

First REIT

A cautionary tale

SINGAPORE | REAL ESTATE (REIT) | FY18 RESULTS

- FY18 Revenue and NPI were in line with our forecast. DPU outperformed our estimates by c.5% due to a S\$15mn income tax benefit arising from a write-back of provision for deferred tax on fair value loss on investment properties, as a result of a reduced tax rate.
- 4.7% and 4.5% YoY boost in FY18 Gross Revenue and NPI, respectively, driven by two acquisitions made in 4Q17.
- Cost of debt relatively stable at c.3.84% despite rising interest rates.
- Receivables continue to mount, against backdrop of uncertainty over upcoming lease expires, though some S\$8mn of rental payments has since been received on Jan 15, 2019.
- Ceasing coverage due to reallocation of internal resources.

Results at a glance

(SGD mn)	4Q18	4Q17	YoY	FY18	FY17	YoY	Comments (FY18 vs FY17)
Gross revenue	29.3	28.6	2.7%	116.20	110.99	4.7%	Contribution from the two properties (Buton and SHYG) acquired in FY17.
Net property income	28.5	28.0	1.9%	114.39	109.48	4.5%	Same as above. Higher property expenses incurred for Sarang Hospital and Indonesia properties.
Distributable amount to Unitholders	17.0	16.8	1.4%	30.41	28.27	7.5%	
DPU (cents)	2.15	2.15	0.0%	8.60	8.57	0.4%	

Source: Company, PSR

The Positives

+ Cost of debt relatively stable despite rising interest rates. Given that the 3M SOR had almost doubled YTD as at end-Dec 2018, FIRT had managed to keep its cost of debt at c.3.84% (excluding a one-off write-off of unamortised costs). The Manager relayed that the FIRT's credit spread had indeed been declining over the past few quarters, though this continued downtrend could be up in the air going forward amidst the changes in ownership and continued links with LPKR. The Manager had earlier clarified in a separate briefing that FIRT could tap onto OUE Ltd's network for its backing of any refinancing. We note that debt of S\$110mn is expiring this year, S\$100mn of which was part of a term loan facility entered into in FY18. No debt is due in FY2020.

The Negatives

- Receivables continue to mount, against backdrop of uncertainty over upcoming lease expires. Outstanding receivables of S\$32.4mn now translate to 102.2 days receivables (FY17: 84 days, FY16: 40 days), though some S\$8mn of rental payments has since been received on Jan 15, 2019. In addition, upcoming leases for three Indonesia properties (including Lippo Village – FIRT's second highest revenue contributor) in Dec 2021 face the possibilities of 1) conversion to IDR-denominated leases (now currently SGD-denominated) and/or 2) lower quantum of rental to be received. The Management shared that if the former scenario were to take place, the revenue formula for its Indonesia properties would correspondingly have to incorporate Indonesia's CPI figures instead (current formula using Singapore CPI), and that rental/EBITDA levels at Siloam are at "very healthy levels".

- Decline in portfolio valuation. FIRT ended FY18 with no acquisitions and recorded its first year of decline in portfolio valuations (excl. 2008) (on an absolute basis). On a like-for-like basis (ex-acquisitions), this -0.3% decline in valuations is a reversal from the prior year's +1.7% increase in valuation. This was due to the appraiser's factoring of the IDR/SGD depreciation within its discounted cash flow valuation method.

Outlook

FIRT would be re-positioned to identify more strongly with its new co-sponsor, OUE Lippo Healthcare, and will now have an expanded ROFR pipeline over new geographies – Australia, China, Japan, Malaysia and Myanmar. However, all things equal, conducting yield-accretive acquisitions in more developed markets (as opposed to Indonesia) will pose to be a challenge. Overall outlook continues to be weighed down by the mounting outstanding receivables and rising uncertainty over the Indonesia leases.

Ceasing coverage

Our most recent rating from [our Jan 16, 2018 report](#) was a "Neutral" with a target price of S\$0.88. We are ceasing coverage on this counter due to reallocation of internal resources.



StocksBnB.com

21 January 2019

Ceasing coverage

LAST DONE PRICE	SGD 1.03
FORECAST DIV	N.A.
TARGET PRICE	N.A.
TOTAL RETURN	N.A.

