

Analyse this...

Retail Research

Contact: Janice Ding – +65 6210-8609 – janice.ding@cimb.com

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FIRST REIT

 FIRT SP
BUY: TP :S\$1.08

 Price @27/07/10: S\$0.895
52-week range (SGD): 0.66 – 0.90
Market Cap: S\$247m

Recommendation – Maintain BUY

- **Maintain BUY.** 2Q10 results met our expectations, with DPU of 1.92cts forming 26% of our FY10 estimate. 1H10 DPU was also in line, at 52% of our full-year forecast. Book closure date will be 3 Aug, with distribution on 27 Aug. Our estimates and target price of S\$1.08 (discount rate 8.6%) are intact.
- **Near-term catalysts sighted.** We expect near-term catalysts for this stock from: 1) confirmation of the accretive acquisition of two Indonesian hospitals from its sponsor which would increase its AUM by more than 50%; and 2) the early refinancing of debt on improved credit terms.

2Q10 results in line

2Q10 results matched expectations, with DPU of 1.92cts (flat yoy, +1% qoq) forming 26% our full-year forecast. This was achieved on the back of a 4.6% yoy increase in gross revenue to S\$7.8m (which includes S\$0.3m of deferred rental income from Adam Road Hospital currently under asset enhancement). Topline growth was attributed to variable rentals from four Indonesian hospitals and annual escalations based on 2x Singapore CPI (capped at 2%). Property expenses declined 8.6% yoy following write-backs for repair and maintenance.

Results summary

FYE Dec	2Q10	2009	yoy chg (%)	1Q10	qoq chg (%)
Revenue (S\$ m)	7.543	7.498	0.6%	7.451	1.2%
Net property income (S\$ m)	7.458	7.405	0.7%	7.340	1.6%
Management & trustee fees	(0.761)	(0.742)	2.6%	(0.750)	1.5%
Net finance cost	(0.606)	(0.389)	55.8%	(0.527)	15.0%
Pretax profit (S\$ m)	5.975	6.166	-3.1%	5.948	0.5%
Net profit (S\$ m)	4.733	4.995	-5.2%	4.723	0.2%
Net tax adjustments (S\$ m)	0.568	0.287	97.9%	0.525	8.2%
Distributable income (S\$ m)	5.301	5.282	0.4%	5.248	1.0%
No of units (m)	275.972	275	0.5%	276	0.1%
DPU (S cts)	1.92	1.92	-0.1%	1.90	0.9%
Margins (%)					
Net property income margins	98.9%	98.8%		98.5%	
Distribution margin	70.3%	70%		70%	
Payout ratio	100.0%	100%		100%	
Asset leverage	15.3%	14.8%		15.0%	

- **Likely to acquire two Indonesian hospitals from parent.** Management appears to be in talks to acquire the 210-bed Siloam Hospital Semanggi (which houses the soon-to-be completed Mochtar Riady Comprehensive Cancer Centre) in Central Jakarta, and the 120-bed Siloam Hospital Lippo Cikarang located in East Jakarta.
- **Hopes to acquire them by late 2010/early 2011.** The manager anticipates that the purchase consideration would be at a good discount to the approximate valuation of S\$255m, as with its IPO assets. The leases should be similar to existing Indonesian leases (i.e. 15-year master leases; escalations pegged at 2x Singapore CPI, rental income denominated in S\$, variable rent component pegged to hospital revenue). In addition, as the Siloam Hospital Semanggi is a new asset with no operational history, management says income support will likely be given for the first three years of the lease. Net yields from the two assets (net of Indonesian taxes) are likely to be above 9%, which look attractive vs. the current portfolio NPI yield of

8.6% and trading yield of 8.1%. Unitholders' approval via an EGM would be required for this interested party transaction.

- **Funding would be from debt and equity.** Management is comfortable to gear up to 25% in the medium term. This would give First REIT debt headroom of S\$46m with its current asset leverage of 15.3%. Indicative borrowing cost is attractive at 3.2-3.5%. This is about 100bp below First REIT's Jun 09 refinancing.
- **Interest cost could drift further down.** Management is exploring various options, including capital markets, to refinance its current S\$55m debt (which has a high cost of 4.2%) with improved credit terms.

Revenue breakdown by country



* Includes deferred rental income from property under enhancement

Source: CIMB Research

More on Siloam Hospital Semanggi. Set to be the first private cancer centre in Indonesia, Siloam Hospital Semanggi would house the latest diagnostic services, such as positron emission tomography/computed tomography (PET/CT) scanning, cyclotron, multi-slice CT, high field strength magnetic resonance imaging (MRI), and single photon emission CT (SPECT/CT) scanning. The hospital is set to be operational by October this year.

More on Siloam Lippo Cikarang. Opened in 2002, Siloam Lippo Cikarang is a general hospital providing private medical care in the growing residential area of East Jakarta. Areas of specialisation are urology, pediatric neonatal intensive care and trauma management.

Forecast summary

(S\$m, FYE Dec)	2008	2009	2010F	2011F	2012F
Revenue (S\$ m)	30.0	30.2	31.1	33.4	34.7
Net property income (S\$ m)	29.8	29.9	30.7	33.0	34.3
Net property income margins (%)	99.3	99.0	99.0	99.0	99.0
Pretax profit (S\$ m)	23.8	38.7	24.5	26.2	27.2
Net profit (S\$ m)	23.0	36.0	19.1	20.8	21.6
Core net profit (S\$ m)	19.7	49.9	19.1	20.8	21.6
Distributable profit (S\$ m)	20.8	21.0	20.2	21.9	22.8
EPS (S cts)	8.4	13.1	6.9	7.5	7.8
EPS growth (%)	-72%	+56%	-47%	+8%	+4%
P/E (x)	10.3	6.6	12.6	11.6	11.2
Gross DPU (S cts)	7.6	7.6	7.3	7.9	8.2
Dividend yield (%)	8.5%	8.5%	8.1%	8.8%	9.1%
P/BV (x)	0.9	0.9	0.9	0.9	0.9
ROE (%)	2.3%	3.4%	1.8%	1.9%	2.0%
Asset leverage (%)	15.0%	14.7%	18.4%	20.4%	21.4%
EV/EBITDA (x)	10.6	10.4	10.2	9.4	9.1
% change in DPU estimates			-	-	-
CIMB-GK/Consensus (x)			N.A	N.A	N.A

Source: CIMB-GK Research, Bloomberg

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SELL: The stock's total return is expected to be -15% or worse over the next three months.

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