Asia Credit Research

Earnings Review: First Real Estate Investment Trust ("FIRT")

Recommendation

- Counterparty credit risk and accumulation of trade receivables at FIRT has become a credit concern over the past 12 months. We are maintaining FIRT's issuer profile at Neutral (5) for now, in view of FIRT's properties being critical to LK/Siloam's day-to-day healthcare business. We think rental payments to FIRT will continue to be supported, albeit with collection delays.
- FIRTSP 5.68%-PERP has widen since February 2018, nonetheless, we still see better value in Golden Agri Resources Ltd's senior bonds, the GGRSP 4.75%'21, given its more senior structure. We think a differential of only 18 bps is still insufficient compensation on the FIRTSP 5.68%-PERP. We see FIRTSP 5.68%-PERP's fair value at 100 bps wider and are currently Underweight the perpetuals.
- We have both FIRTSP and GGRSP's issuer profile at Neutral (5).

Relative Value:

Bond	Maturity/Call date	Aggregate leverage	Ask Yield	Spread
FIRTSP 5.68%-PERP	08/07/2021	33.5%	5.26%	316
GGRSP 4.75% '21	25/01/2021	49.0%*	5.02%	298

Indicative prices as at 18 April 2018 Source: Bloomberg
Aggregate leverage based on latest available quarter; debt-to-adjusted tangible assets used for GGRSP. We define adjusted tangible assets as total assets less intangibles, bearer plants and long term investments

Issuer Profile: Neutral (5)

Ticker: **FIRTSP**

Background

Listed on the Singapore Stock Exchange ("SGX") with a market cap of SGD1.1bn as at 18 April 2018, FIRT is a REIT that invests primarily in real estate used for healthcare and healthcare-related industries. Investment properties totaled SGD1.3bn as at 31 March 2018 and in FY2017, 96% of gross revenue was attributable to properties in Indonesia. FIRT is ~28%-owned by its Sponsor, Lippo Karawaci ("LK").

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Key Considerations

- **Increase in operating income driven by acquisitions:** FIRT reported its first quarter results for the financial year 2018 ("1Q2018"). Reported gross revenue was up 5.8% y/y to SGD28.7mn. This was driven by the full quarter contributions from Siloam Hospitals Buton & Lippo Plaza Buton ("Buton", acquired in October 2017) and Siloam Hospitals Yogyakarta ("Jogja", acquired in December 2017). EBITDA (based on our calculation which does not include other income and other expense) was SGD25.5mn (up 5.7% y/y), while finance cost was 10.7% higher y/y at SGD4.8mn following higher debt to finance the acquisition of Buton, Jogya and the second progress payment for the development of the new Siloam Hospitals Surabaya. Interest coverage as measured by EBITDA/Interest was 5.4x (1Q2017: 5.6x). In 1Q2018, FIRT paid SGD1.7mn in cash to perpetual holders. Taking 50% of this payment as interest, we find Adjusted EBITDA/Interest at 4.5x.

- **Reported aggregate leverage manageable:** As at 31 March 2018, aggregate leverage was still manageable at 34% versus 33% in end-2017. FIRT is a non-traditional REIT which owns properties crucial to Sponsor's underlying business operations. In our view, asset valuations for non-traditional REITs tend to be less certain versus a traditional REIT where properties are leased to third parties. Compounding the uncertainty, buying and selling of standalone hospitals happen infrequently (the only significant asset disposal at FIRT in the past five years had been an asset swap with Sponsor). As a mitigating factor, FIRT's bank lenders have extended secured debt amounting to SGD378.2mn to FIRT as at 31 March 2018 (secured debt-to-total asset at 26%). With the exception of six healthcare properties (collectively valued at ~SGD167mn), secured debt are secured against all other FIRT's properties, indicating a level of comfort over the marketability and valuation of assets. FIRT has identified certain Sponsor properties as its potential acquisition pipeline, though as of report date, no new acquisitions have been announced.

- **Rising counterparty credit risk:** Moody's has placed the "B1" corporate family rating of LK on a review for downgrade. In FY2017, 82.4% of rental income at FIRT was attributable to LK while 12.9% is attributable to PT Metropolis Propertindo Utama ("PT MPU") and its subsidiary. Another 0.4% of FIRT's rental income was attributable to subsidiaries of PT Siloam International Hospitals Tbk

(~51%-owned by LK). Majority of FIRT's Indonesian properties are Master Leased to LK though the properties are used by Siloam for its day-to-day healthcare operations. We note a marked increase in trade receivable at FIRT as at 31 March 2018 to SGD31.4mn (end-2017: SGD26.0mn). Since end-2016, day sales receivable at FIRT had more than doubled from 40 days to 97 days in the current quarter, indicating this could be a knock-on effect from the tight liquidity at LK and a credit negative impact in our view.

- **Short term debt due:** Short term debt at FIRT was SGD109.9mn as at 31 March 2018, vis-à-vis SGD17.0mn in cash balance. Short term debt due is mostly consist of SGD100mn in bonds due on 22 May 2018 and these would need to be refinanced. While we think FIRT would be able to refinance such bonds, we note that this may come at a higher cost of funding on the back of counterparty credit risk concerns. We estimate that in FY2017, effective cost of borrowings at FIRT was 4.0% while secured debt was 77% of total debt in end-2017. In January 2018, FIRT had managed to raise SGD400mn in syndicated secured financing facilities from a bank lender. In early March 2018, these had been drawn down to refinance existing bank loans.

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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