Beanspout

First REIT

(SGX: AW9U)

Near-term headwinds while awaiting strategic review outcome

- **Initiate coverage with NEUTRAL.** First REIT is Singapore's first healthcare real estate investment trust (REIT), with a S$1.12 billion portfolio comprising a diversified mix of 32 income-producing real estate assets across Indonesia, Japan and Singapore which are primarily used for healthcare purposes. Siloam International Hospitals and PT Lippo Karawaci Tbk in Indonesia represent the two largest tenants for the REIT, at 41.1% and 33.5% of rental income in 2024 respectively, with Indonesia representing about 85% of Net Property Income for the REIT in 2024.
- **Downside risks from MPU arrears.** We think the rental arrears from PT Metropolis Propertindo Utama (MPU), which contributed 6% in group rental income in 2024 could continue to overshadow the growth prospects of First REIT in the near term. A full write-down of such rent arrears outstanding could imply a 1% decline in DPU should the security deposits be used to offset rent arrears, and a 8% decline in DPU assuming a full writedown of rent arrears.
- **Impact from Rupiah and Yen weakness**. While First REIT pays its DPU in Singapore Dollars, weaknesses in the Indonesian Rupiah and Japanese Yen have impacted rental income, even as rental income from its Indonesian assets grew 4.7% and Japan nursing homes were stable in local currency terms. In our view, continued weakness in the Indonesian Rupiah year-to-date may erode any organic rent growth in-built in the leases of the Indonesia Hospital.
- **Strategic review may provide upside surprise.** On 13 January 2025, First REIT announced that it has received a preliminary non-binding letter of intent (LOI) from Siloam to acquire its portfolio of hospital assets in Indonesia. The Board has since decided to undertake a strategic review to assess the LOI and explore all strategic options for First REIT. We note from precedent transactions for REIT take-over and merger transactions that the average implied price to net asset value (NAV) ratio stands at 1.04x.
- **Trading at P/B of 0.87x.** We derived a target price of S$0.26 per unit based on a three-stage dividend discount model, on a cost of equity of 11.0% and terminal growth rate of 1%. First REIT is now trading at 0.87x P/NAV, and offers a potential FY25E distribution yield of 9.2%. Key risks include foreign currency risks, proposed strategic review not yielding significant outcome, amongst others.

Ticker	AW9U
Rating	Neutral
Price Target*	S$0.26
Price (11 Apr)	S$0.25
Upside/Downside:	+4.0%
52-week range	S$0.235 - 0.280
Market Cap	S$525M

*Target price is for 12 months

Research Analyst

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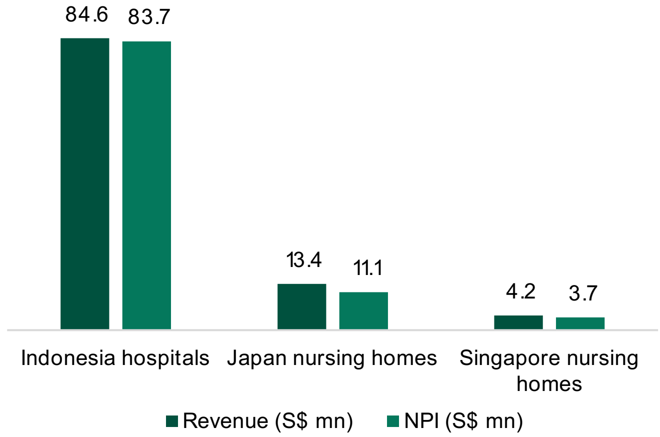
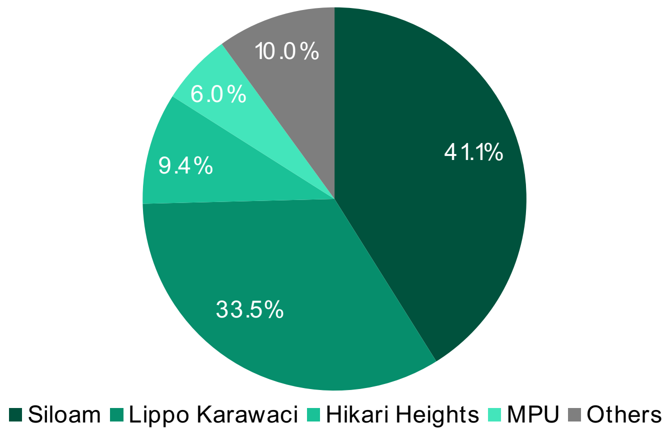
Focus charts and tables

