

First REIT

Strong sponsor acquisition pipeline to look forward to

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- First REIT closed FY16 with a record DPU of SG 8.47 cents, up 2% from FY2015.
- Terminated Siloam Hospitals Yogyakarta (first announced in February 2016) deal still on the cards, possibly by 1H2017.
- Portfolio valuation dropped 1.2% as a result of weaker cashflow due to the weak Singapore CPI.

Results at a glance

(SGD mn)	FY2016	FY2015	y-y (%)	Comments
Gross Revenue	107.0	100.7	6.3%	Mainly due to contribution from Kupang Property (acquired Dec 15)
Net property income	105.8	99.3	6.5%	High flow through from gross revenue due to properties being on triple net lease
Distributable income	65.2	61.9	5.3%	
DPU (Cents)	8.47	8.30	2.0%	

Source: Company, PSR

Operational Updates

	FY2016	FY2015	y-y (%)	Comments
Gearing Ratio	31.1%	34.0%		Company issued perpetual securities in 2016, at 5.68% for first five years, which lowered gearing ratio
% debt on fixed rate	92.3%	88.6%		
Portfolio Valuation (\$\$m)	1,227.1	1,221.5	0.5	Excluding new acquisitions, FY16 valuation would be \$S1206.5m, down 1.2%
NAV/unit (SG cents)	100.8	103.9	(3.0)	

Source: Company, PSR

What's in the news

- Capped off FY2016 with a record DPU of SG 8.47 cents (our FY17e DPU is SG 8.58c, 1.3% higher).** First REIT (FIRT) started 2016 with still a lot of uncertainties lingering in the market about their sponsor potentially listing Reits in Indonesia. Since bottoming and hovering around the levels close to \$1.15, which is the [support level highlighted by our technical analyst](#), First REIT recovered to end the year up 5.4% vs FTSE S-REIT index's 1.9% (both excluding dividends). Despite a lacklustre year for Singapore CPI which capped the rental escalations for their properties, FY2016 DPU came in at a record SG 8.47 cents, buoyed by the new Kupang acquisition in Dec 2015.
- Terminated Siloam Hospitals Yogyakarta (first announced in February 2016) deal still on the cards, possibly by 1H2017.** The proposed acquisition was terminated due to licensing issues for the commencement of operations for the hospital. Management still remains hopeful of sealing the deal by this year. Apart from this acquisition, several other possible acquisition targets in the sponsor's pipeline include Siloam Hospitals Bau-Bau (140 beds) and Siloam Hospitals Bogor (~200 beds), as highlighted by management. The expected valuations of these two hospitals add up to ~\$S100m.
- Portfolio valuation dropped 1.2% as a result of weaker cashflow due to the weak Singapore CPI.** Weak Singapore CPI for 2015 and 2016 capped the amount of base rental escalation for FIRT's properties. Nonetheless, with MAS expecting Singapore's 2017 CPI to come in at around 1% (vs negative CPIs in 2015/2016), that should provide some reprieve this year.

19 January 2017

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 1.310
FORECAST DIV	SGD 0.085
TARGET PRICE	SGD 1.320
TOTAL RETURN	7.3%

COMPANY DATA

O/S SHARES (MN) :	772
MARKET CAP (USD mn / SGD mn) :	708 / 1011
52 - WK HI/LO (SGD) :	1.39 / 1.15
3M Average Daily T/O (mn) :	0.35

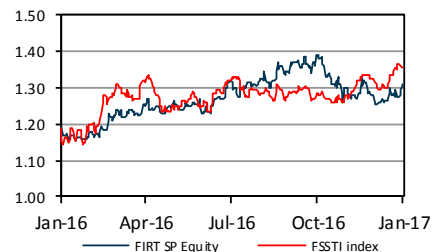
MAJOR SHAREHOLDERS (%)

BRIDGEWATER INTERNATIONAL	21.7%
BOWSPRIT CAPITAL	5.7%
PT MENARA TIRTA INDAH	5.7%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	2.0	(4.7)	19.2
STIRETURN	2.3	6.4	20.2

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	70.2	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	7.2	6.6

