Singapore Company Focus

First REIT

Bloomberg: FIRT SP | Reuters: FRET.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Jun 2023

BUY (Initiating Coverage)

Last Traded Price (28 Jun 2023): S$0.26 (STI : 3,207.28)
Price Target 12-mth: S$0.30 (15% upside)

Potential catalysts: Stronger-than-expected performance from Indonesian hospitals, appreciation of IDR and JPY, and asset recycling.

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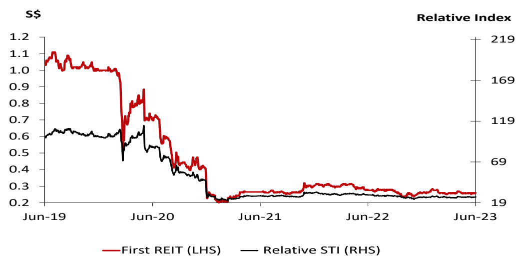
Price Relative



Forecasts and Valuation

FY Dec (S$m)	2022A	2023F	2024F	2025F
Gross Revenue	111	106	111	116
Net Property Inc	109	103	107	112
Total Return	31.0	48.9	51.4	55.4
Distribution Inc	52.4	51.7	53.4	57.4
EPU (S cts)	2.61	2.36	2.49	2.68
EPU Gth (%)	(35)	(9)	5	8
DPU (S cts)	2.64	2.48	2.53	2.70
DPU Gth (%)	1	(6)	2	7
NAV per shr (S cts)	30.7	30.4	30.3	30.2
PE (X)	10.0	11.0	10.5	9.7
Distribution Yield (%)	10.2	9.5	9.7	10.4
P/NAV (x)	0.8	0.9	0.9	0.9
Aggregate Leverage (%)	39.3	39.5	39.6	39.7
ROAE (%)	17.0	15.5	16.4	17.7

GICW Industry: Real Estate
GIC Sector: Equity Real Estate Investment (REITs)
Principal Business: First REIT focuses on investing in healthcare and healthcare-related real estate assets within and outside of Asia

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

A Breath of New Life

- Sustainable rental model with restructured MLAs, direct rental exposure to operators, and long WALE of >12 years
- Beneficiary of Siloam Hospitals' improving performance
- Positive catalysts: Capital recycling and expansion activities
- Attractive valuation with forward P/B ratio of 0.9x and dividend yield of c.10%; Initiate with BUY and TP of S$0.30

Investment Thesis:

First REIT focuses on investing in healthcare and healthcare-related real estate assets within and outside of Asia. First REIT has 32 assets with an AUM of S$1.15bn, with 15 assets in Indonesia (72.1% of AUM), 14 Japan nursing homes (25.1%), and 3 nursing homes in Singapore (2.8%).

Sustainable rental income model including upside-sharing with Siloam International Hospitals (Siloam). We like First REIT for its long-term cash flow visibility following its 2021 Master Lease Agreement (MLA) restructuring, which ensures a minimum rental escalation of 4.5% per annum for Indonesian assets, alongside stable nursing home assets in Singapore and Japan, and a long weighted average lease expiry (WALE) of >12 years. We think the rebased rental rates are more sustainable, with revised rents now aligned with industry rates (was previously higher than industry) and Siloam being added as a party to the MLAs, which helps to reduce the exposure to PT Lippo Karawaci (LPKR). Furthermore, there is a potential upside in rental income via performance-based rents in tandem with Siloam's stronger growth, with consensus Siloam's FY23F/24F revenue growth at +15%/11%. We observe a positive correlation between First REIT's and Siloam's share prices; First REIT could be a beneficiary to Siloam's improving performance.

Watch for capital recycling and expansion activities. Potential divestment of non-core and/or Indonesian assets to build sufficient firepower for future expansion activities, e.g., Japan, Australia.

Initiate with BUY with TP of S$0.30. First REIT is currently trading at attractive valuations with a forward P/B ratio of 0.9x (at -1SD of the historical average of 1.0x) and forward dividend yield of c.10% (at +1SD of the historical average of 8.2%). Our TP implies a forward P/B ratio and dividend yield of 1.0x and 8%, aligned with the historical average.

Key Risks

Weaker-than-expected operations from Siloam Hospitals due to the macroeconomic slowdown, rising competition, and more. Other risks include forex risks relating to IDR and JPY against the SGD.

At A Glance

Issued Capital (m shrs)	2,064
Mkt. Cap (Sm/USm)	537 / 397
Major Shareholders (%)	
OUE Realty Pte Ltd	38.8
First REIT Management	9.1
Free Float (%)	52.1
3m Avg. Daily Val (US$m)	0.17

DBS Insights Direct

ed: BM/ sa: YM, PY, CS

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Legend

AUM	Asset under management
IAHCC	Imperial Aryaduta Hotel & Country Club
IDR	Indonesian Rupiah
LPKR	PT Lippo Karawaci Tbk
Manager	Refers to First REIT Management Limited
MLA	Master Lease Agreement
MPU	PT Metropolis Propertindo Utama
ROFR	Right-of-first-refusal
SGD	Singaporean dollar
Siloam	Siloam International Hospitals, which is the operator of First REIT's indonesian hospitals
Sponsor Group	Refers to OUE Limited (OUE) and OUE Lippo Healthcare Limited (OUELH)
WALE	Weighted average lease expiry

Investment Summary

First REIT is Singapore's first healthcare REIT that focuses on investing in healthcare and healthcare-related real estate assets within and outside of Asia. As at FY22, First REIT has 32 assets with assets under management (AUM) of S$1.15bn, with 15 assets in Indonesia (72.1% of AUM), 14 nursing homes in Japan (25.1%), and 3 nursing homes in Singapore (2.8%), with a WALE of 12.2 years (as at 1Q23).

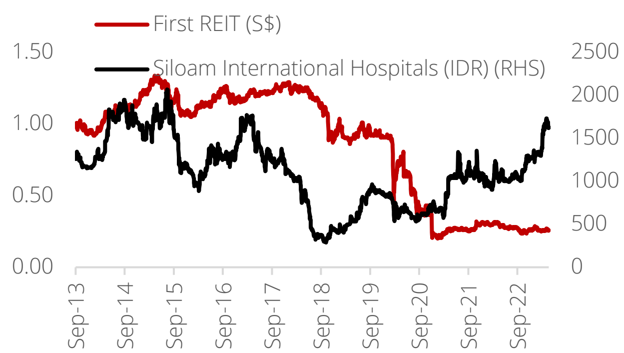
Worst is over; a more sustainable master lease structure is now in place. After the challenging COVID-19 pandemic (amid potential default by key tenant LPKR), First REIT restructured its MLAs for its Indonesian hospitals in 2021. New rental rates are now (i) pegged to a higher base rent with an assumed yearly escalation of 4.5% (versus a cap of 2% previously) or performance-based rent pegged at 8% of a hospital's preceding gross operating revenue (GOR) and (ii) will be paid in Indonesian rupiah (IDR) (versus SGD previously). Most importantly, we believe rebased rents are now more sustainable for hospital operator Siloam, with rent as a percentage of EBITDAR[1] estimated to be in the range of 40%-45%, aligned with the industry, versus an estimated 60% prior to the restructuring. Furthermore, with Siloam being added as a party in the MLAs, First REIT will be able to directly collect its rent from its hospital operator and reduce its concentration risks to LPKR, suggesting that First REIT's rents will be more correlated to the performance of Siloam.

Potential upside from growing in tandem with high long-term growth trajectory of Siloam. With the new rent structure, we believe that First REIT will be able to ride on the long-term growth of Siloam, where we observe a positive correlation between First REIT and Siloam's share price (see right). A stronger growth trajectory (above 4.5% p.a.) from Siloam may see First REIT eventually progressing to the higher performance-based formula.

Siloam's hospitals have been growing at a five-year historical revenue CAGR of 16%. Based on consensus estimates, Siloam's revenue is estimated to grow at a three-year CAGR of c.11%. If the growth trajectory remains sustainable in the long term, we believe the progression into a performance-based rent formula will see First REIT's rents growing at a similar high-growth trajectory as that of Siloam.

Currently, 3 of 14 hospitals (i.e., Siloam Hospitals Kebon Jeruk, Purwakarta, and Sriwijaya, which make up c.15% of total FY22 adjusted rental income, excluding the divested Siloam Hospitals Surabaya) are paying performance-based rents. Based on our estimates, FY22 rents are c.9% higher than the based rent formula. Alternatively, for these three hospitals, we've seen that between FY21 (start of new rental rates) to FY22, rent grew c.15% y-o-y vs. the base rent formula with a 4.5% escalation. Based on our estimates, we forecast one more hospital could progress into using a performance-based rent formula in FY25F, and another hospital in FY27F. On aggregate, based on our conservative estimates, we forecast IDR-denominated rental income for Indonesian hospitals to grow at a 4.8% CAGR by FY25F/FY27F (slightly above the base rent escalation of 4.5%). First REIT is positioned to benefit from Siloam's stronger-than-expected operational performance resulting from its performance-fee fee.

Critical factor 1: First REIT's share price (S$) vs. Siloam International Hospitals' share price (IDR)



Source: Refinitiv, DBS Bank

Growing stable income in developed markets via recent expansion into Japan. First REIT made its first foray into Japan nursing homes in March 2022 via the acquisition of 12 Japan nursing home assets for c. S$163m from its sponsor, i.e., OUE Group, and later in Sept 2022, when it made its first third-party acquisition of two nursing homes for c. S$26m, with assets yielding 5.0%-5.5%. In our view, we believe the rental structure of Japan assets is stable, backed by a long lease profile of 30 years and fixed annual rents, with a possible revision every two to three years (or five years for two assets) based on Japan's CPI or interest rates. Currently, its Japan portfolio contributes c.14% of rental income. Including the Singapore portfolio, First REIT's developed market assets contribute c.15% of FY22 rental income and c.28% of FY22 AUM. Over the medium to long term, management aims to increase AUM exposure to developed countries to >50%, which will help increase its stable income from developed markets.

[1] Earnings before interest, taxes, depreciation, amortisation, and rental

Watch for capital recycling activities. Moreover, further optimisation of its portfolio through the divestment of non-core, non-healthcare assets and mature healthcare assets will further strengthen its portfolio and provide some firepower for its expansion plans in Japan. In Sept 2022, First REIT divested Siloam Hospitals Surabaya for a total of S$71m (including fees to terminate the development work). Going forward, over the medium term, First REIT has earmarked a list of non-healthcare assets for potential divestment including the Imperial Aryaduta Hotel & Country Club (IAHCC), a non-core asset with its lease expiring in Dec 2023. We believe the divestment of non-core assets can help generate firepower for expansion activities in the medium to long term, e.g., potential expansion into Japan or other markets such as Australia.

Initiate with BUY recommendation and TP of S$0.30. Our DCF-based target price assumes a risk-free rate of 4.9%, beta of 2.0x, and WACC of 10.7%. First REIT is currently trading at attractive valuations relative to pre-restructuring. Its forward PB ratio of 0.8x is at -1SD of the historical average of 1.0x, while its forward dividend yield of c.10% is +1SD of the historical average of 8%.

Positive catalysts include (i) stronger-than-expected performance by Siloam International Hospitals, (ii) the strengthening of the Indonesian rupiah (IDR) and Japanese yen (JPY) against the SGD, and (iii) capital recycling activities and continued strategic expansion plans over the medium to long term. We believe these catalysts can aid with the upward rerating of First REIT's share price.

Key risks, in our view, include (i) operational risks related to Siloam and (ii) forex risks.

We note that a weaker-than-expected operational performance due to a sharp economic slowdown, increased competition amongst healthcare providers, and more, can impact Siloam's earnings, which can subsequently lead to downside risks to our rental income estimates. Separately, we note that the lease of Siloam Hospitals Lippo Cikarang is set to expire in Dec 2025, which will likely be renewed, just like the rest of the Indonesian hospitals. The rebased rents for Cikarang will likely lead to a negative impact on its rents (similar to other hospitals during the restructuring).

The second key risk relates to the depreciation of the IDR and JPY, especially the former. Whilst we have assumed a conservative outlook on the IDR and JPY, a weaker-than-expected IDR/JPY can pose some headwinds to our estimates. Separately, we note that First REIT's investment properties are mainly denominated in IDR and JPY, whilst its debt is mainly denominated in SGD. Periods of significant depreciation in the IDR and JPY against the SGD could lead to lower property valuations and increases in First REIT's gearing ratio.

Valuation & Peer Comparison

Initiate with BUY recommendation and TP of S$0.30, based on DCF valuation. In consideration of the concentration risks (to Indonesia and LPKR) and forex risks borne by unitholders, we assume a beta of 2.0x, which leads to a cost of equity estimate of 15.1%. After assuming an effective interest cost of 5.0% (1Q23 of 4.7%) and gearing ratio of 39.0% (as at 1Q23), this leads to an after-tax cost of debt estimate of 3.8%. Overall, we estimate First REIT's WACC to be 10.7%.

For our DCF valuation model, we forecast FCFF from FY23F to FY35F based on the MLAs for existing assets. Later, we assume a terminal growth rate of 2.5% from FY35F onwards (upon the expiry of the 15-year lease for Indonesian hospital assets). With an assumed WACC of 10.7%, we derive an estimated TP of S$0.30 using DCF valuation.

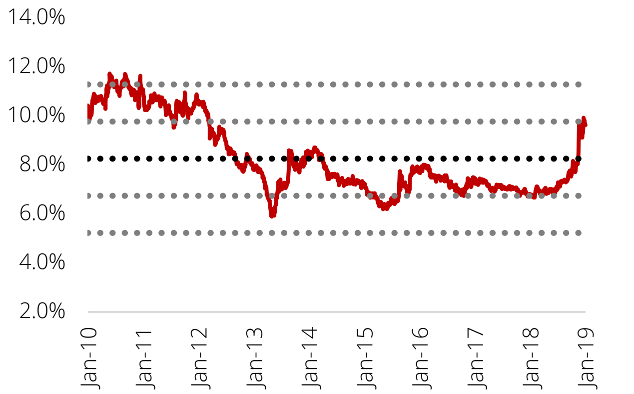
Our TP translates into an implied forward P/B ratio and dividend yield of 1.0x and 8%, respectively, aligned with the historical average.

