

Company Update

First REIT

Singapore | Real Estate

Ada Lim
Equity Research

Rating BUY (as at 1 November 2024)
Last Close SGD 0.265
Fair Value SGD 0.280

FX coming back to haunt

- **9M24 rental and net property income (NPI) slipped 5.3% and 6% year-on-year (YoY) due to FX headwinds**
- **3Q24 distribution per unit (DPU) of 0.58 Singapore cents declared, 3.3% lower quarter-on-quarter (QoQ) and below our expectations**
- **Maintain fair value (FV) estimate of SGD0.28**

Investment thesis

First REIT is a Singapore-listed healthcare real estate investment trust (REIT) with a portfolio of 32 nursing homes and hospitals located in Singapore, Japan, and Indonesia. Its relatively long weighted average lease expiry (WALE) of 10.8 years as at 30 Sep 2024 provides strong cash flow visibility, while built-in rental escalation clauses in its well-structured master leases provide potential for rental growth and upside sharing with tenants. Under its 2.0 Growth Strategy, First REIT seeks to diversify across tenants and geographies, which would improve its risk profile. Although elevated interest rates for the most part of 2024 have hindered its diversification into Developed Markets (DM), the turn of the rate cycle could potentially be more conducive for capital recycling activities, while structural megatrends such as an ageing population and increasing demand for quality healthcare continue to support demand for First REIT's assets.

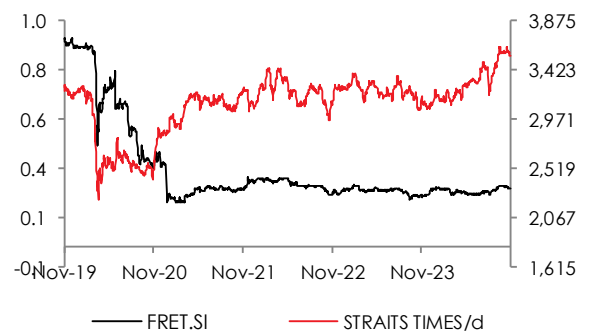
Investment summary

- **9M24 DPU came in at 1.78 Singapore cents, constituting 74.1% of our initial full-year forecast and missing our expectations** – First REIT's 9M24 rental income and NPI declined 5.3% and 6% YoY to SGD77m and SGD74.4m, respectively, as JPY and IDR depreciation continued to weigh on financial performance. In local currency terms, however, rental income from its Indonesian assets grew 4.4% YoY to IDR537.8b due to rental step-ups, while rental income from its Japanese nursing homes was flat at JPY1.1b. 9M24 distributable amount was down 3.4% YoY to SGD37m. First REIT has declared a 3Q24 DPU of 0.58 Singapore cents, which is 3.3% lower QoQ and

Security information

Ticker	FRET.SI
Market Cap (SGD b)	0.6
Daily turnover (SGD m)	1.3
Free Float	62%
Shares Outstanding (m)	2,086
Top Shareholder	OUE Healthcare Ltd. 32.4%

Price performance chart



Financial summary

SGD m	FY 23	FY 24E	FY 25E
Rental income	108.6	104.0	107.5
Net property income	105.3	100.8	104.3
Total return for the year	63.3	45.6	52.8
Distribution to unit holders	52.1	49.2	51.2
DPU (\$ cents)	2.48	2.36	2.43

Key ratios

	FY 23	FY 24E	FY 25E
Distribution yield (%)	9.4	8.9	9.2
P/NAV (x)	0.88	0.91	0.94
NPI margin (%)	97.0	97.0	97.0
Aggregate leverage (%)	38.7	37.0	37.5

Source: Refinitiv, REIT Manager, Internal estimates

6,5% lower YoY. Units will trade ex-dividend on 12 Nov 2024 and distributions will be paid out on 20 Dec 2024.

