

# First REIT

Business as usual after CEO succession plan

## SINGAPORE | REAL ESTATE (REIT) | 2Q17 RESULTS

- Accretive acquisition in Labuan Bajo in December 2016 boosted 2Q17 DPU by 1.4%.
- 1H17 gross revenue, net property income and DPU were within 47-49% of our FY17e numbers.
- Acquisition pipeline remains healthy with stabilised hospitals ready for acquisition.
- Maintain NEUTRAL with unchanged target price of S\$1.32.

### Results at a glance

(SGD mn)	2Q17	2Q16	YoY (%)	Comments
Gross Revenue	27.5	26.6	3.3%	Contribution from Siloam Hospitals Labuan Bojo acquired in December 2016. Revenue from existing portfolio grew 1% as a result of higher variable rents.
Net property income	27.2	26.3	3.2%	
Distributable income	16.6	16.2	2.5%	
<b>DPU (Cents)</b>	<b>2.14</b>	<b>2.11</b>	<b>1.4%</b>	

Source: Company, PSR

### The positives

+ **Organic growth from increase in variable rents:** Revenues from existing properties grew 1% YoY due to higher variable rents. This cushioned flat YoY base rents as a result of weak Singapore 2016 CPI which base rents are pegged to.

+ **Likely stable future interest costs for debt due for refinancing this year:** Management guided that interest costs for debt due for refinancing this year are likely to remain stable as bank offerings remain competitive. This is assuming Management refinances with similar secured loans (instead of unsecured ones).

+ **8.9% lower finance costs for the quarter:** As a result of pared down debt from the proceeds of the S\$60mn perpetual securities issued in June 2016.

+ **Acquisition pipeline remains healthy for FY17:** Management has targeted several completed and operational hospitals under Sponsor's pipeline for acquisitions this year. We expect First REIT's acquisition trend to continue with ample firepower (31% gearing) following the perps issue.

### The negatives

- **CEO transition risks:** Dr Ronnie Tan, who has been CEO of the manager since IPO in 2006, and comes with >30years of medical experience, retired in May 2017. Investors could be wary of transition risks. Mr Victor Tan, his appointed replacement has been CFO of the manager since 2008. We expect little transition risks as Mr Victor Tan is similarly highly experienced and familiar with the operations of the manager.

### Outlook

The outlook remains stable. The hospital rents are all fixed on long term leases with the earliest expiry at 2021. Exchange rate risks are also irrelevant as rentals for Indonesia are received in SGD. Financing costs are not expected to increase for 34% of debt (secured loans) due for refinancing this year as bank offerings remain competitive, thus not posing a threat to DPU.

### Maintain "NEUTRAL" with unchanged target price of S\$1.32

We maintain our NEUTRAL recommendation with an unchanged target price. First REIT continues to leverage off sponsor's strong pipeline of over 40 healthcare assets in Indonesia for acquisition. Our target price represents a forward yield of 6.5% and FY17e P/NAV of 1.22.



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19 July 2017

## NEUTRAL (Maintained)

LAST DONE PRICE	SGD 1.340
FORECAST DIV	SGD 0.086
TARGET PRICE	SGD 1.320
<b>TOTAL RETURN</b>	<b>5.0%</b>

### COMPANY DATA

BLOOMBERG CODE:	FIRT SP
O/S SHARES (MN):	778
MARKET CAP (USD mn / SGD mn):	763 / 1043
52 - WK HI/LO (SGD):	139 / 125
3M Average Daily T/O (mn):	105

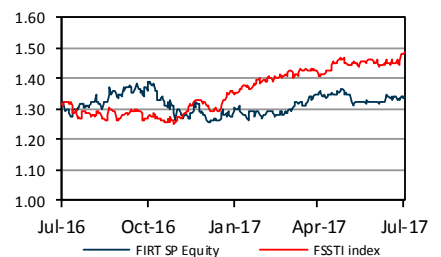
### MAJOR SHAREHOLDERS (%)

BRIDGEWATER INTERNATIONAL	215%
BOWSPRIT CAPITAL	6.0%
PT MENARA TIRTA INDAH	3.1%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	11	0.8	8.2
STIRETURN	2.1	6.3	16.9

### 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)	619	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%)**

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Figure 1: First REIT Historical Dividend Yield and Price/NAV

