

Edited Transcript for First REIT 1H 2024 result briefing

Citigate Dewe Rogerson:

Welcome everyone to our 1H 2024 result briefing. We will now commence with the Q&A.

Q: Although MPU is asset-rich, MPU isn't fulfilling its rental obligations. Is First REIT going to take action soon given that this matter has dragged on for one and a half years?

Victor Tan:

We are actively engaging MPU. We have sent MPU a legal letter and MPU has informed us that they are in the midst of a significant divestment and requested for more time. As of now, we are quite optimistic that they will be able to fulfil their rental obligation within the next 3-6 months.

Q: Why is the Indonesia currency so weak, and will it continue to weaken further? Does First REIT hedge against FX fluctuations?

Victor Tan:

The IDR has been holding up quite well and the weakness only started maybe in the last 6-9 months or so. Based on banks' forecasts, it is projected that the IDR will be stable and even strengthen against most currencies but maybe not against SGD. Nevertheless, if you look at our lease structure, we have an annual rental escalation of at least ~4.5% per hospital, which helps to mitigate some of these forex risks. Our company policy is to hedge at least 50% of our income coming back from overseas. And coupled with the 4.5% rental escalation from the Indonesia side, we believe this will help us to hedge against IDR depreciation.

Q: Gearing is nearing the 40% handle. What level of gearing is management comfortable with?

Victor Tan:

Even if you look at 40%, it is still way below the MAS limit of 50%. Recently, MAS has circulated a consultation paper proposing to simplify the leverage requirements. But I would say as of now, slightly below 40% is where we're comfortable with. Even if the currency were to drop a bit, and we go above 40%, I think we're still quite okay and still way below the regulatory limit.

Q: What is the impact on First REIT's DPU for every 50bps increase in floating rates?

Victor Tan:

Every 100bps increase is about S\$0.6 million impact to our distributable amount, and every 50bps change will be S\$0.3 million impact to our distributable amount, which would translate to only 0.6% of our DPU.

Q: The decline in NAV per share in 1H2024 from 2H2023 levels – is this due to forex fluctuations?

Victor Tan:

Yes, it is. The drop in NAV is mainly due to forex. The IDR dropped by 3.5% and JPY has depreciated by about 6%, which has an impact on our valuation as at June 2024. As such, our NAV has come off as well from 30 cents to 28 cents.

Q: How confident are we in divesting Imperial Aryaduta Hotel & Country Club by 2024? Does management foresee a need to push back target timeline?

Victor Tan:

We have been engaging a couple of parties with regards to this divestment. We're not sure if we can complete it by this year, but definitely we are confident that we will be able to divest this asset. If not this year, then next year. If there are material updates, we will announce it on SGX.

Q: What is the strategy for entering the Australia market?

Victor Tan:

The healthcare market in Australia is quite sizeable and diversified. Within the healthcare sector, there are a couple of sub-sectors that we could potentially tap on. We want to identify which sub-sectors would be relevant for us. So, we've been doing a lot of studies and we have also been meeting people, be it developers, capital partners or operators.

Under the current high interest rate environment, it is a bit challenging for us to look at acquiring something there until we're able to divest some of our assets. This is so we can re-shift our portfolio such that we can have more assets in developed markets, in line with First REIT 2.0 Growth Strategy. If there are material updates, we will announce it on SGX.

Q: Is the transaction market in Indonesia more conducive for the divestment of IAHC now versus last year?

Victor Tan:

Yes, I would say that the property real estate market in Indonesia has improved a fair bit, from what we understand, compared to last year. Because in the earlier part of this year, Indonesia was having the presidential elections and people were more focussed on elections. And now with elections over, definitely it has created a more conducive environment. We are confident we're able to divest this asset sooner rather than later.

Q: Does the sponsor have any pipeline for you to acquire in developed markets?

Victor Tan:

Our sponsors are OUE Limited and OUE Healthcare. OUE Healthcare, as some of you may know, operates some hospitals in China and Myanmar, and these countries are not what we deem as developed markets. So I would say that going forward, we will look at assets coming from third-parties rather than our sponsor.

Q: On Australia, will you be open to acquiring an asset that is not immediately accretive? Or does it have to be DPU-accretive for you to consider it?

Victor Tan:

Ideally, of course if we're able to acquire an asset that is DPU-accretive that would be something we will strive to do. In fact, if you look at our record and the whole REIT market, I think everyone wants to acquire DPU-accretive assets. But I think we also need to look at the long-term. Any asset that may not be immediately accretive, but has good growth perspective, will be something we will be open to looking at as well. I think sometimes we need to cast our sight and look at the big picture and the longer-term horizon.

Q: Based on the current revenue, would the Indonesian hospitals reach the threshold for performance-based rent? If no, what is the gap in percentage term before they reach the threshold?

Victor Tan:

As of now, there are 3 hospitals already enjoying performance-based rent and we are looking at possibly, another 2-3 hospitals to join as well, in the coming years.

Q: Cost of borrowing expected for this year and next year?

Victor Tan:

Our current cost of borrowing is about 5%. We expect it to remain very stable at around 5% this year. For next year, we are cautiously optimistic that our cost of borrowings will come down. As you may know, there could be rate-cuts this year, if not, sometime next year. We also have a couple of interest rate hedges that are due for expiry this year-end, about 30% of them. So what we will do is that likely, we will not go on fixed, but leave it on floating. So there could be potentially some interest rates savings.

Q: Any chance Siloam or Lippo Karawaci can pay for the outstanding amount from MPU?

Victor Tan:

Currently, the leases for the 3 hospitals with MPU is on a tripartite arrangement, whereby Siloam is actually one of the parties. So for these 3 hospitals, we have Siloam's approval to tap onto Siloam's security deposit for the 3 hospitals. So I think there is a possibility of getting Siloam to pay for MPU.

Q: What is your view on the cap rate for Japan nursing homes?

Victor Tan:

Depends on the area and the nursing home we're looking at. On average, it's between 4-5%. And of course it depends on whether it is in the main cities, or suburbs or central areas. So if it's in central Japan – Tokyo and Kansai area – we're probably looking at about 4%, or slightly above that. If you go further outside, we're looking at slightly higher at 5% or slightly more than that.

Q: Would you consider looking at more Singapore nursing homes or hospitals rather than going to Australia? What's your outlook on AUD currency and volatility?

Victor Tan:

Singapore is one of our key markets, but if you look at private hospitals, there are not many that are up for sale. We can also explore nursing homes, but for now, we are not able to find any suitable one that meets our criteria.

We are positive on our outlook for Australia. Partly because in terms of the market, they have an immigration policy which will help to create demand for the healthcare scene in Australia. And I would say that in the long run, the currency should be quite stable as compared to developing countries.

Q: Fair value loss on investment properties - are these currency-related or any factors leading to this change?

Victor Tan:

This is mainly due to the currency depreciation.

Citigate Dewe Rogerson:

Thank you for joining us.