FIRST REIT

ACCUMULATE

Share Price:	**S$0.25**
Target Price:	**S$0.30**
Upside:	**20.0%**

COMPANY DESCRIPTION

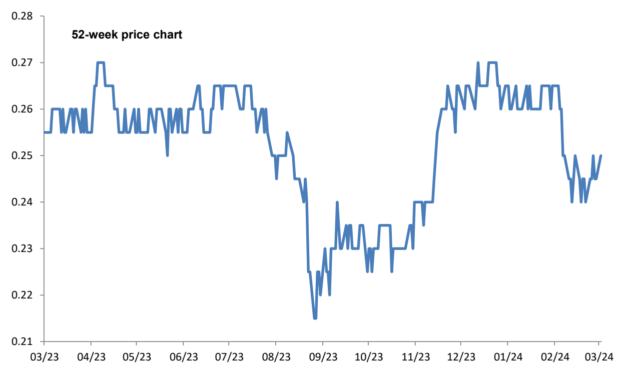
Listed on 11 December 2006, First REIT is Singapore's first healthcare REIT that aims to invest in a diversified portfolio of income-producing real estate in Asia that are primarily used for healthcare purposes.

Name	**FIRST REIT**
Bloomberg Code	**FIRT SP EQUITY**
3M Avg Daily Trading Vol (k)	**1,048.2**
3M Avg Daily Trading Val (S$'000)	**269.2**
Major Shareholder / Holdings	**OUE Limited (44.7%)**
Shares Outstanding (m)	**2,072.3**
Market Capitalisation (S$m)	**520.4**
52 week Share Price High/Low	**S$0.27 / S$0.205**

STOCK PRICE PERFORMANCE

	1M	3M	12M
Absolute Return (%)	-7.1	-7.1	-3.9

PRICE CHART



Source : Bloomberg

High Demand for Indonesia Hospital Assets

We visited four of First REIT's hospitals in Jakarta over 18-19 Mar'24. These four hospitals (Mochtar Riady Comprehensive Cancer Centre (MRCCC), Siloam Hospitals Lippo Village, Siloam Hospitals Kebon Jeruk, Siloam Hospitals TB Simatupang) form part of the 14 hospitals owned by First REIT and operated by Siloam Hospitals throughout Indonesia. The hospitals have all undergone various Asset Enhancement Initiatives (AEI) to cater to the growing affluent in Indonesia as well as provide better services and handle larger patient loads.

During the visit, we experienced an on-the-ground feel of First REIT's hospitals, and got the opportunity to speak to several doctors, nurses, and hospital managers. Siloam Hospitals operate the largest private hospital network in Indonesia, building brand synergies across its many different hospitals. It has recently introduced a comprehensive digital ecosystem through MySiloam App. The hospitals we visited specialize in various Centre of Excellence (CoE) such as Cancer, Neurosurgery and Cardiology.

For its FY23 results, First REIT's FY23 revenue of S$108.6mln and distributable income of S$51.4mln were in line with our expectations. FY23 DPU of 2.48 S cts came down 6.1% yoy due to higher financing costs, currency translation impact, and a larger unit base. 4QFY23 DPU remains unchanged from the preceding three quarters (0.62 S cts), representing an annualized 9.9% distribution yield. First REIT's yield spread of 4.2% over the risk-free rate remains attractive relative to its other healthcare peer's <2% yield spread. Maintain Accumulate with an unchanged target price of S$0.30, pegged to a 2.6% forward yield spread (+0.5S.D. 5-year average).

KEY FINANCIALS

December YE	FY21	FY22	FY23	FY24F	FY25F
Revenue (S$m)	102.3	111.3	108.6	111.8	115.2
Net Property Income (S$m)	100.2	108.6	105.3	108.5	111.7
Net Profit (S$m)	59.9	31.0	61.7	60.1	61.9
Distributable Amount (S$m)	42.1	52.4	51.4	51.7	53.2
DPU (S cts)	2.61	2.64	2.48	2.48	2.56
P/B (x)	0.68	0.81	0.83	0.83	0.82
NPI Yield (%)	10.4	9.5	9.2	9.5	9.8
Distribution Yield (%)	10.4	10.6	9.9	9.9	10.2

