F•P•A FINANCIAL
Investment Perspectives

4 October 2021

REAL ESTATE EQUITY RESEARCH

First Real Estate Investment Trust

SGX: AW9U
Bloomberg: FIRT:SP
ISIN Code: SG1U27933225

RECOMMENDATION: NEUTRAL

Current Price: S$0.255
Current Target Price: S$0.351

Issued Shares: 1,606.63 million
Market Capitalisation: S$409.69 million

52 Week Range: S$0.200 - S$0.445

PRICE PERFORMANCE

COMPANY DESCRIPTION

The principal activity of First Real Estate Investment Trust and its subsidiaries (collectively defined herein as First REIT) is to invest in a portfolio of income producing real estate properties, which are primarily used for healthcare and healthcare related purposes. First REIT's current portfolio comprises of 19 properties which cover the geographical markets of Indonesia and Singapore.

SUMMARY

For half year ended 30 June 2021, First REIT reported a 0.9% year-on-year (y-o-y) increase in rental & other income to S$38.9 million. The increase was mainly due to annual rental escalation for First REIT's properties in Singapore. Property operating expenses rose mainly due to impairment on receivables of S$0.6 million in relation to First REIT's property in South Korea, Sarang Hospital, which has been divested in August 2021. Accordingly, net property & other income of S$37.6 million was recorded for the period. Interest income fell mainly given the notice of termination served on 29 June 2020 for the development of new Siloam Hospitals Surabaya. Manager's management fees and trustee fees declined mainly due to lower total assets. Finance costs decline with a drop in interest expense, as First REIT made partial repayment of bank loans due in March 2021. Other expenses decreased mainly due to lower foreign exchange adjustment gains. Net fair value gains on derivative financial instruments were recorded for the period, compared with a loss in 1H2020. For the period, total return to unitholders amounted to S$17.5 million, translating to an earnings per unit of 1.28 cents. Meanwhile, distributable income of S$20.9 million was recorded for the period, up by 13.4% from a year ago. Accordingly, distribution per unit was 1.30 cents, comprising 0.65 cents for Q1 2021 and 0.65 cents for Q2 2021.

RECOMMENDATION

Since our initiation report on 22 January 2021, when First REIT's share price closed at S$0.245, the share price weakened in February owing to the dilutive impact of First REIT's rights issue. While the share price has seen a moderate rebound subsequently, further upside has in part been limited by ongoing uncertainty over PT Lippo Karawaci Tbk's (LPKR) financial position, which in turn creates concern over the stability of First REIT's rental income. Further, we expect financial performance to remain weak in the coming years given a still-weak operating environment in Indonesia and lower base rent based on new terms of restructured master leases. On a positive note, First REIT has managed to complete its strategic initiatives to restructure its business, recapitalize its balance sheet, refinance debt obligations and reposition for growth. Meanwhile, in terms of valuation, the results of our peer comparison analysis suggest that First REIT is relatively attractive in terms of distribution yield. Further, we note that First REIT is currently trading at a P/NAV of 0.73x based on its reported NAV per share of 35.12 cents, below the peers' average P/NAV of 2.01x. This may suggest that First REIT could be undervalued. However, it may be overly optimistic for First REIT to trade at the peers' average P/NAV of 2.01x. We believe the potential upside may be for First REIT to trade at a P/NAV of 1.0x. Accordingly, we estimate a target price of S$0.351, which represents a 37.6% upside from the current share price of S$0.255. Considering the above, we will maintain a neutral recommendation on First REIT.

KEY FINANCIALS

Full year ended Dec 31	Revenue (S$ million)	Shareholders profit (S$ million)	EPU (cents)	P/E (x)	DPU (cents)	Distribution yield (%)	NAV per unit (S$)	P/NAV (x)
2019 actual	115.3	45.5	5.74	4.44	8.60	33.7%	1.00	0.26
2020 actual	79.6	(355.8)	(44.33)	NM	4.15	16.3%	0.50	0.51
2021 forecast*	77.3	37.5	2.74	9.31	2.47	9.7%	0.35	0.73
2022 forecast	79.4	36.3	2.66	9.59	2.51	9.8%	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current share price of S$0.255
**NAV per unit as at 30 June 2021*
Source: First REIT, FPA Financial

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CONTENTS

FINANCIAL REVIEW FOR 1H2021

(I) Financial performance

For half year ended 30 June 2021 (1H2021), First REIT recorded a 0.9% year-on-year (y-o-y) increase in rental & other income to S$38.9 million, as shown in **Exhibit 1**. This was mainly due to higher contribution by the Singapore segment as a result of annual rental escalation for First REIT's properties in Singapore.

Exhibit 1: Geographical breakdown of rental & other income

	Rental & other income (S$'000)		
Geographical segment	**1H2021**	**1H2020**	**Change (%)**
Indonesia	36,410	36,947	-1.5%
Singapore	2,045	1,323	54.6%
South Korea	478	328	45.7%
Total	**38,933**	**38,598**	**0.9%**

Source: First REIT, FPA Financial

Property operating expenses rose by 23.5% y-o-y to S$1.3 million, as shown in **Exhibit 2**. The increase was mainly due to impairment on receivables of S$0.6 million in relation to First REIT's property in South Korea, Sarang Hospital.

Exhibit 2: Breakdown of property operating expenses

	1H2021 S$'000	1H2020 S$'000	Change (%)
Property tax expense	95	-	NM
Valuation expenses	182	134	35.8%
Professional fees	356	409	-13.0%
Impairment allowance on trade & other receivables	632	424	49.1%
Others	56	103	-45.6%
Property operating expenses	**1,321**	**1,070**	**23.5%**

NM: not meaningful

Source: First REIT, FPA Financial

Accordingly, net property & other income (NPI) amounted to S$37.6 million, an increase of 0.2% from S$37.5 million in 1H2020. During the period, interest income fell by 96.4% y-o-y to S$52,000, given the notice of termination served on 29 June 2020 for the development of new Siloam Hospitals Surabaya. First REIT recorded S$1.4 million in interest income in 1H2020 mainly due to the returns from the progress payments for the development of new Siloam Hospitals Surabaya.

Meanwhile, manager's management fees fell by 16.9% y-o-y to S$3.9 million, comprising S$2.1 million of base fees and S$1.9 million of performance fees. The overall decrease was mainly contributed by a decline in base fees due to lower total assets. Similarly, trustee fees declined by 27.7% y-o-y to S$154,000 mainly due to lower total assets.

During the period, finance costs fell by 14.3% to S$8.5 million, as shown in **Exhibit 3**. The decrease was mainly due to a drop in interest expense, as First REIT made partial repayment of bank loans upon their maturity in March 2021.

Exhibit 3: Breakdown of finance costs

	1H2021 S$'000	1H2020 S$'000	Change (%)
Interest expense	6,037	8,337	-27.6%
Amoritsation of transaction costs	2,465	1,578	56.2%
Finance costs	**8,502**	**9,915**	**-14.3%**

Source: First REIT, FPA Financial

Other expenses decreased by 1.4% y-o-y to S$1.5 million, mainly as lower foreign exchange adjustment gains offset a rise in project expenses, as shown in **Exhibit 4**.

Exhibit 4: Breakdown of other expenses

	1H2021 S$'000	1H2020 S$'000	Change (%)
Foreign exchange adjustment gains	196	837	-76.6%
Handling & processing fees	105	160	-34.4%
Professional fees	343	235	46.0%
Project expenses	727	220	>100%
Others	132	72	83.3%
Total other expenses	**1,503**	**1,524**	**-1.4%**

Source: First REIT, FPA Financial

Net fair value gains of S$1.7 million on derivative financial instruments, which relate to the revaluation of interest rate swap contracts, were recorded for the period. This compared with a net fair value loss of S$3.6 million recorded during 1H2020.

As a result, First REIT recorded a pre-tax total return of S$25.3 million for the period, compared to S$18.9 million in 1H2020. During the period, income tax expense amounted to S$6.1 million, a 5.3% drop from S$6.4 million recorded in 1H2020. This was mainly due to lower withholding taxes on the back of lower dividend income received from foreign subsidiaries.

Net of income tax expense, the after-tax total return was S$19.2 million, of which S$17.5 million was attributable to unitholders and S$1.7 million to perpetual securities holders. Accordingly, an earnings per unit (EPU) of 1.28 cents was recorded for the period, based on a weighted average number of units in issue of 1.37 billion.

A summary of First REIT's financial results for 1H2021 and 1H2020 is shown in **Exhibit 5** on the next page.

