

First REIT

First Asset Enhancement Initiative with Lippo Karawaci

SINGAPORE | REAL ESTATE (REIT) | UPDATE

22 October 2015

First REIT announced an asset swap deal with PT Lippo Karawaci Tbk (LPKR), First REIT's sponsor, in relation to Siloam Hospital Surabaya yesterday morning. This deal marks the first asset enhancement initiative First REIT has conducted and aptly so, to the oldest hospital (established 1977) in its portfolio.

- Asset swap deal with LPKR - Divestment of existing Siloam Hospital Surabaya to LPKR and purchase of new mixed development on the adjacent plot of land.** LPKR plans to build a mixed development on the adjacent plot of land to the current Siloam Hospital Surabaya (Existing SHS), which First REIT is divesting. This mixed development will comprise the new Siloam Hospital Surabaya (New SHS), a private school, an ancillary mall, a hotel and an apartment. Upon completion, the New SHS will be sold to First REIT for a purchase consideration of S\$90m. As part of the deal, First REIT will divest the Existing SHS and a plot of land adjacent to it (Figure 1: PLOT B) for a minimum price of S\$35.7m. Completion of the development is slated to be in 2019.

Figure 1: First REIT to divest Existing SHS together with adjacent plot of land (PLOT B) to LPKR. LPKR's new mixed development (comprising a New SHS) will be built on PLOT A and B.



Source: Company

- Attractive Divestment and Acquisition prices.** The combined sale consideration of a minimum of S\$35.7m for the Existing SHS and Plot B represents a premium of at least 112.5% to the original acquisition price of S\$16.8m by First REIT in December 2006. This sale consideration also represents a premium of at least 7.53% to the appraised value of S\$33.2m as at 31 October 2014. The acquisition of the new SHS at a price of S\$90m represents a discount of 12.3% to the average of two independent valuations.
- New SHS Master Lease increases income stability. Yield on cost lower than previous acquisitions but still at an attractive 9%.** Based on the assumed net rental of the new Master Lease for New SHS upon completion, yield on cost works out to be c.9%. This is lower than previous acquisitions for First REIT from 2010-2014, which saw NPI yields of close to 10%. Nonetheless, this still outperforms the yield of c.8.7% for the Existing SHS (based on assumed selling price of S\$35.7m) and overall portfolio NPI yield of c.8%.

ACCUMULATE (Maintained)

CLOSING PRICE (21 OCT)	SGD 1.335
FORECAST DIV	SGD 0.083
TARGET PRICE	SGD 1.490
TOTAL RETURN	17.8%

COMPANY DATA

O/S SHARES (MN) :	732
MARKET CAP (USD mn / SGD mn) :	725 / 1006
52 - WK HI/LO (SGD) :	147 / 114
3M Average Daily T/O (mn) :	0.65

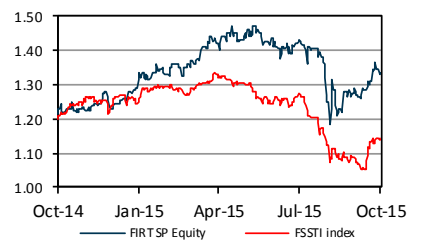
MAJOR SHAREHOLDERS (%)

LIPPO KARAWACI	27.6%
PT MENARA TIRTA INDAH	5.9%
KEH POOTAN	15%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	6.7	(4.3)	11.6
STIRETURN	3.5	(10.4)	(7.0)