Trading at an attractive valuation relative to pre-restructuring levels. First REIT is currently trading at a forward PB ratio of 0.9x, which is at -1SD of the historical average forward PB ratio of 1.0x before the MLA restructuring (see below). Furthermore, First REIT is currently witnessing a firm forward dividend yield of c.10%, at +1SD of the historical average dividend yield of 8%.

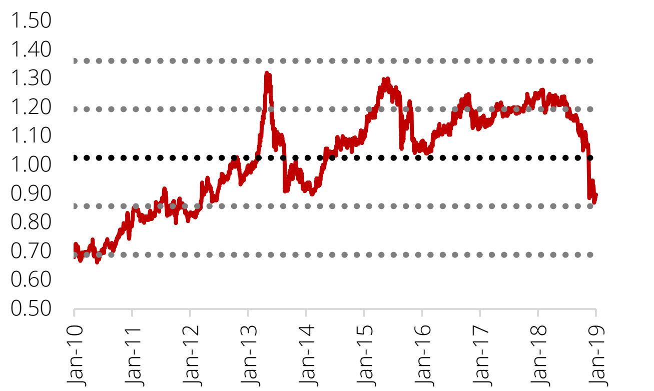
Trading at a discount relative to peers. Its peers are trading at a forward book value of 1.0x, with a dividend yield of c.9% (see table below).

Positive catalysts to help with an upward rerating include (i) stronger-than-expected operational performance from First REIT's hospital operator, i.e. Siloam International Hospitals; (ii) the strengthening of the IDR and JPY against the SGD; and (iii) ongoing capital recycling and further expansion activities. See critical factors section on page 7.

Historical dividend yield (2010 to 2019)



Forward PB ratios (2010 to 2019)



Note: Historical range refers to the period between 2010 to 2019, which excludes outlier periods including the 2008 - 2009 global financial crisis, 2020 COVID pandemic, and MLA restructuring period from 2021 onwards. The black dotted line refers to average ratios, whilst the grey dotted lines refer to standard deviations. Source: Refinitiv, DBS Bank estimates

Relative valuation

Company	Share price (SGD)	Market cap (SGD m)	P/BV (x)	P/sales (x)	ROE (%)	Operating margin (%)	Net margin (%)	Dividend yield (%)
First Real Estate Investment Trust	0.26	538.76	0.80x	4.8x	5%	68.5%	27.9%	10.1%
Parkway Life Real Estate Investment Trust	3.82	2,315.99	1.61x	17.8x	3%	83.2%	31.6%	3.3%
Northwest Healthcare Properties REIT	7.79	1,877.49	0.93x	4.2x	3%	28.8%	14.3%	8.5%
Medical Properties Trust Inc	11.14	6,676.24	0.58x	3.4x	11%	47.7%	58.4%	13.8%
Average			0.98x	7.6x	5%	57.1%	33.1%	8.9%
Median			0.87x	4.5x	4%	58.1%	29.8%	9.3%

Source: Refinitiv, DBS Bank

Risk-free rate estimates

	Risk-free rate	FY22 AUM (%)
Singapore	4.00%	2.8%
Japan	0.50%	25.1%
Indonesia	6.50%	72.1%
Blended	4.9%	

Source: DBS Bank estimates

WACC estimates

Risk-free rate (Rf)	4.9%
Market return (Rm)	10.0%
Equity risk premium	5.1%
Beta	2.00
Cost of equity (Ke)	15.1%
Proportion of financing that is debt	39.0%
After tax cost of debt (Kd)	3.8%
Cost of debt	5.0%
Corporate tax rate	25.0%
WACC	10.7%

Source: DBS Bank estimates

DCF valuation

Period	1	2	3	4	5	6	7	8	9	10	11	12	13
FY Dec (S$m)	23F	24F	25F	26F	27F	28F	29F	30F	31F	32F	33F	34F	35F
EBIT	90	95	99	103	108	114	119	124	130	135	141	147	153
Add depreciation and amortisation	5	5	5	5	5	5	5	5	5	5	5	5	5
Less tax provision	-17	-18	-19	-20	-22	-23	-24	-26	-28	-29	-30	-32	-33
Less capex	-2	-2	-2	-2	-2	-3	-3	-3	-3	-3	-3	-3	-4
Add changes in working capital	0	0	0	0	0	1	0	1	1	1	1	1	1
FCFF	76	81	83	86	90	94	98	101	105	109	113	117	122
Terminal value													1,530
Discounted FCFF	69	66	62	57	54	51	48	45	42	40	37	35	443

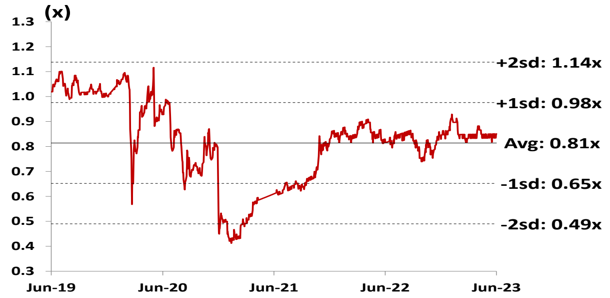
Terminal growth (assumed)	2.5%
Total FCFF	1048.8
Less: FY23F net debt	(388.9)
Less: FY23F perpetual securities	(33.4)
Equity value (S$m)	626.5
No. of units	2086.7
Equity value per share (S$)	0.30

*Note: *Assume 100% dividend pay-out ratios. Source: DBS Bank estimates*

Historical dividend yield (4-year historical range)

Source: Bloomberg Finance L.P., DBS Bank estimates

Forward PB ratios (4-year historical range)

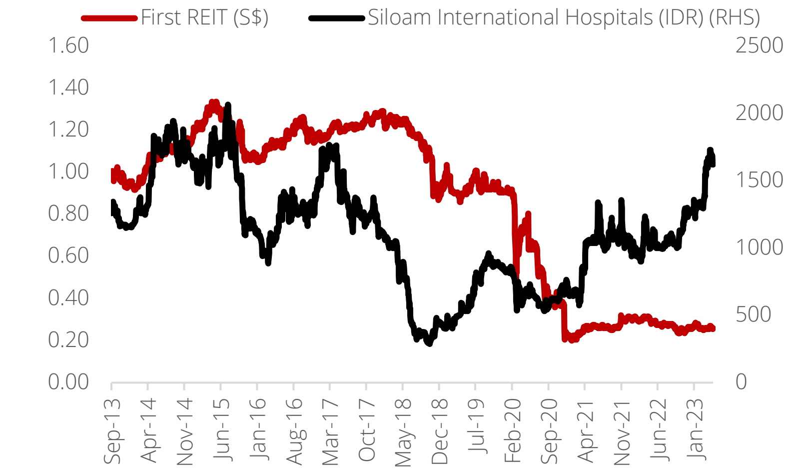


Source: Bloomberg Finance L.P., DBS Bank estimates

Critical Factors

We note the following, which we believe are critical factors for the group's share price and/or financials:

Critical factor 1: First REIT's share price (S$) vs. Siloam International Hospitals' share price (IDR) (correlation = +0.31)



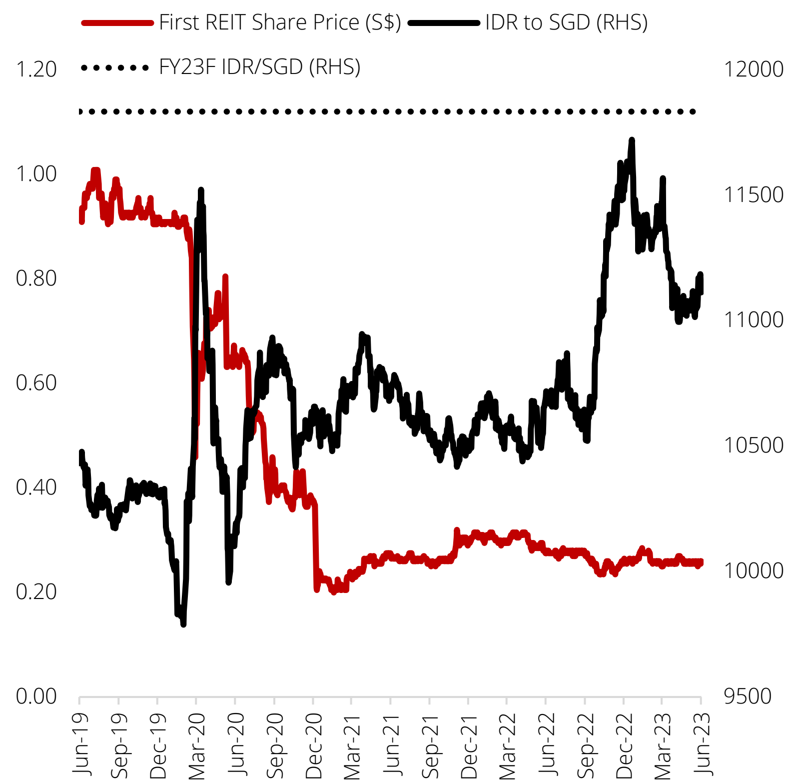
Source: Refinitiv, DBS Bank

Comments

We observe a positive correlation between First REIT's share price vis-à-vis that of Siloam International Hospitals.

The consensus has estimated robust FY23F/24F revenue growth for Siloam at +15%/11%, respectively, on the back of demand recovery post the pandemic. With First REIT's performance-based fees with Siloam, we believe the positive outlook on Siloam's revenue growth would translate into higher rental income for the REIT and subsequently act as a positive catalyst for First REIT's share price.

Critical factor 2: First REIT's share price (S$) vs. Indonesian rupiah (IDR) (correlation = -0.59)



Source: Refinitiv, DBS Bank

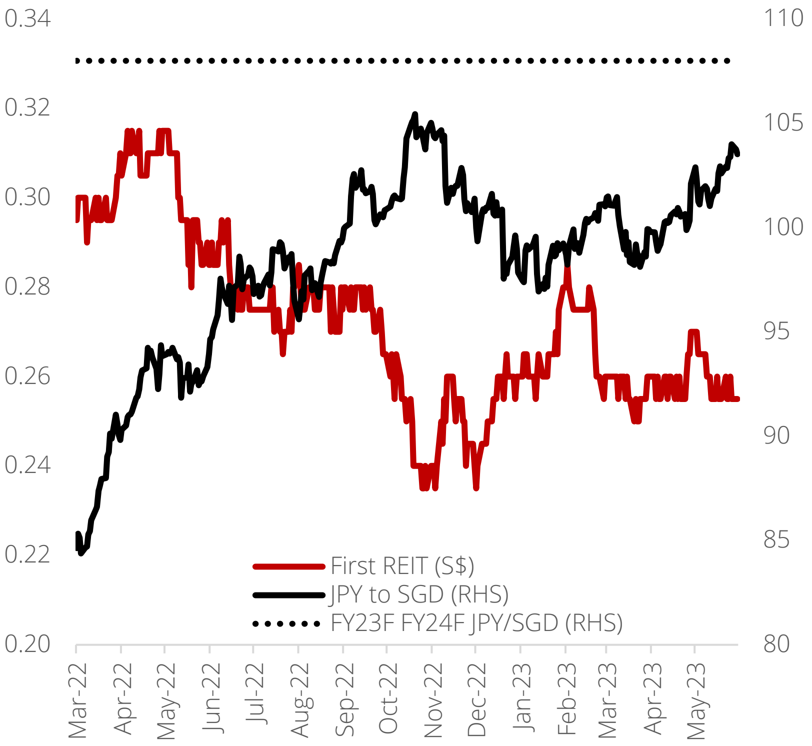
Comments

We observe a negative correlation between First REIT's share price vis-à-vis the IDR/SGD exchange rate.

Indonesia assets make up >70% of First REIT's AUM. During periods of significant depreciation of the IDR against the SGD (i.e., increases in IDR/SGD exchange rate), we notice a negative impact on First REIT's share price, as rupiah-denominated rental income collected from Indonesian hospitals will be adversely impacted. Furthermore, Indonesian assets may also see a negative impact on valuations, whilst First REIT's liabilities (mainly denominated in SGD) remain unchanged, which could lead to increases in gearing ratios.

Management has guided that IDR income is hedged to a certain degree.
Whilst we have already assumed a conservative outlook on the IDR/SGD exchange rates (see dotted line in chart), weaker-than-expected IDR/SGD rates will pose headwinds to our estimates.

Critical factor 3: First REIT's share price (S$) vs. Japanese yen (JPY) (correlation = -0.80)



Source: Refinitiv, DBS Bank

Comments

We observe a negative correlation between First REIT's share price vis-à-vi the JPY/SGD exchange rate.

Japan assets make up c.25% of First REIT's AUM. During periods of significant depreciation of the JPY against the SGD (i.e., increases in JPY/SGD exchange rate), we notice a negative impact on First REIT's share price, as yen-denominated rental income collected from Japan nursing homes will be adversely impacted. Furthermore, Japan assets may also see a negative impact on valuations, whilst First REIT's liabilities (mainly denominated in SGD) remain unchanged, which could lead to increases in gearing ratios.

Whilst we have already assumed a conservative outlook on the JPY/SGD exchange rates (see dotted line in chart), weaker-than-expected JPY/SGD rates will pose headwinds to our estimates.

