

Company Update

First REIT

Singapore | Real Estate

Ada Lim, CESGA
Equity Research

Rating BUY (as at 7 April 2025)
Last Close SGD 0.265
Fair Value SGD 0.270

Revisiting our FX assumptions

- **First REIT's distribution per unit (DPU) has suffered from FX headwinds in recent years, and we see risks to FY25 DPU on further IDR weakness**
- **Progress relating to First REIT's 2.0 Growth Strategy could still present a near term catalyst, in our view**
- **Maintain fair value (FV) estimate of SGD0.27; upgrade rating to BUY on the basis of total returns**

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 10.6 years as at 31 Dec 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. Structural megatrends such as an ageing population and increasing demand for quality healthcare continue to support demand for First REIT's assets. Under its 2.0 Growth Strategy, First REIT seeks to diversify across tenants and geographies, which would improve its risk profile. At the start of 2025, First REIT announced that it had received a preliminary non-binding letter of intent (LOI) from PT Siloam International Hospitals Tbk (Siloam) to acquire its portfolio of hospital assets in Indonesia, and is currently in the midst of a strategic review to assess the LOI and explore its strategic options.

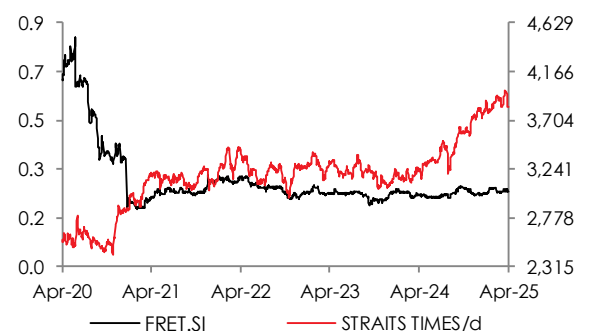
Investment summary

- **We like healthcare S-REITs during times of volatility for their defensive nature and high level of cash flow visibility, but caution that FX is likely to remain a headwind for First REIT** – We note that, in recent years, First REIT's DPU has declined largely due to FX headwinds. FY24 rental income and net property income (NPI) had slipped 5.9% and 6.5%, respectively, due to the weakening of JPY and IDR against the

Security information

Ticker	FRET.SI
Market Cap (SGD b)	0.6
Daily turnover (SGD m)	1.2
Free Float	62%
Shares Outstanding (m)	2,094
Top Shareholder	OUE Healthcare Ltd. 32.3%

Price performance chart



Financial summary

SGD m	FY24	FY25E	FY26E
Rental income	102.2	101.2	105.8
Net property income	98.5	97.6	102.1
Total return for the year	36.8	48.2	51.3
Distribution to unitholders	50.1	48.7	50.8
DPU (\$ cents)	2.36	2.32	2.40

Key ratios

	FY24	FY25E	FY26E
Distribution yield (%)	8.9	8.7	9.0
P/NAV (x)	0.93	0.95	0.97
NPI margin (%)	96.3	96.4	96.5
Aggregate leverage (%)	39.6	39.6	39.9

Source: Refinitiv, REIT Manager, Internal estimates

SGD. In local currency terms, rental income from the Japanese nursing homes were flat while that from the Indonesian assets had grown 4.7%. The IDR has come under significant pressure year-to-date (YTD), and we think there are risks of further IDR weakness, especially if a global growth slowdown triggered by President Trump's worse-than-expected tariffs places pressure on commodity prices. Consequently, we also see risks of further DPU decline for First REIT this year, especially given its sizeable exposure to Indonesia (82.4% of FY24 rental income), though this may be partially mitigated by JPY appreciation.