PRICE VS. STI



Source: Bloomberg, PSR

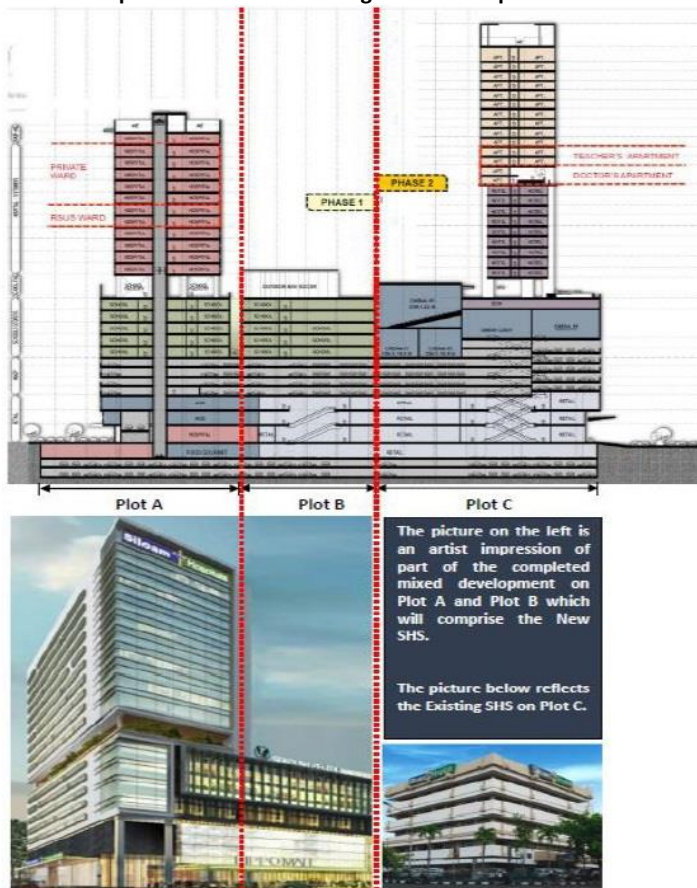
KEY FINANCIALS

Y/E Sept	FY 13	FY 14	FY 15e	FY 16e
Gross Rev (SGD mn)	83.3	93.3	100.0	111.3
NPI (SGD mn)	80.2	91.9	98.5	109.6
Dist Inc. (SGD mn)	52.2	58.2	62.4	69.0
P/NAV (x)	120	115	130	130
DPU, adj (Cents)	7.50	8.10	8.30	8.80
Distribution Yield, %	6.5	6.9	5.8	6.1

Source: Company Data, Bloomberg

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- **Steady rental income from Existing SHS throughout the development of the new SHS until acquisition is completed.** Development works are not expected to cause any major disruptions to the operations of the existing SHS.
- **Increased Weighted Average Lease to Expiry (WALE) post divestment and acquisition.** First REIT's income visibility will improve post acquisition, with WALE increasing from 10.8 years to 11.3 years. A new 15-year Master Lease term for the new SHS will replace the 15-year lease for the Existing SHS which has only 6 years left to expiry in 2021.

Figure 2: Artist impression of the new integrated development


Note:

- (1) The picture above is an artist's impression of the proposed integrated development to be constructed pursuant to the development works and may differ from the actual view once the development works are completed.

Source: Company

What do we think?

- **Positive on asset swap deal.** Yield on cost of 9% is slightly lower than those on previous acquisitions from 2010 to 2014. Nonetheless, this is still better than the yield of c.8.7% on the Existing SHS (based on projected minimum selling price) and overall portfolio NPI yield of c.8%. We think this deal is yet another piece of evidence of how First REIT can leverage on the expertise of one of the largest property developer in Indonesia, as LPKR continues to develop synergistic integrated developments which include hospitals.
- **Risks hedged in deal agreement.** First REIT will continue to receive rental incomes from the Existing SHS until handover of the New SHS. Additionally, LPKR has offered to pay a rate of return of 6% per annum on the progressive payments by First REIT at different completion stages of the project. First REIT's funding costs and project development risks are minimized with these additional clauses.
- **Healthcare to remain an integral part of LPKR's business model.** LPKR's expansion of hospital network to continue to present acquisition opportunities for First REIT. Revenue from healthcare as a percentage of total revenue has stayed pretty constant in

the c.30% range for LPKR from 2006 to 2013, even as revenue grew at a CAGR of c.19% in the period.

Healthcare forms an important source of recurring income for LPKR and the continued expansion of hospital networks will provide First REIT with further acquisition opportunities. LPKR currently has a total of 46 sites for new hospitals under various stages of development.

Investment Actions

We maintain our ACCUMULATE call with an unchanged DDM-derived target price of S\$1.49. Our forecasts remain unchanged as we have already factored in acquisitions in our assumptions.

Financials
Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
Gross Revenue	57.6	83.3	93.3	100.0	111.3
Total Property expenses	(0.4)	(3.1)	(1.4)	(1.5)	(1.6)
Net Property Income	57.2	80.2	91.9	98.5	109.6
Net Finance (Expense)/Inc	(4.2)	(12.2)	(15.0)	(16.6)	(16.9)
Net Income before tax and FV changes	47.1	58.0	65.5	69.7	77.5
FV changes	30.8	61.3	47.2	-	-
Tax expense	(12.7)	(1.5)	(22.1)	(15.7)	(17.4)
Net income after tax and FV changes	65.2	118.0	90.6	54.0	60.1
Distribution adjustments	(23.6)	(65.7)	(32.4)	8.4	8.9
Income available for distribution	41.7	52.2	58.2	62.4	69.0

