

First REIT

A visit to hospitals in Jakarta

SINGAPORE | REAL ESTATE (REIT) | UPDATE

We were hosted to a site visit to four of First REIT's hospitals in Jakarta by Management. All the hospitals we visited are operated by Siloam Hospitals (SILO IJ), a subsidiary of First REIT's sponsor Lippo Karawaci and listed on Jakarta stock exchange. Below are our key takeaways from the visit.

State of the art equipment in Siloam Hospitals

To cater the middle-upper class of Indonesia, Siloam Hospitals (Siloam) boast of some of the most advanced medical equipment in the country. Since its founding, Siloam has been a pioneer in rolling out the latest technology in healthcare in Indonesia, such as in the use of MRI 3-Tesla, CT Scan 256 Slice, Rapid Arc Linear Accelerator and Gamma Knife. Siloam Lippo Village, for instance, houses the only Gamma Knife facility in the whole country (Figures 7 and 8). Gamma Knife is an advanced non-invasive radiation treatment for brain tumours and lesions.

Nationwide healthcare insurance BPJS driving healthcare demand in Indonesia

Jump in revenue from BPJS. For FY16, patients from BPJS Kesehatan (BPJS) contributed 20% (FY15: 5-7%) of total Gross Operating Revenue for Siloam Hospitals, despite having only 16 out of 23 operational hospitals participating in the scheme.

Nationwide coverage by 2019. Currently, about 170mn citizens are enrolled in BPJS Health. The scheme is expected to cover all Indonesian citizens by 2019. By 2019, all hospitals in Indonesia (including private ones) are mandated to accept BPJS patients, with a regulation to allocate at least 20% of rooms to Class 3 wards.

Affordable insurance premium payment for BPJS - Poor: Fixed premiums of IDR 19,225 paid by the government. Civil Servants/Private sector: 5% of salary, of which 4% to be paid by the employer (max Rp189,000) and 1% by employee (max Rp47,250).

Potential demand from private healthcare insurance. Indonesia's private healthcare insurance penetration is estimated at 8% or roughly 20 million people¹. With a growing middle class, there remains huge potential for private health insurance coverage to be expanded, which would drive demand for healthcare.

Rapid expansion in hospital assets in Indonesia - Overcoming the shortage of doctors in Indonesia

With a low number of doctors per 1,000 population of 0.3 in 2012, Indonesia has a significantly lower ratio of doctors than neighbouring Thailand (0.7), Malaysia (1.3) and Singapore (2.0). Only local doctors are allowed to practise in Indonesia. Lippo Group's Universitas Pelita Harapan (UPH) has its own medical faculty where it trains doctors who will work in Siloam hospitals upon graduation. Except for new doctors on fixed pay, most other doctors are non-resident doctors with a profit-sharing remuneration system with the hospitals they work at. Doctors in Indonesia are allowed to practice at maximum 3 different hospitals. There are no regulations in Indonesia restricting the pricing of medical services.

¹Source: Frost and Sullivan, 2016



StocksBnB.com

20 October 2017

NEUTRAL (Maintained)

LAST DONE PRICE	SGD 1.370
FORECAST DIV	SGD 0.086
TARGET PRICE	SGD 1.320
TOTAL RETURN	2.7%

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

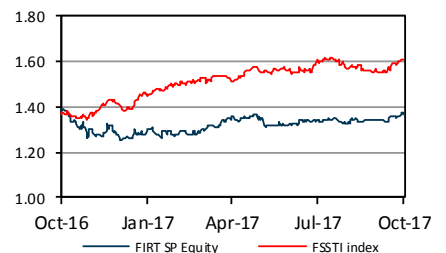
MAJOR SHAREHOLDERS (%)

LIPPO KARAWACI	27.7%
PT PRIMAKREASIPROPERTINDO	3.1%
SUMITOMO MITSUI ASSET MGMT	2.6%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	1.1	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)	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%)

