

# First REIT

Kicking off FY18 on a clear path



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## SINGAPORE | REAL ESTATE (REIT) | 1Q18 RESULTS (CHANGE OF ANALYST)

19 April 2018

- NPI and DPU were in line with our forecast.
- 5.8% y-o-y boost in Gross Revenue and NPI driven by two acquisitions made in FY18.
- Locked-in forward organic growth stemming from uptick in Singapore CPI for 2017.
- Maintain Neutral due to rich valuations vs post-GFC average, with an adjusted TP of S\$1.31 on different set of assumptions following a change of analyst.

### Results at a glance

(SGD mn)	1QFY18	1QFY17	YoY (%)	Comments
Gross Revenue	28,713	27,151	5.8%	Contribution from two newly acquired properties in FY18.
Net property income	28,423	26,867	5.8%	Higher expenses due to new acquisitions and progress payment for development of new Siloam Hospitals Surabaya in 3Q 2017.
Distributable income	16,893	16,593	1.8%	
<b>DPU (Cents)</b>	<b>2.15</b>	<b>2.14</b>	<b>0.5%</b>	

Source: Company, PSR

### The Positives

+ **Inorganic growth from recent acquisitions and future organic growth visibility from uptick in CPI.** YoY revenue growth from full quarter contribution from Siloam Hospitals Buton & Lippo Plaza Buton and Siloam Hospitals Yogyakarta acquired on 10 Oct 2017 and 22 Dec 2017, respectively. Locked-in future organic growth for FY19, owing to increase in Singapore CPI (figure 3) – to which FIRT's Indonesia properties' rentals are pegged.

+ **Secured financing facilities to refinance 1Q18 current debt.** FIRT had secured S\$400mn in syndicated secured financing facilities on 16 Jan 2018, which will be used to partially refinance outstanding bank loans as well as for investment and working capital purposes.

### The Negatives

- **Receivables creeping up and potential further aging.** Total receivables grew 10% QoQ to S\$58.4mn in 1Q18, equivalent to 53% of FY17 revenue. Lippo Karawaci (LPKR), FIRT's Sponsor and the master lessee of FIRT's Indonesia properties, had been issued a credit downgrade by Fitch in Feb 2018 on the back of a significantly reduced cash flow access.

### Outlook

FIRT's organic rental growth formula is structured to either be flat or positive. Hence the uptick in Singapore CPI for 2017 automatically locks in higher recurring revenue for FY19. Current gearing of 33.5% affords a debt headroom of c.S\$101m (assuming 40% comfort threshold) to pursue inorganic growth via LPKR's pipeline of 40 hospitals – two of which are ripe for injection this year. The Manager clarified that the new tax regulations in Indonesia relating to income received from building leases, are not expected to have any material impact as FIRT's Indonesian properties are on master leases.

### Maintain NEUTRAL with adjusted TP of S\$1.31 (prev S\$1.32)

FIRT currently trades at the upper range of its post-GFC average valuation boundaries (figures 1 and 2). We maintain our NEUTRAL rating with a slightly lower target price of S\$1.31, mainly adjusting for a different set of assumptions – primarily on acquisitions funding and finance costs – following a change of analyst. Potential catalysts include an improvement of the Sponsor's creditworthiness while downside risks include a similar tax regulation change that would affect FIRT. Our target price translates to a FY18e yield of 6.8% and a P/NAV of 1.19x.

