

First REIT

First acquisition of 2017 at attractive rental yield of 10%



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SINGAPORE | REAL ESTATE (REIT) | UPDATE

24 July 2017

- Proposed acquisition of Siloam Hospitals Buton and adjacent Lippo Plaza Buton from sponsor at S\$28.5mn, a 1.2% discount to average of two independent valuations.
- Combined base rental yield on cost of 10%.
- Master lease tenure of 15 years (option to renew a further 15y); rental escalation pegged to Singapore CPI.
- Maintain NEUTRAL with unchanged target price of S\$1.32.

What do we think?

Accretive acquisition with base rental yield at comfortable spread over average cost of debt. Expected to be fully funded by debt and internal cash, base rental yield of 10% offers a comfortable spread over First REIT (FIRT)'s average cost of debt of 4.1%. Assuming acquisition is funded by debt-equity ratio of 40-60, average cost of capital works out to be c.5.1% (using coupon for S\$60mn perpetual securities issued June 2016 as proxy to cost of equity).

Terms of acquisition similar to previous acquisitions. Rental tenure (15y+15y) and base rent escalations (pegged to Singapore CPI) are similar to previous acquisitions. Base rents are subject to escalations only after an initial five-year period. Post-acquisition, weighted average lease expiry increases to 10.3 years (from 10.0) and weighted average age of properties decreases to 9.5 years (from 10.1)/

Maintain NEUTRAL with unchanged target price of S\$1.32

We maintain our NEUTRAL recommendation with an unchanged target price. We have already incorporated acquisitions into our forecasts, based on average historical acquisition quantum sizes. As such, our DPU forecasts remain unchanged with this acquisition news. Our target price represents a forward yield of 6.5% and FY17e P/NAV of 1.22.

NEUTRAL (Maintained)

LAST DONE PRICE	SGD 1.340
FORECAST DIV	SGD 0.086
TARGET PRICE	SGD 1.320
TOTAL RETURN	5.0%

COMPANY DATA

BLOOMBERG CODE:	FIRT SP
O/S SHARES (MN):	778
MARKET CAP (USD mn / SGD mn):	763 / 1043
52 - WK HI/LO (SGD):	139 / 125
3M Average Daily T/O (mn):	105

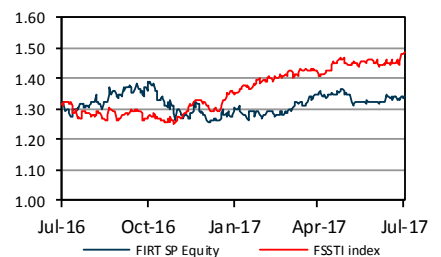
MAJOR SHAREHOLDERS (%)

BRIDGEWATER INTERNATIONAL	21.5%
BOWSPRIT CAPITAL	6.0%
PT MENARA TIRTA INDAH	3.1%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	11	0.8	8.2
STIRETURN	2.1	6.3	16.9

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)	619	65.2	70.7	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	6.4	6.5

Source: Company Data, Bloomberg

Valuation Method

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

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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)	(17.9)	(18.6)
Net Income before tax and FV changes	65.5	70.0	74.9	79.4	83.7
FV changes	47.2	24.2	(8.9)	-	-
Tax expense	(22.1)	(28.5)	(23.9)	(17.9)	(18.8)
Net Income after tax and FV changes	90.6	67.8	40.3	61.6	64.9
Distribution adjustments	(32.4)	(5.9)	24.9	9.1	9.5
Income available for distribution	58.2	61.9	65.2	70.7	74.4

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	36.1	25.6
Total Assets	1,212	1,315	1,341	1,421	1,460
LIABILITIES					
Total Current Liabilities	68.2	83.7	182.0	253.0	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	531.9	547.9
EQUITY					
Shareholder Equity	745.0	791.1	838.6	888.9	912.5

Per share data (SGD)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
NAV	1.02	1.04	1.01	1.09	1.07
DPU (cents)	8.1	8.3	8.5	8.6	8.7