Exhibit 5: Financial results for 1H2021 and 1H2020

[S$'000]	1H2021	1H2020	Change (%)
Rental & other income	38,933	38,598	0.9%
Property operating expenses	(1,321)	(1,070)	23.5%
Net property & other income	37,612	37,528	0.2%
Interest income	52	1,436	-96.4%
Manager's management fees	(3,930)	(4,728)	-16.9%
Trustee fees	(154)	(213)	-27.7%
Finance costs	(8,502)	(9,915)	-14.3%
Other expenses	(1,503)	(1,524)	-1.4%
Net income before net fair value change in derivative financial instruments	23,575	22,584	4.4%
Net fair value gain/(loss) of derivative financial instruments	1,698	(3,646)	NM
Total return/(loss) before income tax	25,273	18,938	33.5%
Income tax expense	(6,100)	(6,443)	-5.3%
Total return/(loss) after income tax	**19,173**	**12,495**	**53.4%**
Total return attributable to:			
Unitholders	**17,483**	**10,796**	**61.9%**
Perpetual securities holders	1,690	1,699	-0.5%
	19,173	12,495	53.4%
Total return attributable to unitholders	17,483	10,796	61.9%
Weighted average number of units in issue ('000) (1)	1,365,867	800,205	NM
EPS (cents)	**1.28**	**1.35**	**-5.1%**

NM: not meaningful

(1) As reported for 1H2020, without restatement due to completion of issuance of rights units on 24 February 2021

Source: First REIT, FPA Financial

Meanwhile, distributable income of S$20.9 million was recorded for the period, following an addition of S$1.7 million in adjustments for tax purposes to the after-tax total return of S$19.2 million, as shown in **Exhibit 6** on the next page. This was a 13.4% increase from S$18.4 million recorded for 1H2020. The distributable income of S$20.9 million translated to a distribution per unit (DPU) of 1.30 cents for the period, compared to 2.30 cents for 1H2020, as shown in **Exhibit 6** on the next page. The drop in DPU was mainly due to an enlarged share base as a result of the issuance of 791,062,223 new rights units in February 2021. Excluding these right units, the adjusted DPU for the period would be 2.56 cents, as shown in **Exhibit 6** on the next page.

Exhibit 6: Statement of distribution for 1H2021 and 1H2020

[S$'000]	1H2021	1H2020	Change (%)
Total return after income tax - [A]	19,173	12,495	53.4%
Adjustments for tax purposes:			
Manager's management fees settled in units	2,050	2,345	-12.6%
Net fair value (gains)/losses of derivatives financial instruments	(1,698)	3,646	NM
Amount reserved for distribution to perpetual securities holders	(1,690)	(1,699)	-0.5%
Foreign exchange adjustment losses	138	661	-79.1%
Other non-tax deductible items and adjustments	2,930	981	>100%
Total adjustments - [B]	1,730	5,934	-70.8%
Distributable income = [A]+[B]	**20,903**	**18,429**	**13.4%**
No. of issued units ('000)	1,606,628	802,343	NM
DPU (cents)	**1.30**	**2.30**	**-43.4%**
Adjusted DPU (cents) (1)	**2.56**	**2.30**	**11.4%**

NM: not meaningful

(1) Based on 789,455,595 units after excluding 791,062,223 new rights units issued on 24 February 2021

Source: First REIT, FPA Financial

(II) Capital management

First REIT reported total assets of S$1,016.5 million as at 30 June 2021, compared to S$1,004.9 million as at the 31 December 2020. The increase in total assets was largely due to an increase of S$17.3 million in cash & cash equivalents, which was partially offset by a decline of S$5.9 million in trade & other receivables due to lower trade receivables from related parties.

Meanwhile, total liabilities decreased to S$391.4 million as at 30 June 2021 from S$540.9 million as at 31 December 2020. The decline was mainly due to the repayment of a S$195.3 million bank loan (part of Bank Loan A) in March 2021. Bank Loan A was part of a S$400 million secured syndicated loan facilities provided by Oversea Chinese Banking Corporation Limited (OCBC), among others, to First REIT on 22 February 2018 (2018 Secured Loan Facilities), among other things. On 24 December 2020, the Trustee entered into a facility agreement with, among others, OCBC and CIMB Bank Berhad Singapore Branch to refinance the 2018 Secured Loan Facilities with a loan facility of up to S$260 million (Refinancing Facility) in order to meet the Bank Loan A repayment obligation on 1 March 2021. In March 2021, First REIT drew down Bank loan C of S$252.4 million under this Refinancing facility. The amounts under Bank loan A were partly repaid and partly refinanced via Bank loan C in March 2021. The amounts under Bank loan C are due in March 2023.

As a result, total net assets amounted to S$625.1 million as at 30 June 2021, compared to SS464.0 million as at 31 December 2020. This comprised S$564.2 million in net assets attributable to unitholders and S$60.9 million in perpetual securities – First REIT had in 2016 issued S$60 million of subordinated perpetual securities that confer a right to receive distribution payments at a rate of 5.68% per annum. Given net assets attributable to unitholders of S$564.2 million, First REIT reported a net asset value (NAV) per unit of 35.12 cents as at 30 June 2021, based on 1,606.6 million units in issue. This is a decline from 49.94 cents as at 31 December 2020, as a result of an enlarged share base following the completion of First REIT's rights issue in February 2021.

A summary of First REIT's balance sheet data as at 30 June 2021 and 31 December 2020 is shown in **Exhibit 7** on the next page.

Exhibit 7: Balance sheet summary as at 30 Jun 2021 and 31 Dec 2020

[S$'000]	30-Jun-21	31-Dec-20
Total assets	1,016,508	1,004,908
Less: total liabilities	391,419	540,938
Total net assets	625,089	463,970
Represented by:		
Net assets attributable to unitholders	564,239	403,092
Perpetual securities holders	60,850	60,878
	625,089	463,970
Net assets attributable to unitholders	564,239	403,092
No. of issued units ('000)	1,606,628	807,206
NAV per unit (cents)	**35.12**	**49.94**

Source: First REIT

As at 30 June 2021, First REIT's total debt (before transaction costs) amounted to S$352.4 million, compared to S$492.4 million as at 31 December 2020, as shown in **Exhibit 8**. The decrease in total debt was mainly due to the repayment of Bank Loan A in March 2021 as discussed earlier on the previous page. The total debt of S$352.4 million comprised of a S$100.0 million bank loan (Bank Loan B) due in May 2022 and Bank Loan C of S$252.4 million due in March 2023 (as discussed earlier on the previous page), as shown in **Exhibit 8**. In May 2019, First REIT drew down Bank Loan B under a syndicated 3-year loan facility of up to S$100 million, secured from OCBC and CIMB Bank Berhad, Labuan Offshore Branch, to refinance a maturing bank loan.

Overall, First REIT has no refinancing requirements until 2022. As at 30 June 2021, First REIT's gearing ratio, as computed by total debt over total assets, stood at approximately 34.7% compared to 49.0% as at 31 December 2020, as shown in **Exhibit 8**.

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Exhibit 8: Total debt and gearing ratio as at 30 June 2021 and 31 December 2020

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[S$'000]	30-Jun-21	31-Dec-20
Current bank loans (secured)		
-Bank Loan A	-	195,662
-Bank Loan B	100,000	-
	100,000	195,662
Non-current bank loans (secured)		
-Bank Loan A	-	196,713
-Bank Loan B	-	100,000
-Bank Loan C	252,374	-
	252,374	296,713
Total debt	**352,374**	**492,375**
Total assets	1,016,508	1,004,908
Gearing ratio (%) (1)	**34.7%**	**49.0%**

Stated amounts for the bank loans, and in turn total debt are before transaction costs
(1) As computed by total debt over total assets
Source: First REIT, FPA Financial

KEY DEVELOPMENTS UPDATE

Since our initiation report on 22 January 2021, there have been some updated developments regarding First REIT's restructuring of its master lease agreements (MLAs) for 14 of its hospitals in Indonesia as well as its rights issue. We will now provide an update on these key developments.

Restructuring of MLAs

In our initiation report, we highlighted that First REIT had received approval from unitholders to proceed with its proposed plan to restructure the MLAs for 14 of its properties in Indonesia, as shown in **Exhibit 9**. This included the proposed restructuring of MLAs relating to 11 hospitals leased by First REIT to either PT Lippo Karawaci Tbk (LPKR) or LPKR & certain subsidiaries of PT Siloam International Hospitals Tbk (Siloam) and the proposed restructuring of MLAs relating to 3 hospitals leased by First REIT to PT Metropolis Propertindo Utama (MPU).

