



First REIT

(FIRT SP)

Site visit to First REIT's assets in Jakarta

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- We visited four of First REIT's properties in Jakarta, three flagship hospitals and a hotel asset.
- First REIT is currently trading near its 5 year historical low of 1.0x P/B, a steep discount compared to peer Parkwaylife REIT which is trading at 1.7x P/B.
- We recognise that the depressed share price is in line with overhanging risks, being the upcoming renewal of master lease assets expiring in 2021 and financial woes faced by the REIT sponsor, Lippo Karawaci (LK).

Site visit. We visited four of First REIT's assets in Jakarta, including three Siloam Hospitals (SH) and one hotel:

- (1) **SH Lippo Village** - A 10-storey, 274 bed hospital building - one of the largest within the township of Lippo Village;
- (2) **SH Kebon Jeruk** - A 6-storey, 215 bed hospital with a 3-storey extension building;
- (3) **Mochtar Riady Comprehensive Cancer Center (MRCCC)** - A 29-storey hospital with two basement levels, located in Central Jakarta near Plaza Semanggi; and
- (4) **Imperial Aryaduta Hotel & Country Club (IAHCC)** - A 5-star 7-storey hotel building, 6 blocks of cabana houses and a 2-storey country club complete with a wide range of sports, recreational, convention, and F&B services.

All four of the assets, with the exception of MRCCC, will see their individual master lease expiring in 2H21.

Sponsor's financing woes. First REIT's share price declined significantly from a high of S\$1.43 to a low of S\$0.95 in 2018. The sell down accelerated in Nov 18 when LK's credit rating was downgraded two notches by Fitch (B to CCC+), the third downgrade following that of S&P Global and Moody's in Apr 18 and Sep 18 respectively. The liquidity crunch was said to originate from LK's \$21bn Meikarta megaproject in Cikarang, West Java, and aggravated by corruption probes. LK was not only the primary sponsor of First REIT, but also the single largest revenue contributor to First REIT, at about 82.2% of total rental income in FY18.

Figure 1: FY18's rental income breakdown by tenants

Tenant	%
PT Lippo Karawaci Tbk and subsidiaries ¹	82.21
PT Metropolis Propertindo Utama and subsidiaries ²	12.44
Subsidiaries of PT Siloam International Hospitals Tbk ³	1.38
The Lantor Residence Pte. Ltd.	1.43
Pacific Healthcare Nursing Home Pte. Ltd.	0.98
Pacific Eldercare and Nursing Pte. Ltd.	0.96
Dr. Park Ki Ju	0.60

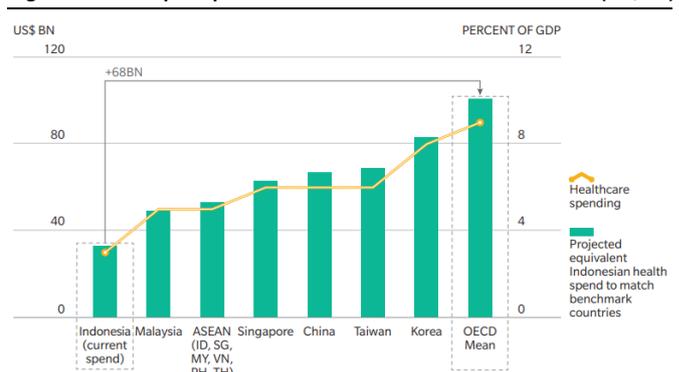
Source: First REIT AR 2018, KGI Securities

Not Rated		Performance (Absolute)	
Price as of 10 Oct 19 (S\$)	1.02	1 Month (%)	-4.7
12M TP (S\$)	-	3 Month (%)	-1.8
Previous TP (S\$)	-	12 Month (%)	-7.0
Upside, incl div (%)	-		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	811		
Issued Shares (mn)	795		
Vol - 3M Daily avg (mn)	2.0		
Val - 3M Daily avg (\$mn)	2.1		
Free Float (%)	70.2		
Major Shareholders		Previous Recommendations	
OUE Realty	18.5%	NA	
Lippo Karawaci	8.3%		
Primakreasi Propertindo	3.0%		

On a more positive note, LK announced the completion of US\$787.5 million of rights issue on 16 Jul 19, a key contribution towards the group's US\$1bn fundraising efforts to alleviate the problem, which also included the sale of assets worth US\$280mn and a debt recast. Both S&P and Fitch had since upgraded LK by one notch to B-. Further positive news with respect to LK may improve negative sentiments shrouding First REIT, which is currently trading near its 5 year low P/B.