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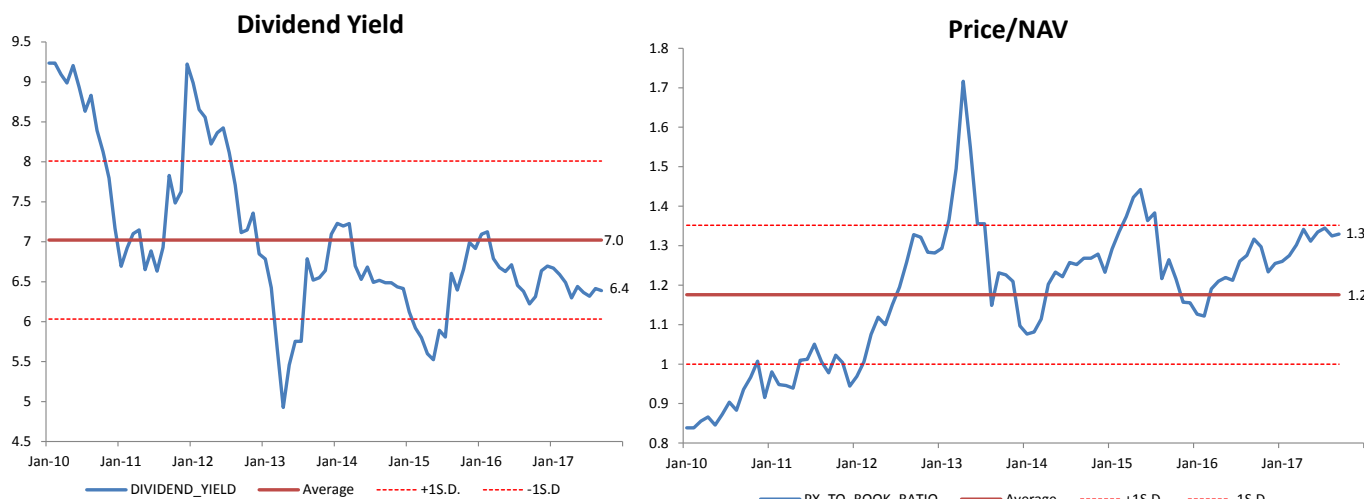
Acquisition of Siloam Hospitals Yogyakarta

Separately, on 15 October 2017, First REIT announced the acquisition of the hospital component of an integrated development in Yogyakarta (Siloam Hospitals Yogyakarta) for S\$27mn. Rental yield based on an initial base rent of S\$2.43mn per annum is 9%, in line with previous acquisitions, and higher than the blended average cost of capital of c.5.1% (using an assumed 60-40% equity-debt ratio). The terms and quantum of the acquisitions are within our forecasts. This brings total acquisition quantum for the year to S\$57mn.

Investment Action

We maintain our NEUTRAL rating on First REIT. Our unchanged target price of S\$1.32 translates to an FY17e yield of 6.5% and P/NAV of 1.21.

First REIT Historical Dividend Yield and Price/NAV



Source: Bloomberg, PSR

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	1,066	1.37	6.23	1.36	30.8	4.10%
PARKWAY LIFE REIT		1,694	2.80	4.54	1.63	36.2	1.10%

Source: Bloomberg, PSR

Figure 1: Inpatient registration counters, Siloam Lippo Village



Figure 2: Entrance lobby, Siloam Kebun Jeruk

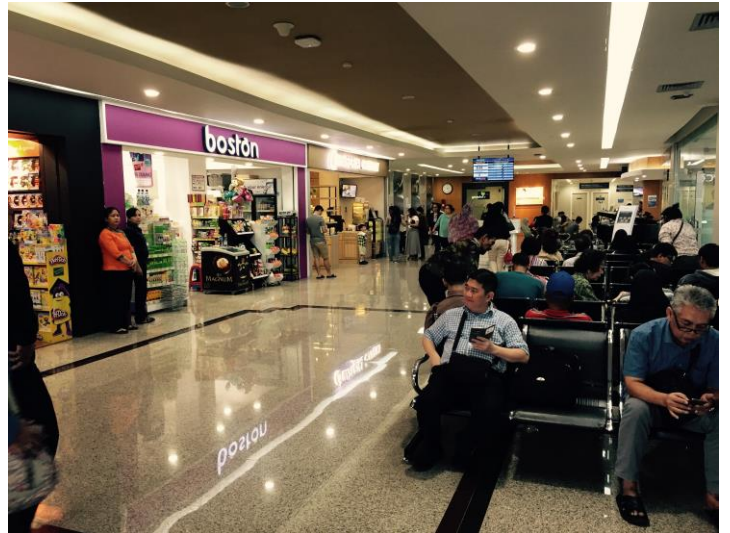


Figure 3: Class 3 Ward, MRCCC – Indonesia’s only private cancer hospital. This ward qualifies for BPJS insurance.



Figure 5: Linear Accelerator in MRCCC, for cancer radiotherapy. Therapy duration can be shortened to 5 minutes with this. Only 2 available in all private hospitals in Indonesia.

