

First REIT (FIRT SP)

A comeback story underpinned by diversification

Initiate coverage with BUY and TP of SGD0.28

FIRT is a healthcare-focused REIT that owns hospitals and nursing homes in Indonesia, Japan and Singapore. It has come a long way since restructuring its master lease agreement by adding investments in nursing homes and its geographic exposure. We like its senior-focused nursing homes in Japan, which are supported by the aging population. Its hospitals are benefitting from more affluent Indonesians who choose private local hospitals over medical tourism. FIRT has restored its revenue back to levels near pre-restructuring, while its valuation is still attractive at a 20% discount to book despite moderate risks. We project an appealing FY24E DPU yield of 10%. Initiate BUY with a DDM-based TP of SGD0.28 (16% upside).

Diversified income from Japan's aging population

FIRT acquired 14 nursing homes in Japan between Dec'21 and Mar'22, as part of its 'Growth 2.0' strategy. As such, FIRT's revenue surged and FY22 top line rose 9% YoY. Nursing homes made up c.26% of AUM in FY23 (vs only 3% in FY21). Japan is a fast-ageing society providing compelling long-term demand for nursing homes. As FIRT's nursing homes are in prefectural capitals, they do not face direct competition from the large J-REIT counterparts in metropolitan areas. We also like the different length of stay the nursing homes offer versus its hospitals, for better diversification.

Pivoting towards more sustainable growth

FIRT restructured its master lease agreement for 14 hospitals in Indonesia in 2020. Due to Covid travel restrictions, an increasing number of Indonesia's outbound medical tourists have grown accustomed to local private hospitals. As such, the revenue of premium private hospital chain Siloam Hospitals has increased since FY22. As part of the new lease agreement, the hospitals pay the higher of 4.5% annual rent escalation or 8.0% of the previous year's GOR. If the revenue of more Siloam Hospitals surpass their benchmark and they switch to performance-based rent, this should help drive organic growth for FIRT.

Growth potential and appealing valuation

Siloam Hospitals' revenue has grown steadily since FY22. FIRT is cash-rich meaning asset buybacks are possible. FIRT's long-term target is to have 50% of AUM in developed markets. As such, FIRT boasts favourable growth prospects due to potential capital recycling. We forecast an attractive FY24 DPU of 10%. Risks to our call: 1) currency exchange fluctuations given IND-denominated revenue and SGD distributions; 2) changes to healthcare policies and tenancy risk; and 3) corporate governance uncertainty.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	111	109	108	111	114
Net property income	109	105	105	108	111
Core net profit	63	65	64	64	65
Core EPU (cts)	3.2	2.7	2.6	2.6	2.6
Core EPU growth (%)	(12.9)	(14.4)	(4.3)	(0.1)	(0.3)
DPU (cts)	2.6	2.5	2.4	2.4	2.5
DPU growth (%)	1.1	(6.2)	(3.1)	2.1	0.8
P/NTA (x)	0.8	0.9	0.8	0.8	0.8
DPU yield (%)	10.2	9.3	9.8	10.0	10.1
ROAA (%)	5.6	5.5	5.3	5.3	5.3
Debt/Assets (x)	0.38	0.38	0.37	0.37	0.37
Consensus DPU	-	-	2.4	2.6	2.7
MIBG vs. Consensus (%)	-	-	(0.0)	(4.3)	(9.3)

Li Jialin
jialin.li@maybank.com
(65) 6231 5845

BUY

Share Price SGD 0.25
12m Price Target SGD 0.28 (+16%)

Company Description

First REIT invests in income-producing healthcare assets. It operates in Indonesia, Singapore and Japan.

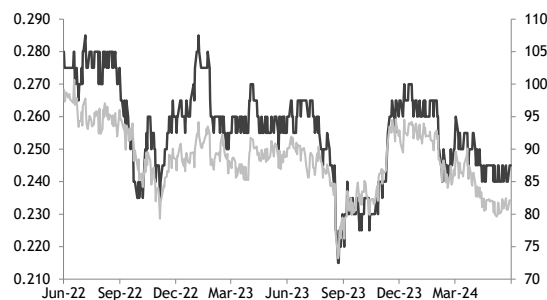
Statistics

52w high/low (SGD)	0.27/0.22
3m avg turnover (USDm)	0.2
Free float (%)	53.8
Issued shares (m)	2,064
Market capitalisation	SGD505.6M USD373M

Major shareholders:

OUE Healthcare Ltd.	32.5%
OUE Ltd.	12.4%
The Vanguard Group, Inc.	2.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(2)	(4)
Relative to index (%)	(0)	(5)	(8)

Source: FactSet

Abbreviations explained

AUM - assets under management
DPU - dividend per unit
GOR - gross operating revenue
ROFR - right of first refusal
J-REIT: Japan-listed REIT
MLA: master lease agreement

COE: Centre of Excellence

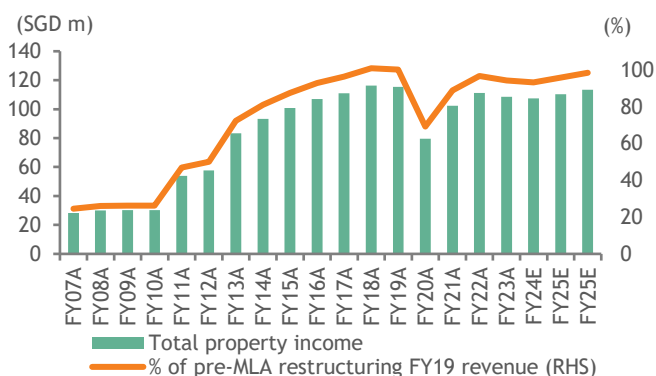
WADE: Weighted average debt term to maturity

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Tear Sheet Insert

Value Proposition

- FIRT is a healthcare-focused REIT that owns a mixture of hospitals and nursing homes in Indonesia, Japan and Singapore. FIRT is a net-lease REIT, ie, it operates as the real estate owner, leaving the day-to-day operations of complex healthcare facilities to third parties.
- Under its new lease with Indonesian operators, FIRT either receives a fixed 4.5% annual rent escalation, or a higher performance-based rent, equating to 8% of the hospital's gross revenue from the previous year.
- FIRT has a stable key management team and a 7-member board. Mr. Victor Tan is the CEO and Executive Director.
- FIRT has restored its revenue back to levels near pre-restructuring, while its valuation remains low.

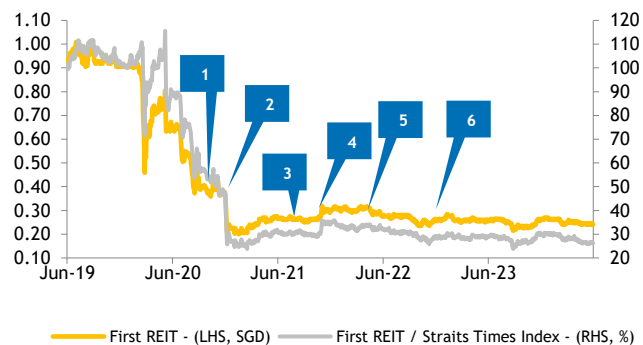
First REIT's revenue as a % of FY19 income (pre-master lease agreement restructuring)



Source: Company

Price Drivers

Historical share price trend



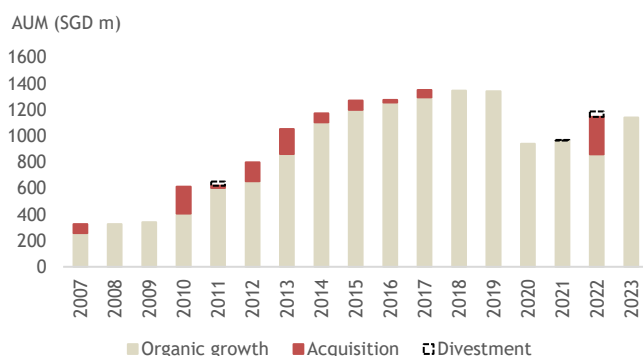
Source: Company, Maybank IBG Research

1. Nov 2020: FIRT restructured its master lease agreement with PT Lippo Karawaci and PT Metropolis Propertindo Utama for 14 hospitals.
2. Dec 2020: FIRT proposed a rights issue to raise SGD158.2m to repay debt.
3. July 2021: FIRT divested Sarang Hospital.
4. Dec 2021: FIRT unveiled its 'Growth Strategy 2.0'
5. Mar 2022: FIRT acquired 12 nursing homes in Japan from OUELH.
6. Dec 2022: FIRT acquired 2 more nursing homes in Japan, while divested Siloam Hospitals Surabaya for SGD40.3m.

Financial Metrics

- FIRT posted 1Q24 revenue of SGD26.1m, -4% QoQ/-2.6% YoY mainly due to FX headwinds. Revenue in local currency terms rose 4.5% YoY for Indonesia assets and +2% YoY for Singapore assets. Management intends to hedge 50% of the distributable income for the year.
- There is no re-financing needed until 2026.
- Gearing is relatively stable at c.38.8%, which will be further reduced after asset sales and paring down debt.
- As of Mar'24, about 87% of its borrowing is hedged to fixed interest rates. Interest-coverage ratio is 4x. WADE is healthy at 3.3 years.
- For the past 3 years, FIRT has three hospitals on performance-based rents.

First REIT's AUM since IPO



Source: Company

Swing Factors

Upside

- Accretive deals in developed markets.
- More Siloam Hospitals are able to achieve revenue surpassing its benchmarks and switch to performance-based rent.

Downside

- Currency-exchange fluctuations given IND-denominated revenue and SGD distributions.
- Tenancy risk such as default on rents or pre-mature termination of lease.

ESG@MAYBANK IBG

Jialin.li@maybank.com

Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- FIRT's properties are master leased to 11 well-established operators. While the manager does not have operational control, the manager continues to enhance its sustainability data collection and monitoring system and is cognisant of the importance of due diligence over its assets and their environmental impact.
- Currently, the manager provides disclosures for its healthcare and healthcare-related properties in Indonesia and in Singapore. The manager is engaging its operators in Japan in sustainability-related initiatives and endeavours to provide disclosure on the environmental performance in Japan.

Material E issues

- Most of the emissions produced by FIRT's portfolio were from Indonesia properties, which comprise roughly 75% of FIRT's gross floor area in square metres. FIRT does not have Scope 1 emissions arising from its portfolio properties. FIRT reports Scope 2 and Scope 3 emissions from its operations in Indonesia and Singapore.
- The consumption of energy is largely attributed to air-conditioning in its assets used to provide thermal comfort, and importantly, to preserve the chemicals, fluids and other medical supplies used. Siloam has also incorporated sustainability considerations into its vendor assessment.
- FIRT encourages the operators to install environment-friendly equipment or utilise information technologies to achieve energy and resource savings.
- In 2023, FIRT committed to capex of over SGD1.12m to improve energy efficiency in its properties.
- In FY23, the manager started to monitor electricity consumption at its headquarters in Singapore, an improvement from previous years.

Material S issues

- In March 2022, FIRT initiated a Social Finance Framework, which initiates financing tied to attaining sustainable social goals. This framework provides a platform for the issuance of loans and bonds granted on the attainment of specific social benefit outcomes.
- FIRT has established a Social Finance Working Group besides the Sustainability Team, which also comprises representatives from the Asset Management, Compliance, Finance, and Investor Relations departments, and is chaired by the CFO.
- The net proceeds of social finance instruments issued by FIRT will be used exclusively to finance and/or refinance, in whole or in part, eligible social assets.
- Eligible assets include hospitals offering essential healthcare services and/or nursing homes that meet criteria in serviced population. Notably, this does not apply to project sponsors who are not substantially involved in a number of activities, including the production of or trade in alcoholic beverages excluding beer and wine.