Critical factor 4: First REIT's share price (S$) vs. capital recycling activities

Date	Catalyst	Share price movement
8 Dec 2021	Announcement of 2.0 Growth Strategy	Negligible
1 March 2022	Acquisition of 12 nursing homes in Japan from sponsor	+29%
21 Sept 2022	Acquisition of two nursing homes in Japan from third party	Negligible

Source: Refinitiv, Company, DBS Bank

Comments

We observe a positive relationship between the announcement of major capital recycling/expansion activities vis-à-vis First REIT's share price.

Going forward, over the medium and long term, we watch for the potential divestment of non-core assets such as Imperial Aryaduta Hotel & Country Club (IAHCC), and acquisition activities in developed markets, e.g., Australia, Japan.

Key Risks

Exposure to Indonesia and other economies. As at FY22, Indonesia and Japan make up >70% and >25% of First REIT's AUM, respectively. As such, rental income and the results of its operations depend, to a large extent, on the performance of Indonesia's and Japan's economies. An economic decline in both countries could adversely affect First REIT's operation and financial growth results. Political upheavals, natural disasters, insurgency movements, riots, and governmental policies, all play a pivotal role in the performance of First REIT's assets.

Risks related to the healthcare sector. First REIT's principal strategy is primarily focused on investing in real estate and/or real estate-related assets in Asia that are primarily used for healthcare and/or healthcare-related purposes. As such, unit holders will be subjected to risks in investments focused on a single industry, as compared to other types of unit trusts that have a more diverse range of investments across multiple sectors.

More specifically, investments in hospitals are subject to unique risks. Generally, hospitals are subject to governmental regulation of their medical and surgical services, a factor which could have a significant and possibly unfavourable effect on the price and availability of such services. Furthermore, hospitals face the risk of increasing competition from local and even overseas players. Adverse impacts on demand for hospital services can negatively impact First REIT's rental income.

Forex risks. Whilst the minimum rental escalation of 4.5% for Indonesian hospitals can help compensate unitholders in return for bearing forex risks related to the IDR, during periods of significant depreciation of the IDR against the SGD (increases in IDR to SGD rate), we observe that First REIT's distributable income and share price may be adversely impacted. Separately, annual rent from nursing homes in Japan is fixed, though it may be revised every two to three years (or five years) upon negotiation, depending on Japan's CPI and interest rates, wherein we have observed similar trends with the JPY. Whilst we have reflected the IDR/SGD and JPY/SGD depreciation in our estimates, we note that weaker-than-expected rates of the IDR and JPY against the SGD could pose headwinds to our estimates.

Separately, we note that First REIT's investment properties are mainly denominated in IDR and JPY, whilst debt is mainly denominated in SGD. During periods of significant depreciation of the IDR and JPY against the SGD, there could be increases in First REIT's gearing ratio.

Interest rate risks. During periods of elevated interest rates, there may be an increase in interest expenses and DPU may be adversely impacted.

Concerns on LPKR exposure. LPKR remains in a net debt position, with a FY22/FY21 debt-to-equity ratio of 98%/71%, respectively, according to Refinitiv. On a positive note, we note that since the MLA restructuring, First REIT was able to bring down its exposure to LPKR, by adding Siloam as a party to the MLAs (tripartite MLAs), from c.88% (pre-restructuring) to the current <50%. Going forward, under the terms of the Tripartite MLAs, from 1 Oct 2026, Siloam will pay 6.5% of the preceding year's GOR, leaving LPKR/MPU to pay 1.5% of the preceding year's GOR, which will help to further increase the contribution of rental income by Siloam. In a scenario where all hospitals in Indonesia pay performance-based rental income, this will result in Siloam being the predominant contributor of rental income collected, as forecasted by management, which should reduce the exposure risks to LPKR.

Master lessee may not renew leases with First REIT. There is no assurance given that the master lessees will renew its leases upon the expiry of its initial 15-year term. In such a situation, First REIT may not be able to locate a suitable purchaser for the properties, or find a suitable replacement master lessee, which can impact First REIT's operations and financials.

May need to rely on external sources of funding to expand asset portfolio. First REIT may need to take on borrowings or raise equity capital, which may result in a dilution of unitholders' holdings, to execute its expansion strategies.

Dependent on key personnel. First REIT's performance depends, in part, upon the continued service and performance of key staff members of the manager. Loss of key personnel may impact First REIT's operations.

SWOT Analysis

Strengths

- **Firm cash flow visibility**. First REIT has a built-in rent increment for 72.5% of its AUM in Indonesia and Singapore, and a long weighted average lease expiry of 12.2 years. Most of its Indonesia hospital assets have a minimum rental escalation of 4.5% per annum with potential upside-sharing via performance-based rental fees, and Singapore nursing home assets with a minimum rental escalation of 2.0% per annum.
- **Exposure to largest private hospital network.** Siloam International Hospitals (Siloam), which operates First REIT's Indonesia hospitals, is the largest private hospital network in Indonesia in terms of bed capacity, backed by (i) its exposure to a wide range of healthcare segments, (ii) medical expertise and enhanced patient experience via its Centres of Excellence, and (iii) the support of its parent group i.e., Lippo Group.
- **Strong sponsor support.** As at FY22, sponsors OUE Limited and OUE Lippo Healthcare Limited (OUELH) have a combined stake of 44.35% in First REIT. During First REIT's recapitalisation exercise in 2020, the sponsors have provided irrevocable undertakings in respect of a S$158m rights issue. First REIT was also able to leverage on the sponsor group's network for its S$260m debt refinancing. In FY21, First REIT was also able to acquire 12 Japan nursing homes from its sponsor.
- **Experienced management.** CEO Victor Tan has more than 25 years of experience in the healthcare industry and General Manager Koji Otani has more than 17 years of experience in real estate management and investment management in Japan.

Weakness

- **Concentration risk.** First REIT has significant exposure to Lippo Karawaci (c.40% of FY22 rental income) and Indonesia (85% of FY22 rental income). Going forward, First REIT aims to further diversify its tenant profile, e.g., through higher rental exposure to Siloam International Hospitals and by diversifying its tenant mix. First REIT also aims to further expand into developed markets.
- **Forex risk, i.e., IDR and JPY rates.** A strengthening IDR and JPY against the SGD will be positive for First REIT, as rental income collected from its Indonesia/Japan assets are denominated in local currencies. During environments of a weakening IDR and JPY against the SGD, First REIT's rental income could be adversely impacted. Separately, we note that First REIT's investment properties are mainly denominated in IDR and JPY, whilst debt is mainly denominated in SGD. During periods of significant depreciation of the IDR and JPY against the SGD, First REIT's gearing ratio could increase.

Opportunities

- **Beneficiaries of structural demand drivers** such as rising demand for healthcare services in Indonesia, and the ageing population in Japan and Singapore.
- **Capital recycling.** Divestment of non-core assets to fund potential expansion activities in the medium to longer term.
- **2.0 Growth Strategy, with an aim for further expansion into developed markets.** First REIT aims to achieve >50% of its AUM in developed markets by FY27 (up from FY22 of 28%).

Threats

- **Competition faced by Indonesia hospitals**. The domestic healthcare industry in Indonesia is competitive, with Siloam competing with government-owned hospitals and other private hospitals. Separately, Siloam also faces competition from neighbouring countries (e.g., Singapore, Malaysia, Thailand), as seen from the rise of medical tourism.
- **Concerns on exposure to LPKR.** LPKR remains in a net debt position, with a FY22/FY21 debt-to-equity ratio of 98%/71%, respectively. On a positive note, Siloam being added as a party to the MLAs (tripartite MLAs) could help reduce risks relating to the need for MLA restructuring by LPKR. Further diversification efforts can also help alleviate such concerns.

Source: DBS Bank

Worst is over: Restructured MLAs a new breath of life

The COVID-19 pandemic triggered a series of unfortunate events, including default risks from key tenant. The pandemic led to a high risk of default and liquidity pressure on LPKR (which accounted for >70% of First REIT's rental income), due to significant recurring expenses, weak operating cash flows, and the inability to divest its assets. LPKR made a unilateral announcement that rental payments to First REIT are "unsustainable" and initiated the discussion of MLA restructuring with First REIT (LPKR MLA restructuring), triggering a sharp selloff of First REIT's shares in June 2020.

Impending debt expiry. Further, as at Nov 2020, First REIT had S$196.6m (49% of total debt) due on 1 March 2021 and S$395.7m (80.2% of total debt) due within the next 18 months. Whilst First REIT was able to get a new loan facility of S$260m, lenders required First REIT to pay the remaining S$140m.

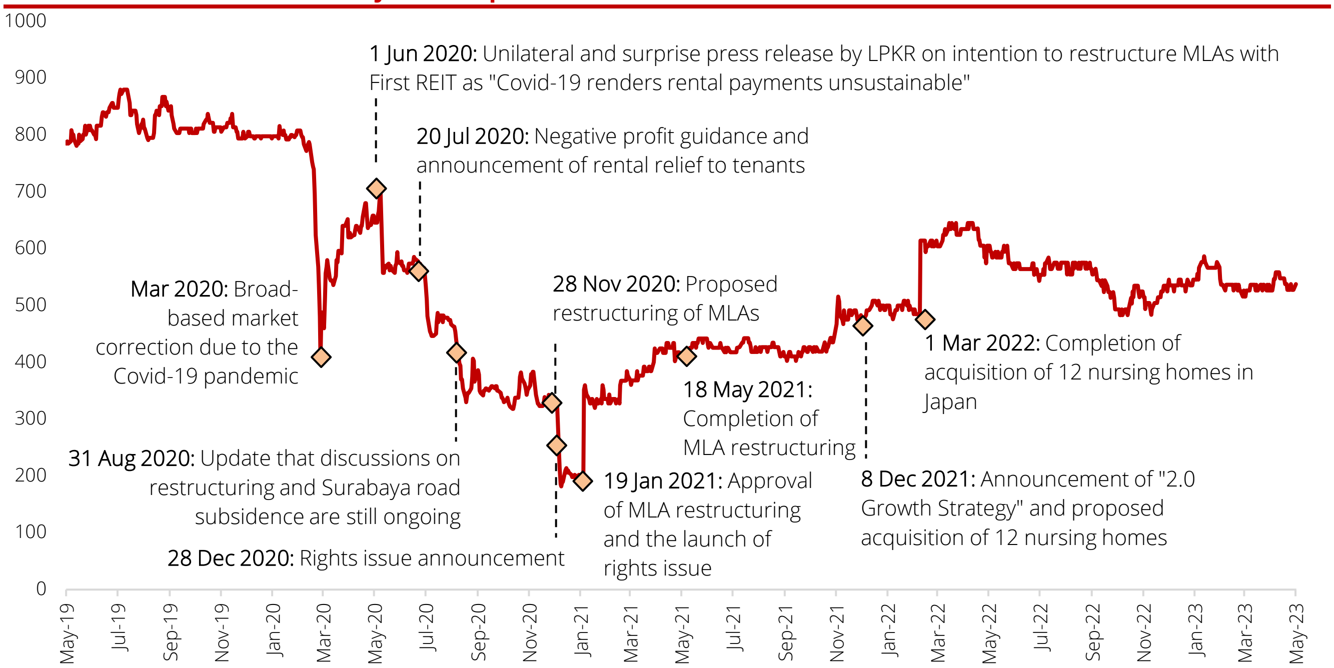
Mandatory rights issue. Lenders have expressed significant concerns over the sustainability of the REIT's structure considering LPKR's financial circumstances, which resulted in a rights issue being a conditional requirement under the refinancing facility to repay the S$140m. Although, the viability of the rights issue is dependent on the manager being able to provide certainty in respect of the valuations and cash flows of First REIT's assets through the proposed LPKR MLA restructuring, which implies that the restructuring was necessary to proceed with the rights issue.

Triggered the need for MLA restructuring. On 28 Nov 2020, First REIT announced a proposed restructuring of its Indonesian hospitals' MLAs (the restructuring). Under the new MLAs, the rent that tenants/hospitals pay will be (i) denominated in IDR (versus SGD previously) and (ii) the higher of the fixed base rent with a 4.5% annual rental escalation or 8% of the preceding year's GOR (versus the old MLA's max of a 2% rental escalation alongside a variable rent). Most importantly, Siloam International Hospitals (Siloam) has been added as a party to the MLAs (tripartite MLAs) to establish the direct collection of rent from Siloam. For elaboration on the old versus new MLA, see page 28.

Post restructuring, the terms of all MLAs are extended to 31 December 2035, with an option to extend for another 15-year term by mutual agreement, thereby extending the weighted average lease expiry (WALE) from 7.4 years to 12.6 years.

Refinancing and recapitalising of balance sheet. In Feb 2021, First REIT concluded a recapitalisation exercise and raised equity of S$158.2m. In Mar 2021, First REIT used approximately c. S$140m to repay part of the loan facilities secured in 2018. Following the recapitalisation exercise, First REIT's FY20 leverage ratio was brought down from 49.0% to 34.6%, on a pro forma basis.

First REIT's market value & major share price events



Note: MLA refers to master lease agreements. LPKR refers to Lippo Karawaci. Source: Company

A more sustainable rental income model, with upside-sharing with Siloam International Hospitals. We believe the restructured MLAs help to ensure:

A. **Long-term cash flow visibility**, backed by a minimum rental escalation of 4.5% for Indonesian hospitals and a WALE of >12 years. Furthermore, most of the MLAs are triple net lease agreements (see summary on the right), which will suggest that utility and repair costs are borne by master lessees.

B. **Sustainable rents for hospital operator.** We think the rebased rental rates are more sustainable for Siloam. Based on our estimates, rebased rental rates as a percentage of EBITDAR for First REIT's hospitals now amount to 40%-45%, which are aligned with the industry, versus 60% before the restructuring.

C. **Reduction in concentration risks to LPKR**, with Siloam added as a party to the restructured MLAs (tripartite MLAs). As at 1Q23, Siloam is contributing c.44% to Indonesia's tenant income (versus 2% pre-restructuring), which helps reduce the exposure to PT Lippo Karawaci (LPKR) to <50% (versus 88% previously). We believe that operationally, Siloam has greater cash flow and earnings visibility than LPKR, which helps ensure greater sustainability in rental income collection.