Source: First REIT, Lim & Tan Research

Chan En Jie
Tel: 6533 0595
Email: ejchan@limtan.com.sg

Site Visit

- The hospital operator of First REIT's hospital assets, Siloam Hospitals, has set the benchmark for high quality healthcare services and is an acknowledged leader of many firsts in healthcare in Indonesia. First REIT stands to reap the benefits from Siloam's status as the largest private healthcare provider in Indonesia. The Indonesia hospital market is made up of majority private healthcare (63%), with Siloam covering an estimated 9% market share in private hospitals. The four hospitals we visited have healthy patient volumes, peaking in the morning where we see the highest demand for inpatient and outpatient treatments.

Exhibit 1: Four Hospitals Centralized in Jakarta – Capital of Indonesia

Source: Google Maps, Lim & Tan Research

Mochtar Riady Comprehensive Cancer Centre (MRCCC). MRCCC is the flagship hospital of Siloam, Indonesia's first and largest private comprehensive cancer centre located in the heart of Jakarta. Built in 2010, the 29-storey tall building delivers integrated care with cutting-edge cancer detection, diagnostics, treatment and palliative care. It is a Centre of Excellence in areas including Breast Cancer, Gastro Colonoscopy Care and Gynecology Cancer. MRCCC houses the Linear Accelerator (LINAC), used to target radiation at cancer tumors with pinpoint accuracy. The LINAC is only available in about 17 hospitals across Indonesia.

Exhibit 2: 29-Storey with Two Basement Levels / Helipad on the Rooftop of MRCCC

Source: Lim & Tan Research

Exhibit 3: Linear Accelerator Machine / CoE - Breast Cancer Care Alliance

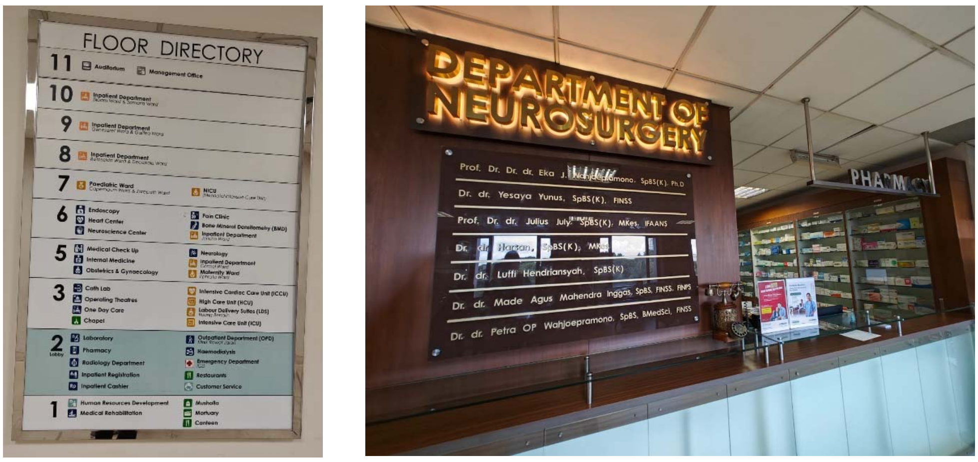
Source: Lim & Tan Research

Siloam Hospitals Lippo Village. Established in 1995, the 10-storey hospital building is located in the first private sector township of Lippo Village. It is one of the largest private hospitals in the region with world-class Neuroscience and Cardiology specialties and a first-rate Trauma Centre. Siloam Hospitals Lippo Village is the first in Indonesia to be accredited since 2007 with the prestigious US-based Joint Commission International (JCI). It is the only private hospital in Jakarta that is capable of doing gamma knife surgery. The lobby and reception area has been recently revamped, delivering a "hotel-like" experience with comfortable sofa seats and a streamlined registration.

Exhibit 4: Lobby and Reception Area

Source: Lim & Tan Research

Exhibit 5: Floor Directory / Neurosurgery Department



Source: Lim & Tan Research

Siloam Hospitals TB Simatupang. The 16-storey hospital is established in 2013, focusing on cardiology, neuroscience, orthopaedics, and radiation oncology. It provides state-of-art medical equipment such as 256 Slices CT Scan and 3 Tesla MRI. Siloam Hospitals TB Simatupang is located close to the working population and premium retail malls. The hospital also has a special Japanese wing to cater to the growing Japanese population in Jakarta.

