



FIRST REIT

(FIRT SP/FRET.SI)

Not Rated

Price as of 4 Oct 2017	1.360
12M target price (S\$)	na
Previous target price (S\$)	na
Upside, incl. div (%)	na

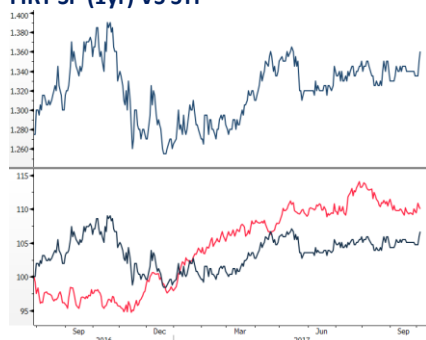
Trading data

Mkt Cap (S\$m) / (US\$m)	1,058 / 779
Issued Shares (m)	778
Ave Daily Traded (3-Month) Vol / Val	0.5m / \$0.7m
52 week lo / hi	\$1.25 / \$1.39
Free Float	67.5%

Major Shareholders

Bowsprit Capital Corp	27.7%
PT Menara Tirta Indah	3.1%

FIRT SP (1yr) VS STI



Source: Bloomberg

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See the last page for important disclosures.

Stable yield buoyed by rising healthcare demand in Indonesia

Event

Management recently hosted us on a site visit to four of First REIT's hospital assets in Indonesia last week. First REIT currently offers an attractive 6.6% yield – higher than Parkway Life REIT's 5.0% yield and sustained by rising private healthcare demand in Indonesia that is buoyed by the Healthcare and Social Security Agency (BPJS) scheme.

Impact

Nationwide insurance scheme boosted patient volume. Siloam Hospitals Group (SHG) – the operator for First REIT's Indonesian hospital assets – reported near 20% double-digit growth in both inpatient and outpatient admissions with rising bed occupancy rate in 2016, with patients on the BPJS scheme contributed 20% of SHG's total gross revenue. SHG is one of the few private healthcare players in Indonesia that participates in the BPJS programme, which has fuelled patient volume growth since the nationwide scheme's rollout.

Well-positioned in rising healthcare sector in the region. With the growing availability of quality and affordable healthcare services in Indonesia, Singapore could see less medical tourists from Indonesia seeking treatment. Thus First REIT offers a steady return that is sheltered from downside risks relating to weakening medical tourism revenue, in contrast to other healthcare stocks that have significant exposure to Singapore's hospital assets.

Strong growth pipeline and potential for AEs. With strong backing from its sponsor, Lippo Karawaci (LK), First REIT has Right of First Refusal to LK's healthcare properties which amounts to more than 40 in the pipeline. First REIT has also lined up an asset swap for its Siloam Hospitals Surabaya and potential AEs for two of its assets - Siloam Hospital Kebon Jeruk and Imperial Aryaduta Hotel & Country Club – in its pipeline which are expected to boost DPU ahead.

Valuation & Action

We have a DCF-derived fair value of S\$1.38 (WACC: 6.2%; terminal growth: 0.9%), implying a dividend yield of 6.1%.

Risks

Regulatory risks mainly in Indonesia; rising cost of debt; slowdown in Singapore inflationary growth as base rents is pegged to two times Singapore CPI growth.

Financials & Key Operating Statistics

YE Dec SGD mn	2015	2016	2017F	2018F	2019F
Gross Revenue	101	107	116	117	119
Net Property Income	99	106	114	116	118
Distributable Income	62	65	66	67	68
DPU (SGD cents)	8.30	8.47	8.44	8.54	8.64
DPU growth (%)	3.1	2.0	(0.4)	1.2	1.2
Div Yield (%)	6.2	6.3	6.3	6.4	6.5
Total Borrowings	443	414	414	414	414
BVPS (SGD)	1.06	1.09	1.08	1.08	1.07
NPI Margin (%)	98.6	98.9	98.9	98.9	98.9
Gearing (%)	35.9	33.0	33.0	33.0	32.9
Price / Book (x)	1.3	1.2	1.2	1.2	1.2

Source: Company Data, KGI Research

Valuation

We adopted DCF valuation to estimate a fair value of First REIT at S\$1.38, assuming that master leases of its hospital assets in Indonesia would be renewed on the same terms after lease expiry.

First REIT's Indonesia properties are covered under the Hak Guna Bangunan (HGB) land titles, which could be renewed indefinitely with the same tenure terms upon expiry, thus HGB land titles would be treated as freehold.

We project an increase of 1.4% year-on-year for First REIT's rents in each of its Indonesian hospital assets. Base rent increases at a rate of equal to two times of Singapore CPI growth annually, subject to a floor of 0.0% and cap of 2.0%.