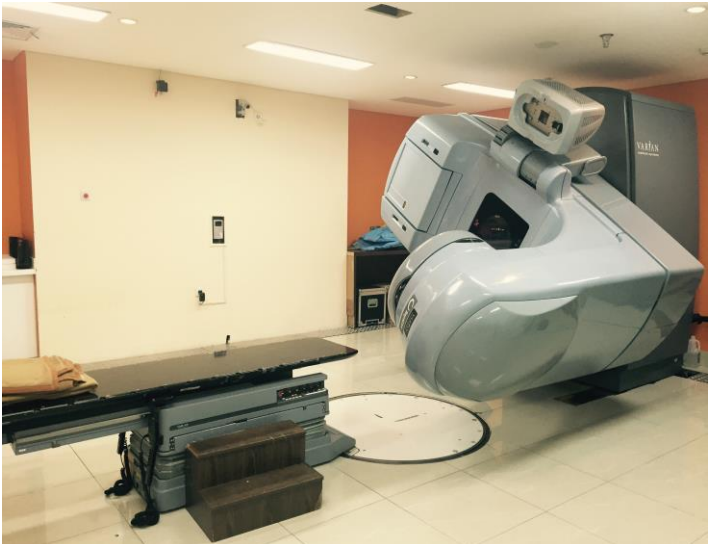


Figure 4: Rp1.4mn/night (c.S\$140) VIP ward in Siloam, Lippo Village. Ward ranges from Class 3 (6 bedder, S\$25/night) to Presidential Suite (S\$390/night)

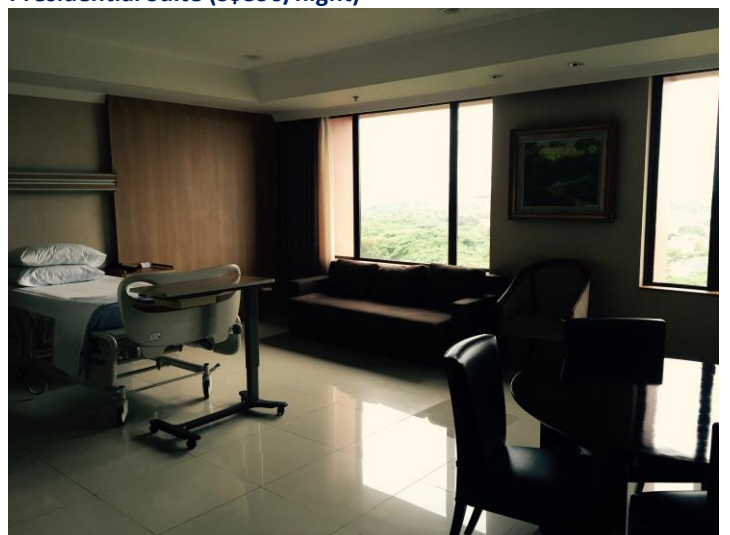


Figure 6: Neuroscience and Heart Centre, the Centre of Excellence at Siloam, Lippo Village.



Figures 7 and 8: Indonesia's only Gamma Knife facility



Figure 9: Helipads available at selected Siloam Hospitals, to bypass traffic jams in the country



Figure 10: Siloam Hospitals has a nationwide emergency ambulance call number. Indonesia does not have a universal emergency call number across the country as yet.



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

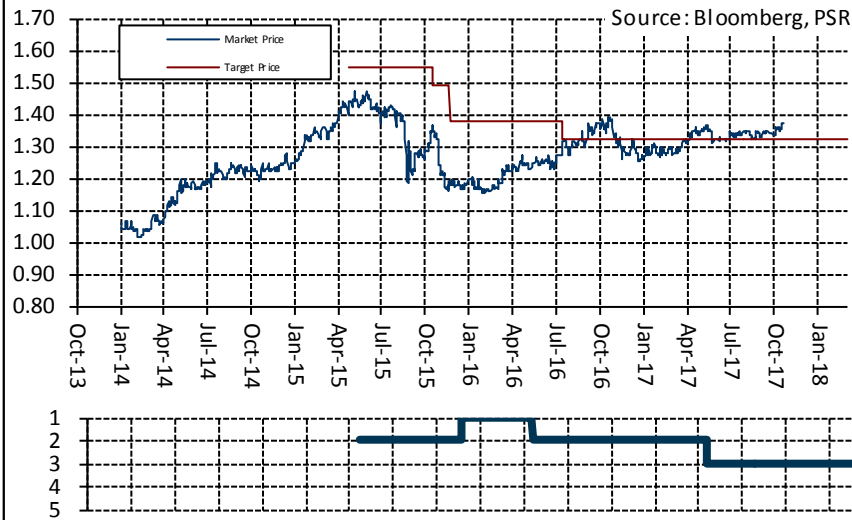
Valuation Ratios

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.

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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