Figure 1: Breakdown of First REIT's revenue and NPI



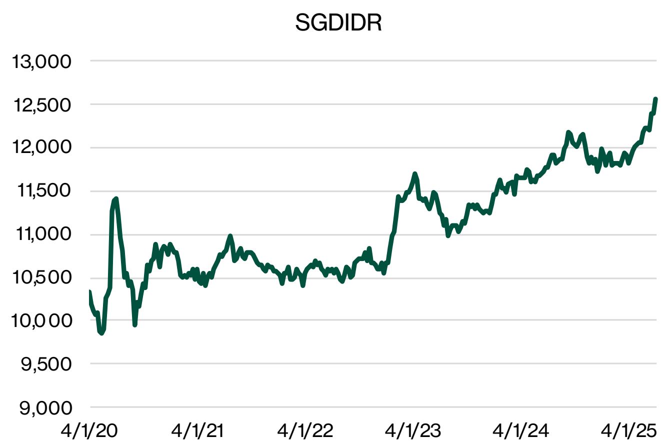
Source: Company data

Figure 2: Tenant mix by 2024 rental income



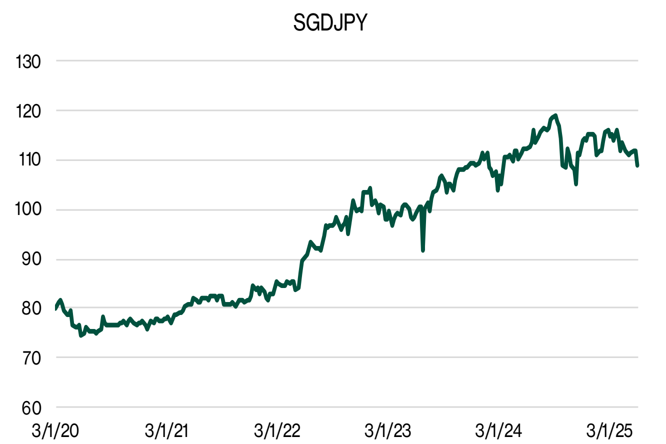
Source: Company data

Figure 3: Indonesian rupiah has weakened against Singapore Dollar since 2020



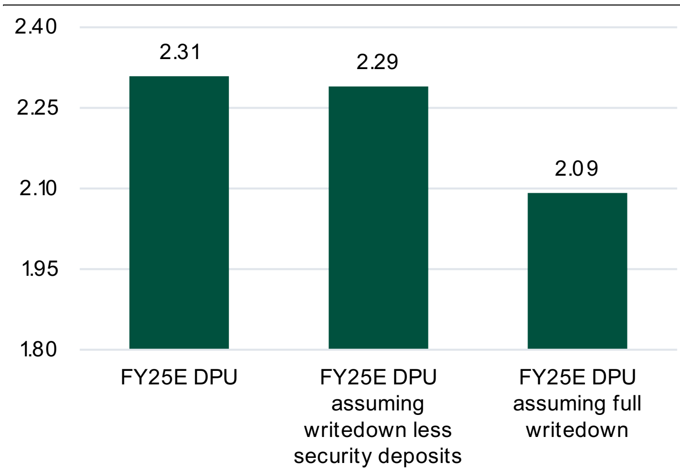
Source: Bloomberg

Figure 4: Japanese Yen has weakened against Singapore Dollar since 2020



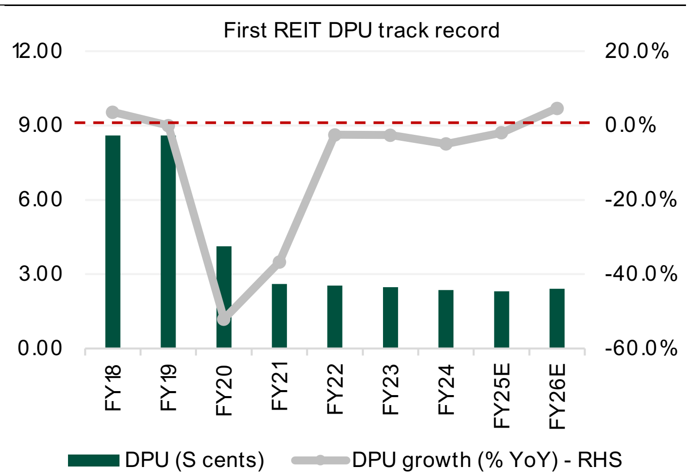
Source: Bloomberg

Figure 5: DPU scenario analysis based on MPU outcomes



Source: Company data, Beansprout research

Figure 6: Mixed DPU track record



Source: Company data, Beansprout research

Healthcare REIT with assets mainly in Indonesia

Portfolio overview

Listed on the SGX on 11 December 2006, First REIT is Singapore's first healthcare real estate investment trust (REIT), with a S$1.12 billion portfolio comprising a diversified mix of 32 income-producing real estate assets across Indonesia, Japan and Singapore which are primarily used for healthcare purposes as of 31 December 2024.

The 32 assets combined have a total Gross Floor Area (GFA) of 450,085 sqm, 6,531 beds/rooms with a 100% committed occupancy.

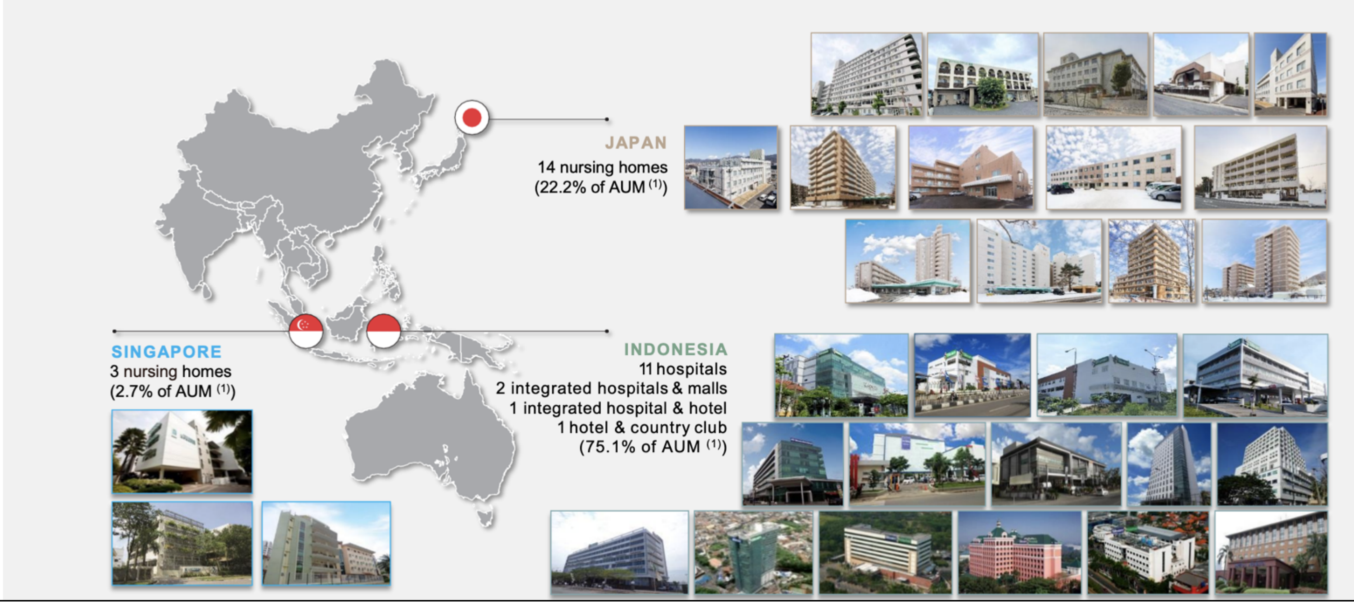
First REIT's sponsors OUE Limited and OUE Healthcare Limited are also listed on the SGX and hold a combined stake of 45.17% in First REIT units as at 31 December 2024.