Siloam Hospital expected to grow 20% this year. First REIT's biggest tenant within Indonesia, Siloam Hospital reported a 19% increase YoY in gross operating revenue last quarter stemming from a robust increase in patient numbers and payments from the national health insurance BPJS scheme. The Indonesian healthcare market remains underserved at 2 doctors per 10,000 patients, falling far behind the optimal doctor-population ratio prescribed by the World Health Organisation of 1:1000. According to Olivia Wyman, the gap between supply and demand is estimated to be equivalent to an annual \$68 billion of unaddressed healthcare needs and physical healthcare centres remains a shortage.

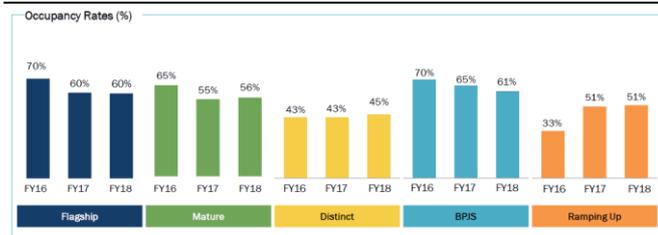
Figure 2: Health spend percent of GDP & difference with Indonesia (US\$ bn)



Source: Oliver Wyman, KGI Securities

Flagship hospitals are here to stay. The strong top line figures in 2Q19 were supported by the opening of six new hospitals (from 2018), in line with shrinking the healthcare sector demand-supply gap in Indonesia, and organic growth within existing hospitals. SH's flagship hospital segment (SH Lippo Village, SH Kebon Jeruk and MRCCC) remain core to SH's growing revenue, contributing 36% to total gross operating revenue in 2Q19, and have historically enjoyed higher occupancy rates compared to SH's other hospital segments.

Figure 3: Occupancy rates across SH's hospital segments



Source: Siloam International Hospitals, KGI Securities

It is also the second most profitable segment with an EBITDA margin of 29%, standing between the distinct segment (37%), mature segment (24%), BPJS segment (12%) and the new hospitals segment (-68%) which has yet to break even. Should Siloam Hospital face going concerns, we believe that these flagship hotels will be the last to go as they remain core to SH's future operations.

Figure 4: Siloam Hospital's flagship hotels

Name	Class	Region	Year Opened	Bed Capacity	Operational Beds	GPs & Specialists	Nurses	Centre of Excellence	Accreditation	Land/ Building Ownership
SH Lippo Village	B	1. Greater Jakarta	1996	308	274	249	402	Cardiology, Orthopedics, Neurosciences, Emergency	JCA, ISO	FIRST REIT
SH Kebon Jeruk	B	1. Greater Jakarta	2002	285	214	197	361	Cardiology, Iriology, Orthopedics, Emergency	JCA, ISO	FIRST REIT
MRCCC Siloam Semarang	B	1. Greater Jakarta	2011	334	176	181	254	Cancer, Liver, Emergency	ISO	FIRST REIT

Source: Siloam International Hospitals, KGI Securities

Near term master lease renewal. Five of First REIT's assets will be due for renewal from Aug to Dec 21 (including IAHCC and two flagship hospitals - SH Lippo Village, SH Kebon Jeruk).

Figure 5: First REIT's lease renewal expiry schedule

Master Lease	Expiry
Sarang Hospital	Aug-21
Siloam Hospitals Lippo Village	Dec-21
Siloam Hospitals Kebon Jeruk	Dec-21
Siloam Hospitals Surabaya	Dec-21
Imperial Aryaduta Hotel & Country Club	Dec-21
Mochtar Riady Comprehensive Cancer Centre	Dec-25
Siloam Hospitals Lippo Cikarang	Dec-25
Pacific Healthcare Nursing Home @ Bukit Merah	Apr-27
Pacific Healthcare Nursing Home II @ Bukit Panjang	Apr-27
The Lentor Residence	Jun-27
Siloam Hospitals Manado & Hotel Aryaduta Manado	Nov-27
Siloam Hospitals Makassar	Nov-27
Siloam Hospitals Bali	May-28
Siloam Hospitals TB Simatupang	May-28
Siloam Hospitals Purwakarta	May-29
Siloam Sriwijaya	Dec-29
Siloam Hospitals Kupang & Lippo Plaza Kupang	Dec-30
Siloam Hospitals Labuan Bajo	Dec-31
Siloam Hospitals Buton & Lippo Plaza Buton	Oct-32
Siloam Hospitals Yogyakarta	Dec-32