## NEUTRAL (Maintained)

LAST DONE PRICE	SGD 1.37
FORECAST DIV	SGD 0.089
TARGET PRICE	SGD 1.31
<b>TOTAL RETURN</b>	<b>2.0%</b>

### COMPANY DATA

BLOOMBERG CODE:	FIRST SP
O/S SHARES (MN):	785
MARKET CAP (USD mn / SGD mn):	821 / 1075
52 - WK HI/LO (SGD):	142 / 131
3M Average Daily T/O (mn):	1.9

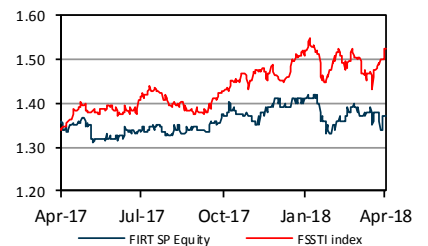
### MAJOR SHAREHOLDERS (%)

LIPPO KARAWACI	27.9%
PT MENARA TIRTA INDAH	3.1%
SUMITOMO MITSUI ASSET MGMT	2.6%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(14)	(14)	7.6
STIRETURN	(144)	(136)	7.60

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Sept	FY 16	FY 17	FY 18e	FY 19e
Gross Rev (SGD mn)	107.0	111.0	118.4	125.2
NPI (SGD mn)	105.8	109.5	116.8	123.5
Dist Inc. (SGD mn)	65.2	66.7	69.5	73.8
P/NAV (x)	126	125	124	123
DPU, adj (Cents)	8.47	8.57	8.91	9.25
Distribution Yield, %	6.2%	6.3%	6.5%	6.8%

Source: Company Data, Bloomberg

### Valuation Method

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

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Figures 1 and 2: FIRT valuations vs historical



Figure 3: Singapore's CPI recovered to 1% in 2017 following negative CPI the preceding year

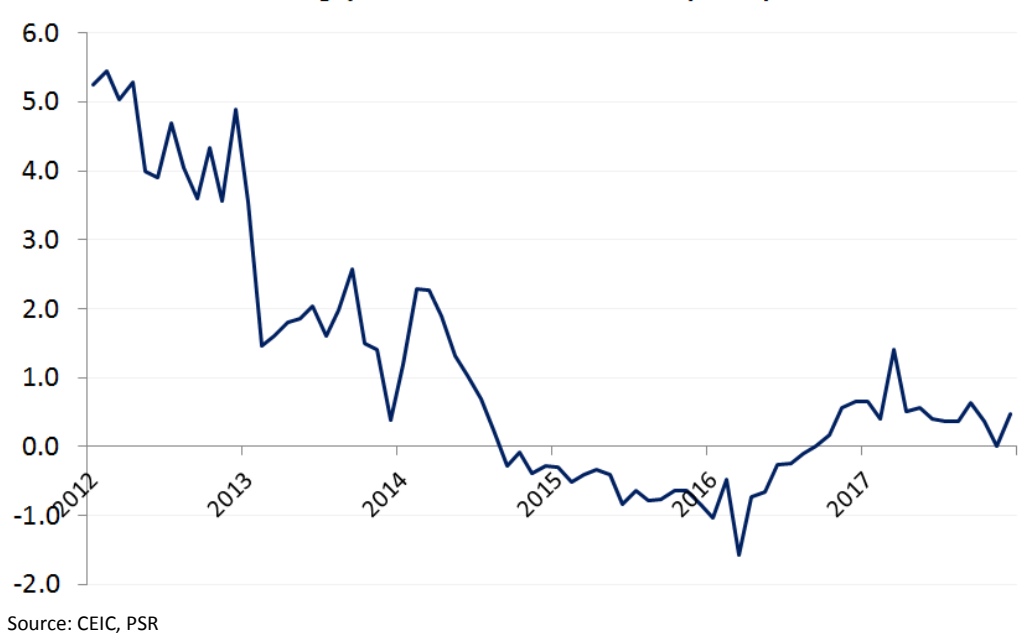


Figure 4: Peer Comparison Table

Name	PSR CALL	PSR TP	Mkt Cap (SGD mn)	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%)	Average Cost of debt <sup>1</sup>
FIRST REIT	NEUTRAL	1.31	1,075	1.37	6.26	1.35	33.5	4.00%
PARKWAY LIFE REIT			1,682	2.78	4.80	1.58	36.3	1.00%