Indonesia

- 15 Properties
- Contribution to Portfolio Value: ~75%
- Asset Types: 11 hospitals, two integrated hospitals & malls, one integrated hospital & hotel and one hotel & country club
- Key Tenants: Siloam International Hospitals and PT Lippo Karawaci Tbk (LPKR)

- **Japan**
  - 14 Properties
  - Contribution to Portfolio Value: ~22%
  - Asset Types: Nursing homes catering to the country's aging population.
  - Key Tenants: Hikari Heights, various Japanese healthcare operators
- **Singapore**
  - 3 Properties
  - Contribution to Portfolio Value: ~3%
  - Asset Types: Nursing homes catering to the elderly population
  - Key Tenants: Precious Homes and The Lentor Residence

Figure 7: A snapshot of First REIT's portfolio

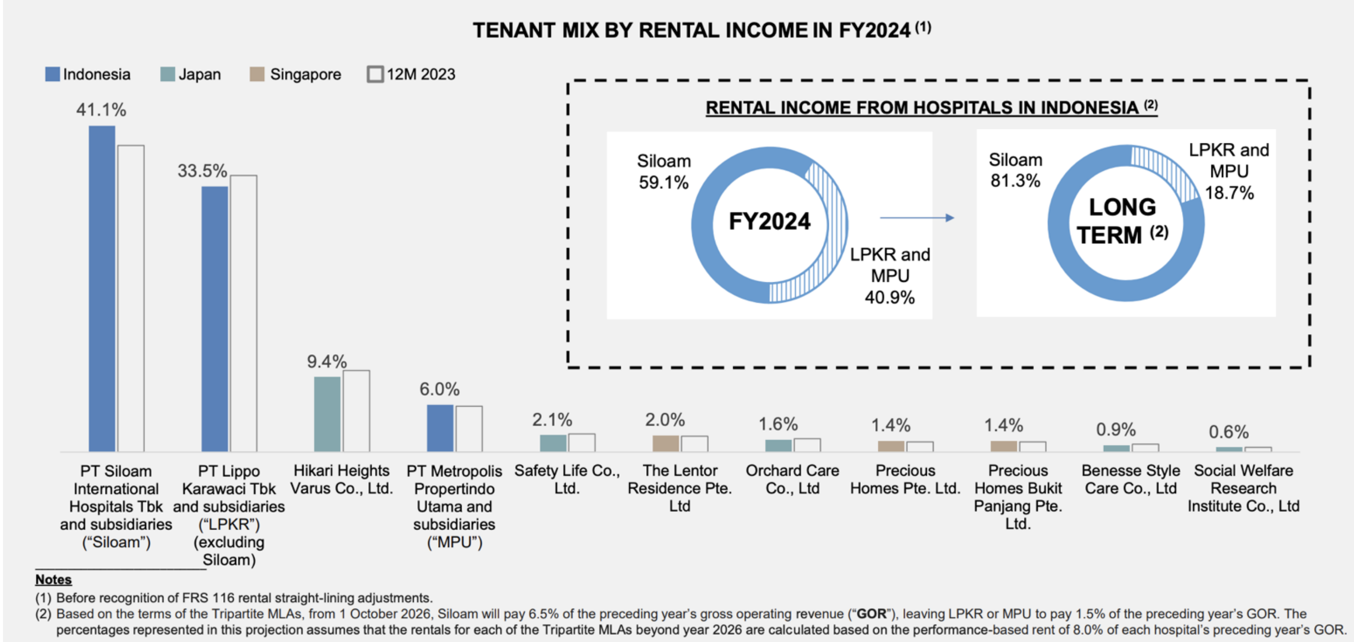


Source: Company data as of 31 December 2024

Tenant mix

Siloam International Hospitals and PT Lippo Karawaci Tbk in Indonesia represent the two largest tenants for the REIT, at 41.1% and 33.5% of rental income in FY 2024 respectively. For its hospitals in Indonesia, Siloam currently represent 59.1% of rental income, with the long term plan to increase this to 81.3%. The third largest tenant is Hikari Heights in Japan at 9.4% of FY 2024 rental income.

