F•P•A FINANCIAL
Investment Perspectives

22 January 2021

REAL ESTATE EQUITY RESEARCH

First Real Estate Investment Trust

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

Country: Singapore
Industry: Healthcare, real estate

22 January 2021
RECOMMENDATION: NEUTRAL

Current price: S$0.245
Theoretical ex-rights price: S$0.223
Target price: S$0.346
Issued units: 807.21 million (31 Dec 20)
Market capitalisation: S$197.77 million
Issued units post rights issue: 1,598.27 million
Market capitalisation post rights issue: S$356.41 million

52-week range: S$0.220 - S$1.020

PRICE PERFORMANCE

COMPANY DESCRIPTION

First Real Estate Investment Trust (First REIT) is Singapore's first healthcare real estate investment trust that aims to invest in a diverse portfolio of yield-accretive real estate assets in Asia that are primarily used for healthcare and/or healthcare-related purposes. It has a portfolio of 20 properties that cover the geographical markets of Indonesia, Singapore and South Korea.

SUMMARY

Owing to the COVID-19 pandemic, the Group's revenue performance has been negatively impacted in FY2020. Accordingly, the Group reported a DPU of 4.15 cents for the period compared to 8.60 cents in FY2019. In light of concerns over the Group's ability to meet its upcoming debt obligations and a risk of default on lease payments by its major master lessee of its Indonesian properties, First REIT recently announced a restructuring of master lease agreements for 14 of its hospital properties in Indonesia and a proposed rights issue to raise equity funding, which have been approved by unitholders during an extraordinary general meeting on 19 January 2021.

RECOMMENDATION

Factoring in the impact of First REIT's rights issue, we estimated an adjusted NAV per unit of S$0.3456. Based on the terms of the rights issue, we estimated a theoretical ex-rights price (TERP) of S$0.223 per unit. Our peer comparison results suggest that First REIT is relatively attractive in terms of dividend yield. In addition, we note that it is trading at a substantially lower PB multiple of 0.65x (based on adjusted NAV per unit of S$0.3456) compared to the peer average of 1.74x. However, we believe that the upside potential could be for First REIT to trade at the adjusted NAV per unit of S$0.3456. We thus estimated a target price of S$0.3456 if the PB were to adjust to 1.0x. This target price is a 55% upside from the TERP per unit of S$0.223. Meanwhile, we note concerns over the possibility of a further restructuring of master lease agreements and the risk of potential weakening of the Rupiah which could limit share price upside. Given the above consideration, we issue a neutral recommendation on First REIT.

KEY FINANCIALS	Revenue (S$ million)	Profit* (S$ million)	EPU (cents)	P/E (x)	DPU (cents)	Dividend yield (%)	NAV per unit (S$)	P/B (x)
2018 actual	116.2	72.5	9.23	2.42	8.60	38.57	1.03	0.22
2019 actual	115.3	45.5	5.74	3.89	8.60	38.57	1.00	0.22
2020 actual	79.6	(355.8)	(44.33)	n.m	4.15	18.61	0.50	0.45
2021 forecast	77.6	29.5	1.84	12.12	2.22	9.96	0.35	0.65
2022 forecast	80.2	31.3	1.96	11.38	2.33	10.45	0.35	0.65

Figures have been rounded. P/E, P/B and dividend yield figures are based on TERP of S$0.223
**Profit attributable to unitholders of the Trust*
Source: First REIT, FPA Financial

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COMPANY OVERVIEW

(I) Corporate profile

First REIT (the Trust) is constituted by the Trust Deed entered into on 19 October 2006 between First REIT Management Limited as the Manager and HSBC Institutional Trust Services (Singapore) Limited as the Trustee. On 1 March 2018, HSBC Institutional Trust Services (Singapore) Limited retired as the Trustee of First REIT in favour of Perpetual (Asia) Limited.

Listed on the Singapore Exchange since 11 December 2006, First REIT is Singapore's first healthcare real estate investment trust that aims to invest in a diverse portfolio of yield-accretive real estate assets in Asia that are primarily used for healthcare and/or healthcare-related purposes.

The former Sponsor of First REIT is PT Lippo Karawaci Tbk (LPKR), a major Indonesian property developer which is listed on the Indonesia Stock Exchange. As last disclosed in First REIT's Annual Report 2019, the Trust is granted a right-of-first-refusal (ROFR) to LPKR's pipeline of healthcare assets in Indonesia. In Q1 2020, LPKR had completed the divestment of its 10.5% stake in First REIT following the disposal of units through market transaction.

Currently, First REIT's Sponsor Group includes OUE Limited (OUE), its 64.35% owned subsidiary OUE Lippo Healthcare Limited (OUELH), the Manager and their respective affiliates. In October 2018, OUE and OUELH had acquired LPKR's 100% shareholding in the Manager while OUELH had also acquired a 10.63% stake in First REIT. Following the acquisition, First REIT has been granted a ROFR from OUELH which provides opportunities to tap on the latter's network of income producing and development assets across developed markets like Japan and growth markets like China.

As at 31 December 2020, the Group, comprising of First REIT and its subsidiaries, had total assets of S$1.0 billion and net assets attributable to unitholders of S$0.4 billion.

(II) Trust structure

This sub section provides an overview of First REIT's trust structure. We will also highlight the roles of the individual entities within the trust structure and the relationship between these entities.

<u>Manager of First REIT</u>

The Manager of First REIT is First REIT Management Limited, formerly known as Bowsprit Capital Corporation Limited before it was renamed on 21 May 2020. As noted above, the Manager was previously wholly-owned by LPKR before it was fully acquired by OUE and OUELH in October 2018. Following the acquisition, the Manager is 60% directly held by OUE and 40% directly held by OUELH. Further, OUELH had also then, through its indirect wholly-owned subsidiary OLH Healthcare Investments Pte Ltd (OHI), acquired 83,593,683 units, representing 10.63% of the total unitholdings of First REIT.

As at 24 December 2020, the Manager and OUELH held an aggregate interest in 75,573,533 units and 83,593,683 units in First REIT respectively. This respectively represented 9.36% and 10.36% of 807,206,351 units in issue as at 24 December 2020. Accordingly, OUE, through its interest in the Manager and OUELH, held a deemed interest of 159,167,216 units in First REIT, representing 19.72% of 807,206,351 units in issue.

<u>Trustee of First REIT</u>

Perpetual (Asia) Limited is the Trustee of First REIT which had replaced HSBC Institutional Trust Services (Singapore) Limited on 1 March 2018. It is responsible for taking into custody and holding the assets of the Group in trust for unitholders. Under the Trust Deed, the Trustee is entitled to an annual fee not exceeding 0.1% of the value of all the assets for the time being of First REIT or deemed to be held by First REIT (Deposited Property).

Singapore Properties

Singapore Properties refers to First REIT's properties in Singapore which are wholly-owned by the Trust. Details of the Singapore Properties are shown in **Exhibit 2** on the next page.

Onshore Special Purpose Companies (SPCs)

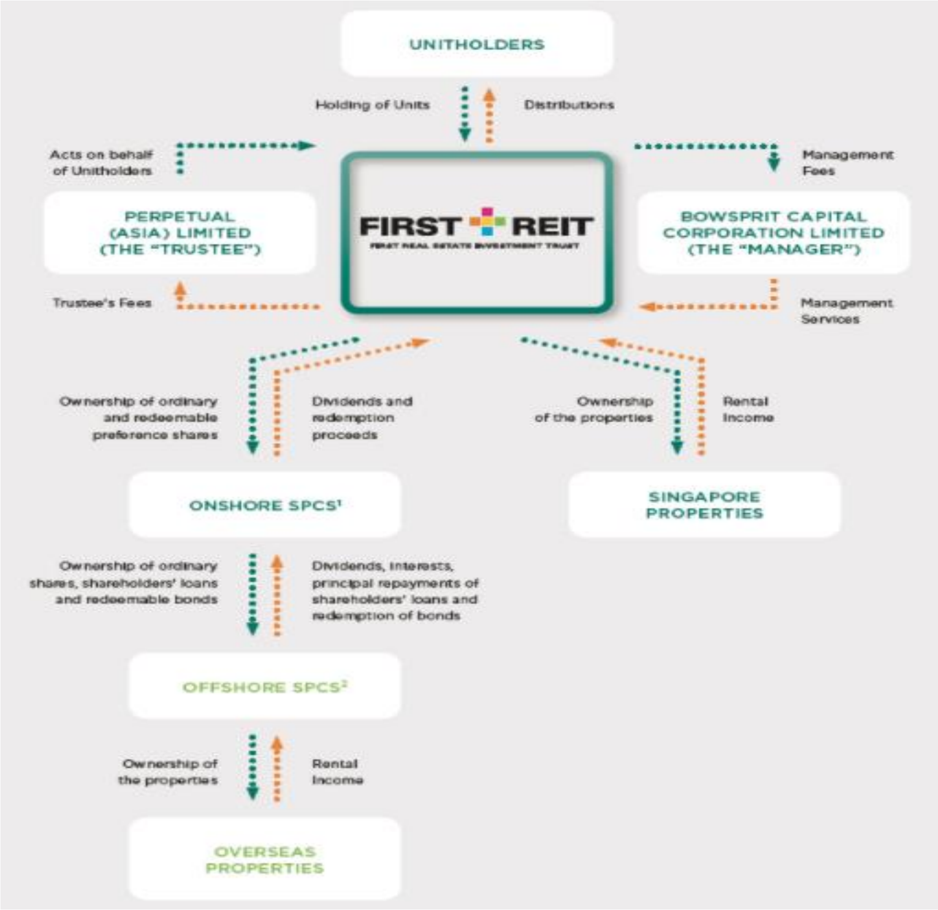
Onshore SPCs refer to Singapore SPCs which are responsible for the ownership of ordinary shares, shareholders' loans and redeemable bonds. First REIT has a 100% direct ownership in all its onshore SPCs which hold interest in offshore SPCs. In turn, First REIT holds an indirect ownership in the offshore SPCs.

Offshore SPCs

Offshore SPCs refer to Overseas SPCs which are responsible for the ownership of the Trust's overseas properties in Indonesia and South Korea. The offshore SPCs hold a 100% ownership interest in the properties of the Trust in these two geographical markets. As noted above, First REIT has an indirect ownership in these offshore SPCs through its onshore SPCs. Details of the Indonesia and South Korea properties are shown in **Exhibit 2** on the next page.

Exhibit 1 provides a diagrammatic representation of the trust structure as disclosed in First REIT's Annual Report 2019.

Exhibit 1: First REIT trust structure



(1) Onshore SPCs refer to Singapore Special Purpose Companies
(2) Offshore SPCs refer to Overseas Special Purpose Companies
Source: First REIT

(III) Overview of the Trust's portfolio

Characteristics of the portfolio

The Trust has a portfolio of 20 properties across Asia, with a total bed count of 5,092 (inclusive of 390 saleable rooms) and combined gross floor area (GFA) of 350,850 square metres (sqm). These include 16 properties in Indonesia comprising 12 hospitals, two integrated hospitals & malls, an integrated hospital & hotel and a hotel & country club, as well as 3 nursing homes in Singapore and one hospital in South Korea. A summary of the property type, year established, number of beds/rooms and GFA for the Trust's individual properties is shown in **Exhibit 2**.

Exhibit 2: Characteristics of the Trust's portfolio

Country	Property name	Property type	No. of beds/rooms	GFA (sqm)	Type of land title
Indonesia	Imperial Aryaduta Hotel & Country Club	Hotel & Country Club	Rooms: 190	17,427	HGB (2)
	Mochtar Riady Comprehensive Cancer Centre	Hospital	Beds: 334	37,933	HGB
	Siloam Hospitals Lippo Village	Hospital	Beds: 274	27,284	HGB
	Siloam Hospitals Kebon Jeruk	Hospital	Beds: 215	18,316	HGB
	Siloam Hospitals Surabaya	Hospital	Beds: 160	9,227	HGB
	Siloam Hospitals Lippo Cikarang	Hospital	Beds: 114	13,256	HGB
	Siloam Hospitals Purwakarta	Hospital	Beds: 202	8,254	HGB
	Siloam Hospitals Makassar	Hospital	Beds: 360	14,307	HGB
	Siloam Hospitals Manado & Hotel Aryaduta Manado	Integrated hospital & hotel	Beds: 238; Rooms: 200	36,051	HGB
	Siloam Hospitals TB Simatupang	Hospital	Beds: 269	18,605	HGB
	Siloam Hospitals Bali	Hospital	Beds: 281	20,958	HGB
	Siloam Hospitals Kupang & Lippo Plaza Kupang	Integrated hospital & mall	Beds: 416	55,368	BOT Scheme (3)
	Siloam Hospitals Labuan Bajo	Hospital	Beds: 153	7,604	HGB
	Siloam Hospitals Buton & Lippo Plaza Buton	Integrated Hospital & Mall	Beds: 160	21,934	BOT Scheme
	Siloam Hospitals Yogyakarta	Hospital	Beds: 220	12,474	HGB
	Siloam Sriwijaya	Hospital	Beds: 357	15,709	BOT Scheme
Singapore	Pacific Healthcare Nursing Home @ Bukit Merah	Nursing home	Beds: 259	3,593	30 years leasehold from 2002
	Pacific Healthcare Nursing Home II @ Bukit Panjang	Nursing home	Beds: 265	3,563	30 years leasehold from 2003
	The Lentor Residence	Nursing home	Beds: 208	4,005	99 years leasehold from 1938
South Korea	Sarang Hospital	Hospital	Beds: 217	4,982	Freehold
Total	-	-	5,092 (1)	350,850	-

(1) Total bed count, inclusive of 390 rooms

(2) In Indonesia, a Hak Guna Bangunan (HGB) title is technically a leasehold title which the State retains "ownership". It is granted for an initialperiod of up to 30 years and is extendable for a subsequent 20-year period and another 30-year period

(3) Under Build, Operate and Transfer (BOT) Scheme, the Indonesia government agrees to grant certain rights over state-owned land to another party for the construction of commercial buildings. A BOT Scheme is granted for an intitial period of 20 to 30 years and is extendable upon agreement of both the grantor and grantee

Source: First REIT

Valuation of the properties

As at 31 December 2020, First REIT's properties has a total portfolio valuation of S$939.7 million, having taken into consideration the terms in respect to a restructuring of master lease agreements (MLAs) for 14 of First REIT's hospitals in Indonesia (this will be further discussed on pages 11 to 15).

