

First REIT

A new dawn



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SINGAPORE | REAL ESTATE (REIT) | UPDATE

19 September 2018

- OUE Limited and OUE Lippo Healthcare (OUELH) collectively acquiring 100% of the shares in Bowsprit Capital Corporation Limited (Bowsprit), the Manager of First REIT (FIRT), from Lippo Karawaci (LPKR).
- OUELH also acquiring 10.63% of FIRT units from Bridgewater International Limited (Bridgewater) (subsidiary of LPKR).
- OUELH and LPKR will each have 10.63% stake in FIRT upon completion of transaction.
- New ROFR pipeline from OUELH – which includes healthcare assets in Japan, China, Malaysia – in addition to existing ROFR pipeline from LPKR.
- Cash infusion from LPKR's divestment of stake in Bowsprit and FIRT through its holding companies, will ease its cash flow status and potentially improve receivables at FIRT.
- Maintain Neutral with an unchanged TP of S\$1.31.

What is the news?

- 1) OUE Limited and OUELH acquiring 60% and 40% respectively of shares in Bowsprit from LPKR, for S\$39.6mn.
- 2) At the same time, OUELH will be acquiring 10.63% of units in FIRT from Bridgewater, via OLH Healthcare Investments Pte. Ltd. (OHI), for S\$102.7mn (c.S\$1.23/unit).
 - Total purchase consideration of S\$144.8mn (incl fees & expenses) to be settled in cash.
 - Proposed acquisition is subject to OUELH's shareholders' approval and MAS' approval, and is expected to be completed by end November 2018.

Refer to Appendix for ownership and trust structure.

The Positives

- **Expanded ROFR pipeline to access Japan, China, Malaysia.** OUELH will be granting FIRT a right-of-first-refusal (ROFR) to acquire any of its healthcare assets, subject to the completion of the proposed acquisition, which could pave inroads for FIRT to access geographies it currently does not have a presence in.

- **Potential improvement in tenant concentration risk management.** Moving forward, this could also reduce FIRT's reliance on LPKR as the single biggest lessee of its properties (83% of FIRT's GRI in FY17). The existing ROFR pipeline from LPKR will remain.

- **Potential improvement in receivables with cash infusion into core tenant LPKR.** The purchase consideration of S\$144.8mn (incl. fees & expenses) for the 10.63% stake in FIRT will be paid in cash to LPKR. This could have a positive spillover effect into rentals owed by LPKR. FIRT's receivables of S\$29.1mn represent more than a quarter of FY17 revenue. As per our conversation with the Manager following this latest announcement, there had not been any delays on LPKR's end for payments past their due dates.

Outlook

Outlook has improved for FIRT's receivables as the cash infusion into LPKR could potentially be used to pay outstanding rental owed to FIRT. This transaction only changes the ownership structure of the REIT and the Manager, and does not affect operations of the REIT. The expanded ROFR pipeline from OUELH would allow FIRT to pursue inorganic growth in other markets such as Japan, China and Malaysia. The existing ROFR from LPKR remains in place and is focused on Indonesia healthcare assets. Current gearing of 34.1% affords a debt headroom of c.S\$82.9m (assuming 40% gearing) to pursue inorganic growth strategies.

Maintain NEUTRAL with unchanged TP of S\$1.31

No changes made to our forecasts as this transaction does impact the REIT operationally, and it is pending approval by OUELH shareholders and the MAS. Our target price translates to a FY18e yield of 7.2% and a P/NAV of 1.12x.