Cash Flow

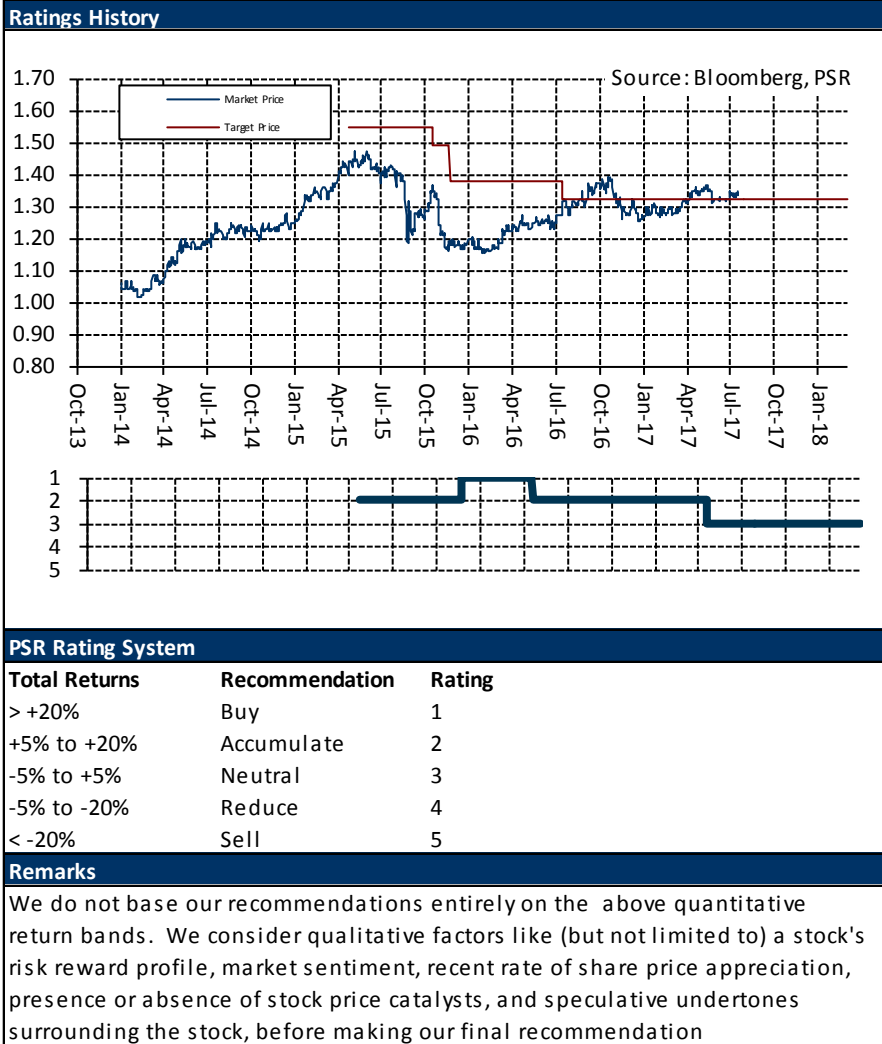
Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Net Income before tax	112.7	96.3	64.2	79.4	83.7
Interest Expense	13.4	15.1	16.0	19.1	19.7
Management fees settled in units	6.7	6.7	3.6	8.1	8.4
Cashflow from Ops	80.8	74.3	81.5	91.1	95.4
CFI					
Cashflow from investments	(67.7)	(56.5)	(21.2)	(100.0)	(50.0)
CFF					
Share issuance	-	-	-	54.0	7.0
Distributions to unitholders	(39.8)	(50.0)	(56.7)	(54.7)	(58.4)
Net increase in borrowings	39.3	44.3	(31.1)	30.0	15.0
Cashflow from financing	(14.4)	(19.4)	(36.6)	10.2	(56.1)
Net change in cash	(1.1)	(1.4)	6.7	2.5	(10.4)
CCE, end	28.2	26.8	33.6	36.1	25.6

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	6.42	6.49
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%	1.9%	1.2%
Margins					
NPI margin	98.5%	98.6%	98.9%	95.0%	95.0%
Operating Income Margin	70.3%	69.5%	70.0%	69.0%	69.3%
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.



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