

# First REIT

A stable quarter with stable DPU



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## SINGAPORE | REAL ESTATE (REIT) | 1H24 RESULTS

30 July 2024

- 1H24 DPU of 1.20 Singapore cents (-3.2% YoY) was in line with our expectations, forming 51% of our FY24e forecast. 1H24 DPU was lower YoY mainly due to the stronger SGD against the IDR and JPY. 2Q24 DPU was stable QoQ at 0.60 Singapore cents.
- 1H24 revenue in local currency terms grew 4.4% YoY for properties in Indonesia, 2% YoY for nursing homes in Singapore, and remained stable in Japan. Finance costs grew marginally by 0.8% (S\$0.1mn) YoY due to good interest rate risk and currency risk management.
- Maintain BUY with an unchanged DDM-derived target price of S\$0.30. First REIT is trading at an attractive 16% discount to NAV and a forward FY24e distribution yield of 9.3%. Organic growth will stem from more Indonesian hospitals achieving performance-based rent. Potential catalysts include the successful divestment of non-core assets such as Imperial Aryaduta Hotel and Country Club (IAHCC) and recycling the proceeds to fund acquisitions in developed markets as part of its First REIT 2.0 growth strategy. Our estimates remained unchanged.

### BUY (Maintained)

LAST CLOSE PRICE	SGD 0.25
FORECAST DIV	SGD 0.02
TARGET PRICE	SGD 0.30
TOTAL RETURN	31.4%

### COMPANY DATA

BLOOMBERG CODE:	FIRT SP
O/S SHARES (MN) :	2,086
MARKET CAP (\$ mn / SGD mn) :	395 / 532
52 - WK HI/LO (SGD) :	0.27 / 0.21
3M Average Daily T/O (mn) :	1.10

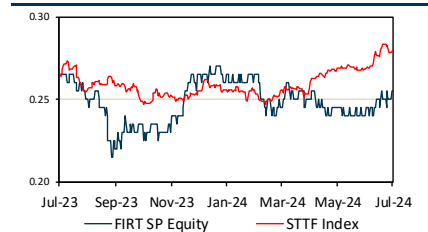
### MAJOR SHAREHOLDERS (%)

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

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	6.3	4.5	0.9
STTF RETURN	4.0	8.6	8.7

### PRICE VS. STTF



Source: Bloomberg, PSR

### Results at a glance

( \$ \$'mn)	1H24	1H23	YoY	Comments
Gross revenue	52.0	54.0	-3.7%	Impacted by the stronger SGD against the IDR and JPY, offset by higher rental income in local currency terms.
Net property income	50.3	52.4	-4.1%	
Finance costs	(11.3)	(11.2)	0.8%	Stable YoY.
Distributable Income	25.0	25.5	-2.1%	
DPU (S cts)	1.20	1.24	-3.2%	

Source: Company, PSR

### The Positives

**+ Rentals in local currency terms continue to improve.** 1H24 rental income from Indonesia and Singapore grew by 4.4% and 2% YoY, respectively, with income from Japan remaining stable. In 1H24, Siloam contributed 56.3% of rental income from hospitals in Indonesia, while PT Lippo Karawaci Tbk (LPKR) or PT Metropolis Propertindo Utama (MPU) contributed the remaining 43.7%. The proportion of rental income contribution by Siloam is expected to increase to over 80% after October 2026, assuming performance-based rent is achieved for all the Indonesian hospitals.

**+ Strong capital management.** The all-in cost of debt remained stable QoQ at 5%, and 87.2% of debt are hedged to a fixed rate. As about one-third of interest rate hedges expire at the end of FY24, FIRT is positioned well to benefit from any rate cuts in FY24e. A 100bps increase in rates will have a -1.2% impact on DPU. FIRT also strives to hedge about 50% of foreign-sourced income. Currently, about 50% of income from Indonesia is hedged. Gearing and adjusted interest coverage ratio (ICR) remains healthy at 38.7% and 3.7 times, respectively.

### The Negative

**- Rentals owed by tenant MPU amounted to S\$6.4mn.** MPU is attempting to make sizable property divestments to free up liquidity and has requested more time to make their payment. FIRT is optimistic it might be able to meet its obligations.

### 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)	0.83	0.84	0.84	0.84
DPU (S cents)	2.64	2.48	2.36	2.51
Dist. Yield (%)	10.35	9.71	9.26	9.86

Source: Company, PSR

### VALUATION METHOD

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

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**Outlook**

FIRT remains focused on its 2.0 Growth Strategy, with a target for developed markets to comprise more than 50% of its portfolio by FY2027. 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. Management is confident that IAHC will be divested in due course and has reiterated that it will not be sold below valuation. In the meantime, IAHC's lease is on a yearly renewal with a 4.5% escalation.

**Maintain BUY with a DDM TP of S\$0.30**

The long WALE of 11 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 9.3%/9.9%.