Figure 1: Valuations – DCF

SGD million, YE 31 December	2016	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	Terminal
Adjusted EBITDA	93	100	101	103	109	110	112	114	115	117	119	
YoY growth %	0.0%	6.8%	1.4%	1.4%	6.1%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	
Add: non-cash charges	17	0	0	0	0	0	0	0	0	0	0	
Less: taxes & interest tax shield	(23)	(25)	(25)	(26)	(27)	(28)	(28)	(28)	(29)	(29)	(30)	
Less: changes in working capital	3	0	0	0	0	0	0	0	0	0	0	
Less: capex, acquisitions/(asset sales)	(30)	0	0	0	(61)	0	0	0	0	0	0	
Free cash flow to the firm (FCFF)	60	75	76	77	21	83	84	85	87	88	89	1,707
Growth %	0.0%	25.0%	1.1%	1.4%	(73.3%)	303.5%	1.4%	1.4%	1.4%	1.4%	1.4%	
Discounted FCFF		73	69	66	17	63	60	58	55	53	50	932
WACC		6.2%										
Terminal growth		0.9%										
Implied enterprise value		1,496										
Add: cash & investment		34										
Less: debt		(414)										
Less: perpetual securities		(61)										
Estimated equity value		1,055										
Projected diluted shares outstanding (millions)		774										
Fair Value (SGD)		1.38										
Distributable amount		66	67	68	73	74	75	76	78	79	80	
Projected weighted avg shares, diluted (millions)		774	779	784	804	823	829	834	840	845	851	
DPS (S cents)		8.44	8.54	8.64	9.02	8.93	9.03	9.13	9.23	9.33	9.43	
Implied dividend yield		6.1%										

Projected net capex for expected asset swap of Siloam Hospital Surabaya in 2020F

Source: Company data, KGI Research

Figure 2: First REIT's 2Q results comparison

FYE Dec (SGD m)	2Q17	2Q16	yoY % chg	1Q17	qoq % chg	Comments
Gross Revenue	27.5	26.6	3.3%	27.2	1.2%	Contribution from SH Labuan Bajo
Property operating expense	(0.3)	(0.3)	14.1%	(0.3)	13.7%	
Net property income	27.2	26.3	3.2%	26.9	1.1%	In line with gross revenue gain
NPI margin (%)	98.8	98.9		99.0		
Manager's management fees	(2.7)	(2.6)	2.1%	(2.7)	1.0%	
Trustee's fees	(0.1)	(0.1)	1.0%	(0.1)	2.0%	
Other operating expenses	0.2	(0.3)	N.M.	0.2	-1.8%	
Other gains/(losses)	(0.7)	(0.6)	18.1%	(0.4)	64.3%	
Finance income	0.3	0.3	-5.1%	0.3	1.3%	Lower loan amount; issuance of perpetual to pare down
Finance cost	(4.3)	(4.7)	-8.9%	(4.3)	-0.8%	
Profit before tax	19.9	18.3	8.6%	19.9	0.2%	
Income tax	(4.5)	(4.3)	6.2%	(4.3)	5.9%	
Perpetual securities	(0.9)	0.0	-	(0.8)	1.2%	Issuance of perpetual securities
Minority interests	0.0	0.0	-	0.0	-	
PATMI	14.5	14.1	3.3%	14.8	-1.6%	In line with NPI gain
DPS (cents)	2.1	2.1	1.4%	2.1	0.0%	
EBITDA, adjusted	24.5	23.3	5.5%	24.3	1.1%	

Source: Company data, KGI Research

Highlights of the site visit

- Siloam Hospital Lippo Village is equipped with the first and only state-of-the-art knifeless brain surgery centre in Indonesia
- Siloam Hospitals is one of the few private hospital players that cater to BPJS patients; regulations require 20% of hospital beds to be allocated to BPJS patients.
- According to the management, payment claims from the government for BPJS patients could take about 2 weeks, versus claims from private healthcare insurances which may take 60 days.
- Only three hospitals in Indonesia (and only in Jakarta), one of which is Mochtar Riady Comprehensive Cancer Centre (MRCCC), are equipped with PET/CT Scans to aid in treatment of several types of cancer.
- Several of Siloam hospitals support helicopter ambulance services;

Figure 3: Reception counter inside Siloam Hospital Lippo Village (SHLV), a 274-bed private hospital



Source: KGI Research

Figure 4: Gamme Knife Centre in SHLV – first and only state-of-the-art knifeless brain surgery centre in Indonesia



Source: KGI Research

Figure 5: A VIP ward in SHLV (rate: IDR 1.4m); type of ward ranges from basic (IDR 250.000) to Presidential Suite (IDR 3.9m)



Source: KGI Research

Figure 6: Floor directory inside an elevator life in SHLV – note the absence of 4th floor (deemed as an unlucky number among Chinese)



Source: KGI Research

Figure 7: Siloam Hospital Kebon Jeruk's (SHJK) Cath Lab – used for diagnosis and for procedures relating to certain heart problems



Source: KGI Research

Figure 8: Linear Accelerator in Mochtar Riady Comprehensive Cancer Centre (MRCCC), used for external beam radiation treatment for cancer patients



