

First REIT

Hurt by the weak IDR and JPY



SINGAPORE | REAL ESTATE (REIT) | 3Q24 UPDATE

4 November 2024

- 3Q24/9M24 DPU of 0.58/1.78 Singapore cents (-6.5%/-4.3% YoY) was in line with our estimates, forming 25%/75% of our FY24e forecast. The drop in DPU was due to the depreciation of the IDR and JPY against the SGD. 3Q24 DPU was 3.3% lower than the two preceding quarters of 0.60 cents per quarter.
- Revenue growth in local currency terms remained stable in 3Q24, with a YoY increase of 4.4% for properties in Indonesia, 2% for nursing homes in Singapore, and flat performance in Japan. Rentals outstanding from MPU amounted to S\$7.9mn as of 3Q24.
- Maintain BUY with an unchanged DDM-derived target price of S\$0.30. Our estimates remain unchanged. First REIT is trading at an attractive forward FY24e distribution yield of 8.9%. Organic growth will come from more Indonesian hospitals achieving performance-based rent. Potential catalysts include the divestment of non-core assets, such as Imperial Aryaduta Hotel and Country Club (IAHCC), and the reinvestment of proceeds to fund acquisitions in developed markets as part of the First REIT 2.0 growth strategy aimed at achieving over 50% of AUM in developed markets by FY27.

Results at a glance

(S\$'mn)	9M24	9M23	YoY	Comments
Gross revenue	77.0	81.4	-5.3%	Impacted by the stronger SGD against the IDR and JPY, offset by higher rental income in local currency terms.
Net property income	74.4	79.1	-6.0%	
Distributable Income	37.0	38.4	-3.4%	
DPU (S cts)	1.78	1.86	-4.3%	

Source: Company, PSR

The Positives

+ Rental growth in local currency terms remained stable YoY. 9M24 rental income from Indonesia and Singapore grew by 4.4% and 2% YoY, respectively, with income from Japan remaining unchanged. In 9M24, Siloam's contribution to rental income from hospitals in Indonesia rose to 57.6%, while PT Lippo Karawaci Tbk (LPKR) and PT Metropolis Propertindo Utama (MPU) accounted for the remaining 42.4%. The proportion of rental income from Siloam is expected to continue increasing, ultimately surpassing 80% after October 2026, provided that performance-based rent is achieved for all Indonesian hospitals.

+ Stable capital management. The all-in cost of debt remained stable QoQ at 5%, and 86% of debt was hedged to a fixed rate. As 30% of interest rate hedges will roll off by year-end, FIRT is well positioned to benefit from any interest rate cuts. The cost of debt for FY24e is expected to remain stable at 5%, with a slight improvement expected in FY25e. About 40% of income from Indonesia is hedged, while income from Japan is fully hedged till end-2025. Gearing and adjusted interest coverage ratio (ICR) remain healthy at 39.3% and 3.9 times, respectively.

The Negative

- Rentals owed by tenant MPU totalled S\$7.9mn. The security deposit from Siloam for its share of the rent for the three MPU hospitals amounted to S\$4.3mn, while the security deposit received from MPU amounted to S\$2.3mn. FIRT is actively engaging with MPU regarding repayments, which should materialize if MPU can make sizable divestments to increase liquidity.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.27
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 0.30
TOTAL RETURN	24.0%

COMPANY DATA

BLOOMBERG CODE:	FIRT SP
O/S SHARES (MN) :	2,086
MARKET CAP (\$ mn / SGD mn) :	417 / 553
52 - WK HI/LO (SGD) :	0.28 / 0.23
3M Average Daily T/O (mn) :	1.40

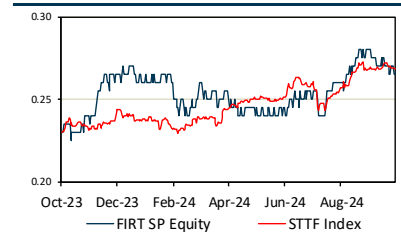
MAJOR SHAREHOLDERS (%)