Balance Sheet

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
ASSETS					
Investment properties	797	1,052	1,172	1,252	1,302
Cash and Cash Equivalents	20.5	29.3	28.2	29.8	31.4
Total Assets	829	1,109	1,212	1,335	1,385
LIABILITIES					
Total Current Liabilities	32.1	49.8	68.2	82.0	83.8
Interest bearing borrowings, non current	212.8	535.8	370.1	394.1	403.1
Total Non-Current Liabilities	246.6	375.8	399.2	423.2	432.2
Total Liabilities	278.8	425.6	467.4	505.2	515.9

EQUITY

Shareholder Equity	550.1	682.9	745.0	829.5	868.7
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Per share data (SGD)

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
NAV	0.83	0.97	1.02	1.11	1.11
DPU (cents)	7.3	7.5	8.1	8.3	8.8

Cash Flow

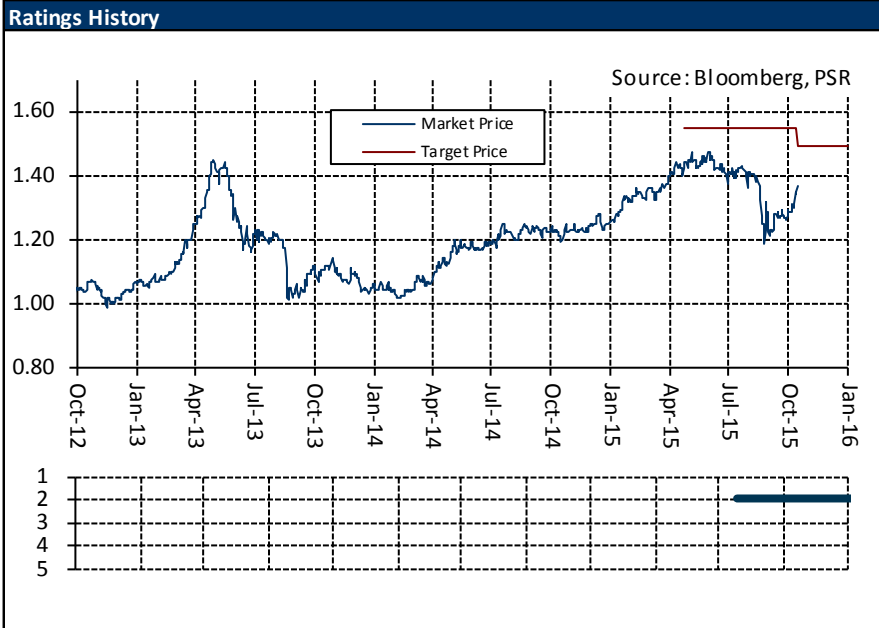
Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
CFO					
Net Income before tax	77.9	119.4	112.7	69.7	77.5
Interest Expense	3.8	11.1	13.4	16.8	17.1
Management fees settled in units	4.6	5.9	6.7	7.3	7.9
Cashflow from Ops	49.8	63.2	80.8	80.5	87.5
CFI					
Cashflow from investments	(147.8)	(141.9)	(67.7)	(80.0)	(50.0)
CFF					
Share issuance	28.2	-	-	56.0	41.0
Distributions to unitholders	(53.6)	(42.8)	(39.8)	(46.4)	(53.0)
Net increase in borrowings	115.6	140.6	39.3	8.0	(7.0)
Cashflow from financing	86.7	87.3	(14.4)	0.9	(36.1)
Net change in cash	(12.2)	8.8	(1.1)	1.6	1.6
CCE, end	20.5	29.3	28.2	29.8	31.4

Valuation Ratios

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
P/NAV	1.12	1.20	1.15	1.30	1.30
Distribution yield (%)	7.83	6.49	6.90	5.79	6.11
NPI yield (%)	7.2%	7.6%	7.8%	7.9%	8.4%
Growth & Margins (%)					
	FY12	FY13	FY14	FY15e	FY16e
Growth					
Revenue	6.7%	44.5%	12.0%	7.2%	11.3%
Net property income (NPI)	7.1%	40.1%	14.5%	7.2%	11.3%
DPU	3.6%	3.6%	7.0%	3.5%	5.7%
Margins					
NPI margin	99.3%	96.3%	98.5%	98.5%	98.5%
Operating Income Margin	81.7%	69.7%	70.3%	69.7%	69.7%
Key Ratios					
Net Gearing	26.0%	32.3%	33.1%	31.4%	30.9%

Source: Company, Phillip Securities Research (Singapore) Estimates

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



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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