FIRST REIT
ASIA'S PREMIER HEALTHCARE TRUST

Edited Transcript for First REIT 1H 2023 result briefing for analysts on 1 August 2023

Pearl Lam:
Welcome everyone to our first-half result briefing for analysts. We will now open the floor for the Q&A segment of this briefing.

Darren Chan (Phillip Securities Research):
For Imperial Aryaduta Hotel & Country Club, are there any potential buyers for now?

Victor Tan:
We are in talks with a few potential buyers. We are very hopeful that we will be able to find a buyer soon.

Darren Chan:
If let's say you are unable to dispose the asset, will you renew the lease for another year?

Victor Tan:
We have started to engage with the tenant to renew the lease for another year.

Darren Chan:
I believe you are starting to look at some assets in Australia for acquisition?

Victor Tan:
My colleagues and I just came back from Sydney a month ago. We identified that Australia could be one of the developed markets in our portfolio going forward, and we are still looking at potential opportunities.

Elizabelle Pang (DBS):
I understand that all-in interest cost has increased to 4.9% and I think management has guided for the full year to stay between 4.7% to 4.9%. So maybe, I am curious is there any possibility of further interest cost increases in your view especially given potential another rate hike in September by the Federal Reserve?

Victor Tan:
As of now, we have locked in quite a fair bit of our loans. The reason why the proportion increased from around 60% to 86% is largely due to the early refinancing of JPY denominated TMK bond. Notwithstanding that Japan hasn't quite raised its interest rate, we've seen market talk that with the increase in inflation in Japan, there seems to be pressure on its monetary policy. Hence it is prudent for us to lock in some of the interest rate in Japanese Yen. This is the reason why we have decided to do an early refinancing. As of now, it is still relatively cheap to fix the rate.

So about 86% of our debts are on fixed rate basis. The remaining 14% includes S$50 million from the term loan facility, and S$15.7 million from the revolving credit facility (RCF) that we probably won't be able to fixed. For the RCF, we can draw down and if we divest some assets, we can pare down and draw down again. At this moment, we have not drawn down a lot on the RCF. We still have some room for us to tap on the funding. Hence, I don't think the rise in interest rate will affect us. Our interest cost should remain around 4.7% to 4.9% level. We are also looking at exploring cross-currency swaps, swapping some of the more expensive Singapore Dollar loans to cheaper Japanese Yen loans.

Ada Lim (Bank of Singapore):
Could you give us a sense of your interest rate sensitivity?

Pearl Lam:
For the interest rate sensitivity, the full-year impact from a 100-basis point change in interest rate is about S$0.7 million; the half-year impact would be about S$0.35 million.

Ada Lim:
What percentage of foreign distribution income that is repatriated back to Singapore is currently being hedged?

Victor Tan:
We have hedged close to about 50% of our income from Indonesia. For this quarter, some of the hedging have already expired and we are looking at hedging more.

Ada Lim:
Do you see higher for longer interest rates being an impairment to the REIT's diversification into more developed market?

Victor Tan:
Take for instance, Australia, it will be a bit challenging for us to acquire anything that is going to be accretive mainly due to the high interest rate environment. Of course, if we were to divest some assets, we can use the proceeds to go into buying more assets in the developed markets.

Besides looking at acquisitions, we are also looking at divesting, reshaping our portfolio. Hence if we were to be able to divest our hotel and country club and some other assets in Indonesia, we will be able to channel those proceeds into developed markets.

Peggy Mak (Phillip Securities Research):
Would Sime Darby Hospital's asset be worthwhile for First REIT? If not, is there any reason?

Victor Tan:
Of course, we are keen to explore if, it fits our criteria.

Chin Meng Tee (OCBC):
By any chance, can we know about the nursing home's occupancy rate in Japan or Singapore? Or roughly how is their performance?

Victor Tan:
For the three nursing homes in Singapore, all are above 90%. For Japan, we have 14 nursing homes over there and most of them are between 80% to 90%. Some are even above 90%. There are a couple of them around 70% to 80%.

Chin Meng Tee:
For the hotel property in Indonesia, how is the sentiment like at the moment and do you have any expected discount to book value if you were to sell it?

FIRST REIT
ASIA'S PREMIER HEALTHCARE TRUST

Victor Tan:
When we are looking at the occupancy rate of this hotel in Indonesia, it continued to do well post-covid. The appraised valuation for this particular asset is S$27.5 million as at 31 December 2022. We feel that this valuation is quite conservative and we believe that we should get above this valuation number.

Li Jialin (Maybank):
I noticed a slight uptick in your capital distribution this quarter. So, could you just remind us about your capital distribution policy for the full year?

Victor Tan:
Our policy is to give out at least 90% of our taxable income to Unitholders. The taxable component is those income that come from the Singapore side, which is a very small component in our total portfolio. The non-taxable component is income that we bring back from overseas – Indonesia and Japan. This overseas income is classified as capital or tax-exempt.

Li Jialin:
Is it fair to say that capital distribution is more reflective of your Indonesia income?

Victor Tan:
Yes, and not only Indonesia income, but also part of our Japan income as well.

Peggy Mak:
Recent hospital transactions has been valued at EV/EBITA basis, for instance Thomson Medical's acquisition of Vietnam hospital at 16.8 times EV/EBITA, do you think your valuer will consider comparative valuation in valuing your hospital's assets?

Victor Tan:
My head of asset and investment management, Jacky, could chime in on this.

Jacky Chan:
Some acquisitions in Vietnam may come not only with the operations but also the land and building of the hospital. But for ours, it is based on the rental that we are receiving; ours is valuing land and building with a constant stream of rental. Therefore, we will have to use a different approach to value it. It is not the same business approach.

Peggy Mak:
What is your view of the recent reform in healthcare sector in Indonesia? Some examples include allowing more foreign doctors. Will it be positive or negative for your tenant?

Victor Tan:
The new hospital reform that is recently passed by the Indonesia parliament is expected to be positive to the Indonesia healthcare sector and we are hopeful that these new changes to the healthcare sector will bring in more income for PT Siloam International Hospitals Tbk and subsidiaries ("**Siloam**"), the operator of our healthcare assets in Indonesia and largest tenant as at 30 June 2023.

Peggy Mak:
What is the current occupancy cost for your tenant?

Pearl Lam:
I believe you are referring to the rental income that we receive from Siloam; the rental income before recognition of FRS 116 rental straight-lining adjustments in 1H 2023 is around S$18 million.

Victor Tan:
This figure is about 39% of our total rental income and this number will keep increasing over time.

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