The valuation of the properties are determined by independent appointed valuers including Cushman & Wakefield VHS Pte. Ltd. in conjunction with KJPP Firman Suryantoro Sugeng Suzy Hartomo & Rekan (C&W), KJPP Willson dan Rekan in association with Knight Frank (KJPP W&R), Savills Valuation And Professional Services (S) Pte Ltd (Savills) and Colliers International (Hong Kong) Limited (Colliers).

The details of the year of acquisition, purchase price, valuation and appointed valuers of the Trust's individual properties are summarized in **Exhibit 3**.

Exhibit 3: Year of acquisition, purchase price, valuation and appointed valuers of the Trust's portfolio

Country	Property	Acquisition year	Purchase price (S$million)	Valuation (S$ million)	Appointed valuers
Indonesia	Siloam Hospitals Surabaya	2006	16.8	40.3	C&W
	Siloam Hospitals Kebon Jeruk	2006	50.6	73.8	C&W
	Siloam Hospitals Lippo Village	2006	94.3	164.0	C&W
	Imperial Aryaduta Hotel & Country Club	2006	21.2	41.4	KJPP W&R
	Mochtar Riady Comprehensive Cancer Centre	2010	170.5	126.9	C&W
	Siloam Hospitals Lippo Cikarang	2010	35.0	49.8	C&W
	Siloam Hospitals Makassar	2012	59.3	66.0	C&W
	Siloam Hospitals Manado and Hotel Aryaduta Manado (1)	2012	83.6	77.5	C&W
	Siloam Hospitals TB Simatupang	2013	93.1	41.9	C&W
	Siloam Hospitals Bali	2013	97.3	63.0	C&W
	Siloam Hospitals Purwarkata	2014	31.0	22.9	C&W
	Siloam Sriwijaya	2014	39.2	24.7	C&W
	Siloam Hospitals Kupang & Lippo Plaza Kupang (2)	2015	75.0	53.5	C&W
	Siloam Hospitals Labuan Bajo	2016	20.0	11.2	C&W
	Siloam Hospitals Buton & Lippo Plaza Buton (3)	2017	28.5	24.9	C&W
	Siloam Hospitals Yogyakarta	2017	27.0	20.1	C&W
Singapore	Pacific Healthcare Nursing Home @ Bukit Merah	2007	11.8	9.1	Savills
	Pacific Healthcare Nursing Home II @ Bukit Panjang	2007	11.5	9.4	Savills
	The Lentor Residence	2007	12.8	15.3	Savills
South Korea	Sarang Hospital	2011	17.2 (4)	4.1 (5)	Colliers
Total	-	-	-	939.7	-

(1) Siloam Hospitals Manado is valued at S$40.3 million and Hotel Aryaduta Mando is valued at S$37.2 million. The aggregate value of both properties is S$77.5 million

(2) Siloam Hospitals Kupang is valued at S$21.5 million and Lippo Plaza Kupang is valued at S$32.0 million. The aggregate value of both properties is S$53.5 million

(3) Siloam Hospitals Buton is valued at S$12.4 million and Lippo Plaza Buton is valued at S$12.5 million. The aggregate value of both properties is S$24.9 million

(4) Based on value of US$13.0 million at exchange rate of US$1=S$1.3221 as at 31 December 2020

(5) Valuation by Colliers is US$4.6 million as at 31 December 2020. Manager has taken a prudent view to mark down the valuation to US$3.1 million given potential upcoming capital expenditure costs. Valuation of S$4.1 million is based on exchange rate of US$1=S$1.3221 as at 31 December 2020

Source: First REIT, FPA Financial

Ownership of the properties

As noted on page 4, the Trust holds a 100% ownership in the 3 properties in Singapore and an indirect ownership of its properties in Indonesia and South Korea through wholly-owned offshore SPCs. We have summarized the ownership status of the Trust's individual properties in **Exhibit 4**.

Exhibit 4: Ownership status of the Trust's portfolio

Country	Property	Owned by	Group's property ownership (%)
Indonesia	Siloam Hospitals Surabaya	PT Tata Prima Indah	100%
	Siloam Hospitals Kebon Jeruk	PT Graha Indah Pratama	100%
	Siloam Hospitals Lippo Village	PT Sentra Dinamika Perkasa	100%
	Imperial Aryaduta Hotel & Country Club	PT Karya Sentra Sejahtera	100%
	Mochtar Riady Comprehensive Cancer Centre	PT Primatama Cemerlang	100%
	Siloam Hospitals Lippo Cikarang	PT Graha Pilar Sejahtera	100%
	Siloam Hospitals Makassar	PT Bayutama Sukses	100%
	Siloam Hospitals Manado and Hotel Aryaduta Manado	PT Menara Abadi Megah	100%
	Siloam Hospitals TB Simatupang	PT Perisai Dunia Sejahtera	100%
	Siloam Hospitals Bali	PT Dasa Graha Jaya	100%
	Siloam Hospitals Purwarkata	PT Eka Dasa Parinama	100%
	Siloam Sriwijaya	PT Sriwijaya Mega Abadi	100%
	Siloam Hospitals Kupang & Lippo Plaza Kupang	PT Nusa Bahana Niaga	100%
	Siloam Hospitals Labuan Bajo	PT Prima Labuan Bajo	100%
	Siloam Hospitals Buton & Lippo Plaza Buton	PT Buton Bangun Cipta	100%
	Siloam Hospitals Yogyakarta	PT Yogya Central Terpadu (1)	100%
Singapore	Pacific Healthcare Nursing Home @ Bukit Merah	Owned by the Trust	100%
	Pacific Healthcare Nursing Home II @ Bukit Panjang	Owned by the Trust	100%
	The Lentor Residence	Owned by the Trust	100%
South Korea	Sarang Hospital	Kalmore (Korea) Limited	100%

(1) Joint operation held by wholly-owned subsidiary, Icon1 Holdings Pte Ltd

Source: First REIT

Lease structure of the properties

The master lessee of the Trust's hospitals in Indonesia are LPKR and its subsidiaries and PT Metropolis Propertindo Utama (MPU). We note that MPU holds a 1.71% shareholding in LPKR as at 31 December 2019 and also leases out Siloam Hospital Palembang (not part of First REIT's portfolio) to LPKR's subsidiary. Further, MPU is related to the Lippo Group through Lippo Limited, a member of the Lippo Group together with LPKR.

All of the Trust's hospitals in Indonesia are operated by PT Siloam International Hospitals TBK (Siloam), a subsidiary of LPKR. Imperial Aryaduta Hotel & Country Club and Hotel Aryaduta Manado are operated by Aryaduta Hotel & Resort Group, the hotels & hospitality division of LPKR. Lippo Plaza Kupang and Lippo Plaza Buton are managed by PT Lippo Malls Indonesia, a wholly-owned subsidiary of LPKR.

In Singapore, the nursing homes at Bukit Merah and Bukit Panjang are operated by Pacific Healthcare Nursing Home Pte Ltd and Pacific Eldercare & Nursing Pte Ltd respectively, while The Lentor Residence is operated by The Lentor Residence Pte Ltd. In South Korea, Sarang Hospital is operated by a private doctor.

The details on the master lessees and operators of the Trust's individual properties are summarized in **Exhibit 5**.

Exhibit 5: Master lessee(s) and operator of the individual properties of the Trust

Country	Property	Master lessee	Operator
Indonesia	Imperial Aryaduta Hotel & Country Club	Not disclosed	Operated by Aryaduta Hotel & Resort Group
	Siloam Hospitals Lippo Village	LPKR	Siloam
	Siloam Hospitals Kebon Jeruk	LPKR	Siloam
	Siloam Hospitals Surabaya	LPKR	Siloam
	Mochtar Riady Comprehensive Cancer Centre	LPKR	Siloam
	Siloam Hospitals Lippo Cikarang	LPKR	Siloam
	Siloam Hospitals Makassar	LPKR	Siloam
	Siloam Hospitals Bali	LPKR	Siloam
	Siloam Hospitals TB Simatupang	LPKR	Siloam
	Siloam Hospitals Manado & Hotel Aryaduta Manado	LPKR	Hospital: Siloam Hotel Aryaduta Manado: operated by Aryaduta Hotel & Resort Group
	Siloam Hospitals Yogyakarta	LPKR and PT Taruna Perkasa Megah, a wholly-owned subsidiary of Siloam	Siloam
	Siloam Hospitals Labuan Bajo	LPKR and PT Lintas Buana Jaya, a wholly-owned subsidiary of Siloam	Siloam
	Siloam Hospitals Buton & Lippo Plaza Buton	LPKR and PT Bina Bahtera Sejati, a wholly-owned subsidiary of Siloam	Hospital: Siloam Lippo Plaza Buton: managed by PT Lippo Malls Indonesia
	Siloam Hospitals Purwakarta	MPU	Siloam
	Siloam Sriwijaya	MPU	Siloam
	Siloam Hospitals Kupang & Lippo Plaza Kupang	MPU	Hospital: Siloam Lippo Plaza Kupang: managed by PT Lippo Malls Indonesia
Singapore	Pacific Healthcare Nursing Home @ Bukit Merah	Not disclosed	Operated by Pacific Healthcare Nursing Home Pte Ltd
	Pacific Healthcare Nursing Home II @ Bukit Panjang	Not disclosed	Operated by Pacific Eldercare and Nursing Pte Ltd
	The Lentor Residence	Not disclosed	Operated by the Lentor Residence Pte Ltd
South Korea	Sarang Hospital	Not disclosed	Operated by private doctor

Source: First REIT

We note that LPKR and its subsidiaries contribute significantly to the Group's rental income, making up approximately 82% of the Group's rental income in FY2019, as shown in **Exhibit 6**.

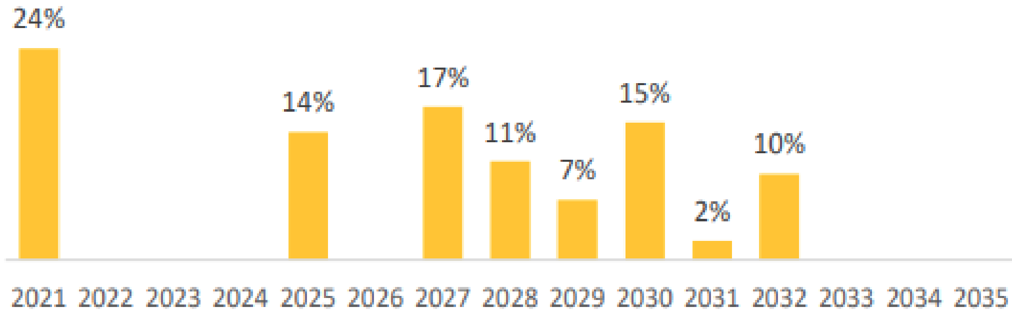
Exhibit 6: Breakdown of source of rental income in FY2019

Tenant	% of rental income in 2019
Lippo Karawaci and subsidiaries	81.59%
MPU and subsidiaries	12.45%
Subsidiaries of Siloam	1.68%
The Lentor Residence Pte Ltd	1.47%
Pacific Healthcare Nursing Home Pte Ltd	1.01%
Pacific Eldercare and Nursing Pte Ltd	0.98%
Dr. Park Ki Ju	0.82%
Total	100.00%

Source: First REIT

Meanwhile, the Trust's portfolio has a weighted average lease expiry of 7.4 years as at 31 December 2019, with majority of the lease on its properties set to expire in 2025 and beyond, as shown in **Exhibit 7**.

Exhibit 7: Lease expiry profile of the Trust's properties



Source: First REIT

However, we also note that the lease on 5 properties as highlighted in **Exhibit 8** on the next page are set to expire in 2021. The lease for 4 properties in Indonesia, namely Imperial Aryaduta Hotel & Country Club, Siloam Hospitals Lippo Village, Siloam Hospitals Kebon Jeruk and Siloam Hospitals Surabaya, would be due on 10 December 2021. Meanwhile, the lease on Sarang Hospital in South Korea is set to expire on 4 August 2021. A summary of the lease structure of the Trust's properties is shown in **Exhibit 8** on the next page.

Exhibit 8: Lease structure of the Trust's properties

Country	Property	Lease commencement	Lease expiry
Indonesia	Imperial Aryaduta Hotel & Country Club	11-Dec-06	10-Dec-21
	Siloam Hospitals Lippo Village	11-Dec-06	10-Dec-21
	Siloam Hospitals Kebon Jeruk	11-Dec-06	10-Dec-21
	Siloam Hospitals Surabaya	11-Dec-06	10-Dec-21
	Mochtar Riady Comprehensive Cancer Centre	30-Dec-10	29-Dec-25
	Siloam Hospitals Lippo Cikarang	31-Dec-10	30-Dec-25
	Siloam Hospitals Makassar	30-Nov-12	29-Nov-27
	Siloam Hospitals Manado & Hotel Aryaduta Manado	30-Nov-12	29-Nov-27
	Siloam Hospitals Bali	13-May-13	12-May-28
	Siloam Hospitals TB Simatupang	22-May-13	21-May-28
	Siloam Hospitals Purwakarta	28-May-14	27-May-29
	Siloam Sriwijaya	29-Dec-14	28-Dec-29
	Siloam Hospitals Kupang & Lippo Plaza Kupang	14-Dec-15	13-Dec-30
	Siloam Hospitals Labuan Bajo	30-Dec-16	29-Dec-31
	Siloam Hospitals Buton & Lippo Plaza Buton	10-Oct-17	9-Oct-32
	Siloam Hospitals Yogyakarta	22-Dec-17	21-Dec-32
Singapore	Pacific Healthcare Nursing Home @ Bukit Merah	11-Apr-07	10-Apr-27
	Pacific Healthcare Nursing Home II @ Bukit Panjang	11-Apr-07	10-Apr-27
	The Lentor Residence	8-Jun-07	7-Jun-27
South Korea	Sarang Hospital	5-Aug-11	4-Aug-21

Source: First REIT

In view of the expiration of the master lease agreements (MLAs) for Siloam Hospitals Surabaya, Siloam Hospitals Kebon Jeruk, Siloam Hospitals Lippo Village, being the hospitals that were leased to LPKR at the time of First REIT's initial public offering in December 2006, we note that the Manager has been engaging with LPKR on the renewal of these MLAs since 2019.

