

# First REIT

Waiting for a sign

## SINGAPORE | REAL ESTATE (REIT) | 3Q18 RESULTS

- NPI and DPU were in line with our forecast. 5.1% and 5.4% YoY boost in Gross Revenue and NPI, respectively, driven by two acquisitions made in 4Q17.
- Potential expanded ROFR pipeline and improvement in tenant concentration from proposed transaction announced in September.
- No marked improvement in outstanding receivables even accounting for the S\$17.5mn of rental payments received on Oct 15 that was disclosed by FIRT.
- Maintain Neutral with lower TP of S\$1.30.

### Results at a glance

(SGD mn)	3QFY18	3QFY17	YoY (%)	Comments
Gross Revenue	29.24	27.81	5.1%	Contribution from the two properties (Buton and SHYG) acquired in FY17.
Net Property Income	28.94	27.47	5.4%	Higher expenses due to new acquisitions, progress payment for development of new Siloam Hospitals Surabaya in 3Q 2017 and write-off of unamortised loan costs.
Distributable Income	16.94	16.70	1.4%	
<b>DPU (Cents)</b>	<b>2.15</b>	<b>2.14</b>	<b>0.5%</b>	

Source: Company, PSR

### The Positives

+ **Lower property operating expenses.** Though FIRT possesses a triple-net lease structure, its property operating expenses were lower by 13.8% in 3QFY18 due to lower expenses incurred for its Indonesia properties. This translates to an improved NPI margin of 99.0% in 3QFY18 from 98.7% in 3QFY17.

+ **Potential expanded ROFR pipeline and improvement in tenant concentration.** Basing on the proposed transaction announced on Sep 19 (read our full report [here](#)), FIRT could have potential expanded pipeline assets by having a dual ROFR from both Lippo Karawaci (LPKR) and OUE Limited Healthcare (OUELH). This will also help lower the tenant concentration risk moving forward given that LPKR is currently the single biggest lessee of its properties.

### The Negatives

- **Receivables collection remains slow.** Outstanding receivables rose 70% QoQ to S\$49.3mn due to advance rental receivables from tenants. While S\$17.5mn of rental payments was received on Oct 15 as disclosed by FIRT, receivables would still have increased c.9.3% QoQ. However, a bright spot could emerge if and when the cash infusion into LPKR from its potential divestment of stake in FIRT and its Manager could be used to pay outstanding rental owed to FIRT.

### Outlook

While outlook has improved for FIRT's receivables from a potential positive spillover effect into rentals owed by LPKR, it remains to be seen if there could be any marked improvement in the near-term given that the transaction is still pending the relevant approvals. Until such an improvement comes about, we remain Neutral on FIRT. Current gearing of 36.7% affords a debt headroom of c.S\$44.5m (assuming 40% gearing) to pursue inorganic growth.

### Maintain NEUTRAL with lower TP of S\$1.30 (prev S\$1.31)

We lower our DPU estimates as we had previously factored in an acquisition to have materialised in 3QFY18. Accordingly, our target price was lowered to S\$1.30. Our target price translates to a FY18e yield of 6.7% and a P/NAV of 1.20x.



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17 October 2018

## NEUTRAL (Maintained)

LAST DONE PRICE	SGD 1.18
FORECAST DIV	SGD 0.087
TARGET PRICE	SGD 1.30
<b>TOTAL RETURN</b>	<b>17.4%</b>

### COMPANY DATA

BLOOMBERG CODE:	FIRST SP
O/S SHARES (MN):	787
MARKET CAP (USD mn / SGD mn):	676 / 928
52 - WK HI/LO (SGD):	142 / 115
3M Average Daily T/O (mn):	0.86

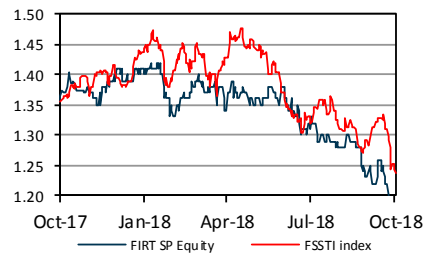
### MAJOR SHAREHOLDERS (%)