Exhibit 6: Lobby Area / Outdoor Garden with a City View

Source: Lim & Tan Research

Exhibit 7: Plastic & Reconstruction Surgery Room / Angiography Room

Source: Lim & Tan Research

Siloam Hospitals Kebon Jeruk. Established in 1991, the 6-story hospital is a CoE for Cardiology, Emergency & Trauma, Orthopaedics and Urology. The Orthopaedics department uses the Korean-imported 3D Newton machine, a spinal stabilization exercise system used for the rehabilitation and strengthening of stabilizer muscles.

Exhibit 8: Siloam Hospitals Kebon Jeruk / Lobby Area

Source: First REIT, Lim & Tan Research

Exhibit 9: 3D Newton / CT Scanner

Source: Lim & Tan Research

FY23 Results

Revenue steady but lower full-year DPU. FY23 revenue declined by 2.4% yoy mainly due to depreciation of IDR and JPY. This was partly offset by full year rental income contribution from 12 Japan nursing homes (acquired Mar'22) and another 2 Japan nursing homes (acquired Sep'22), as well as higher rental income from Indonesia's properties. Finance costs grew 16.8% to S$22.7mln due to the higher interest rate environment and additional loans for the acquisition of Japan properties. Property operating expenses increased 19.1% to S$3.2mln after accounting for the new Japan portfolio. As a result, FY23 distributable income dipped 1.9% to S$51.4mln (6.1% yoy decrease in FY23 DPU to 2.48 S cts from a larger unit base).

Execution of First REIT 2.0 Growth Strategy. First REIT managed to strengthen its capital structure in 2023 by completing the early refinancing of the Japan-Yen TMK bond due May 2025 till 2030. Floating interest rates of c.1.2% previously are now locked in at c.1.5% fixed rates. The proportion of total debt on hedged or fixed rates now stands at 87.2% as of end-FY23, a sharp increase from 59.6% at end-FY22. Every 50 bps increase in interest rates is expected to have a marginal impact on DPU by about 1%. After this refinancing, weighted average debt to maturity lengthened from 3.4 years to 3.6 years and gearing stands at 38.7% at a healthy 4.1x interest coverage ratio. All-in cost of debt is at 5.0%, an increase from 3.7% at end-FY22. Management is looking at exploring cross-currency swaps, swapping some of the more expensive Singapore Dollar loans to cheaper Japanese Yen loans.

One quarter of First REIT's AUM are in developed markets of Japan and Singapore, with a target of 50% in developed markets by 2027. While First REIT continue its inroads into developed markets, possible locations include Australia and the acquisition of additional Japan nursing homes.

Exhibit 10: FY23 Financial Performance

(S$'million)	FY23	FY22	+ / (-) %
Revenue	108.6	111.3	(2.4)
Net Property Income	105.3	108.6	(3.0)
Distributable Amount	51.4	52.4	(1.9)
Total issued and issuable units (millions)	2,081.5	2,063.6	0.9
DPU (cents)	2.48	2.64	(6.1)

Source: First REIT, Lim & Tan Research

FIRST REIT

Outlook

Benefitting from Siloam's strong performance. Under First REIT's agreement with Siloam Hospitals, First REIT will receive the higher of base rent escalation of 4.5% or a performance-based rent of 8.0% of each hospital's preceding year's gross operating revenue. This implies that if First REIT's Indonesia assets does well, First REIT will stand to reap the benefits. We understand that out of its 14 hospital assets in Indonesia, 3 hospitals are currently on the performance-based rent scheme. Siloam has reported strong growth momentum and higher patient volumes with its FY23 revenue/profits growing by 17.2%/75.5% respectively. With a resilient outlook expected for Siloam, we think it is only a matter of time before more of First REIT's assets shift towards the performance-based rent scheme and provide an uplift to rental income.