- **Progress relating to 2.0 Growth Strategy could still present a near-term catalyst** – To recap, First REIT announced in mid-Jan 2025 that it had received a preliminary non-binding LOI from Siloam – an existing tenant and operator – to acquire its portfolio of assets in Indonesia. First REIT has kickstarted a strategic review to assess the LOI and explore its strategic options, though no concrete timeline has been provided, and there is no certainty or assurance that any transaction will materialize from the strategic review or LOI. It is too early, we think, to comment on whether the sale of the Indonesian assets is a positive, as this would also be dependent on details around the sale consideration, how the proceeds are deployed, and – if they are used to acquire new assets and reconstitute the portfolio – the quality of and yield on those acquisitions.
- **Maintain FV estimate of SGD0.27** – All things considered, we finetune our assumptions and trim our FY25 DPU forecast by 0.9%, while nudging our FY26 DPU forecast up by 0.4%. In the balance of things, our FV estimate remains intact at SGD0.27, but we upgrade our rating from HOLD to BUY given that the recent retracement in share price has made the REIT more attractive from a total return perspective.

ESG Updates

- **Continued engagement on environmental considerations** – First REIT's reported Scope 3 emissions from its operations in Singapore and Indonesia have improved from FY23 to FY24. 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 allocated over SGD1.3m in CAPEX for this purpose. This included improvements like the installation of energy-efficient air conditioner and air handling units, replacement of energy-

efficient LED emergency lights, as well as 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 2024, women made up 70% of its workforce. During FY24, there were no incidents of discrimination, and each employee spent 25 hours on training, meeting the REIT's target.
- **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

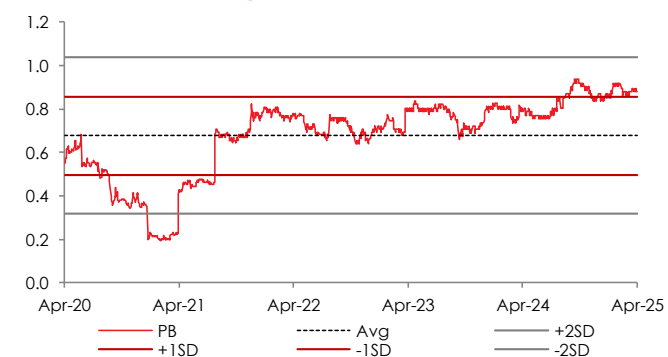
- Execution risks of implementing 2.0 Growth Strategy and rejuvenating portfolio
- Significant depreciation of IDR or JPY against SGD
- Tenant default

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
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)	25.4	23.5	1.7	1.4	27.3	26.3	3.6	4.2	8.2	8.1
HEALTHCARE & MEDICAL INVESTMENT CORP (3455.T)	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A

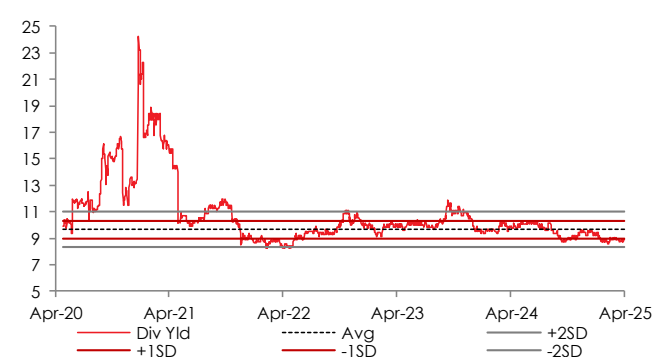
Source: Refinitiv

Historical Price/Book



Source: Refinitiv

Historical Distribution Yield



Source: Refinitiv

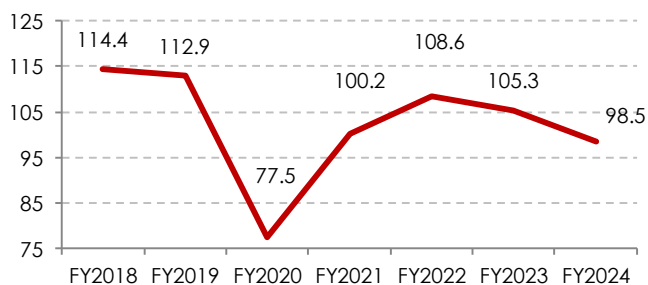
Company overview (as of 21 February 2024)

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 2024, First REIT has a portfolio of 32 properties across Asia, with a total asset value of SGD1.12b. 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.