D. **Upside-sharing with Siloam.** We observe a positive correlation between First REIT's share price vis-à-vis Siloam (see right). The consensus has estimated robust FY23F/24F revenue growth for Siloam of +15%/11%, driven by a recovery in operations post-pandemic. With First REIT's rental income from Indonesian hospitals (operated by Siloam) pegged to 8% of the respective hospital's preceding GOR, we believe there could be potential upside in rental income in tandem with Siloam's stronger growth.

E. **Potential debt headroom of c.S$100m** (assuming a gearing ratio of 45%) based on our estimates as at FY23, which can be used for capital recycling and expansion activities.

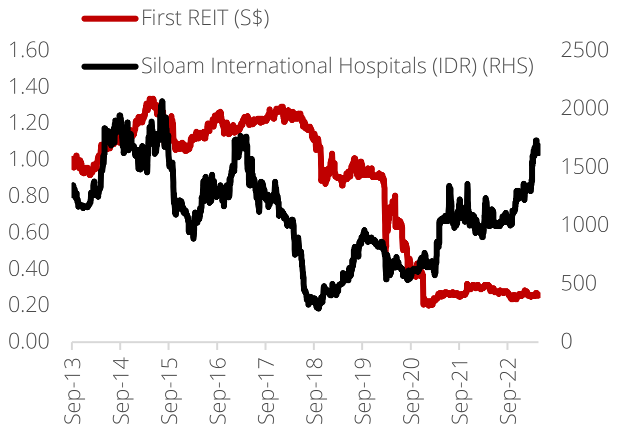
As at 1Q23, no refinancing requirements until May 2025, with a weighted average debt maturity of 3.1 years, 63% of debt being fixed/hedged, and cost of debt of 4.7%. Management has guided that First REIT is in the process of fixing the rest of its floating rate loans (i.e., 30% of debt, predominantly JPY-denominated loans).

Summary of First REIT's MLAs

	Rent escalations	Lease type
Indonesia	Higher of (i) base rent escalation of 4.5% or (ii) performance-based rent escalation of 8.0% of hospital's gross operating revenue (GOR) in the preceding year	Utility and repair costs managed by master lessees in triple net lease agreements
Japan	Annual rental may be revised every two to three years upon negotiation, depending on Japan's CPI and interest rates	Utility costs managed by master lessees in single and triple net lease agreements
Singapore	Fixed base rental with annual increment of 2%	Utility costs managed by master lessees in double and triple net lease agreements

Source: Company

Critical factor 1: First REIT's share price vis-à-vis Siloam International Hospitals' share price (correlation = +0.31)



Source: Refinitiv, DBS Bank

Weaker-than-expected IDR and JPY may lead to headwinds. Management has guided for some forex hedging (estimation of 50%-60% hedged) for IDR-denominated rental income. Whilst the minimum escalation of 4.5% for Indonesian hospitals can help to compensate unitholders for bearing IDR rate risks, we observe that First REIT's distributable income and share price may be adversely impacted during periods with a weaker-than-expected IDR rate, as illustrated by the negative correlation between First REIT's share price and the IDR/SGD rate (see right). We have also observed a similar trend between the JPY/SGD rate and First REIT's share price (see right). Whilst we have reflected the IDR/SGD and JPY/SGD depreciation in our estimates, we note that weaker-than-expected IDR and JPY forex rates could pose headwinds to our estimates.

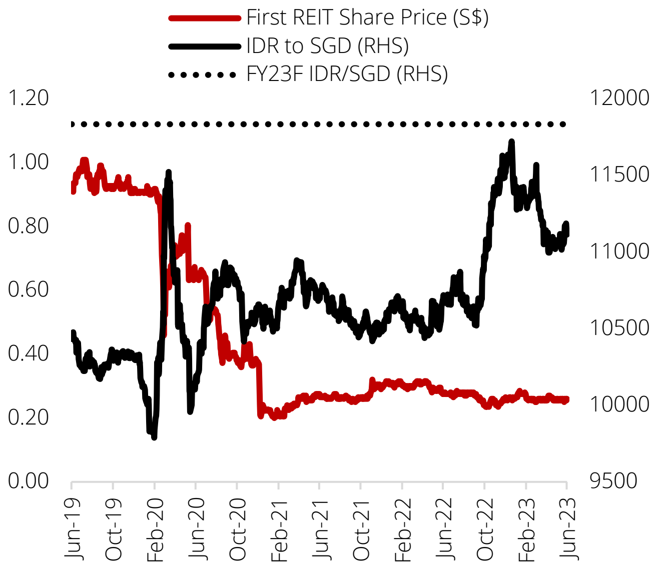
Concentration risks from LPKR and Indonesia remain, although an increasingly diversified tenant mix can help reduce such risks. As at FY22, LPKR contributes c.40% of First REIT's rental income. LPKR remains in a net debt position, with rising debt levels, as seen from its FY22/FY21 debt-to-equity ratio of 98%/71%, according to Refinitiv, which could lead to concerns surrounding the REIT's exposure to LPKR.

On a positive note, we note that since the MLA restructuring, First REIT was able to bring down its exposure to LPKR by adding Siloam as a party to the MLAs (tripartite MLAs), from c.88% (pre-restructuring) to the current <50%. Going forward, under the terms of the tripartite MLAs, from 1 Oct 2026, Siloam will pay 6.5% of the preceding year's GOR, leaving LPKR/MPU to pay 1.5% of the preceding year's GOR, which will help to further increase the contribution of rental income by Siloam. In a scenario where all hospitals in Indonesia pay performance-based rental income, this will result in Siloam being the predominant contributor to rental income collection, with >80%, as forecast by management.

Furthermore, as part of its 2.0 Growth Strategy, management targets to increase First REIT's presence in developed markets to >50% of AUM by FY27 (up from 27.9% in FY22), which can help reduce concentration risks from Indonesia. Going forward, we believe exposure risks from LPKR and Indonesia are likely to continue its downtrend.

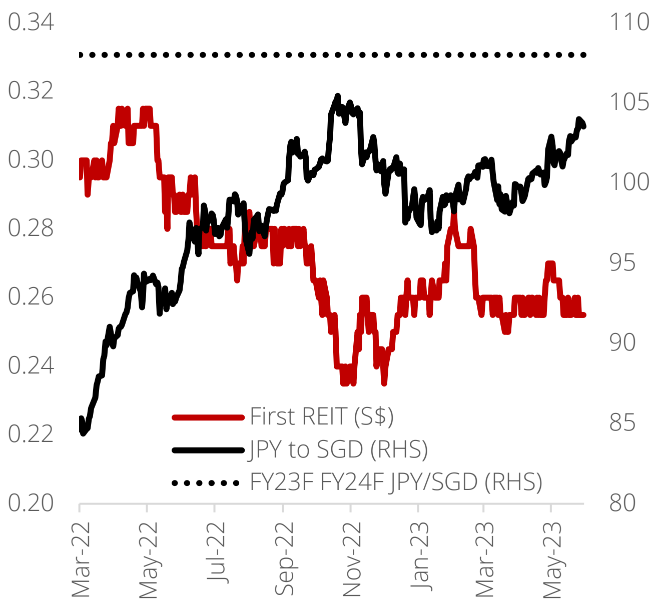
Overall, we think the worst is over with the MLA restructuring. Despite some of the key risks relating to forex and LPKR exposure remaining, we think the worst is now over, with a more sustainable rental income model in place, backed by First REIT's (i) long-term cash flow visibility, (ii) improving tenant mix profile with reduced concentration risks from LPKR, and (ii) upside-sharing with Siloam.

Critical factor 2: First REIT's share price vis-à-vis IDR/SGD exchange rate (correlation = -0.59)



Source: Refinitiv, DBS Bank

Critical factor 3: First REIT's share price vis-à-vis JPY/SGD exchange rate (correlation = -0.80)



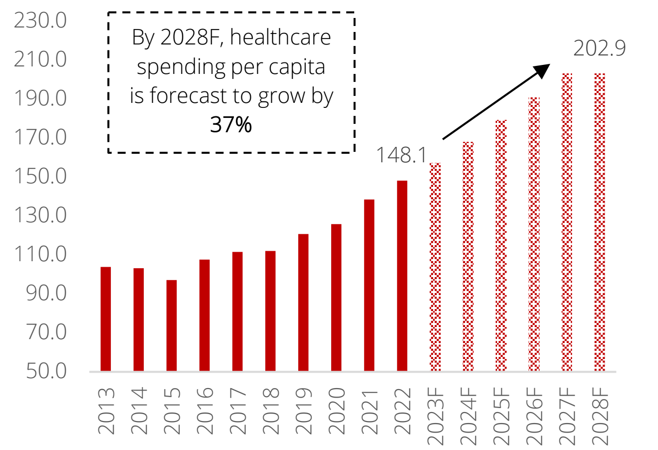
Source: Refinitiv, DBS Bank

Beneficiary to structural demographic trends

First REIT is a beneficiary to growing healthcare spending in Indonesia, which is forecast to grow by c.40% by 2028. In 2019, healthcare spending per capita (in current US$ terms) for Indonesia came in at US$121, which remains well below the global average levels of $1,160 per capita. Furthermore, the average number of hospital beds of 1.0 per 1,000 people is below Asia Pacific's average for high-income countries of 3.4 per 1,000 people. We believe the continued economic and population growth in Indonesia will help support future demand for healthcare services in the country, thereby potentially benefiting First REIT's Indonesia hospital assets.

Beneficiary to ageing population trends in Japan and Singapore. As at FY22, Japan and Singapore make up >25% of First REIT's AUM. In Japan and Singapore, the proportion of the elderly population (persons aged 65 or older) stands at 29.9% and 15.1%, respectively, which is higher than the world's average of 9.8%. By 2030, according to OECD's estimates, Japan's and Singapore's elderly population is expected to make up 31.4% and 22.8% of the total population, respectively, which will surpass the global average of 11.8% over the same period. In our view, we believe long-term, structural ageing population trends will serve as structural demand drivers for nursing homes, thereby benefiting First REIT.

Healthcare spending per capita in Indonesia



Source: Statista, World Bank, WHO, DBS Bank

All eyes on 2.0 Growth Strategy

All eyes on the execution of 2.0 Growth Strategy. First REIT unveiled its 2.0 Growth Strategy in Dec 2021 following its MLA restructuring in Jan 2021, with four key pillars, as follows:

A. **Diversify into developed markets** with the aim of reducing geographical and tenant concentration risk, i.e., it targets to reduce its Indonesia assets to <50% of its portfolio in the next three to five years.

B. **Reshape portfolio for capital-efficient growth** by recycling capital from non-core, non-healthcare assets.

C. **Strengthen capital structure to remain resilient** by diversifying funding sources and continuing to optimise its financial position.

D. **Continue to pivot to ride megatrends**, such as ESG, ageing population demographics, and growth drivers.

Watch for capital recycling activities. We observe a positive relationship between significant capital recycling activities vis-à-vis First REIT's share price (see right). Going forward, over the medium term, management has guided for the divestment of non-core assets, e.g., Imperial Aryaduta Hotel & Country Club (IAHCC), which is a non-core asset with its lease expiring in Dec 2023. Furthermore, over the medium to long term, management will lookout for possible further expansion, e.g., in Japan and Australia. We believe this can be taken as a positive signal of management's focus on delivering on its 2.0 Growth Strategy for its investors, which can act as a positive catalyst for First REIT's share price.

Critical factor 4: First REIT's share price (S$) vs. capital recycling activity

Date	Catalyst	Share price movement
8 Dec 2021	Announcement of 2.0 Growth Strategy	Negligible
1 March 2022	Acquisition of 12 nursing homes in Japan from sponsor	+29%
21 Sept 2022	Acquisition of 2 nursing homes in Japan from third party	Negligible

Source: Refinitiv, DBS Bank

Financials

Distribution policy. First REIT's dividend distribution policy is at least 90% of its taxable income. Historically, we see dividend payout ratios of 100%.

Management fee. Manager's management fee comprises (i) a base fee of 0.4% per annum of the value of First REIT's deposited property and (ii) performance fee of 5.0% per annum of First REIT's Net Property Income (NPI) or the NPI of relevant Special Purpose Companies (SPCs) for each year. 50% of management fees will be paid via the issuance of units.

Trustee fee. A trustee is entitled to an annual fee not exceeding 0.1% (FY21: 0.1%) of the value of the Deposited Property (as defined in the Trust Deed).