Source: First REIT, KGI Securities

These assets contributed c.27% to First REIT's FY19 rental revenue and c.25% of the latest portfolio valuation. IAHCC, SH Lippo Village and SH Kebon Jeruk make up First REIT's IPO portfolio assets and were established between 1977 and 1995. If these five assets were to be successfully extended for another 15 years upon expiry, WALE could potentially be uplifted from c.5.5 years to c.9.2 years at 4Q21. The upcoming renewals will likely start commencing one year before the actual lease expiry. In light of that, news of the master lease renewal could happen as early as 3Q20, acting as a key catalyst for a rebound in stock price. Management communicated that they are not expecting material changes in the terms of renewal, which are all on a triple-net basis. The base rent for First REIT's Indonesian assets, which constitutes 98% of total revenue from tenant, is currently capped at the higher of 2% and 2x percentage change in Singapore CPI Index.

Elongated acquisition growth runway. First REIT welcomed a second sponsor, OUE Lippo Healthcare (OUE LH) in Oct 2018 after OUE LH acquired a 10.6% stake in the REIT manager, Bowsprit Capital. OUE LH's healthcare assets currently consist of a portfolio of 12 nursing homes in Japan, with development plans for an integrated hospital project in Dujiangyan (Chengdu) and a wellness-themed integrated mixed-use development project in Kuala Lumpur. The onboarding of a new co-sponsor will give First REIT access beyond LK's assets, to include other Asian markets and diversify their geographical concentration away from Indonesia (96.8% by portfolio valuation). First REIT's latest gearing ratio stood at 34.5%, translating to a debt headroom of c.S\$270mn. Nonetheless, acquisitions may make more sense after a rebound in share price, ensuring both lower cost of equity and greater DPU accretion.

Valuation & Action: We do not have rated coverage on First REIT. First REIT is currently trading near its 5 year historical low, at a P/B ratio of 1.0x, compared to peer Parkwaylife REIT which is trading at 1.7x. First REIT had been consistent in quarterly dividend payments at 2.14/2.15 Scts since 1Q17 (trailing 12m dividend yield of 8.4%), assuming that share price is bottoming at current levels, the 250 bps yield premium should act as a safety cushion, notwithstanding any upside catalysts on the news of master lease renewals.

Figure 6: 5 year historical P/B ratio (x)