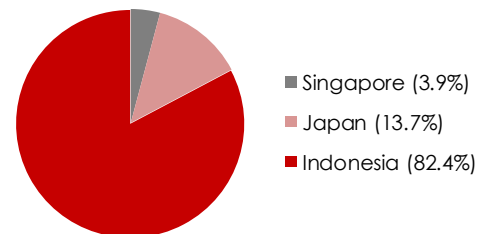
First REIT is managed by First REIT Management Limited, which is headquartered in Singapore. Its sponsors are OUE Limited and OUE Lippo Healthcare Limited, which hold a combined stake in First REIT of 45.2% as at 31 Dec 2024.

Net Property Income (SGD m)



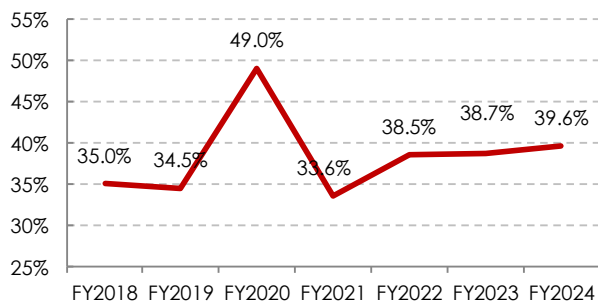
Source: REIT Manager

FY24 Rental Breakdown (by geography)



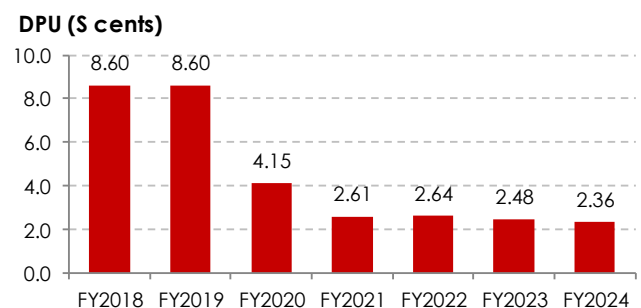
Source: REIT Manager

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	FY2020 31/12/2020	FY2021 31/12/2021	FY2022 31/12/2022	FY2023 31/12/2023	FY2024 31/12/2024
Revenue	79.6	102.3	111.3	108.6	102.2
- Cost of Revenue	12.0	11.6	13.5	13.7	13.8
Gross Profit	67.6	90.8	97.8	94.9	88.4
+ Other Operating Income		--	--	--	--
- Operating Expenses	4.3	1.0	2.2	1.0	1.2
Operating Income or Losses	63.4	89.8	95.7	93.9	87.2
- Interest Expense	17.8	17.0	19.4	22.7	22.8
- Foreign Exchange Losses (Gains)	--	--	--	--	--
- Net Non-Operating Losses (Gains)	403.8	-3.0	24.3	-7.0	13.9
Pretax Income	-358.2	75.8	52.0	78.2	50.6
- Income Tax Expense (Benefit)	-5.8	12.7	18.4	14.9	13.8
Income Before XO Items	-352.4	63.1	33.6	63.3	36.8
- Extraordinary Loss Net of Tax	--	--	--	--	--
- Minority/Non Controlling Interests (Credits)	--	--	--	--	--
Net Income/Net Profit (Losses)	-352.4	63.1	33.6	63.3	36.8
Net Inc Avail to Common Shareholders	-355.8	59.9	31.0	61.7	35.1
Abnormal Losses (Gains)	--	--	--	--	--
Tax Effect on Abnormal Items	--	--	--	--	--
Normalized Income	-352.4	62.2	34.0	63.3	36.8
Basic Earnings per Share	-0.4	0.0	0.0	0.0	0.0
Basic Weighted Avg Shares	882.9	1,499.4	1,981.6	2,067.9	2,086.2
Diluted EPS Before Abnormal Items	-0.4	0.0	0.0	0.0	0.0
Diluted EPS Before XO Items	-0.4	0.0	0.0	0.0	0.0
Diluted EPS	-0.4	0.0	0.0	0.0	0.0
Diluted Weighted Avg Shares	882.9	1,499.4	1,981.6	2,067.9	2,086.2