LIPPO KARAWACI	28.5%
PT MENARA TIRTA INDAH	3.1%
VANGUARD GROUP INC	2.1%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(4.88)	(9.90)	(8.08)
STIRETURN	(4.88)	(9.90)	(8.08)

### 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	117.8	125.2
NPI (SGD mn)	105.8	109.5	116.2	123.5
Dist Inc. (SGD mn)	65.2	66.7	67.8	73.7
P/NAV (x)	1.09	1.08	1.07	1.06
DPU, adj (Cents)	8.47	8.57	8.69	9.20
Distribution Yield, %	7.2%	7.3%	7.4%	7.8%

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 close to its post-GFC average valuation boundaries**

**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 <sup>1</sup>
FIRST REIT	NEUTRAL	1.31	928	1.18	7.29	1.17	33.5	4.00%
PARKWAY LIFE REIT			1,585	2.62	5.00	1.50	36.3	1.00%

<sup>1</sup>As 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
<b>Gross Revenue</b>	<b>100.7</b>	<b>107.0</b>	<b>111.0</b>	<b>117.8</b>	<b>125.2</b>
Total Property expenses	(1.4)	(1.2)	(1.5)	(1.6)	(1.8)
<b>Net Property Income</b>	<b>99.3</b>	<b>105.8</b>	<b>109.5</b>	<b>116.2</b>	<b>123.5</b>
Net Finance (Expense)/Inc and Other Fees	(29.3)	(30.9)	(28.7)	(34.2)	(34.5)
Net Income before tax and FV changes	70.0	74.9	80.7	82.0	89.0
FV changes	26.3	(10.7)	12.8	-	-
Tax expense	(28.5)	(23.9)	(20.1)	(18.0)	(19.6)
<b>Net Income after tax and FV changes</b>	<b>67.8</b>	<b>40.3</b>	<b>73.4</b>	<b>64.0</b>	<b>69.4</b>
Distribution adjustments	(5.9)	24.9	(6.7)	4.2	4.3
<b>Income available for distribution</b>	<b>61.9</b>	<b>65.2</b>	<b>66.7</b>	<b>68.1</b>	<b>73.7</b>

### Per share data (SGD)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV	1.04	1.09	1.09	1.14	1.15
DPU (cents)	8.30	8.47	8.57	8.74	9.20

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Net Income before tax	96.3	62.2	93.6	82.0	89.0
Interest Expense	15.1	16.0	15.7	20.9	21.3
Management fees settled in units	6.7	3.6	4.4	8.0	8.4
<b>Cashflow from Ops</b>	<b>74.3</b>	<b>81.5</b>	<b>72.4</b>	<b>84.5</b>	<b>107.1</b>
<b>CFI</b>					
<b>Cashflow from investments</b>	<b>(56.3)</b>	<b>(29.9)</b>	<b>(70.7)</b>	<b>(48.8)</b>	<b>(48.8)</b>
<b>CFF</b>					
Share issuance	-	-	-	25.0	25.0
Distributions to unitholders	(50.0)	(56.7)	(63.0)	(68.1)	(73.7)
Net increase in borrowings	44.3	(31.1)	63.1	38.3	9.7
<b>Cashflow from financing</b>	<b>(19.4)</b>	<b>(44.8)</b>	<b>(19.5)</b>	<b>(28.9)</b>	<b>(63.8)</b>
<b>Net change in cash</b>	<b>(1.4)</b>	<b>6.7</b>	<b>(17.8)</b>	<b>6.8</b>	<b>(5.5)</b>
<b>CCE, end</b>	<b>26.8</b>	<b>33.6</b>	<b>15.7</b>	<b>22.5</b>	<b>17.1</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

