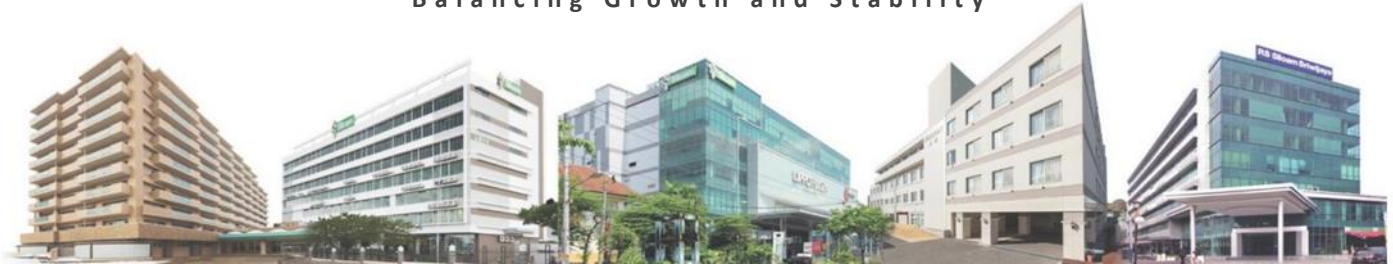


# 10 in 10 – First REIT (SGX Code: AW9U)

10 Questions in 10 Minutes with SGX-listed companies



## Balancing Growth and Stability



## 10 Questions for First REIT

### Company Overview

Listed in 2006, First REIT is the first healthcare real estate investment trust on SGX. With a total assets under management of S\$1.2b as at 30 June 2022, the Trust's diverse portfolio consists of 31 income-producing healthcare and healthcare-related real-estate assets across Asia – among which 16 are in Indonesia, 12 in Japan and three in Singapore. First REIT's sponsors are OUE Limited and OUE Lippo Healthcare Limited, both of which are listed on SGX. [Link to Stock Screener company page](#).

SGX Code: AW9U	BBG: FIRT SP	RIC: FRET.SI
Market cap on 22 Aug (S\$m)	575.2	
Price on 22 Aug (S\$)	0.280	
52 wk high/low (S\$)	0.330 - 0.250	
12m ADTV (S\$)	636,420	
Shares Outstanding	2,054.4	
Float	50.3%	
P/E (LTM)	7.9	
P/B (LTM)	0.8	
Dividend Yield	9.4%	

Source: Bloomberg (22 Aug 2022)

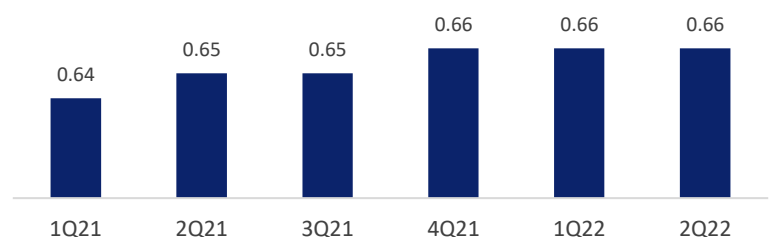
### 1. Can you tell us what First REIT's 2.0 Growth Strategy is, in a nutshell?

- First REIT's 2.0 Growth Strategy consists of 4 strategic pillars, with the aim of balancing portfolio growth and stability to create long-term sustainable value and distributions to all our unitholders:
  - i. Reduce concentration risk by increasing portfolio allocation in developed markets to more than 50% over the next three to five years
  - ii. Reshape portfolio for capital efficient growth through recycling of non-core, non-healthcare or mature assets
  - iii. Strengthen capital structure through diversification of funding sources to remain resilient
  - iv. Pivot to ride on relevant megatrends such as Environmental, Social and Governance (ESG) and ageing population demographics to boost growth

### 2. Could First REIT's distribution to unitholders be impacted by the ongoing rollout of First REIT's 2.0 Growth Strategy?

- First REIT's 2.0 Growth Strategy prioritises the sustainability of our distributions to our unitholders. With a balanced portfolio and stable growth, we look forward to continuing our commitment to deliver consistent distributions to our unitholders.

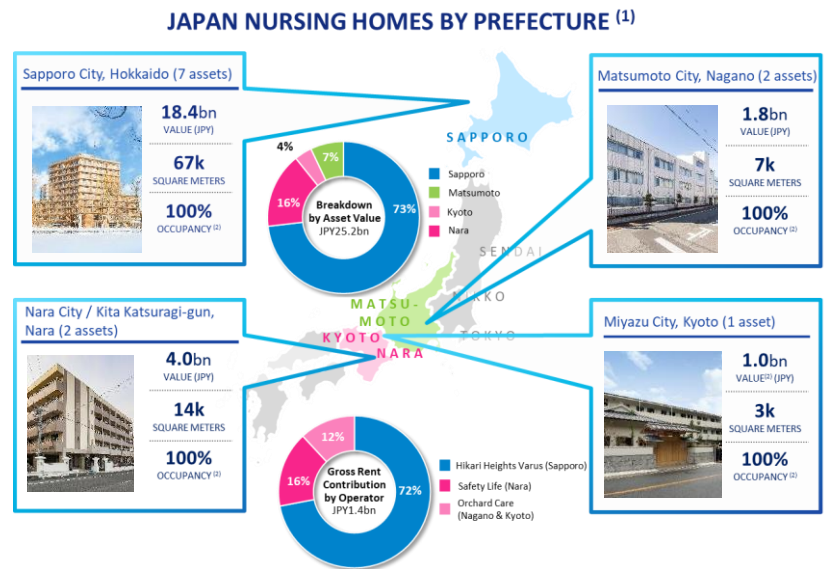
First REIT's past distribution per unit (Singapore cents)