Key Assumptions

FY Dec	2020A	2021A	2022A	2023F	2024F	2025F
Siloam International Hospitals Revenue Growth (%)	1.17	32.1	2.14	15.0	11.0	9.00
Effective interest	(3.7)	(4.1)	(4.9)	(4.9)	(5.1)	(4.9)
IDR/SGD	n.a.	10,830	10,638	11,835	11,835	11,835
JPY/SGD	n.a.	78	98	108	108	108

Operator of Indonesian hospitals, based on consensus estimates

1Q23 at 4.7%

Segmental Breakdown

FY Dec	2020A	2021A	2022A	2023F	2024F	2025F
Revenues (S$m)						
Indonesia	75.1	96.6	94.4	85.7	90.2	94.8
Singapore	3.68	5.14	4.23	4.28	4.37	4.46
Japan/Others	0.81	0.57	12.7	16.5	16.5	16.5
Others						
Total	79.6	102	111	106	111	116
NPI (S$m)						
Indonesia	74.3	95.7	93.7	85.2	89.6	94.2
Singapore	3.35	4.69	3.77	3.82	3.90	3.98
Japan/Others	(0.1)	(0.1)	11.0	14.3	14.3	14.3
Others	0.0	0.0	0.0	(0.6)	(0.7)	(0.8)
Total	77.5	100	109	103	107	112
NPI Margins (%)						
Indonesia	98.8	99.0	99.3	99.3	99.3	99.3
Singapore	91.2	91.2	89.3	89.3	89.3	89.3
Japan/Others	(16.9)	(20.8)	87.1	87.1	87.1	87.1
Others	N/A	N/A	N/A	N/A	N/A	N/A
Total	97.3	97.9	97.6	96.5	96.5	96.5

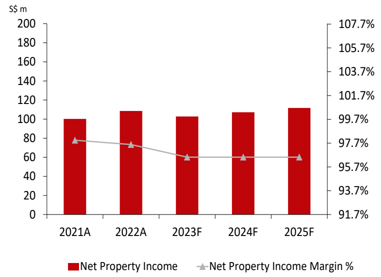
Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2020A	2021A	2022A	2023F	2024F	2025F
Gross revenue	79.6	102	111	106	111	116
Property expenses	(2.2)	(2.1)	(2.7)	(3.7)	(3.9)	(4.1)
Net Property Income	77.5	100	109	103	107	112
Other Opg expenses	(15.5)	(11.7)	(12.5)	(12.7)	(12.9)	(13.1)
Other Non Opg	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(16.4)	(16.9)	(19.2)	(21.8)	(22.6)	(21.7)
Exceptional Gain/(Loss)	(2.4)	8.67	(2.3)	0.0	0.0	0.0
Net Income	43.2	80.3	74.6	68.2	71.6	76.9
Tax	5.82	(12.7)	(18.4)	(16.8)	(17.6)	(18.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	(3.4)	(3.2)	(2.6)	(2.6)	(2.6)	(2.6)
Net Income After Tax	45.6	64.4	53.7	48.9	51.4	55.4
Total Return	(356)	59.9	31.0	48.9	51.4	55.4
Non-tax deductible	386	(21.1)	18.8	2.85	1.96	2.06
Net Inc available for	33.4	42.1	52.4	51.7	53.4	57.4
Growth & Ratio						
Revenue Gth (%)	(30.9)	28.5	8.7	(4.3)	4.3	4.2
N Property Inc Gth (%)	(31.4)	29.4	8.3	(5.3)	4.3	4.2
Net Inc Gth (%)	(10.9)	41.4	(16.7)	(9.0)	5.3	7.7
Dist. Payout Ratio (%)	100.0	100.1	100.1	100.0	100.0	100.0
Net Prop Inc Margins	97.3	97.9	97.6	96.5	96.5	96.5
Net Income Margins (%)	57.2	63.0	48.2	45.9	46.3	47.8
Dist to revenue (%)	42.0	41.1	47.0	48.6	48.1	49.6
Managers & Trustee's fees to sales %)	19.5	11.4	11.2	11.9	11.6	11.3
ROAE (%)	22.6	21.8	17.0	15.5	16.4	17.7
ROA (%)	9.1	12.3	9.0	8.1	8.5	9.1
ROCE (%)	13.3	15.8	13.5	12.9	13.6	14.3
Int. Cover (x)	3.8	5.2	5.0	4.1	4.2	4.5

Source: Company, DBS Bank

Net property income and margins

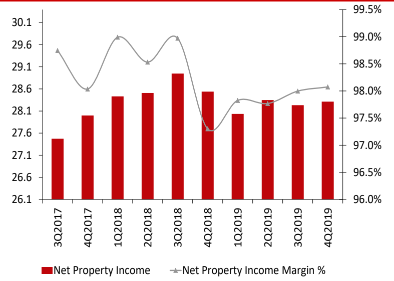


Interim Income Statement (S$m)

FY Dec	2020202	2H2020	1H2021	2H2021	1H2022	2H2022
Gross revenue	38.6	41.0	38.9	63.4	53.8	57.5
Property expenses	(1.1)	(1.1)	(1.3)	(0.8)	(1.1)	(1.7)
Net Property Income	37.5	39.9	37.6	62.6	52.7	55.8
Other Opng expenses	(6.5)	(9.1)	(5.4)	(6.3)	(6.2)	(6.3)
Other Non Opg	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(8.5)	(7.9)	(8.5)	(8.4)	(8.3)	(10.9)
Exceptional Gain/(Loss)	(3.7)	1.26	1.50	7.17	0.0	(2.3)
Net Income	18.9	24.2	25.3	55.1	38.2	36.4
Tax	(6.4)	12.3	(6.1)	(6.6)	(8.8)	(9.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	10.8	34.8	17.5	47.0	27.9	25.7
Total Return	10.8	(367)	17.5	42.4	18.2	12.8
Non-tax deductible	0.0	0.0	0.0	0.0	0.0	0.0
Net Inc available for	0.0	0.0	0.0	0.0	0.0	0.0
Growth & Ratio						
Revenue Gth (%)	N/A	6	(5)	63	(15)	7
N Property Inc Gth (%)	nm	6	(6)	66	(16)	6
Net Inc Gth (%)	nm	222	(50)	169	(41)	(8)
Net Prop Inc Margin (%)	97.2	97.4	96.6	98.7	98.0	97.1
Dist. Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, DBS Bank

Net property income and margins

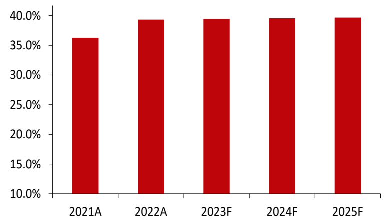


Balance Sheet (S$m)

FY Dec	2020A	2021A	2022A	2023F	2024F	2025F
Investment Properties	940	962	1,145	1,142	1,139	1,136
Other LT Assets	0.04	0.03	1.26	1.26	1.26	1.26
Cash & ST Invts	20.2	54.6	47.0	62.8	65.4	68.2
Inventory	0.0	0.0	0.0	0.0	0.0	0.0
Debtors	45.0	32.5	5.03	4.81	5.02	5.23
Other Current Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	1,005	1,050	1,199	1,211	1,210	1,210
ST Debt	195	99.3	1.45	1.45	1.45	1.45
Creditor	17.3	18.9	15.0	14.4	15.0	15.6
Other Current Liab	10.8	9.02	4.65	20.4	21.2	22.5
LT Debt	294	250	450	450	450	450
Other LT Liabilities	23.8	20.6	62.5	62.5	62.5	62.5
Unit holders' funds	464	652	665	663	661	659
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,005	1,050	1,199	1,211	1,210	1,210
Non-Cash Wkg. Capital	16.9	4.58	(14.6)	(29.9)	(31.2)	(32.9)
Net Cash/(Debt)	(469)	(295)	(404)	(388)	(386)	(383)
Ratio						
Current Ratio (x)	0.3	0.7	2.5	1.9	1.9	1.9
Quick Ratio (x)	0.3	0.7	2.5	1.9	1.9	1.9
Aggregate Leverage (%)	52.0	36.3	39.3	39.5	39.6	39.7

Source: Company, DBS Bank

Aggregate Leverage



Investment properties are mostly denominated in Indonesian rupiah and Japanese yen. During periods of IDR/JPY depreciation, asset valuation may be adversely impacted.

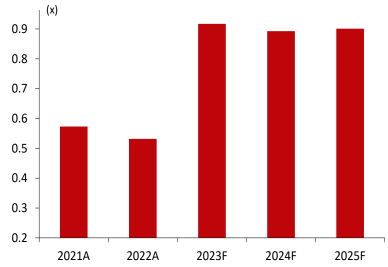
Debt is mostly denominated in Singaporean dollars.

Cash Flow Statement (S$m)

FY Dec	2020A	2021A	2022A	2023F	2024F	2025F
Pre-Tax Income	(358)	75.8	52.0	68.2	71.6	76.9
Dep. & Amort.	3.13	5.23	5.38	5.38	5.38	5.38
Tax Paid	(13.7)	(4.4)	(5.3)	(16.8)	(17.6)	(18.9)
Associates &JV	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(0.3)	(2.6)	19.1	(0.4)	0.41	0.42
Other Operating CF	419	(7.5)	22.0	0.0	0.0	0.0
Net Operating CF	50.4	66.6	93.1	56.4	59.8	63.7
Net Invt in Properties	0.0	(0.7)	(4.3)	(2.0)	(2.1)	(2.2)
Other Invts (net)	(0.4)	6.11	(31.1)	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(0.3)	43.2	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.45	0.12	0.25	0.0	0.0	0.0
Net Investing CF	1.02	5.24	8.12	(2.0)	(2.1)	(2.2)
Distribution Paid	(43.8)	(38.2)	(49.5)	(51.7)	(53.4)	(57.4)
Chg in Gross Debt	0.0	(141)	(2.3)	0.0	0.0	0.0
New units issued	0.0	158	0.0	0.0	0.0	0.0
Other Financing CF	(17.9)	(15.4)	(28.8)	0.0	0.0	0.0
Net Financing CF	(61.7)	(36.7)	(80.5)	(51.7)	(53.4)	(57.4)
Currency Adjustments	0.0	0.17	(3.7)	0.0	0.0	0.0
Chg in Cash	(10.3)	35.3	17.0	2.67	4.30	4.10

Source: Company, DBS Bank

Distribution Paid / Net Operating CF



Assume a payout ratio of 100%.

Company Background

First REIT (the trust) is Singapore's first healthcare REIT that focuses on investing in healthcare and healthcare-related real estate assets within and outside of Asia. As of 31 December 2022, the trust has a portfolio of 32 properties across Asia, with total assets under management (AUM) of S$1.15bn. These include 15 properties in Indonesia (72.1% of AUM) comprising 11 hospitals, two integrated hospitals & malls, an integrated hospital & hotel, and a hotel & country club; three nursing homes in Singapore (2.8%); and 14 nursing homes in Japan (25.1%). For a summary on individual assets, refer to page 28.

Manager. First REIT is managed by First REIT Management Limited (the manager), which is headquartered in Singapore. As at 31 Dec 2022, the manager holds an 8.91% stake in First REIT.

Sponsors. OUE Limited (OUE) and OUE Lippo Healthcare Limited (OUELH) (the OUE Group or the sponsor) acquired the manager in October 2018 and holds a combined stake of 44.22% in First REIT as of 31 December 2022. First REIT is the exclusive healthcare real estate investment trust of its sponsor, the OUE Group. First REIT has the right-of-first-refusal (ROFR) from OUELH and opportunities to tap into its growing healthcare network across Pan-Asia. We have seen support from First REIT's sponsors thus far. In relation to First REIT's recapitalisation exercise in 2020, its sponsors have provided irrevocable undertakings in respect of a S$158m rights issue. Furthermore, First REIT was able to leverage on the Sponsor Group's network for S$260m in debt refinancing. In FY22, First REIT was also able to acquire 12 Japan nursing homes from OUELH.

Separately, First REIT also has a ROFR to a pipeline of hospitals from PT Lippo Karawaci Tbk (Lippo Karawaci or LPKR), which is First REIT's previous sponsor before OUE Group. LPKR is also a majority shareholder of Siloam International Hospitals (Siloam), which is the operator of First REIT's hospitals.

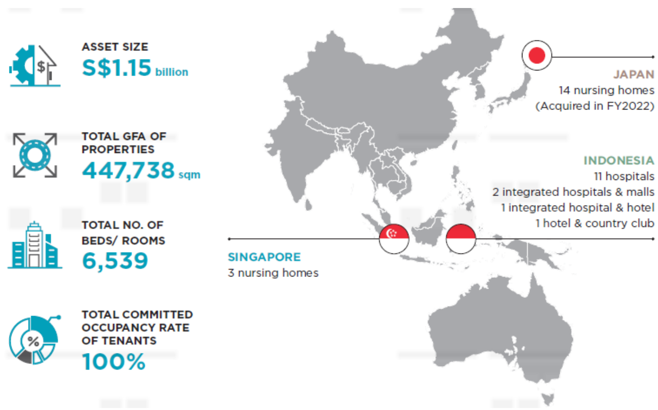
Operators and tenant mix. In terms of the percentage of exposure of FY22 rental income, the largest tenants include (i) LPKR at c.40%, (ii) Siloam at c.36%, and (iii) PT Metropolis Propertindo Utama and its subsidiaries (MPU) at c.6%. Apart from LPKR and Siloam, the rest of the tenants are third parties. With the restructuring of MLAs in 2021, First REIT added Siloam or a subsidiary of Siloam to each of its MLAs with LPKR/MPU (tripartite MLAs), which enables First REIT to receive direct payment of part of the rental amounts from Siloam or a subsidiary of Siloam.

Sponsor information

Sponsors	Background
OUE Limited (OUE)	A leading Pan-Asian, full-service real estate development, investment, and management company with assets across the commercial, hospitality, retail, residential, and healthcare sectors. As of Dec 2022, OUE's total assets were valued at S$9.5bn.
OUE Lippo Healthcare Limited (OUELH)	A Pan-Asian healthcare group that owns, operates, and invests in quality healthcare businesses in high-growth Asian markets including three major cities in China, in Singapore through medical partnerships with specialists, and in Myanmar through a joint venture. Itochu Corporation, listed on the Tokyo Stock Exchange, holds close to a 20% stake in OUELH.

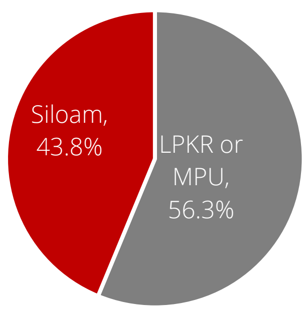
Source: Company

First REIT's asset summary



Source: Company

FY22 rental contribution from Indonesia (%)



Note: Siloam = Siloam International Hospitals, LPKR = Lippo Karawaci, MPU = PT Metropolis Propertindo Utama and its subsidiaries. Source: Company

The trust's healthcare properties in Indonesia are operated by Siloam, a subsidiary of LPKR. Siloam is a strong brand name in the Indonesian healthcare industry as one of the largest private hospitals. On the other hand, the Imperial Aryaduta Hotel & Country Club (IAHCC) and Hotel Aryaduta Manado are operated by the Aryaduta Hotel and Resort Group. The Lippo Plaza Kupang and Lippo Plaza Buton are managed by PT Lippo Malls Indonesia.