On 1 June 2020, LPKR unilaterally announced its intention to restructure all of the MLAs which LPKR had entered into with First REIT in respect to 11 hospitals that LPKR leases from First REIT. In September 2020, the Manager received a non-binding rental restructuring proposal from LPKR.

Following extensive discussions and negotiations, the Manager had on 29 November 2020 announced that the Trustee had signed a memorandum of understanding with LPKR to restructure the MLAs relating to 11 hospitals which LPKR leases from First REIT (Proposed LPKR Restructuring). We will provide further details about this in the 'Recent Developments' section on page 11.

RECENT DEVELOPMENTS

First REIT recently announced plans for a restructuring of MLAs for 14 of its properties in Indonesia and a proposed rights issue on 29 November 2020 and 28 December 2020 respectively. As at time of writing, we note that both transactions will proceed successfully following the voting results at the extraordinary general meeting (EGM) held on 19 January 2021.

During the EGM, unitholders of First REIT casted their votes in respect to the following resolutions:

- Resolution 1: To approve the Proposed LPKR Restructuring
- Resolution 2: To approve the proposed waiver by unitholders other than Clifford Development Pte Ltd (CDPL), which is a direct wholly-owned subsidiary of OUE, and its concert parties of their rights to receive a general offer for their units from CDPL pursuant to Rule 14 of the Takeover Code (the Proposed Whitewash Resolution)

Based on the results of the EGM, we note that unitholders voted 91.25% for and 8.85% against Resolution 1 and 90.55% for and 9.45% against Resolution 2. Given the EGM results on 19 January 2021, we note that the Proposed LKPR Restructuring will proceed, and First REIT has also announced the launch of the rights issue on the same day.

We will now provide the details of the restructuring of MLAs and the Proposed Rights Issue.

(I) Restructuring of master lease agreements

As noted on page 10, the Manager had on 29 November 2020 announced that the Trustee had signed a memorandum of understanding (MOU) with LPKR to restructure the MLAs (LPKR MLAs) relating to 11 hospitals which LPKR leases from First REIT (Proposed LPKR Restructuring). In addition, the Trustee had also signed a separate MOU with MPU to restructure the MLAs relating to 3 hospitals which MPU leases from First REIT (MPU Restructuring). The 14 properties subjected to the LPKR Restructuring and MPU Restructuring are as listed in **Exhibit 9**.

Exhibit 9: List of properties subjected to the Proposed LPKR Restructuring and MPU Restructuring

Restructuring	Property	Master lessee	Lease expiry year
LK Restructuring	Siloam Hospitals Surabaya	LPKR	2021
	Siloam Hospitals Kebon Jeruk	LPKR	2021
	Siloam Hospitals Lippo Village	LPKR	2021
	Mochtar Riady Comprehensive Cancer Centre	LPKR	2025
	Siloam Hospitals Makassar	LPKR	2027
	Siloam Hospitals Manado and Hotel Aryaduta Manado	LPKR	2027
	Siloam Hospitals TB Simatupang	LPKR	2028
	Siloam Hospitals Bali	LPKR	2028
	Siloam Hospitals Labuan Bajo	LPKR and a wholly-owned subsidiary of Siloam	2021
	Siloam Hospitals Buton	LPKR and a wholly-owned subsidiary of Siloam	2032
	Siloam Hospitals Yogyakarta	LPKR and a wholly-owned subsidiary of Siloam	2032
MPU Restructuring	Siloam Hospitals Purwarkata	MPU	2029
	Siloam Sriwijaya	MPU	2029
	Siloam Hospitals Kupang	MPU	2030

Source: First REIT

In FY2019, the 11 properties subjected to the Proposed LPKR Restructuring (LPKR Hospitals) accounted for approximately 72.1% of First REIT's rental income & other income. During the period, rental & other income for the 11 properties aggregated S$83.1 million, compared to the total rental & other income of S$115.3 million for the entire portfolio of First REIT. Meanwhile, the 3 properties subjected to the MPU Restructuring (MPU Hospitals) accounted for approximately 9.7% of First REIT's rental income & other income for FY2019.

Terms of the Proposed LPKR Restructuring and MPU Restructuring

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 as highlighted in **Exhibit 10**.

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 LK 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. The following table in **Exhibit 10** provides an overview of the proposed rent structure as part of the Proposed LPKR Restructuring and MPU Restructuring.

Exhibit 10: 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.

Source: First REIT

Rationale for the Proposed LPKR Restructuring and MPU Restructuring

We note from First REIT's announcement dated 29 November 2020 regarding the LPKR Restructuring and MPU Restructuring that LPKR is facing severe liquidity pressure due to its significant recurring expenses, weak operating cash flows and its inability to divest assets. It has been generating negative operating cash flows since 2015 with an aggregate negative cash flow of approximately S$1.5 billion, as disclosed in First REIT's announcement on 8 January 2021 in relation to the response to questions received from SIAS-First REIT Virtual Dialogue Session. The impact of the COVID-19 pandemic has further weakened its operating performance in the medium term.

Further, the situation is exacerbated by the depreciation of the Rupiah against the SGD which adds further pressure on LPKR as rent payments under the existing MLAs that it has with First REIT have to be made in SGD. For the first nine months of 2020, we note that LPKR continued to have negative operating cash flows. In view of its dire liquidity position, rating agencies have maintained poor credit ratings for LPKR. As of September 2020, S&P Global Ratings rating for the company was 'B- with negative outlook'; Moody's Investors Service rating was 'B3 with stable outlook'; and Fitch Ratings Singapore Pte Ltd rating was 'B- with negative outlook'.

Meanwhile, we also note from First REIT's announcement dated 29 November 2020 that the COVID-19 pandemic has also negatively impacted Siloam, the operator of all the 14 properties subjected to the Proposed LPKR Restructuring and MPU Restructuring. On a y-o-y basis, Siloam's revenue and EBITDA decreased by 22% and 55% respectively for the second quarter from 1 April 2020 to 30 June 2020.

Given the above, there could be a high possibility that LPKR could default under the existing MLAs. This could result in a termination of the MLAs which would result in an immediate loss of approximately 72.1% First REIT's rental income for 2019. Further, this could also aggravate the concerns over the Group's ability to meet its upcoming debt obligations.

Thus, we note that the Proposed LPKR Restructuring would help to address two major concerns. Firstly, it would allow First REIT to avoid the consequences of a default by LPKR under the existing LPKR MLAs. Secondly, it would provide certainty in income stream and valuations for First REIT till 31 December 2035 to allow the Group to be able to refinance its debt. Further, we also note that the MPU Restructuring will address MPU's outstanding rent arrears of S$5,134,298.45 with MPU committing to make payment of 50% of the outstanding rent arrears by 31 December 2020 and the remaining 50% by 31 March 2021.

Impact of the Proposed LPKR Restructuring and MPU Restructuring on portfolio valuation

The Trust and Manager had appointed Cushman & Wakefield (C&W) and KJPP Willson & Rekan in association with Knight Frank (Knight Frank) respectively as independent valuers to assess the impact of the MPU MLA Restructuring and the Proposed LPKR MLA Restructuring on the valuations of the MPU Hospitals and the LPKR Hospitals. We note that the total valuation (based on adopted value) of the LPKR Hospitals and MPU Hospitals (including Hotel Aryaduta Manado) post completion of the Proposed LPKR Restructuring and MPU Restructuring would be S$759.7 million as at 2 November 2020. The valuation impact on the LPKR Hospitals and MPU Hospitals is summarised in **Exhibit 11**.

Exhibit 11: Valuation impact on LPKR Hospitals and MPU Hospitals

Type	Property name	Valuation as at 31 Dec 19 (S$ million)	Market value based on terms of the LPKR Restructuring and MPU Restructuring (S$ million) (2)		
			C&W	Knight Frank	Adopted value
LPKR Hospitals	Siloam Hospitals Yogyakarta	27.1	19.9	19.3	19.9
	Siloam Hospitals Buton (excluding Lippo Plaza Buton)	16.2	12.3	12.2	12.3
	Siloam Hospitals Labuan Bajo	20.9	11.1	11.3	11.1
	Siloam Hospitals Bali	124.4	62.5	61.6	62.5
	Siloam Hospitals TB Simatupang	118.9	41.6	40.2	41.6
	Siloam Hospitals Manado (excluding Hotel Aryaduta Manado)	63.0	39.9	39.8	39.9
	Siloam Hospitals Makassar	73.3	65.5	66.2	65.5
	Mochtar Riady Comprehensive Cancer Centre	266.3	125.8	121.6	125.8
	Siloam Hospitals Lippo Village	162.4	162.6	162.3	162.6
	Siloam Hospitals Kebon Jeruk	93.7	73.2	68.6	73.2
	Siloam Hospitals Surabaya	27.9	39.9	40.5	39.9
Subtotal	-	994.1	654.1	643.6	654.1
Properties integrated with LPKR Hospitals	Hotel Aryaduta Manado	40.1	37.2	35.7	37.2
MPU Hospitals	Siloam Hospitals Kupang (excluding Lippo Plaza Kupang)	40.8	21.3	21.2	21.3
	Siloam Sriwijaya	41.3	24.5	22.9	24.5
	Siloam Hospitals Purwakarta	42.0	22.7	23.7	22.7
Subtotal	-	124.1	68.5	67.8	68.5
Total (1)	-	1,158.3	759.7	747.1	759.7

Figures may not add up due to rounding

(1) Refers to sum of property valuations for all the LPKR Hospitals, Hotel Aruaduta Manado and MPU Hospitals

(2) As at 2 November 2020

Source: First REIT, FPA Financial

Meanwhile, the total valuation of the Trust's properties which are unaffected by the Proposed LPKR Restructuring and MPU Restructuring would be S$182.5 million as at 31 December 2019, as shown in **Exhibit 12**.

Exhibit 12: Valuation of properties unaffected by Proposed LPKR Restructuring and MPU Restructuring

Type	Property name	Valuation as at 31 Dec 19 (S$ million)
Properties unaffected by the LPKR Restructuring and MPU Restructuring	Siloam Hospitals Lippo Cikarang	53.5
	Imperial Aryaduta Hotel & Country Club	41.0
	Lippo Plaza Buton (excluding Siloam Hospitals Buton)	12.5
	Lippo Plaza Kupang (excluding Siloam Hospitals Kupang)	32.9
	Pacific Healthcare Nursing Home @ Bukit Merah	9.4
	Pacific Healthcare Nursing Home II @ Bukit Panjang	9.6
	The Lentor Residence	15.5
	Sarang Hospital	8.1
Total	-	182.5

Source: First REIT, FPA Financial

However, as noted on page 6, First REIT has obtained independent valuations for its individual properties as at 31 December 2020, which have taken into consideration the terms of the Proposed LPKR Restructuring and MPU Restructuring. As a reference, we will now provide a comparison of the individual properties' valuations as at 31 December 2019, 2 November 2020 and 31 December 2020, as shown in **Exhibit 13**.

Exhibit 13: Comparison of individual properties' valuation

		Valuation (S$ million)		
Type	**Property name**	**31-Dec-19**	**2-Nov-20 (1)**	**31-Dec-20**
LPKR Hospitals	Siloam Hospitals Yogyakarta	27.1	19.9	20.1
	Siloam Hospitals Buton (excluding Lippo Plaza Buton)	16.2	12.3	12.4
	Siloam Hospitals Labuan Bajo	20.9	11.1	11.2
	Siloam Hospitals Bali	124.4	62.5	63.0
	Siloam Hospitals TB Simatupang	118.9	41.6	41.9
	Siloam Hospitals Manado (excluding Hotel Aryaduta Manado)	63.0	39.9	40.3
	Siloam Hospitals Makassar	73.3	65.5	66.0
	Mochtar Riady Comprehensive Cancer Centre	266.3	125.8	126.9
	Siloam Hospitals Lippo Village	162.4	162.6	164.0
	Siloam Hospitals Kebon Jeruk	93.7	73.2	73.8
	Siloam Hospitals Surabaya	27.9	39.9	40.3
Subtotal (1)	-	**994.1**	**654.3**	**659.9**
Properties integrated with LPKR Hospitals	Hotel Aryaduta Manado	40.1	37.2	37.2
Subtotal (2)	-	**40.1**	**37.2**	**37.2**
MPU Hospitals	Siloam Hospitals Kupang (excluding Lippo Plaza Kupang)	40.8	21.3	21.5
	Siloam Sriwijaya	41.3	24.5	24.7
	Siloam Hospitals Purwakarta	42.0	22.7	22.9
Subtotal (3)	-	**124.1**	**68.5**	**69.1**
Properties unaffected by the Proposed LPKR Restructuring and MPU Restructuring	Siloam Hospitals Lippo Cikarang	53.5	53.5	49.8
	Imperial Aryaduta Hotel & Country Club	41.0	41.0	41.4
	Lippo Plaza Buton (excluding Siloam Hospitals Buton)	12.5	12.5	12.5
	Lippo Plaza Kupang (excluding Siloam Hospitals Kupang)	32.9	32.9	32.0
	Pacific Healthcare Nursing Home @ Bukit Merah	9.4	9.4	9.1
	Pacific Healthcare Nursing Home II @ Bukit Panjang	9.6	9.6	9.4
	The Lentor Residence	15.5	15.5	15.3
	Sarang Hospital	8.1	8.1	4.1
Subtotal (4)	-	**182.5**	**182.5**	**173.6**
Total = (1)+(2)+(3)+(4)	-	**1,340.8**	**942.2**	**939.7**

Figures may not add up due to rounding

(1) Valuation for properties unaffected by the Proposed LPKR Restructuring and MPU Restructuring are as at 31 Dec 2019

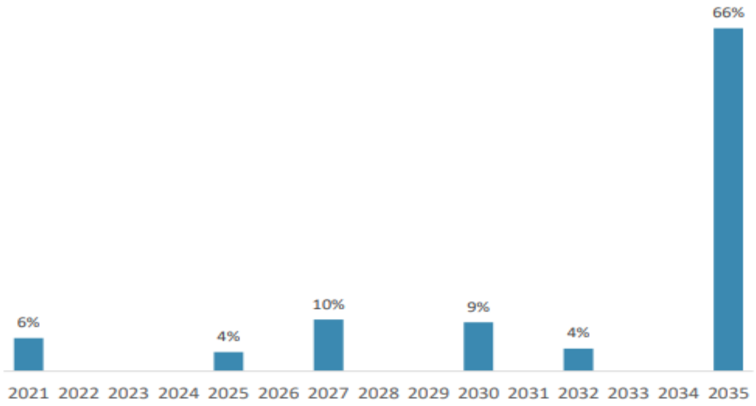
Source: First REIT, FPA Financial

Given the above, we note that the total portfolio valuation of First REIT's properties decreased by S$401.1 million to S$939.7 million as at the end of FY2020 from S$1,340.8 million as at the end of FY2019.

