

First REIT

Stable as expected – but positives are priced in

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- Accretive acquisition in Labuan Bojo in December 2016 boosted 1Q17 DPU by 1.4%.
- 1Q17 Gross revenue, Net Property Income and DPU made up 23.6%, 24.6% and 24.9% of our FY17e forecasts.
- Continue to expect DPU boost from earmarked acquisition targets.
- Downgrade to NEUTRAL on run-up in stock price with unchanged target price (S\$1.32).

Results at a glance

| (SGD mn) | 1Q17 | 1Q16 | y-y (%) | Comments |
|----------------------|-------------|-------------|-------------|--|
| Gross Revenue | 27.2 | 26.5 | 2.5% | Contribution from Siloam Hospitals Labuan Bojo acquired in December 2016. Remaining Indonesia hospitals portfolio revenue flat y-o-y due to 0% annual rental increment for 2017. |
| Net property income | 26.9 | 26.2 | 2.5% | |
| Distributable income | 16.6 | 16.2 | 2.4% | |
| DPU (Cents) | 2.14 | 2.11 | 1.4% | |

Source: Company, PSR

What's in the news and What do we think

- Accretive acquisition boosted 1Q DPU. Continue to expect acquisitions from Sponsor's strong pipeline this year to boost DPU.** First REIT (FIRT)'s accretive acquisition of Siloam Hospital Labuan Bojo in 2016 boosted 1Q17 DPU. Supported by parent Lippo Karawaci's (LPKR) expanding Siloam Hospital network in Indonesia, FIRT has acquired at least 1 Siloam hospital every year (mostly from LPKR) since 2010. With the exception of 2011 when they acquired Sarang Hospital in Korea, total acquisition value per year ranged from S\$20mn in 2016 to S\$206mn in 2010.

We expect similar acquisitions in Indonesia to continue this year. Possible acquisition targets earmarked by management include Siloam Hospitals Bau-Bau and Bogor with a total approximate valuation of S\$100mn. We have pencilled in an acquisition deal size of S\$100mn by end 2017 in our forecasts.

- 34.2% (or S\$142.5mn) debt due in November-December 2017. Interest costs not expected to spike.** With rising interest rates, investors could be concerned about higher interest costs for the S\$142.5mn debt due for re-financing by 4Q17. Management guided that they have started negotiations for refinancing and initial indications point to flat to slightly higher interest rates for the expiring loans. We have forecasted an average cost of debt of 4.3% for 2017 to be conservative, vs c.4% for FY16.
- Uptick in CPI at turn of the year to boost rental increments of Indonesian hospitals.** The uptick in Singapore CPI numbers since the start of 2017 improves the prospects of annual rental escalations at the end of the year for FIRT's Indonesian hospitals. (Annual rental increment is pegged to 2x Singapore CPI y-o-y growth, subject to floor of 0% and cap of 2%.) MAS expects Singapore's 2017 CPI to come in at around 1%.

Our target price incorporates a forecasted 2% annual rental escalation for FIRT's Indonesian properties for 2018 and 2019. This translates to a forecasted Singapore CPI growth numbers of >1% for 2017 and 2018. We expect improving global economic prospects and MAS' decision last week to maintain a neutral policy stance for an "extended period" to provide a support for inflation numbers.

18 April 2017

NEUTRAL (Downgraded)

| | |
|---------------------|-------------|
| LAST DONE PRICE | SGD 1.345 |
| FORECAST DIV | SGD 0.086 |
| TARGET PRICE | SGD 1.320 |
| TOTAL RETURN | 4.6% |

COMPANY DATA

| | |
|--------------------------------|------------|
| O/S SHARES (MN) : | 775 |
| MARKET CAP (USD mn / SGD mn) : | 747 / 1043 |
| 52 - WK HI/LO (SGD) : | 139 / 121 |
| 3M Average Daily T/O (mn) : | 0.40 |

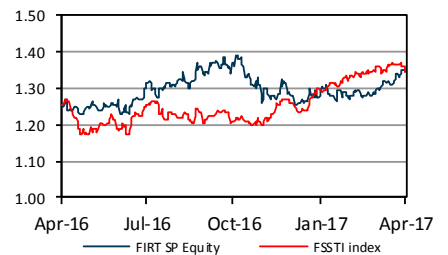
MAJOR SHAREHOLDERS (%)

| | |
|---------------------------|-------|
| BRIDGEWATER INTERNATIONAL | 21.6% |
| BOWSPRIT CAPITAL | 5.8% |
| PT MENARA TIRTA INDAH | 5.7% |