The healthcare properties in Singapore and Japan are operated by well-established third-party operators. Singapore's nursing homes at Bukit Merah and Bukit Panjang are operated by Pacific Healthcare Nursing Home Pte Ltd and Pacific Eldercare and Nursing Pte Ltd, respectively. The Lentor Residence is operated by The Lentor Residence Pte Ltd. Separately, the healthcare properties in Japan are operated by Hikari Heights Varus Co. Ltd, Safety Life Co Ltd, Orchard Care co Ltd, Benesse Style Care Co Ltd, and Social Welfare Research Institute Co Ltd. See table below for more information on operators/tenants.

Tenant information

Tenants	% FY22 rental income	Background
Indonesia		
PT Lippo Karawaci Tbk and subsidiaries (LPKR) (excluding Siloam)*	39.8%	Largest listed integrated property company in Indonesia by total assets and revenue, with core businesses in urban residential developments, lifestyle malls, and healthcare (via Siloam). LPKR is affiliated with the Lippo Group, a conglomerate with interests in property, hospitality, healthcare, multimedia, finance, education, retail, and hypermarkets.
PT Siloam International Hospitals Tbk and subsidiaries (Siloam)*	35.7%	Largest private hospital operator and network in Indonesia with 14 hospitals and total capacity of more than 3,500 beds across the country. Siloam is a subsidiary of LPKR.
PT Metropolis Propertindo Utama and subsidiaries (MPU)	6.1%	Indonesia-based private commercial property developer.
Japan		
Hikari Heights Varus Co Ltd	9.7%	Operates seven of the nursing homes located in Sapporo, with an operating track record of >34 years. Listed on the Sapporo Stock Exchange with 320 employees and is the second-largest operator in Sapporo with nine facilities.
Safety Life Co Ltd	2.2%	Operates two of the nursing homes in Nara with an operating track record of >21 years.
Orchard Care Co Ltd	1.6%	Operates three of the nursing homes, two located in Nagano and another in Kyoto, with an operating track record of more than seven years.
Benesse Style Care Co Ltd	0.2%	Leading nursing home operator in Japan with a well-established 19-year track record, and currently operates more than 340 eldercare facilities.
Social Welfare Research Institute Co Ltd	0.1%	Is progressively building a track record across all types of nursing care homes since 2007.
Singapore		
The Lentor Residence	2.0%	A five-storey custom-built nursing home with 208 beds featuring comprehensive medical facilities such as an in-house clinic, 24-hour nursing care, and a nursing-call system. The Lentor Residence was established in 1999, with a new extension building built in 2013.
Pacific Healthcare Nursing Home Pte Ltd (Bukit Merah)	1.3%	A four-storey custom-built nursing home with 259 beds, a basement carpark, and a roof terrace, located close to the Redhill MRT Station, as well as the city centre. Established in 2004.
Pacific Eldercare and Nursing Pte Ltd (Bukit Panjang)	1.3%	A five-storey custom-built nursing home with 265 beds and 33 carpark lots, situated close to Bukit Panjang Town Centre, Bukit Panjang MRT Station, and Senja LRT Station. Established in 2006.
Total	100%	

*Note: *Except for LPKR and Siloam, other tenants are third-party tenants. Source: Company*

Lease structure. In Jan 2021, First REIT restructured its master lease agreement (MLA) for its Indonesian hospitals (excluding Lippo Cikarang, the lease of which is set to expire in Dec 2025), which will be pegged to the higher of (i) an annual fixed base rent escalation of 4.5% or (ii) 8% of the hospital's gross operating revenue (GOR) in the preceding financial year. Furthermore, rent paid will be denominated in IDR.

Singapore nursing home properties have a fixed base rental and a fixed annual increment of 2%. For most of its Japan properties, the annual rent shall be a fixed amount, with possible revision every two to three years (or five years for two assets) upon negotiation based on the increase in Japan's Consumer Price Index (CPI) and interest rates.

Most of First REIT's properties are on triple net lease terms, where master lessees bear all operating costs relating to the properties including maintenance, insurance, and certain taxes. See the summary on First REIT's MLAs below.

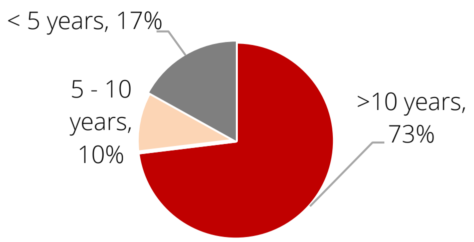
Summary of First REIT's MLAs

	Rent escalations	Lease type
Indonesia	Higher of (i) base rent escalation of 4.5% or (ii) performance-based rent escalation of 8.0% based on hospital's gross operating revenue (GOR) in the preceding year.	Utility and repair cost managed by master lessees in triple net lease agreements.
Japan	Annual rentals may be revised every two to three years upon negotiation, depending on Japan's CPI and interest rates.	Utility costs managed by master lessees in single and triple net lease agreements.
Singapore	Fixed base rental with annual increment of 2%.	Utility cost managed by master lessees in double and triple net lease agreements.

Source: Company

Lease expiry. As at 1Q23, First REIT has a long WALE of 12.2 years, which is predominantly made up of leases with >10 years till expiry (see below). Imperial Aryaduta Hotel & Country Club (IAHCC), a non-core asset, is soon to see its lease expire in end-2023, where management has guided for a potential divestment (see more on right).

WALE profile (% of gross floor area) (as at 1Q23)



Source: Company

Leases expiring within 5 years

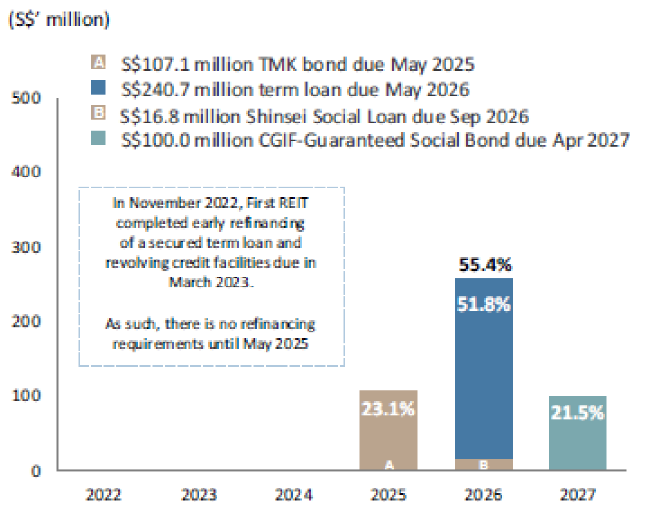
Property	Expiry
Imperial Aryaduta Hotel & Country Club (IAHCC)	Dec 2023
Siloam Hospitals Lippo Cikarang	Dec 2025
Pacific Healthcare Nursing Home @ Bukit Merah	Apr 2027
Pacific Healthcare Nursing Home II @ Bukit Panjang	Apr 2027
Medical and Rehabilitation Home Bon Sejour Komaki	May 2027
The Lentor Residence	Jun 2027
Hotel Aryaduta Manado	Nov 2027

Source: Company

As at 1Q23, no refinancing requirements until May 2025, with a weighted average debt maturity of 3.1 years. First REIT has 63% of debt under fixed rates/hedged (with floating rate debt mostly denominated in JPY), with cost of debt of 4.7%. Management has guided that debt is predominantly made up of SGD-denominated debt, with JPY-denominated debt as well.

As at 1Q23, its gearing ratio is at 39.0% (versus 38.5% in 4Q22).

Debt maturity profile (as at 1Q23)



Source: Company

Indonesia assets

1. Siloam Hospitals Yogyakarta
2. Siloam Hospitals Buton & Lippo Plaza Buton
3. Siloam Hospitals Labuan Bajo
4. Siloam Hospitals Kupang & Lippo Plaza Kupang
5. Siloam Sriwijaya
6. Siloam Hospitals Purwakarta
7. Siloam Hospitals Bali
8. Siloam Hospitals TB Simatupang
9. Siloam Hospitals Manado & Hotel Aryaduta Manado
10. Siloam Hospitals Makassar
11. Mochtar Riady Comprehensive Cancer Centre
12. Siloam Hospitals Lippo Cikarang
13. Siloam Hospitals Lippo Village
14. Siloam Hospitals Kebon Jeruk
15. Imperial Aryaduta Hotel & Country Club

Notes: (1) Based on appraised value as at 31 Dec 2022. Source: Company

Indonesia assets (continued...)

<table>
<tr><th>Asset</th><th>Type</th><th>Land area (sqm)</th><th>Gross floor area (sqm)</th><th>Beds</th><th>Tenant</th><th>Lease (years)</th><th>Lease expiry date</th><th>MLA rental escalation</th><th>FY22 rental income (S$m)</th></tr>
<tr><td>Siloam Hospitals Yogyakarta</td><td rowspan="11">Hospital</td><td>13,715</td><td>12,474</td><td>249</td><td rowspan="8">Siloam, LPKR</td><td rowspan="14">15 + 15</td><td rowspan="11">31 Dec 35</td><td rowspan="10">Annual base escalation of 4.5% or 8% of gross operating revenue (GOR) in preceding FY. Denominated in IDR</td><td>2.3</td></tr>
<tr><td>Siloam Hospitals Labuan Bajo</td><td>2,837</td><td>7,604</td><td>124</td><td>1.3</td></tr>
<tr><td>Siloam Hospitals Bali
Siloam Sriwijaya</td><td>9,025</td><td>20,958</td><td>281</td><td>7.1</td></tr>
<tr><td>Siloam Hospitals TB Simatupang</td><td>2,489</td><td>18,605</td><td>269</td><td>4.8</td></tr>
<tr><td>Siloam Hospitals Makassar</td><td>3,963</td><td>14,307</td><td>362</td><td>7.5</td></tr>
<tr><td>Siloam Hospitals Lippo Village</td><td>17,442</td><td>326,966</td><td>308</td><td>18.5</td></tr>
<tr><td>Siloam Hospitals Kebon Jeruk</td><td>11,420</td><td>20,268</td><td>285</td><td>7.3</td></tr>
<tr><td>Mochtar Riady Comprehensive Cancer Centre</td><td>4,145</td><td>37,933</td><td>334</td><td>14.2</td></tr>
<tr><td>Siloam Hospitals Purwakarta</td><td>7,990</td><td>8,254</td><td>235</td><td rowspan="2">Siloam, MPU</td><td>2.8</td></tr>
<tr><td>Siloam Sriwijaya</td><td>N/A</td><td>15,709</td><td>357</td><td>3.1</td></tr>
<tr><td>Siloam Hospitals Lippo Cikarang</td><td>9,900</td><td>13,256</td><td>164</td><td>Siloam</td><td>Old MLA</td><td>4.2</td></tr>
<tr><td>Siloam Hospitals Buton (SHBN) & Lippo Plaza Buton (LPB)</td><td rowspan="2">Integrated hospital & mall</td><td>21,874</td><td>21,934</td><td>140</td><td>SHBN: Siloam, LPKR

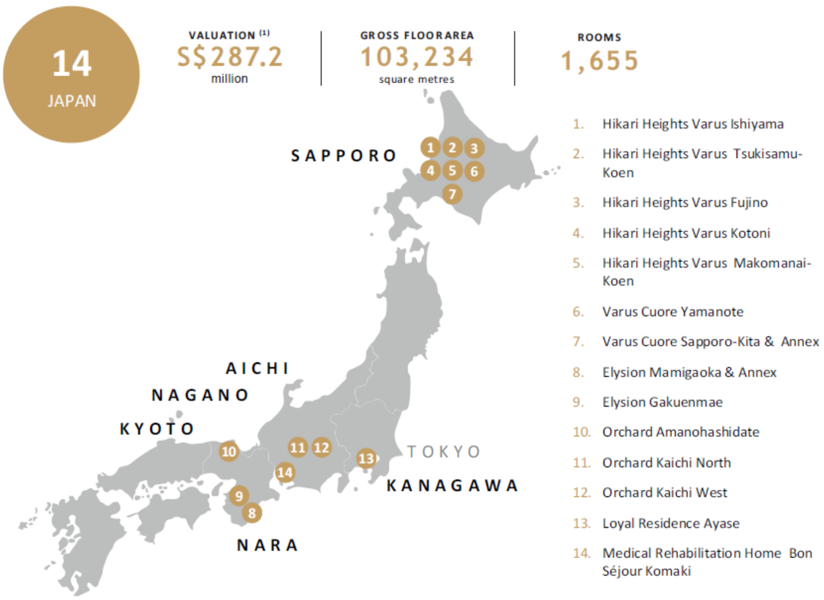
LPB: LPKR</td><td>SHBN: 31 Dec 2035, LPB: 9 Oct 2032</td><td rowspan="4">Annual base escalation of 4.5% or 8% of gross operating revenue (GOR) in preceding FY. Denominated in IDR</td><td>2.8</td></tr>
<tr><td>Siloam Hospitals Kupang (SHKP) & Lippo Plaza Kupang (LPK)</td><td>66,060</td><td>55,368</td><td>416</td><td>SHKP: Siloam, MPU

LPK: LPKR</td><td>SHKP: 31 Dec 2025, LPK: 13 Dec 2030</td><td>6</td></tr>
<tr><td>Siloam Hospitals Manado (SHMD) & Hotel Aryaduta Manado (HAMD)</td><td>Integrated hospital & hotel</td><td>5,518</td><td>36,051</td><td>238</td><td>SHMD: Siloam, LPKR