Impact of the Proposed LPKR Restructuring and MPU Restructuring on lease expiry profile

As noted on page 9, the Trust's portfolio has a weighted average lease expiry (WALE) of 7.4 years as at 31 December 2019. If the Proposed LPKR Restructuring and MPU Restructuring were to be completed, we note that the WALE for First REIT would be extended to 12.6 years which would provide a more certain and stable lease profile to reposition First REIT for future growth. Based on the new lease expiry profile (post completion of the restructurings), two thirds of the lease term of the Trust's properties would be due in 2035, as shown in **Exhibit 14**.

Exhibit 14: Lease expiry profile of the Trust's properties – post completion of the restructurings



Source: First REIT

(II) Proposed Rights Issue

On 28 December 2020, the Manager announced its intention to carry out a renounceable non-underwritten rights issue (Proposed Rights Issue) for the purposes of repaying part of the 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.

The Proposed Rights Issue entailed a 98 for 100 rights issue to issue up to 791,063,000 rights units at a price per rights unit of S$0.20 in order to raise gross proceeds of approximately S$158.2 million.

However, it was noted in the announcement on 28 December 2020 (Proposed Rights Issue announcement) that the Manager will not launch the Proposed Rights Issue unless the resolution in respect of the Proposed LPKR Restructuring (Resolution 1) is passed. In the event that the resolution in respect of the Proposed Whitewash Resolution (Resolution 2) is not passed, the Manager will not launch the Proposed Rights Issue unless it is able to arrange for the Proposed Rights Issue to be underwritten.

Following unitholders' approval of Resolution 1 and 2 at the EGM on 19 January 2021, First REIT on the same day announced the launch of the rights issue, which would be defined herein as the Rights Issue.

Details of the Rights Issue

Under the principal terms of the Rights Issue, the rights units would be offered to eligible unitholders on the basis of 98 rights units for every 100 existing units held by eligible unitholders as at 5:00pm on 27 January 2021 (Rights Issue Record Date). A total of 791,062,223 rights units will be issued at S$0.20 per unit to raise gross proceeds of approximately S$158.2 million on a renounceable basis. The total number of issued units post rights issue would be 1,598,268,574 units = [807,206,351 units before Rights Issue + 791,062,223 rights units].

As disclosed in First REIT's announcement of the launch of Rights Issue, the issue price per rights unit of S$0.20 represents a discount of approximately 50.6% to the closing price of S$0.405 as at 24 December 2020, being the last trading day prior to the Proposed Rights Issue announcement on 28 December 2020. It is also at a discount of approximately 33.3% to the theoretical ex-rights price (TERP) of S$0.30 per unit as computed in **Exhibit 15**.

Exhibit 15: TERP price per unit

	S$ million
Price as at 24 Dec 20 (S$)	0.405
Issued units (million)	807.21
Market capitalisation	326.9
Equity funding	158.2
Total value post rights issue	485.1
No. of issued units post rights issue	1,598.3
TERP per unit (S$)	0.30

Source: First REIT, FPA Financial

In support of the proposed rights issue, we note that the Manager and OUELH have provided irrevocable undertakings to take up their respective total provisional allotments of the rights units. Further, we note that in the event that the Rights Issue is not underwritten, OUE would provide an irrevocable undertaking that it will procure that CDPL applies, subscribes and pays in full any excess rights units to the extent that they remain unsubscribed after the satisfaction of all applications for excess rights units. Should the Rights Issue be underwritten, OUE will commit to the underwriters to procure that CDPL subscribes and pays in full, the rights units to the extent that they are not successfully subscribed for.

Rationale for the Rights Issue

As disclosed in the Proposed Rights Issue announcement, the Group had S$395.7 million, representing 80.2% of its debt, that would be due within the next 18 months. Of which, S$196.6 million would be coming due on 1 March 2021; S$99.1 million would be due on 1 March 2022; and S$100.0 million would be due on 16 May 2022. The schedule of the Group's total debt as disclosed in the Proposed Rights Issue announcement is summarized in **Exhibit 16**.

Exhibit 16: Debt schedule of the Group

Due Date	Amount	Percentage of Total Debt	Facility
1 March 2021	S$196.6 million	39.8%	Part of the 2018 Secured Loan Facilities
1 March 2022	S$99.1 million	20.1%	Part of the 2018 Secured Loan Facilities
16 May 2022	S$100.0 million	20.3%	The 2019 Secured Loan
Total Debt Due within the next 18 months	**S$395.7 million**	**80.2%**	
1 March 2023	S$97.7 million	19.8%	Part of the 2018 Secured Loan Facilities
Total	**S$493.4 million**	**100.0%**	

Source: First REIT

At the same time, we note from the Proposed Rights Issue announcement that First REIT's lenders have expressed significant concerns over the sustainability of First REIT's capital structure in light of LPKR's current financial circumstances and its expressed intentions regarding the Proposed LPKR Restructuring.

On 24 December 2020, the Trustee had entered into a facility agreement with, among others, OCBC and CIMB Bank Berhad, Singapore Branch to refinance the 2018 Secured Loan Facilities (S$400 million) with a loan facility of up to S$260 million (Refinancing Facility) in order to meet the S$195.5 million repayment obligation (updated as at 31 December 2020 based on unaudited financial statements for FY2020) on 1 March 2021 under the 2018 Secured Loan Facilities.

Under the Refinancing Facility, it is a condition that First REIT undertakes an equity fund raising exercise to repay the difference between S$400 million and S$260 million, being S$140 million. As such, First REIT is carrying out the Rights Issue for the purposes of, among others, repayment of part of the 2018 Secured Loan Facilities to complete the refinancing exercise and avoid an imminent default of the S$195.5 million repayment obligation on 1 March 2021, as well as for the payment of master lease restructuring costs and for working capital purposes (details on the use of proceeds will be discussed on the next page).

Use of proceeds

As noted on page 17, the Rights Issue will raise gross proceeds of approximately S$158.2 million. Net of fees and expenses (including professional and other fees and expenses) of approximately S$5.5 million to be incurred in connection with the Rights Issue, the net proceeds of the Rights Issue would be approximately S$152.7 million. Of which, S$140.0 million will be used to repay part of the 2018 Secured Loan Facilities, S$3.4 million to be used for master lease restructuring costs and S$9.3 million for working capital of First REIT.

A summary of the intended use of gross proceeds of the Rights Issue is summarized in **Exhibit 17**.

Exhibit 17: Intended use of gross proceeds from the Rights Issue

	S$ million	% of total
Repayment of part of the 2018 Secured Loan Facilities	140.0	88.5%
Estimated professional and other fees	5.5	3.5%
Master lease restructuring costs	3.4	2.1%
Working capital	9.3	5.9%
Total	158.2	100.0%

Source: First REIT

FINANCIAL ANALYSIS

In this section, we will provide a review of the Group's financial performance and capital management.

(I) Financial review

Review of full year 2020 results

For the financial year ended 31 December 2020 (FY2020), the Group reported a 30.9% year-on-year (y-o-y) decrease in rental & other income to S$79.6 million mainly due to rental relief provided to tenants to alleviate the economic impact of COVID-19. All of First REIT's tenants were granted a two-month COVID-19 rental relief amounting to S$19.6 million for the months of May and June 2020. Further, tenants in Indonesia were also granted an additional two-month rental relief amounting to S$18.9 million for the months of September and October 2020. Meanwhile, property operating expenses decreased by 10.4% y-o-y to S$2.2 million due to the lower property expenses incurred for properties in Indonesia and property tax rebates received for properties in Singapore. The property tax rebates were in respect of the FY2020 Budget and the FY2020 Supplementary Budget announced by the Singapore Government on 18 February and 26 March 2020 respectively, which included property tax rebate of up to 100% for non-residential properties, for the tax payable in 2020. As a result, net property & other income fell by 31.4% to S$77.5 million from S$112.9 million a year ago.

During the period, interest income decreased by 39.3% y-o-y to S$1.4 million mainly due to the termination of development of the new Siloam Hospitals Surabaya on 29 June 2020. Manager's management fees decreased by 17.5% y-o-y to S$9.4 million mainly due to lower net property income and total assets. Trustee fees was lower by 3.3% y-o-y mainly due to lower total assets. At the same time, finance costs fell by 12.6% y-o-y to S$17.8 million mainly due to lower interest rates, while other expenses more than quintupled to S$5.7 million mainly due to project expenses incurred.

Meanwhile, the Group incurred significantly higher net fair value losses on investment properties of S$401.4 million compared to S$5.6 million a year ago. This was mainly because the valuation of certain Indonesia properties had taken into consideration the terms arising from the LPKR Restructuring and MPU Restructuring. In addition, net fair value losses of derivative instruments more than doubled to S$2.4 million in relation to revaluation losses of interest rate swap contracts.

As a result, the Group reported a total loss before income tax of S$352.4 million for FY2020 compared to a S$75.4 million profit a year ago. For the period, income tax benefit of S$5.8 million was recorded as compared to income tax expense of S$26.5 million a year ago, mainly due to write back of provision for deferred taxation on net fair value losses on investment properties. After adjusting for S$5.8 million in income tax benefit, an after-tax total loss of S$352.4 million was incurred. This comprised a S$355.8 million after-tax total loss attributable to unitholders and S$3.4 million return attributable to perpetual securities holders. Given S$352.4 million after-tax total loss attributable to unitholders, the Group reported a loss per share of 44.33 cents for FY2020 compared to an earnings per share (EPS) of 5.74 cents for FY2019.

Meanwhile, total distribution available to unitholders amounted to S$33.4 million in FY2020, a 51.2% decrease from S$68.5 million a year ago. Amount distributed to unitholders was equivalent to the total distribution available to unitholders of S$33.4 million – the Trust has maintained a payout policy of 100% of distributable income since is initial public offering in 2006. Accordingly, distribution per unit (DPU) amounted to 4.15 cents for the period, 51.7% lower compared to 8.60 cents in FY2019.

The Group's 1H 2020 financial results are summarised in **Exhibit 18 and 19** on the next page.

Exhibit 18: Group's FY2020 financial results

S$'000	FY2020	FY2019	y-o-y change
Rental & other income	79,619	115,297	-30.9%
Property operating expenses	(2,154)	(2,403)	-10.4%
Net property & other income	77,465	112,894	-31.4%
Interest income	1,436	2,364	-39.3%
Manager's management fees	(9,410)	(11,401)	-17.5%
Trustee fees	(416)	(430)	-3.3%
Finance costs	(17,826)	(20,390)	-12.6%
Other expenses	(5,703)	(1,002)	n.m
Net income before the undernoted	45,546	82,035	-44.5%
Net fair value gain/(loss) on investment properties	(401,387)	(5,607)	n.m
Net fair value gain/(loss) of derivative financial instruments	(2,391)	(1,040)	n.m
Total return/(loss) before income tax	(358,232)	75,388	n.m
Income tax expense	5,822	(26,472)	n.m
Total return/(loss) after income tax	(352,410)	48,916	n.m
Total return/(loss) after income tax attributable to:			
Unitholders of the Trust	(355,827)	45,508	n.m
Perpetual securities holders	3,417	3,408	0.3%
	(352,410)	48,916	n.m
Total return/(loss) after income tax attributable to unitholders	(355,827)	45,508	n.m
Weighted average number of units in issue ('000)	802,634	793,376	-
EPS (cents)	(44.33)	5.74	n.m

n.m: not meaningful

Source: First REIT, FPA Financial

Exhibit 19: Group's FY2020 statement of distribution

[S$'000]	FY2020	FY2019	y-o-y change
Total return/(loss) after income tax	(352,410)	48,916	n.m
Adjustments for tax purposes:			
Manager's management fees payable in units	4,679	9,747	-52.0%
Foreign exchange gains	(325)	(245)	32.7%
Change in fair value on investment properties, net of deferred tax	383,118	13,361	n.m
Net fair value (gains)/losses of derivative financial instruments	2,391	1,040	n.m
Amount reserved for distribution to perpetual securities holders	(3,417)	(3,408)	0.3%
Others	(623)	(948)	-34.3%
Total available for distribution to unitholders	33,413	68,463	-51.2%
Distribution from operations	11,795	39,544	-70.2%
Distribution of unitholders' capital contribution	21,618	28,919	-25.2%
Distribution amount to unitholders	33,413	68,463	-51.2%
No. of issued units ('000)	807,206	797,675	-
DPU (cents)	4.15	8.60	-51.7%

Source: First REIT, FPA Financial

Review of historical financial results

We will also review the Group's 5-year historical financials to gather an objective view of how it has performed prior to the COVID-19 pandemic. With reference to **Exhibit 20**, we note that revenue performance has trended upwards over the last 5 years, albeit a marginal decline in FY2019. In FY2019, rental other income decreased by 0.8% to S$115.3 million from S$116.2 million in FY2018 mainly due to lower variable rental component for the Group's properties in Indonesia. We also note that net property & other income has also increased over the years, except in FY2019. In 2019, net property & other income decreased by 1.3% to S$112.9 million from S$114.4 million in FY2018 on higher property expenses incurred for the Group's properties in Indonesia and South Korea.

Meanwhile, we note that the Group's funds available for distribution to unitholders has consistently increased over the last 5 years. Distribution amount to unitholders also increased in line with funds available for distribution, given First REIT's payout policy of 100% of its distributable income. Accordingly, the Trust's has managed to deliver higher distributions per unit (DPU) to unitholders over the last 5 years.