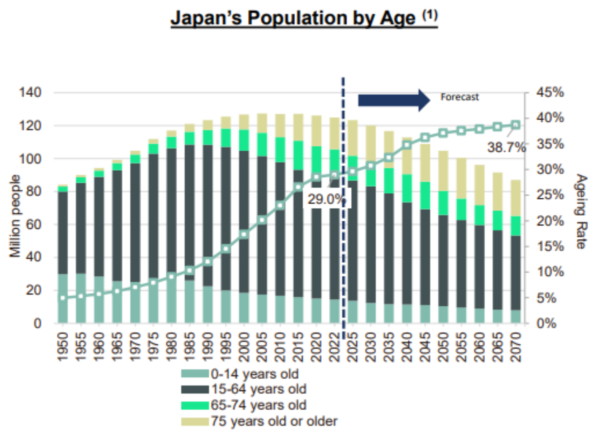
Exhibit 11: Master Lease Structures with In-Built Rental Escalation

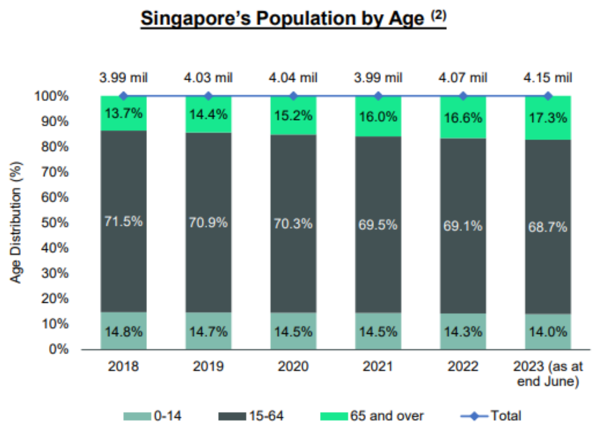
Healthcare Assets	Japan	Singapore	Indonesia [(1), (2)]
Currency	**JPY**	**SGD**	**IDR**
Managing Inflation	• Cost of utilities managed by Master Lessees in single net lease and triple net lease agreements.	• Cost of utilities and repair managed by Master Lessees in double net lease and triple net lease agreements [(3)].	• Cost of utilities and repair managed by Master Lessees in triple net lease agreements [(3)].
Rent escalation	• Annual rental may be revised upwards upon negotiation every 2 to 3 years for 12 assets, and every 5 years for 2 assets; • Negotiation based on the increase in Japan's consumer price index and interest rates.	• Fixed base rental with annual increment of 2%.	• Higher of base rent escalation of 4.5%; or • Performance-based rent escalation of 8.0% of hospital's gross operating revenue in the preceding financial year.

Source: First REIT

Healthy long-term growth prospects in key markets. First REIT's key markets in Indonesia, Japan and Singapore are set to benefit from positive demographic and structural factors. By 2050, the population in Japan aged 65 or older is expected to exceed 40% in 25 prefectures, while the old-age support ratio in Singapore has declined from 7.4x in 2010 to just 3.7x in 2023. In Indonesia, the government is ramping up public-private partnership initiatives to help the healthcare industry deliver seamless care to the population, contributing to a growing and dynamic health market.

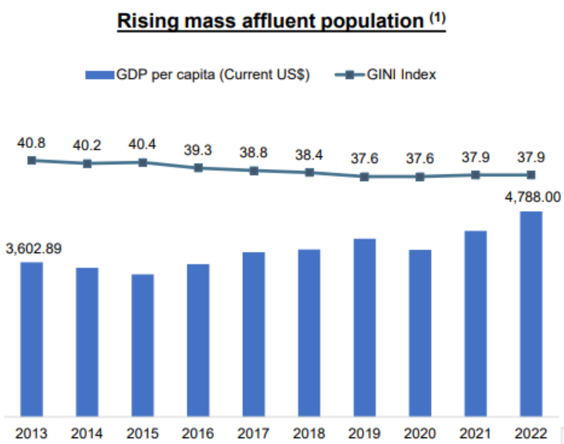
Exhibit 12: Japan and Singapore - Ageing Population Megatrend