NEUTRAL (Maintained)

LAST DONE PRICE	SGD 1.24
FORECAST DIV	SGD 0.089
TARGET PRICE	SGD 1.31
TOTAL RETURN	12.6%

COMPANY DATA

BLOOMBERG CODE:	FIRST SP
O/S SHARES (MN) :	787
MARKET CAP (USD mn / SGD mn) :	711/ 975
52 - WK HI/LO (SGD) :	142 / 123
3M Average Daily T/O (mn) :	0.86

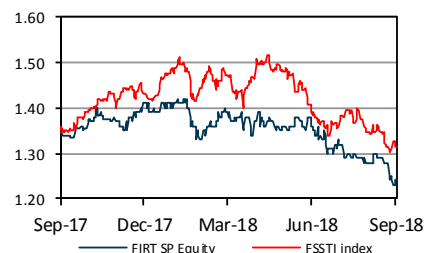
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(3.1)	(8.7)	(19)
STI RETURN	(198)	(4.93)	1.54

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)	1.14	1.13	1.12	1.11
DPU, adj (Cents)	8.47	8.57	8.91	9.25
Distribution Yield, %	6.8%	6.9%	7.2%	7.5%

Source: Company Data, Bloomberg

Valuation Method

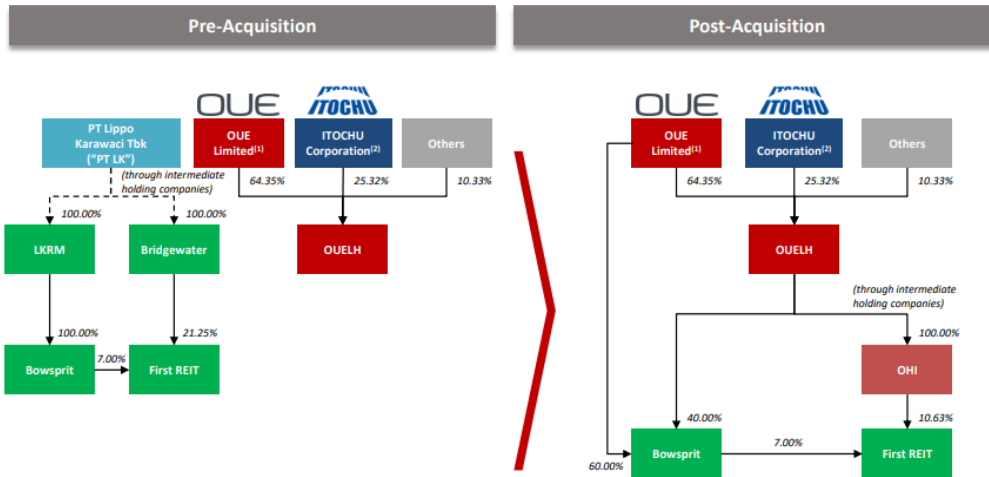
DDM (Cost of equity 7.53%, Terminal Growth 1%)