Exhibit 20: Group's 5-year historical financials

	For year ended Dec 31				
[S$'000]	2015	2016	2017	2018	2019
Rental & other income	100,698	107,017	110,993	116,198	115,297
NPI	99,276	105,835	109,476	114,391	112,894
Funds available for distribution to unitholders	61,923	65,248	66,727	67,681	68,463
Distribution amount to unitholders	61,923	65,248	66,727	67,681	68,463
DPU (cents)	8.30	8.47	8.57	8.60	8.60
Payout ratio	100.0%	100.0%	100.0%	100.0%	100.0%

Source: First REIT, FPA Financial

Given the above, we note that the Group's financial performance has been relatively healthy prior to the COVID-19 pandemic and unitholders have also managed to enjoy higher distributions annually. While the COVID-19 pandemic has impacted the Group's financials in FY2020, we could expect a stronger performance going forward as the rollout of vaccines help to control the virus situation.

(II) Capital management

Review of balance sheet

The Group reported total assets of S$1,004.9 million as at the end of FY2020 compared to S$1,427.1 million as at the end of FY2019. The decrease in total assets was largely due to a S$401.1 million decrease in investment properties to S$939.7 million from S$1,340.8 million. The decline in investment properties was mainly due to net fair value losses on revaluation of investment properties as noted on page 15. A S$13.7 million decline in cash & cash equivalents to S$19.3 million also partially contributed to the decrease in total assets.

Total liabilities decreased by S$30.5 million to S$540.9 million over FY2020, partially due to a decrease in deferred tax liabilities to S$20.0 million from S$39.7 million which had been mainly due to write back of provision for deferred taxation on change in fair value on investment properties. During the period, there had been a reclassification of S$195.3 million in bank loans (net of unamortised transaction costs) from non-current to current given the maturity of the bank loans in March 2021.

Consequently, the Group recorded net assets of S$464.0 million at the end of FY2020 compared to S$855.7 million at the end of FY2019. This comprised S$403.1 million in net assets attributable to unitholders and S$60.9 million in net assets attributable to perpetual securities holders (the Trust 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 S$403.1 million in net assets attributable to unitholders, the Group reported a net asset value (NAV) per unit of 49.94 cents as at 31 December 2020 compared to 99.64 cents a year ago. A summary of the Group's balance sheet data is shown in **Exhibit 21**.

Exhibit 21: Summary of the Group's balance sheet

[S$'000]	31-Dec-20	31-Dec-19
Total assets	1,004,908	1,427,136
Total liabilities	540,938	571,422
Net assets	463,970	855,714
Net assets attributable to unitholders	403,092	794,836
No. of issued units ('000)	807,206	797,675
NAV per unit (cents)	49.94	99.64

Source: First REIT, FPA Financial

As at the end of FY2020, the Group's total debt (before transaction costs) was S$492.4 million compared to S$492.7 million a year ago. This comprised of S$195.7 million in current secured borrowings and S$296.7 million in non-current secured borrowings. Thus, the Group's gearing as computed by total debt (before transaction costs) over total assets stood at approximately 49.0% at the end of FY2020 compared to 34.5% as at the end of FY2019. Net of unamortised transaction costs, the Group's total debt stood at S$489.0 million as at 31 December 2020 compared to S$486.4 million a year ago. A breakdown of the Group's debt is shown in **Exhibit 22** on the next page.

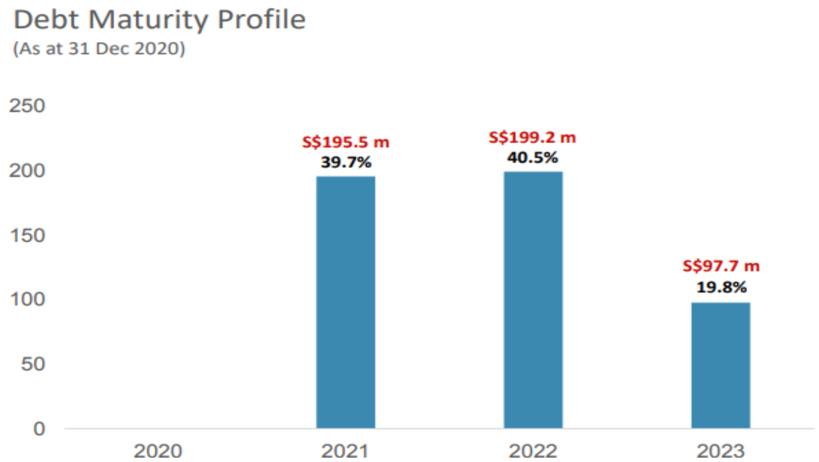
Exhibit 22: Breakdown of Group's debt

[S$'000]	31-Dec-20	31-Dec-19
Amount repayable within one year (secured)	195,662	-
Amount repayable after one year (secured)	296,713	492,717
Total debt (before transaction costs)	492,375	492,717
Less: transaction costs		
Relating to amount repayable within one year (secured)	(317)	-
Relating to amount repayable after one year (secured)	(3,053)	(6,307)
Total debt (net of unamortised transaction costs)	489,005	486,410
Total debt (before transaction costs)	492,375	492,717
Total assets	1,004,908	1,427,136
Gearing (%)	49.0%	34.5%

Source: First REIT, FPA Financial

In terms of debt maturity, we note that the Group's total debt (before transaction costs) of S$492.4 million would be due by 2023. Of which, S$195.5 million is due in 2021; S$199.2 million is due in 2022; and S$97.7 million is due in 2023, as shown in **Exhibit 23**.

Exhibit 23: Group's debt maturity profile (as at 31 December 2020)



Source: First REIT

We note that a sizeable proportion (approximately 40%) of the Group's debt would be due in 2021 while the remaining debt would also be due shortly within the next 2 years. As at 31 December 2020, the Group's weighted average debt maturity is at 1.22 years. Meanwhile, we also note that the Group's cash & cash equivalents has decreased to S$19.3 million as at the end of FY2020, which could suggest that it does not have sufficient internal funds to repay its debt.

Balance sheet adjustment

As noted on page 20, the valuation impact of the Proposed LPKR Restructuring and MPU Restructuring has been considered in the derivation of the changes in fair value on investment properties. In turn, the Group's NAV per share of 49.94 cents as at the end of FY2020 includes the impact of the Proposed LPKR Restructuring and MPU Restructuring. However, we note that the impact of the Rights Issue has not been factored in. Thus, we will perform a balance sheet adjustment to account for the valuation impact of the Rights Issue, assuming ex-rights trading for the Rights Issue would take place as at time of writing.

Our balance sheet adjustments would be contingent on the following assumptions:

1) Payment of estimated professional and other fees of S$5.5 million will be made immediately upon receiving the gross proceeds from the Rights Issue.

2) Payment of master lease restructuring costs of S$3.4 million will be made immediately upon receiving gross proceeds from the Rights Issue.

3) S$140.0 million as part of the gross proceeds from the Right Issue would be immediately repaid to cover the shortfall between the S$260 million Refinancing Facility and S$400 million in 2018 Secured Loan Facilities.

4) Amount of S$9.3 million reserved for working capital will be parked as cash & cash equivalents.

Given Assumption (3) above, the Group's debt would decrease by S$140 million following the Rights Issue. In addition, the Group's cash & cash equivalents would increase by S$9.3 million based on the above assumptions. Accordingly, the overall effect on the Group's net assets would be a S$149.3 million increase to S$613.3 million, as shown in **Exhibit 25** on the next page.

As noted on page 23, the Trust 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. The distributions will be payable semi-annually in arrears on 8 January and 8 July in each year on a discretionary basis. Further, we note that the first distribution rate reset would take place on 8 July 2021 and subsequent resets would occur every five years thereafter. As it stands, we note that the Manager intends to make an announcement on this at a later date. We would thus assume that the distribution rate remains unchanged at 5.68% per annum.

With reference to **Exhibit 24**, we note that distributions have been consistently paid out perpetual securities holders over the years, even for FY2020 despite the impact of the COVID-19. We would thus assume distributions to continue in FY2021 and FY2022 and would adopt the same figure as in FY2020 for both years. Accordingly, equity attributable to perpetual securities holders would amount to S$60.9 million.

Exhibit 24: Projected distribution to perpetual securities holders

		Actual		Forecast	
S$'000	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22
Balance at beginning of the financial period	60,878	60,878	60,878	60,878	60,878
Amount reserved for distribution to perpetual securities holders	3,408	3,408	3,417	3,417	3,417
Distribution to perpetual securities holders	(3,408)	(3,408)	(3,417)	(3,417)	(3,417)
Balance at end of the financial period	60,878	60,878	60,878	60,878	60,878

Source: First REIT, FPA Financial

Given the above, equity attributable to unitholders would then be S$552.4 million after deducting for S$60.9 million in equity attributable to perpetual securities holders. Following the Rights Issue, the share base would be enlarged to 1,598.3 million units as discussed on page 17. Accordingly, the Group's adjusted NAV per unit would then be estimated to be 34.56 cents. A summary of our balance sheet adjustment is shown in **Exhibit 25**.

Exhibit 25: Balance sheet adjustment

	As at 31-Dec-20	
S$'000	**Before adjustment**	**After adjustment**
Total assets	1,004.9	1,004.9
Add: increase in cash & cash equivalents of S$9.3 million	-	9.3
Adjusted total assets	1,004.9	1,014.2
Total liabilities	540.9	540.9
Less: decrease in S$140 million in debt	-	(140.0)
Adjusted total liabilities	540.9	400.9
Adjusted net assets	464.0	613.3
Less: net assets attributable to perpetual securities holders	(60.9)	(60.9)
Adjusted net assets attributable to unitholders	403.1	552.4
No. of issued units (million)	807.2	1,598.3
Adjusted NAV per unit (cents)	49.94	34.56

Source: First REIT, FPA Financial

FINANCIAL PROJECTIONS

In this section, we will provide our projections for the Group's revenue, earnings and dividends in FY2021 and FY2022.

As noted on page 22, we could expect a recovery in the Group's performance in FY2021 and FY2022 amid a stabilization of the virus situation. In Indonesia, Gross Domestic Product (GDP) is projected to grow by 7.9% in 2021, making it the second-fastest growing economy in the world after China, according to the Organization for Economic Co-operation and Development (OECD).

Further, we note that growing healthcare demand in Indonesia could support the outlook for Indonesia's healthcare sector. The Indonesian government has also been stepping up efforts to improve the nation's healthcare infrastructure. In September 2020, the Indonesian parliament approved a state budget of IDR2.75 quadrillion for 2021, with substantial investments directed towards strengthening the healthcare system. Further, we note that First REIT could also benefit from its Sponsor's network to tap on the opportunities available in healthcare sectors of countries such as Japan and China. For instance, we note that the outlook for Japan's healthcare sector is robust given its rapidly ageing population.

Nonetheless, we will focus our projection on the changes in rental income derived based on the Proposed LPKR Restructuring and MPU Restructuring as these are more likely to have a major and direct impact on the Group's financial performance.

(I) Revenue projection

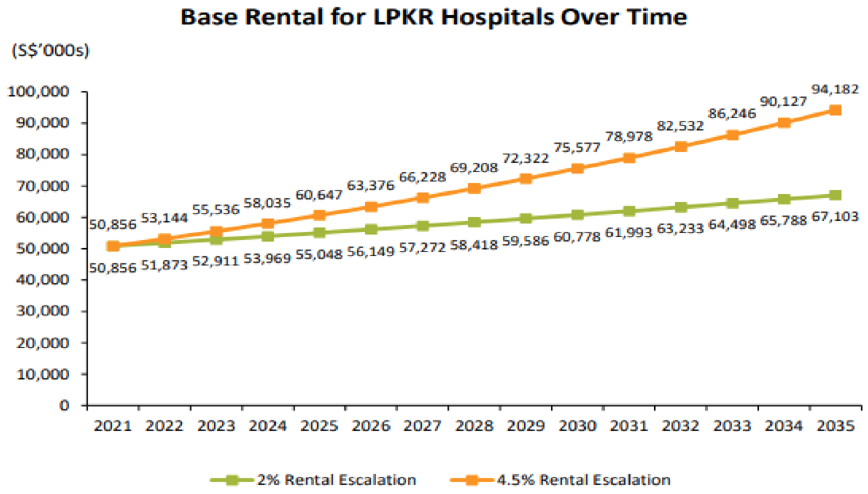
Given that the Proposed LPKR Restructuring and MPU Restructuring will proceed, our revenue projection will be based on the new terms set out in the proposed rent structure as discussed on page 12.

Base rent

Under the terms of the proposed rent structure, we note that the *pro forma* effect (based on FY2019 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.

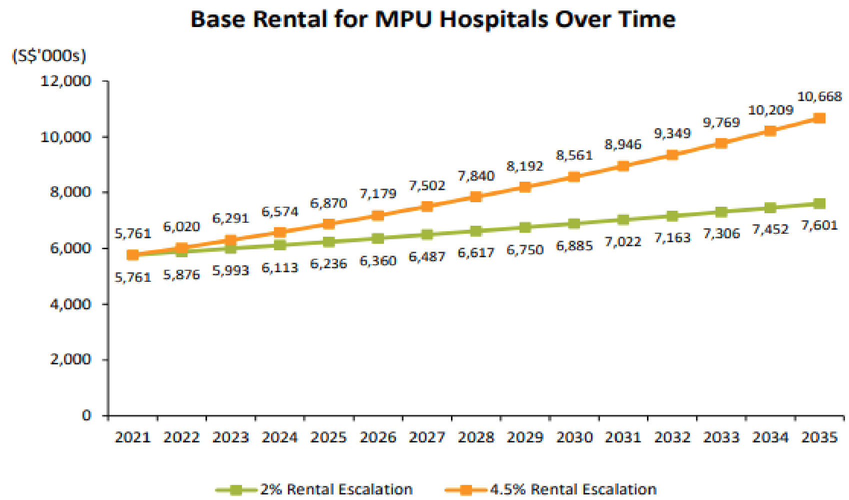
Meanwhile, we note that base rent escalation under the new terms would be at a fixed escalation rate of 4.5% per annum compared to the current step-up mechanism which is two times the Singapore consumer price index for the preceding calendar year (capped at 2%). In turn, the base rental for the LPKR Hospitals and MPU Hospitals will experience much stronger increment going forward, as shown in **Exhibit 26** and **Exhibit 27** on the next page. 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 26: Illustrative base rent of the LPKR Hospitals over time



Source: First REIT

Exhibit 27: Illustrative base rent of the MPU Hospitals over time



Source: First REIT

Accordingly, the combined base rent of the LPKR Hospitals and MPU Hospitals for the FY2021 to FY2025 can be summarized as in **Exhibit 28**.