Exhibit 9: List of properties subjected to the MLA restructurings

Restructuring	Property	Master lessee
LPKR Restructuring	Siloam Hospitals Surabaya	LPKR
	Siloam Hospitals Kebon Jeruk	LPKR
	Siloam Hospitals Lippo Village	LPKR
	Mochtar Riady Comprehensive Cancer Centre	LPKR
	Siloam Hospitals Makassar	LPKR
	Siloam Hospitals Manado and Hotel Aryaduta Manado	LPKR
	Siloam Hospitals TB Simatupang	LPKR
	Siloam Hospitals Bali	LPKR
	Siloam Hospitals Labuan Bajo	LPKR and a wholly-owned subsidiary of Siloam
	Siloam Hospitals Buton	LPKR and a wholly-owned subsidiary of Siloam
	Siloam Hospitals Yogyakarta	LPKR and a wholly-owned subsidiary of Siloam
MPU Restructuring	Siloam Hospitals Purwarkata	MPU
	Siloam Sriwijaya	MPU
	Siloam Hospitals Kupang	MPU

Source: First REIT

The key terms of the proposed LPKR Restructuring are as follows:

1) Term of all the LPKR MLAs will be extended to 31 December 2035, with an option for a further 15-year term by mutual agreement. The rental under all of the restructured LPKR MLAs will be the higher of either the base rent or the performance-based rent.

2) The aggregate commencement base rent under the restructured LPKR MLAs from 1 January 2021 will be approximately S$50.9 million per annum. Payment would be in Indonesian Rupiah (Rupiah) instead of Singapore Dollars (SGD). The commencement base rent will enjoy a fixed escalation rate of 4.5% per annum, compared to a base rent escalation capped at 2.0% per annum under the existing LPKR MLAs.

3) The restructured LPKR MLAs will also feature a new performance-based rent mechanism where the actual rent paid will be the higher of either the base rent or the performance-based rent at 8.0% of the relevant hospital's gross operating revenue for the preceding year.

4) The security deposit under the restructured LPKR MLAs will also be increased from 6 months to 8 months.

The MPU Restructuring will be implemented on terms similar to the proposed LPKR Restructuring, including the extension of the term to 31 December 2035, with an option for a further 15-year term by mutual agreement.

On 18 May 2021, First REIT announced the completion of the MLA restructuring for both the LPKR MLAs (being the MLAs for the 11 hospitals leased by LPKR) and MPU MLAs (being the MLAs for the 3 hospitals leased by MPU). The restructured LPKR MLAs and the restructured MPU MLAs, effective from 1 January 2021, have extended the lease term for the LPKR Hospitals (11 hospitals leased by LPKR or LPKR & certain subsidiaries of Siloam) and the MPU Hospitals (3 hospitals leased by MPU) to, and including, 31 December 2035, with an option for a further 15-year renewal term. In addition, First REIT's weighted average lease expiry for its entire portfolio has been extended from 6.4 years to 11.8 years as at 30 June 2021.

A summary of the key changes to the MLA terms of the Affected LPKR Properties (being the LPKR Hospitals) is shown in **Exhibit 10**. These key changes will also apply for the MPU Hospitals.

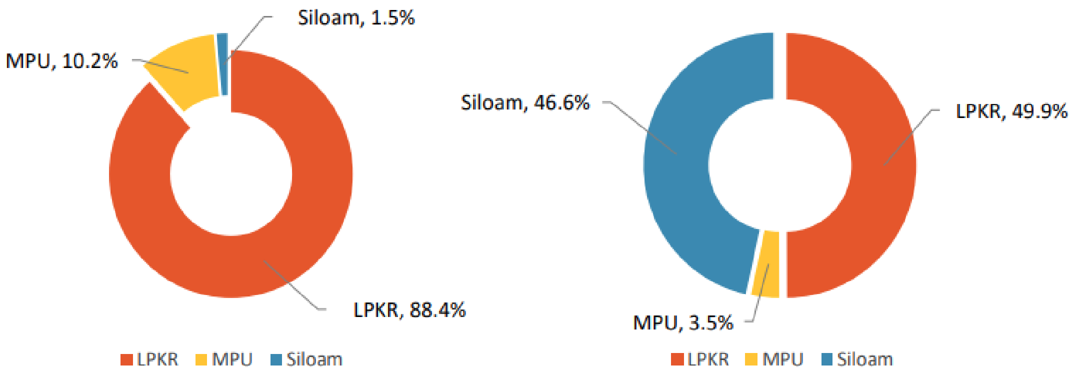
Exhibit 10: Summary of key changes to the MLA terms of the Affected LPKR Properties

Categories	Former MLA Terms of Affected LPKR Properties	New Restructured MLA Terms of Affected LPKR Properties
Currency	Singapore Dollar	Indonesia Rupiah
Base Rent Escalation	2 times of Singapore's consumer price index increase for the preceding calendar year (with a floor of 0% and capped at 2%)	4.5% fixed annual escalation
Variable Rent	Variable rent factor from 0% to 2% applied to a function of the gross operating revenue(s) ("**GOR**") of the respective properties	N.A.
Performance-Based Rent	N.A.	8.0% of preceding financial year hospital GOR respectively
Total Rent Payable	Aggregate of Base Rent and Variable Rent	Higher of Base Rent or Performance-Based Rent
Lease Commencement	11 December 2006	1 January 2021
Tenure	15 years with an option to renew for a further 15 years	15 years with an option to renew for a further 15 years
Security Deposit	6 months	8 months

Source: First REIT

Further, it was also announced that Siloam, the operator of First REIT's hospitals in Indonesia and a 55.4%-owned subsidiary of LPKR, has been added as a party to each of the LPKR MLAs and a subsidiary of Siloam has been added as a party to each of the MPU MLAs (the MLAs to which a subsidiary of Siloam or Siloam has been added as a party, the Tripartite MLAs). The purpose is to establish the direct payment of part of the rental amounts payable in respect of each of the LPKR Hospitals (11 hospitals leased by LPKR or certain subsidiaries of Siloam) and each of the MPU Hospitals (3 hospitals leased by MPU) by Siloam or by the relevant subsidiary of Siloam to the relevant master lessor for each of the LPKR Hospitals and for each of the MPU Hospitals. The breakdown of direct rental contribution before and after the Tripartite MLAs are shown in **Exhibit 11** on the next page.

Exhibit 11: Direct rental contribution before (left diagram) and after (right diagram) the Tripartite MLAs



Source: First REIT

Based on **Exhibit 11** above, we note that the post-Tripartite MLA scenario would provide greater diversification in terms of First REIT's source of rental collection. This would help to reduce First REIT's reliance on LPKR as the main rental income contributor and also minimize exposure to risks involving LPKR's liquidity issues.

Rights issue

As highlighted in our initiation report, First REIT had on 19 January 2021 announced the launch of a 98 for 100 renounceable and non-underwritten rights issue to issue 791,062,223 rights units at a price per rights unit of S$0.20. The rights issue was a conditional requirement under the Refinancing Facility (as discussed on page 6), to repay the difference between S$400 million of the and S$260 million, being S$140 million. Thus, the rights issue was carried out for the purposes of, among others, repayment of part of the 2018 Secured Loan Facilities to complete the refinancing exercise and avoid a default of Bank Loan A, as well as for the payment of master lease restructuring costs and for working capital purposes.

Results of the rights issue

The rights issue was completed on 24 February 2021 and raised gross proceeds of approximately S$158.2 million. Valid acceptances of 520,374,717 units were received, which included acceptances by First Real Estate Management Limited (FRML) and OUE Lippo Healthcare Limited (OUELH) of their aggregate pro-rata entitlements collectively representing 19.72% of the total number of rights units of 791,062,223. FRML is the manager of First REIT and OUELH is a wholly-owned subsidiary of OUE Limited. OUELH and OUE Limited together make up First REIT's Sponsor group.

Net of 520,374,717 units which were validly accepted, there was a balance of 270,687,506 rights units which were not validly accepted. Of this, 149,749,609 rights units, were allotted for the rounding of odd lots and to unitholders who are neither Directors of the FRML nor substantial unitholders who have control or influence over First REIT or FRML in connection with the day-to-day affairs of First REIT or the terms of the rights issue, or have representation (direct or through a nominee) on the board of Directors. The remaining 120,937,897 rights units were allotted to Mr. Tan Kok Mian Victor (Executive Director and Chief Executive Officer of First REIT), OUELH and Clifford Development Pte Ltd (CDPL), a subsidiary of OUE Limited.

In total, valid acceptances and excess applications (excluding excess applications by OUELH and CDPL totaling 784,877,484 units) amounted to 670,173,849 rights units, representing approximately 84.72% of the total number of 791,062,223 rights units. Details of the valid acceptances and excess applications received are shown in **Exhibit 12** on the next page.