PRICE PERFORMANCE (%)

| | 1M TH | 3M TH | 1YR |
|-----------|-------|-------|------|
| COMPANY | 4.7 | 7.6 | 17.6 |
| STIRETURN | 0.9 | 5.2 | 14.1 |

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

| Y/E Sept | FY 15 | FY 16 | FY 17e | FY 17e |
|-----------------------|-------|-------|--------|--------|
| Gross Rev (SGD mn) | 100.7 | 107.0 | 115.1 | 120.8 |
| NPI (SGD mn) | 99.3 | 105.5 | 109.4 | 114.8 |
| Dist Inc. (SGD mn) | 61.9 | 65.2 | 70.7 | 74.3 |
| P/NAV (x) | 123 | 131 | 122 | 123 |
| DPU, adj (Cents) | 8.3 | 8.5 | 8.6 | 8.7 |
| Distribution Yield, % | 6.5 | 7.1 | 6.4 | 6.5 |

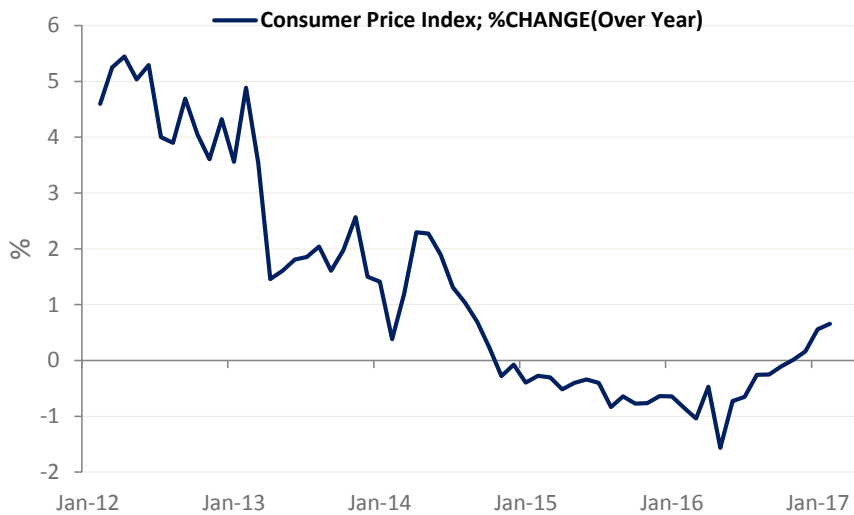
Source: Company Data, Bloomberg

Valuation Method

DDM (Cost of equity 7.53%, Terminal Growth 1%)

Dehong Tan (+65 6212 1849)
tandh@phillip.com.sg

Figure 1: Singapore CPI growth turned positive in Nov 2016 after 24 consecutive months of deflation



Source: CEIC, Phillip Securities Research (Singapore)

Investment Action

At 6.3%, FIRT trades at a higher yield and lower P/B than fellow healthcare REIT Parkway Life REIT.

On the back of the 6% appreciation in share price from S\$1.265 since the start of 2017, FIRT's current price is c.1% above our target price. We downgrade our call from "ACCUMULATE" to "NEUTRAL", maintaining our DDM-derived target price of S\$1.32.

First REIT Historical Dividend Yield and Price/NAV



Source: Bloomberg, Phillip Securities Research (Singapore)

Peer Comparison Table

| Name | PSR CALL | Mkt Cap (SGD mn) | Last Close (\$) | Dvd Yld:D-1 | P/B | Latest Gearing (%) | Average Cost of debt |
|-------------------|------------|------------------|-----------------|-------------|------|--------------------|----------------------|
| FIRST REIT | ACCUMULATE | 1,043 | 1.35 | 6.30 | 1.33 | 30.8 | 4.00% |
| PARKWAY LIFE REIT | | 1,537 | 2.54 | 4.77 | 1.48 | 36.2 | 1.40% |

Source: Bloomberg, Phillip Securities Research (Singapore)