Exhibit 28: Combined base rent of the LPKR Hospitals and MPU Hospitals for FY2021-FY2025

	Base rent (S$'000) (1)				
	FY2021	FY2022	FY2023	FY2024	FY2025
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

We note that under the terms of the 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 29**.

Exhibit 29: 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

Currently, total rent payable is based on the sum of the base rent and variable rent. Under the proposed rent structure, this would be changed to being based on the higher of the base rent or performance-based rent on an asset-by-asset basis.

We note that variable rent has historically made up a marginal proportion of total rent for the LPKR MLAs and MPU MLAs, as shown in **Exhibit 30**.

Exhibit 30: Breakdown of historical total rent for the LPKR and MPU MLAs

		FY2017		FY2018		FY2019	
	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 FY2021 and FY2022 combined base rent figures for the LPKR Hospitals and MPU Hospitals as shown in **Exhibit 28** on page 28.

Meanwhile, we note in **Exhibit 10** on page 12 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 for FY2019. Given that the rent structure for these properties would remain unchanged, the total rent is estimated to be S$21.0 million in FY2019. We would assume this figure for the Other Assets for FY2021 and FY2022.

Consequently, the projected total rental income generated for FY2021 and FY2022 would be S$77.6 million and S$80.2 million, as shown in **Exhibit 31**.

Exhibit 31: Projected total rental income for FY2021 and FY2022

	Projected total rent (S$'000)	
	FY2021	FY2022
LPKR Hospitals and MPU Hospitals	56,626	59,164
Other Assets	21,000	21,000
Total	77,626	80,164

Source: FPA Financial

Given the above, the projected Group rental & other income would be S$77.6 million and S$80.2 for FY2021 and FY2022 respectively, assuming no dividend income from quoted equity shares at fair value through profit or loss (FVTPL) and subsidiaries, as shown in **Exhibit 32**.

Exhibit 32: Projected rental & other income for FY2021 and FY2022

	Actual		Forecast	
S$'000	FY2018	FY2019	FY2021	FY2022
Rental income	116,198	115,295	77,626	80,164
Dividend income from quoted equity shares at FVTPL	-	2	-	-
Dividend income from subsidiaries	-	-	-	-
Total	116,198	115,297	77,626	80,164

Source: First REIT, FPA Financial

(II) Earnings projection

Given our projected rental & other income for FY2021 and FY2022, we now estimate the Group's earnings for each period.

Property operating expenses

We note that the Group's property operating expenses have increased over the last 5 years, except for a decline in FY2016 in part due to a one-off absence of impairment allowance on trade receivables, as shown in **Exhibit 33**.

Exhibit 33: Projected property operating expenses

	Actual						Forecast	
S$'000	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Property tax expense	175	217	169	170	193	n.p		
Valuation expenses	206	248	243	251	275	n.p		
Insurance expenses	187	-	-	-	-	n.p	-	
Professional fees	496	579	689	813	938	n.p		
Impairment allowance on trade receivables	246	-	228	353	624	n.p		
Others	112	138	188	220	373	n.p		
Property operating expenses	1,422	1,182	1,517	1,807	2,403	2,154	2,403	2,403

n.p: breakdown is not provided in latest full-year unaudited financial statements for FY2020

Source: First REIT, FPA Financial

While we do not have the detailed breakdown for FY2020, we noted on page 20 that property operating expenses as a whole has decreased from FY2019 due to lower property expenses incurred for properties in Indonesia and property tax rebates received for properties in Singapore. This may not be the case for FY2021 and FY2022 with an improvement in the COVID-19 situation amid the progressive rollout of vaccines. Thus, we would adopt FY2019 as a benchmark and assume property operating expenses of S$2.4 million for FY2021 and FY2022, as shown above in **Exhibit 33**.

Given the above, the estimated net property and other income (NPI) for FY2021 and FY2022 would be as follows:

- NPI for FY2021=S$77.6 million in rental & other income – S$2.4 million in property operating expenses =S$75.2 million
- NPI for FY2022=S$80.2 million in rental & other income – S$2.4 million in property operating expenses =S$77.8 million

Interest income

As noted on page 20, interest income decreased by 39.3% y-o-y to S$1.4 million in FY2020 mainly due to the termination of development of the new Siloam Hospitals Surabaya (new SHS) on 29 June 2020. We note that the S$1.4 million interest income contribution for FY2020 had came fully from interest income received in 1H 2020 mainly due to the returns from progress payments for the development of new SHS. Thus, no interest income had been received for 2H 2020 following the termination of the development at the end of 1H 2020. We would thus assume zero interest income going forward in FY2021 and FY2022.

Manager's management fees

We note that the Manager receives management fees as per the following:

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 Group's NPI or the NPI of the relevant SPCs for each year

While we do not have sufficient information to determine exactly the figures of the Deposited Property or NPI which would be adopted, we would estimate the base fee and performance fee components for FY2021 and FY2022 as below, considering the adjusted total asset value of S$1,104.2 million as noted in **Exhibit 25** on page 26.

- Base fee for FY2021 = 0.4% x S$1,014.2 million in adjusted total assets after Rights Issue = S$4.1 million
- Base fee for FY2022 = 0.4% x S$1,014.2 million in adjusted total assets after Rights Issue = S$4.1 million

- Performance fee for FY2021 = 5.0% x S$75.2 million in projected NPI for FY2021 = S$3.8 million
- Performance fee for FY2022 = 5.0% x S$77.8 million in projected NPI for FY2022 = S$3.9 million

Accordingly, the projected total Manager's management fees would be S$7.9 million and S$8.0 million for FY2021 and FY2022 respectively, as shown in **Exhibit 34**.

Exhibit 34: Projected Manager's management fees

	Forecast	
S$ million	**FY2021**	**FY2022**
Base fee	4.1	4.1
Performance fee	3.8	3.9
Total management fees	7.9	8.0

Source: FPA Financial

Trustee fees

As noted on page 3, the Trustee is entitled to an annual fee not exceeding 0.1% of the value of the Deposited Property. Thus, we would estimate Trustee fee for FY2021 and FY2022 as below. We would assume the maximum limit of 0.1% in our projection.

- Trustee fees for FY2021 = 0.1% x S$1,014.2 million in adjusted total assets after Rights Issue = S$1.0 million
- Trustee fees for FY2022 = 0.1% x S$1,014.2 million in adjusted total assets after Rights Issue = S$1.0 million

Finance costs

As noted on page 20, the Group incurred lower finance costs of S$17.8 million in FY2020 compared to S$20.4 million in FY2019, mainly due to lower interest rates. Nonetheless, we recognize that given the repayment of S$140 million after the Rights Issue (as discussed on page 25), the Group could incur lower interest expense in these years. We note that the range of floating interest rates for the 2018 Secured Loan Facilities was from 3.20% to 4.05% per annum as disclosed in First REIT's Annual Report 2019. Assuming a 3.50% interest rate, this would imply a decrease in interest expense of S$4.9 million = [3.50% x S$140 million] on repayment of the S$140 million debt.

Given the above, we would assume in our projections for FY2021 and FY2022 that interest expense, and in turn finance costs would decrease by S$4.9 million from S$17.8 million in FY2020 to S$12.9 million, as shown in **Exhibit 35**.

Exhibit 35: Projected finance costs

	Actual						Forecast	
S$'000	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Interest expense	15,103	16,076	15,733	16,500	17,493	n.p	-	
Amortisation of borrowing costs	1,435	1,692	2,085	5,114	2,897	n.p		
Total	16,538	17,768	17,818	21,614	20,390	17,826	12,926	12,926

n.p: breakdown is not provided in latest full-year unaudited financial statements for FY2020

Source: First REIT, FPA Financial

Other expenses

With reference to **Exhibit 36**, we note that there is no clear trend that is observed for the Group's other expenses as a whole and for its individual components. As noted on page 20, the Group incurred higher other expenses of S$5.7 million for FY2020 compared to S$1.0 million in FY2019, mainly due to project expenses incurred. In our projections for FY2021 and FY2022, we would assume no gains or losses on foreign exchange and adopt the average of FY2015-FY2019 for the other individual components of other expenses. Accordingly, other expenses would add up to S$1.8 million.

Exhibit 36: Projected other expenses

	Actual						Forecast	
S$'000	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Foreign exchange (gains)/losses	1,347	346	(1,127)	1,051	(163)	n.p	-	-
Handling & processing fees	446	428	214	308	285	n.p	336	336
Professional fees	312	381	947	422	384	n.p	489	489
Project expenses	442	1,972	936	294	286	n.p	786	786
Others	191	191	86	223	210	n.p	180	180
Other expenses	2,738	3,318	1,056	2,298	1,002	5,703	1,792	1,792

n.p: breakdown is not provided in latest full-year unaudited financial statements for FY2020

Source: First REIT, FPA Financial

Net fair value change on investment properties

As noted on page 20, the Group incurred significantly higher net fair value losses on investment properties of S$401.4 million compared to S$5.6 million a year ago, mainly due to the restructuring of MLAs. We would assume no gains or losses on investment properties for FY2021 and FY2022.

Net fair value change on derivative financial instruments

As noted on page 20, the Group's net fair value losses of derivative instruments more than doubled to S$2.4 million in relation to revaluation losses of interest rate swap contracts. In our projections for FY2021 and FY2022, we would assume the average figure of S$1.3 million from FY2016 to FY2020 as a proxy, as shown in **Exhibit 37**.

Exhibit 37: Projected net fair value change on derivative financial instruments

			Actual			Forecast	
S$'000	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
(Losses)/gains on derivative financial instruments	(2,249)	(558)	(174)	(1,040)	(2,391)	(1,282)	(1,282)

Source: First REIT, FPA Financial

Accounting for the above adjustments, the estimated total return before tax for FY2021 and FY2022 would be as follows:

- Total return before tax for FY2021 = S$75.2 million in NPI - S$7.9 million in Manager's management fees - S$1.0 million in Trustee fees – S$12.9 million in finance costs – S$1.8 million in other expenses – S$1.3 million in net fair value loss on derivative financial instruments = S$50.3 million
- Total return before tax for FY2022 = S$77.8 million in NPI - S$8.0 million in Manager's management fees - S$1.0 million in Trustee fees – S$12.9 million in finance costs – S$1.8 million in other expenses – S$1.3 million in net fair value loss on derivative financial instruments = S$52.8 million

Income tax expense

With total return before income tax subjected to a Singapore income tax rate of 17%, the Group's estimated income tax expense for FY2021 and FY2022 would be S$8.6 million and S$9.0 million respectively, as shown in **Exhibit 39**. We would estimate non-deductible items of S$4.6 million for FY2021 and FY2022, implying a 30% decline from FY2019's figure. While we do not have sufficient information regarding the terms of the foreign withholding tax, we note for FY2018 and FY2019 that the amount of foreign withholding tax is about 9.3% of total return before income tax. Assuming this proportioning for FY2021 and FY2022, the estimated foreign withholding tax would be S$4.7 million and S$5.0 million for the respective years. Meanwhile, we would assume the average figure of FY2018 and FY2019 in respect to tax transparency for FY2021 and FY2022. Last, we would assume no adjustments for effect of different tax rates in different countries and over adjustments in respect of prior periods. Accordingly, we would estimate total income tax expense of S$17.4 million and S$18.1 million for FY2021 and FY2022, as shown in **Exhibit 38**.

Exhibit 38: Projected income tax expense

		Actual		Forecast	
S$'000	FY2018	FY2019	FY2020	FY2021	FY2022
Total return before income tax	74,775	75,388	n.p	50,323	52,761
Income tax expense at Singapore income tax rate of 17%	12,712	12,816	n.p	8,555	8,969
Non-deductible/(liable to tax) items	6,437	6,501	n.p	4,551	4,551
Effect of different tax rates in different countries	(5,248)	479	n.p	-	-
Foreign withholding tax	6,988	7,073	n.p	4,721	4,950
Over adjustments in respect of prior periods	(21,571)	-	n.p	-	-
Tax transparency	(418)	(397)	n.p	(408)	(408)
Total income tax expense/(benefit)	(1,100)	26,472	(5,822)	17,419	18,063

n.p: breakdown is not provided in latest full-year unaudited financial statements for FY2020

Source: First REIT, FPA Financial

Based on the above projections, we estimate a total return after income tax of S$32.9 million and S$34.7 million respectively for FY2021 and FY2022. Adjusting for S$3.4 million in total return attributable to perpetual securities holders (as discussed earlier on page 25), total return attributable to unitholders would be S$29.5 million and S$31.3 million for FY2021 and FY2022 respectively. Based on 1,598.3 million issued units following the Rights Issue, which we would assume to remain unchanged in FY2021 and FY2022, we estimate EPS of 1.84 cents and 1.96 cents for FY2021 and FY2022 respectively. We have summarised our earnings projection in **Exhibit 39**.

Exhibit 39: Earnings projection for FY2021 and FY2022

S$'000	FY2021 forecast	FY2022 forecast
Rental & other income	77,626	80,164
Property operating expenses	(2,403)	(2,403)
Net property & other income	75,223	77,761
Interest income	-	-
Manager's management fees	(7,900)	(8,000)
Trustee fees	(1,000)	(1,000)
Finance costs	(12,926)	(12,926)
Other expenses	(1,792)	(1,792)
Net income before the undernoted	51,605	54,043
Net fair value gain/(loss) on investment properties	-	-
Net fair value gain/(loss) of derivative financial instruments	(1,282)	(1,282)
Total return/(loss) before income tax	50,323	52,761
Income tax expense	(17,419)	(18,063)
Total return/(loss) after income tax	32,904	34,698
Total return/(loss) after income tax attributable to:		
Unitholders of the Trust	29,487	31,281
Perpetual securities holders	3,417	3,417
	32,904	34,698
Total return/(loss) after income tax attributable to unitholders	29,487	31,281
Weighted average number of units in issue ('000)	1,598,269	1,598,269
EPU (cents)	1.84	1.96

Source: FPA Financial

(III) Dividends projection

Given projected total return after income tax of S$32.9 million and S$34.7 million for FY2021 and FY2022 respectively as discussed on the previous page, we will now estimate the amount of distributable income to unitholders, and in turn DPU, for the respective years. To do so, we would need to adjustment for the items as below.