Profitability Ratios

12 Months Ending	FY2020 31/12/2020	FY2021 31/12/2021	FY2022 31/12/2022	FY2023 31/12/2023	FY2024 31/12/2024
Returns					
Return on Common Equity	-53.93	10.74	4.71	9.31	5.43
Return on Assets	-28.98	6.14	2.99	5.31	3.13
Return on Capital	5.52	3.76	3.47	3.30	3.35
Return on Invested Capital	-	8.85	5.61	6.22	5.64
Margins					
Operating Margin	57.20	71.10	68.49	65.61	63.04
Incremental Operating Margin	0.80	1.24	0.96	0.96	0.96
Pretax Margin	-449.93	74.07	46.69	72.04	49.48
Income before XO Margin	-442.62	61.67	30.18	58.34	35.96
Net Income Margin	-446.91	58.53	27.87	56.82	34.33
Net Income to Common Margin	-446.91	58.53	27.87	56.82	34.33
Additional					
Effective Tax Rate	-	16.75	35.36	19.02	27.33
Dvd Payout Ratio	-9.24	64.59	167.28	82.53	139.12
Sustainable Growth Rate	-53.98	10.67	4.63	9.23	5.35

Credit Ratios

12 Months Ending	FY2020 31/12/2020	FY2021 31/12/2021	FY2022 31/12/2022	FY2023 31/12/2023	FY2024 31/12/2024
Total Debt/EBIT	7.90	3.94	4.69	4.82	5.22
Net Debt/EBIT	7.58	3.37	4.21	4.38	4.82
EBIT to Interest Expense	3.47	5.20	4.94	4.12	3.81
Long-Term Debt/Total Assets	29.22	23.82	37.51	37.81	39.00
Net Debt/Equity	1.01	0.46	0.61	0.62	0.66

Source: Refinitiv

ANALYST DECLARATION:

The analyst(s) who prepared this report certifies that the opinions contained herein accurately and exclusively reflect his or her views about the securities of the listed entity, and that he or she has taken reasonable care to maintain independence and objectivity in respect of the opinions herein.

The analyst(s) who wrote this report and/or his or her respective connected persons do not hold financial interests in the listed entity.

The analyst(s) does not receive compensation directly or indirectly related to the inclusion of specific recommendations or views in this report.

The analyst(s) or his/her associate confirms that he or she does not serve on the board or in trustee positions of the listed entity, and the listed entity or other third parties have not provided or agreed to provide any compensation or other benefits to the analyst(s) in connection with this report.

DISCLAIMER FOR RESEARCH REPORT

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without the prior written consent of OCBC Investment Research Private Limited ("OIR" or "we"). This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OIR, OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank, OIR and their Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OIR and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement.

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

RATINGS AND RECOMMENDATIONS:

- OIR's technical comments and recommendations are short-term and trading oriented.

-
- OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon.
 - As a guide, OIR's BUY rating indicates total expected returns (excluding dividends) in excess of 10% based on the current price; a HOLD rating indicates total expected returns (excluding dividends) within +10% and -5%; a SELL rating indicates total expected returns (excluding dividends) less than -5%. For REITs and Business Trusts, total expected returns including dividends apply.
 - For companies with market capitalisation of S\$150m and below, OIR's BUY rating indicates total expected returns (excluding dividends) in excess of 30%; a HOLD rating indicates total expected returns (excluding dividends) within a +/-30% range; a SELL rating indicates total expected returns (excluding dividends) less than -30%. For REITs and Business Trusts, total expected returns including dividends apply.

Co.Reg.no.: 198301152E

Published by OCBC Investment Research Private Limited