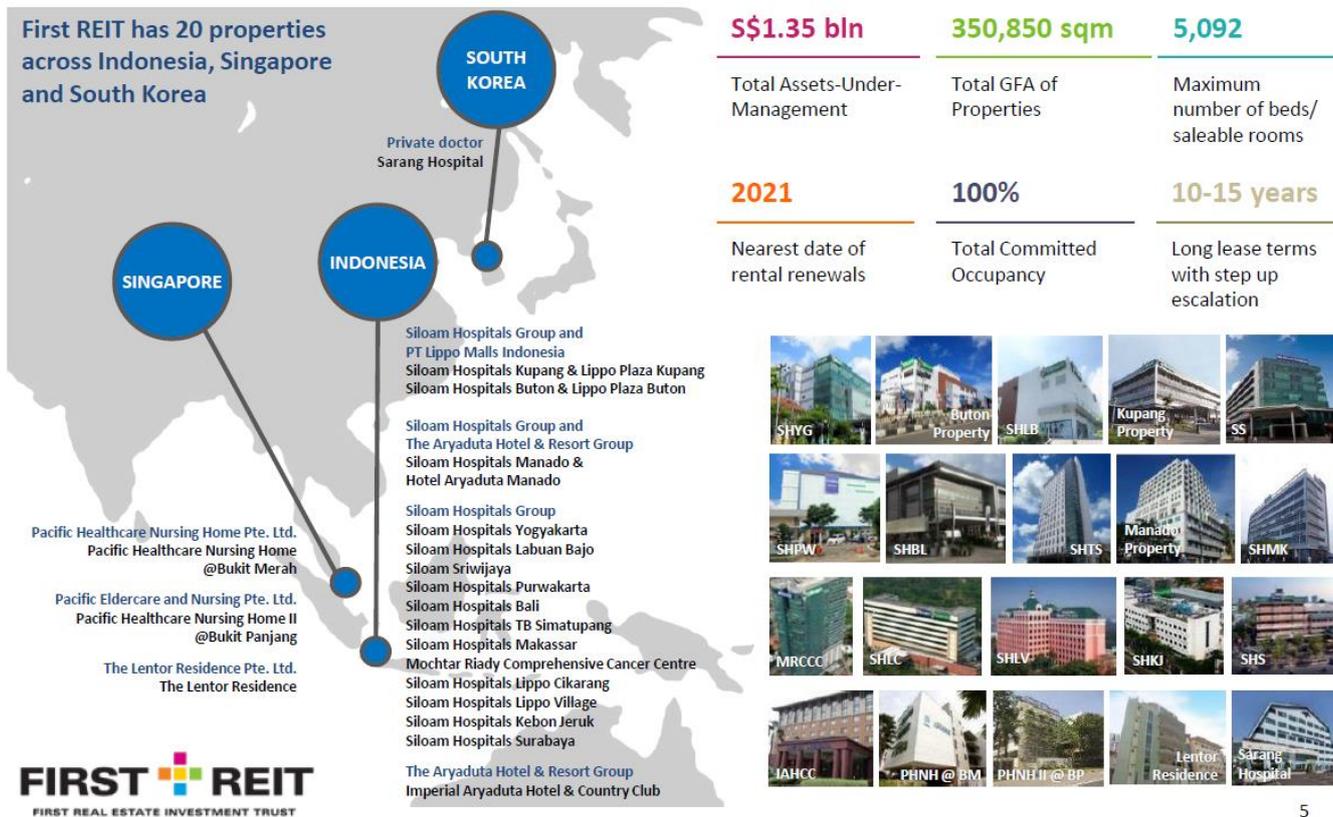


Source: Bloomberg, KGI Securities

Risks: Upcoming renewal of master lease assets expiring in 2021; further financial difficulties faced by the REIT co-sponsor, Lippo Karawaci; refinancing risk in 2021

Portfolio Overview

Figure 7: First REIT's asset portfolio and operating statistics



Source: First REIT, KGI Securities

Figure 8: Right of first refusal assets under sponsors Lippo Karawaci and OUELH



Source: First REIT, KGI Securities

Siloam Hospitals Lippo Village

Figure 9: Siloam Hospitals Lippo Village: Jalan Siloam No. 6, Lippo Karawaci 1600, Tangerang, Banten, Indonesia



Asset Description	A 10-storey hospital building
Centre of Excellence	Cardiology, Emergency & Trauma, Neuroscience, Orthopaedics
Land Area	17,442 sq metres
GFA	27,284 sq metres
Appraised Value (as at 31 December 2018)	S\$162.3 million by KJPP Rengganis, Hamid & Rekan in Strategic Alliance with CBRE
Max No. of Beds	274
Year of Building Completion	1995
Lease Commencement Date	11 December 2006
Lease Terms	15 years with an option to renew for a further term of 15 years
Lease Expiry Date	10 December 2021

Source: First REIT, KGI Securities

Siloam Hospitals Lippo Village

Figure 10: Presidential suite (3.9mn rupiah/night)



Source: KGI Securities

Figure 11: Catheterization lab with diagnostic imaging equipment used to visualize components in the heart



Source: KGI Securities

Figure 12: Floor directory

FLOOR DIRECTORY	
11	Auditorium Management Office
10	Inpatient Department (Neurology Ward & Coronary Ward)
9	Inpatient Department (Gastroenterology Ward & Gynaecology Ward)
8	Inpatient Department (Rehabilitation Ward & Decapoli Ward)
7	Paediatric Ward (Cerebral Palsy Ward & Zangraf Ward) NICU (Neonatal Intensive Care Unit)
6	Endoscopy Heart Center Neuroscience Center Pain Clinic Bone Mineral Densitometry (BMD) Inpatient Department (Methoxy Ward)
5	Medical Check Up Internal Medicine Obstetrics & Gynaecology Neurology Inpatient Department (General Ward) Maternity Ward (Egiphas Ward)
3	Cath Lab Operating Theatres One Day Care Chapel Intensive Cardiac Care Unit (ICCU) High Care Unit (HCU) Labour Delivery Suites (LDS) (Private Services) Intensive Care Unit (ICU)
2	Lobby Laboratory Pharmacy Radiology Department Inpatient Registration Inpatient Cashier Outpatient Department (OPD) (Klinik Rawat Jalan) Haemodialysis Emergency Department Restaurants Customer Service
1	Human Resources Development Medical Rehabilitation Musholla Mortuary Canteen