Manager's management fees payable in units

We would assume the amount in relation to Manager's management fees payable in units to remain the same at S$4.7 million in FY2021 and FY2022 from FY2020. Accordingly, this amount would be added back to total return after tax.

Foreign exchange gains

For FY2020, the Group reported foreign exchange gains of S$0.3 million as noted in **Exhibit 19** on page 21. For FY2021 and FY2022, we would assume no gains or losses on foreign exchange.

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

In our earnings projection, we have assumed that there would be no net fair value gains or losses on investment properties. In turn, there would be no adjustments for this item in the statement of distributions.

Change in fair value on derivative financial instruments

In our earnings projection, we estimated fair value losses on derivative financial instruments of S$1.3 million in for FY2021 and FY2022. Accordingly, this amount would be added back to total return after tax.

Amount reserved for distribution to perpetual securities holders

As discussed on page 25, we would assume the same amount of distributions to perpetual securities holders of S$3.4 million in FY2020 for FY2021 and FY2022. Accordingly, this amount would be deducted from total return after tax.

After accounting for the above adjustments, the projected total amount available for distribution to unitholders would be S$35.4 million and S$37.2 million for FY2021 and FY2022 respectively, as shown in **Exhibit 40** on the next page. We would assume that First REIT would maintain its payout policy of 100% of its distributable income for FY2021 and FY2022. In turn, distribution amount to unitholders would be equivalent to the total amount available for distribution to unitholders for the respective years. Accordingly, we would estimate a DPU of 2.22 cents and 2.33 cents for FY2021 and FY2022 respectively, given 1,598.3 million issued units following the Rights Issue.

Exhibit 40: Dividends projection for FY2021 and FY2022

S$'000	FY2021 forecast	FY2022 forecast
Total return/(loss) after income tax	32,904	34,698
Adjustments for tax purposes:		
Manager's management fees payable in units	4,679	4,679
Foreign exchange gains	-	-
Change in fair value on investment properties, net of deferred tax	-	-
Net fair value (gains)/losses of derivative financial instruments	1,282	1,282
Amount reserved for distribution to perpetual securities holders	(3,417)	(3,417)
Others	-	-
Total available for distribution to unitholders	35,448	37,242
Distribution amount to unitholders	35,448	37,242
No. of issued units ('000)	1,598,269	1,598,269
DPU (cents)	2.22	2.33

Source: FPA Financial

VALUATION ANALYSIS

We will present our valuation analysis in two segments. First, we will review the valuation impact of the Rights Issue. Second, we will perform a peer comparison analysis to review how First REIT is faring against industry peers in terms of valuation metrics. We will then provide a summary of our views on First REIT's valuation.

(I) Valuation impact of the Rights Issue

As noted on page 26, we derived an adjusted NAV per unit of 34.56 cents after adjusting for the impact of the Rights Issue. Assuming that ex-rights trading for the Rights Issue were to take place at time of writing, we would estimate a TERP per unit of S$0.223 as shown in **Exhibit 41**.

Exhibit 41: Estimated TERP price per unit

	S$ million
Price as at 22 Jan 21 (S$)	0.245
Issued units (million)	807.21
Market capitalisation	197.8
Equity funding	158.2
Total value post rights issue	356.0
No. of issued units post rights issue	1,598.3
TERP per unit (S$)	0.223

Source: FPA Financial

Given the above, we will also perform a peer comparison analysis (as on the next page) to review First REIT's performance against its peers in terms of valuation metrics.

(II) Peer comparison analysis

We also performed a peer comparison analysis to review how First REIT is faring against industry peers in terms of valuation metrics. Given the absence of direct comparable companies for Indonesian healthcare REITs, we will perform our peer comparison using comparables listed in **Exhibit 42** like Parkway Life REIT, Northwest Healthcare Properties REIT and Medical Properties Trust Inc, which we note First REIT has drawn comparison with. The selected peer companies listed in **Exhibit 42** are real estate investment trusts that own a portfolio of real estate assets that are used for healthcare and/or healthcare-related purposes.

Exhibit 42: Peer comparison

Company	Stock listing	Symbol	Price (S$) as at 22/1/21	Market cap (S$ million)	EPU [1] (cents)	P/E (x)	DPU [2] (cents)	Dividend yield (%)	NAV per unit (S$)	P/B (x)
Based on FPA projections for FY2021:										
First REIT [3]	SGX	AW9U	0.223	356.41	1.84	12.12	2.22	9.96	0.35	0.65
Peer companies (based on market data):										
Parkway Life REIT [4]	SGX	C2PU	4.030	2,438.15	20.78	19.39	13.56	3.36	1.94	2.08
Northwest Healthcare Properties REIT [5]	TSX	NWH.UN	13.842	2,432.47	81.05	17.08	-	6.08	8.94	1.55
Medical Properties Trust Inc [6]	NYSE	MPW	28.555	16,374.07	115.71	24.68	142.31	4.98	17.90	1.60
Peer average		-	-	-	-	**20.38**	**-**	**4.81**	**-**	**1.74**

SGX, TSX and NYSE refer to Singapore Exchange, Toronto Stock Exchange and New York Stock Exchange respectively

(1) Trailing 12-month diluted EPS based on last 4 quarters of released results

(2) Trailing 12-month DPU over the last 4 quarters of released results

(3) Price is based on TERP per unit of S$0.223. EPU and EPU based on FPA's forecast for FY2021. NAV per unit of S$0.3456 has accounted for impact of Rights Issue.

(4) Data based on results from 1 Oct 19 to 30 Sep 20. Nav per unit as at 30 Sep 20

(5) Company reports in CAD. Conversion based on exchange rate of SGD1=CAD0.95. Data based on results from 1 Oct 19 to 30 Sep 20. Nav per unit as at 30 Sep 20.

(6) Company reports in USD. Conversion based on exchange rate of USD1=SGD1.33. Data based on results from 1 Oct 19 to 30 Sep 20. Nav per unit as at 30 Sep 20.

Source: Respective company data, WSJ, FPA Financial

Given the results in **Exhibit 42** above, we note that First REIT's dividend yield of 9.96% is above the peer average yield of 4.81%, which could suggest that it is relatively attractive in terms of dividend yield. At the same time, we also note that First REIT is trading at a lower PB multiple of 0.65x compared to the peer average of 1.74x, which could suggest that it is substantially undervalued.

(III) Valuation summary

Given the results of our peer comparison, we note that First REIT appears to be relatively attractive in terms of dividend yield. At the same time, we also note that First REIT could be substantially undervalued based on the adjusted NAV per unit of S$0.3456. At the same time, however, it may be overly optimistic for First REIT to trade at the peer average PB of 1.74x. While we believe that there is growth potential for First REIT on the back of growing demand for healthcare in Indonesia and its ability to leverage on the Sponsor's network, we do not think these factors could justify a 74% NAV premium.

Given the above consideration, we believe that the upside potential could be for First REIT to trade at the adjusted NAV. Accordingly, we would estimate a target price of S$0.3456 if First REIT were to trade at a PB multiple of 1.0x as follows:

- Estimated target price = 1.0 x adjusted NAV per unit of S$0.346 = S$0.3456

This target price is a 55.0% upside from the TERP per unit of S$0.223.

SWOT AND COMPETITIVE ANALYSIS

In this section, we undertake a SWOT analysis in **Exhibit 43** to evaluate the various components of the analysis thus far.

Exhibit 43: SWOT analysis

SWOT analysis	
Strengths • Healthy financial performance	Weaknesses • Limited portfolio diversification
Opportunities • Potential diversification into new geographical markets	Threats • Risk of default by master lessee

(I) Strengths

As noted on page 22, the Group has managed to deliver relatively healthy financial performance over the last 5 years. Key financial indicators such as rental & other income and NPI have broadly trended upwards over the years, and distribution to unitholders has also increased.

(II) Weaknesses

We note that First REIT appears to be lacking in terms of portfolio diversification. Given that about 96% of rental income is derived from the Trust's properties in Indonesia, the weak financial position of LPKR has placed the Group in a vulnerable position due to the risk of default on lease payments. Further, the Trust's portfolio concentration in Indonesia also puts it at risk of a weak Indonesian economy.

(III) Opportunities

We note that First REIT's Manager has plans to tap on the Sponsor's network to diversify the Trust's portfolio into new geographical markets including Japan, China, Myanmar, Europe, the United Kingdom and Australia. Given yield accretive terms, the Manager intends to pursue acquisitions and further reduce geographic and tenant concentration risk.

(IV) Threats

As noted earlier, the Group faces a potential risk of default on lease payments owing to the weak financial position of LPKR. This could be exacerbated by a weak global economic recovery which would have a negative impact on LPKR's business operations relating to hotels and retail properties, and in turn on its financial performance.

INVESTMENT RECOMMENDATION

First REIT is currently trading at a PB of 0.49x based on its reported NAV per unit of 49.94 cents as at 31 December 2020.

Factoring in the impact of First REIT's rights issue that has been launched, we estimated an adjusted NAV per unit of S$0.3456. Given the terms of the Rights Issue, we estimated a TERP per unit of S$0.223 per unit if ex-rights trading for the Rights Issue were to take place at time of writing.

Meanwhile, the results from our peer comparison analysis suggest that First REIT is relatively attractive in terms of dividend yield. In addition, we note that it is trading at a substantially lower PB multiple of 0.65x (based on adjusted NAV per unit of S$0.3456) compared to the peer average of 1.74x. However, we believe that growth potential for First REIT - on the back of growing demand for healthcare in Indonesia and its ability to leverage on the Sponsor's network - may not be sufficient to justify a 74% NAV premium for First REIT. Accordingly, we believe that the upside potential could be for First REIT to trade at the adjusted NAV per unit. We thus estimated a target price of S$0.3456 if First REIT's PB were to adjust to 1.0x. This target price is a 55.0% upside from the TERP per unit of S$0.223.

In terms of financials, we note that the Group has maintained a healthy set of financial results over the years and has managed to deliver higher distributions to unitholders. While the COVID-19 pandemic has impacted the Group's financials in FY2020, we could expect a stronger performance going forward as the COVID-19 situation stabilizes. The Indonesian economy is projected by the OECD to experience the fastest growth in the world after China. This could provide some upside potential for First REIT's share price which is reflected within our target price.

Given the above consideration, we will adopt a conservative approach to issue a neutral recommendation on First REIT as there are concerns that could limit the upside to First REIT's share price. We will highlight these concerns in the Risk section on the next page.

RISKS TO THE TARGET PRICE

In this section, we highlight 2 risk factors that may limit the potential upside in First REIT's share price.

(I) Concerns over further restructuring of MLAs

We noted on page 13 that the Group faces a potential risk of losing of approximately 72.1% of rental income for FY2019 if LPKR were to default on the existing MLAs. To address this, the Proposed LPKR Restructuring, which we now know would proceed, was put forth to help to alleviate the financial burden in relation to LPKR's lease payments to First REIT.

However, given LPKR's financial stress in terms of liquidity as noted on page 13, there may still be a risk that it could face difficulties meeting the lease payments to First REIT going forward. Further, we note from **Exhibit 44** below that LPKR's total debt has increased over the first 9 months of 2020, mainly due to a rise in short-term bank loans to Rp 1,540 billion as at 30 September 2020 from Rp 653 billion as at 31 December 2019. Consequently, its reported gearing, as represented by its debt-equity ratio, stood at 0.46x as at 30 September 2020 compared to 0.36x as at the end of 2019.

Exhibit 44: LPKR's capital management

	30-Dec-19		30-Sep-20	
	IDR million	S$ million	IDR million	S$ million
Short-term bank loans	653,174	60	1,540,000	142
Long-term bank loans	265,175	24	691,915	64
Finance lease obligations	150,905	14	145,052	13
Factoring loan	20,665	2	-	-
Bonds payable	11,161,549	1,031	12,097,190	1,117
Total debt	12,251,468	1,131	14,474,157	1,336
Total equity	34,376,339	3,174	31,237,572	2,884
Debt-equity ratio (x)	0.36	0.36	0.46	0.46

Conversion based on exchange rate of SGD1 to IDR10,830

Source: LPKR, FPA Financial

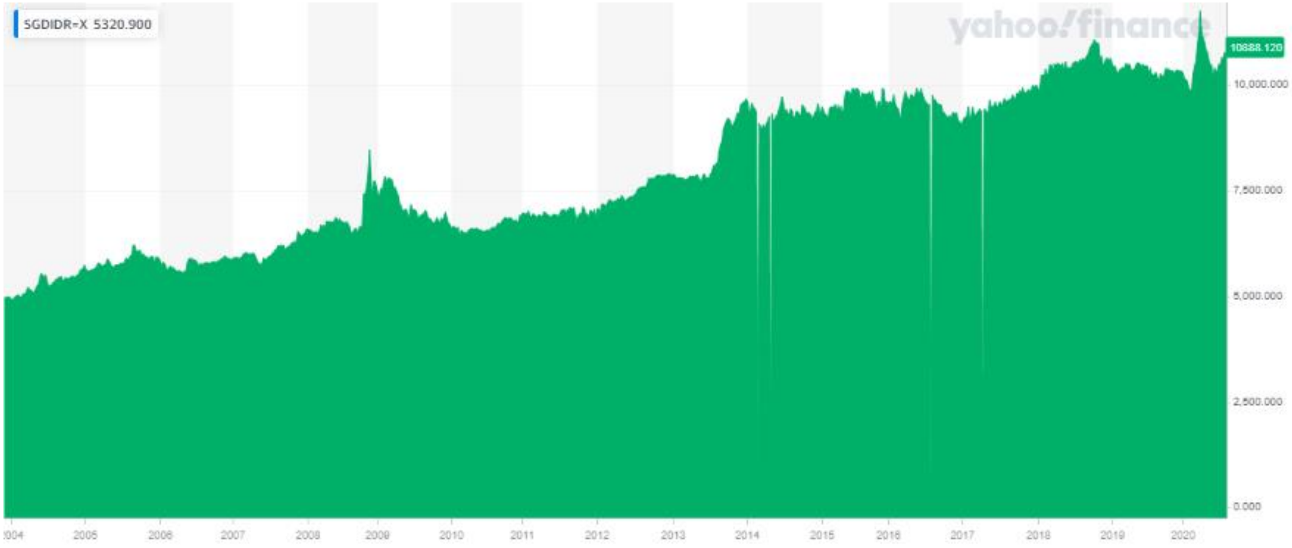
Despite the successful restructuring of the MLAs, we note that LPKR could further negotiate on the MLAs terms which could result in another round of restructuring. As noted on page 9, the Group is heavily reliant on the rental income stream from LPKR and its subsidiaries. In addition, First REIT has noted in its announcement on 13 January 2021 regarding responses to queries from unitholders that it would be difficult to replace the operator of its Indonesian properties. At the same time, we note that asset divestment would be challenging given strict licensing procedures and regulations pertaining to hospitals properties. Further, we also noted on MPU and LPKR's connection as part of the Lippo Group.