HAMD: LPKR</td><td>SHMD: 31 Dec 2035, HAMD: 29 Nov 2027</td><td>7.8</td></tr>
<tr><td>Imperial Aryaduta Hotel & Country Club</td><td>Hotel & country club</td><td>54,410</td><td>17,926</td><td>191</td><td>LPKR</td><td><1</td><td>31 Dec 23</td><td>1.9</td></tr>
<tr><td>Total</td><td></td><td>230,788</td><td>627,613</td><td>3,953</td><td></td><td></td><td></td><td></td><td>91.6</td></tr>
</table>

Note: MPU refers to PT Metropolis Propertindo Utama. Source: Company, DBS Bank

Japan assets



<table>
<tr><th>Asset</th><th>Type</th><th>Land area (sqm)</th><th>Gross floor area (sqm)</th><th>Rooms</th><th>Tenant</th><th>Lease (years)</th><th>Lease expiry date</th><th>MLA rental escalation</th><th>FY22 rental income (S$m)</th></tr>
<tr><td>Hikari Heights Varus Ishiyama</td><td rowspan="14">Nursing home</td><td>4,413</td><td>8,747</td><td>117</td><td rowspan="7">Hikari Heights Varus Co Ltd</td><td rowspan="12">30 + 5</td><td rowspan="12">24 Apr 43</td><td rowspan="12">Fixed, possible revision in two to three years</td><td>0.6</td></tr>
<tr><td>Hikari Heights Varus Tsukisamu-Koen</td><td>2,249</td><td>4,362</td><td>58</td><td>0.4</td></tr>
<tr><td>Hikari Heights Varus Fujino</td><td>7,230</td><td>9,782</td><td>139</td><td>0.9</td></tr>
<tr><td>Hikari Heights Varus Kotoni</td><td>11,033</td><td>20,756</td><td>281</td><td>3.0</td></tr>
<tr><td>Hikari Heights Varus Makomanai-Koen</td><td>6,653</td><td>13,301</td><td>161</td><td>2.1</td></tr>
<tr><td>Varus Cuore Yamanote</td><td>1,668</td><td>2,808</td><td>59</td><td>0.5</td></tr>
<tr><td>Varus Cuore Sapporo-Kita & Annex</td><td>5,269</td><td>7,637</td><td>216</td><td>1.4</td></tr>
<tr><td>Elysion Gakuenmae</td><td>1,898</td><td>3,790</td><td>92</td><td rowspan="2">Safety Life Co Ltd</td><td>0.8</td></tr>
<tr><td>Elysion Mamigaoka & Annex</td><td>6,997</td><td>10,259</td><td>160</td><td>1.2</td></tr>
<tr><td>Orchard Amanohashidate</td><td>2,694</td><td>2,927</td><td>60</td><td rowspan="3">Orchard Care Co Ltd</td><td>0.5</td></tr>
<tr><td>Orchard Kaichi North</td><td>2,833</td><td>5,058</td><td>79</td><td>0.7</td></tr>
<tr><td>Orchard Kaichi West</td><td>797</td><td>1,561</td><td>29</td><td>0.3</td></tr>
<tr><td>Loyal Residence Ayase</td><td>2,803</td><td>3,387</td><td>80</td><td>Social Welfare Research Institute Co Ltd</td><td>30</td><td>30 Sep 43</td><td rowspan="2">Fixed, possible revision in five years</td><td>0.2</td></tr>
<tr><td>Medical Rehabilitation Home Bon Séjour Komaki</td><td>8,230</td><td>8,858</td><td>124</td><td>Benesse Style Care Co Ltd</td><td>20 + 5</td><td>21 May 27</td><td>0.2</td></tr>
<tr><td>Total</td><td></td><td>64,767</td><td>103,233</td><td>1,655</td><td></td><td></td><td></td><td></td><td>12.8</td></tr>
</table>

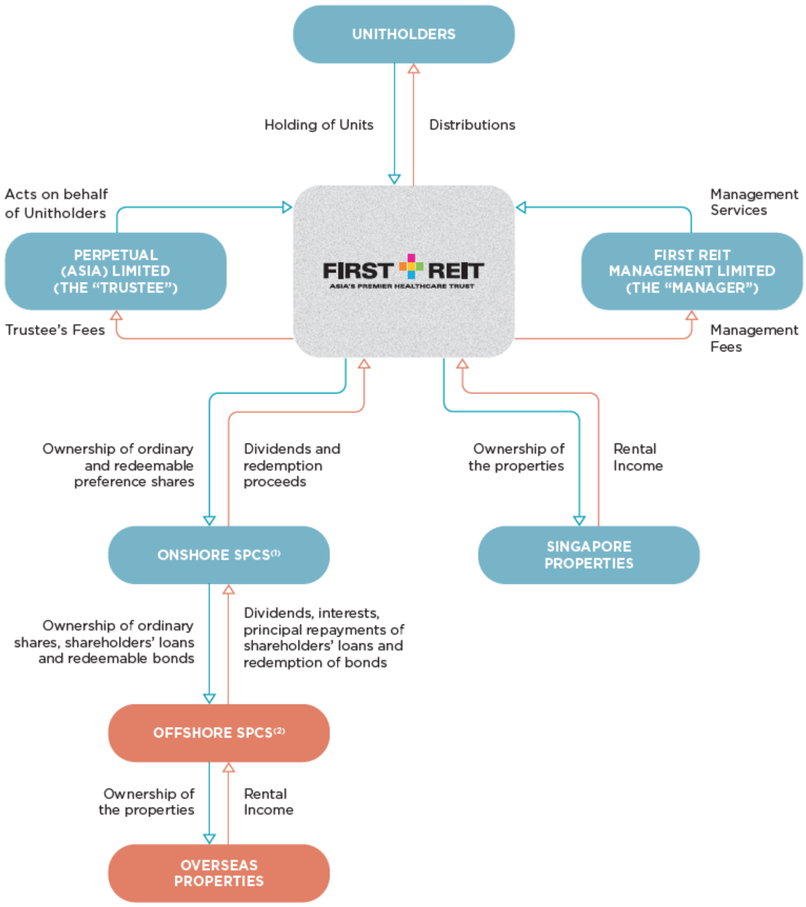
Source: Company, DBS Bank

Singapore assets

Asset	Type	Land area (sqm)	Gross floor area (sqm)	Beds	Tenant	Lease (years)	Lease expiry date	MLA rental escalation	FY22 rental income (S$m)
Pacific Healthcare Nursing Home @ Bukit Merah	Nursing home	1,984	3,593	259	Pacific Healthcare Nursing Home	10	10 Apr 27	2% annually	1.2
Pacific Healthcare Nursing Home II @ Bukit Panjang		2,000	3,563	265	Pacific Eldercare and Nursing Pte Ltd				1.2
The Lentor Residence		2,486	4,005	208	The Lentor Residence	10 + 10	07 Jun 27		1.8
Total		6,470	11,161	732					4.2

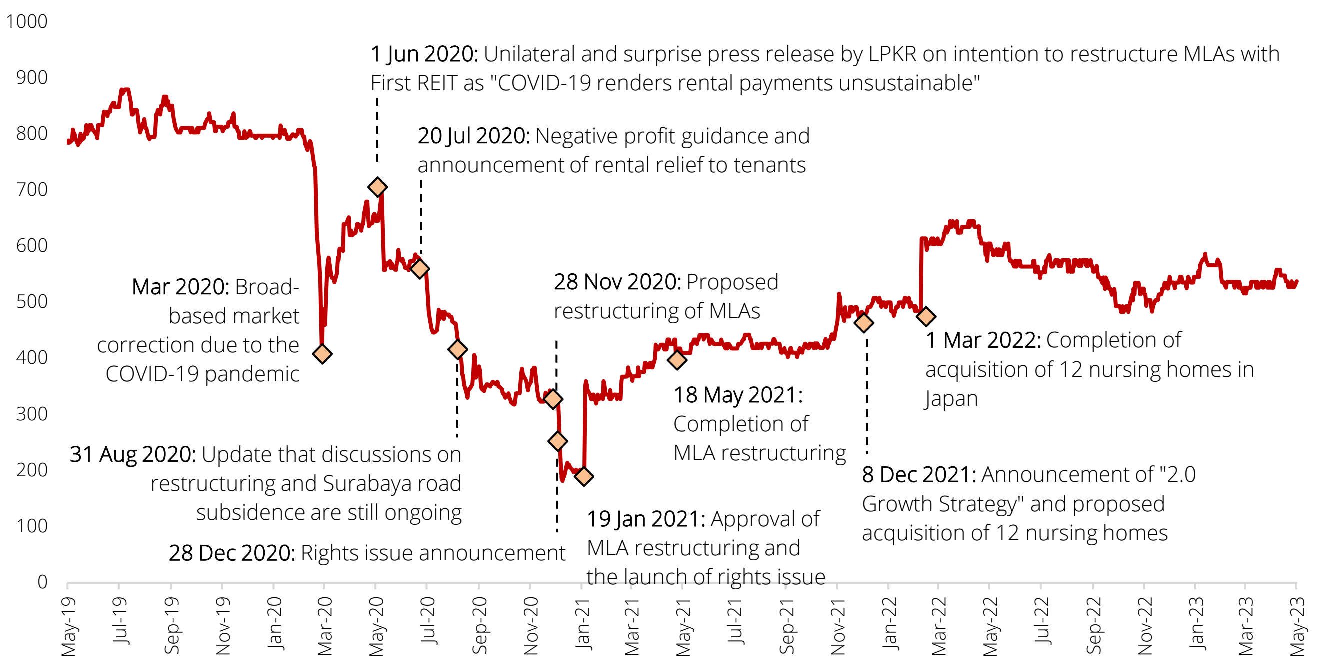
Source: Company, DBS Bank

First REIT's trust structure



Source: Company

First REIT's market value & major share price events



Note: MLA refers to master lease agreements. LPKR refers to Lippo Karawaci. Source: Company

Company history. First REIT began with four assets, which were acquired from LPKR, First REIT's previous sponsor prior to 2018. Since its IPO, First REIT has grown through the years by acquiring new property assets, mostly from LPKR/LPKR-related entities. In Oct 2018, OUE Limited (OUE) and its subsidiary OUE Lippo Healthcare Limited (OUELH) (both known as the OUE Group) acquired a 60% and 40% stake, respectively, in First REIT's manager from LPKR, with which the OUE Group then became First REIT's new sponsor. Whilst OUE is a separate listed entity from LPKR, OUE is affiliated with the Lippo Group, with Riady family[2] members sitting on the boards of directors of both companies.

Major corporate developments in recent years. Since 2020, First REIT has undergone major events, with key negative share price events earmarked by (i) default and liquidity risks from its key tenant LPKR and (ii) default risk related to First REIT's debt covenant which led to a recapitalisation exercise, i.e., rights issue. Following that, positive events such as (i) MLA restructuring, (ii) the onset of First REIT's 2.0 Growth Strategy, and (iii) acquisition of nursing homes in Japan have helped with the recovery in First REIT's share price.

(i) What happened?

LPKR default risk due to the COVID-19 pandemic. On 1 June 2020, LPKR unilaterally announced its intention to restructure the MLAs for all its 11 hospitals that First REIT leased to either LPKR or LPKR and certain subsidiaries of Siloam International Hospitals (Siloam). Following this news release, First REIT's share price fell by c.20%. The background that drove the LPKR MLA restructuring is as follows:

A. The COVID-19 pandemic led to a high risk of default and liquidity pressure from LPKR, due to significant recurring expenses, weak operating cash flows, and the inability to divest its assets. LPKR accounted for >70% of First REIT's rental income. Separately, Siloam, which is a separate listing entity from LPKR, and the operator of LPKR hospitals and MPU hospitals, was severely impacted due to the COVID-19 pandemic.

B. The currency weakness of the IDR against the SGD, where the IDR depreciated by c.45% since the IPO of First REIT, which adds further pressure on LPKR, as rent payments have to be made in SGD.

[2] Mochtar Riady, a Chinese Indonesian financial magnate in Southeast Asia, founded the Lippo Group and is the current Chairman of Lippo Group. His son James Riady serves as the Deputy Chairman of Lippo Group, while his other son, Dr. Stephen Riady, is the Executive Chairman of OUE.

C. Impending expiry of First REIT's IPO LPKR master leases that were due to expire in Dec 2021.

Impending debt maturity and lease expiry. First REIT had S$196.6m (c.49% of total debt) due on 1 March 2021 and S$395.7m (80.2% of total debt) due within the next 18 months. Regarding First REIT's capital structure, lenders also expressed significant concerns over the sustainability of the REIT's structure in light of LPKR's financial circumstances at the time. Further, the initial term of MLAs in respect of Siloam Hospitals Surabaya, Kebon Jeruk, and Lippo Village were set to expire in Dec 2021.

(ii) What changed?

MLA restructuring to rebase First REIT's rental income. On 28 Nov 2020, First REIT announced a proposed restructuring of its master leases for 14 of its Indonesian hospitals (the restructuring). Post the restructuring, the terma of all MLAs are extended to 31 December 2035, with an option to extend for another 15-year term by mutual agreement. As a result of the restructuring, weighted average lease expiry (WALE) for First REIT has been extended from 7.4 years (before MLA restructuring) to 12.6 years (post restructuring).

Post restructuring, the rental income received from master leases is in IDR. To mitigate the currency volatility that will be incurred by First REIT's unitholders, there is a higher fixed annual escalation of 4.5% (as compared to the previous 2% under the old MLA). Further, the new MLA also constitutes a variable component that is pegged to hospitals' gross operating revenue (GOR). Overall, the rent that tenants/hospitals will pay will be the higher of (i) the fixed base rent with a 4.5% annual rental escalation or (ii) 8% of the preceding year's GOR. Finally, the security deposit under the restructured MLA will be increased from six months to eight months.

See the summary of the key differences between the old versus the new MLA below.