Financials

Statement of Total Return and Distribution Statement

| Y/E Dec, SGD mn | FY14 | FY15 | FY16 | FY17e | FY18e |
|--|-------------|--------------|--------------|--------------|--------------|
| Gross Revenue | 93.3 | 100.7 | 107.0 | 115.1 | 120.8 |
| Total Property expenses | (1.4) | (1.4) | (1.2) | (5.8) | (6.0) |
| Net Property Income | 91.9 | 99.3 | 105.8 | 109.4 | 114.8 |
| Net Finance (Expense)/Inc | (15.1) | (16.3) | (17.5) | (17.9) | (18.6) |
| Net Income before tax and FV changes | 65.5 | 70.0 | 74.9 | 79.4 | 83.7 |
| FV changes | 47.2 | 24.2 | (8.9) | - | - |
| Tax expense | (22.1) | (28.5) | (23.9) | (17.9) | (18.8) |
| Net Income after tax and FV changes | 90.6 | 67.8 | 40.3 | 61.6 | 64.9 |
| Distribution adjustments | (32.4) | (5.9) | 24.9 | 9.1 | 9.5 |
| Income available for distribution | 58.2 | 61.9 | 65.2 | 70.7 | 74.4 |

Balance Sheet

| Y/E Dec, SGD mn | FY14 | FY15 | FY16 | FY17e | FY18e |
|--|--------------|--------------|--------------|--------------|--------------|
| ASSETS | | | | | |
| Investment properties | 1,172 | 1,268 | 1,273 | 1,373 | 1,423 |
| Cash and Cash Equivalents | 28.2 | 26.8 | 33.6 | 36.1 | 25.6 |
| Total Assets | 1,212 | 1,315 | 1,341 | 1,421 | 1,460 |
| LIABILITIES | | | | | |
| Total Current Liabilities | 68.2 | 83.7 | 182.0 | 253.0 | 186.9 |
| Interest bearing borrowings, non current | 370.1 | 398.3 | 271.6 | 249.8 | 331.8 |
| Total Non-Current Liabilities | 399.2 | 440.4 | 320.7 | 278.9 | 360.9 |
| Total Liabilities | 467.4 | 524.1 | 502.7 | 531.9 | 547.9 |
| EQUITY | | | | | |
| Shareholder Equity | 745.0 | 791.1 | 838.6 | 888.9 | 912.5 |

Per share data (SGD)

| Y/E Dec | FY14 | FY15 | FY16 | FY17e | FY18e |
|-------------|------|------|------|-------|-------|
| NAV | 1.02 | 1.04 | 1.01 | 1.09 | 1.07 |
| DPU (cents) | 8.1 | 8.3 | 8.5 | 8.6 | 8.7 |

