

First REIT

Lippo Group to shift REIT listing to Jakarta?

SINGAPORE | REAL ESTATE (REIT) | UPDATE

30 October 2015

In a Business Times article dated 28 October, CEO of Lippo Group James Riady has been quoted as saying the Group plans to “shift their 2 REIT listings in Singapore to Indonesia”. The rationale for the move is to benefit from tax breaks offered by Jakarta. Last week, Indonesia’s Finance Minister Bambang Brodjonegoro has said that the government plans to remove taxes on dividends and property sales for REITs.

Currently, First REIT pays a 10% withholding tax on the dividends, which is required by Indonesian tax rules on all dividends paid from an Indonesian taxpayer to an offshore tax resident. A direct listing on Jakarta would have eliminated the need for such a tax payment.

Management of both First REIT and Lippo Malls Indonesia Retail Trust have since clarified that nothing has been heard from their sponsor Lippo Karawaci thus far. Since the announcement of the Group CEO’s comments, First REIT’s share price has taken a 13% beating over 2 days, dropping from \$1.32 to as low as \$1.15 on Friday. We examine some of the issues involved in a potential shifting of listing from Singapore to Jakarta.

Some potential implications

- Current Indonesia hospital rental agreements all in SGD terms.** First REIT has 11 hospitals in Indonesia currently, all of which are under Master Agreements where base rents are paid in SGD, with annual increments pegged to the Consumer Price Index of Singapore. Such an arrangement was mooted when the REIT was first formed for listing in Singapore, to reduce the foreign exchange risk exposure for investors in Singapore. Shifting the listing back to Indonesia could involve the re-negotiation of all the lease terms for the hospitals.
- Policy implementation risks involved.** The comments by the Finance Minister so far follow a series of policy changes President Joko Widodo’s administration has rolled out in a bid to spur growth. While these could be plausible initiatives, the actual implementation and rolling out of these initiatives could take time.
- Increased financing costs, country risks in Indonesia.** Apart from the lower and more stable borrowing costs in SGD, Singapore also boasts a much more massive REIT listing market with easy access to institutional investor network and funding sources as a result of the stability of government policies and the Singapore dollar. Since the first REIT listing of CapitaMall Trust in 2002, Singapore has now grown to become the second largest REIT market in Asia after Japan, with a market capitalization of almost S\$68b.
- Fragmented shareholding structure.** First REIT currently has a hugely fragmented shareholding structure. Apart from the top 2 shareholders, Lippo Karawaci (the sponsor) at ~27% and PT MENARA TIRTA INDAH at ~5.9%, the next biggest shareholder owns less than 2%. Shifting the listing back to Indonesia could involve a delisting which would require a 90% approval and a compelling takeover price to entice the minority shareholder groups.

Risks to our investment thesis

- Risks of slowing DPU growth.** While we list the various hurdles involved in shifting the listing back to Indonesia, we do not discount the fact that impending policy changes in Indonesia could make it more attractive for REIT listings for Indonesian real estate assets going forward. This additional capital-recycling option in Indonesia for Lippo Group for its existing non-REIT assets could represent a slowdown in the potential injection of assets into its Singapore-listed REITs. This could mean lesser acquisition targets for First REIT or

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 1.240
FORECAST DIV	SGD 0.083
TARGET PRICE	SGD 1.490
TOTAL RETURN	26.8%

COMPANY DATA

O/S SHARES (MN) :	732
MARKET CAP (USD mn / SGD mn) :	725 / 1006
52 - WK HI/LO (SGD) :	147 / 1.14
3M Average Daily T/O (mn) :	0.65

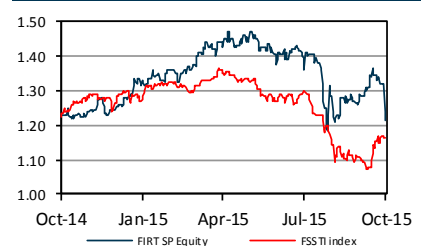
MAJOR SHAREHOLDERS (%)

LIPPO KARAWACI	27.8%
PT MENARA TIRTA INDAH	5.9%
KEH POO TAN	15%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(5.4)	(10.3)	(0.8)
STI RETURN	7.4	(7.8)	(7.0)

PRICE VS. STI



Source: Bloomberg, P SR

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	1.15	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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acquisitions at a slower pace, impacting year-on-year DPU growth.

Investment Actions

In light of the potential hurdles of the shifting of the listing back to Indonesia, we do not think the probability of that happening is high. We maintain our ACCUMULATE call with an unchanged DDM-derived target price of S\$1.49. We will continue to monitor the market for updates for this development and adjust our target price when necessary.

Technical Outlook – Weekly Chart



Strong Support at \$1.15

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 (%)					
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.

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