COMPANY DATA

BLOOMBERG CODE:	FIRT SP
O/S SHARES (MN):	788
MARKET CAP (USD mn / SGD mn):	599 / 812
52 - WK HI/LO (SGD):	1.42 / 0.92
3M Average Daily T/O (mn):	1.1502

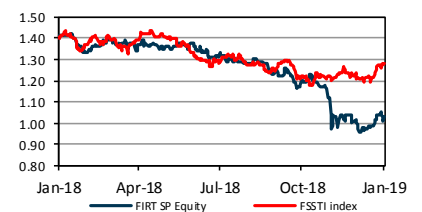
MAJOR SHAREHOLDERS (%)

OUE LTD	25.0%
BRIDGEWARER INTERNATIONAL LTD	10.6%
PT MENARA TIRTA INDAH	3.1%
SUMITOMO MITSUI ASSET MANAGEMENT CO LTD	2.9%
VANGUARD GROUP INC	2.1%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(1.0)	(14.3)	(23.0)
STI RETURN	3.4	5.0	(5.9)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17	FY 18
Gross Rev (SGD mn)	100.7	107.0	111.0	116.2
NPI (SGD mn)	99.3	105.8	109.5	114.4
Dist Inc. (SGD mn)	61.9	65.2	66.7	67.7
P/NAV (x)	0.99	1.02	1.02	1.00
DPU (cents)	8.30	8.47	8.57	8.60
Distribution Yield (%)	8.1%	8.2%	8.3%	8.3%

Source: Company Data, Bloomberg

Tara Wong (+65 6212 1850)

Research Analyst
tarawongsj@phillip.com.sg

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18
Gross Revenue	100.7	107.0	111.0	116.2
Total Property expenses	(1.4)	(1.2)	(1.5)	(1.8)
Net Property Income	99.3	105.8	109.5	114.4
Net Finance (Expense)/Inc.	(16.3)	(16.6)	(16.4)	(19.9)
Manager's fees	(9.9)	(10.6)	(10.9)	(11.4)
Other items	(3.1)	(3.7)	(1.5)	(2.7)
Net Income	70.0	74.9	80.7	80.3
FV changes	26.3	(10.7)	12.8	(5.5)
Total Return Before Tax	96.3	64.2	93.6	74.8
Tax expense	(28.5)	(23.9)	(20.1)	1.1
Total Return After Tax	67.8	40.3	73.4	75.9
Distribution adjustments	(5.9)	24.9	(6.7)	(8.2)
Income available for distribution	61.9	65.2	66.7	67.7

Per share data

Y/E Dec	FY15	FY16	FY17	FY18
NAV (S\$)	1.04	1.01	1.01	1.03
DPU (cents)	8.30	8.47	8.57	8.60

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18
CFO				
Total Return Before Tax	96	62	94	75
Adjustments	(2)	31	6	31
WC changes	(5)	3	(11)	(4)
Cash generated from ops	90	96	89	101
Others	(15)	(17)	(17)	(19)
Cashflow from ops	74	81	72	83
CFI				
Purchase of Inv. Property	(57)	(31)	(72)	(1)
Others	0	1	1	2
Cashflow from investments	(56)	(30)	(71)	0
CFE				
Share issuance, net	-	-	-	-
Loans, net of repayments	44	(31)	63	15
Distributions to unitholders	(50)	(57)	(63)	(65)
Distributions to perp. holders	-	-	(3)	(3)
Interest paid	(14)	(16)	(16)	(17)
Others	-	59	-	-
Cashflow from financing	(19)	(45)	(19)	(71)
Net change in cash	(1)	7	(18)	12
CCE, end	27	34	16	28

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	FY18
ASSETS				
Investment properties	1,268	1,273	1,349	1,345
Others	3	19	28	28
Total non-current assets	1,271	1,292	1,378	1,374
Trade receivables	15	12	26	24
Cash	27	34	16	28
Others	3	4	5	5
Total current assets	44	49	46	57
Total Assets	1,315	1,341	1,424	1,431
LIABILITIES				
Borrowings	44	142	198	110
Trade payables	17	17	18	16
Others	22	23	25	25
Total current liabilities	84	182	241	151
Borrowings	398	272	278	387
Others	42	49	52	32
Total non-current liabilities	440	321	330	419
Total Liabilities	524	503	572	570
EQUITY				
Unitholder Equity	791	778	791	811
Perpetual Securities	-	61	61	61

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18
P/NAV	1.00	1.03	1.02	1.01
Distribution yield (%)	8.0%	8.1%	8.2%	8.3%
NPI yield	7.8%	8.3%	8.1%	8.5%