Figure 8: First REIT tenant mix by rental income in FY 2024

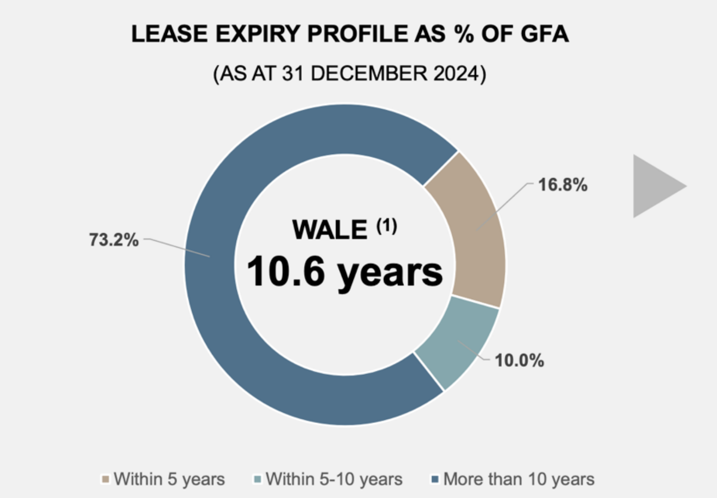


Source: Company data

WALE & lease expiry profile

First REIT has a long Weighted Average Lease Expiry (WALE) of 10.6 years as of 31 December 2024, with the majority of leases (73.2%) have a WALE of more than 10 years. First REIT has previously articulated a plan to divest its non-core asset, Imperial Aryaduta Hotel & Country Club. Meanwhile, the Master Lease Agreement, which was due to expire in December 2024 has since been renewed to 31 December 2025.

Figure 9: First REIT lease expiry profile by GFA



Lease Expiry within 5 Years	
Property	**Expiry**
Imperial Aryaduta Hotel & Country Club (2)	Dec 2025
Siloam Hospitals Lippo Cikarang	Dec 2025
Precious Homes @ Bukit Merah	Apr 2027
Precious Homes @ Bukit Panjang	Apr 2027
Medical Rehabilitation Home Bon Séjour Komaki	May 2027
The Lentor Residence	Jun 2027
Hotel Aryaduta Manado	Nov 2027

Notes
(1) The WALE is calculated on a gross floor area basis and as at 31 December 2024.
(2) On 27 December 2024, the Manager had announced that the lease term for Imperial Aryaduta Hotel & Country Club had been renewed for a year starting from 1 January 2025 and ending on (and including) 31 December 2025.

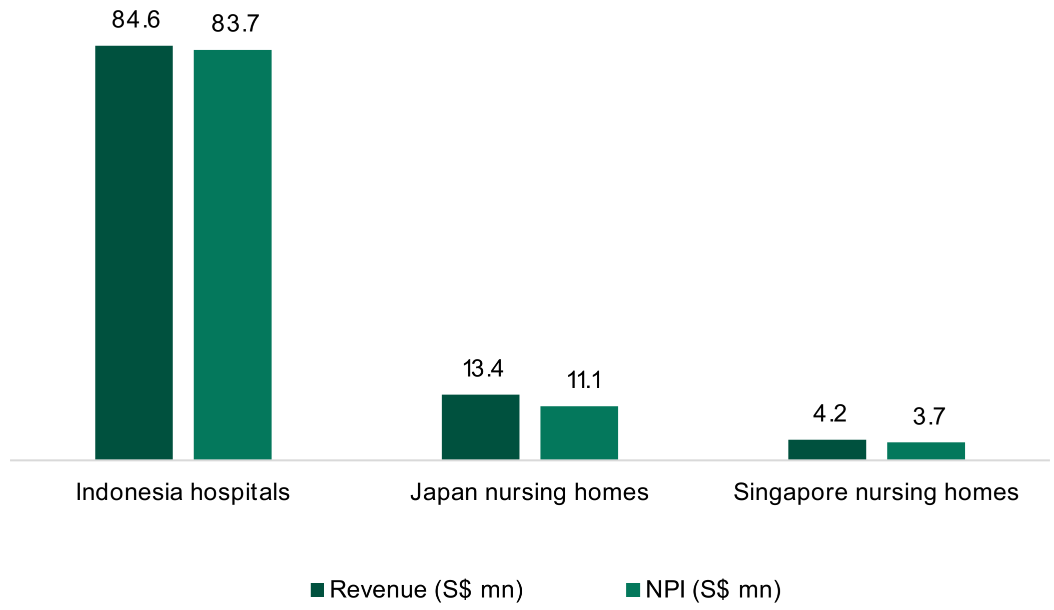
Source: Company data

Master lease structure provides for revenue stability in local currency terms

The lease structures in place at First REIT provide for revenue stability in local currency terms, while keeping operational cost inflation in check given the double net and triple net lease structures where cost of utilities are being borne by the tenants.

In Indonesia, rent escalation is the higher of a base rent escalation of 4.5% or performance-based rent of 8.0% of hospital's gross operating revenue in the preceding financial year, while in Singapore it is based on a fixed base rental with annual increment of 2.0%. In Japan, contributions are stable and may be revised upon negotiation every 2-3 years for 12 assets and every 5 years for two assets.

Figure 10: First REIT revenue and NPI by geography (In S$mn in FY 2024)



Source: Company data

Figure 11: First REIT master lease structure by geography

Healthcare Assets	Indonesia [1]	Singapore	Japan
Rent escalation in local currencies	Higher of ▪ Base rent escalation of 4.5%; or ▪ Performance-based rent of 8.0% of hospital's gross operating revenue in the preceding financial year.	▪ Fixed base rental with annual increment of 2%	▪ Annual rental may be revised upwards upon negotiation every 2 to 3 years for 12 assets, and every 5 years for 2 assets. [2]
Managing Inflation	▪ Cost of utilities and repair managed by Master Lessees in triple net lease agreements.	▪ Cost of utilities managed by Master Lessees in double net lease and triple net lease agreement.	▪ Cost of utilities managed by Master Lessees in single net lease and tripe net lease agreements.

Notes: 1) Excluding Siloam Hospitals Lippo Cikarang, of which rent is denominated in SGD with a fixed base rent, an annual base rental escalation (2x percentage increase of Singapore CPI, capped at 2%), and an additioanl variable rental growth component that is a function of the year-on-year increase in its gross revenue.