<sup>1</sup>As at latest reported quarter  
Source: Bloomberg, PSR

## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>Gross Revenue</b>	<b>100.7</b>	<b>107.0</b>	<b>111.0</b>	<b>118.4</b>	<b>125.2</b>
Total Property expenses	(1.4)	(1.2)	(1.5)	(1.6)	(1.7)
<b>Net Property Income</b>	<b>99.3</b>	<b>105.8</b>	<b>109.5</b>	<b>116.8</b>	<b>123.5</b>
Net Finance (Expense)/Inc and Other Fees	(29.3)	(30.9)	(28.7)	(33.0)	(34.4)
Net Income before tax and FV changes	70.0	74.9	80.7	83.7	89.1
FV changes	26.3	(10.7)	12.8	-	-
Tax expense	(28.5)	(23.9)	(20.1)	(18.4)	(19.6)
<b>Net Income after tax and FV changes</b>	<b>67.8</b>	<b>40.3</b>	<b>73.4</b>	<b>65.3</b>	<b>69.5</b>
Distribution adjustments	(5.9)	24.9	(6.7)	4.1	4.3
<b>Income available for distribution</b>	<b>61.9</b>	<b>65.2</b>	<b>66.7</b>	<b>69.5</b>	<b>73.8</b>

### Per share data (SGD)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV	1.04	1.09	1.09	1.10	1.11
DPU (cents)	8.30	8.47	8.57	8.91	9.25

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Net Income before tax	96.3	62.2	93.6	83.7	89.1
Interest Expense	15.1	16.0	15.7	21.3	22.2
Management fees settled in units	6.7	3.6	4.4	8.0	8.4
<b>Cashflow from Ops</b>	<b>74.3</b>	<b>81.5</b>	<b>72.4</b>	<b>100.9</b>	<b>96.8</b>
<b>CFI</b>					
<b>Cashflow from investments</b>	<b>(56.3)</b>	<b>(29.9)</b>	<b>(70.7)</b>	<b>(48.8)</b>	<b>(48.8)</b>
<b>CFF</b>					
Share issuance	-	-	-	25.0	25.0
Distributions to unitholders	(50.0)	(56.7)	(63.0)	(69.5)	(73.8)
Net increase in borrowings	44.3	(31.1)	63.1	20.0	20.0
<b>Cashflow from financing</b>	<b>(19.4)</b>	<b>(44.8)</b>	<b>(19.5)</b>	<b>(49.1)</b>	<b>(54.5)</b>
<b>Net change in cash</b>	<b>(1.4)</b>	<b>6.7</b>	<b>(17.8)</b>	<b>3.0</b>	<b>(6.4)</b>
<b>CCE, end</b>	<b>26.8</b>	<b>33.6</b>	<b>15.7</b>	<b>18.7</b>	<b>12.3</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

