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Edited Transcript for First REIT 9M 2023 Business Update Briefing for analysts on 1 November 2023

Pearl Lam:
Welcome everyone to our nine-month business update briefing for analysts.

Elizabelle Pang (DBS):
We have noticed that all-in interest rate cost has inched up slightly to 5.0%. Do you have any guidance for next year's interest rate cost?

Victor Tan:
This is largely due to the refinancing of one of our loans in Japan middle of this year. For that loan itself, we have fixed the interest rate for the initial three years. This is a seven-year facility. We fixed it for three years and then the remaining four years is on floating. By fixing this rate, we are paying an additional ~25 basis points. We think it is prudent to fix the rate, notwithstanding the Bank of Japan hasn't quite hike the interest rate yet.

As of now, ~86% of our total debt are on the fixed rate or hedged basis and we shared earlier that any increase in interest rate is not likely to have a great impact on us. We did a sensitivity analysis, every 100 basis points increase in interest cost could have only a S$0.7 million hit in the distributable income.

Elizabelle Pang (DBS):
On the progress on the divestment of Imperial Aryaduta Hotel & Country Club ("**IAHCC**"), I think previously we target end of this year, but it seems like perhaps next year to be more achievable timeline. Can you provide us more colour on the progress of the divestment?

Victor Tan:
We have spoken to a couple of interested third parties. We are working out the details and we are optimistic and hopeful that we will be able to divest this asset soon, hopefully sometime next year. In the meantime, we are working towards extending the lease and its terms for another year, so there should not be any impact on DPU.

Elizabelle Pang (DBS):
For the Japan nursing home, is there any room for rental negotiations and possibly rental increment next year, given that we have seen Japan's CPI and interest rate increase quite substantially over the year.

Victor Tan:
For 12 of our nursing home, we have the right to negotiate for higher rental with them every two to three years. For the remaining two nursing homes, it is on every five years term. So, we will continue to engage tenants on this basis.

Derek Tan (DBS):
We are coming to the end of this financial year, could you give us a bit of insights on what valuers are saying about your current valuation at this moment in time? I know you are on long leases, but interest rate has increased, so are we looking at potential near term adjustments downwards?

Victor Tan:
72% of our AUM is still Indonesia, where we have 14 hospitals. Based on the master lease agreements for 13 of our hospitals in Indonesia, the rental will go up by at least 4.5% in local currency every year. In my presentation earlier, I have shared that the rental for three of the 13 hospitals are delivering performance-based rent, which is 8.0% of the hospital's gross operating revenue in the preceding financial year, and is higher than the minimum rental increment of 4.5%. Overall for these 13 Hospitals , the increase in rental income in local currency term is about 8.8%.

The valuation method that our valuers used for the valuation of our assets in Indonesia excluding IAHCC is Discounted Cash Flow (**"DCF"**). So, at least in the local currency term, the value of our Indonesia portfolio should increase due to higher cash flows. Of course, when you convert back to Singapore Dollar, it will be dependent on the exchange rate.

On the Japan front, which contributes about 25% of our AUM, the valuation is estimated to be quite stable this year in local currency. We will be engaging with our tenants to see how we can have a higher rental going forward.

On the Singapore side, every year the rental income will go up by 2%, but because the land lease for the nursing home is leasehold, so every year we will try and build in depreciation into the valuation, hence the Singapore portfolio valuation could decline slightly year-on-year.

But overall, as the bulk of the properties are in Indonesia, and we will likely see a higher valuation number at least on local currency terms.

Derek Tan (DBS):
On the country club asset, you mentioned that you got a one-year extension in terms of the lease, which gives you a bit of time for you to look to sell. Can you give us the valuation at this moment in time for this asset?

Victor Tan:
The valuation is about S$30 million.

Derek Tan (DBS):
Is it right to say that it somewhat reflects like the replacement cost of this particular property already? As the lease is very short, the valuers are using what kind of metrics to give you that valuation at this moment?

Jacky Chan:
For the valuation of IAHCC, the main approach will be more of the land valuation of the country club instead of DCF because the land is excessive, the building's gross floor area is very small, and lease tenure is short. So, it will be compared with similar type of land for development within the vicinity, using the land sales approach. This is commonly practised.

Derek Tan (DBS):
So, I will assume that the bids you are getting in should be a premium to the valuation, rather than a discount.

Victor Tan:
We are hoping to get a premium to the valuation; it will not be lower than our valuation. We do not plan to divest IAHCC at a discount. We are working on getting a premium, this is the reason why we are negotiating, and talking to third-party potential buyers, and this contributes to why it is taking a little bit longer.