Exhibit 12: Details of the valid acceptances and excess applications received

	Number of Rights Units	% of Rights Issue
Valid acceptances	520,374,717	65.78%
Excess applications (excluding OUELH and CDPL)	149,799,132	18.94%
Excess applications (including OUELH and CDPL)	784,877,484	99.22%
Total valid acceptances and excess applications (including OUELH and CDPL)	**1,305,252,201**	**165.00%**

Source: First REIT

Post-rights issue shareholding

Following the completion of the rights issue, FRML, OUELH and CDPL respectively held a 9.36%, 24.81% and 3.16% stake in First REIT as at 15 March 2021, as shown in **Exhibit 13**. OUE Limited, through its interest in CDPL, OUELH and FRML, held a deemed interest of 27.97% as at 15 March 2021.

Exhibit 13: Details of shareholdings before and after the rights issue

	As at 26 Jan 2021						As at 15 Mar 2021					
	Direct interest		Deemed interest		Total interest		Direct interest		Deemed interest		Total interest	
Name of entity	No. of units held	% of total	No. of units held	% of total	No. of units held	% of total	No. of units held	% of total	No. of units held	% of total	No. of units held	% of total
FRML	83,593,683	10.36%	-	-	**83,593,683**	**10.36%**	149,635,397	9.36%	-	-	**149,635,397**	**9.36%**
OUELH	-	-	159,167,116	19.72%	**159,167,116**	**19.72%**	-	-	396,485,684	24.81%	**396,485,684**	**24.81%**
CDPL	100	0.00%	-	-	**100**	**0.00%**	50,471,217	3.16%	-	-	**50,471,217**	**3.16%**
OUE	-	-	159,167,216	19.72%	**159,167,216**	**19.72%**	-	-	446,956,901	27.97%	**446,956,901**	**27.97%**

Source: First REIT

Meanwhile, we note that Dr. Stephen Riady and Mr. James Tjahaja Riady, who are the largest substantial shareholders of Lippo Limited, each held a deemed interest of 448,601,489 units, or 28.07%, in First REIT as at 15 March 2021. As at 31 December 2020, both individuals each held a deemed interest of 74.98% in Lippo Limited.

Dr. Stephen Riady, who is the brother of Mr. James Tjahaja Riady, is a Director of Lippo Limited and also the Chairman of the board of directors of Lippo Limited. Both individuals are the sons of Mr. Mochtar Riady, the Founder and Chairman Emeritus of the Lippo Group. Lippo Limited is a Hong-Kong listed company that is a member of the Lippo Group alongside LPKR.

On 18 May 2021, it was announced that OUE Limited, through its interest in CDPL, OUELH and FRML, held a deemed interest of 28.53% in First REIT. We note that this would in part be due to an increase in the shareholding held by FRML as part of payment of management fees by way of issue of units. As at 4 May 2021, FRML held 157,994,701 units in First REIT, equivalent to a 9.83% stake. As a result of the increase in OUE Limited's deemed interest to 28.53%, the estimated deemed interest of Dr. Stephen Riady and Mr. James Tjahaja Riady as at 18 May 2021 would be 28.63%.

Use of proceeds from the rights issue

Out of the S$158.2 million in gross proceeds, S$140.1 million was used to repay part of Bank Loan A on 1 March 2021, as discussed on page 6. This has helped to reduce First REIT's gearing ratio from 49.0% as at 31 December 2020 to 34.7% as at 30 June 2021. First REIT also announced on 1 March 2021 that approximately S$7.1 million of the gross proceeds has been used for payment of professional fees incurred in connection with the loan refinancing exercise. First REIT further updated on 20 May 2021 that approximately S$4.9 million has been used for the payment of professional fees incurred in connection with the restructuring of MLAs, loan refinancing exercise and the rights issue.

SHARE PRICE PERFORMANCE REVIEW

Since our initiation report issued on 22 January 2021, when First REIT's share price closed at S$0.245 (any mention of share price herein refers to the closing price), we note that the share price saw a noticeable dip from S$0.245 on 25 January 2021 to S$0.220 on 26 January 2021. These dates respectively represent the last day of "cum-rights" trading and first day of "ex-rights" trading for First REIT's rights issue. The share price then reached a low of S$0.200 on 8 February 2021 and has since improved moderately. The highest level reached was S$0.275 on several occasions in June and August 2021. Recently, the share price has traded between S$0.250 and S$0.265.

To a large extent, the share price has weakened due to the dilutive impact of the rights issue as well as concerns over the stability of First REIT's rental income given LPKR's liquidity issues. Further, we believe that sentiment has weakened despite the successful MLA restructuring, given less favourable changes such as a drop in base rent and exposure to currency risk due to denomination of rent payment in Rupiah. Uncertainty over LPKR's financial position and a weak operating environment due to virus-related concerns could limit upside in the share price in the near to medium term.

On a positive note, First REIT has managed to complete its strategic initiatives to restructure its business and recapitalize its balance sheet, refinance debt obligations and reposition for growth. Currently, it has a 100% debt funded acquisition headroom in excess of S$300 million.

FINANCIAL PROJECTION

In this section, we will provide our projections for First REIT's revenue, earnings and distributions in 2021 and 2022.

(I) Revenue projection

We will adopt the same approach as in our initiation report to project rental & other income. This will be based on the new MLA terms as outlined in **Exhibit 15**.

Exhibit 15: Proposed rent structure

S$mm unless otherwise stated		Current (FY2019)	Proposed
LPKR Hospitals and MPU Hospitals	Base Rent	S$80.9[1] (LPKR Hospitals) S$11.3 (MPU Hospitals)	S$50.9 (LPKR Hospitals) (IDR550.7bn)[3] S$5.8 (MPU Hospitals) (IDR62.4bn)[3]
	Base Rent Escalation	2x of Singapore's consumer price index increase for the preceding calendar year (capped at 2%)	4.5% annually
	Variable / Performance Based Rent	S$2.9 (LPKR) S$0.1 (MPU)	8.0% of preceding financial year Hospital gross operating revenue
	Total Rent Payable	Base + Variable	Higher of Base or Performance Based Rent *(asset by asset basis)*
	Tenure	15 years + 15 years with mutual agreement	15 years + 15 years with mutual agreement
	Currency	SGD	IDR
	Security Deposits	6 months	8 months
Other Assets[2]	Base Rent	S$20.5	Unchanged
	Variable Rent	S$0.5	Unchanged

(1) Currently, Siloam Hospitals Manado and Hotel Aryaduta Manado are leased as a whole. The terms of the lease for the Manado Property are contained within one MLA dated 21 September 2012 and there is no separate MLA for Hotel Aryaduta Manado. The master lessee of Hotel Aryaduta Manado will pay a commencement base rent of S$3.307 million as at 1 January 2021 based on the terms of the supplemental MLA in respect of Hotel Aryaduta Manado. The existing base rent of Siloam Hospitals Manado is a derived number, by subtracting S$3.307 million from the total rent of the Manado Property for FY2019.

(2) Refers to Siloam Hospitals Lippo Cikarang, Hotel Aryaduta Manado, Lippo Plaza Kupang, Lippo Plaza Buton, Imperial Aryaduta Hotel & Country Club, Pacific Healthcare Nursing Home @Bukit Merah, Pacific Healthcare Nursing Home II @Bukit Panjang, The Lentor Residence, and Sarang Hospital.

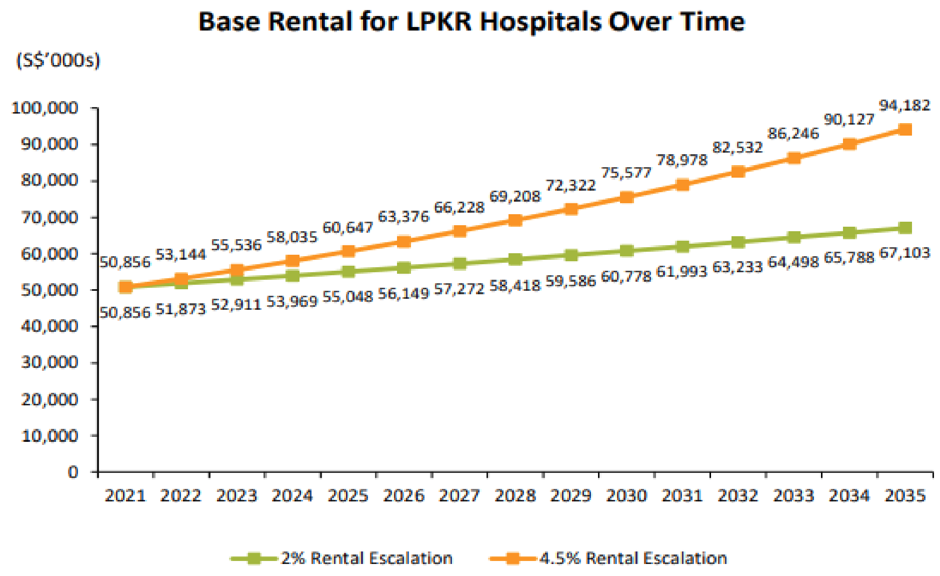
(3) On 1 January 2021, the Singapore Dollar denominated rents for each hospital will be converted to Indonesian Rupiah at an exchange rate of S$1.00 to Rp.10,830.