Growth & Margins

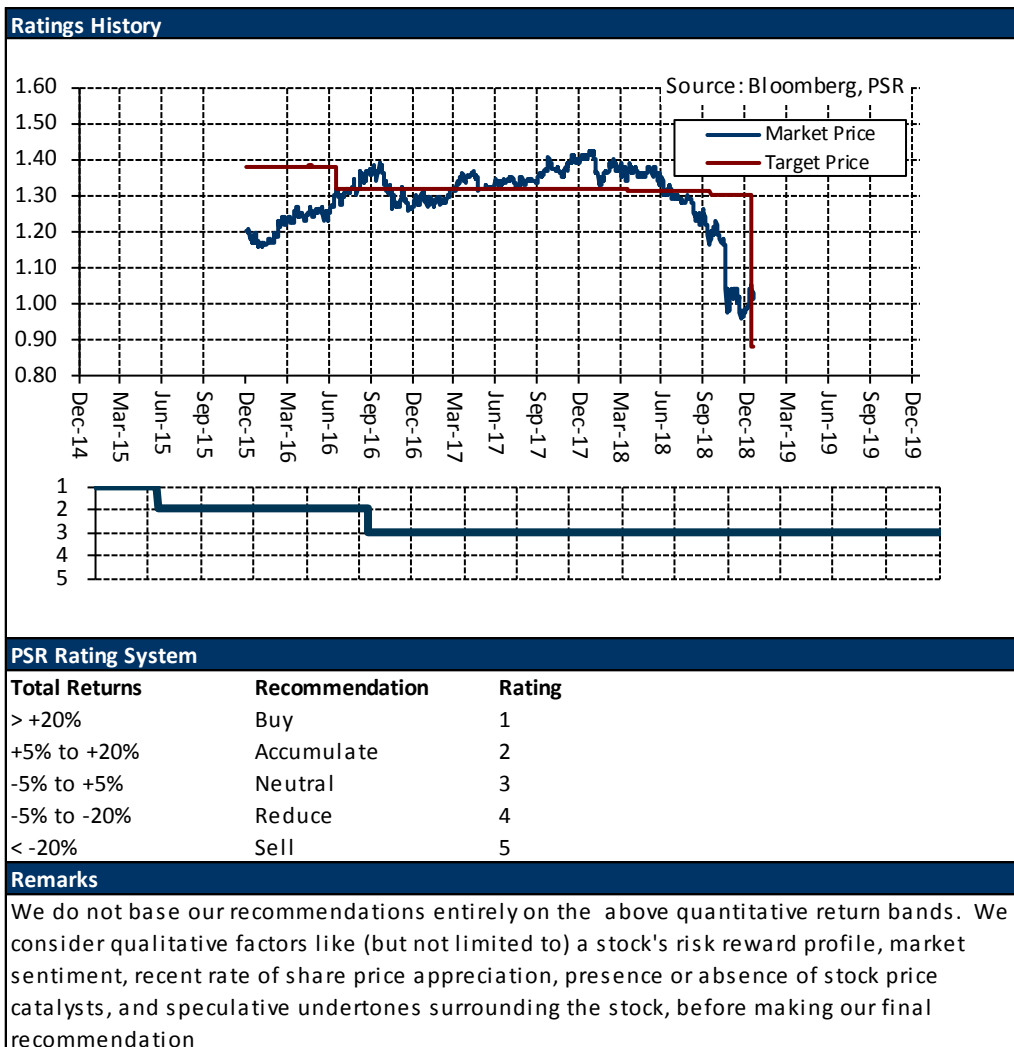
Growth				
Revenue	8.0%	6.3%	3.7%	4.7%
Net property income (NPI)	8.1%	6.6%	3.4%	4.5%
DPU	3.1%	2.0%	1.2%	0.4%

Margins

NPI margin	98.6%	98.9%	98.6%	98.4%
Operating Income Margin	69.5%	70.0%	72.8%	69.1%

Key Ratios

Net Gearing	33.7%	30.8%	33.5%	34.7%
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Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin
research@phillip.com.sg
Banking and Finance

 Tin Min Ying – tinmy@phillip.com.sg
Oil & Gas | Energy

 Chen Guangzhi – chengz@phillip.com.sg
Telco | Technology

 Alvin Chia – alvinchiawy@phillip.com.sg
Transport | REITs (Industrial)

 Richard Leow – richardleowwt@phillip.com.sg
China/HK Equity

 Zheng Jieyuan – zhengjy@phillip.com.sg
REITs (Commercial, Retail, Healthcare) | Property

 Tara Wong – tarawongsi@phillip.com.sg
US Equity

 Edmund Xue – edmundxueji@phillip.com.sg
Contact Information (Regional Member Companies)
SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited
No. 60, 5th Lane,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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