Derek Tan (DBS):
On the currency hedging for 2024, are you largely done or what is current state?

Victor Tan:
At this moment, it is only 25% of our 2024 income coming from Indonesia is hedged. We are looking to hedge another 10% to 20%. Our policy is to hedge at least half of our rental income from overseas so that it something that we hope to do.

Derek Tan (DBS):
So, 50% of your income will get some visibility, the remaining 50% will leave it to spot rate.

Victor Tan:
Yes, at this moment.

Derek Tan (DBS):
With the recent announcement on the sponsor pledging your shares, I am just wondering are you in the position to give us some update or more details on this? I think there is a bit of nervous feeling on what they intend to do with the money and the implications could be out of your hands.

Victor Tan:
They are only pledging our shares; they are not divesting or selling our shares. Basically, it is more like working capital management so they can pledge our shares as our shares are quite liquid and they can get a certain amount of loan from the banks for their working capital purposes, or some other cash requirement purposes.

So, when our share price suddenly falls to within certain range, they will need to top up the amount, they just add on more shares to the Banks. So basically, it is just topping up of the banking facility. It is a way of how they manage their cash flow accordingly.

Ada Lim (Bank of Singapore):
What is the average tenor of your interest rate hedges?

Victor Tan:
Some of the hedging will expire end of next year and then another batch will expire in 2025.

Valerie Ng:
About 50% of what we hedge will expire next year; and another 50% in 2025.

Ada Lim (Bank of Singapore):
Could you provide any update on the collection of rental arrears from PT. Metropolis Propertindo Utama (**"MPU"**)?

Victor Tan:
We are monitoring very closely and engaging with them very closely on the rental arrears. We will get some payment from them by the end of this year. I think they are working very hard to divest some assets to raise more funds for their working capital and cash flow requirement.

The amount that we are looking at is not a lot relative to the portfolio. We mentioned in our business update that the amount is about S$3.6 million. We are engaging them closely and optimistic that they will be able to make up these outstanding arrears by end of the year.

Rachel Tan (DBS):
On the Income hedge, how much do you hedge forward?

Victor Tan:
We hedge 25% of our 2024 income for the next 12 months.

Rachel Tan (DBS):
Could you share some colours on the Japan transaction market looking like? Is it still robust? Do you see more competitors coming in to bid for assets?

Victor Tan:
It is still very robust in a sense that there is still quite a fair bit of transactions. Although the yield of these nursing homes has compressed quite a fair bit, we are still being presented with quite a number of opportunities.

Rachel Tan (DBS):
What kind of yield level are you seeing now?

Victor Tan:
It depends on the location and depends on how close it is to the city or the suburbs. We are looking at between 4% to 5%. In the Kanto area, it will be around 4% to 5%, those further in the suburbs and in Hokkaido might get a slightly higher yield of 5+%.

Chin Meng Tee (OCBC):
Could you give some comments on the accruals incurred by MPU?

Victor Tan:
We are engaging them very closely. They are an asset rich company; they have a lot of landbank to monetise and looking at divest a couple asset to raise fund for their working capital and other cash flow requirement. Certainly, we are hopeful that they will divest some assets and pare down the amount that they due to us, possibly by the end of this year.

Derek Tan (DBS):
Around the topic of rental collection, are you seeing arrears or slowdown in collection?

Victor Tan:
Over at the Indonesia side, Lippo Karawaci is paying us very promptly, it is only MPU that is a bit behind in terms of their payment. Siloam is doing very well.

At the Japan side, all the tenants have been paying us very promptly.

For the Singapore side, one tenant is a bit behind in terms of payment schedule, by and large, they are still able to pay up.

The only one is MPU in Indonesia, which is looking at divesting some assets to raise funds to pay off the dues to us.

Derek Tan (DBS):
In Japan, we understand that the operators are also facing with a bit of cost pressure, I not sure if you have any insights for your nursing homes, are there still operating profitably or is there any potential red flags noting for now?

Victor Tan:
We are engaging with them closely; one or two potential tenants gave feedback to us about rising cost. That is the part where we will monitor very closely and engage with them and see how we can help them. Maybe cost is not something that we can help them with too much.

One of the nursing homes, we are trying to see how we can help them managing their electricity cost. For example, can we help by installing some solar panels? It would be good for improving our ESG too. We are also exploring with one tenant to help them to drive revenue growth, maybe in terms of collaborating with them or do some AEI with them. These are some of the initiatives that we will be exploring with our tenants in Japan.

Pearl Lam:
Thank you for joining us in this briefing today.