Key G metrics and issues

- First REIT has a 7-member board with 4 independent members. Ms. Minny Riady is the sole female director. Mr Ferris Bye, an independent board member, chairs the Audit and Risk Committee.
- At FIRT, the Board of Directors delegates the responsibility of managing sustainability-related matters to the Sustainability Team, which is chaired by the CEO. The Sustainability Team formulates the overall strategic direction, determines relevant performance goals, monitors progress regularly against these goals, and manages sustainability reporting.
- FIRT entered into a lease with PT. Lippo Karawaci Tbk for IAHC for a further term of one year in Dec'23.
- In Sep-20 and Oct-20, FIRT received proposals regarding rental restructuring for 14 Indonesian hospitals from LPKR and MPU respectively. The management accepted the proposals in Nov-20 and the new lease has taken effect since 1 Jan 2021. Under the new lease, FIRT receives a lower base rent. Rental income is received in IDR (vs. SGD).
- Following the restructuring, in Dec-20 FIRT undertook a "Recapitalisation" plan to raise SGD158.2m of gross proceeds, via a rights issue of 791.1M new units. The rights issue was on a 98:100 units basis at S\$0.20/sh. The proceeds of the rights issue were used to pare down debts and professional fees. In Dec-21, FIRT issued 431M new units at SGD0.305/sh to OUE Lippo Healthcare as partial consideration of SGD131.5m for proposed acquisition of Japan nursing homes. Units in issue have increased by 2.55x from Dec-19 to Dec-22.
- As such, FIRT saw lower DPU of SGD2.61 cts in FY21 (vs. SGD4.15 in FY20). NAV declined from SGD49.94cts in FY20 to SGD30.70cts in FY22 due to dilution impacts.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score:25)						
	Particulars	Unit	2021	2022	2023	PREIT SP (2023)
E	Scope 1 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	Scope 2 GHG emissions	tCO2e	N/A	N/A	N/A	N/A
	Total	tCO2e	0	0	0	0.0
	Scope 3 GHG emissions	tCO2e	55,265	55,986	60,664	27,413.20
	Total	tCO2e	55,265	55,986	60,664	27,413
	GHG intensity	kgCO2e/m2	N/A	N/A	N/A	N/A
	Energy intensity	kWh/sqm	188.4	190.7	350.6	N/A
	Share of renewable energy use in operations	%	N/A	N/A	N/A	N/A
	Water intensity	m3/m2	N/A	N/A	N/A	N/A
	Waste recycled	%	N/A	N/A	N/A	N/A
S	Cases of environmental non-compliance	number	N/A	N/A	0	N/A
	Green financing as a % of total borrowing	%	N/A	0	0	0
	Green certified properties	number	N/A	0	0	0
	% of women in workforce	%	N/A	53	65	74
G	% of women in management roles	%	N/A	46	67	N/A
	Number of accidents	number	N/A	0	0	0
	Recordable work injury rate	%	N/A	0	0	0
	MD/CEO salary as % of reported net profit	%	N/A	N/A	N/A	N/A
	Board salary as % of reported net profit	%	0.76	0.71	0.77	0.46
	Independent directors on the Board	%	57	57	57	38
Female directors on the Board	%	14	14	14	25	
Value of all interested person transactions as % of reported revenue	%	89	79	77	51	

Qualitative Parameters (Score: 50)	
a) Is there an ESG policy in place and is there is a standalone ESG committee or is it part of the risk committee?	<i>Yes - It has a Sustainability Team which is chaired by the CEO. It formulates overall strategic direction, determines relevant performance goals to be set, monitors progress regularly against these goals, and manages sustainability reporting.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes - ESG considerations is a key performance indicator for the purpose of determining the executive directors' and executive officers' remuneration.</i>
c) Does the company follow the task force of climate-related disclosures framework for ESG reporting?	<i>Yes - First REIT began reporting on climate-related risks in its FY21 Sustainability Report with reference to the TCFD recommendations.</i>
d) Does the company do green leasing or does it have plans to start green leasing or participate in GRESB real estate assessment?	<i>No</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>(1) Wastewater treatment plants are available in all of First REIT's 14 hospitals in Indonesia before they become discharged. To ensure that water discharged back to the system is free from toxins and compliant to Indonesia's wastewater quality standard regulation, water quality is checked on a quarterly basis by a licensed laboratory, and the hospitals will report the water quality to the local authorities. (2) Hospitals in Indonesia uses coloured bags to differentiate and identify the different types of hazardous waste.</i>
g) Did the company enter into transactions with interested persons in the last financial year?	<i>Yes - First REIT entered into transactions with PT Lippo Karawaci Tbk and its subsidiaries for rental income of SGD83.5m. Lippo Karawaci and its subsidiaries are associates of the controlling shareholder of the Manager and controlling Unitholder of First REIT. In addition, First REIT paid management fees of SGD1.11m to FRM Japan Management K.K., an associate of the controlling shareholder of the Manager and controlling Unitholder of First REIT.</i>

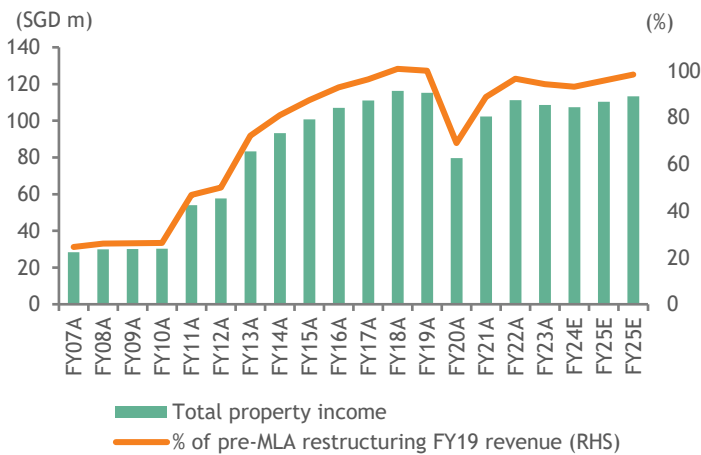
Target (Score: 100)		
Particulars	Target	Achieved
Installation of flowmeters in all hospitals in Indonesia	100%	100%
Increase percentage of the Trust's portfolio switching to using LED lighting by 5%	5%	100%
To decrease the amount of general waste produced at the Trust's Indonesia hospitals by 5%	5%	38%
Zero incidents of discrimination, meeting the target to ensure all hires are based on merit.	100%	100%
Zero cases of regulatory breaches and non-compliance.	100%	100%
No incidents of non-compliance with environmental regulations and laws	Maintain	Maintained
Impact		
NA		
Overall Score: 50		
As per our ESG matrix, First REIT (FIRT) has an overall score of 50.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	25	13
Qualitative	25%	50	13
Target	25%	100	25
Total			50

First REIT has attained an average score of 50 based on our aggregated quantitative/qualitative/target-based approach, and we see room for improvements in its ESG metrics disclosure. We also encourage it to continue to engage its minority shareholders and improve on its corporate governance regarding to interested persons.

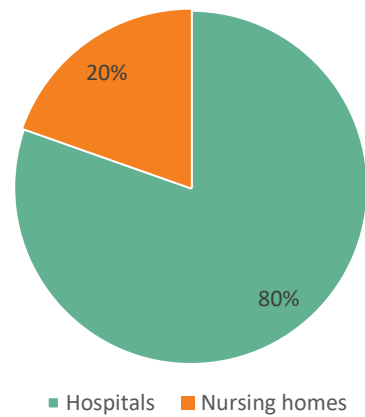
1. Focus charts

Fig 1: Rental income is steadily recovering to its pre-MLA restructuring level



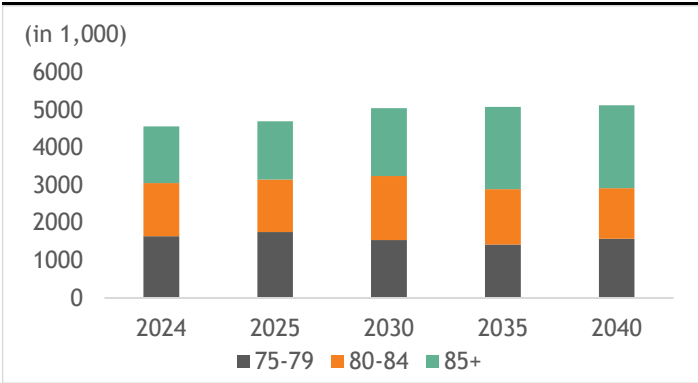
Source: Company, Maybank IBG Research

Fig 2: 1Q24 rental income by asset type



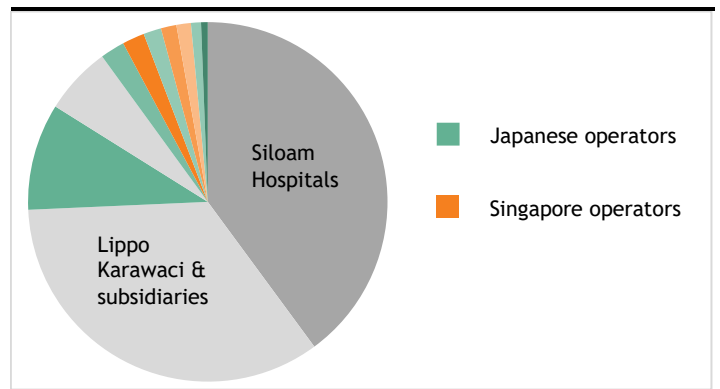
Source: Company, Maybank IBG Research

Fig 3: No. of single-person households over age 75/80/85 in Japan



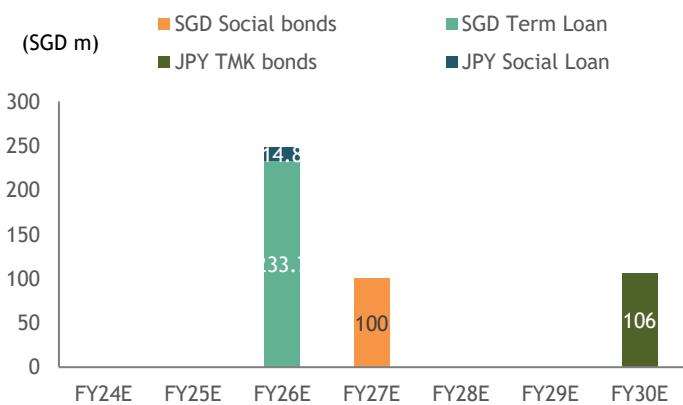
Source: Maybank IBG Research, National Institute of Population and Social Security Research <Household Projections for Japan 2015-2040 (2018)>

Fig 4: Rental income by tenant/operator (1Q24)



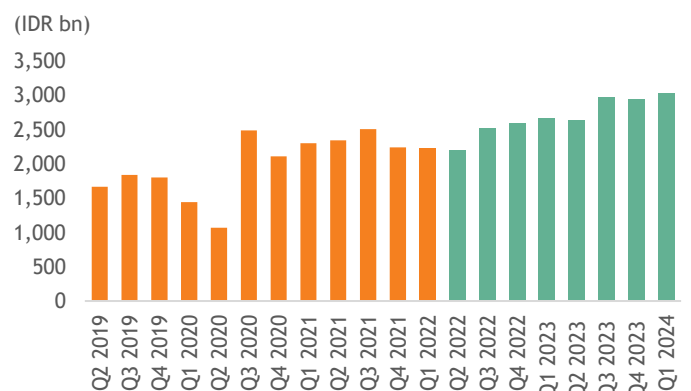
Source: Company, Maybank IBG Research

Fig 5: First REIT's debt maturity profile as of Mar'24



Source: Company, Maybank IBG Research

Fig 6: Siloam Hospitals saw strong revenue growth in recent quarters



Source: Siloam Hospitals, Bloomberg, Maybank IBG Research

2. Investment thesis

FIRT invests in healthcare and healthcare-related income-producing properties. Listed on SGX with 3 hospitals and a hotel acquired for SGD257m in 2006, FIRT has demonstrated its hunger for growth by acquiring 16 hospitals within 12 years. In Nov 2020, it restructured the master lease agreement with 14 hospitals in Indonesia, ahead of their expiry in FY21.

FIRT is diversifying into new markets and new asset classes. It has acquired 15 nursing homes in Japan since 2022. Since then, it has posted 2 years of steady growth in revenue, close to its pre-restructuring levels. As of Mar'24, FIRT has 32 properties (SGD1.14 b). Its portfolio of hospitals and nursing homes spans across Indonesia, Japan and Singapore.

Offering an appealing FY24E DPU yield of 10.0% with modest risk, we think FIRT is a good fit for income investors.

2.1 Japan acquisitions add to income diversity

FIRT acquired 12 nursing homes in Japan from its sponsor OUE Lippo Healthcare in 1Q22. It acquired another 2 nursing homes from third-party vendors in 2H22. Unlike its previous acquisition in South Korea, this time FIRT leveraged its sponsor's pipeline and quickly ramped up its presence in Japan. FIRT also took over the local operation team in Japan (FRM Japan Management Co.) from its sponsor, as part of its Japan strategy. In our view, these efforts have created a strong foothold for FIRT in a new market.

We like the rebalanced allocation in asset classes, growing AUM in developed markets, and an enlarged tenant pool to reduce concentration risk.

Prior to entering Japan, in FY21 FIRT generated c.95% of its income from Indonesia, and the remaining 5% from Singapore and South Korea. In FY23, assets outside of Indonesia contributed c.18% of rental income. Management aims to achieve at least 50% asset allocation in developed markets in the long term (vs 26% in FY23). In addition, bringing in new tenants should help to address the potential conflict of interests with its ex-sponsor Lippo Karawaci. We like the diversified portfolio with a strengthened income base.

Notably, nursing homes make up 26% of FIRT's portfolio. The increased allocation to nursing homes comes close to its S-REIT peer (PREIT: c.34%), which entered into the Japan market much earlier in 2008. While both hospitals and nursing homes provide stable recurring income streams to tenants/operators, nursing homes offer a slightly different proposition with longer length of stay by patients. We like the rebalanced asset class allocation for diversification.