Base rent

Under the terms of the proposed rent structure, we note that the *pro forma* effect (based on 2019 financial results) on the base rent of the LPKR Hospitals would be an approximately 37% decrease to S$50.9 million from S$80.9 million. The base rent for the MPU Hospitals would decrease by approximately 49% to S$5.8 million from S$11.3 million.

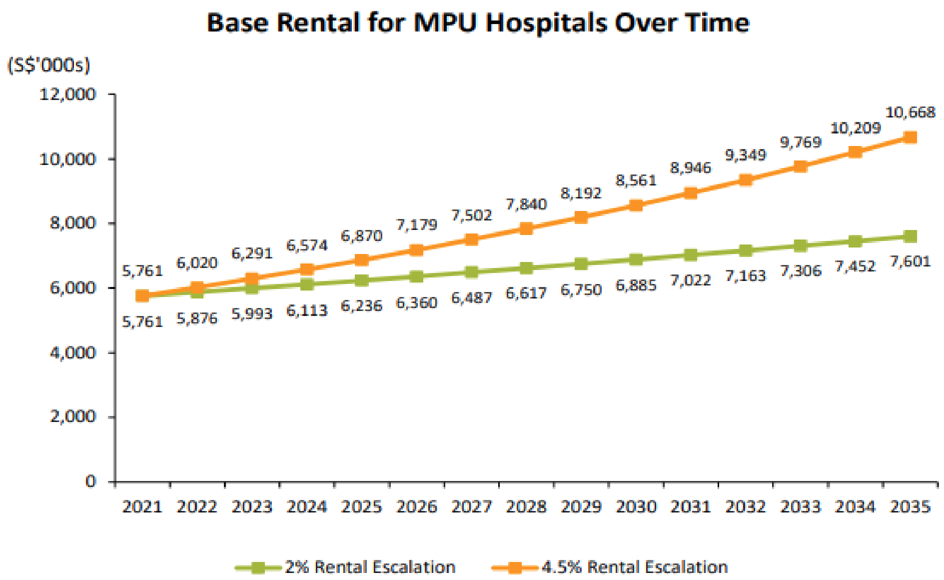
Given a fixed escalation rate of 4.5% per annum in the new MLA terms compared to the previous step-up mechanism which is based on two times the Singapore consumer price index for the preceding calendar year (capped at 2%). In turn, the base rental for the LPKR Hospitals and MPU Hospitals will experience much stronger increment going forward, as shown in **Exhibit 16** and **Exhibit 17**. The data in both exhibits are presented based on a fixed Singapore Dollar to Indonesian Rupiah exchange rate of S$1.00 to Rp 10,830 as at 1 January 2021.

Exhibit 16: Illustrative base rent of the LPKR Hospitals over time



Source: First REIT

Exhibit 17: Illustrative base rent of the MPU Hospitals over time



Source: First REIT

Based on the data in **Exhibits 16 and 17**, the combined base rent of the LPKR Hospitals and MPU Hospitals for 2021 to 2025 can be summarized as in **Exhibit 18**.

Exhibit 18: Combined base rent of the LPKR Hospitals and MPU Hospitals for 2021-2025

	Base rent (S$'000) [(1)]				
	2021	2022	2023	2024	2025
LPKR Hospitals	50,865	53,144	55,536	58,035	60,647
MPU Hospitals	5,761	6,020	6,291	6,574	6,870
Total	**56,626**	**59,164**	**61,827**	**64,609**	**67,517**

(1) Conversion based on exchange rate of S$1.00 to Rp 10,830 as at 1 January 2021

Source: First REIT

Variable/performance-based rent

Under the terms of the new proposed rent structure, the revised performance-based rent structure replaces the existing variable rent structure, which has contributed not more than 4.2% and 0.7% to the total rent received for each year over the past three years under the existing LPKR MLAs and MPU MLAs respectively and would provide improved upside sharing for First REIT. A summary of the changes for the variable/performance-based rent component is shown in **Exhibit 19**.

Exhibit 19: Current variable rent structure vs revised performance-based rent structure

<table>
<tr><th>Assets</th><th>Current Variable Rent Structure</th><th>Revised Performance Based Rent Structure</th></tr>
<tr><td>4 LPKR Hospital Assets (Mochtar Riady Comprehensive Cancer Centre, Siloam Hospitals Lippo Village, Siloam Hospitals Kebon Jeruk, Siloam Hospitals Surabaya)</td><td>• Generally, where the audited Gross Operating Revenue ("GOR") for the preceding financial year exceeds the audited GOR for the further preceding financial year by
- 5% or less, no variable rent shall be payable
- More than 5% but less than 15%, variable rent payable shall be equivalent to 0.75% of the audited GOR in the preceding financial year;
- 15% or more but less than 30%, variable rent payable shall be equivalent to 1.25% of the audited GOR in the preceding financial year;
- 30% or more, variable rent payable shall be equivalent to 2.00% of the audited GOR in the preceding financial year</td><td rowspan="2">• 8.0% of the GOR for the preceding financial year</td></tr>
<tr><td>Remaining 10 LPKR and MPU Hospital Assets</td><td>• Generally, where the audited GOR for the preceding financial year exceeds the audited GOR for the further preceding financial year by
- Less than 5%, no variable rent shall be payable
- 5% or more but less than 15%, variable rent payable shall be equivalent to 0.75% of the excess amount;
- 15% or more but less than 30%, variable rent payable shall be equivalent to 1.25% of the excess amount;
- 30% or more, variable rent payable shall be equivalent to 2.00% of the excess amount</td></tr>
</table>

Source: First REIT

Total rent payable

Based on the old terms, total rent payable is based on the sum of the base rent and variable rent. Under the new terms, this would be changed to being based on the higher of the base rent or performance-based rent on an asset-by-asset basis. Historically, variable rent made up a marginal proportion of total rent for the LPKR MLAs and MPU MLAs, as shown in **Exhibit 20**.

Exhibit 20: Breakdown of historical total rent for the LPKR and MPU MLAs

		2017		2018		2019	
	Rent type	S$'000	% of total	S$'000	% of total	S$'000	% of total
LPKR Hospitals and Hotel Aryaduta Manado	Base rent	83,954	95.8%	87,930	96.3%	87,748	96.8%
	Variable rent	3,657	4.2%	3,373	3.7%	2,915	3.2%
	Total rent	87,611	100.0%	91,303	100.0%	90,663	100.0%
MPU Hospitals	Base rent	11,148	99.8%	11,185	99.3%	11,106	99.5%
	Variable rent	21	0.2%	83	0.7%	52	0.5%
	Total rent	11,169	100.0%	11,268	100.0%	11,158	100.0%

Source: First REIT, FPA Financial

In our revenue projection, we would assume the base rent of the LPKR Hospitals and MPU Hospitals to exceed that of the performance-based rent. In turn, total rent would be determined by the base rent. We would adopt the projected 2021 and 2022 combined base rent figures for the LPKR Hospitals and MPU Hospitals as shown in **Exhibit 18** on page 16.

Meanwhile, we note in **Exhibit 15** on page 14 that First REIT's other assets, being Siloam Hospitals Lippo Cikarang, Hotel Aryaduta Manado, Lippo Plaza Kupang, Lippo Plaza Buton, Imperial Aryaduta Hotel & Country Club, Pacific Healthcare Nursing Home @Bukit Merah, Pacific Healthcare Nursing Home II @Bukit Panjang, The Lentor Residence, and Sarang Hospital (Other Assets), had generated S$20.5 million in base rent and S$0.5 million in variable rent in 2019. Given that the rent structure for these properties would remain unchanged, the total rental income generated by the Other Assets in 2019 would be S$21.0 million. As a proxy, we would assume this figure for the Other Assets for 2021 and 2022.

However, given the completed divestment of Sarang Hospital on 31 August 2021, only an approximate 2-month rental contribution would be recorded from the property. During 2020, Sarang Hospital generated an annual rental of US$0.6 million, equivalent to S$0.81 million, based on an exchange rate of US$1.00 = S$1.35720. This would translate to an average monthly rental of approximately S$67,500. We would assume this monthly rental figure to derive S$270,000 worth of rental for the 4-month period from 1 September 2021 to 31 December 2021, being the period of absence of rental contribution from Sarang Hospital in 2021. Net of this amount, the projected 2021 rental income from the Other Assets would be S$20.7 million = [S$21.0 million – S$0.27 million in 4-month worth of rental from Sarang Hospital].

For 2022, a full-year rental contribution of S$0.81 million by Sarang Hospital will be excluded and the projected rental income from the Other Assets for the period would be S$20.2 million = [S$21.0 million - S$0.81 million in full-year rental contribution from Sarang Hospital].