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APPENDIX

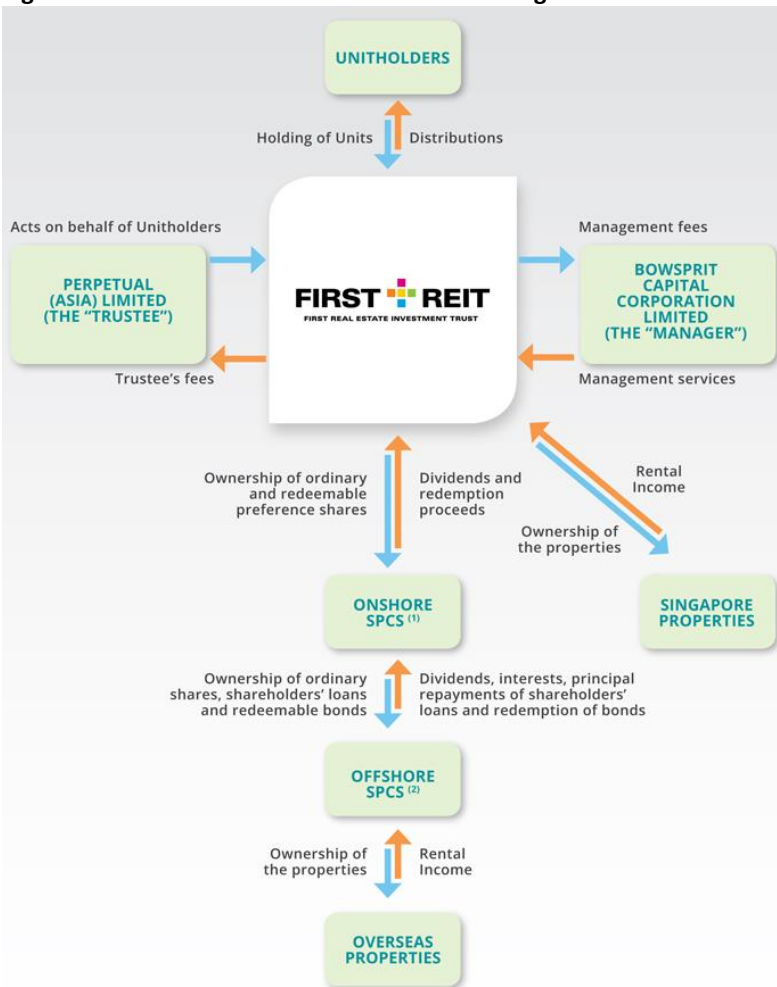
Figure 1: Ownership structure of Bowsprit and FIRT, pre- and post-acquisition



- 1) OUE Limited acquiring 60% and OUELH acquiring 40% of Bowsprit from LPKR's intermediate holding company, LK REIT Management Pte. Ltd. (LKRM), for S\$39.6mn.
- 2) OUELH acquiring 10.63% of units in FIRT from Bridgewater via OHI, for S\$102.7mn.
- 3) Upon completion of transaction, OUELH and LPKR will each have 10.63% stake in FIRT.

Source: OUE Lippo Healthcare

Figure 2: Trust structure of FIRT remains unchanged



Bowsprit remains the Manager of FIRT.

This transaction does not affect operations at the REIT.

Source: First REIT

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

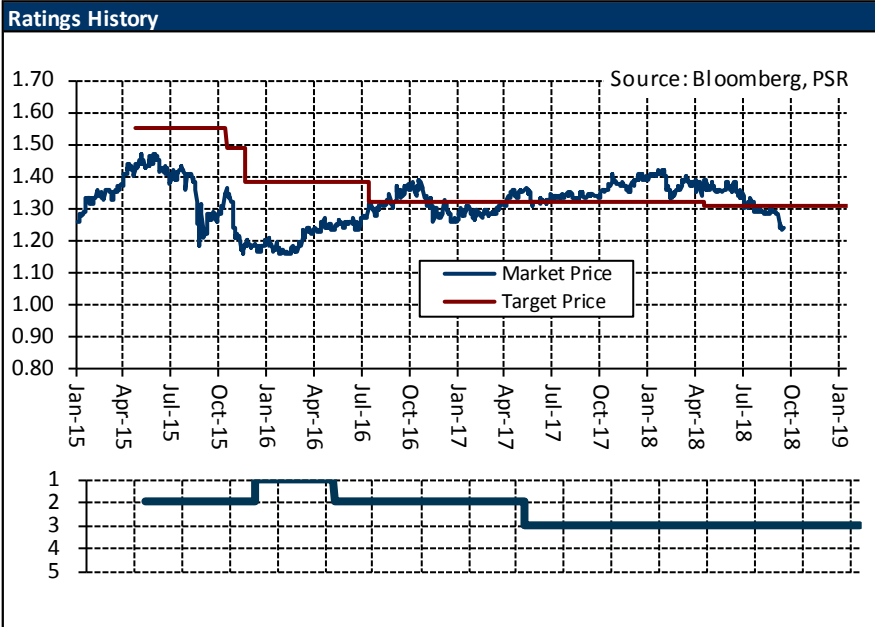
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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%



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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