2.2 Remains focused on healthcare

Previously, for investors who prefer pure-play medical REITs, the ancillary hotel and mall portion at FIRT's hospitals may have driven away investors. The Japan nursing home acquisitions is a renewed commitment by FIRT into the healthcare sector. Commercial and hospitality make up only 7% of FIRT's AUM now. We expect this figure to decline further after FIRT divests Aryaduta Hotel & Country Club.

2.3 Structural demand for nursing homes in Japan

The elderly are estimated to make up 30% of Japan's population by 2025. Ten percent of all households in Japan will be elderly and single and over the age of 75 by 2035. As such, a significant number of elderly will have to rely on social infrastructure for healthcare.

While private operators started entering the senior care market in 2000, the gap between demand and supply remains. Structural demand for senior care underpins robust fundamentals. Healthcare-focused J-REITs report a stable nursing home occupancy rate of around 90% across the board. Recent high-profile investments into this segment include AXA's purchase of senior housing in Hokkaido from Goldman Sachs, and MBK Partners' acquisition of operator Hitowa Holdings in 2023.

2.4 Silver lining of the renewed MLA structure

FIRT restructured its master lease agreement with 14 of its 16 hospitals in Indonesia in Nov'20. Under the new lease agreement, rentals are in IDR instead of SGD. FIRT either receives a fixed 4.5% annual rent escalation, or a higher performance-based rental, equating to 8% of the hospital's gross revenue from the previous year.

For the past 3 years, FIRT has 3 hospitals on performance-based rents. If the revenue at more Siloam Hospitals can surpass their benchmark and switch to performance-based revenue, this would help drive organic growth of FIRT.

Aside from its hospitals in Indonesia, FIRT changed the leases for its Singapore nursing homes to be based on CPI. Its leases for nursing homes in Japan have periodic reviews for potential upward adjustments every 2-3 years. Both markets deliver robust cash flows that underpin stable distributions.

2.5 Strong performance by Siloam Hospitals

Siloam Hospitals, the sole operator of FIRT's hospitals in Indonesia, is an affiliate of Lippo Karawaci (c.48% stake). Due to the Covid travel restrictions, an increasing number of patients in Indonesia who were previously outbound medical tourists have grown accustomed to local private hospitals. As such, the revenue of premium private hospital chain Siloam Hospitals has increased since FY22. In May-24, a consortium of CVC Capital, Singapore's Temasek and GIC and other investors acquired 10.4% of Siloam Hospitals from Lippo Karawaci. We believe this deal reflects investors' confidence in Siloam Hospitals and private healthcare providers in Indonesia.

The bulk of FIRT's leases will expire in 2035 and 2043. Besides the Imperial Aryaduta Hotel & Country Club which is up for sale, the leases of 6 assets in Indonesia will expire in the next 5 years. It is unlikely that hospitals or nursing home operators will relocate as their equipment is already built in and considerable capex has been spent on the buildings, which are located close to targeted catchment areas. We think there's a growing probability that FIRT will engage in capital recycling of its assets in Indonesia in the long term.

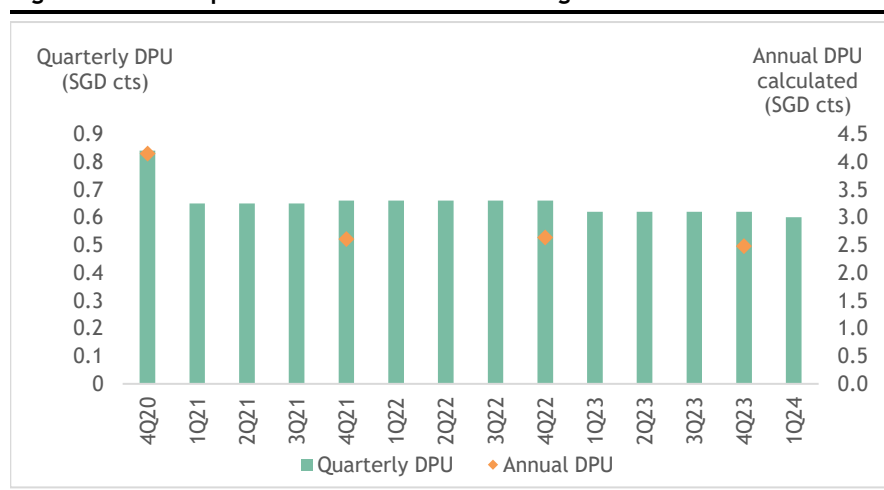
2.6 Attractive yields and valuation

FIRT has come a long way since seeing a trough in earnings after its lease restructuring in 2020. It has since restored its revenue close to the pre-restructuring levels. It traded at an average DPU yield of 10.2%/9.3% for FY22/23. A persistent share price decline has seen its dividend yield rise to the higher end of yields among Singapore REITS.

FIRT distributes its dividends quarterly. We estimate a base-case DPU of SGD2.40/2.45 cts for FY24/25E, translating to an attractive distribution yield of 9.7%/9.9% for FY23/24E, respectively.

Our DDM-based TP is SGD0.28, implying upside of 16% from the current share price and 26% total return potential. Key assumptions applied in our valuation include a discount rate of 10.5% and a risk-free rate of 3%. The implied P/B ratio is 0.95x vs its current P/B of 0.85x.

Fig 7: Stable DPU profile since lease restructuring



Source: Company, Maybank IBG Research

3. Corporate information

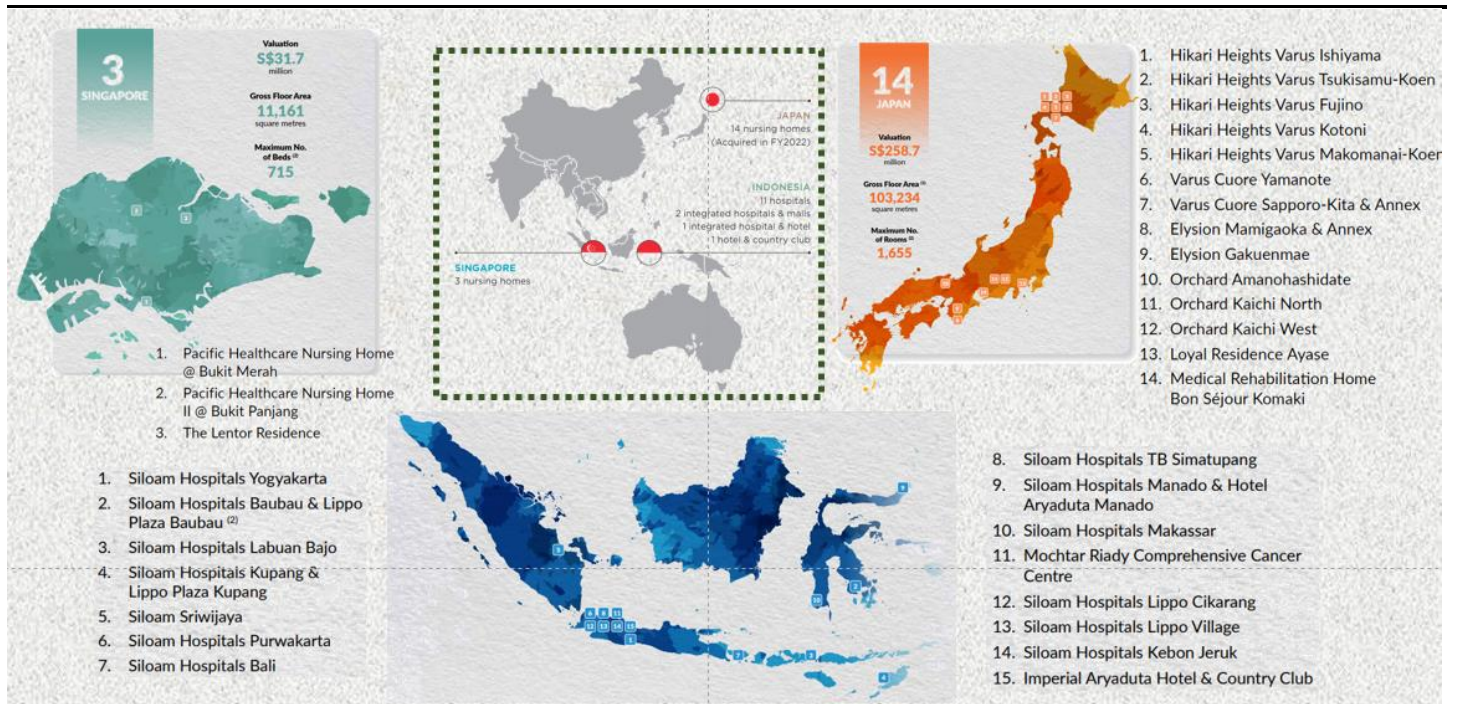
3.1 FIRT’s renewed commitment to the healthcare sector

FIRT is an SGX-listed REIT focusing on healthcare and healthcare-related assets. It has 32 assets in Indonesia, Japan and Singapore, with an asset value of SGD1.14 b, as of Mar’24.

Like most listed healthcare real estate funds, FIRT is a net-lease REIT, which operates as the real estate owner, leaving the day-to-day operations of complex healthcare facilities to third parties.

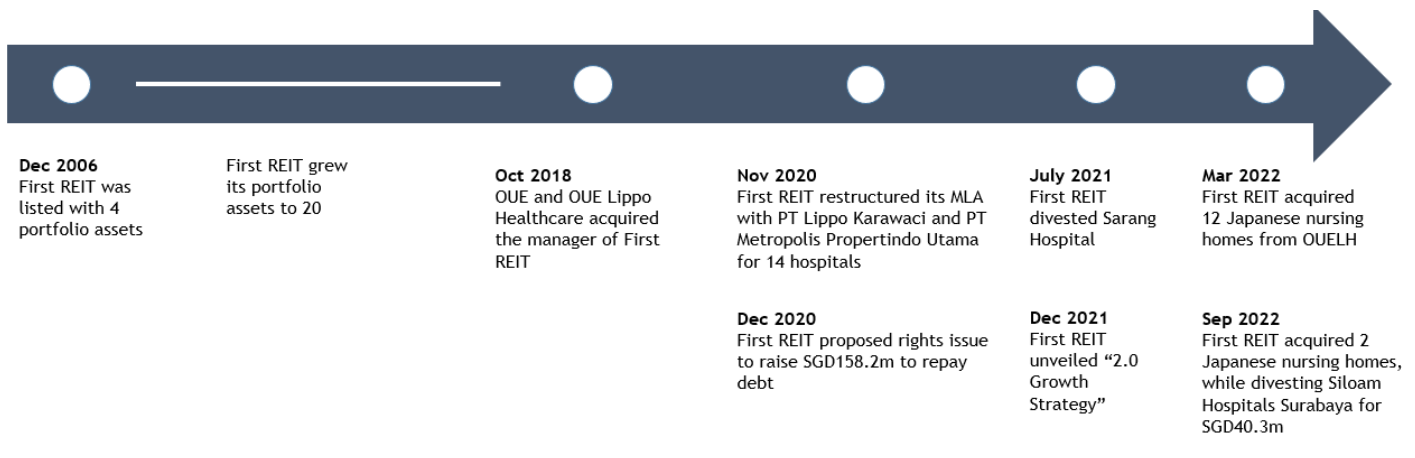
FIRT has a stable key management team, with 7 professionals sitting on the board of directors. Mr. Victor Tan is the CEO and executive director. Mr Christopher James Williams is the chairman, who also sits on the board of OUE. Ms Valerie Ng Chwee Ng is the CFO.

Fig 8: First REIT’s portfolio map



Source: Company, Maybank IBG Research

Fig 9: Recent developments of First REIT



Source: Maybank IBG Research

FIRT was first listed with 4 assets in Dec’06 under the sponsorship of Indonesian conglomerate Lippo Karawaci. Its initial portfolio consisted of 3 hospitals (88.4% of AUM in FY06), and a hotel & country club (11.6% of AUM).

In 2007, FIRT established its presence in Singapore by acquiring 4 nursing homes. Nursing homes temporarily rose to make up 21% of AUM in FY07, and was subsequently lowered to 3% of AUM as of 2018, as FIRT acquired hospitals in Indonesia for 8 consecutive years between 2010 and 2017.

In 2018, the REIT’s manager was acquired by OUE and OUE Lippo Healthcare (OUELH). The duo has a combined 44.9% stake in FIRT (as of June’24). With the new sponsorship of OUE Lippo Healthcare and OUE Limited, FIRT restructured leases in 2020.

With the change of sponsor, FIRT identified Japan as its next destination in end-2018. The sponsor identified 12 nursing homes as potential acquisitions by FIRT. After 4 years of transition, the REIT made the acquisitions in 2022, which helped it to reduce its reliance on any single asset class or a single market.