Source: KGI Research

Figure 9: Class 3 ward inside MRCCC



Source: KGI Research

Figure 10: Helipad of Siloam Hospital TB Simatupang



Source: KGI Research

Financials

FYE 31 December

INCOME STATEMENT (SGD mn)	2015	2016	2017F	2018F	2019F
Revenue	100.7	107.0	115.8	117.4	119.1
Net Property Income	99.3	105.8	114.5	116.2	117.8
Operating Profit	112.6	80.9	99.6	101.1	102.5
Interest Expense	(16.5)	(17.8)	(17.0)	(17.0)	(17.0)
Interest Income	0.2	1.1	0.2	0.2	0.3
Profit Before Tax	96.3	64.2	82.9	84.3	85.8
Income Tax	(28.5)	(23.9)	(20.7)	(21.1)	(21.5)
Perpetual, others etc.	0.0	(1.7)	(3.3)	(3.3)	(3.3)
PATMI	67.8	38.7	58.9	59.9	61.1
Distributable amount	61.9	65.2	65.5	66.7	67.9
BALANCE SHEET (SGD mn)	2015	2016	2017F	2018F	2019F
Cash and Equivalents	26.8	33.6	34.4	35.9	37.4
Accounts Receivable	14.5	11.8	12.7	12.9	13.1
Other current assets	2.6	3.7	3.7	3.7	3.7
Total current assets	44.0	49.0	50.8	52.5	54.2
Net Property, Plant, and Equipment	1,268.3	1,273.2	1,273.2	1,273.2	1,273.2
Other assets	2.9	19.0	19.0	19.0	19.0
Total assets	1,315.2	1,341.2	1,343.0	1,344.6	1,346.3
Accounts Payable	17.4	16.9	18.2	18.4	18.7
Borrowings (Current)	44.3	142.0	149.5	82.5	42.5
Other current liabilities	22.0	23.1	23.1	23.1	23.1
Total current liabilities	83.7	182.0	190.8	124.1	84.4
LT Borrowings	398.3	271.6	264.1	331.1	371.1
Other non-current liabilities	42.1	49.0	49.0	49.0	49.0
Total liabilities	524.1	502.6	503.9	504.2	504.4
Shareholder's Equity	791.1	838.6	839.1	840.5	841.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total equity	791.1	838.6	839.1	840.5	841.9
Total liabilities and equity	1,315.2	1,341.2	1,343.0	1,344.6	1,346.3
CASH FLOW STATEMENT (SGD mn)	2015	2016	2017F	2018F	2019F
Net Profit	67.8	38.7	62.2	63.3	64.4
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	1.4	1.7	0.0	0.0	0.0
Other non-cash adjustments	(3.4)	31.3	6.7	6.8	6.9
Changes in working capital	(4.6)	2.8	0.3	0.1	0.1
Deferred taxes	13.2	6.9	0.0	0.0	0.0
Cash from operations	74.3	81.5	69.2	70.1	71.3
Capex	(56.5)	(21.2)	0.0	0.0	0.0
Other investing	0.2	(8.7)	0.0	0.0	0.0
Cash in investing	(56.3)	(29.9)	0.0	0.0	0.0
Dividends paid	(50.0)	(56.7)	(65.0)	(65.3)	(66.5)
Equity raised / (bought back)	0.0	0.0	0.0	0.0	0.0
Borrowings raised / (repaid)	44.3	(31.1)	0.0	0.0	0.0
Other financing	(13.6)	43.0	(3.3)	(3.3)	(3.3)
Cash from financing	(19.4)	(44.8)	(68.3)	(68.6)	(69.8)
FX Effects, Others	0.0	0.0	0.0	0.0	0.0
Net increase in cash	(1.4)	6.7	0.9	1.5	1.5
Beginning cash	28.2	26.8	33.6	34.4	35.9
Ending cash	26.8	33.6	34.4	35.9	37.4
KEY RATIOS	2015	2016	2017F	2018F	2019F
Core EPS (SGD cents)	6.6	5.9	7.6	7.7	7.8
Core EPS Growth (%)	(9.7)	(10.6)	28.7	1.2	1.2
DPS (SGD cents)	8.3	8.5	8.4	8.5	8.6
Div Yield (%)	6.1	6.2	6.2	6.3	6.4
Price/Book	1.3	1.2	1.3	1.3	1.3
Profitability (%)					
NPI Margin	98.6	98.9	98.9	98.9	98.9
EBITDA margin	87.1	87.1	86.0	86.0	86.0
Net Margin	67.3	36.2	50.8	51.0	51.2
Return on Equity	8.8	4.7	7.0	7.1	7.3
ROIC	6.6	6.1	6.0	6.1	6.2
Financial Structure (x)					
EBIT / Interest Expense	6.8	4.6	5.9	6.0	6.0
Debt / Capital	0.0	0.0	0.0	0.0	0.0

Source: Bloomberg, KGI Research

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Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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