## 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)
<b>Net property income</b>	<b>100,216</b>	<b>108,559</b>	<b>105,334</b>	<b>100,154</b>	<b>99,067</b>
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	-	-
<b>Net income before tax</b>	<b>75,810</b>	<b>51,954</b>	<b>78,216</b>	<b>66,533</b>	<b>65,518</b>
Taxation	(12,697)	(18,369)	(14,877)	(13,307)	(13,104)
<b>Net income after Tax</b>	<b>63,113</b>	<b>33,585</b>	<b>63,339</b>	<b>53,226</b>	<b>52,414</b>
Distribution adjustments	(21,053)	18,765	(11,890)	(3,783)	726
<b>Income available for distribution</b>	<b>42,060</b>	<b>52,350</b>	<b>51,449</b>	<b>49,444</b>	<b>53,140</b>

### 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
<b>CFO</b>					
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)
<b>Cash generated from ops</b>	<b>71,003</b>	<b>107,679</b>	<b>82,083</b>	<b>83,946</b>	<b>79,803</b>
Others	(4,421)	(14,599)	(12,128)	(13,307)	(13,104)
<b>Cashflow from ops</b>	<b>66,582</b>	<b>93,080</b>	<b>69,955</b>	<b>70,639</b>	<b>66,700</b>

### CFI

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

### 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)
<b>Cashflow from financing</b>	<b>(40,077)</b>	<b>(102,651)</b>	<b>(69,260)</b>	<b>(68,574)</b>	<b>(72,442)</b>
<b>Net change in cash</b>	<b>31,742</b>	<b>(1,453)</b>	<b>(3,928)</b>	<b>(2,440)</b>	<b>(10,263)</b>
Cash at the start of the period	19,292	51,203	46,103	40,266	37,826
FX changes	169	(3,647)	(1,909)	-	-
<b>Ending cash</b>	<b>51,203</b>	<b>46,103</b>	<b>40,266</b>	<b>37,826</b>	<b>27,562</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, (S\$'000)	FY21	FY22	FY23	FY24e	FY25e
<b>ASSETS</b>					
Investment properties	962,447	1,145,343	1,139,468	1,156,415	1,170,293
Others	28	1,262	1	-	-
<b>Total non-current assets</b>	<b>962,475</b>	<b>1,146,605</b>	<b>1,139,469</b>	<b>1,156,415</b>	<b>1,170,293</b>
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
<b>Total current assets</b>	<b>87,060</b>	<b>52,020</b>	<b>47,862</b>	<b>43,645</b>	<b>35,042</b>
<b>Total Assets</b>	<b>1,049,535</b>	<b>1,198,625</b>	<b>1,187,331</b>	<b>1,200,060</b>	<b>1,205,335</b>

### 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
<b>Total current liabilities</b>	<b>127,161</b>	<b>21,191</b>	<b>17,691</b>	<b>18,936</b>	<b>17,408</b>
Loans and borrowings	249,953	449,613	448,926	448,926	448,926
Others	20,601	62,459	60,548	60,548	60,548
<b>Total non-current liabilities</b>	<b>270,554</b>	<b>512,072</b>	<b>509,474</b>	<b>509,474</b>	<b>509,474</b>
<b>Total Liabilities</b>	<b>397,715</b>	<b>533,263</b>	<b>527,165</b>	<b>528,410</b>	<b>526,882</b>

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

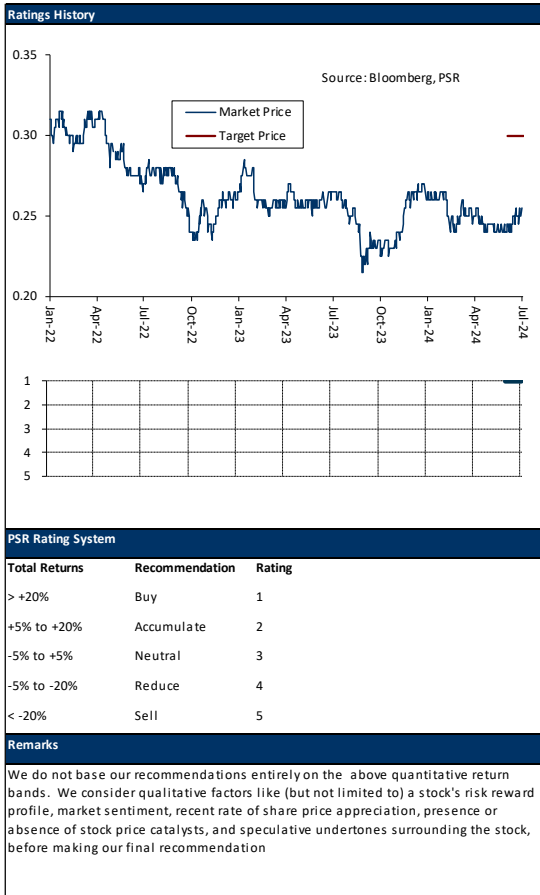
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.70	0.83	0.84	0.84	0.84
Distribution Yield (%)	10.2	10.4	9.7	9.3	9.9
NPI yield (%)	20.8	10.3	9.2	8.7	8.5

### Growth & Margins

<b>Growth</b>					
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%
<b>Margins</b>					
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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