- Credit metrics remain stable with some upside risk to gearing on FX fluctuations after year-end portfolio valuations, in our view** – In terms of capital management, First REIT's gearing ratio improved 0.2 percentage points (ppt) from 39.5% as at 30 Jun 2024 to 39.3% as at 30 Sep 2024. All-in cost of debt was flat at 5%, with a high 86% of debt on fixed rates or hedged. Management shared that around 30% of interest rate hedges will roll off by the end of the year, which will cause the fixed rates hedging ratio to fall to under 60%. As the underlying debt is denominated in SGD, management is not inclined to put in place further hedges in order to benefit from lower interest rates, though this decision will also be dependent on the pathway of rate cuts going forward.
- Maintain FV estimate of SGD0.28** – We lower our FY24 and FY25 DPU forecasts by 1.7% and 0.9%, respectively, and also reduce our risk-free rate assumption by 50 basis points (bps) to 2.5%. We nudge our equity risk premium input up to 9.25% to account for rental outstandings from Metropolis Propertindo Utama (MPU), which stood at SGD7.9m as at 30 Sep 2024 (30 Jun 2024: SGD6.4m). First REIT currently holds a security deposit of ~SGD2.3m from MPU. It also holds additional security deposits of ~SGD4.3m from PT Siloam International Hospitals Tbk (Siloam), and management guided that if it is able to draw on the latter to cover the rental arrears from MPU, its net exposure would only be ~SGD1.3m. We also see further FX risks to DPU given a relatively low proportion of IDR net income hedges at the time of writing. All things considered, our FV estimate remains unchanged at SGD0.28.

Results highlights

SGD m	9M23	9M24	% chg
Rental income	81.4	77.0	-5.3%
Net property income	79.1	74.4	-6.0%
Distributable amount	38.4	37.0	-3.4%
DPU (\$ cents)	1.86	1.78	-4.3%

Source: REIT Manager, Internal estimates

ESG Updates

- Continued engagement on environmental considerations** – First REIT's reported Scope 3 emissions from its operations in Singapore and Indonesia have seen an uptick from FY21 to FY23. While First REIT does not have operational control over its properties, which are leased to related or third parties on master lease arrangements, it seeks to regularly engage its operators to implement environment-friendly initiatives. In FY24, First REIT aims to complete the rolling out of more than SGD1.12m worth of committed CAPEX to improve the energy efficiency of its assets, such as through the replacement of energy-efficient LED emergency lights and lift modernisation.
- Fostering social good** – First REIT remains committed to providing a diverse, equitable, and inclusive workplace, and adopts the Tripartite Alliance for Fair

& Progressive Employment Practices (TAFEP) guidelines. As of Dec 2023, women made up 65% of its workforce. During FY23, there were no incidents of discrimination, and each employee spent 25 hours on training, surpassing the REIT's target of 20 hours.

- **Compliance with regulations and ethical business practices** – First REIT has put in place policies covering conflict of interest, whistle blowing, anti-money laundering, anti-bribery and anti-corruption, dealing in securities, and related party transactions. As a healthcare player, First REIT places particular emphasis on the prevention of data breaches; hence, it has put in place its own personal data protection policy to enhance personal data protection.

Potential catalysts

- DPU-accretive acquisitions
- Capital recycling from divestment of non-core assets
- Stronger-than-expected financial performance at Siloam results in faster rental escalation at 8% of hospital's gross operating revenue
- Successful negotiation for more favourable lease terms during lease renewal

Investment risks

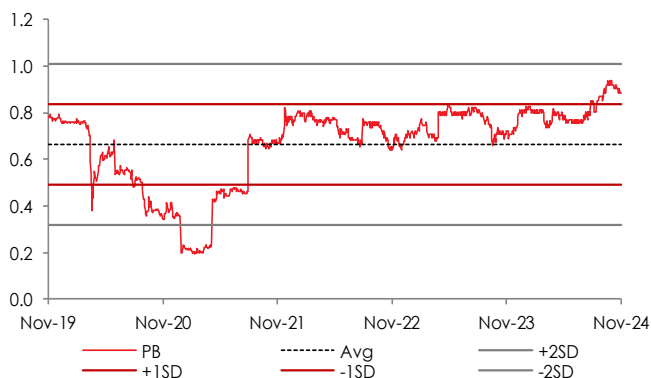
- Execution risks of implementing 2.0 Growth Strategy and rejuvenating portfolio
- Significant depreciation of IDR or JPY against SGD
- Tenant default