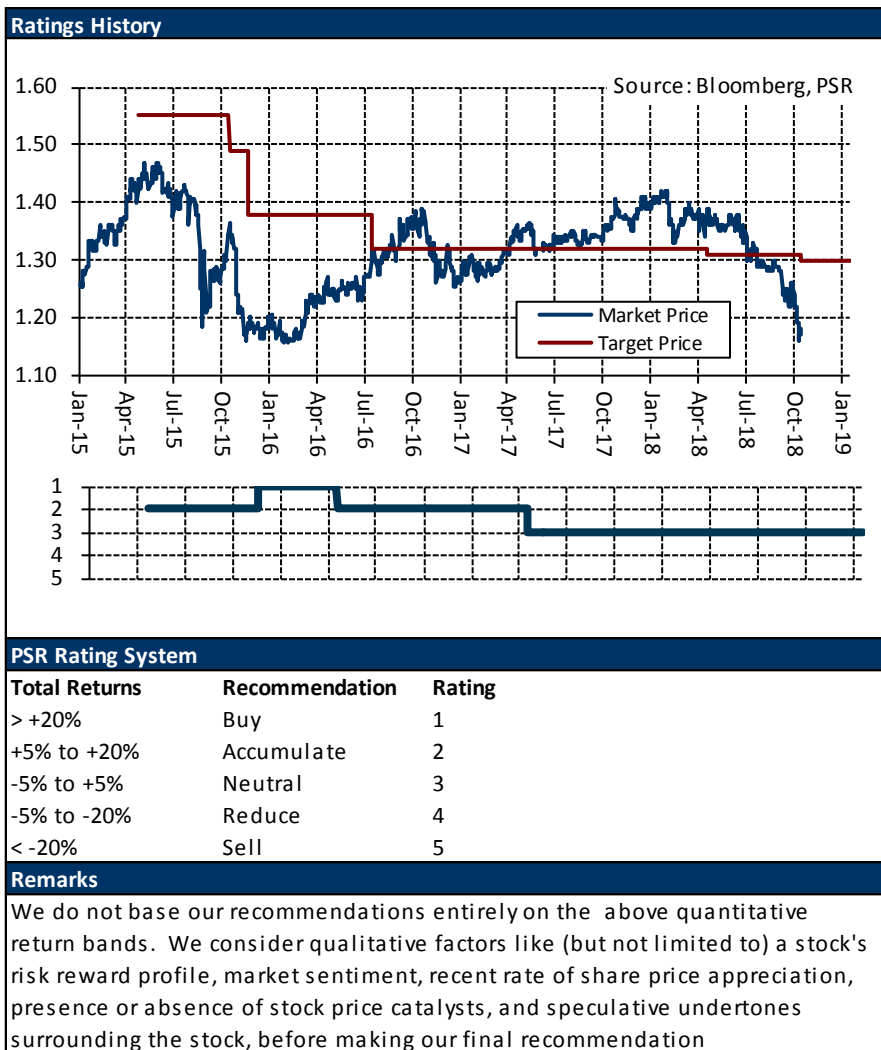
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
Investment properties	1,268	1,273	1,349	1,399	1,449
Cash and Cash Equivalents	26.8	33.6	15.7	22.5	17.1
<b>Total Assets</b>	<b>1,315</b>	<b>1,341</b>	<b>1,424</b>	<b>1,491</b>	<b>1,530</b>
<b>LIABILITIES</b>					
Total Current Liabilities	83.7	182.0	241.5	167.7	105.0
Interest bearing borrowings, non current	398.3	271.6	278.1	386.7	451.4
Total Non-Current Liabilities	440.4	320.6	330.0	438.1	502.8
<b>Total Liabilities</b>	<b>524.1</b>	<b>502.6</b>	<b>571.5</b>	<b>605.8</b>	<b>607.9</b>
<b>EQUITY</b>					
Shareholder Equity	791.1	777.7	791.4	804.3	837.5

### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/NAV	1.14	1.09	1.08	1.04	1.02
Distribution yield (%)	7.0%	7.2%	7.3%	7.4%	7.8%
NPI yield	7.8%	8.3%	8.1%	8.3%	8.5%
<b>Growth &amp; Margins</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18e</b>	<b>FY19e</b>
<b>Growth</b>					
Revenue	8.0%	6.3%	3.7%	6.1%	6.3%
Net property income (NPI)	8.1%	6.6%	3.4%	6.1%	6.3%
DPU	3.1%	2.0%	1.2%	2.0%	5.3%
<b>Margins</b>					
NPI margin	98.6%	98.9%	98.6%	98.6%	98.6%
Operating Income Margin	69.5%	70.0%	72.8%	69.6%	71.0%
<b>Key Ratios</b>					
Net Gearing	33.7%	30.8%	33.5%	33.3%	32.4%



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