Source: Company Announcement

### 3. How has First REIT's portfolio changed in the past three years?

- First REIT has stabilised and rejuvenated its portfolio with an improvement in risk profile and an addition of quality assets in a new geographical market.
- Effective from 1 January 2021, First REIT restructured the Master Lease Agreements (MLA) for 14 hospitals in Indonesia, and added new annual rental escalation that will be the higher of base rent escalation of 4.5% annually, or performance-based rent of 8.0% of the hospital's gross operating revenue in the preceding financial year.
- In March 2022, First REIT made its maiden entry in Japan with the acquisition of 12 freehold Japan nursing homes from our sponsor OUE Lippo Healthcare. They are operated by 3 independent local Japanese operators with combined track record of around 60 years.
- Located in the prefectures of Hokkaido, Nara, Kyoto, and Nagano, these nursing homes come with 30-year MLAs that expire in 2043. Annual rent could be revised every two to three years upon negotiation, based on the increase in Japan's consumer price index and interest rates.

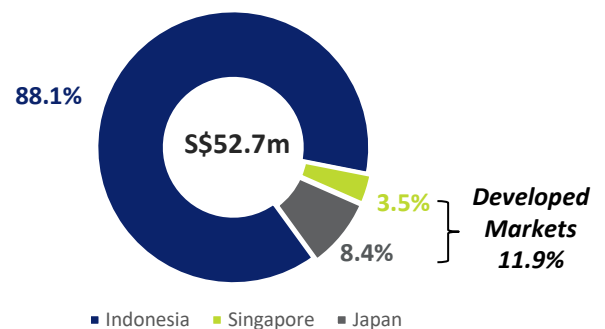


- As part of our capital recycling strategy, First REIT has divested Siloam Hospitals Surabaya which has been held within First REIT's portfolio since its initial public offering.

### 4. How would increasing portfolio exposure to developed markets like Japan benefit unitholders?

- Prior to entering Japan, more than 90% of our portfolio was in a single market and operated by a single operator.
- Diversifying into developed markets will inject stability through the reduction of geographical and tenant concentration risks, enhance our overall risk profile and bring sustainable returns.
- Furthermore, currency volatility risk in our portfolio will be reduced as we expand into developed markets and receive rental revenue in local currency.

**Breakdown of Net Property & Other Income by Geography (1H2022)**



Source: Company Announcement

### 5. What does First REIT consider when evaluating potential acquisitions?

- First REIT is guided by the 4 strategic pillars of our 2.0 Growth Strategy in order to eventually achieve a balanced portfolio of growth and stability, with more than 50% of its quality assets in developed markets.
- Furthermore, the REIT manager will evaluate each transaction structure and cost of funding to ensure that the transaction we enter into will be value enhancing to our unitholders. First REIT's manager will also conduct due diligence and feasibility studies along with a wide array industry experts including valuers, developers and healthcare operators to ascertain the quality, risk and value-add of each transaction.

(1) As at 30 June 2022

(2) Portfolio is 100% master-leased to third party tenant-cum-operators

## 6. As one of the two healthcare REITs listed on SGX, what are the idiosyncrasies of being a healthcare REIT?

- Healthcare REITs own, operate, manage, acquire, and develop healthcare and healthcare-related assets. These assets span a wide spectrum such as hospitals, nursing homes, assisted living and senior living communities, and other ancillary healthcare facilities such as medical offices, specialised pharmaceutical storage, outpatient facilities, life science innovation and research properties.
- Most healthcare REITs lease their facilities to tenants such as healthcare systems, primarily under a triple net lease structure that covers maintenance, taxes and insurance. This prevents the REIT from facing inflation-related escalating expenses and ensures a predictable stream of rental income.
- In addition, healthcare REITs will have to consider the demographics, social trends and government support in its target markets. For example, Japan's rapidly greying population and government support in promoting nursing homes underpinned our decision to enter the Japan market.
- Location of properties is also an important consideration. For example, hospitals should be centrally located in a community with a large population, whereas nursing homes should reside in a serene environment with ease of accessibility.