2) Negotiation based on the increase in Japan's consumer price index and interest rates.

Source: Company data

Strategic review could provide upside surprise

On 13 January 2025, First REIT announced that it has received a preliminary non-binding letter of intent (LOI) from PT Siloam International Hospitals Tbk (Siloam) to acquire its portfolio of hospital assets in Indonesia. Siloam is the existing tenant and operator of these hospital assets, and is majority-owned and controlled by a fund managed by CVC Capital Partners.

The Board has since decided to undertake a strategic review to assess the LOI and explore all strategic options for First REIT, which may include but are not limited to, exploration of joint ventures, strategic partnerships, asset acquisitions and/or asset divestments, with a view to delivering sustainable long-term value for First REIT's unitholders. Citigroup Global Markets Singapore has been appointed by the Board to assist in conducting the Strategic Review.

Following the conclusion of the strategic review, should the LOI be accepted, with a meaningful premium paid over the existing valuation of its portfolio of hospital assets in Indonesia, this could provide an upside surprise to unitholders, with the proceeds potentially used to pay out a special dividend, or reinvested in a new developed market, among other options.

However, First REIT wishes to emphasise that there is no certainty or assurance that any transaction will materialise from the Strategic Review or the LOI, or that a definitive or binding agreement will be reached relating to any of the assets of First REIT. Any proposed transaction will be subject to, among other things, commercial negotiations, the outcome of the Strategic Review and approvals in compliance with applicable regulatory requirements.

We note from precedent transactions for REIT take-over and merger transactions that the average implied price to net asset value (NAV) ratio stands at 1.04x.

Figure 12: Selected precedent transactions for REIT take-over and merger transactions

Name	Date	Price offered (S$)	NAV/unit (S$)	Implied P/NAV (x)
OUE Hospitality Trust	8-Apr-19	0.75	0.75	1.00
Ascendas Hospitality Trust	3-Jul-19	1.09	0.99	1.10
Frasers Commercial Trust	2-Dec-19	1.68	1.63	1.03
Capitaland Commercial Trust	22-Jan-20	2.12	1.82	1.17
Soilbuild Business Space REIT	14-Dec-20	0.54	0.55	0.99
ARA LOGOS Logistics Trust	15-Oct-21	0.97	0.67	1.45
Mapletree North Asia Commercial Trust	31-Dec-21	1.19	1.19	1.00
SPH REIT	29-Apr-22	0.94	0.92	1.02
Suntec REIT	8-Jan-25	1.19	2.097	0.57
Paragon REIT	11-Feb-25	0.98	0.94	1.04
Average				**1.04**

Source: Company data, Beansprout research

Downside risks from MPU arrears, potential Rupiah and Yen weakness

MPU rental arrears could weigh in the near term

We think the rental arrears from PT Metropolis Propertindo Utama (MPU), which contributed 6% in group rental income in 2024, could weigh on First REIT in the near term.

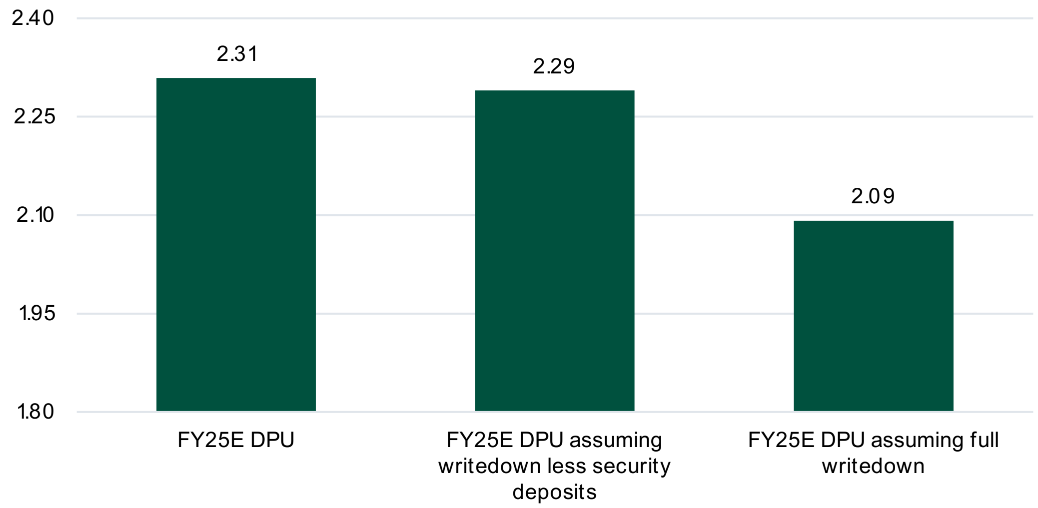
For context, since 1 January 2021, master lease agreements (MLAs) for the hospitals that First REIT has leased to MPU, Siloam Sriwijaya, Siloam Hospitals Purwakarta and Siloam Hospitals Kupang have been restructured.

On 18 May 2021, First REIT entered into a deed of novation and variation with MPU and PT Siloam International Hospitals Tbk (Siloam) to add Siloam as a joint tenant with MPU to each of the three MPU Hospitals MLAs.

As at 31 December 2024, the rental outstanding from PT MPU amounted to approximately S$4.6 million, which comprises of approximately S$1.7 million and approximately S$2.9 million for the mall and hospitals respectively. There are no rentals outstanding from Siloam. The security deposit received from MPU amounted to S$4.2 million.