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
FIRST REAL ESTATE INVESTMENT TRUST (FRET.SI)	10.2	10.2	N.A	N.A	N.A	N.A	9.1	9.1	N.A	N.A
PARKWAY LIFE REAL ESTATE INVESTMENT TRUST (PWLR.SI)	22.2	22.2	1.6	N.A	25.1	23.6	3.9	4.0	7.1	9.0

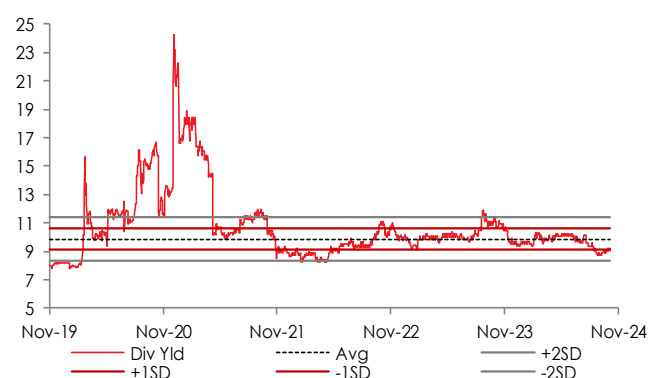
Source: Refinitiv

Historical Price/Book



Source: Refinitiv

Historical Distribution Yield



Source: Refinitiv

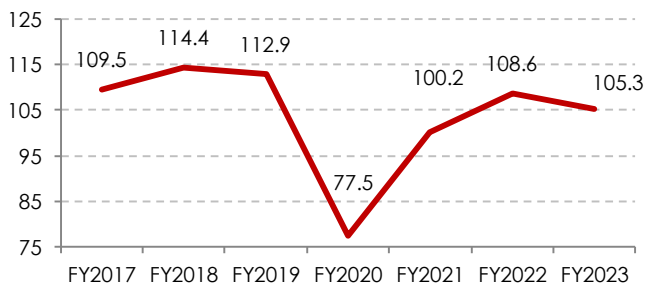
Company overview (as of 21 February 2024)

Company description

First Real Estate Investment Trust (First REIT) was the first healthcare real estate investment trust to list on the Singapore Exchange in Dec 2006. Its vision is to become Asia's premier healthcare trust, by investing in diverse, yield-accretive healthcare and healthcare-related real estate assets within and outside of Asia. As at 31 Dec 2023, First REIT has a portfolio of 32 properties across Asia, with a total asset value of SGD1.14b. These include three nursing homes in Singapore; 14 nursing homes in Japan; and 15 properties in Indonesia comprising 11 hospitals, two integrated hospitals and malls, an integrated hospital and hotel, and a hotel and country club. The REIT's healthcare properties in Indonesia are operated by PT Siloam International Hospitals Tbk, while its healthcare properties in Singapore and Japan are operated by well-established third-party operators.

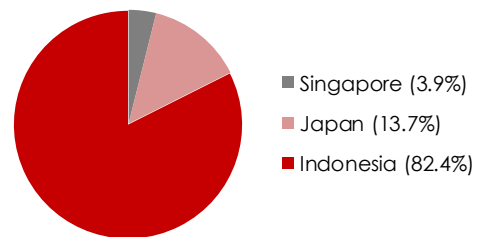
First REIT is managed by First REIT Management Limited, which is headquartered in Singapore. Its sponsors are OUE Limited and OUE Lippo Healthcare Limited, which hold a combined stake in First REIT of 44.7% as at 31 Dec 2023.

Net Property Income (SGD m)



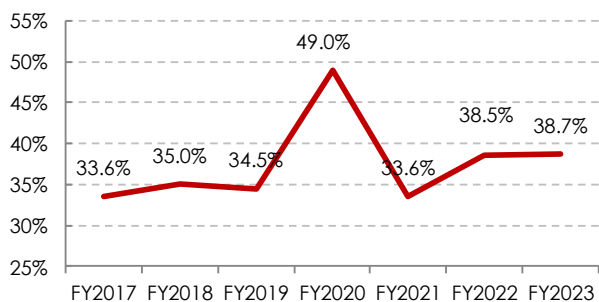
Source: REIT Manager

FY23 Rental Breakdown (by geography)