Orchard Amanohashidate nursing home in Japan



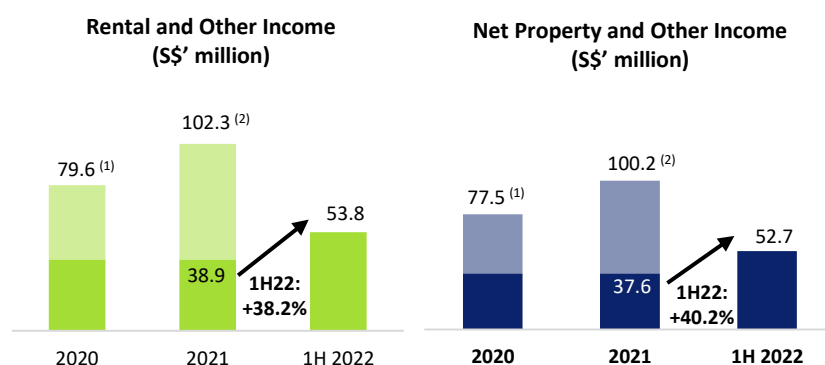
Siloam Hospitals TB Simatupang hospital in Indonesia



Hikari Heights Varus Kotoni nursing home in Japan

## 7. What are the highlights of First REIT's 1H 2022 financial performance?

- Distribution per unit (DPU) was up 1.5% to 1.32 Singapore cents in 1H 2022, attributable to First REIT's strategic initiatives which stabilised the Trust.
- Rental and Other Income increased 38.2% to S\$53.8m mainly due to new income contribution from the Japan acquisitions. The restructuring of MLAs in Indonesia also ensured stable rental income growth from the bulk of First REIT's portfolio.
- Net Property and Other Income rose 40.2% to S\$52.7m, comprising 88.1% from Indonesia, 8.4% from Japan and 3.5% from Singapore.



Source: Company Announcement

## 8. What are some key risks facing First REIT, and how do you plan to manage these risks?

- Businesses globally including the healthcare industry, are facing challenges from rising interest rates and exchange rate volatility amid global geopolitical uncertainties.
- First REIT will conduct regular reviews to ensure optimal mix of fixed and floating rate borrowings, while actively looking at the possibility of hedging with financial derivatives to tackle escalating exchange rate volatility.
- Post expansion into Japan, the inclusion of lower cost yen borrowings reduced cost of debt to 3.7% in 1H 2022 from 4.2% in FY 2021.

(1) Includes a two-month rental relief for May and June 2020 to all tenants and an additional two-month rental relief for September and October 2020 to Indonesia tenants, to alleviate the economic distress caused by the COVID 19 pandemic

(2) In FY 2021, the Trust completed the restructuring exercise for the master lease agreements of 14 of First REIT's hospital assets (the **Restructured MLAs**) and extended one-month and half-month rental rebates to Indonesia malls and hotels respectively in July 2021. The Rental and Other Income and Net Property and Other Income includes rental straight lining adjustments in relation to the Restructured MLAs and the recovery of expenses in relation to the settlement agreements dated 7 December 2021 for the full and final settlement of any and all claims which PT TPI may have against PT SK in relation to the terminated development works in Surabaya

## 9. Can you explain what is the Social Framework that First REIT launched?

- In line with 2.0 Growth Strategy to strengthen capital structure and pivot to ride megatrends, First REIT initiated a [Social Finance Framework](#) (SFF) in March 2022 which forms the foundation for a new mode of financing tied to attaining sustainable social goals.
- This framework provides a platform for the issuance of loans and bonds granted upon the attainment of social benefit outcomes that are aligned with the Social Bond Principles (2021) and Social Loan Principles (2021), as well as fulfilment of United Nations Sustainable Development Goal of ‘Good Health and Well-being’.
- SFF provides guidance on use of proceeds, process for project evaluation and selection, management of proceeds, reporting and external review.
- In alignment with the SFF, First REIT successfully issued in April 2022 a S\$100 million 3.25% guaranteed bonds due 2027. The bonds are rated AA by Standard & Poor’s and guaranteed by Credit Guarantee and Investment Facility, a trust fund of the Asian Development Bank.

## 10. Why should investors invest in First REIT now?

- We believe that our 2.0 Growth Strategy will drive an increasingly diversified portfolio with reduced concentration risks as the Trust looks to expand into developed markets. Beyond Japan, we are also exploring other developed markets including Australia, UK, Europe and US.
- We expect stable long-term growth from healthcare assets in Indonesia as demand quality healthcare services will continue to be supported by the long-term rise of household incomes, particularly middle-class Indonesians. More than four-fifths of First REIT’s portfolio in Indonesia are on annual rental escalation of at least 4.5% annually.
- We observed growing stable income from nursing homes in Japan and Singapore, which are among the fastest-ageing high-income nations globally, on the back of operational excellence.
- Aside from growth drivers which we identified, First REIT also had a consistent quarterly distributions with payout ratio of 100% sustained by a healthy financial position and strategically growing portfolio.
- Finally, we believe that the strong healthcare and real estate network from our sponsors will provide a robust pipeline of assets from third parties within and outside of Asia to support future growth.



## 10 in 10 – 10 Questions in 10 Minutes with SGX-listed companies

Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company’s management and is based on publicly announced information from the company.

For more, visit [sgx.com/research](https://sgx.com/research).

For more company information, visit [www.first-reit.com](https://www.first-reit.com)  
Click [here](#) for First REIT’s 1H2022 Earnings Announcement.



## Contact Us

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