3.2 The Road to Diversification - Growth Strategy 2.0

FIRT outlined a roadmap dubbed “*Growth Strategy 2.0*” in 2021. It aims to drive sustainable growth through 4 pillars, namely diversification, capital recycling of non-core assets, strengthening the balance sheet, and tapping structural tailwinds.

We think the Japan acquisitions are a step in the right direction for FIRT by adding a new asset class, tenants and geography into its portfolio. FIRT has a long-term target of allocating more than 50% AUM in developed markets.

Fig 10: “Growth Strategy 2.0” introduced in 2021



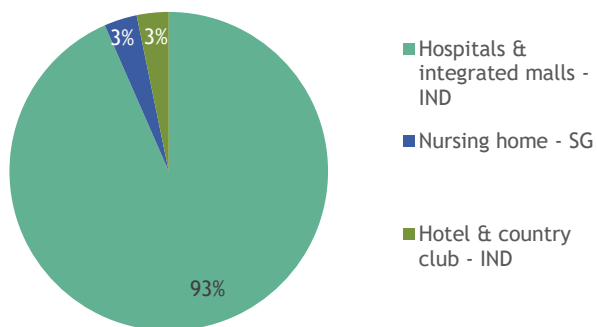
Source: Company, Maybank IBG Research

3.2.1 Reshaping its portfolio

As of Mar'24, Indonesian hospitals & integrated malls make up 75% of FIRT's portfolio AUM (vs. 93% in 2021) and generate 80.4% of the company's rental income. Nursing homes in Japan and Singapore account for c.25.5% of AUM. To investors who have doubts about FIRT due to its ancillary hotel and integrated mall assets, the acquisition of Japan nursing homes is a renewed commitment by FIRT into the healthcare sector (Fig 12).

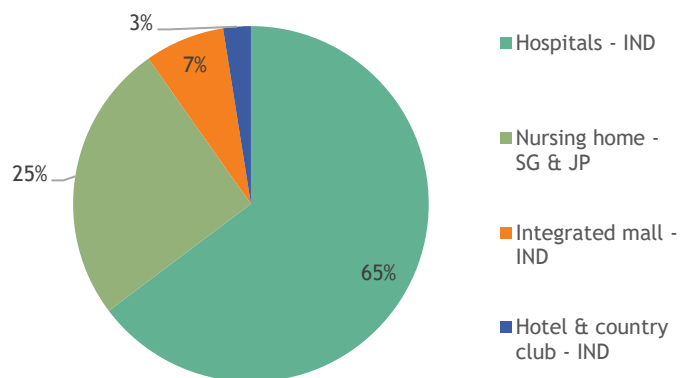
The next step in its reposition is to divest Imperial Aryaduta Hotel & Country Club. FIRT is also open to selling some hospitals if the tenant, Siloam Hospitals, offers the right price. If capital recycling successfully takes place, management intends to channel divestment proceeds to developed markets. We think FIRT could also pare down its debt with part of the proceeds (gearing: 38.8% as of Mar'24).

Fig 11: Before diversification, First REIT’s AUM was highly concentrated in hospitals (93%)



Source: Company, Maybank IBG Research

Fig 12: First REIT has diversified its asset class. Hospitals account for 63% of AUM after the latest acquisition



Source: Company, Maybank IBG Research

3.2.2 Into uncharted waters

Post-acquisition, Japan assets accounted for 25% of FIRT’s total AUM and contributed 12.8% of rental income in FY22.

While it’s not the first acquisition FIRT made under a pan-Asia investment mandate, unlike its previous acquisition in South Korea, it has leveraged its sponsor’s support in Japan. The purchase of 14 nursing homes in Japan amassed SGD287m of assets in one year, creating economies of scale.

The local operation team in Japan (FRM Japan Management Co.) was also acquired by FIRT from its sponsor. The local team will support FIRT in its future expansion in Japan, leveraging on its network, expertise and management experience. In our view, these efforts have created a stronger foothold for FIRT to develop in an overseas market.

As FIRT intends to deploy more than 50% of AUM to developed markets, we expect growing support from its sponsor.

3.3 Quality assets on home ground

FIRT has 14 hospitals in Indonesia, all operated by Siloam Hospitals. Siloam Hospitals Group is a leading player in Indonesia’s high-end private hospital space.

Fig 13: A private ward at Siloam Hospitals Lippo Village



Source: Maybank IBG Research

Fig 14: A private ward at Siloam Hospitals Simatupang



Source: Maybank IBG Research

Siloam brands itself as an innovative and progressive healthcare service provider. Siloam has 14 Centre of Excellence (COE) across seven hospitals (Fig 15).

COE serves as a “one-stop care” facility for screening, diagnosis, clinical management, rehabilitation and education. Siloam’s quest to develop COE and tele-medicine is an important brand differentiator in our view.

Fig 15: Siloam Hospitals’ Centre of Excellence portfolio

Centre of Excellence	Siloam Hospitals	FIRT’s hospital
Neuroscience	Lippo Village	Yes
Oncology	Lippo Village	Yes
Cardiology	Lippo Village, Cinere	Yes
Bone & joint	Lippo Village, Mampang	Yes
Heart Failure Clinic	Kebon Jeruk	Yes
Irregular Heartbeat	Simatupang	Yes
Integrated Lung Clinic	MRCCC	Yes
Gastrointestinal Care Centre	MRCCC	Yes
Gynecologic Oncology	MRCCC	Yes
Andrology	Asri	No
Endourology	Asri	No
Female, Functional & Neurourology	Asri	No
Nephrology Centre	Asri	No
Urology	Asri	No

Source: Maybank IBG Research

In 2023, we visited four of its hospitals and their COE on site (Siloam Hospitals Lippo Village, Mochtar Riady Comprehensive Cancer Centre, Siloam Hospitals Kebon Jeruk and Siloam Hospitals TB Simatupang).

Fig 16: Lounge at Imperial Aryaduta Hotel & Country Club



Source: Maybank IBG Research

Fig 17: Neuroscience & Heart Centre at Lippo Village



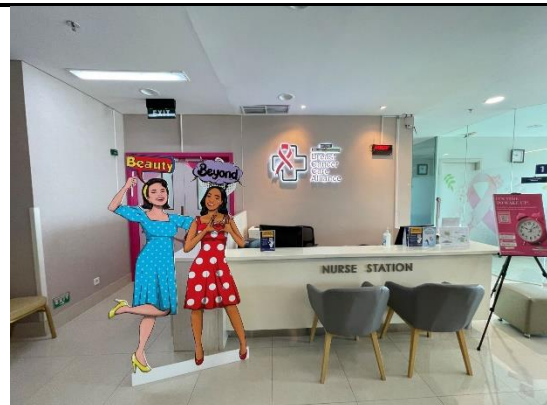
Source: Maybank IBG Research

Fig 18: Advertisement at Mochtar Riady Comprehensive Cancer Centre (MRCCC)



Source: Maybank IBG Research

Fig 19: Nicely-decorated specialist clinic



Source: Maybank IBG Research

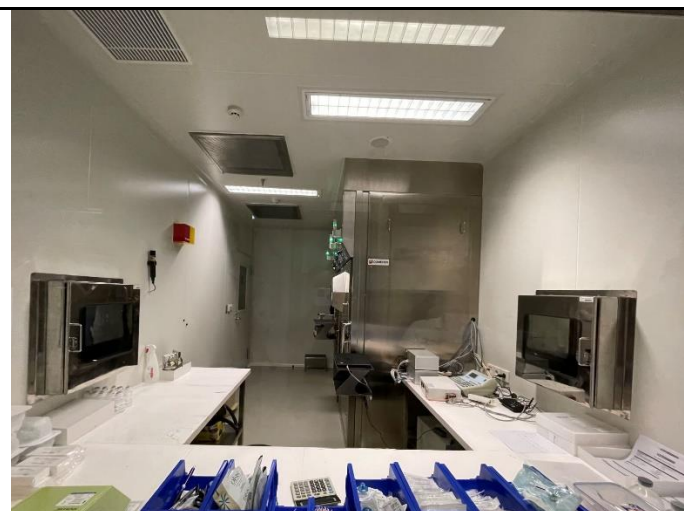
Besides COE, Siloam Hospitals are well equipped for various cutting-edge treatments and surgeries. Siloam Hospitals Lippo Village was the first in the ASEAN region to be equipped with a Gamma Knife Centre, which provides advanced radiation treatment alternative to open-brain surgery (Fig 20). We visited the Neuroscience Centre at Siloam Simatupang, which conducts microsurgery operations. The heart centre at Siloam Simatupang is equipped with the Catherization Lab and CT-Scan, as well as a state-of-the-art Cardiac Care Unit to treat patients who suffered a heart attack or underwent major cardiac surgery. Siloam Kebon Jeruk hosts the Siloam Heart Institute, which operates a wide range of surgeries. The Cancer Centre at MRCCC is among the only 3 hospitals in Indonesia equipped with a range of cutting-edge equipment, such as PET/CT, SPECT/ CT, and Cyclotron, an equipment for producing radioisotopes (Fig 21). Siloam has a wide range of specialized care centres covering stroke, kidney transplant, urology, orthopedic and sports Injury etc.

Fig 20: Gamma Knife Centre at Siloam Hospitals Lippo Village



Source: Maybank IBG Research

Fig 21: Cyclotron control room at MRCCC



Source: Maybank IBG Research

Besides the comprehensive surgical departments, Siloam Hospitals provide tailored healthcare experience. It hosts dedicated private clinics serving foreign corporate workers at a premium rate. The J-unit at Siloam Hospitals TB Simatupang serves Japanese-speaking clients (Fig 24). The dermatology clinic and value-added services such as prenatal yoga classes are popular among Siloam Simatupang’s visitors.

Fig 22: PET CT Lab at MRCCC



Source: Maybank IBG Research

Fig 23: Analysts on helipad of MRCCC



Source: Maybank IBG Research

Fig 24: J-unit serving Japanese corporate clients at Simatupang


Source: Maybank IBG Research

Fig 25: Dermatology clinic at Siloam Hospitals TB Simatupang


Source: Maybank IBG Research

The upcoming lease renewal with Siloam Hospitals is discussed in section 4.3 below.

3.4 Sponsors

OUE Healthcare Limited and OUE Limited are FIRT's sponsors, owning 32.5% and 12.4% stakes in FIRT, respectively. OUE Healthcare owns, operates and invests in healthcare businesses in Singapore, China, Myanmar, Indonesia and Japan. OUEH is a subsidiary company of OUE Limited.

In Singapore, OUEH and OUE have partnered with three medical specialist groups to own O2 Healthcare Group, a group of lung specialists in respiratory care and cardiothoracic surgeries. In China, OUEH operates a general hospital in Jiangsu, as well as a pharmaceutical trading business. Its JV company operates a hospital in Jiangsu and is expecting to operate another in Shenzhen in 2024. In Myanmar, its JV companies own and operate Pun Hlaing Hospitals. In Feb-18, Itochu Corporation took a strategic stake in OUEH with the completion of a placement of 562.5m new units.

OUE is a diversified real estate owner, developer and operator with a portfolio across prime locations in Asia. OUE expanded into the healthcare sector in 2017 with the acquisition of OUEH and the manager of First REIT in 2018. In 2019, OUE expanded into the consumer sector with OUE Restaurants.

FIRT has the right of first refusal to OUE Lippo Healthcare's assets and hospitals from PT Lippo Karawaci Tbk. FIRT is likely to remain focused on developed markets in the near term. FIRT could consider potential deals in developed markets jointly with its sponsors.

4. Driving sustainable growth

4.1 Structural tailwinds from aging society

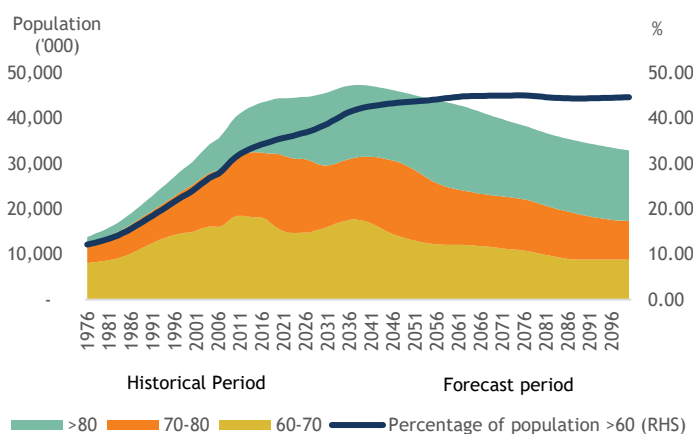
4.1.1 Demand-supply discrepancy in an ageing society

Since OUE LH acquired the REIT manager in 2018, the Japan market was on the wish list of FIRT. Moving past the lease restructuring blip, FIRT revisited the plan again in Dec'21, with the acquisition of 12 nursing homes. Its momentum continued into 2022 when it acquired another 2 nursing homes from 2 third-party vendors. Japan is known to be the most ageing country in the world, with elderlies (65 y/o and older) accounting for c.30% of its population in 2022 (World Economic Forum, 2022). Based on estimates of United Nations Population Division, 38% of the population will be 60 years old and above in 2030. This figure will reach 45% in 2070 (Fig 26).