In view of the above, it appears that First REIT could be heavily dependent on entities within the Lippo Group to ensure the survival of its business. This could provide LPKR with leeway to further negotiate the terms of the MLA in its favour. If this were to happen, we foresee the possibility that First REIT's rental income could be negatively impacted.

(II) Risk of exchange rate fluctuations

We note that the Group is exposed to foreign exchange risk arising from currency exposures with respect to the Indonesian Rupiah (Rp) and South Korean Won (Won). In particular, we note that the SGD has appreciated considerably against the Rupiah over the last 10 years, as shown in **Exhibit 45**. The SGD may further strengthen on the back of strong capital inflows, given Singapore's status as a safe-haven for investments.

Exhibit 45: SGD/IDR exchange rate over the years



Source: Yahoo Finance

As noted in **Exhibit 10** on page 12, under the new proposed rent structure, the rental income that First REIT will derive from the LPKR Hospitals and MPU Hospitals would be denominated in Rupiah instead of SGD previously. Given potential weakening of the Rupiah against the SGD, there is a risk that First REIT's rental income could be negatively impacted due to foreign exchange translation losses. As a simple illustration, the Group's rental & other income is expected to decrease by 12% if the Rupiah depreciates against the SGD by 20%, as shown in **Exhibit 46**. Further, the valuation of First REIT's Indonesian properties may also lead to fair value investment losses

Exhibit 46: Illustrative impact of SGD/IDR fluctuation on Group rental & other income

	Total rent (S$ million)		Rental & other income in FY2021	
SGD/IDR	LPKR and MPU Hospitals	Other Assets	S$ million	% change
-20%	70,783	21,000	91,783	18%
-15%	66,619	21,000	87,619	13%
-10%	62,918	21,000	83,918	8%
-5%	59,606	21,000	80,606	4%
-	56,626	21,000	77,626	-
5%	53,930	21,000	74,930	-3%
10%	51,478	21,000	72,478	-7%
15%	49,240	21,000	70,240	-10%
20%	47,188	21,000	68,188	-12%

Source: First REIT, FPA Financial

SUSTAINABILITY INFORMATION

As part of its sustainability efforts, the Board of Directors of the Manager (the Board) remains diligent in the business conduct and strengthening the business practices by integrating Environmental, Social and Governance (ESG) aspects into the processes.

The Manager believes employees' character development and corporate experiences are vital to the value creation to the stakeholders. Employment engagement is conducted through various touch-points such as skills development training programs, social team bonding activities, upgrading the skills of employees, providing them with opportunities to attend training workshops and courses. The Manager believes these experiences will value-add to its employees' character development and corporate experiences. This will provide reassurance to stakeholders that the employees have capabilities to perform under different situations with excellence.

Stakeholder Engagement

Stakeholders include employees, investors, unitholders, analysts & the media, operators, the Trustee, third-party service providers, the Government, and the community. Engagement with stakeholders are conducted on an annual, quarterly and ad-hoc basis through channels such as employee feedback sessions, annual general meetings, media releases and road shows, to name a few. A summary of the Stakeholder Engagement framework adopted by the Manager is shown in **Exhibit 47**.

Exhibit 47: First REIT Stakeholder Engagement

Stakeholders	Engagement Channels	Key Feedback/Issues	Commitments to Sustainability
Employees	**Annually** • Employee feedback sessions • Dialogue sessions with senior management • Performance appraisals **Ad-hoc basis** • Employee training sessions • Team bonding sessions	• Remuneration and benefits • Fair and competitive employment practices • Work-life balance • Employee safety, welfare, training and development opportunities	• Create a conducive work environment for all employees • Promote cohesive work culture
Investors, Unitholders, Analysts and Media	**Annually** • Annual general meeting (AGM) • Sustainability reports **Quarterly** • Financial results announcement **Ad-hoc/Perpetual** • Corporate website • SGX announcement and media release • Events and meetings (road shows)	• Business strategy and outlook (return on investments, growth rate, risk management) • Corporate governance and regulatory compliance • Performance and reporting standards	• Timely and transparent disclosure of accurate and relevant information to stakeholders • Sustainable long-term return of investment
Operators	**Annually** • Key operators meeting **Quarterly** • Asset management reports	• Reliable and efficient infrastructure • Prompt response to feedback	• Maximise resource efficiency of properties • Ensure tenant's safety and security
Trustee	**Quarterly** • Reports	• Operational efficiency	• Zero-tolerance for corruption
Third-Party Service Providers	**Annually** • Property audits **Project-basis** • Service provider evaluation	• Environmental compliance • Occupational health and work safety practices	• Compliance to terms in contracts
Government	**Annually** • Tax filing report • Sustainability report • Regulatory report **Ad-hoc/Perpetual** • Associations and bodies (E.g. REITAS, SIAS)	• Advocate greener operator behaviour • Laws and regulations related to trade associations • Eco-friendly green infrastructures	• Compliance with laws and regulations • Fair and ethical business practices
The Community	**Annually** • Sustainability report **Ad-hoc** • Corporate social responsibility ("**CSR**") activities	• Sustainable business practices • Eco-awareness amongst the community	• Management of impacts on the community • Advocate eco-friendly practices • Support local initiatives

Source: First REIT

Materiality Assessment

Through various engagement sessions involving the management and executives, the Manager has considered and assessed the topics that First REIT and its stakeholders are concerned about, as well as those that can potentially impact the long-term sustainability of its business. Its approach on materiality assessment aims to follow the reporting principles of: (1) Stakeholder Inclusiveness; (2) Sustainability Context; and (3) Materiality

In accordance to the reporting principles, it takes into account the material topics' influence on stakeholders' decisions as well as the significance of the topic's impact to ESG and Economic factors. These material topics are ranked in the materiality matrix as shown in **Exhibit 48**. Further details on these material topics such as their relevance to First REIT/Manager and how they are being addressed by First REIT/Manager are discussed in the **Exhibits 49 to 52** on pages 46 to 49.

Exhibit 48: First REIT Materiality Assessment

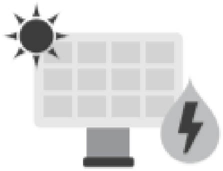
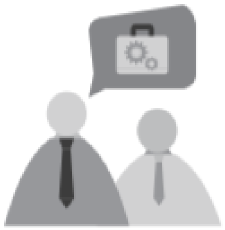
Source: First REIT

Exhibit 49: First REIT Materiality Table

Material Topics	Relevance to First REIT/Manager	How we are addressing the issue
Economic Dimensions		
Direct and Indirect Economic Impact 	We provide income for our employees, revenue for suppliers and contractors, as well as support public well-being and infrastructure through tax payments and fees. Further, through our provision of space for our tenants to operate, our tenants support the local economy through the provision of jobs and healthcare services.	First REIT We focus on entering into yield-accretive property investments so that investors can receive stable and attractive dividends. We continue to source for potential acquisitions across Asia.
Asset Quality and Integrity 	We strive to achieve the highest standards of quality and safety in our buildings. We believe that it is through the management of such fundamental requirements that we can build stronger bonds with our stakeholders. In a competitive landscape, we seek to understand our stakeholders and go the extra mile to deliver value to them.	First REIT Our long-term sustainable goal is to ensure the safety and comfort of our tenants and their end-customers. Annually, we engage external building auditors to carry out building audits to ensure that the quality standards of our properties will not be compromised. We value the feedback from our stakeholders to offer better service standards for our tenants. Our value-adding asset enhancement projects ensure that our properties remain competitive and are satisfactory to our stakeholders.
Environmental Dimensions		
Waste Management 	As a healthcare REIT providing business opportunities for healthcare or healthcare-related service providers, it is our duty to ensure our tenants assume their responsibility on proper disposal of biohazardous waste. Improper biohazardous waste disposal can have dire consequences to the environment and local biodiversity. In addition, there could be legal liabilities following adverse consequences that will indirectly impact First REIT's reputation as a healthcare REIT.	First REIT Other than ensuring that our buildings have proper waste management programmes in place, the Manager and our tenants have initiated several recycling and waste reduction programmes during the reporting period. PT Siloam International Hospitals Tbk ("**Siloam**") • Siloam hospitals operate under paperless systems where the prescription letter is sent directly to the pharmacy after the patient's consultation. Radiology departments have also introduced filmless radiology consultations. Imperial Aryaduta Hotel & Country Club • Monitoring and reduction of food wastage at food and beverages outlets; • Recycling of plastic bottles Manager • Electronic copy of annual report for FY 2018 and FY 2019

Source: First REIT

Exhibit 50: First REIT Materiality Table - continued

Material Topics	Relevance to First REIT/Manager	How we are addressing the issue
Environmental Dimensions		
Energy and Water Conservation 	We recognise that investing in or placing emphasis on energy and water conservation measures not only reduces our carbon footprint but also makes business sense in terms of cost savings. Therefore, we are committed to taking active steps to reduce our overall energy consumption and improve energy and water efficiency to minimize the environmental impact at every level operation.	Manager As Manager of First REIT, we strive to improve energy efficiency in our daily office operations. All lights are turned off after all staff left the office. We have started monitoring our electrical consumption and are exploring other areas of energy conservation in the office. Siloam Siloam completed a pilot project at Siloam Hospitals Makassar ("**SHMK**"), and installed a solar panel powered water heater and water pressure tank in November 2018. This initiative saw SHMK energy reduction from 90 million per month of LPG usage to 45 million per month of LPG usage. There are plans to replicate this in other hospitals within Siloam's hospital network. Imperial Aryaduta Hotel & Country Club The hotel operator implemented a water pipe replacement programme to reduce water leakages. They have also programmed the operations of the main exhaust and motor cooler by modulating control.
Social Dimensions		
Employee Attraction & Retention 	The success of our business is attributed to our ability to attract and retain talented and passionate people. As such, we have competitive remunerations, training and development programmes. We aim to create a conducive environment to nurture our employees to their fullest potential. This will also provide security to investors knowing that employees of the Manager possess excellent capabilities to excel in their respective roles.	Manager We have competitive employee remuneration packages. We focus on providing a learning experience, productive and safe working environment. We provide opportunities for career development and growth. In FY 2019, our employees have clocked an average of 22.7 hours of training, a target achieved compared to the targeted 20 hours of training in FY 2018. In FY 2019, we introduced health screening for employees in addition to "Fruits Day", as well as organized team bonding sessions to build cohesiveness, boost team morale and motivate employees.

Source: First REIT

Exhibit 51: First REIT Materiality Table - continued

Material Topics	Relevance to First REIT/Manager	How we are addressing the issue
Social Dimensions		
Community 	As a socially conscious business, we recognise the need to build long-term relationships with the stakeholders, and to actively engage our community. As we grow our business, a clear focus to guide our community-engagement initiatives will allow the community to thrive alongside us Besides focusing on the financial aspects of our operations, we also understand the importance of giving back to the community.	Manager We fostered staff volunteerism by carrying out community involvement projects at our Singapore properties as we believe in creating positivity from within. In FY 2019, the Manager initiated and participated in the following activities: • Chinese New Year celebration: Organised fun-filled activities for residents of The Lentor Residence • Mooncake Festival celebration: Organised a tea-time celebration with the residents in Pacific Healthcare Nursing Home II @ Bukit Panjang • Stars of Christmas: Organised by OUE Limited ("**OUE**") and participated by the Manager. The event brings Christmas cheer to beneficiaries of non-profit organisations providing programmes and services to under privileged children, and those with special needs and illness. Our corporate objective is to engage stakeholders beyond our workplace and spread joy during festive seasons. We commit ourselves through community involvement projects to bond with our stakeholders.
Governance Dimensions		
Ethics and Business Conduct 	We are committed to conducting our business activities with integrity and respect for the society at large. This helps to build up our reputation as the employer of choice, a credible business partner and as a quality healthcare REIT.	Manager and First REIT We have zero tolerance for any breaches of our Code of Business Conduct. We educate our employees through constant interactions, a strong culture of compliance and the staff handbook. We also instituted the following policies to safeguard stakeholders' interests: • Personal Data Protection Policy; • Whistle Blowing Policy; • Do-not-call Policy; and • Collection of Personal Data Policy There have been no breaches and zero cases of corruption and fraud during the reporting period.

Source: First REIT

Exhibit 52: First REIT Materiality Table – last

Material Topics	Relevance to First REIT/Manager	How we are addressing the issue
Governance Dimensions		
Independence and Conflict of Interest 	Given the pipeline of potential investments in the Asia-Pacific region, we are committed to protect the interest of unitholders and maintain the trust that they have in us.	Manager and First REIT We perform due diligence on all investments to ensure that the intended investment is yield accretive and fundamentally sound. We align our performance fee with interest of First REIT's Unitholders. Employees are required to make periodic declarations to confirm that they are not subjected to conflict of interest situations.
Regulatory Compliance 	As a listed REIT on SGX-ST, we are required to comply with SGX-ST listing requirements, Monetary Authority of Singapore's ("**MAS**") and other regulators' requirements. Failure to comply with these regulations could pose a threat to business continuity. Further, with properties across multiple countries, First REIT is also subjected to regulatory compliance of the respective host countries.	Manager The Directors were briefed on the regulatory and legislative changes including changes to the code of corporate governance 2018 as well as the changes to accounting standards. The Directors are given unrestricted access to professionals for consultation and to receive the relevant training of their choice in connection with their duties as directors as and when they deem necessary. On an ongoing basis, Directors were also briefed on any changes to regulations, policies and accounting standards that affects First REIT or have an important bearing on the Manager's or Directors' disclosure obligations during Board meetings. We engage professional third party auditors to perform audit on our financials and internal controls annually to ensure compliance to application laws and regulations.

Source: First REIT

DISCLOSURES/DISCLAIMERS

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