

First REIT

First Acquisition for the year

SINGAPORE | REAL ESTATE (REIT) | UPDATE

First REIT announced the acquisition of Siloam Hospitals Kupang (SHKP) and Lippo Plaza Kupang (LPK) last Thursday, for S\$70m. This has been a much awaited acquisition, since First REIT has been quiet on the acquisition front thus far this year, except for the Surabaya asset swap deal which will only likely be completed in 2019.

Details of the Acquisition: Siloam Hospitals Kupang and Lippo Plaza Kupang

Cost:	S\$70m, representing a 5.89% discount to S\$74.38m, the average of two independent valuations
Rental Income:	NPI S\$6.89m per annum, translating to yield on cost of ~9.8%
Master Lease:	15 years (with option to renew a further 15 years)
Method of Financing:	S\$55m in cash (internal cash and debt), S15m by way of consideration units
Lease:	SGD rates locked in for term of lease (minimal forex risks), Annual increment after Year 3, at a rate of 2xSingapore CPI. (Minimum 0%, Max 2%)

Source: Company Data, PSR

What do we think?

- Contract terms mostly similar to previous acquisitions.** Upon acquisition of the properties, First REIT will lease them out on Master Leases, on terms mostly similar to current master leases under First REIT. Exposure to SGD-IDR exchange rate risk is minimized as exchange rates are locked in for the entire lease term. Rentals periods are for 15 years (with option to extend another 15), and annual increments are pegged to Singapore's Consumer Price Index. NPI yield on cost of c.9.8% is close to previous acquisitions over the past five years, which range from 9.9% to 10.9%.
- Shorter current land lease of 25 years.** While most leasing terms appear similar, investors should note that the land lease for this latest property is only for 25 years (from December 2014). Prior to this acquisition, First REIT's Indonesian hospitals are all covered under the Hak Guna Bangunan (HGB) titles, which are close to "freehold" titles.
- First acquisition for the year. Possible slowdown of future acquisitions targets.** We remain of the view that there exists a high risk of a potential slowdown in the injection of assets into First REIT by Lippo Karawaci (LPKR), given the more accommodative environment that the Indonesian government is trying to create to attract REIT listings in the country. This presents LPKR with more capital recycling options. We flagged this out in our [30th October report](#). We note that acquisitions for the past two years have been outside of LPKR's owned pipeline of Siloam Hospitals.

Investment Actions

In light of a possible slowdown in asset injection amid the increased capital recycling options for First REIT's sponsor, we adjust our terminal growth rate downwards slightly from 1.5% to 1.0%. This leads us to a reduced target price of \$1.38 from \$1.49. With all other parameters unchanged, we upgrade our call from ACCUMULATE to BUY with the recent price correction.

23 November 2015

BUY (Upgraded)

CLOSING PRICE (20 NOV)	SGD 1.190
FORECAST DIV	SGD 0.083
TARGET PRICE	SGD 1.380
TOTAL RETURN	22.9%

COMPANY DATA

O/S SHARES (MN) :	748
MARKET CAP (USD mn / SGD mn) :	631 / 890
52 - WK HI/LO (SGD) :	1.47 / 1.14
3M Average Daily T/O (mn) :	0.81

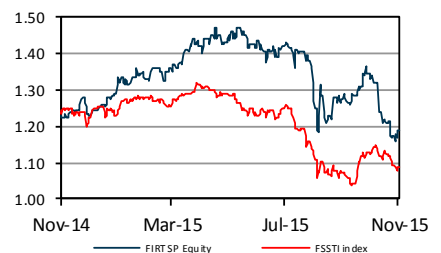
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(10.1)	(8.4)	2.7
STIRETURN	(3.3)	(3.7)	(9.5)

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)	1.20	1.15	1.30	1.30
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

Valuation Method

DDM (Cost of equity 7.35%, Terminal Growth 1%)

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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)	(16.8)	(17.5)
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	1,293	1,345
LIABILITIES					
Total Current Liabilities	32.1	49.8	68.2	57.0	199.9
Interest bearing borrowings, non current	212.8	535.8	370.1	424.6	301.0
Total Non-Current Liabilities	246.6	375.8	399.2	453.7	330.1
Total Liabilities	278.8	425.6	467.4	510.7	529.9
EQUITY					
Shareholder Equity	550.1	682.9	745.0	782.7	815.0

Per share data (SGD)

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
NAV	0.83	0.97	1.02	1.05	1.03
DPU (cents)	7.3	7.5	8.1	8.3	8.8

Cash Flow

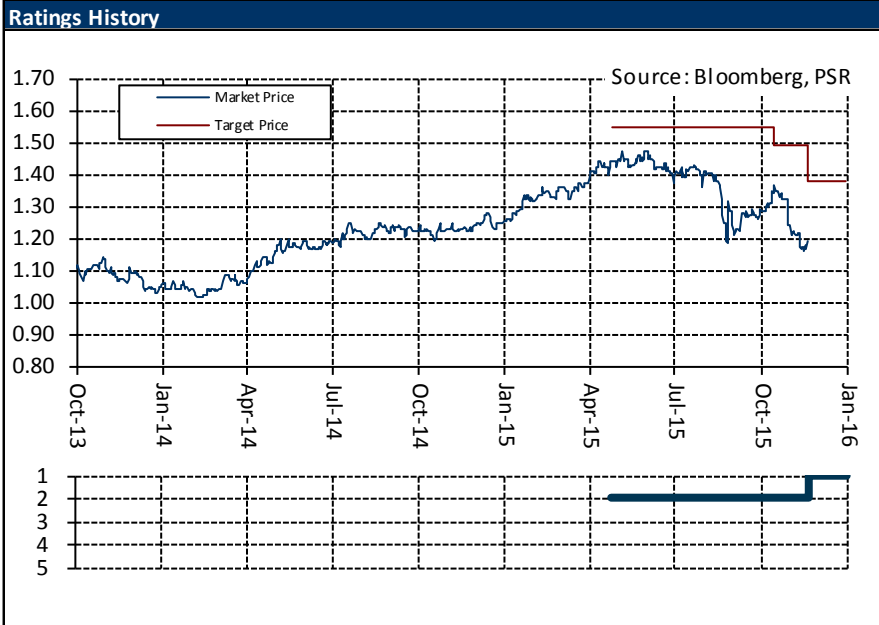
Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
CFO					
Net Income before tax	77.9	119.4	112.7	69.7	77.5
Interest Expense	3.8	11.1	13.4	17.0	17.7
Management fees settled in units	4.6	5.9	6.7	7.3	7.9
Cashflow from Ops	49.8	63.2	80.8	80.7	88.1
CFI					
Cashflow from investments	(147.8)	(141.9)	(67.7)	(80.0)	(50.0)
CFF					
Share issuance	28.2	-	-	36.0	16.5
Distributions to unitholders	(53.6)	(42.8)	(39.8)	(46.4)	(53.0)
Net increase in borrowings	115.6	140.6	39.3	28.0	17.5
Cashflow from financing	86.7	87.3	(14.4)	0.6	(36.7)
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	1.38	1.39
Distribution yield (%)	7.83	6.49	6.90	5.79	6.08
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%	5.1%
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%	32.8%	32.9%

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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