Among the elderly population, a large percentage will have to rely on social infrastructure for elderly care, due to the lack of support from family members. Single- or couple-only households with members above 75 years old will make up 17% of total households in 2030 (Fig 27) (National Institute of Population and Social Security, 2018). Given the absence of family members, this demographic group is likely to rely on various forms of senior-care facilities.

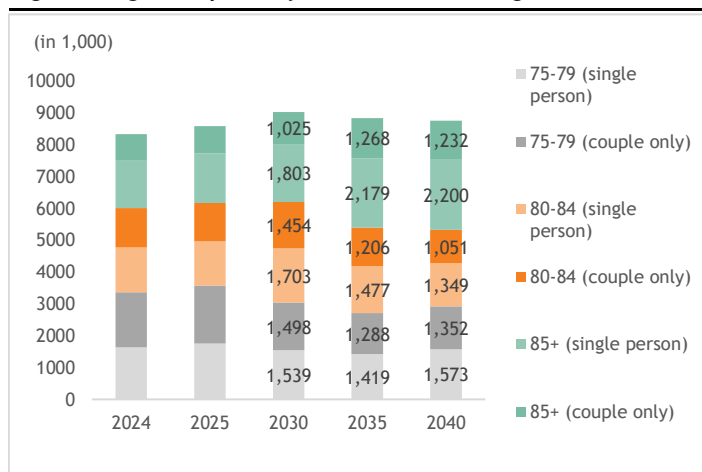
The trend of a super-aged population who is in need of elderly care leads to heightened demand for elderly infrastructure, fuelled by a larger population that is living longer.

Fig 26: Aging population in Japan is on the rise in the coming years



Source: United Nations Population Division, Maybank IBG Research

Fig 27: Single/couple-only households over age 75/80/85



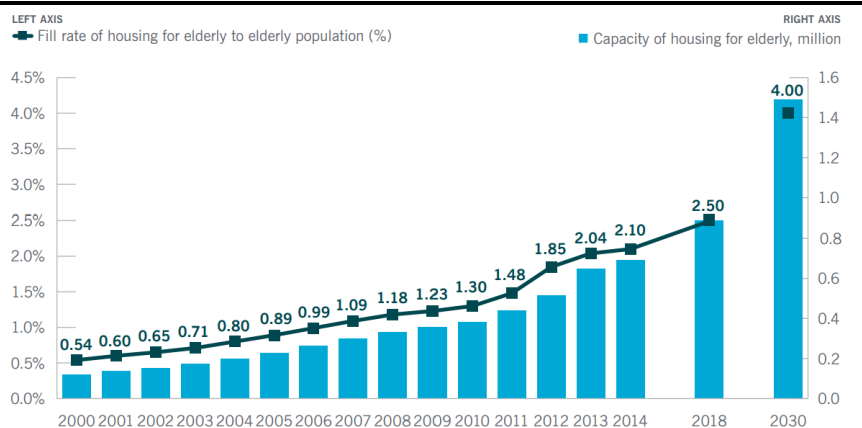
Source: Maybank IBG Research, National Institute of Population and Social Security Research <Household Projections for Japan 2015-2040 (2018)>

With an aging population and declining birth rate in Japan, the demand for senior care homes has attracted many operators and investors. Private operators entered the market in a large way since 2000, when the Japanese government reformed the sector with a care insurance system and introduced private operators into the market. Recent high-profile investments include AXA's Hokkaido senior housing purchased from Goldman Sachs, and MBK Partners' acquisition of operator Hitowa Holdings in 2023.

On the supply side, Japan's MLIT (Ministry of Land, Infrastructure, Transport and Tourism) targets a capacity of 149 housing for every 10,000 people. Existing capacity in 2018 was 90 housing per every 10,000 people. Japan's Ministry of Health, Labour and Welfare targets a 4% senior housing capacity,

up from 2.5% in 2018 (Fig 28). On the demand side, demand for senior care homes proved to be resilient even during the pandemic.

Fig 28: Japanese government aims to increase the fill rate of senior housing to elderly population



Source: Cabinet office, Ministry of Health Labour and Welfare, Ministry of International Affairs and Communications, National Institute of Population and Social Security Research, etc.

Source: Nuveen

4.1.2 Tailwinds of compelling long-term dynamics

We analysed other healthcare-focused REITs in Japan and Singapore for a better understanding of FIRT’s positioning.

Japan’s home-grown J-REITs often have larger AUMs anchored by more assets. Also, J-REITs’ portfolios are more concentrated in metropolitan areas (Tokyo and Osaka). In comparison, FIRT and Parkway Life REIT differentiate themselves by going into prefectural capitals. FIRT, as mentioned, has 14 nursing homes across Japan, in the city of Sapporo, Nara, Nagano, Kyoto, Komaci and Ayase.

Fig 29: No. of single-only elderly households in FIRT’s markets

City	Single-only households aged 65 and over	No. of First REIT assets
Sapporo, Hokkaido	228,485	7
Nara, Nara Prefecture	43,761	2
Nagano, Nagano Prefecture	35,937	2
Kyoto, Kyoto Prefecture	166,732	1
Komaci City, Aichi Ken	13,021	1
Ayase City, Kanagawa Prefecture	8,321	1

Source: Ministry of Internal Affairs and Communications, “2020 population consensus”, Maybank IBG Research

A closer look at the household structure in these cities suggests resilient structural demand. There are around 496,000 single elderlies in these cities aged 65 and over (Fig 29). The average occupancy rate of FIRT’s portfolio assets is around 90%, which is in line with the average occupancy rate of healthcare J-REITs.

Fig 30: A comparison with FIRT's S-REIT peers

	Parkway Life REIT	First REIT
Indonesia		
AUM (SGD m)		849.1
Asset Type	Hospitals (inc. 2 integrated malls/hotel)	
Asset Number		14
Asset Type		Hotel & Country Club
Asset Number		1
Malaysia		
AUM (SGD m)	5.7	
Asset Type	Medical Centre	
Asset Number	1	
Singapore		
AUM (SGD m)	1506	31.7
Asset Type	Hospitals	Nursing Home
Asset Number	3	3
Japan		
AUM (SGD m)	717.2	258.7
Asset Type	Nursing home	Nursing Home
Asset Number	59	14

Source: Maybank IBG Research

FIRT has 13 fee-based nursing homes and 1 serviced housing for the elderly. This is similar to other healthcare J-REITs and S-REIT peers, which invest a larger proportion of their AUM into fee-based nursing homes.

The operator market is highly fragmented, with many healthcare-focused REITs having a number of operators (Fig 31).

Fig 31: Peer comparison table

	Healthcare asset no.	Portfolio occupancy rate (%)	Operator
Daiwa Securities Living Investment Corp	53	99.51	17
Healthcare & Medical Investment Corp	48	100	16
Kenedix Realty Investment Corp (acquired the former Kenedix Residential Next Investment Corp)	39	100	17
Parkway Life REIT	63	100	30
First REIT	32	c.100	5

Source: Maybank IBG Research

FIRT has entered into master lease agreements with five different operators for its Japan assets. One of the operators, Benesse Style Care, is ranked as one of the largest operators in Japan. It operates 346 properties and 19,798 rooms. Benesse Style Care contributed 0.9% of FIRT's 1Q24 rental income. We see diversification benefits from having multiple operators.

While we don't rule out potential consolidation in this space, we see limited impact on FIRT in the coming years. Mr. Koji Otani who leads FIRT's business in Japan is highly experienced and well-connected. We believe FIRT can steer its way through potential market development.

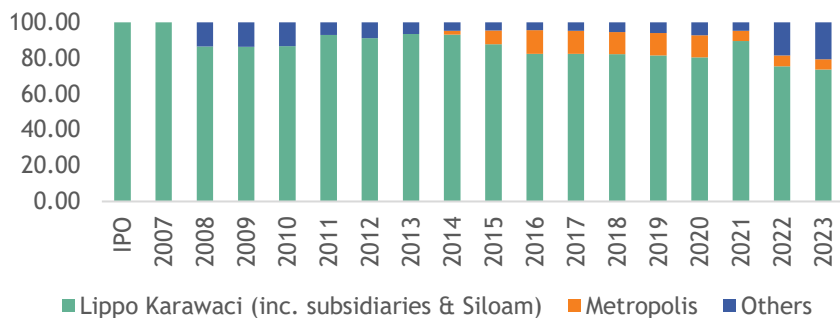
4.2 Growing its tenant base beyond Lippo Karawaci

Prior to the acquisition in Japan, tenant concentration risk was a major overhang for FIRT. Historically, Siloam Hospitals contributed 100% of FIRT's rental income. Post-acquisition, FIRT has a more diversified income base with 11 operators / tenants.

In 1Q24, subsidiaries of Lippo Karawaci (ex-Siloam) contributed 34.4% of FIRT’s rental income, and 74.3% when including Siloam Hospitals. While the 2 largest Indonesian tenants still contribute a significant part of FIRT’s revenue, diversification is a step in the right direction. Income from outside of Indonesia contributed 19.6% to FIRT in 1Q24.

We also like the improved tenant independence - the five Japanese operators are unrelated parties to FIRT or its sponsors. FIRT can better avoid potential conflict of interests between its related parties and tenants.

Fig 32: Tenant concentration has improved in FY23



Source: Maybank IBG Research

4.3 Getting sustainable income

Siloam Hospitals, a subsidiary of Lippo Karawaci, was the sole operator of FIRT’s 14 hospitals. Prior to the lease restructuring (MLA), Siloam Hospitals paid rent to FIRT in SGD. A major overhang for FIRT in the 2010s was concerns over the sustainability of its lease.

When Siloam’s revenue plateaued due to the pandemic in 2020, its master lease with FIRT was restructured. The new lease terms lowered base rents for LPKR and MPU hospitals, and used IDR as the rent currency. While a hard landing for the REIT in 2020, new leases are perceived as more sustainable for new unitholders (Fig 33).

As part of the new lease agreement, hospital pays the higher of 4.5% annual escalation or 8% of previous year’s GOR. Siloam Hospitals Group has achieved stable and improving performance since 2020 (Fig 35). Currently, FIRT has three hospitals paying performance-based rents. If more Siloam Hospitals’ revenue can surpass their benchmark and switch to performance-based rent, this should help drive organic growth of FIRT.

Fig 33: Changes to master lease agreement for hospitals in Indonesia

	Master lease before 2020	Master lease after 2020
Base rent	SGD80.9m for LPKR hospitals SGD11.3m for MPU hospitals	IDR550.7b (SGD50.9m) for LPKR hospitals IDR62.4b (SGD5.8m) for MPU hospitals
Base rent escalation	2 x Singapore CPI, capped at 2%	4.5% annually
Variable / performance based rent	SGD 2.9 for LPKR, SGD 0.1 for MPU	8% GOR of previous year
Total rent	Base + variable	Higher of base or performance based, on asset basis
Currency	SGD	IDR
Security deposit	6M	8M

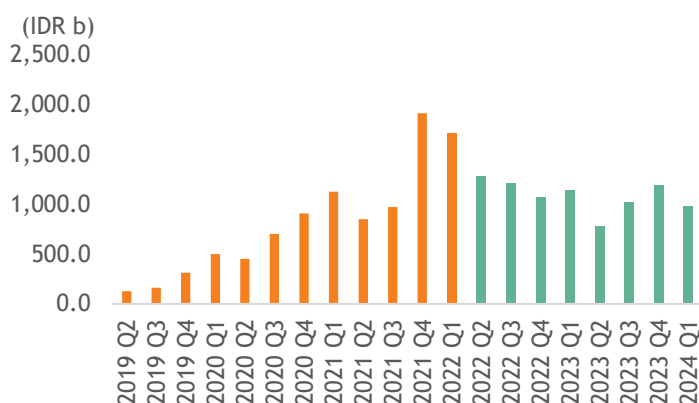
Source: Company, Maybank IBG Research

Fig 34: Siloam Hospitals saw strong revenue growth QoQ



Source: Siloam Hospitals, Bloomberg, Maybank IBG Research

Fig 35: Stable cash positions to fund potential buyback



Source: Siloam Hospitals, Bloomberg, Maybank IBG Research

As of 1Q24, portfolio WALE stands at 11.3 years. The bulk of lease expiry comes in 2035 and 2043. Besides Imperial Aryaduta Hotel & Country Club that is renewed on a yearly basis, there will be six assets expecting lease expiry in the next 5 years. Nonetheless, it is unlikely for hospitals or nursing home operators to relocate, due to the built-in equipment, considerable amount of capex spent within the building, and the proximity to the hospital’s local catchment area.