While First REIT is actively engaging on repayments, these longstanding arrears may weigh on the distributions of First REIT in the near term. A full write-down of such rent arrears outstanding could imply a 1% decline in DPU should the security deposits be used to offset rent arrears, and a 8% decline in DPU assuming a full writedown of rent arrears. Moreover, should the credit worthiness of MPU remain unresolved, this could continue to be an overhang on First REIT.

Figure 13: Scenario analysis on FY25E DPU based on varying MPU outcomes

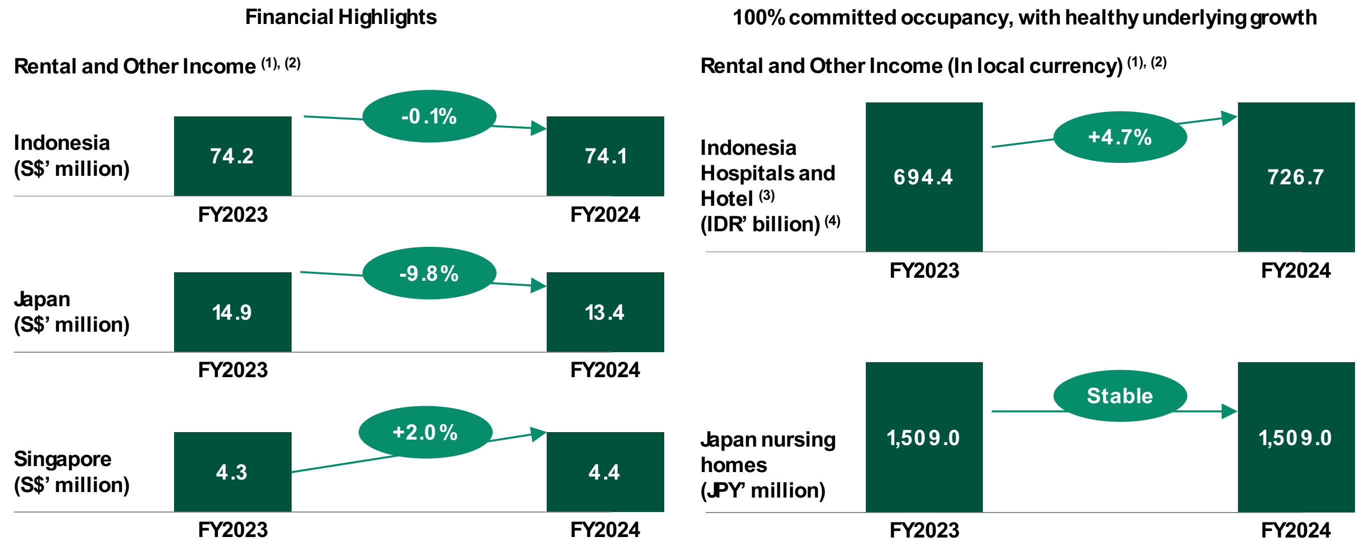


Source: Company data, Beansprout research

Rupiah and Yen weakness

Indonesia represented 82% of revenue in 2024, with Japan representing the second largest share at 13%. While First REIT pays its DPU in Singapore Dollars, weaknesses in the Indonesian Rupiah and Japanese Yen have impacted rental income, even as rental income from its Indonesian assets grew 4.7% and Japan nursing homes were stable in local currency terms.

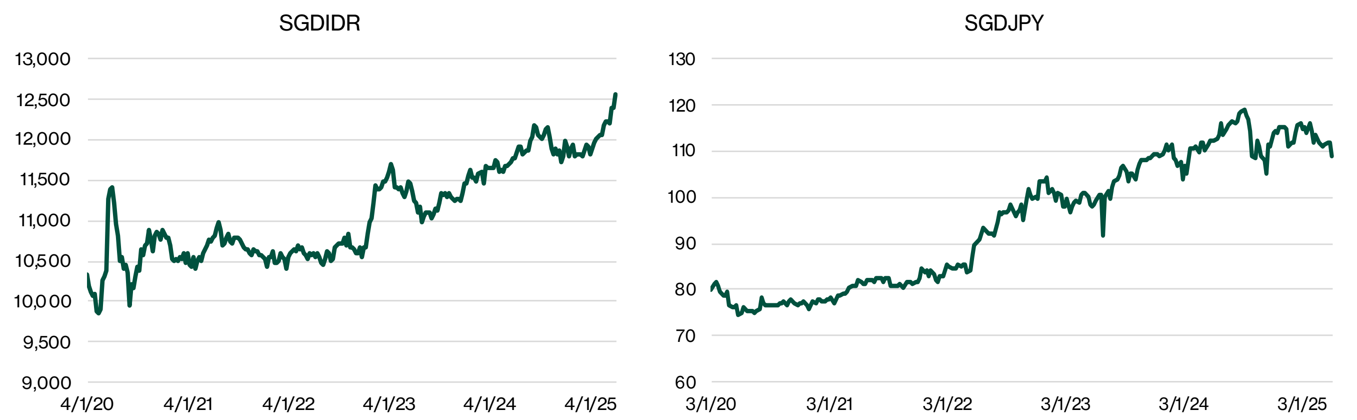
Figure 14: 2024 rental income impacted by IDR and JPY weakness



Source: Company data

Since the inception of First REIT, Rupiah weakness has been a key headwind for the REIT, given the weakening of the Rupiah against the Singapore Dollar. The continued weakness in the Rupiah may erode any organic rent growth in-built in the leases of the Indonesia Hospital. Year-to-date, the Rupiah has weakened above the key level of 16,000 per US dollar, falling more than 4% against the US Dollar despite repeated central bank intervention.