Source: Company Data, Bloomberg

Valuation Method

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

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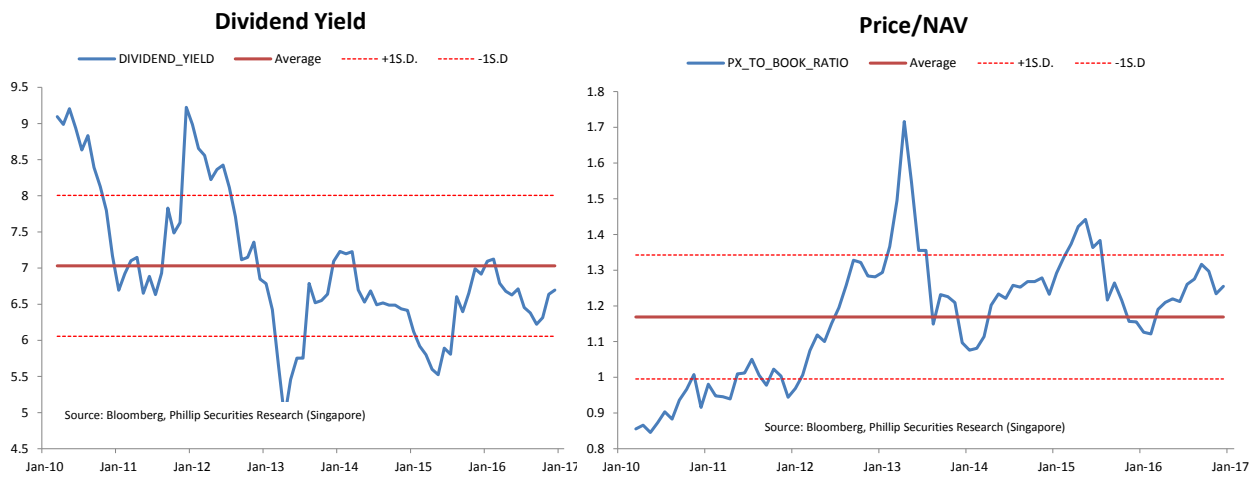
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Investment Action

At 6.5%, FIRT trades at a higher yield and lower P/B than fellow healthcare REIT Parkway Life. Its lower gearing of 30% also allows it ample firepower for further acquisitions from its sponsor.

Our risk free rate maintains at 3.1% as we think that allows ample buffer even with current rising interest rates. We maintain our **ACCUMULATE** call for First REIT with an unchanged DDM-derived target price of S\$1.32.

First REIT Historical Dividend Yield and Price/NAV



Peer Comparison Table

Name	PSR CALL	Mkt Cap (SGD mn)	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%)
FIRST REIT	ACCUMULATE	1,010	1.31	6.44	1.30	31.1
PARKWAY LIFE REIT		1,460	2.42	5.14	1.45	38.2

Source: Bloomberg, Phillip Securities Research (Singapore)

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)	(19.7)	(21.4)
Net Income before tax and FV changes	65.5	70.0	74.9	78.9	83.7
FV changes	47.2	24.2	(8.9)	-	-
Tax expense	(22.1)	(28.5)	(23.9)	(17.7)	(18.8)
Net Income after tax and FV changes	90.6	67.8	40.3	61.1	64.8
Distribution adjustments	(32.4)	(5.9)	24.9	9.1	9.5
Income available for distribution	58.2	61.9	65.2	70.2	74.3

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	35.1	24.7
Total Assets	1,212	1,315	1,341	1,420	1,459
LIABILITIES					
Total Current Liabilities	68.2	83.7	182.0	252.8	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	531.8	547.9
EQUITY					
Shareholder Equity	745.0	791.1	838.6	888.1	911.6

Per share data (SGD)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
NAV	1.02	1.04	1.01	1.08	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	78.9	83.7
Interest Expense	13.4	15.1	16.0	20.8	21.6
Management fees settled in units	6.7	6.7	3.6	8.1	8.4
Cashflow from Ops	80.8	74.3	81.5	92.5	97.2
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)	(54.2)	(58.3)
Net increase in borrowings	39.3	44.3	(31.1)	30.0	15.0
Cashflow from financing	(14.4)	(19.4)	(36.6)	8.9	(57.9)
Net change in cash	(1.1)	(1.4)	6.7	1.6	(10.4)
CCE, end	28.2	26.8	33.6	35.1	24.7

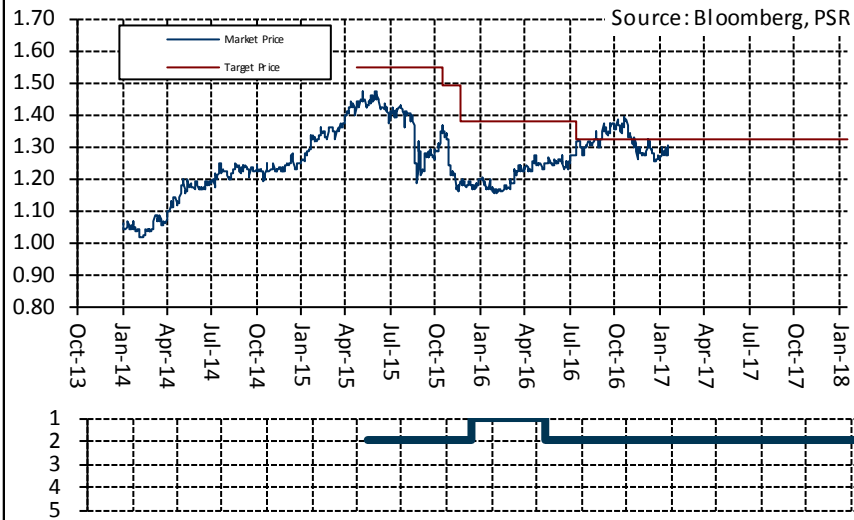
Valuation Ratios

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	7.18	6.61
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%	1.3%	1.7%
Margins					
NPI margin	98.5%	98.6%	98.9%	95.0%	95.0%
Operating Income Margin	70.3%	69.5%	70.0%	68.5%	69.2%
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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