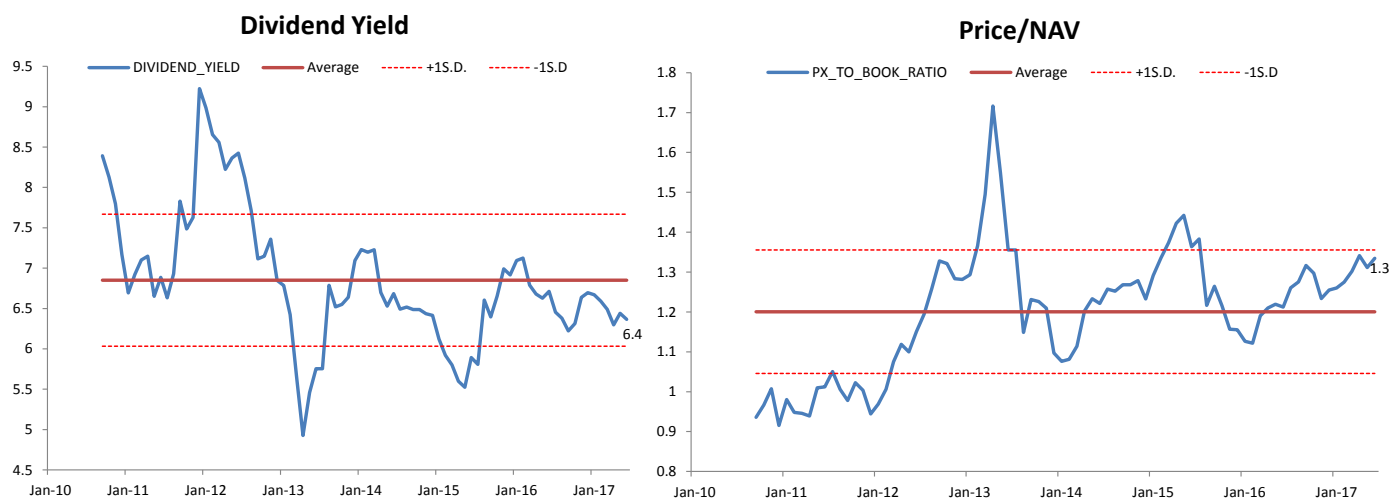


Figure 2: Peer Comparison Table

Name	PSR CALL	Mkt Cap (SGD mn)	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%)	Average Cost of debt
FIRST REIT	NEUTRAL	1,051	1.35	6.32	1.34	30.8	4.10%
PARKWAY LIFE REIT		1,621	2.68	4.63	1.56	36.2	1.30%

Source: Bloomberg, Phillip Securities Research (Singapore)

## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>Gross Revenue</b>	<b>93.3</b>	<b>100.7</b>	<b>107.0</b>	<b>115.1</b>	<b>120.8</b>
Total Property expenses	(1.4)	(1.4)	(1.2)	(5.8)	(6.0)
<b>Net Property Income</b>	<b>91.9</b>	<b>99.3</b>	<b>105.8</b>	<b>109.4</b>	<b>114.8</b>
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)
<b>Net Income after tax and FV changes</b>	<b>90.6</b>	<b>67.8</b>	<b>40.3</b>	<b>61.6</b>	<b>64.9</b>
Distribution adjustments	(32.4)	(5.9)	24.9	9.1	9.5
<b>Income available for distribution</b>	<b>58.2</b>	<b>61.9</b>	<b>65.2</b>	<b>70.7</b>	<b>74.4</b>

### Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
<b>ASSETS</b>					
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
<b>Total Assets</b>	<b>1,212</b>	<b>1,315</b>	<b>1,341</b>	<b>1,421</b>	<b>1,460</b>
<b>LIABILITIES</b>					
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
<b>Total Liabilities</b>	<b>467.4</b>	<b>524.1</b>	<b>502.7</b>	<b>531.9</b>	<b>547.9</b>
<b>EQUITY</b>					
<b>Shareholder Equity</b>	<b>745.0</b>	<b>791.1</b>	<b>838.6</b>	<b>888.9</b>	<b>912.5</b>

### 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
<b>CFO</b>					
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
<b>Cashflow from Ops</b>	<b>80.8</b>	<b>74.3</b>	<b>81.5</b>	<b>91.1</b>	<b>95.4</b>
<b>CFI</b>					
<b>Cashflow from investments</b>	<b>(67.7)</b>	<b>(56.5)</b>	<b>(21.2)</b>	<b>(100.0)</b>	<b>(50.0)</b>
<b>CFF</b>					
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
<b>Cashflow from financing</b>	<b>(14.4)</b>	<b>(19.4)</b>	<b>(36.6)</b>	<b>10.2</b>	<b>(56.1)</b>
<b>Net change in cash</b>	<b>(1.1)</b>	<b>(1.4)</b>	<b>6.7</b>	<b>2.5</b>	<b>(10.4)</b>
<b>CCE, end</b>	<b>28.2</b>	<b>26.8</b>	<b>33.6</b>	<b>36.1</b>	<b>25.6</b>

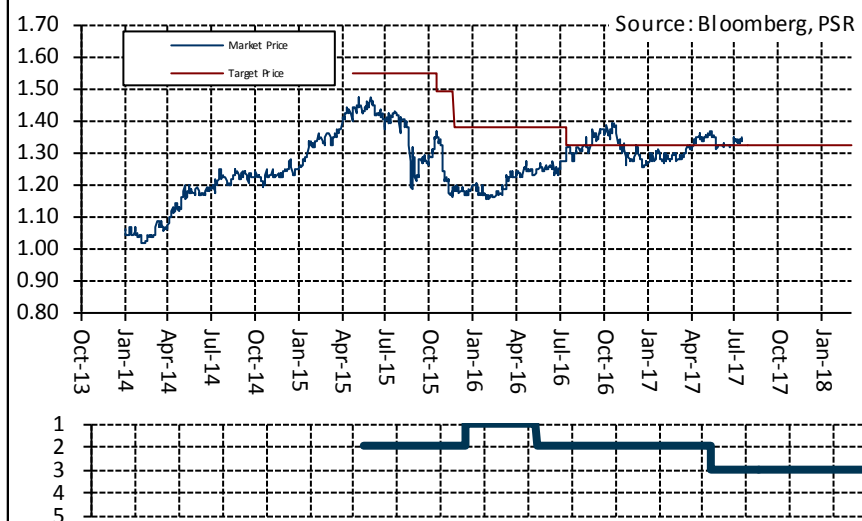
### Valuation Ratios

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%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
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%
<b>Margins</b>					
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%
<b>Key Ratios</b>					
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.

### Ratings History



### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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