

First REIT

Continues to deliver despite rising interest rate environment



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SINGAPORE | REAL ESTATE (REIT) | 2Q18 RESULTS

19 July 2018

- NPI and DPU were in line with our forecast. All-in finance costs stable at 4%.
- 5.3% YoY boost in Gross Revenue and NPI driven by two acquisitions made in 4Q17.
- Refinanced S\$100mn fixed rate notes due May 2018 with six-month term loan facility.
- Maintain Neutral with an unchanged TP of S\$1.31.

Results at a glance

(SGD mn)	2QFY18	2QFY17	YoY (%)	Comments
Gross Revenue	28.92	27.48	5.3%	Contribution from the two properties (Buton and SHYG) acquired in 4Q17.
Net Property Income	28.50	27.15	5.0%	Higher expenses due to new acquisitions and progress payment for development of new Siloam Hospitals Surabaya in 3Q17.
Distributable Income	16.91	16.64	1.6%	
DPU (Cents)	2.15	2.14	0.5%	

Source: Company, PSR

The Positives

+ **All-in finance costs of 4% has been stable, despite the rising interest rate environment.** Despite having just 60.7% of its debt on fixed rates (sector average: c.77%), all-in finance costs remain stable at 4%. Funding cost for the short-term loan facility secured in May would still be under 4%, if it were to be extended.

The Negatives

- **Debt maturity profile remains unchanged QoQ, despite a refinancing done.** FIRT had refinanced its S\$100mn fixed rate notes due 22 May 2018 with a S\$100mn term loan facility with a tenure of 6 months, extendable by a further 6 months. However this is a short-term solution and the Manager is evaluating various longer-term solutions.

- **28.1% YoY higher finance costs.** This was due to the write-off of unamortised loan costs following the refinancing of debt maturing in 1Q18 via the S\$400mn syndicated financing facilities secured in January 2018. The total quantum of write-off is approximately S\$2.5mn, of which S\$0.7mn has been recorded this quarter. This is a non-cash expense that will be recorded for the next three to four quarters.

- **Receivables collection could potentially worsen, unless underlying issue of Sponsor-tenant's cash flow is fully resolved.** While receivables were lowered by S\$2.3mn, the current outstanding amount of S\$29.1mn represent more than a quarter of FY17 revenue. The Manager has however clarified that there had not been any delays for payments past their due dates. For context, Lippo Karawaci (LPKR), FIRT's Sponsor and the contributor of c.83% of FIRT's gross rental income in FY17, had been issued a credit downgrade by Fitch in February 2018 on the back of a significantly reduced cash flow access.

Outlook

Current gearing of 34.1% affords a debt headroom of c.S\$82.9m (assuming 40% gearing) to pursue inorganic growth via LPKR's pipeline of 40 hospitals – two of which are ripe for injection this year.

Maintain NEUTRAL with unchanged TP of S\$1.31

While the credit risk from LPKR is our key concern, we recognise the effort to maintain borrowing costs and time the market for more attractive longer-term funding opportunities. Positive price movements for the stock could come about if there is a material improvement in LPKR's creditworthiness. Our target price translates to a FY18e yield of 6.7% and a P/NAV of 1.21x.

NEUTRAL (Maintained)

LAST DONE PRICE	SGD 1.32
FORECAST DIV	SGD 0.089
TARGET PRICE	SGD 1.31
TOTAL RETURN	5.8%

COMPANY DATA

BLOOMBERG CODE:	FIRST SP
O/S SHARES (MN):	787
MARKET CAP (USD mn / SGD mn):	759 / 1038
52 - WK HI/LO (SGD):	142 / 129
3M Average Daily T/O (mn):	0.81

MAJOR SHAREHOLDERS (%)

LIPPO KARAWACI	28.3%
PT MENARA TIRTA INDAH	3.1%
SUMITOMO MITSUI ASSET MGMT	2.6%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(3.6)	(14)	6.0
STIRETURN	(3.62)	(138)	6.00

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	110	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)	1.21	1.21	1.20	1.19
DPU, adj (Cents)	8.47	8.57	8.91	9.25
Distribution Yield, %	6.4%	6.5%	6.7%	7.0%