Cash Flow

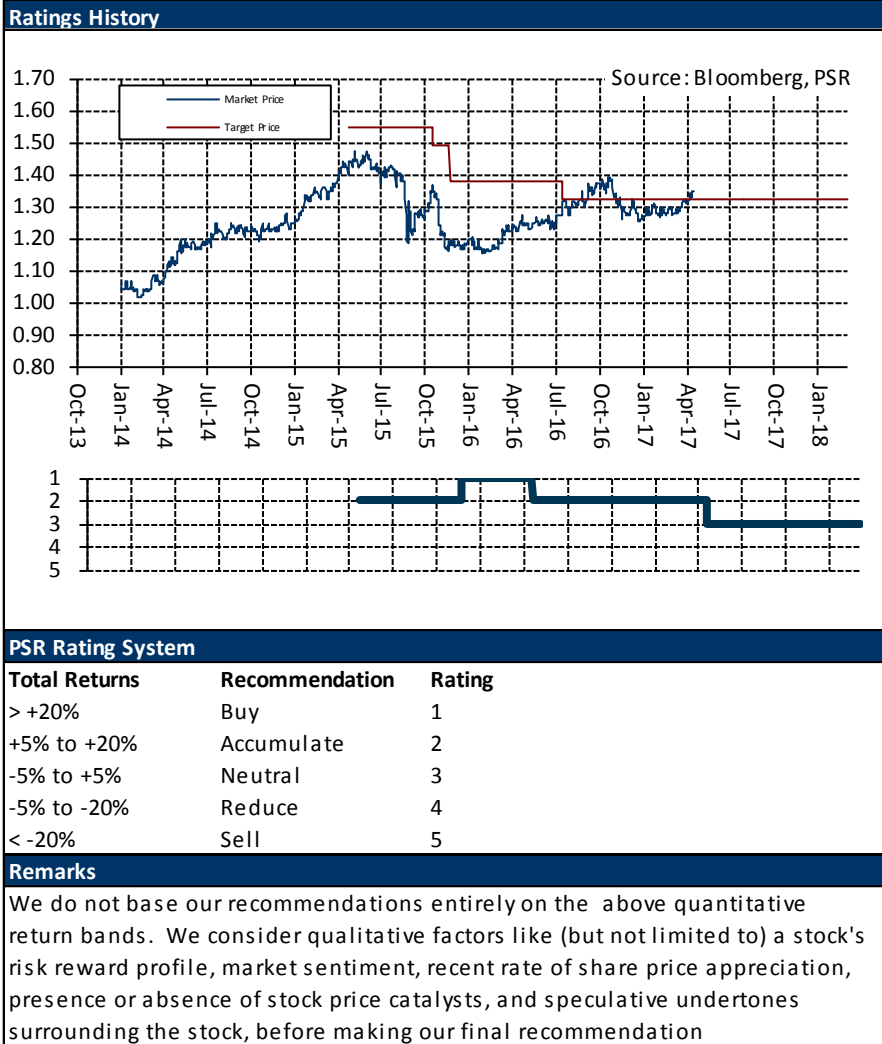
| Y/E Dec, SGD mn | FY14 | FY15 | FY16 | FY17e | FY18e |
|----------------------------------|---------------|---------------|---------------|----------------|---------------|
| CFO | | | | | |
| Net Income before tax | 112.7 | 96.3 | 64.2 | 79.4 | 83.7 |
| Interest Expense | 13.4 | 15.1 | 16.0 | 19.1 | 19.7 |
| Management fees settled in units | 6.7 | 6.7 | 3.6 | 8.1 | 8.4 |
| Cashflow from Ops | 80.8 | 74.3 | 81.5 | 91.1 | 95.4 |
| CFI | | | | | |
| Cashflow from investments | (67.7) | (56.5) | (21.2) | (100.0) | (50.0) |
| CFF | | | | | |
| Share issuance | - | - | - | 54.0 | 7.0 |
| Distributions to unitholders | (39.8) | (50.0) | (56.7) | (54.7) | (58.4) |
| Net increase in borrowings | 39.3 | 44.3 | (31.1) | 30.0 | 15.0 |
| Cashflow from financing | (14.4) | (19.4) | (36.6) | 10.2 | (56.1) |
| Net change in cash | (1.1) | (1.4) | 6.7 | 2.5 | (10.4) |
| CCE, end | 28.2 | 26.8 | 33.6 | 36.1 | 25.6 |

Valuation Ratios

| Y/E Dec | FY14 | FY15 | FY16 | FY17e | FY18e |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| P/NAV | 1.15 | 1.23 | 1.31 | 1.22 | 1.23 |
| Distribution yield (%) | 6.90 | 6.46 | 7.09 | 6.42 | 6.49 |
| NPI yield (%) | 7.8% | 7.8% | 8.3% | 8.0% | 8.1% |
| Growth & Margins (%) | | | | | |
| Growth | | | | | |
| Revenue | 12.0% | 8.0% | 6.3% | 7.6% | 5.0% |
| Net property income (NPI) | 14.5% | 8.1% | 6.6% | 3.3% | 5.0% |
| DPU | 7.0% | 2.7% | 2.4% | 1.9% | 1.2% |
| Margins | | | | | |
| NPI margin | 98.5% | 98.6% | 98.9% | 95.0% | 95.0% |
| Operating Income Margin | 70.3% | 69.5% | 70.0% | 69.0% | 69.3% |
| Key Ratios | | | | | |
| Net Gearing | 33.1% | 34.0% | 30.8% | 31.2% | 31.4% |

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin - amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin - sohls@phillip.com.sg

Property | Infrastructure

Peter Ng - peterngmc@phillip.com.sg

Macro

Pei Sai Teng - peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTe, FRM - richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong - jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei - hokw@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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