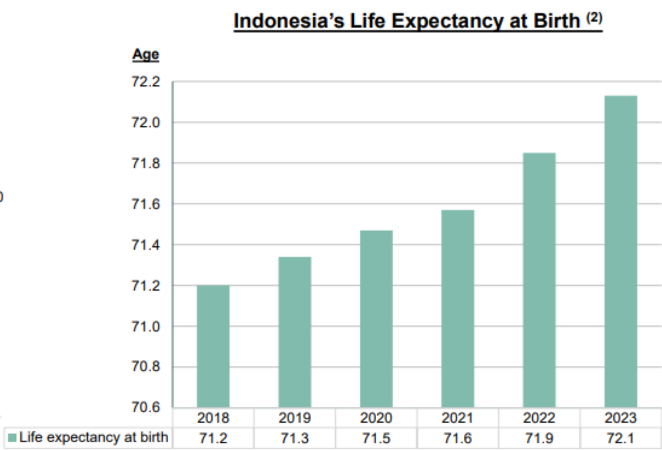




Source: First REIT

Exhibit 13: Growing Affluence and Better Life Expectancy in Indonesia





Source: First REIT

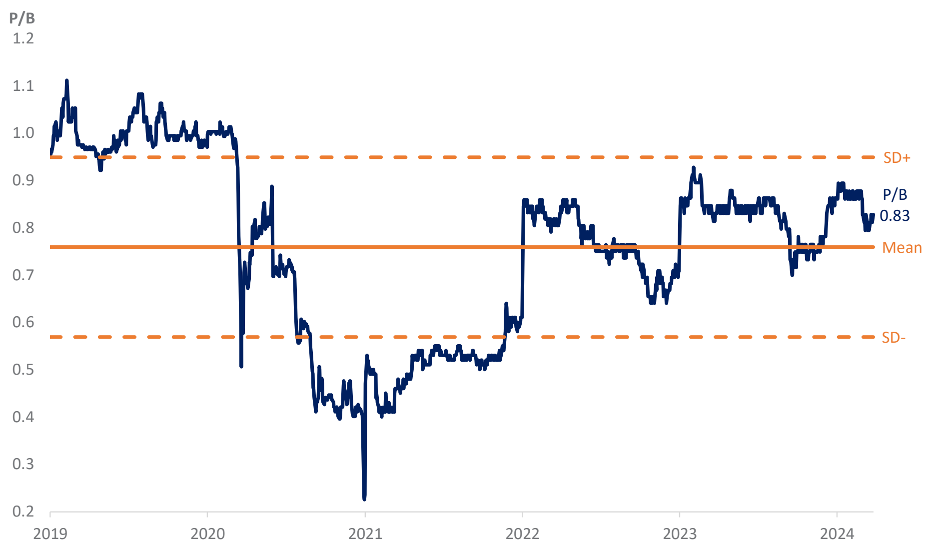
Attractive 9.9% yield. First REIT trades at 0.83x P/B with a distribution yield of 9.9% (paid quarterly), which we think is attractive when compared to its other healthcare peer in the market (Parkway Life REIT, 4.2% yield) and the overall SG REIT market (8.1% yield). First REIT's yield spread of 4.2% over its current blended risk-free rate is 3x its 5-year average yield spread of 1.4%.

FIRST REIT

With 96% of rental income generated overseas, a continued weakening IDR and JPY may impact income and DPU in SGD terms. That said, we take solace in the rental escalations for First REIT's Indonesia assets, a minimum of 4.5% annual increment. Finance costs may have seen a peak in this current interest rate environment. We forecast an unchanged DPU of 2.48 S cts for FY24F.

Indonesia continues to see a growing need for healthcare services while First REIT remains well-positioned with its pivot to matured markets. Maintain Accumulate with an unchanged target price of S$0.30, pegged to a 2.6% forward yield spread (+0.5S.D. 5-year average), implying a P/B of 1.0x and 8.3% forward distribution yield.

Exhibit 14: 5-year Historical P/B



Source: Bloomberg, Lim & Tan Research

First REIT's FY23 Result Briefing

We highlight several Q&A raised by analysts and answered by management during the results briefing held on 21 February 2024:

Q: What is the proportion of foreign sourced income that is currently hedged?

- At the Indonesia side, we have hedged about 25% as of now. And for the Japan side, about 75%. We continue to monitor the Rupiah currency, and at the right level we would want to hedge maybe another 25% so that we can bring the total hedge portion on the Indonesia side to maybe about 50%.