OUE REALTY PTE LTD	35.1%
FIRST REIT MGMT LIMITED	9.9%
VANGUARD GROUP INC	1.9%

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(5.4)	6.5	7.5
STTF RETURN	0.6	7.1	15.8

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S\$m)	FY22	FY23	FY24e	FY25e
Gross Revenue	111.3	108.6	103.2	102.1
NPI	108.6	105.3	100.2	99.1
Dist. Inc.	52.4	51.4	49.4	53.1
P/NAV (x)	0.86	0.88	0.87	0.87
DPU (S cents)	2.64	2.48	2.36	2.51
Dist. Yield (%)	9.96	9.35	8.91	9.49

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 10.5%; Terminal g: 2%)

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Outlook

FIRT remains focused on executing its 2.0 Growth Strategy, with a target for developed markets to comprise more than 50% of its portfolio by FY2027. This includes divesting non-core assets in Indonesia and recycling capital into developed markets such as Australia and Japan. It continues to benefit from the base 4.5% escalation for its Indonesian hospitals, which could potentially offset the impact of the depreciating IDR against the SGD. The lease for IAHC has been extended for another year, until December 2025, with a 4.5% rental uplift. Management is confident in the divestment of IAHC, noting demand from multiple parties, and has reiterated that it will not be sold below its valuation.

Maintain BUY with a DDM TP of S\$0.30

The long WALE of over 10 years and base rental escalation for FIRT's portfolio continues to provide earnings visibility going forward. The current share price implies FY24e/25e DPU yields of 8.9%/9.5%.

Financials

Income statement

Y/E Dec, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	102,346	111,275	108,568	103,229	102,109
Property expenses	(2,130)	(2,716)	(3,234)	(3,075)	(3,042)
Net property income	100,216	108,559	105,334	100,154	99,067
Net Finance (Expense)/Inc.	(16,889)	(19,157)	(22,191)	(22,100)	(22,043)
Manager's fees	(4,145)	(4,041)	(3,713)	(3,715)	(3,765)
Other items	(2,320)	73,043	(8,202)	(7,807)	(7,741)
FV change, derivatives & ppties	(1,052)	(106,450)	6,988	-	-
Net income before tax	75,810	51,954	78,216	66,533	65,518
Taxation	(12,697)	(18,369)	(14,877)	(13,307)	(13,104)
Net income after Tax	63,113	33,585	63,339	53,226	52,414
Distribution adjustments	(21,053)	18,765	(11,890)	(3,783)	726
Income available for distribution	42,060	52,350	51,449	49,444	53,140

Per unit data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV (S\$)	0.37	0.31	0.30	0.30	0.31
DPU (cents)	2.61	2.64	2.48	2.36	2.51

Cash Flow

Y/E Dec, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Net income before tax	75,810	51,954	78,216	66,533	65,518
Adjustments	(2,255)	27,386	3,731	14,392	17,473
WC changes	(2,552)	28,339	136	3,021	(3,188)
Cash generated from ops	71,003	107,679	82,083	83,946	79,803
Others	(4,421)	(14,599)	(12,128)	(13,307)	(13,104)
Cashflow from ops	66,582	93,080	69,955	70,639	66,700

CFI

Acquisitions	-	(25,777)	-	-	-
Capex, net	(662)	(4,306)	(4,923)	(4,898)	(4,971)
Others	5,899	12,424	300	392	450
Cashflow from investments	5,237	8,118	(4,623)	(4,506)	(4,521)

CFF

Proceeds from issuance of units	157,702	-	-	-	-
Loans, net of repayments	(145,557)	(14,532)	2,365	-	-
Distributions	(38,168)	(49,489)	(52,136)	(49,444)	(53,140)
Others	(14,054)	(38,630)	(19,489)	(19,130)	(19,302)
Cashflow from financing	(40,077)	(102,651)	(69,260)	(68,574)	(72,442)
Net change in cash	31,742	(1,453)	(3,928)	(2,440)	(10,263)
Cash at the start of the period	19,292	51,203	46,103	40,266	37,826
FX changes	169	(3,647)	(1,909)	-	-
Ending cash	51,203	46,103	40,266	37,826	27,562

