Edited Transcript for First REIT FY2023 result briefing for analysts

Pearl Lam:
Welcome everyone to our full-year result briefing for analysts. We will now commence with the Q&A.

Darren Chan (Phillip Securities Research):
What is the proportion of foreign sourced income that is currently hedged?

Victor Tan:
At the Indonesia side, we have hedged about 25% as of now. And for the Japan side, about 75%. We continue to monitor the Rupiah currency, and at the right level we would want to hedge maybe another 25% so that we can bring the total hedge portion on the Indonesia side to maybe about 50%.

Elizabelle Pang (DBS):
Any updates on divestment of IAHCC?

Victor Tan:
All I can say for now is that it's progressing, and hopefully we can provide an update in second half of this year.

Elizabelle Pang (DBS):
With Cikarang's lease expiry in end 2025, has conversations started on this asset sale? And would First Reit consider a sale of Cikarang?

Victor Tan:
We are definitely open to either renewing the lease or divesting this asset.

Ada Lim (Bank of Singapore):
How do we reconcile the increases of Rental and Other Income in SGD on slide 7 with the 2.4% decline in Rental and Other Income on slide 9?

Pearl Lam:
The slide 7 Rental and Other Income is without the accounting adjustment while the 2.4% decline is with the accounting adjustment. So that would be the difference.

Ada Lim (Bank of Singapore):
Could you please provide a sense of your interest rate sensitivity? How will DPU be impacted by a 50 bps increase in all-in cost of debt?

Victor Tan:
Every 50 bps increase in interest rate will have about S$0.3 million impact on our distributable amount. S$0.3 million over our total distributable amount is actually a very, very small percentage. And the reason is because about 87% of our debt is already on a fixed rate or hedged basis.

Ada Lim (Bank of Singapore):
Overall NPI margin came down from 97.6% in FY2022 to 97% in FY2023. What was the source of this dip?

Victor Tan:
This is largely due to the Japan portfolio, because we acquired the Japan portfolio, so there's a slightly higher operating expenses in the Japan side. Japan leases are not on triple net leases.

Jonathan Koh (UOB Kay Hian):
Could you elaborate on growth of 7% for Indonesia and 28% for Japan?

Victor Tan:
If you look at the local currency terms, we grew by about 7.6% year-on-year. And this is largely due to the built-in increment for our Indonesia portfolio of at least 4.5%. So out of the 14 hospitals in Indonesia, ten of them saw a 4.5% annual increment. Whereas another three are already enjoying the performance-based rent of 8% of each hospital's gross operating revenue in the preceding year. And this is the reason why the Indonesia portfolio can achieve rental growth of about 7% in local currency terms.

Separately, one hospital in Indonesia, Siloam Hospitals Lippo Cikarang is still under the old master lease agreement and they contribute rental income in SGD. And for that hospital, the annual rent escalation is 2%.

For the Japan portfolio, we are not comparing like-for-like. Because in 2023, we are having a full year contribution, whereas in 2022, it's only partial. It's because we acquired 12 of our nursing home in March 2022, and then another two more nursing home only in September 2022. So in 2022, we did not have a full year contribution coming from the Japan portfolio.

Jonathan Koh (UOB Kay Hian):
For valuation of Indonesia properties, why use lower discount rate when interest rates were rising in Indonesia?

Victor Tan:
There are a lot of variables that contribute to the discount rate as well as the terminal cap rate component. Notwithstanding that interest rate is still rising in Indonesia, it is rising at a lower pace as compared to a year ago. And this is the reason why the valuer can use a lower discount rate and also terminal cap rate. This resulted in a higher valuation for Indonesia portfolio.

Rachel Tan (DBS):
What is the current cap rates for the Indonesia hospitals, Japan assets and Singapore nursing homes? Was there any change in the cap rates?

Victor Tan:
Yes. For the Indonesia side, compared to a year ago, the cap rate has slightly come off a bit. Whereas for Singapore and Japan side the cap rate is quite stable compared to a year ago. And the reason for the lower cap rate which I shared earlier on is due to the interest rate environment in Indonesia, the increase is at a slower pace as compared to a year ago.

Elizabelle Pang (DBS):
Will First REIT consider selling back Cikarang (given its upcoming lease expiry) to Siloam?

Bill Pearson (BLS Capital):
Will First REIT sell IAHCC?

Victor Tan:
For IAHCC, this is an asset we have put on the market for a while, and we definitely want to divest this hotel and country club hopefully by this year. With regards to Siloam Hospitals Lippo Cikarang, definitely we are open to selling this asset back to Siloam Group.

Pearl Lam:
Siloam has in recent years, bought back Siloam Hospitals Surabaya.

Bill Pearson (BLS Capital):
Will you focus your M&A on Japan or Indonesia?

Jonathan Koh (UOB Kay Hian):
With regards to 2.0 Growth Strategy, which developed markets are you looking at?

Victor Tan:
Australia is one of the developed countries that we are targeting. And of course Japan, we want to continue to grow our portfolio in Japan. And Singapore, we will continue to source for any potential opportunity here as well. So these are the few developed countries that we are looking to do any M&A.

Elizabelle Pang (DBS):
On future drivers of gross revenue: any plans to do AEI for assets? I believe in 3Q2023 business update call, First Reit was open to doing AEIs on Japan assets.

Victor Tan:
Correct. As far as AEI is concerned, definitely we will be keen to do some AEI in Japan nursing home because are a few of our Japan nursing homes are getting a bit old. So we are engaging our tenant to see whether there is any potential AEI that we are able to do over there.

Pearl Lam:
If I may add, if we were to do AEI, we will be considering sustainability-related AEI as well.

Rachel Tan (DBS):
Any estimated AEI capex for the Japan assets?

Victor Tan:
We are exploring the opportunity to do AEI with the operator in Japan. So at this moment we are not able to share any of this plan, but definitely there're plans for us to carry out some AEI work in Japan.

Ada Lim (Bank of Singapore):
Can we expect NPI margins from the Japan properties to remain stable at current levels?

Victor Tan:
Yes, it should be quite stable from now on.

Elizabelle Pang (DBS):
Maybe a bit more on hedging of debt: Understand that 87.2% is fixed or hedged, and what proportion is hedged and when do the contracts expire?

Victor Tan:
Of the 87.2% fixed or hedged, 30% will be expiring in December 2024 and another 30% will be in end 2025.

Rachel Tan (DBS):
Has there been further talks with Siloam on potential divestment of more hospitals in Indonesia?

Victor Tan:
We are open to divesting assets to Siloam or to any third party at the right price.

Pearl Lam:
If there are any material developments, we will definitely make an announcement on SGXNet.

Rachel Tan (DBS):
On the hedges expiring in 2024 and 2025, how big is the spread versus current cost of debt?

Valerie Ng:
The interest rate hedge we have done actually is around 5%(including margin), similar to the FY 2023 all-in-costs .

Pearl Lam:
Thank you and we wish you a good day ahead.