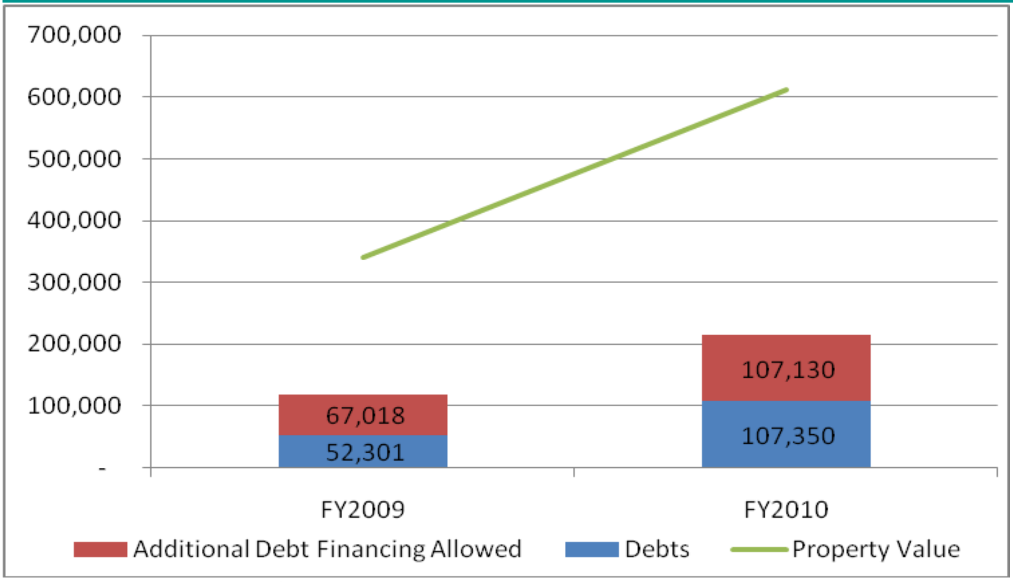
Figure 1: First REIT's Performance vs Our Estimates

S$'000	FY2010A	FY2010E	Variance
Gross Revenue	30274	31300	-3.3%
Total Available for Distribution	21346	21100	1.2%

Source: Company, SIAS Research

Improved Balance Sheet: The S$167.9m net proceeds from the rights issuance has strengthened First REIT's balance sheet, with unitholders' fund rising 76.8% YoY to S$479.1m. Debt to property remained low at 17.5% after factoring in the new OCBC Bank term loan facility of S$50m. As the regulatory limit for debt to property ratio is capped at 35%, First REIT has the flexibility of borrowing up to S$107m worth of debts to finance new acquisitions.

Figure 2: More Room for Financing (S$'000)



*: FY2010 debt consists of the S$50m OCBC Bank term loan

Source: Company, SIAS Research

Sponsor Update: Over the last three months, Lippo Karawaci, which is First REIT's sponsor, announced several developments. Firstly, the group acquired a 83% stake of a hospital in Jambi on Sumatra for US$18m and another hospital in Balikpapan, East Kalimantan for US$26m. Secondly, the company started the development of a US$26m hospital in Makassar, South Sulawesi. These acquisitions may provide First REIT with new purchasing opportunities, given that they have the right of first refusal to acquire these assets.

Interest Rate Risk: While we like First REIT's business model, the company may be exposed to higher interest rate, which will increase its financing expenses. We have conducted a sensitivity test and concluded that an 1% increase in interest rate will impact the net distributable income by S$850,000 or 2.1% - the impact is not significant.

Higher Valuation: We project DPU to increase by 2.00-2.25% for the next three years due to the variable rental growth component in all the Indonesian assets. Adopting a dividend discount model with a conservative WACC of 8.8% and 1% terminal growth rate, our model indicates an intrinsic value of S$0.910 per share. Maintain **Increase Exposure.**

Figure 1: Discount Dividend Model

	FY2011F	FY2012F	FY2013F	FY2014F
DPU	0.064	0.065	0.067	0.068
Discount	99%	91%	84%	77%
Explicit Value	0.231			
Terminal Value	0.679	WACC		8.8%
Price Per Share (S$)	0.910	Terminal Growth		1%

Source: SIAS Research Estimates

Figure 4: Financial Forecasts and Estimates

S$ 'mn	2008	2009	2010	2011F
Gross Revenue	30.0	30.2	30.3	54.5
Income after Tax	23.0	36.0	60.5	44.7
Distributable Income	20.8	21.0	21.3	40.2
DPU (S cents)	0.076	0.076	0.066	0.064
Total Current Assets	14.6	13.7	41.8	36.6
Total Non-Current Assets	324.9	340.9	612.8	622.8
Total Current Liabilities	61.4	10.2	81.3	32.9
Total Non-Current Liabilities	23.1	73.4	94.2	142.9
Total Equity	255.1	271.0	479.1	483.6
Net Income Before Tax	23.8	38.7	80.0	55.9
Cash from Operating Activities	20.6	22.7	27.6	45.4
Cash from Investing Activities	0.3	-2.0	-160.8	-25.6
Cash from Financing Activities	-22.1	-25.6	153.4	-27.6
Net Change in Cash	-1.2	-4.9	20.1	-7.9
Net Cash - Beginning Balance	13.6	12.4	7.5	27.6
Net Cash - Ending Balance	12.4	7.5	27.6	19.7
ROE	9.0%	13.3%	12.6%	9.2%
ROA	6.8%	10.1%	9.2%	6.8%
Dividend Yield	10.0%	10.0%	8.7%	8.4%
Current Ratio	0.24	1.34	0.51	1.11
P/E	9.1	5.8	4.8	10.7
P/B	0.82	0.77	0.99	0.99

Source: Company, SIAS Research Estimates

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.

IMPORTANT DISCLOSURE