Figure 15: Historical exchange rate between Singapore dollar against the Indonesian Rupiah and Japanese Yen



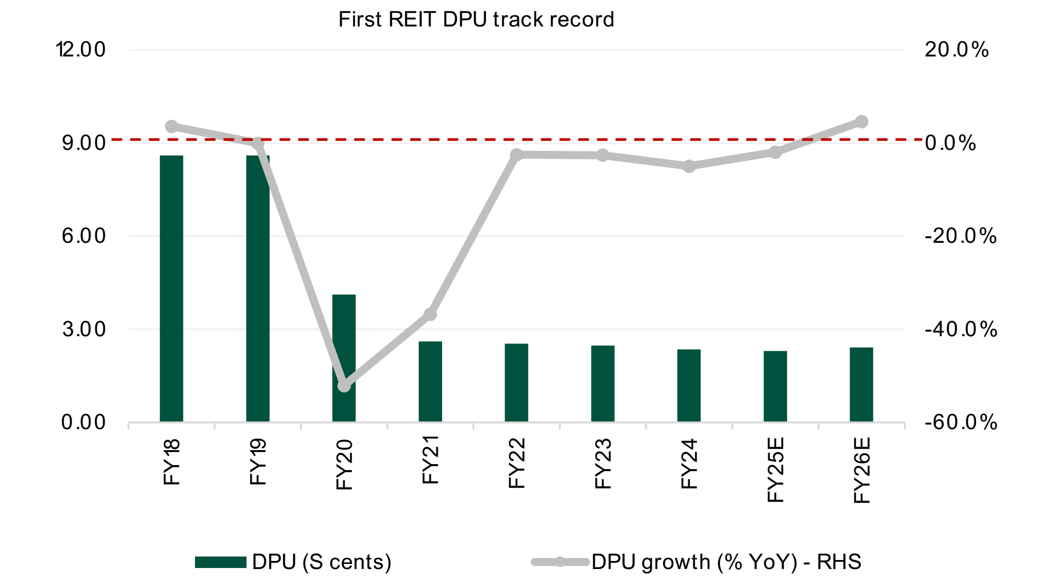
Source: Bloomberg

Mixed historical DPU track record

First REIT's 2024 Distributions Per Unit (DPU) were down 4.8% YoY, alongside a Revenue and Net Property Income (NPI) decline of 5.9% and 6.5% YoY respectively, largely due to the depreciation of the Indonesian Rupiah (IDR) and Japanese Yen (JPY). This was despite better performance from its Indonesia and Singapore properties in local currency terms.

We believe that stability and growth in DPU are both important factors for an attractive REIT, and in this regard, we note that First REIT has had a mixed historical DPU track record. We acknowledge however, that since the LPKR and MLA restructuring and MPU MLA restructuring, distributions have since been reset to a more sustainable level.

Figure 16: First REIT DPU track record



Source: Company data, Beansprout research

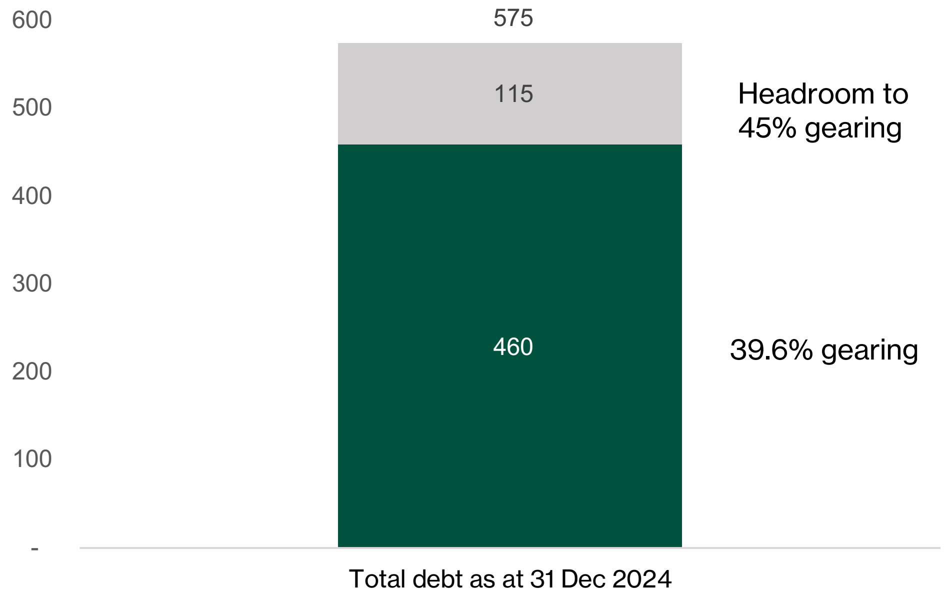
While First REIT's DPU may be supported by rent step-up arrangements in Indonesia and Singapore, this may be offset by weakness in the Rupiah and Japanese Yen against the Singapore Dollar. Our forecasts have not incorporated any changes in exchange rates in the forecast periods from the current rates.

Relatively high gearing

We believe that First REIT's relatively small asset base and high gearing of 39.6% as at 31 December 2024 would imply limited room for inorganic growth opportunities. Assuming a 45% gearing, this would mean a debt headroom of about S$115 million.

Moreover, with First REIT having an all-in cost of debt of 5.0%, and with the REIT trading at c. 10% DPU yield, it may be challenging to source for acquisitions that could be DPU-accretive for the REIT currently..

Figure 17: Debt headroom of First REIT



Source: Company data, Beansprout research

DDM-based valuation with S$0.26 target price

We derived a target price of S$0.26 per unit based on a three-stage dividend discount model, on a cost of equity of 11.0% and terminal growth rate of 1%.

First REIT is now trading at 0.87x P/NAV, and offers a potential FY25E distribution yield of 9.2%.