Q: Could you please provide a sense of your interest rate sensitivity? How will DPU be impacted by a 50 bps increase in all-in cost of debt?

- Every 50 bps increase in interest rate will have about S$0.3 million impact on our distributable amount. S$0.3 million over our total distributable amount is actually a very, very small percentage. And the reason is because about 87% of our debt is already on a fixed rate or hedged basis.

Q: Could you elaborate on growth of 7% for Indonesia and 28% for Japan?

- If you look at the local currency terms, we grew by about 7.6% year-on-year. And this is largely due to the built-in increment for our Indonesia portfolio of at least 4.5%. So out of the 14 hospitals in Indonesia, ten of them saw a 4.5% annual increment. Whereas another three are already enjoying the performance-based rent of 8% of each hospital's gross operating revenue in the preceding year. And this is the reason why the Indonesia portfolio can achieve rental growth of about 7% in local currency terms.
- Separately, one hospital in Indonesia, Siloam Hospitals Lippo Cikarang is still under the old master lease agreement and they contribute rental income in SGD. And for that hospital, the annual rent escalation is 2%.
- For the Japan portfolio, we are not comparing like-for-like. Because in 2023, we are having a full year contribution, whereas in 2022, it's only partial. It's because we acquired 12 of our nursing home in March 2022, and then another two more nursing home only in September 2022. So in 2022, we did not have a full year contribution coming from the Japan portfolio.

Q: Will you focus your M&A on Japan or Indonesia? With regards to 2.0 Growth Strategy, which developed markets are you looking at?

- Australia is one of the developed countries that we are targeting. And of course Japan, we want to continue to grow our portfolio in Japan. And Singapore, we will continue to source for any potential opportunity here as well. So these are the few developed countries that we are looking to do any M&A.

Q: Maybe a bit more on hedging of debt: Understand that 87.2% is fixed or hedged, and what proportion is hedged and when do the contracts expire?

- Of the 87.2% fixed or hedged, 30% will be expiring in December 2024 and another 30% will be in end 2025.

LIM & TAN SECURITIES

RESEARCH DISCLAIMER

This report is intended for clients of Lim & Tan Securities Pte Ltd [herein after termed as LTS] only and no part of this document may be –

i. Copied, photocopied, duplicated, stored or reproduced in any form by any means or

ii. Re-distributed or disseminated, directly or indirectly, to any other person in whole or in part, for any purpose without the prior consent of LTS.

This research report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and particular needs of any specific recipient of this research report. You should independently evaluate particular investments and consult your independent financial adviser before making any investments or entering into any transaction in relation to any securities or investment instruments mentioned in this report.

The information, tools and material presented herein this report are not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject LTS to any registration or licensing requirement within such jurisdiction.

The information and opinions presented in this research report have been obtained or derived from sources believed by LTS to be reliable. Their accuracy, completeness or correctness is, however, not guaranteed. Opinions and views expressed in this report are subject to change without notice, and no part of this publication is to be construed as an offer, or solicitation of an offer to buy or sell securities, futures, options or other financial instruments or to provide investment advice or services. Therefore, LTS accepts no liability for loss arising from the use of the material presented in this report where permitted by law and/or regulation. LTS may have issued other reports that are inconsistent with the assumptions, views and analytical methods of the analysts who prepared them.

LTS, its directors, its connected persons and employees may, from time to time, own or have positions in any of the securities mentioned or referred to in this report or any securities related thereto and may from time to time add to or dispose of or may be materially interested in any such securities. LTS's research analysts are primarily responsible for the content of this report, in part or in whole, and certifies that the views about the companies expressed in this report accurately reflect his personal views. LTS prohibits the research analysts who prepares this report from receiving any compensation (excluding salary and bonuses) or other incentives and benefits receivable in respect of this report or for providing specific recommendation for, or in view of a particular company or companies mentioned in this report.

ANALYST DISCLOSURE

As of the date of this report, the research analysts primarily responsible for the content of this research report do not have a financial interest* in the securities of the companies as recommended in this report.

* *Includes direct or indirect ownership of securities or Futures Contracts (excluding the amount of securities or Futures Contracts owned), directorships or trustee positions.*