Instead of a scenario of non-renewal, we think there is growing likelihood that the tenant will acquire the assets that they are leasing. As Siloam Hospitals saw stable revenue growth since 2022, its cash-rich position opens up possibility for asset buybacks.

Fig 36: Lease expiry profile of First REIT

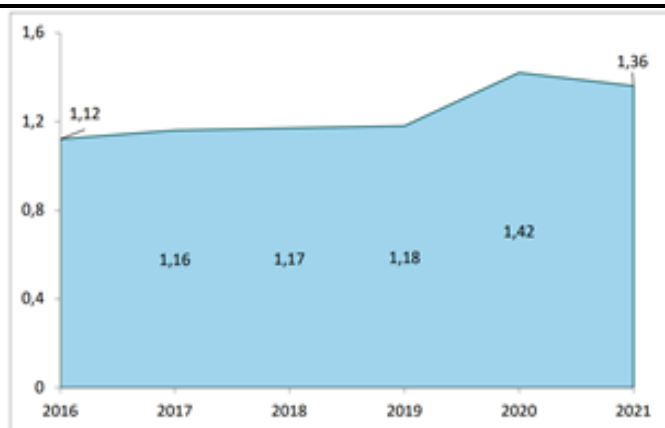
Lease Expiry	Property
Within 5 years	
2024 (renew yearly)	Imperial Aryaduta Hotel & Country Club
2025	Cikarang
2027 (Apr/June)	Nursing homes in Singapore
2027 (May)	Medical & Rehab Home (Japan)
2027 (Nov)	Hotel Manado
Within 10 years (before 2032)	
2030 (Dec)	Lippo Plaza Kupang
2032 (Oct)	Lippo Plaza Buton
Within 20 years	
2035	13 Indonesian hospitals
2043	13 Japanese nursing homes

Source: Maybank IBG Research

4.4 Siloam a major beneficiary of shift in demand

FIRT’s hospitals are well positioned to benefit from affluent Indonesians seeking quality healthcare. The number of hospital beds per 1,000 people in Indonesia is increasing, from 1.18 in 2019 to 1.36 in 2021, barring the anomaly of 1.42 during Covid (Fig 38). However, this number constantly lags ASEAN peers such as Singapore (2.5 in 2017) and Malaysia (1.9 in 2017).

In need of quality healthcare and hospitalization care, Indonesians travel overseas for medical treatments. Outbound medical tourists amounted to 1m per year, spending USD11.5b on medical treatments overseas in 2022, according to the country’s deputy health minister. Popular medical tourism destinations include Malaysia, Singapore and Thailand. The Indonesian government has launched campaigns to attract patients to use local hospitals instead of going overseas.

Fig 37: Hospital beds per 1,000 people in Indonesia (2016-2021)


Sumber: Ditjen Pelayanan Kesehatan Kemenkes RI, 2022

Source: Indonesia Healthcare Profile 2021, Maybank IBG Research

Post Covid, Siloam's effort in building its premium hospital brand has been paid off. An increasing number of patients turned to Siloam hospitals during the travel-restricted pandemic days. This group has stayed on with Siloam Hospitals after the restrictions being lifted.

4.4.1 Potential acquisitions in other developed markets

Worldwide, ageing population is rapidly increasing, especially in many developed markets. With demand drivers in place, the senior care home sector is also expanding. Under the pan-Asia investment mandate, management is open to enter other developed markets such as Australia.

The sponsor, OUE LH, has presence in Singapore, Malaysia, China and Myanmar. FIRT also has the right of first refusal to OUE Lippo Healthcare's assets and hospitals from PT Lippo Karawaci Tbk. FIRT is likely to remain focused on developed markets in the near term. While it's not growing as fast given the current environment, we expect some developments after capital recycling.

Fig 38: Common asset classes invested by healthcare REITs

Healthcare REIT asset class	Common lease structure	Length of stay
Senior housing / nursing homes	Triple net / operating	Months-years
Skilled nursing homes	Triple net / master lease	Months-years
Hospital	Triple net / master lease	Days
Medical office (private / wellness clinics)	Multi-tenanted	Hours
Pharma research lab	Triple net / Multi-tenanted	N/A

Source: Maybank IBG Research

We compared FIRT with 10 other healthcare REITs in 3 other markets (the US, Japan and Australia). One observation we made is that REITs listed in Australia, Japan and the US are usually more diversified, and are awarded higher valuations by the market as a result. FIRT offers the highest dividend yield (forecast 10%) among its healthcare REIT peers, while trading at a P/B of 0.8x, which is on the lower end.

Positive catalysts include accretive deals and expansion into new markets. FIRT has a market cap of SGD501m. It takes less inputs to move the needle for smaller-cap REITs.

Fig 39: Comparison of healthcare REITs in major developed markets

	BBG Ticker	Factset Ticker	Share Price (SGD)	YTD (%)	Market Cap (SGD m)	P/E (x)	P/B (x)	Dividend Yield (%)	Gearing	Asset class (healthcare)
Parkway Life REIT	PREIT SP	C2PU-SG	3.5	-4.6	2,118	21.1	1.5	4.3	35%	Hospital, nursing home, medical centre
First REIT	FIRT SP	AW9U-SG	0.24	-9.4	501	8.1	0.8	10.0	41%	Hospital, nursing home, medical centre
Healthpeak	DOC US	DOC	26.23	-2.1	18,461	43.8	1.5	6.2	46%	Laboratory and office space , hospitals, physicians' offices/examination rooms, assisted living, independent living, skilled nursing, and memory care
Omega Healthcare Investors	OHI US	OHI	44.26	6.7	10,936	29.2	2.3	8.2	56%	Skilled nursing facilities, assisted living facilities, acute care and rehab facilities, medical office buildings
Healthcare Realty	HR US	HR	16.54	(4.0)	6,261	#N/A	1.0	7	42%	Medical outpatient buildings
Global Medical REIT Inc	GMRE US	GMRE	12.52	-16.7	821	1114.3	1.2	9.1	49%	Medical office buildings, medical outpatient facilities, rehabilitation, specialist's clinic, hospitals and long-term care facilities
HealthCo REIT	HCW AU	HCW AU	1.04	-21.8	590	21.1	0.7	7.0	#N/A	hospitals, aged, child, government, life sciences, research, primary care, and wellness property assets.
RAM Essential Services Property Fund (diversified)	REP AU	REP AU	0.58	-9.2	296	#N/A	1.3	8.8	23%	Private hospital, day surgery centre, healthcare/medical/wellness centre, health precinct, clinic
Charter Hall Social Infrastructure REIT (diversified)	CQE AU	CQE AU	2.20	-18.4	820	120.8	0.6	6.6	#N/A	Specialist medical facility, diagnostic imaging centre
Daiwa Securities Living Investment Corp (diversified)	8986 JT	8986	879.27	-1.1	2,116	21.2	1.3	4.5	51%	Fee-based elderly care, nursing home with care
Healthcare & Medical Investment Corp	3455 JT	3455	1093.98	-7.9	393	21.8	1.2	4.9	48%	Medical malls, fee-based nursing home, serviced nursing home, memory care
Kenedix Realty Investment Corp (diversified)	8972 JT	8972	1335.95	-2.5	5,450	13.4	1.0	5.0	45%	Senior living, nursing & health
Average				-7.8	4,228		1.2	6.8		

Source: Bloomberg, FactSet, Maybank IBG Research

5. Financial analysis

5.1 Revenue forecasts

FIRT’s 1Q24 revenue of SGD26.1m, -4% QoQ/-2.6% YoY, fell mainly due to FX headwinds. Revenue in local currency terms rose 4.5% YoY for Indonesia assets and +2% YoY for Singapore assets. Management intends to hedge 50% of the distributable income for the year.

Fig 40: Financial highlights - past 9 quarters

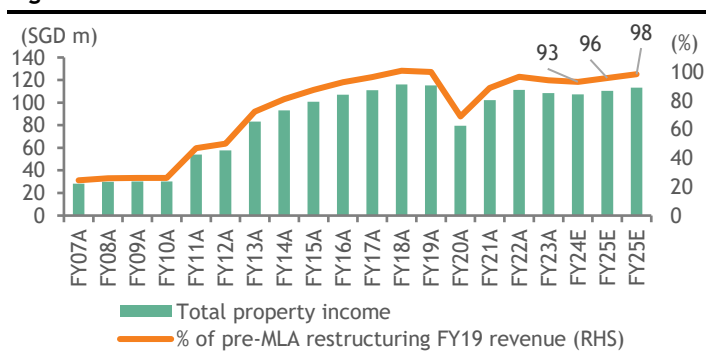
	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	QoQ	YoY
Revenue (SGD m)	25.5	28.3	27.1	30.4	26.8	27.2	27.4	27.2	26.1	(4.0%)	(2.6%)
Expenses	(0.3)	(0.8)	(0.7)	(0.9)	(1.0)	(0.6)	(0.7)	(1.0)	(0.8)	(20.0%)	(20.0%)
NPI (SGD m)	25.2	27.5	26.4	29.5	25.8	26.6	26.7	26.2	25.3	(3.4%)	(1.9%)
NPI margin (%)	98.8	97.2	97.4	97.0	96.3	97.8	97.4	96.3	96.9		
Distributable income (SGD m)	11.7	13.6	13.5	13.6	12.7	12.8	12.9	13	12.4	(4.6%)	(2.4%)
DPU (SGD cts)	0.66	0.66	0.66	0.66	0.62	0.62	0.62	0.62	0.6	(3.2%)	(3.2%)

Source: Maybank IBG Research

We forecast FIRT’s FY24-25E revenue to reach SGD108.2m and SGD111.2m in our base case. This translates to a 3-year CAGR of 1.9%. (See base-case assumptions in section 5).

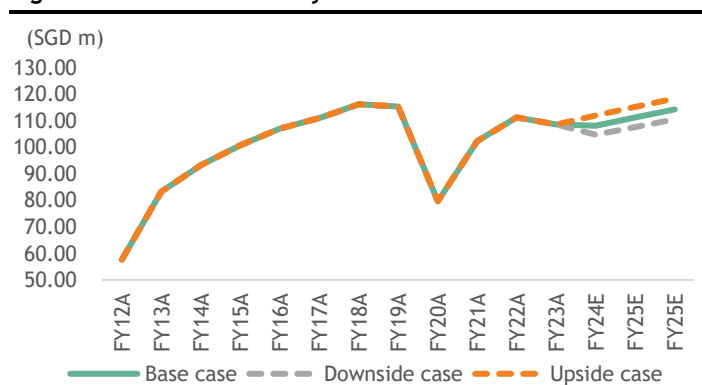
Our upside case, factoring in a concurrent 10% appreciation in JPY/SGD and IDR/SGD from base case at a 50% hedging rate, leads to FY24E revenue of SGD112m (c.3% growth YoY). Our downside case, which factors in a 10% depreciation in JPY/SGD and IDR/SGD from base case at a 50% hedging rate, estimates FY24E revenue of SGD104.7m (c.4% decrease YoY).

Fig 41: Base-case revenue forecast



Source: Maybank IBG Research

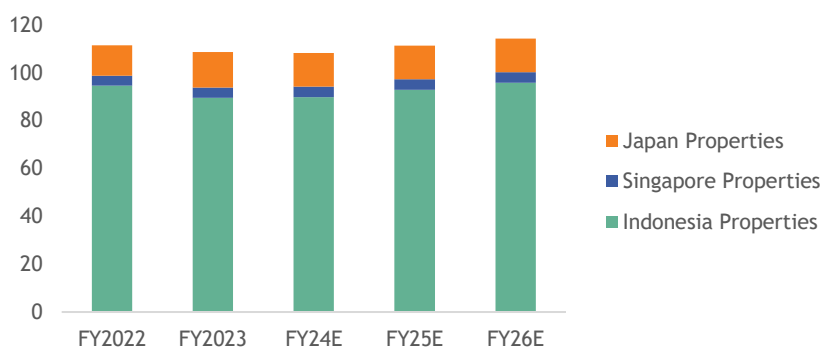
Fig 42: Revenue forecast by scenario



Source: Maybank IBG Research

Stable escalation of 4.5% of rent in IDR terms can be expected for Indonesian hospital assets, while Singapore and Japan assets will contribute stable income. Near-term upside may come from the 3 performance-based Indonesian hospitals (i.e. rent based on revenue), which contributed 8% of previous year’s GOR. In addition, accretive acquisitions in Japan/Australia could contribute additional income.

Fig 43: Revenue forecast by market (base case)



Source: Maybank IBG Research

5.2 Improved balance sheet

FIRT has total borrowings of SGD449.8m, comprising both JPY and SGD-denominated loan facilities. There is no re-financing needed until 2026. Gearing is relatively stable at c.38.8%, which will be further reduced after asset sales and paring down of debts. As of Mar'24, 87% of the borrowing is hedged to a fixed interest rate. FIRT's interest-coverage ratio is at 4x. WADE is healthy at 3.3 years (Fig 46).