Combining the projected rental income for the 14 properties affected by the restructuring of MLAs and the Other Assets, the total projected rental income for 2021 and 2022 would be S$77.4 million and S$79.4 million, as shown in **Exhibit 21**.

Exhibit 21: Projected rental income for 2021 and 2020

	Projected rental income (S$'000)	
	2021	**2022**
LPKR Hospitals and MPU Hospitals	56,626	59,164
Other Assets	20,730	20,190
Total	**77,356**	**79,354**

Source: FPA Financial

Assuming no impact from government grant from rental relief framework, dividend income from quoted equity shares at fair value through profit or loss (FVTPL) as well as subsidiaries, the projected rental & other income would be S$77.4 million and S$79.4 for 2021 and 2022 respectively, as shown in **Exhibit 22**.

Exhibit 22: Projected rental & other income for 2021 and 2022

	Actual		Forecast	
[S$'000]	**2019**	**2020**	**2021**	**2022**
Rental income	115,295	79,316	77,356	79,354
Government grant from rental relief framework	-	303	-	-
Dividend income from quoted equity shares at FVTPL	2	-	-	-
Dividend income from subsidiaries	-	-	-	-
Total	**115,297**	**79,619**	**77,356**	**79,354**

Source: First REIT, FPA Financial

(II) Earnings projection

Given our projected rental & other income figures for 2021 and 2022, we will now estimate First REIT's earnings for these periods.

Property operating expenses

Looking at historical data, First REIT's property operating expenses have increased over the last few years, except for a decline in 2020 in part due to the absence of property tax expense, as shown in **Exhibit 23**.

Exhibit 23: Historical property operating expenses

[S$'000]	2016	2017	2018	2019	2020
Property tax expense	217	169	170	193	-
Valuation expenses	248	243	251	275	242
Professional fees	579	689	813	938	860
Impairment allowance on trade & other receivables	-	228	353	624	842
Others	138	188	220	373	210
Property operating expenses	**1,182**	**1,517**	**1,807**	**2,403**	**2,154**

Source: First REIT

As noted on page 3, property operating expenses rose by 23.5% y-o-y to S$1.3 million in 1H2021, mainly due to impairment on receivables of S$0.6 million in relation to Sarang Hospital. For 2H2021, we would assume no impairment allowance on trade & other receivables, given the sale of Sarang Hospital in August 2021. In addition, we would assume the same amount for the rest of the individual components as recorded in 1H2021. Accordingly, the projected property operating expenses for full-year 2021 would be S$2.0 million, as shown in **Exhibit 24**. For 2022, we would assume a 2% y-o-y increase in each component, closely in line with an approximately 2.6% growth in rental & other income for the period, to derive a projected total of S$2.1 million, as shown in **Exhibit 24**.

Exhibit 24: Projected property operating expenses for 2021 and 2022

	Actual		Forecast		
[S$'000]	1H2020	1H2021	2H2021	2021	2022
Property tax expense	-	95	95	190	194
Valuation expenses	134	182	182	364	371
Professional fees	409	356	356	712	726
Impairment allowance on trade & other receivables	424	632	-	632	645
Others	103	56	56	112	114
Property operating expenses	**1,070**	**1,321**	**689**	**2,010**	**2,050**

Source: First REIT, FPA Financial

Net property & other income (NPI)

Accordingly, the projected NPI for 2021 and 2022 would be S$75.3 million and S$77.3 million respectively, as shown in **Exhibit 25**.

Exhibit 25: Projected NPI for 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Rental & other income	77,356	79,354
Property operating expenses	(2,010)	(2,050)
NPI	**75,346**	**77,304**

Source: FPA Financial

Interest income

In 1H2020, First REIT recorded S$1.4 million in interest income in 1H2020 mainly due to the returns from the progress payments for the development of new Siloam Hospitals Surabaya. However, the development was terminated on 29 June 2020, and we note that no interest income was recorded during 2H2020. Full-year interest income for 2020 was contributed by the S$1.4 million recorded in 1H2020. As noted on page 3, interest income fell by 96.4% y-o-y to S$52,000.

Given the above, we would assume the same amount of interest income in 1H2021 for 2H2021. Accordingly, the projected interest income for full-year 2021 would be S$0.1 million, as shown in **Exhibit 26**. We would further assume this figure for 2022.

Exhibit 26: Projected interest income for 2021 and 2022

	Actual				Forecast		
[S$'000]	1H2020	2H2020	2020	1H2021	2H2021	2021	2022
Interest income	1,436	-	1,436	52	52	104	104

Source: First REIT, FPA Financial

Manager's management fees

Manager's management fees comprise of a base fee and performance fee which are derived as follows:

1) Base fee of 0.4% per annum of the value of First REIT's Deposited Property, being the value of all the assets for the time being of First REIT or deemed to be held by First REIT
2) Performance fee of 5.0% per annum of First REIT's NPI or the NPI of relevant SPCs for each year

Thus, we would estimate the base fee and performance fee components for FY2021 and FY2022 as follows:

- Base fee for 2021 = 0.4% x S$1,016.5 million in total assets = S$4.1 million
- Base fee for 2022 = 0.4% x S$1,016.5 million in total assets = S$4.1 million

- Performance fee for 2021 = 5.0% x S$75.3 million in projected NPI for 2021 = S$3.8 million
- Performance fee for 2022 = 5.0% x S$77.3 million in projected NPI for 2022 = S$3.9 million

Accordingly, the projected total Manager's management fees would be S$7.8 million and S$7.9 million for 2021 and 2022 respectively, as shown in **Exhibit 27** on the next page.

Exhibit 27: Projected Manager's management fees for 2021 and 2022

	Forecast	
[S$'000]	2021	2022
Base fee	4,066	4,066
Performance fee	3,767	3,865
Manager's management fees	7,833	7,931

Source: FPA Financial

Trustee fees

The Trustee is entitled to an annual fee not exceeding 0.1% of total assets. As noted on page 3, trustee fees declined by 27.7% y-o-y to S$154,000 mainly due to lower total assets. For 2H2021, we would assume the same amount of trustee fees as 1H2021, assuming no significant change in total assets. Accordingly, projected trustee fees for full-year 2021 would be S$0.3 million, as shown in **Exhibit 28**. We would further assume this figure for 2022.

Exhibit 28: Projected Trustee fees for 2021 and 2022

	Actual				Forecast		
[S$'000]	1H2020	2H2020	2020	1H2021	2H2021	2021	2022
Trustee fees	213	203	416	154	154	308	308

Source: First REIT, FPA Financial

Finance costs

As noted on page 4, finance costs fell by 14.3% to S$8.5 million in, mainly due to a drop in interest expense, as First REIT made partial repayment of bank loans upon their maturity in March 2021. Meanwhile, we also note that interest rates have started to move up on expectations for sooner-than-expected monetary policy tightening by the United States Federal Reserve (Fed). Recent remarks by Fed Chairman Jerome Powell suggest that the US central bank could start tapering its asset purchases in end 2021 and potentially raise interest rates in late 2022.

For 2H2021, we would assume the same amount of finance costs of S$8.5 million in 1H2021, on the basis that interest rates, and in turn interest expense may not rise substantially. Further, First REIT has no debt refinancing obligations till next year. Accordingly, projected finance for full-year 2021 would be S$17.0 million, as shown in **Exhibit 29**. Looking at 2022, we foresee stronger upward pressure on interest rate, and thus interest expense may increase. At the same time, we expect that First REIT may have to repay its S$100.0 million of bank loans due in May using a combination of cash and new debt financing. Against this backdrop, we may expect interest expense to rise due to higher interest rates. For this, we would assume a 10% y-o-y increase in finance costs to S$18.7 million = [110% x S$17.0 million in projected finance costs for 2021], as shown in **Exhibit 29**.

Exhibit 29: Projected finance costs for 2021 and 2022

	Actual				Forecast		
[S$'000]	1H2020	2H2020	2020	1H2021	2H2021	2021	2022
Finance costs	9,915	7,911	17,826	8,502	8,502	17,004	18,704

Source: First REIT, FPA Financial

Other expenses

As noted on page 4, other expenses fell by 1.4% y-o-y to S$1.5 million in 1H2021, mainly as lower foreign exchange adjustment gains offset a rise in project expenses. For 2H2021, we would assume that the amount for the individual components of other expenses remain unchanged from 1H2021, except for foreign exchange adjustment gains which we would assume zero impact. Accordingly, projected other expenses for full-year 2021 would be S$2.8 million, as shown in **Exhibit 30**.

For 2022, given the potential for increased business activity at First REIT's properties as the Covid-19 health situation improves, we would assume a 2% y-o-y increase in the amount for the individual components (except for foreign exchange adjustment gains), closely in line with an approximately 2.6% growth in rental & other income for the period. Accordingly, projected other expenses would be S$2.7 million for 2022, as shown in **Exhibit 30**.