Key risks

Currency Exchange Risk

With a significant portion of its portfolio located in Indonesia and Japan, First REIT is exposed to currency fluctuations between the Singapore Dollar (SGD) and Indonesian Rupiah and Singapore Dollar (SGD) and Japanese Yen (JPY). Adverse movements in exchange rates could affect its earnings from Indonesian and Japanese assets.

Geographic concentration risk

Despite diversification efforts, Indonesia remains the largest contributor to First REIT's income, accounting for more than 80% of its rental income. Any adverse macroeconomic, regulatory, or currency-related developments in Indonesia could disproportionately affect the REIT's financial performance.

Tenant Concentration Risk

A significant portion of First REIT's rental income comes from entities related to PT Lippo Karawaci Tbk (LPKR), with LPKR representing 33.5% of rental income and PT Siloam International Hospitals Tbk (Siloam) representing 41.1% of rental income in 2024. That said, we note that Sight Investment, a subsidiary of private equity firm CVC Capital, has since obtained a majority stake in Siloam from LPKR in 2024. Any financial instability or operational challenges faced by LPKR and Siloam could directly impact the REIT's rental income.

Regulatory Risks

Changes in healthcare regulations or policies in Indoensia, Japan and Singapore could potentially adversely affect operations. Regulatory changes may impact rental agreements, operational costs, or the ability to acquire new properties. For instance, any shifts in government healthcare funding or reimbursement policies could directly influence the profitability of hospitals and nursing homes.

Interest Rate Risk

Should the trend of interest rates reverse and move upwards, First REIT may face increased borrowing costs, which could affect profitability and distributions. Although the REIT has fixed interest rates and implemented interest rate swaps to hedge against rising rates, fluctuations in interest rates can still impact its overall financial health and cash flow management.

Rental Collection Risks

The past restructuring of master lease agreements with LPKR and PT Metropolis Propertindo Utama (MPU) highlights the challenges in maintaining lease obligations. Notwithstanding the restructuring in 2021, rentals outstanding from MPU has since amounted to approximately S$4.6 million as at 31 December 2024. Continued delays or defaults remain a possibility.

Financial summary

Y/E Dec (S$m)	FY22	FY23	FY24	FY25E	FY26E
Income Statement					
Revenue	111	109	102	101	105
Property expenses	-3	-3	-4	-4	-4
Net property income	109	105	98	97	101
Other income	0	1	0	0	0
Manager's fees	-9	-9	-9	-9	-9
Other expenses	-5	-6	-8	-3	-3
Change in value of derivatives	-0	-0	0	0	0
Change in value of investment properties	-23	11	-10	0	0
EBIT	71	101	73	85	89
Net finance expenses	-19	-23	-23	-23	-23
Profit before tax	52	78	51	62	66
Tax	-18	-15	-14	-16	-17
Minority interests	0	0	0	0	0
Profit attributable to owners	34	63	37	47	50
Balance sheet					
Assets					
PPE	1,145	1,139	1,118	1,118	1,118
Others	1	0	0	0	0
Total non-current assets	1,147	1,139	1,118	1,118	1,118
Cash & cash equivalents	46	40	35	36	36
Trade & other receivables	5	6	7	7	7
Others	1	1	1	1	1
Total current assets	52	48	42	44	44
Total assets	1,199	1,187	1,161	1,162	1,162
Liabilities					
ST borrowings	1	1	1	1	1
Trade & other payables	15	12	13	14	14
Others	5	4	5	5	5
Total current liabilities	21	18	18	19	20
LT borrowings	450	449	453	453	453
Others	62	61	57	57	57
Total non-current liabilities	512	509	510	510	510
Total liabilities	533	527	528	529	530
EQUITY					
Share Capital	632	627	599	599	599
Total equity	632	627	599	599	599
Perpetual securities	33	33	33	33	33
Total equity and liabilities	1,199	1,187	1,161	1,162	1,162

Y/E Dec (S$m)	FY22	FY23	FY24	FY25E	FY26E
Cash Flow					
Operating cash flow					
Pretax profit	52	78	51	62	66
Adjustments	27	4	29	16	16
Working capital changes	17	-9	-1	11	9
Others	-20	-21	-30	-38	-39
Cash flow from operations	77	52	48	52	53
Investing cash flow					
CAPEX	-35	-5	-6	0	0
Others	43	-0	-0	0	0
Cash flow from investments	8	-5	-6	0	0
Financing cash flow					
Dividends paid	-52	-54	-52	-51	-53
Proceeds from borrowings	-15	2	5	0	0
Others	-19	0	0	0	0
Cash flow from financing	-86	-51	-47	-51	-53
Net change in cash	-1	-4	-5	1	-0
Beginning cash	51	46	40	34	35
Currency translation	-4	-2	-1	0	0
Ending cash	46	40	34	35	35
Per share data (S$ cents)					
Book value per unit	31.9	30.3	29.0	29.0	29.0
Distribution per unit	2.5	2.5	2.4	2.3	2.4
Earnings per unit	1.7	3.1	1.8	2.3	2.4
Valuation					
P/E (x)	15.6	8.7	14.9	11.7	11.0
P/B (x)	0.8	0.9	0.9	0.9	0.9
EV/NPI (x)	8.6	9.1	9.8	10.0	9.6
Dividend yield (%)	9.6	9.3	8.9	8.7	9.1
Ratios					
ROE (%)	5.3	10.1	6.1	7.8	8.3
ROA (%)	2.8	5.3	3.2	4.0	4.3
Net gearing (%)	0.61	0.62	0.66	0.66	0.66
Margins (%)					
EBIT margin	64.2	93.0	71.8	84.3	84.9
Net margin	30.2	58.3	36.0	46.4	47.3

Source: Company data, Beansprout researh

Disclosure Appendix

Analyst Certification and Disclosures

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