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	962,447	1,145,343	1,139,468	1,156,415	1,170,293
Others	28	1,262	1	-	-
Total non-current assets	962,475	1,146,605	1,139,469	1,156,415	1,170,293
Trade receivables	32,488	5,027	6,249	4,473	6,133
Cash	51,203	46,103	40,266	37,826	27,562
Others	3,369	890	1,347	1,347	1,347
Total current assets	87,060	52,020	47,862	43,645	35,042
Total Assets	1,049,535	1,198,625	1,187,331	1,200,060	1,205,335

LIABILITIES

Loans and borrowings	99,258	1,453	920	920	920
Trade payables	18,888	14,994	12,402	13,647	12,119
Others	9,015	4,744	4,369	4,369	4,369
Total current liabilities	127,161	21,191	17,691	18,936	17,408
Loans and borrowings	249,953	449,613	448,926	448,926	448,926
Others	20,601	62,459	60,548	60,548	60,548
Total non-current liabilities	270,554	512,072	509,474	509,474	509,474
Total Liabilities	397,715	533,263	527,165	528,410	526,882

Net assets 651,820 665,362 660,166 671,650 678,453

Represented by:

Unitholders' funds 651,820 665,362 660,166 671,650 678,453

Valuation Ratios

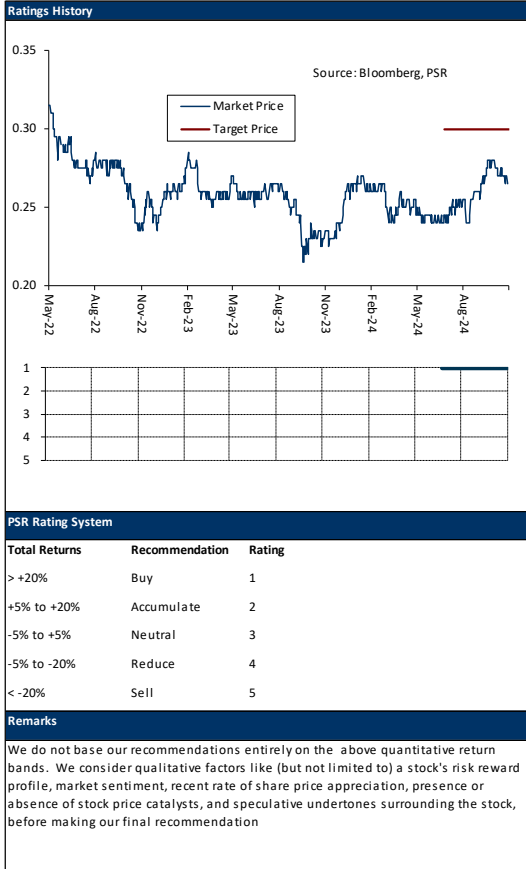
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.72	0.86	0.88	0.87	0.87
Distribution Yield (%)	9.8	10.0	9.3	8.9	9.5
NPI yield (%)	20.8	10.3	9.2	8.7	8.5

Growth & Margins

Growth					
Revenue	-45.3%	8.7%	-2.4%	-4.9%	-1.1%
Net property income (NPI)	-14.6%	8.3%	-3.0%	-4.9%	-1.1%
Distributable income	-52.8%	24.5%	-1.7%	-3.9%	7.5%
DPU	0.5%	1.2%	-6.2%	-4.7%	6.6%
Margins					
NPI margin	97.9%	97.6%	97.0%	97.0%	97.0%

Key Ratios

Net Debt or (Net Cash)	298,008	404,963	409,580	412,020	422,284
Gearing	33.3%	37.6%	37.9%	37.5%	37.3%



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