Fig 44: Balance sheet metrics in past 9 quarters

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Gearing (%)	35.7	35.6	35.6	38.5	39	38.7	39	38.7	38.8
All-in cost of borrowing (%)	3.4	3.7	4.0	3.7	4.7	4.9	5.0	5.0	5.0
Hedging to fixed-rate (%)			61.7	59.6	62.8	86	85.9	87.2	87.1
Coverage ratio (x)	5.7	5.6	5.2	5	4.2	4.1	4.2	4.1	4
NAV (SGD cts)	34.56	33.85	33.98	30.7	30.04	31.02	30.29	30.18	29.48

Source: Maybank IBG Research

In the near term, re-financing risk due to lease renewal is limited. We note that lease renewal within the next 5 years will take place in FY25 (Siloam Hospitals Cikarang in Indonesia) and FY27 (3 properties in Singapore, 1 property in Japan, and 1 hospital in Indonesia).

Fig 45: Borrowings disclosed in AR23

Loan facilities (notional, ex off B/S)	FY23A	Note
3.25% 100M guaranteed bonds	100	Mature in Apr 2027
OCBC & CIMB Social term loan	234	Mature in May 2026
Shinsei Social term loan (in JPY)	15.3	Mature in Sep 2026
Secured TMK and Term loan (in JPY)	109.9	Mature in June 2030
Total	449.8	

Source: Maybank IBG Research

Fig 46: Historical leverage and WADE

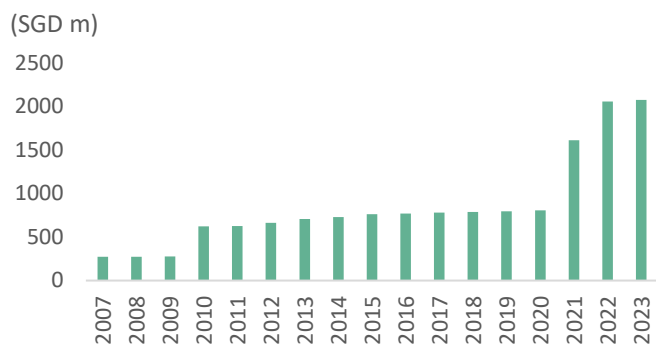
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	1Q24
Aggregate leverage (%)	33.6	35	34.5	49	33.6	38.5	38.7	38.8
WADE (years)	n/a	n/a	2.01	1.2	0.94	3.4	3.3	3.3
NAV (SGD cts)	101.47	102.21	99.64	49.94	36.65	30.70	30.18	29.48

Source: Maybank IBG Research

FIRT has an outstanding perpetual security of SGD33.3m. Issued in 2016, the SGD60m facility was partially redeemed in FY22. The remaining portion carries a fixed interest rate of 5.68%, which costs SGD1.66m dividend every year. The next reset will be in 2026.

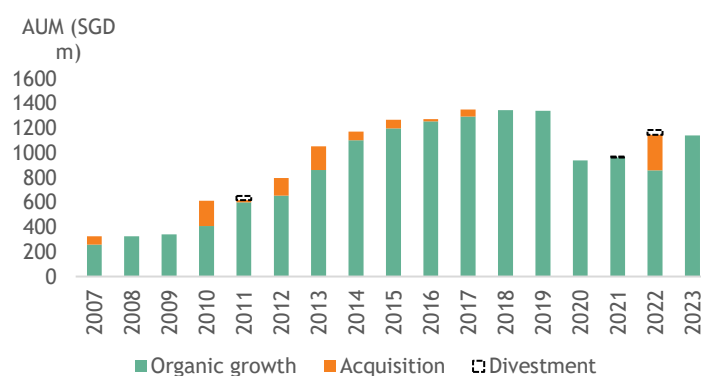
FIRT has 2076.93m shares outstanding as of Dec'23.

Fig 47: First REIT's units in issue



Source: Company, Maybank IBG Research

Fig 48: Value of investment properties



Source: Maybank IBG Research

6. Valuation

We initiate coverage of FIRT with BUY. Our DDM-based TP is SGD0.28, implying upside of c.16% from the current share price and 28% total return potential.

6.1 Scenario Analysis

FIRT's 1Q24 revenue fell 4% QoQ, mainly due to lingering FX headwinds. To assess the impact of exchange rates on our forecasts, we conducted a scenario analysis.

For our base case, we assumed an average exchange rate of 108.4 (JPY/SGD) and 11,643.88 (IDR/SGD) for FY24E, applying 50% hedging based on our house view. Our house view for IDR and JPY forex is 6% weakening in IDR and 14% depreciation in the JPY against the SGD against the average exchange rate adopted by FIRT in FY23 (Fig 49).

Our downside case factors in a 10% weakening in IDR and JPY from the base case, and the impact on FY24E DPU is estimated to be -4% lower than our base-case DPU (Fig 50).

Our upside case factors in a 10% strengthening in IDR and JPY from the base case, with the impact on FY24E DPU estimated to be 4.6% higher than our base case (Fig 50).

Fig 49: Forex assumptions

End of Period	FIRT Disclosure		MIBG House View				Base case assumption (50% hedging ratio)	
	FY23	1Q-24	2Q-24	3Q-24	4Q-24	Average FY24E forex	FY24	
JPY/SGD	102.04	111.1	119.0	114.9	113.6	114.7	108.4	
% change (cumulative)		9%	17%	13%	11%	12%	6%	
IDR/SGD	11,364	11481	12,222	12,082	11,910	11,923.8	11643.88	
% change (cumulative)		1%	8%	6%	5%	5%	1%	

Source: Maybank IBG Research < FX Monthly 2024 Issue 2,5>

Fig 50: Scenario analysis

	FY24E Revenue (SGD m)	FY24E NPI (SGD m)	FY24E DPU (SGD cts)	Vs. base case DPU (\$ cts)	Vs. base case DPU (%)	TP (SGD)
Base	108.15	104.93	2.40			0.28
Downside	104.70	101.58	2.30	0.10	-4.2	0.27
Upside	111.98	108.64	2.51	(0.11)	4.6	0.29

Source: Maybank IBG Research

6.2 DDM-based valuation

Key assumptions applied in our valuation include a discount rate of 10.5% and a risk-free rate of 3%. We have assumed a terminal growth rate of 1.5%.

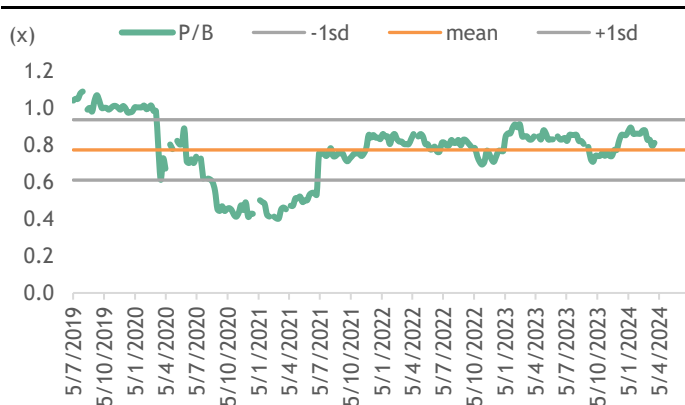
Our DDM-based valuation estimates a base-case DPU of SGD2.40/2.45 cts for FY24/25E, translating to a distribution yield of 9.7%/9.9%, respectively. Historically, FIRT traded above 1x P/B before 2020. The TP implies 0.95x P/B, compared to its current P/B of 0.8x.

Fig 51: DDM-based valuation

	0	1	2	3	4	5	6	7	8	9	10
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
DPU (SGD)	0.025	0.026	0.026	0.027	0.027	0.027	0.028	0.028	0.029	0.029	0.029
PV of DPU (SGD)	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.01	0.01	0.01
Sum of PV (SGD)	0.17										
Terminal value (SGD)	0.11										
Target price (SGD)	0.28										

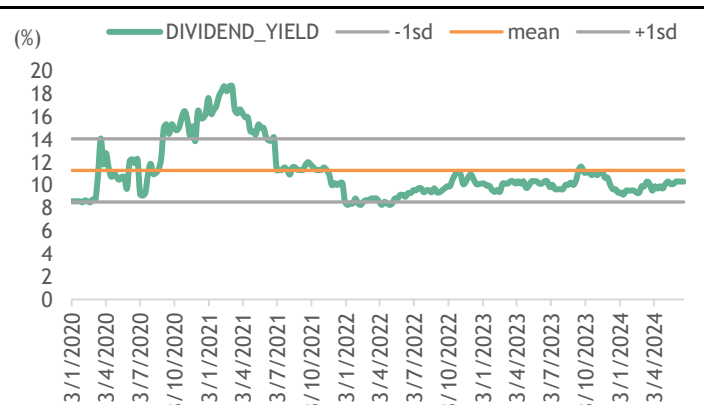
Source: Maybank IBG Research

Fig 52: Historical P/BV



Source: Bloomberg, Maybank IBG Research

Fig 53: Historical yields



Source: Bloomberg, Maybank IBG Research

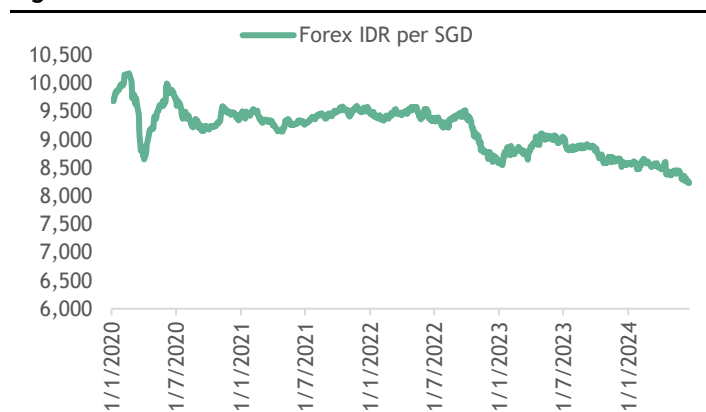
7. Risks

7.1 Forex risk

Most of FIRT's assets are based offshore and it receives rent in foreign currencies (IDR and JPY). On the other hand, the distributions made to unitholders are denominated in SGD. The distributable income will be brought onshore and thereby faces the risk of unfavourable forex if the SGD strengthens. In the event of a prolonged strengthening of SGD throughout a financial year, the nominal value of distributable income brought back onshore will be lowered.

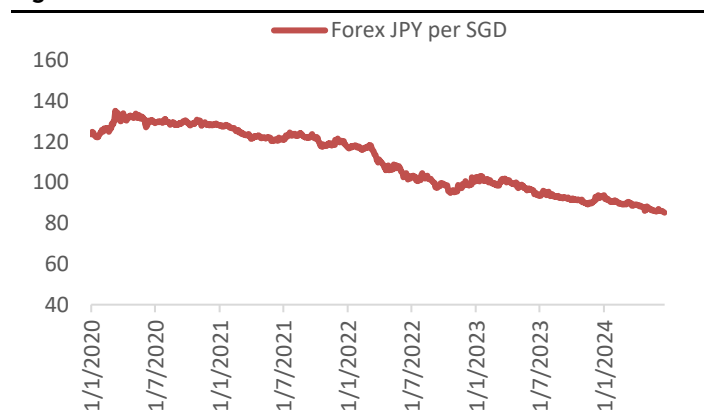
FIRT's lease terms could offset some of the downsides from a weaker IDR. The 4.5% rental escalation (or 8% GOR, whichever is higher) from Indonesian assets could buffer downside to some extent.

Fig 54: IDR forex chart



Source: Bloomberg, Maybank IBG Research

Fig 55: JPY forex chart



Source: Bloomberg, Maybank IBG Research

7.2 Other risks

Concentration risk. FIRT has successfully reduced contributions by LPKW and its subsidiaries by diversifying into Japan. We recognise the considerable risk from tenant concentration, which is common to healthcare REITs. Investors should monitor this metric.

Corporate governance uncertainty. There are concerns over interested-persons transactions. In Nov-20, LPKR and its subsidiary MPU restructured master lease agreement with First REIT, leading to a lower DPU of SGD0.84 cts in 4Q20 (vs. SGD1.01 cts in 3Q20). While FIRT has taken actions to restore revenue to near pre-restructuring levels, and balance sheet has been strengthened, investors should be cautious of potential corporate action uncertainty.

Interest-rate risk. Higher interest expenses could erode topline gains. Nonetheless, FIRT hedged 87% of its borrowings to a fixed rate as of Mar'24. We expect the impact from higher-for-longer interest rate scenario to be limited.

Payment issue. FIRT had an outstanding payment issue with one of the tenants, MPU Hospitals, which totals SGD5.2m (SGD0.25cts/sh). We will monitor the updates on the arrears. In the long term, management is actively building on durable cash flow and increasing quality tenants.