Exhibit 30: Projected other expenses for 2021 and 2022

	Actual				Forecast		
[S$'000]	1H2020	2H2020	2020	1H2021	2H2021	2021	2022
Foreign exchange adjustment gains	837	(839)	(2)	196	-	196	-
Handling & processing fees	160	127	287	105	105	210	214
Professional fees	235	220	455	343	343	686	700
Project expenses	220	4,575	4,795	727	727	1,454	1,483
Others	72	96	168	132	132	264	269
Total other expenses	**1,524**	**4,179**	**5,703**	**1,503**	**1,307**	**2,810**	**2,666**

Source: First REIT, FPA Financial

Net fair value gain/(loss) on derivative financial instruments

As noted on page 4, First REIT recorded net fair value gains of S$1.7 million on derivative financial instruments in 1H2021, in relation to the revaluation of interest rate swap contracts. This compared with a net fair value loss of S$3.6 million recorded during 1H2020.

For 2H2021 and 2022, we would assume no fair value gains or losses. Accordingly, the projected amount for 2021 would be S$1.7 million and that for 2022 would be zero, as shown in **Exhibit 31**.

Exhibit 31: Projected net fair value gain/(loss) on derivative financial instruments for 2021 and 2022

	Actual				Forecast		
[S$'000]	1H2020	2H2020	2020	1H2021	2H2021	2021	2022
Net fair value gain/(loss) on derivative financial instruments	(3,646)	1,255	(2,391)	1,698	-	1,698	-

Source: First REIT, FPA Financial

Net fair value gain/(loss) on investment properties

In 2020, First REIT recorded a net fair value loss of S$401.4 million on its investment properties, which compared to a loss of S$5.6 million in 2019. The increase was mainly due to to the valuation of certain Indonesia properties which took into consideration the restructuring of MLAs. As at 31 December 2020, the total valuation of First REIT's portfolio was S$939.7 million, based on the individual properties' fair value as determined by independent professional valuers.

In its latest 1H2021 financial statements, First REIT reported that its management had reached out to the independent professional valuers to conduct a high-level review of the key parameters for the valuation of each investment property. Given that the independent professional valuers have generally maintained the same key parameters and assumptions with that as of 31 December 2020 and with no changes to the valuation techniques, First REIT has maintained the individual properties' valuation as at 31 December 2020, in the midst of the COVID-19 pandemic and its uncertainties. Accordingly, there were no revaluation gains or losses for 1H2021.

In our projection, we would adopt a conservative approach to assume no net fair value gains or losses for 2H2021, and in turn full-year 2021. We would further assume no gains or losses in 2022.

Total return before income tax

Given the above projections, the projected total return before income tax would be S$49.2 million and S$47.8 million for 2021 and 2022 respectively, as shown in **Exhibit 32**.

Exhibit 32: Projected total return before income tax for 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Rental & other income	77,356	79,354
Property operating expenses	(2,010)	(2,050)
Net property & other income	75,346	77,304
Interest income	104	104
Manager's management fees	(7,833)	(7,931)
Trustee fees	(308)	(308)
Finance costs	(17,004)	(18,704)
Other expenses	(2,810)	(2,666)
Net income before net fair value changes in derivative financial instruments and investment properties	47,495	47,798
Net fair value gain/(loss) on derivative financial instruments	1,698	-
Net fair value gain/(loss) on investment properties	-	-
Total return before income tax	**49,193**	**47,798**

Source: FPA Financial

Income tax expense

As noted on page 4, income tax expense fell by 5.3% y-o-y to S$6.1 million in 1H2021, mainly due to lower withholding taxes on the back of lower dividend income received from foreign subsidiaries. For 2021 and 2022, we would assume a Singapore tax rate of 17% to be levied on the total return before tax for the respective periods. Accordingly, the projected tax expenses for 2021 and 2022 would be S$8.4 million and S$8.1 million as follows:

- Projected income tax expense for 2021 = 17% x S$49.2 million = S$8.4 million
- Projected income tax expense for 2022 = 17% x S$47.8 million = S$8.1 million

Total return after income tax

Net of the above projected income tax expense, we estimate a total return after income tax of S$40.8 million and S$39.7 million for 2021 and 2022 respectively. We would assume the same amount of distribution to perpetual securities holders of S$1.7 million in 1H2021 for 2H2021. Accordingly, the projected distribution to perpetual securities holders would be S$3.4 million. We would further assume this figure for 2022. Consequently, the projected total return attributable to unitholders would be S$37.5 million and S$36.3 million for 2021 and 2022 respectively. This will translate to a projected EPU of 2.74 cents and 2.66 cents for 2021 and 2022 respectively. A summary of our earnings projection is shown in **Exhibit 33.**

Exhibit 33: Earnings projection for 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Rental & other income	77,356	79,354
Property operating expenses	(2,010)	(2,050)
Net property & other income	75,346	77,304
Interest income	104	104
Manager's management fees	(7,833)	(7,931)
Trustee fees	(308)	(308)
Finance costs	(17,004)	(18,704)
Other expenses	(2,810)	(2,666)
Net income before net fair value changes in derivative financial instruments and investment properties	47,495	47,798
Net fair value gain/(loss) on derivative financial instruments	1,698	-
Net fair value gain/(loss) on investment properties	-	-
Total return before income tax	49,193	47,798
Income tax expense	(8,363)	(8,126)
Total return after income tax	**40,830**	**39,672**
Total return attributable to:		
Unitholders	**37,450**	**36,292**
Perpetual securities holders	3,380	3,380
	40,830	39,672
Total return attributable to unitholders	37,450	36,292
Weighted average number of units in issue ('000)	1,365,867	1,365,867
EPU (cents)	**2.74**	**2.66**

Source: FPA Financial

(III) Distribution projection

Given our projected figures for total return after income tax of S$40.8 million and S$39.7 million for 2021 and 2022 respectively, we will now estimate distributable income, and in turn DPU for the respective years. For this, we would consider the adjustments for the items below.

Manager’s management fees settled in units

Manager’s management fees will be paid in the form of cash and/or units (as the Manager may elect). During 1H2021, manager’s management fees settled in units amounted to S$2.1 million compared to S$2.3 million a year ago, as earlier reflected in **Exhibit 6** on page 6. For 2H2021, we would assume the amount in relation to Manager’s management fees settled in units to be the same as 1H2021. Accordingly, the projected amount for full-year 2021 would be S$4.1 million. We would further assume this figure for 2022.

Net fair value (gains)/losses on derivatives financial instruments

In our earnings projection, we assumed no fair value gains or losses for 2H2021 and 2022. Accordingly, the projected amount for 2021 would be S$1.7 million in gains, which will be deducted from total return after income tax. As neither gains nor losses are projected for 2022, there would be no adjustments for this item in the statement of distributions for the period.

Change in fair value on investment properties, net of deferred tax

In our earnings projection, we projected no net fair value gains or losses on investment properties for 2021 and 2022. In turn, there would be no adjustments for this item in the statement of distributions for both periods.

Amount reserved for distribution to perpetual securities holders

In our earnings projection, we derived projected distributions to perpetual securities holders of S$3.4 million in 2020 and 2022. Accordingly, this amount would be deducted from total return after tax.

Foreign exchange adjustment losses

In our earnings projection, we assumed no foreign exchange adjustment gains or losses for 2H2020 and 2021. Accordingly, the projected amount for full-year 2021 would be a S$0.2 million gain, would be deducted from total return after tax. As neither gains nor losses are projected for 2022, there would be no adjustments for this item in the statement of distributions for the period.

Other non-tax deductible items and adjustments

We would assume no adjustments for this item in the statement of distributions for 2021 and 2022.

After factoring in the adjustments for the various items as discussed on the previous page, the projected distributable income would be S$39.7 million and S$40.4 million for 2021 and 2022 respectively, as shown in **Exhibit 34**. Accordingly, this would translate to a DPU of 2.47 cents and 2.51 cents for 2021 and 2022 respectively, based on 1,606.6 million units in issue.

Exhibit 34: DPU projection for 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Total return after income tax - [A]	40,830	39,672
Adjustments for tax purposes:		
Manager's management fees settled in units	4,100	4,100
Net fair value (gains)/losses of derivatives financial instruments	(1,698)	-
Net fair value (gains)/losses on investment properties	-	-
Amount reserved for distribution to perpetual securities holders	(3,380)	(3,380)
Foreign exchange adjustment (gains)/losses	(196)	-
Other non-tax deductible items and adjustments	-	-
Total adjustments - [B]	(1,174)	720
Distributable income = [A]+[B]	**39,656**	**40,392**
No. of issued units ('000)	1,606,628	1,606,628
DPU (cents)	**2.47**	**2.51**

Source: FPA Financial

VALUATION ANALYSIS

We will first perform an updated peer comparison analysis to account for the changes in the financial position of First REIT and its selected peer companies. We then provide a summary of our valuation analysis and an estimated target price for First REIT.