Source: Company Data, Bloomberg

Valuation Method

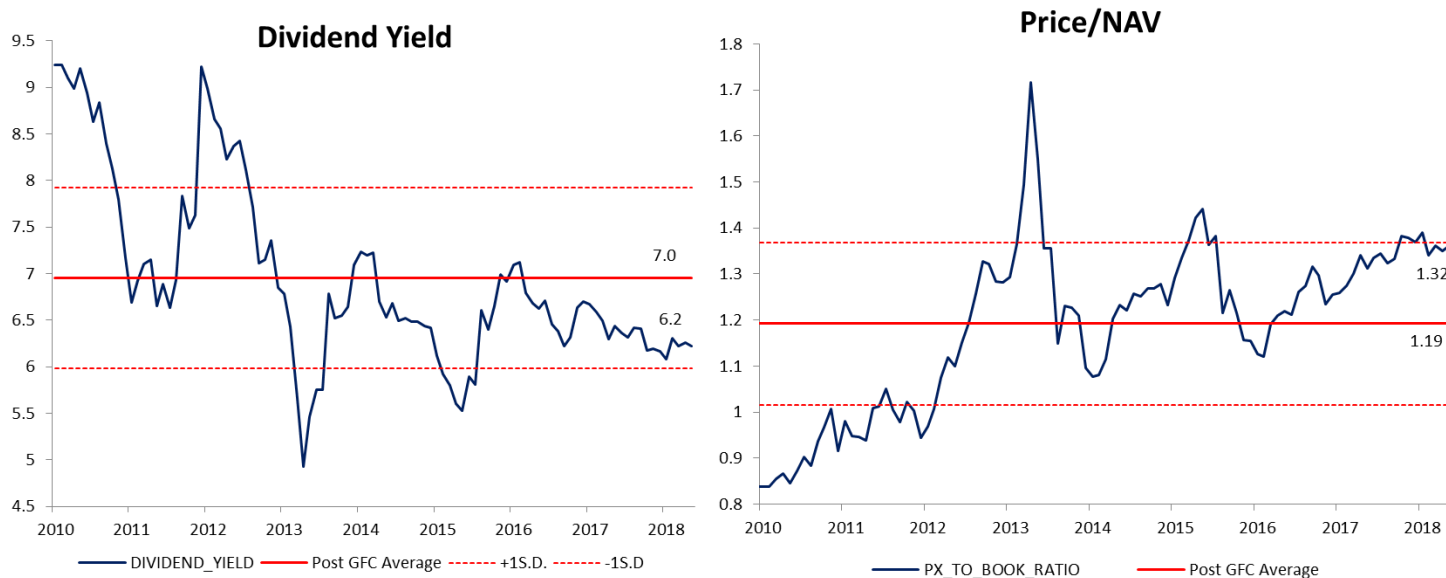
DDM (Cost of equity 7.53%, Terminal Growth 1%)

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Figures 1 and 2: FIRT currently trades at the upper range of its post-GFC average valuation boundaries


Source: Bloomberg, PSR

Figure 3: FIRT has a lower price-to-book ratio than its peer, Parkway Life REIT, but is trading at a higher trailing dividend yield

Name	PSR CALL	PSR TP	Mkt Cap (SGD mn)	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%)	Average Cost of debt ¹
FIRST REIT	NEUTRAL	1.31	1,046	1.33	6.46	1.31	33.5	4.00%
PARKWAY LIFE REIT			1,670	2.76	4.80	1.58	36.3	1.00%

¹As 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
Gross Revenue	100.7	107.0	111.0	118.4	125.2
Total Property expenses	(1.4)	(1.2)	(1.5)	(1.6)	(1.7)
Net Property Income	99.3	105.8	109.5	116.8	123.5
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)
Net Income after tax and FV changes	67.8	40.3	73.4	65.3	69.5
Distribution adjustments	(5.9)	24.9	(6.7)	4.1	4.3
Income available for distribution	61.9	65.2	66.7	69.5	73.8