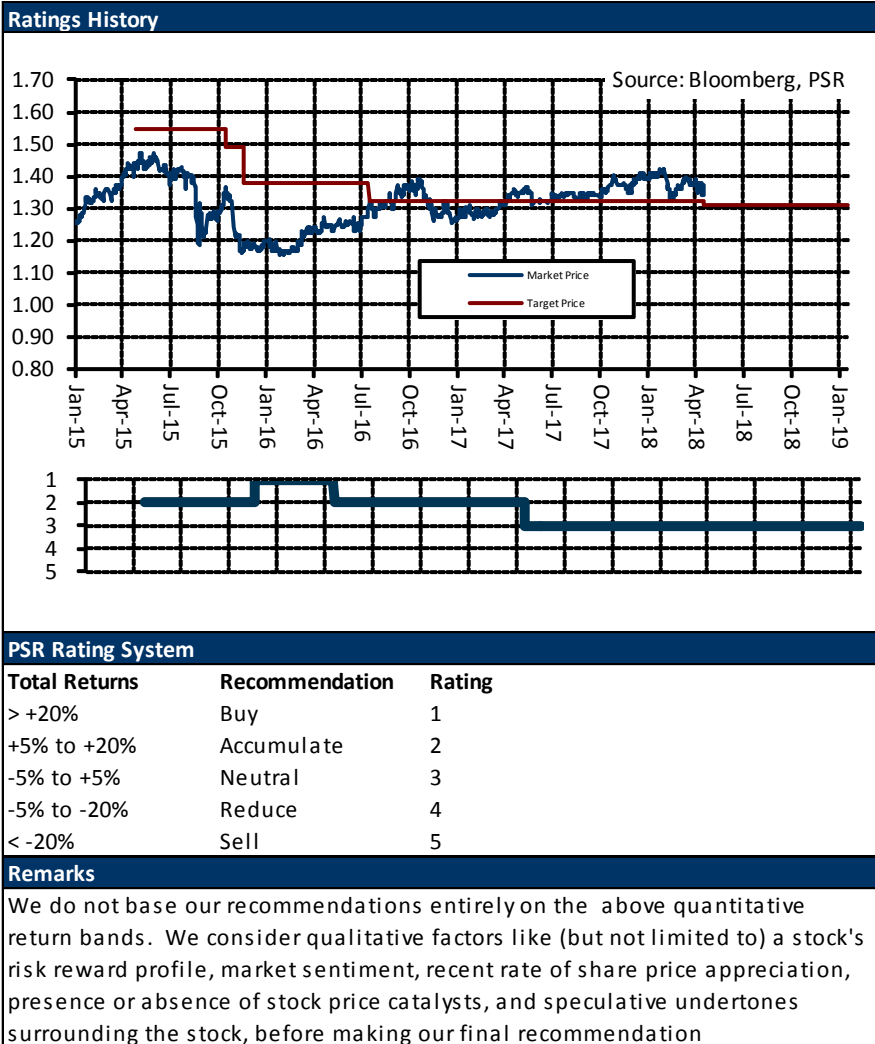
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
Investment properties	1,268	1,273	1,349	1,399	1,449
Cash and Cash Equivalents	26.8	33.6	15.7	18.7	12.3
<b>Total Assets</b>	<b>1,315</b>	<b>1,341</b>	<b>1,424</b>	<b>1,465</b>	<b>1,515</b>
<b>LIABILITIES</b>					
Total Current Liabilities	83.7	182.0	241.5	292.9	105.1
Interest bearing borrowings, non current	398.3	271.6	278.1	261.8	471.4
Total Non-Current Liabilities	440.4	320.6	330.0	312.0	522.2
<b>Total Liabilities</b>	<b>524.1</b>	<b>502.6</b>	<b>571.5</b>	<b>604.9</b>	<b>627.3</b>
<b>EQUITY</b>					
<b>Shareholder Equity</b>	<b>791.1</b>	<b>777.7</b>	<b>791.4</b>	<b>806.1</b>	<b>833.8</b>

### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/NAV	1.32	1.26	1.25	1.24	1.23
Distribution yield (%)	6.1%	6.2%	6.3%	6.5%	6.8%
NPI yield	7.8%	8.3%	8.1%	8.3%	8.5%
<b>Growth &amp; Margins</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18e</b>	<b>FY19e</b>
<b>Growth</b>					
Revenue	8.0%	6.3%	3.7%	6.7%	5.8%
Net property income (NPI)	8.1%	6.6%	3.4%	6.7%	5.8%
DPU	3.1%	2.0%	1.2%	3.9%	3.9%
<b>Margins</b>					
NPI margin	98.6%	98.9%	98.6%	98.6%	98.6%
Operating Income Margin	69.5%	70.0%	72.8%	70.7%	71.1%
<b>Key Ratios</b>					
Net Gearing	33.7%	30.8%	33.5%	33.9%	34.1%



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