Revised MLA

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

Notes: (1) Under the previous MLA, Siloam Hospitals Manado and Hotel Aryaduta Manado were 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 paid a commencement base rent of S$3.307m as at 1 January 2021 based on the terms of the supplemental MLA in respect of Hotel Aryaduta Manado. The base rent of Siloam Hospitals Manado is a derived number, by subtracting S$3.307m 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, and The Lentor Residence. (3) On 1 January 2021, the Singapore dollar-denominated rents for each hospital were converted to Indonesian rupiah at an exchange rate of S$1.00 to Rp10,830. Source: Company

Revised performance-based rent structure

Assets	Current Variable Rent Structure	Revised Performance Based Rent Structure
4 LPKR Hospital Assets (Mochtar Riady Comprehensive Cancer Centre, Siloam Hospitals Lippo Village, Siloam Hospitals Kebon Jeruk, Siloam Hospitals Surabaya)	• 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	• **8.0%** of the GOR for the preceding financial year
Remaining 10 LPKR and MPU Hospital Assets	• 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	

(1) Represents LPKR Hospitals and Aryaduta Manado.
(2) Represents MPU Hospitals.

Source: Company

Reducing concentration risks from LPKR via tripartite MLAs, with First REIT collecting rents from Siloam directly. Most importantly, Siloam, the operator of First REIT's hospitals in Indonesia, is added as a party to each of the LPKR MLAs. In the case of MPU MPAs, a subsidiary of Siloam or Siloam has been added as a party to each MPU MLA. The key purpose of this is to enable the direct collection of rents from Siloam to the relevant master lessor, i.e., LPKR/MPU. This helps reduce concentration risks and reliance on LPKR as the main rental income contributor, as seen from the reduction in rental income exposure to LPKR/MPU post restructuring (see right).

Going forward, under the terms of the tripartite MLAs, from 1 Oct 2026, Siloam will pay 6.5% of the preceding year's GOR, leaving LPKR/MPU to pay 1.5% of the preceding year's GOR, which will help to further increase the contribution of rental income by Siloam. In a scenario where all hospitals in Indonesia pay performance-based rental income, this will result in Siloam being the predominant contributor of rental income (see right), as forecast by management.

Indonesia rental contribution (%) before and post restructuring (FY19)

	Before	Post restructuring
LPKR	88.4%	49.9%
MPU	10.2%	3.5%
Siloam	1.5%	46.6%

Source: Company

Indonesia direct rental contribution (%) (FY22 and forecast)

	FY22	Forecasted
LPKR or MPU	56.3%	18.7%
Siloam	43.8%	81.3%

Note: Forecast numbers assume that all hospitals are paying performance-based rental income. Source: Company

Refinancing and recapitalising of balance sheet via a rights issue. In relation to First REIT's impending debt expiry with respect to its S$400m in loan facilities secured in 2018, whilst First REIT was able to get a new term facility of up to S$260m, lenders required First REIT to pay the difference between S$400m and S$260m, i.e., S$140m. A rights issue was a conditional requirement under the refinancing facility to repay the S$140m. Although, the viability of the rights issue was dependent on the manager being able to provide certainty in respect of the valuations and cash flows of First REIT's assets through the proposed LPKR MLA restructuring, which implies that the LPKR MLA restructuring was necessary to enable the manager to proceed with the rights issue.

In Feb 2021, First REIT concluded a recapitalisation exercise and raised equity of S$158.2m, which was equivalent to 98% of the rights issue as at Dec 2020, at an indicative price of S$0.20 per rights issue. In Mar 2021, First REIT used approximately c.S$140m to repay part of the loan facilities secured in 2018. The rights issue was used to complete the refinancing exercise and avoid a default of the bank loan, as well as the payment of master lease restructuring costs and for working capital purposes.

Following the recapitalisation exercise, First REIT's FY20 leverage ratio was brought down from 49.0% to 34.6%, on a pro forma basis.

First REIT's view. First REIT is of the view that the proposed restructuring is favourable for investors for the following reasons:

A. Sustainable path for First REIT and avoids the adverse consequences of a default by LPKR under the existing LPKR MLAs.

B. Extends First REIT's WALE to reposition First REIT for future growth.

C. Avoids an imminent default of repayment of obligations due and facilitates having in place a sustainable capital structure.

D. Preserves long-term value for unitholders.

Refer to our investment thesis on page 11 for more elaboration on our views related to First REIT's restructured MLAs.

(iii) What now?

Unveiling First REIT's 2.0 Growth Strategy. In Dec 2021, in line with its vision to become Asia's premier healthcare trust, First REIT identified four key pillars as part of its 2.0 Growth Strategy, as follows:

A. **Diversify into developed markets**, which aims to reduce geographical and tenant concentration risk, i.e., targets to reduce Indonesia assets to <50% of its portfolio in three to five years.

B. **Reshape portfolio for capital-efficient growth** by recycling capital from non-core, non-healthcare assets.

C. **Strengthen capital structure to remain resilient** by diversifying funding sources and continuing to optimise its financial position.

D. **Continue to pivot to ride megatrends**, such as ESG, ageing population demographics, and growth drivers,

Japan nursing home acquisition is First REIT's first milestone in executing its 2.0 Growth Strategy. Its Japan portfolio comprises 14 nursing homes located across Japan in Hokkaido, Nagano, Nara, and Kyoto (Japan nursing homes), with total gross floor area of 103,234 square metres and 1,655 rooms. In FY22, First REIT acquired its nursing homes for an acquisition cost of S$163m (for 12 nursing homes from its sponsor) and S$26m (for two nursing homes from third parties). The former was financed through a combination of (i) the issuance of new units in First REIT to OLH Healthcare Investments Pte Ltd (a wholly owned subsidiary of OUELH), (ii) internal cash, and (iii) net-off against obligation on OUELH's end. The latter was paid in cash.

The nursing homes are professionally operated by local Japanese operators that provide daily services, medical consultation services, leisure and entertainment programmes, as well as nursing care. Under the terms of the MLAs, the annual rent shall be a fixed amount, with possible revision every two to three years (or five years for two assets) upon negotiation based on the increase in Japan's Consumer Price Index (CPI) and interest rates.

The rationale for the acquisition includes: (i) Strategic entry into the Japan nursing home market characterised by robust market fundamentals, with (ii) strong demand drivers and (iii) highly defensive attributes, as evidenced from the COVID-19 pandemic. Furthermore, this acquisition helps to improve First REIT's portfolio diversification and risk profile, by increasing the diversification of its tenant profile and increasing the proportion of exposure to developed markets.

All eyes on 2.0 Growth Strategy. Over the medium and long term, we watch for the potential divestment of non-core assets, such as Imperial Aryaduta Hotel & Country Club (IAHCC), and acquisition activities into developed markets, e.g., Australia and Japan.

Corporate milestone summary

Year	Milestone
2006	Listed on the SGX with four Indonesian properties acquired from LT Lippo Karawaci, First REIT's first sponsor.
2017	Retirement of Dr. Ronnie Tan Keh Poo as chief executive officer (CEO) after 11 years and the redesignation of Victor Tan Kok Mian as the new CEO.
2018	OUE and OUELH (the OUE Group) announced the proposed acquisition of 100% shareholding in the REIT manager, making OUE Group the new sponsor of First REIT.
2020	Served termination notice on the termination of development work of Siloam Hospitals Surabaya due to road subsidence issue.
2021	Announced rights issue with equity of S$158.2m raised, restructuring of master lease agreements (MLAs) of Indonesian hospitals, and exited Sarang hospital in South Korea.
2022	Announced 2.0 Growth Strategy, marked by the completion of 14 nursing homes (12 nursing homes acquired from OUE Group, sponsor). The acquisition represented First REIT's entry into Japan.

Source: Company

Management & Strategy

2.0 Growth Strategy. Management has outlined four key pillars: (i) Diversify into developed markets, (ii) reshape portfolio for capital-efficient growth, (iii) strengthen capital structure to remain resilient, and (iv) pivot to megatrends.

Diversify into developed markets. First REIT aims to reduce geographical and tenant concentration risk, with a target to increase its presence in developed markets to >50% of AUM by FY27 (up from 27.9% in FY22). First REIT has executed the first step of its 2.0 Growth Strategy in FY22 via the acquisition of 14 nursing homes in Japan.

Reshape portfolio for capital-efficient growth. First REIT aims to recycle capital from non-core, non-healthcare, or mature assets. In June 2022, First REIT received S$30.6m for the proposed settlement in respect of the terminated development work adjacent to Siloam Hospitals Surabaya, whilst in Sept 2022, First REIT completed the divestment of Siloam Hospitals Surabaya for S$40.3m. Going forward, management has identified Imperial Aryaduta and Country Club (IAHCC) as a non-core asset, which is currently being marketed for divestment.

Strengthen capital structure to remain resilient. Diversify funding sources and continue to optimise financial position.

Pivot to megatrends. Environmental, social, and governance; ageing population demographics; and other growth drivers.

Key management team

Position	Background
Tan Kok Mian Victor – executive director and chief executive officer	Has more than 25 years of experience in the healthcare industry. Has full executive responsibilities over the business direction and operational decisions concerning the management of First REIT.
Ng Chwee Ngor, Valerie – chief financial officer (CFO)	Has more than 20 years of experience in financial matters. Oversees all matters relating to financial reporting, taxation, capital management, treasury, and risk management.
Chan Seng Leong, Jacky – senior vice president, asset & investment management	Has extensive real estate and property experience in cities where First REIT has invested, Hong Kong, as well as the People's Republic of China. Leads the manager's asset & investment management team.
Koji Otani – general manager, FRM Japan Management Co. Ltd	Has more than 17 years of experience in real estate asset management and investment management in Japan. Leads the manager's asset management activities in Japan.

Source: Company

Board of directors

Position	Background
Christopher James Williams – chairman and non-independent non-executive director	Present directorships (as at 1 January 2023): OUE Limited (deputy chairman and non-executive as a non-independent director, and OUB Centre Limited. Major appointments include founding partner at Howse Wiliams. Past principal directorships held over the preceding five years (from 1 January 2018 to 31 December 2022): OUE Commercial REIT Management Pte Ltd (the manager of OUE Commercial Real Estate Investment Trust), OUE Hospitality Trust Management Pte Ltd, and OUE Hospitality REIT Management Pte Ltd (the manager of OUE Hospitality Trust). Academic and professional qualifications: Bachelor of Arts (Honours) in International Relations and Economics, the University of Reading, United Kingdom. Solicitor in England and Wales, and Hong Kong.
Tan Kok Mian Victor – executive director and chief executive officer	Academic & professional qualification(s): Chartered Accountant, The Institute of Singapore Chartered Accountants and Fellow Member, Association of Chartered Certified Accountants.
Chan Pengee Adrian – lead independent director	Present directorships (as at 1 January 2023): Hong Fok Corporation Limited, Best World International Limited, Food Empire Holdings Limited, Keppel Infrastructure Fund Management Pte Ltd (the trustee-manager of Keppel Infrastructure Trust), Shared Services For Charities Limited, and Azalea Asset Management Pte Ltd.

	Major appointments (other than directorships): senior partner (head of corporate), Lee & Lee; vice chairman, Singapore Institute of Directors; member, Legal Service Commission; council member, Law Society of Singapore; member, Singapore Management University's Enterprise Board; honorary secretary, Association of Small & Medium Enterprises. Past principal directorships held over the preceding five years (from 1 January 2018 to 31 December 2022): Global Investments Limited, Yoma Strategic Holdings Ltd, AEM Holdings Ltd, and CapitaLand Ascendas REIT Management Limited (f.k.a Ascendas Funds Management [S] Limited [the manager of Ascendas REIT]). Academic & professional qualification(s): Bachelor of Laws (Honours), National University of Singapore and advocate and solicitor, Singapore.
Ferris Charles Bye – independent director	Academic & professional qualification(s): Chartered Accountant, Institute of Chartered Accountants for England and Wales.
Tan Chuan Lye – independent director	Present directorships (as at 1 January 2023): Isetan (Singapore) Limited, Heeton Holdings Limited, Sompo Insurance Singapore Pte Ltd, Singapore Repertory Theatre, All Saints Home, Integrated Health Information System Pte Ltd, Berjaya Sompo Insurance Berhad, and Science Centre Board. Other major appointments: Adjunct associate professor, NUS Business School of National University of Singapore; member, Asia Pacific Advisory Board, EFG Bank, AG; member of Audit & Risk Committee, MOH Holdings Pte Ltd; member of Audit Committee, A*Star. Academic & professional qualification(s): Master of Business Administration, Henley Management College/University of Brunel London; non-practising fellow member, The Institute of Singapore Chartered Accountants; fellow member, The Association of Chartered Certified Accountants (UK); and associate member, The Chartered Institute of Management Accountants (UK).
Martin Lechner – independent director	Present directorships (as at 1 January 2023): Corecam Pte Ltd, Select Alternative Investments Pte Ltd (f.k.a Corecam Capital Partners Pte Ltd), and Pluvia Pte Ltd. Major appointments (other than directorships): Founding partner and chief investment officer, Corecam AG, Corecam Pte Ltd, Select Alternative Investments Pte Ltd. Past principal directorships held over the preceding five years (from 1 January 2018 to 31 December 2022): Pro-Inter Asia Pte Ltd and Hydroinformatics Institute Pte Ltd. Academic & professional qualification(s): Master Diploma in Business Administration, University of Passau, Germany and Executive Master of Business Administration (Spot Program), INSEAD, France.
Minny Riady – non-independent non-executive director	Present directorships (as at 1 January 2023): Lippo Realty (Shanghai) Limited. Major appointments (other than directorships): Board member, Pelita Harapan Foundation for Education. Academic & professional qualification(s): Bachelor of Business Administration, Fu Jen Catholic University, Taiwan.

Source: Company

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 30 Jun 2023 06:25:45 (SGT)
Dissemination Date: 30 Jun 2023 06:38:43 (SGT)

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