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
CFO					
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
Cashflow from Ops	74.3	81.5	72.4	100.9	96.8
CFI					
Cashflow from investments	(56.3)	(29.9)	(70.7)	(48.8)	(48.8)
CFF					
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
Cashflow from financing	(19.4)	(44.8)	(19.5)	(49.1)	(54.5)
Net change in cash	(1.4)	6.7	(17.8)	3.0	(6.4)
CCE, end	26.8	33.6	15.7	18.7	12.3

Source: Company, Phillip Securities Research (Singapore) Estimates

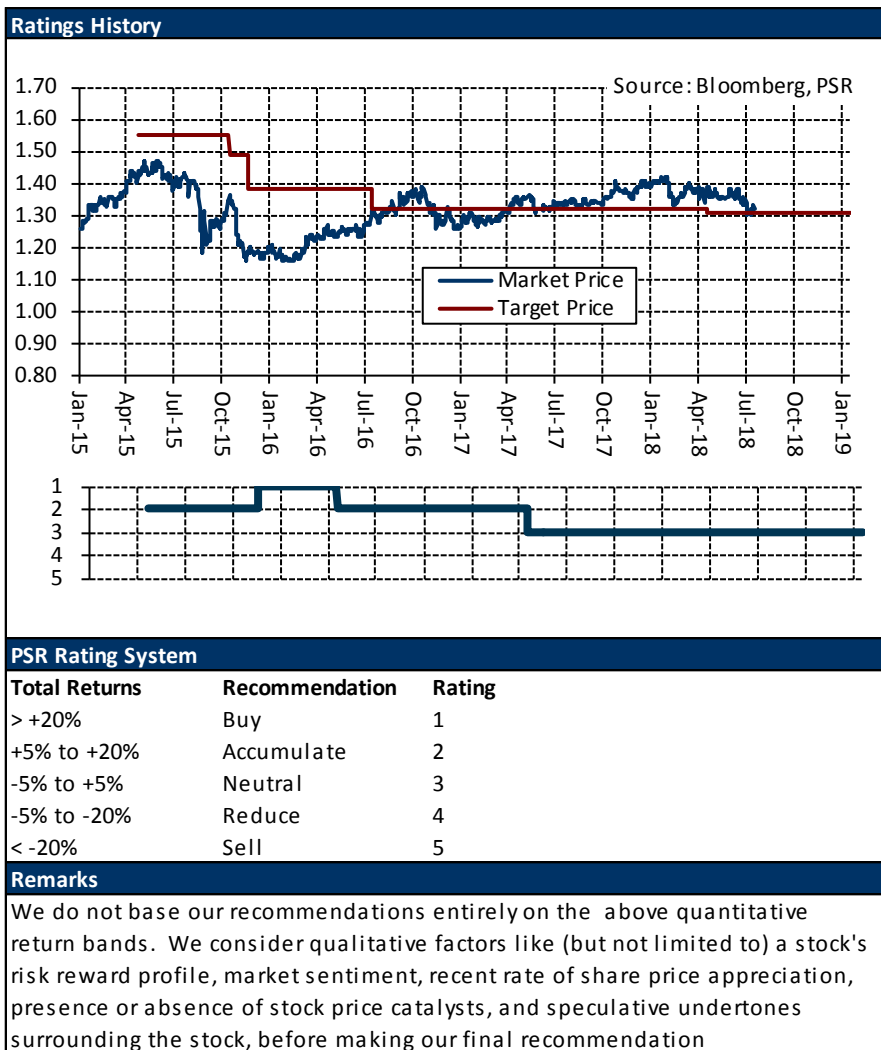
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
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
Total Assets	1,315	1,341	1,424	1,465	1,515
LIABILITIES					
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
Total Liabilities	524.1	502.6	571.5	604.9	627.3
EQUITY					
Shareholder Equity	791.1	777.7	791.4	806.1	833.8
Perpetual Securities holders' fund	-	60.9	60.9	54.1	53.5

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/NAV	1.28	1.22	1.22	1.21	1.20
Distribution yield (%)	6.2%	6.4%	6.4%	6.7%	7.0%
NPI yield	7.8%	8.3%	8.1%	8.3%	8.5%
Growth & Margins	FY15	FY16	FY17	FY18e	FY19e
Growth					
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%
Margins					
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%
Key Ratios					
Net Gearing	33.7%	30.8%	33.5%	33.9%	34.1%



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