Policy risk. Japan's Ministry of Health, Labour and Welfare is calling for a structural modification that replaces general hospital beds and long-term care hospital beds with care services to improve medical productivity and efficiency. This modification is attempting to establish a system of co-operation between medical and care services tailored to regional characteristics in preparation for Japan's increasingly super-aging population.

There has been research calling for a more structured way to introduce nursing homes across Japan, due to concerns about mismatch between supply and demand in certain areas. Any amendment to planning policy on nursing homes might be a risk for operators and investors alike.

Valuation risk. In the event of a tenant default or change to lease terms, assets may incur loss in fair value. Nonetheless, long WALE of 11.3 years helps to strengthen FIRT's cashflow visibility, which in turn underpins stable asset valuation in the near term.

Key timeline. Upcoming timeline to monitor includes: 1) lease renewal for Siloam Hospital Cikarang in FY25E; 2) refinancing in FY26E; 3) reset date for perpetuals; 4) refinancing in FY27E; and 5) lease renewals in FY27E.

List of companies mentioned:

Australian companies:

HealthCo REIT (HCW AU, CP AUD1.1425, Not Rated)
RAM Essential Services Property Fund (REP AU, CP AUD0.625, Not Rated)
Charter Hall Social Infrastructure REIT (CQE AU, CP AUD2.48, Not Rated)
GIC- Not Listed

European companies:

AXA (CS FP, CP EUR30.9, Not Rated)
CVC Capital (CVC NA, CP EUR17.16, Not Rated)

Indonesian companies:

Lippo Karawaci (LPKR IJ, CP IDR60, Not Rated)
PT. Metropolis Propertindo Utama - Not Listed
Siloam International Hospitals (SILO IJ, CP IDR2570, Not Rated)

Japanese companies

Benesse Style Care - Not Listed
Daiwa Securities Living Investment Corp (8986 JT, CP JPY104,200, Not Rated)
Healthcare & Medical Investment Corp (3455 JT, CP JPY129,300, Not Rated)
Hitowa Holdings - Not Listed
Itochu Corporation (8001 JT, CP JPY7,725, Not Rated)
Kenedix Realty Investment Corp (8972 JT, CP JPY160,500, Not Rated)

Singaporean companies/entities:

GIC (Singapore govt. wealth fund)
OUE (OUE SP, CP SGD1.21, Not Rated)
OUE Healthcare Limited (OUEHC SP, CP SGD0.029, Not Rated)
Temasak (Singapore govt. wealth fund)
Parkway Life REIT (PREIT SP, CP SGD3.52, Not Rated)

South Korean companies:

MBK Partners - Not Listed

US companies:

CVC Capital - (CVCCF US, CP USD18.28, Not Rated)
Healthpeak (DOC US, CP USD19.65, Not Rated)
Omega Healthcare Investors (OHI US, CP USD33.6, Not Rated)
Healthcare Realty (HR US, CP USD16.34, Not Rated)
Global Medical REIT Inc (GMRE US, CP USD8.91, Not Rated)
Goldman Sachs (GS US, CP USD462.09, Not Rated)

Terms explained:

PET/CT: is a diagnostic examination that involves getting images of the body based on the detection of radiation from the emission of positrons.

SPECT/CT: is a type of nuclear medicine scan where the images or pictures from two different types of scans are combined together.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	9.8	10.7	10.2	10.0	9.9
P/BV (x)	0.8	0.9	0.8	0.8	0.8
P/NTA (x)	0.8	0.9	0.8	0.8	0.8
DPU yield (%)	10.2	9.3	9.8	10.0	10.1
FCF yield (%)	11.9	11.9	21.0	16.7	17.1
INCOME STATEMENT (SGD m)					
Revenue	111.3	108.6	108.2	111.2	114.2
Net property income	108.6	105.3	104.9	107.9	110.8
Management and trustee fees	(9.8)	(9.3)	(9.3)	(9.5)	(9.6)
Net financing costs	(19.4)	(22.7)	(24.9)	(27.2)	(29.4)
Associates & JV	0.3	0.5	0.5	0.5	0.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	77.8	71.2	68.6	69.2	69.7
Income tax	(18.4)	(14.9)	(14.3)	(14.5)	(14.6)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	59.5	56.4	54.3	54.8	55.2
Core net profit	63.1	65.0	63.6	64.2	65.4
Distributable inc to unitholders	49.5	52.1	51.0	51.5	52.4
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	46.1	40.3	71.2	78.5	87.5
Accounts receivable	5.0	6.2	6.0	6.0	6.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Investment properties	1,145.3	1,139.5	1,139.5	1,139.6	1,139.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	2.1	1.3	(4.6)	(4.6)	(4.6)
Total assets	1,198.6	1,187.3	1,212.1	1,219.4	1,228.5
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	15.0	12.4	12.4	12.4	12.4
LT interest bearing debt	451.1	449.8	449.8	449.8	449.8
Other liabilities	67.2	64.9	58.9	53.4	48.5
Total Liabilities	533.3	527.2	521.1	515.7	510.8
Shareholders Equity	632.1	626.9	657.7	670.5	684.5
Minority Interest	33.3	33.3	33.3	33.3	33.3
Total shareholder equity	665.4	660.2	690.9	703.8	717.8
Total liabilities and equity	1,198.6	1,187.3	1,212.1	1,219.4	1,228.5
CASH FLOW (SGD m)					
Cash flow from operations	93.1	70.0	109.6	87.4	89.8
Capex	(35.4)	(4.9)	(2.5)	(1.2)	(0.6)
Acquisitions & investments	43.2	0.0	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.2	0.3	0.5	0.5	0.5
CF from investing activities	8.1	(4.6)	(2.0)	(0.7)	(0.1)
Dividends paid	(49.5)	(52.1)	(51.0)	(51.5)	(52.4)
Interest expense	(14.7)	(17.8)	(20.2)	(22.5)	(24.7)
Change in debt	(2.3)	6.1	0.0	0.0	0.0
Equity raised / (purchased)	(3.0)	(1.7)	(1.7)	(1.7)	(1.7)
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(69.4)	(65.5)	(72.9)	(75.6)	(78.8)
Effect of exchange rate changes	(3.6)	(1.9)	0.0	0.0	0.0
Net cash flow	28.1	(2.1)	34.7	11.1	10.8

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	8.7	(2.4)	(0.4)	2.9	2.7
Net property income growth	8.3	(3.0)	(0.4)	2.9	2.7
Core net profit growth	29.0	3.1	(2.2)	0.9	1.8
Distributable income growth	17.5	5.3	(2.2)	0.9	1.8
Profitability ratios (%)					
Net property income margin	97.6	97.0	97.0	97.0	97.0
Core net profit margin	56.7	59.9	58.8	57.7	57.2
Payout ratio	82.9	90.9	92.0	94.0	95.0
DuPont analysis					
Total return margin (%)	53.4	51.9	50.2	49.2	48.3
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.9	1.9	1.8	1.8	1.8
ROAE (%)	na	na	na	na	na
ROAA (%)	5.6	5.5	5.3	5.3	5.3
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.3	2.3	2.4	2.4
Net gearing (%) (excl. perps)	60.9	62.0	54.8	52.8	50.5
Net interest cover (x)	5.0	4.1	3.7	3.5	3.4
Debt/EBITDA (x)	4.7	4.8	4.8	4.7	4.6
Capex/revenue (%)	31.8	4.5	2.3	1.1	0.5
Net debt/ (net cash)	405.0	409.6	378.7	371.4	362.3
Debt/Assets (x)	0.38	0.38	0.37	0.37	0.37

Source: Company; Maybank IBG Research

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

Dr Zamros DZULKAFI
Malaysia | Philippines
(603) 2082 6818
zamros.d@maybank-ib.com

Erica TAY
China | Thailand
(65) 6231 5844
erica.tay@maybank.com

Brian LEE Shun Rong
Indonesia | Singapore | Vietnam
(65) 6231 5846
brian.lee1@maybank.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Luong Thu Huong
(65) 6231 8467
hana.thuhoang@maybank.com

LEE Jia Yu
(65) 6231 5843
jiayu.lee@maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com

Fiona LIM
(65) 6320 1374
fionalin@maybank.com

Alan LAU, CFA
(65) 6320 1378
alantau@maybank.com

Shaun LIM
(65) 6320 1371
shaunlim@maybank.com

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
Head of Fixed Income
(65) 6231 5831
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

WONG Chew Hann, CA Head of Research
(603) 2297 8686
wchewh@maybank-ib.com
• Equity Strategy
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Anand PATHMAKANTHAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Equity Strategy

Desmond CH'NG, BFP, FCA
desmond.chng@maybank-ib.com
• Banking & Finance

ONG Chee Ting, CA
(603) 2297 8678
ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916
samuel.y@maybank-ib.com
• Gaming - Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690
chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679
weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687
jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Automotive • Technology (EMS)

Jeremie YAP
(603) 2297 8688
jeremie.yap@maybank-ib.com
• Oil & Gas • Petrochemicals

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Technology (Semicon & Software)

TEE Sze Chiah Head of Retail Research
(603) 2082 6858
szechiah.t@maybank-ib.com
• Retail Research

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769
amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE Head of Research
(65) 6231 5840
thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

Eric ONG
(65) 6231 5849
ericong@maybank.com
• Healthcare • Transport • SMIDs

LI Jialin
(65) 6231 5845
jialin.li@maybank.com
• REITs

Jarick SEET
(65) 6231 5848
jarick.seet@maybank.com
• Technology

Krishna GUHA
(65) 6231 5842
krishna.guha@maybank.com
• REITs • Industrials

Hussaini SAIFEE
(65) 6231 5837
hussaini.saifee@maybank.com
• Telcos • Internet

PHILIPPINES

Daphne SZE
(63) 2 5322 5008
daphne.sze@maybank.com
• Consumer

Raffy MENDOZA
(63) 2 5322 5010
joseraphael.mendoza@maybank.com
• Property • REITs • Gaming

Michel ALONSO
(63) 2 5322 5007
michelxavier.alonso@maybank.com
• Conglomerates

THAILAND

Chak REUNGSINPINYA Head of Research
(66) 2658 5000 ext 1399
chak.reungsinpinya@maybank.com
• Strategy • Energy

Jesada TECHAHUSDIN, CFA
(66) 2658 5000 ext 1395
jesada.t@maybank.com
• Banking & Finance

Wasu MATTANAPOTCHANART
(66) 2658 5000 ext 1392
wasu.m@maybank.com
• Telcos • Technology • REITs • Property
• Consumer Discretionary

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Natchaphon RODJANAROWAN
(66) 2658 5000 ext 1393
natchaphon.rodjanarowan@maybank.com
• Utilities

Boonyakorn AMORNSANK
(66) 2658 5000 ext 1394
boonyakorn.amornsank@maybank.com
• Services

INDONESIA

Jeffrosenberg CHENLIM Head of Research
(62) 21 8066 8680
jeffrosenberg.lim@maybank.com
• Strategy • Banking & Finance • Property

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos • Internet • Construction

William Jefferson W
(62) 21 8066 8563
william.jefferson@maybank.com
• Property • Materials

Paulina MARGARETA
(62) 21 8066 8690
paulina.tjoa@maybank.com
• Autos

Jocelyn SANTOSO
(62) 21 8066 8689
jocelyn.santoso@maybank.com
• Consumer

Adi WICKAKSONO
(62) 21 8066 8686
adi.wicaksono@maybank.com
• Plantations

Satriawan HARYONO, CEWA, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

VIETNAM

Quan Trong Thanh Head of Research
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8182
loi.nguyen@maybank.com
• Property

Nguyen Thanh Hai
(84 28) 44 555 888 ext 8081
thanhhai.nguyen@maybank.com
• Industrials

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Retail Research

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 **Malaysia**

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

 **Singapore**

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

 **Indonesia**

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188

Fax: (62) 21 2557 1189

 **Thailand**

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)

Tel: (66) 2 658 6801 (research)

 **London**

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221

Fax: (44) 20 7332 0302

 **India**

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600

Fax: (91) 22 6623 2604

 **Vietnam**

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888

Fax : (84) 28 38 271 030

 **Hong Kong**

MIB Securities (Hong Kong)
Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800

Fax: (852) 2877 0104

 **Philippines**

Maybank Securities Inc
17/F, Tower One & Exchange
Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888

Fax: (63) 2 8848 5738

 **Sales Trading**
Indonesia

Helen Widjaja
helen.widjaja@maybank.com
Tel: (62) 21 2557 1188

Philippines

Keith Roy
keith_roy@maybank.com
Tel: (63) 2 5322 3184

London

Greg Smith
gsmith@maybank.com
Tel: (44) 207 332 0221

India

Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91) 22 6623 2629

www.maybank.com/investment-banking
www.maybank-keresearch.com