Source: KGI Securities

Figure 13: Public hospital unit within SHLV



Source: KGI Securities

Figure 14: List of accredited doctors within the neuroscience & heart and vascular center



Source: KGI Securities

Figure 15: Approximately 250 bed capacity within the public hospital unit



Source: KGI Securities

Imperial Aryaduta Hotel & Country Club

Figure 16: Imperial Aryaduta Hotel & Country Club: Jalan Boulevard Jendral Sudirman Kav. 401, Lippo Village 1300, Tangerang, Banten, Indonesia



Asset Description	A 7-storey hotel building with 6 blocks of Cabana Houses and a 2-storey Country Club
Land Area	54,410 sq metres
GFA	17,427 sq metres
Appraised Value (as at 31 December 2018)	S\$40.6 million by KJPP Rengganis, Hamid & Rekan in Strategic Alliance with CBRE
No. of Saleable Rooms	190
Year of Building Completion	1994
Lease Commencement Date	11 December 2006
Lease Terms	15 years with an option to renew for a further term of 15 years
Lease Expiry Date	10 December 2021

Source: KGI Securities

Imperial Aryaduta Hotel & Country Club

Figure 17: Lobby entrance to Imperial IAHCC



Source: Booking.com, KGI Securities

Figure 18: Cabana suite before refurbishment



Source: Booking.com, KGI Securities

Figure 19: On-site swimming pool



Source: Booking.com, KGI Securities

Figure 20: Deluxe room after enhancement



Source: Booking.com, KGI Securities

Figure 21: 'The Gardenia' restaurant within IAHCC



Source: Booking.com, KGI Securities

Figure 22: Garden towards Cabana suites



Source: Google Image, KGI Securities

Siloam Hospitals Kebon Jeruk

Figure 23: Siloam Hospitals Kebon Jeruk: Jalan Raya Perjuangan Kav. 8, Kebon Jeruk, West Jakarta, Indonesia



Asset Description	A 6-storey hospital with a 3-storey extension building
Centre of Excellence	Cardiology, Emergency & Trauma, Orthopaedics, Urology
Land Area	11,420 sq metres
GFA	18,316 sq metres
Appraised Value (as at 31 December 2018)	S\$96.2 million by KJPP Rengganis, Hamid & Rekan in Strategic Alliance with CBRE
Max No. of Beds	215
Year of Building Completion	1991
Lease Commencement Date	11 December 2006
Lease Terms	15 years with an option to renew for a further term of 15 years
Lease Expiry Date	10 December 2021

Source: First REIT, KGI Securities

Siloam Hospitals Kebon Jeruk

Figure 24: Catheterization equipment



Source: KGI Securities

Figure 25: Waiting area and reception counter in the outpatient unit



Source: KGI Securities

Figure 26: Suite room (2.6mn rupiah/night)



Source: KGI Securities

Figure 27: Consultation room



Source: KGI Securities

Figure 28: Executive suite room (3.2mn rupiah/night)



Source: KGI Securities

Mochtar Riady Comprehensive Cancer Center

Figure 29: Mochtar Riady Comprehensive Cancer Center: Jalan Garnisun Dalam No. 2-3, Semanggi, Central Jakarta, Indonesia



Asset Description	A 29-storey hospital with two basement levels
Centre of Excellence	Emergency & Trauma, Gastroenterology, Oncology
Land Area	4,145 sq metres
GFA	37,933 sq metres (excluding parking area of 14,769 sq metres)
Appraised Value (as at 31 December 2018)	S\$267.3 million by KJPP Willson & Rekan In Association with Knight Frank
Max No. of Beds	334
Year of Building Completion	2010
Lease Commencement & Acquisition Date	30 December 2010
Lease Terms	15 years with an option to renew for a further term of 15 years
Lease Expiry Date	29 December 2025

Source: First REIT, KGI Securities

Mochtar Riady Comprehensive Cancer Center

Figure 30: 38th storey helipad



Source: KGI Securities

Figure 32: Floor directory



Source: KGI Securities

Figure 31: Magnetic Resonance Imaging equipment



Source: KGI Securities

Figure 33: LINAC (medical linear accelerator) equipment; one of the most commonly used external beam radiation treatment for patient cancers



Source: KGI Securities

Figure 34: Magnetic Resonance Imaging equipment



Source: KGI Securities

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Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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