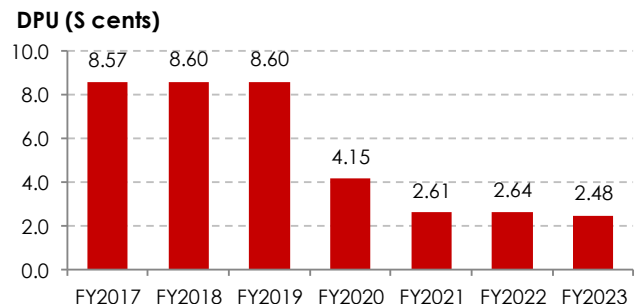
Source: REIT Manager

Gearing Ratio Trend



Source: REIT Manager

Distribution per unit (\$ cents)



Source: REIT Manager

Company financials

Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY2019 31/12/2019	FY2020 31/12/2020	FY2021 31/12/2021	FY2022 31/12/2022	FY2023 31/12/2023
Revenue	115.3	79.6	102.3	111.3	108.6
- Cost of Revenue	14.2	12.0	11.6	13.5	13.7
Gross Profit	101.1	67.6	90.8	97.8	94.9
+ Other Operating Income	--	--	--	--	--
- Operating Expenses	-1.4	4.3	1.0	2.2	1.0
Operating Income or Losses	102.4	63.4	89.8	95.7	93.9
- Interest Expense	20.4	17.8	17.0	19.4	22.7
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	6.6	403.8	-3.0	24.3	-7.0
Pretax Income	75.4	-358.2	75.8	52.0	78.2
- Income Tax Expense (Benefit)	26.5	-5.8	12.7	18.4	14.9
Income Before XO Items	48.9	-352.4	63.1	33.6	63.3
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	--	--	--	--	--
Net Income/Net Profit (Losses)	48.9	-352.4	63.1	33.6	63.3
Net Inc Avail to Common Shareholders	45.5	-355.8	59.9	31.0	61.7
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	48.9	-352.4	62.2	34.0	63.3
Basic Earnings per Share	0.1	-0.4	0.0	0.0	0.0
Basic Weighted Avg Shares	872.7	882.9	1,499.4	1,981.6	2,067.9
Diluted EPS Before Abnormal Items	0.1	-0.4	0.0	0.0	0.0
Diluted EPS Before XO Items	0.1	-0.4	0.0	0.0	0.0
Diluted EPS	0.1	-0.4	0.0	0.0	0.0
Diluted Weighted Avg Shares	872.7	882.9	1,499.4	1,981.6	2,067.9

Profitability Ratios

12 Months Ending	FY2019 31/12/2019	FY2020 31/12/2020	FY2021 31/12/2021	FY2022 31/12/2022	FY2023 31/12/2023
Returns					
Return on Common Equity	5.28	-53.93	10.74	4.71	9.31
Return on Assets	3.41	-28.98	6.14	2.99	5.31
Return on Capital	2.48	5.52	6.48	5.98	5.69
Return on Invested Capital	4.78	-	9.52	6.03	6.69
Margins					
Operating Margin	71.15	57.20	71.10	68.49	65.61
Incremental Operating Margin	1.03	0.80	1.24	0.96	0.96
Pretax Margin	65.39	-449.93	74.07	46.69	72.04
Income before XO Margin	42.43	-442.62	61.67	30.18	58.34
Net Income Margin	39.47	-446.91	58.53	27.87	56.82
Net Income to Common Margin	39.47	-446.91	58.53	27.87	56.82
Additional					
Effective Tax Rate	35.11	-	16.75	35.36	19.02
Dvd Payout Ratio	148.94	-9.24	64.59	167.28	82.53
Sustainable Growth Rate	5.20	-53.98	10.67	4.63	9.23

Credit Ratios

12 Months Ending	FY2019 31/12/2019	FY2020 31/12/2020	FY2021 31/12/2021	FY2022 31/12/2022	FY2023 31/12/2023
Total Debt/EBIT	4.87	7.90	3.94	4.69	4.82
Net Debt/EBIT	4.54	7.58	3.37	4.21	4.38
EBIT to Interest Expense	4.90	3.47	5.20	4.94	4.12
Long-Term Debt/Total Assets	34.08	29.22	23.82	37.51	37.81
Net Debt/Equity	0.53	1.01	0.46	0.61	0.62

Source: Refinitiv

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