(I) Peer comparison analysis

The results of our updated peer comparison analysis are summarized in **Exhibit 35**.

Exhibit 35: Peer comparison analysis

Company	Stock listing	Stock code	Price (S$) as at 5 Oct 21	Market cap (S$ million)	EPU [1] (cents)	P/E (x)	DPU [2] (cents)	Distribution yield (%)	NAV per unit [3] (S$)	P/NAV (x)
First REIT	SGX	AW9U	0.255	409.69	(44.27)	NM	3.15	12.35	0.35	0.73
Peer companies:										
Parkway Life REIT	SGX	C2PU	4.530	2,740.66	16.27	27.84	14.06	3.10	1.98	2.29
Raffles Medical Group	SGX	BSL	1.460	2,726.64	4.75	30.74	2.50	1.71	0.49	2.99
Northwest Healthcare Properties REIT [4]	TSX	NWH.UN	12.940	2,813.54	81.05	15.96	-	6.15	9.74	1.33
Medical Properties Trust Inc [5]	NYSE	MPW	20.050	11,793.41	93.00	21.56	110.00	5.49	13.94	1.44
Peers' average		-	-	-	-	**24.03**	**-**	**4.11**	**-**	**2.01**

SGX, TSX and NYSE refer to Singapore Exchange, Toronto Stock Exchange and New York Stock Exchange respectively
(1) Trailing 12-month diluted EPS
(2) Trailing 12-month DPU
(3) Nav per unit as at 30 June 2021
(4) Company data in CAD.
(5) Company data in USD
Source: Respective company data, WSJ, FPA Financial

Based on the above results in **Exhibit 35**, we note that First REIT has a distribution yield of 12.35% which is relatively attractive compared to the peers' average yield of 4.11%. Meanwhile, we also note that First REIT is currently trading P/NAV of 0.73x, lower compared to the peers' average P/NAV of 2.01x, which could suggest that it is undervalued.

(II) Valuation summary

The results from our updated peer comparison analysis suggest that First REIT appears relatively attractive in terms of distribution yield. In addition, First REIT is currently trading at a P/NAV of 0.73x, below the peers' average P/NAV of 2.01x. This may suggest that First REIT could be undervalued based on the value of its net assets.

We believe that there is a possibility of further upside for First REIT, given the growing demand for healthcare in Indonesia as a catalyst for potential growth. However, it may still be overly optimistic to assume that it may be fair for First REIT to trade at the peers' average P/NAV of 2.01x. One potential reason could be the disadvantage in terms of geographical positioning, as First REIT's properties are located in Indonesia which is an emerging economy. In comparison, the portfolio of its peers are positioned in developed economies such as the US, Europe and Singapore. Thus, the inherent growth disparity may warrant a discount for the valuation for First REIT's properties.

Considering the above, we believe the potential upside could be for First REIT to trade at a P/NAV of 1.0x, or in other words at its reported NAV per share of 35.12 cents. Accordingly, our estimated target price would be S$0.351, which represents a 37.6% upside from the current share price of S$0.255.

INVESTMENT RECOMMENDATION

Since our initiation report on 22 January 2021, when First REIT's share price closed at S$0.245, the share price weakened in February due to the dilutive impact of the rights issue. While the share price has seen a moderate rebound subsequently, further upside has in part been limited by ongoing uncertainty over LPKR's financial position, which in turn creates concern over the stability of First REIT's rental income. Further, against a still-weak operating environment in Indonesia due to virus-related concerns, we expect a modest recovery in financial performance.

On a positive note, First REIT has managed to complete its strategic initiatives to restructure its business, recapitalize its balance sheet, refinance debt obligations and reposition for growth. This has provided room for capital growth and has put First REIT in a better position to tap on growth opportunities such as asset acquisitions.

In terms of valuation, the results of our peer comparison analysis suggest that First REIT is relatively attractive in terms of distribution yield. Further, we note that First REIT is currently trading at a P/NAV of 0.73x based on its reported NAV per share of 35.12 cents, below the peers' average P/NAV of 2.01x. This may suggest that First REIT could be undervalued based on the value of its net assets. While we believe that there is a possibility of further upside for First REIT, it may still be overly optimistic for First REIT to trade at the peers' average P/NAV of 2.01x. We believe the potential upside may be for First REIT to trade at a P/NAV of 1.0x. Accordingly, we estimate a target price of S$0.351, which represents a 37.6% upside from the current share price of S$0.255.

All things considered, we will maintain a neutral recommendation on First REIT, given concerns that could limit the upside in our target price. We will highlight these concerns in the Risk section on the next page.

RISKS TO THE UPSIDE IN TARGET PRICE

Below, we highlight several risk factors that could limit the upside in our target price.

(I) Concerns over further MLA restructuring

With the completed restructuring of MLAs, it appears that First REIT has managed to avoid the negative consequences of a default by LPKR under the existing LPKR MLAs. However, considering LPKR's latest financials, we note that the company's debt situation deteriorated in 1H2021. The company's total debt and net debt increased sharply over 1H2021 to Rp 23.1 trillion and Rp 17.5 trillion respectively, as shown in **Exhibit 36**.

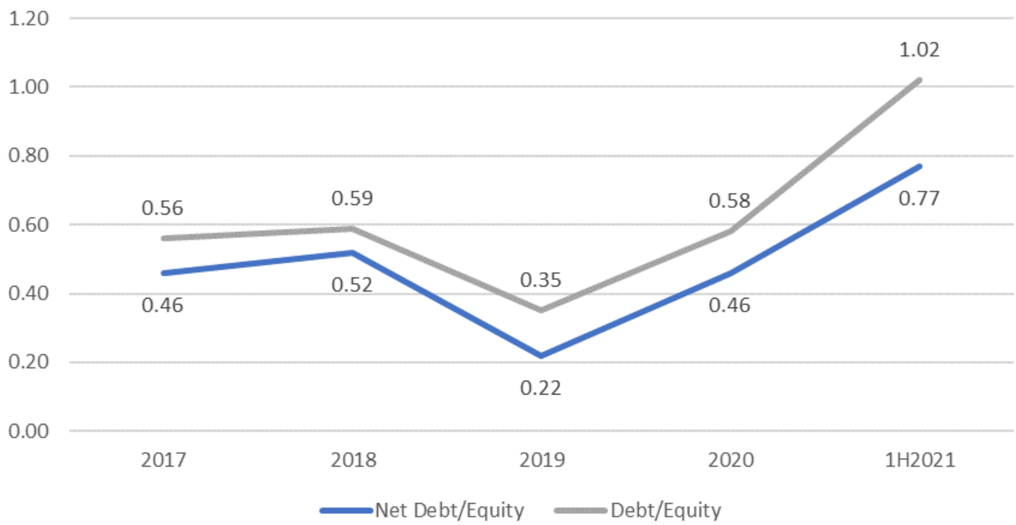
Exhibit 36: LPKR's capital management

(Rp bn)	2017	2018	2019	2020	1H21
Total Debt	**13,638**	**14,621**	**12,080**	**13,725**	**23,148**
Total Debt (USD m)	1,007	981	869	948	1,593
Cash & Cash Equivalents	(2,538)	(1,818)	(4,685)	(2,993)	(5,622)
Net Debt	**11,100**	**12,803**	**7,395**	**10,732**	**17,526**

Source: LPKR

As a result, we note that LPKR's leverage ratios, such as the debt-equity and net debt-equity ratios, have risen to 1.02x and 0.77x respectively, the highest level in the last few years, as shown in **Exhibit 37**.

Exhibit 37: LPKR's leverage ratios



Source: LPKR

Given the above, it appears that LPKR's weak financial position remains a concern, which may suggest that there could still be a risk that it could face difficulties meeting the lease payments to First REIT going forward. There is a possibility that LPKR could further negotiate the MLAs terms under a new round of restructuring, which may have a negative impact First REIT's rental income.

(II) Risk of exchange rate fluctuations

As noted in **Exhibit 10** on page 9, under the new MLA terms, rental income that First REIT will derive from the LPKR Hospitals and MPU Hospitals would be denominated in Indonesian Rupiah instead of the Singapore Dollar (SGD) previously. This has exposed First REIT to the risk of exchange rate fluctuations, as a significant weakening of the Rupiah against the SGD could reduce the amount of rental income received in SGD. Furthermore, given the mismatch between rental income received in Rupiah and First REIT's SGD-denominated borrowings, a strong SGD could negatively impact earnings in Rupiah.

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