

First REIT

Virtuous cycle in Indonesia healthcare

SINGAPORE | REAL ESTATE (HEALTHCARE) | VISIT NOTE

- We visited First REIT's four hospitals in Jakarta operated by Indonesia-listed Siloam International Hospitals [Rp2,270, Not Rated]. The hospitals were bustling with activity, well equipped, nicely refurbished and offered advanced specialist care including neurology, oncology, gastropathy, urology and fertility.
- Indonesia faces an acute shortage of specialists. Specialists are drawn to modern healthcare equipment and patients. Investing early in private hospitals allowed Siloam to establish a reputation and location that draws patients. It has around 20 hospitals that are a decade old. With the patient flow, it can invest in more sophisticated equipment, which in turn attracts more specialists and patients. A perpetuating loop of specialists, equipment and patients is created.
- First REIT collects rent from Indonesia hospitals in rupiah from the higher of 4.5% annual or performance rent which is 8% of gross operating revenue in the preceding year. In FY23, rental growth in rupiah terms rose 7.6%, of which three hospitals were at performance rent. Rental income from Indonesia could grow faster in FY24 as Siloam revenue expands 18% YoY in 9M23. The four macro drivers for healthcare demand are the growing population, the rising rate of chronic diseases, expanding middle income and the spread of health insurance.

Company Background

First REIT (FIRT) is Singapore's first healthcare REIT that focuses on investing in income-producing real estate assets that are primarily used for healthcare-related purposes. Its S\$1.14bn portfolio consists of 32 properties comprising 15 in Indonesia (74% of assets under management), 14 in Japan (23%), and 3 in Singapore (3%). FIRT's sponsors are OUE Limited and OUE Lippo Healthcare Limited (OUELH). FIRT has the right-of-first-refusal (ROFR) from OUELH, and a ROFR to a pipeline of hospitals from Lippo Karawachi (LPKR), a majority shareholder of Siloam. Siloam International Hospitals (39%) and LPKR (35%) are major tenants.

VISIT HIGHLIGHTS

Day 1 – 18Mar24: Siloam International / Siloam Hospital Simatupang / Mochtar Riady Comprehensive Cancer

- PT Siloam International Hospitals Tbk (Figures 1 and 2)**
Siloam operates 41 hospitals and 3,800 operational beds across Indonesia, serviced by 3,600 plus general practitioners, specialists, and dentists. It has around 9% market share in the private hospital sector. Siloam started investing in private hospitals in 1996. But only ramped up its expansion in 2011. The general practitioners are employees of Siloam. Other doctors collect 100% of the consultation fees in outpatient and inpatient treatment. In general, 20-35% of hospital bills go to the doctor. The annual price increase ranges from 3 to 4%. Rental is 6% to 6.5% of revenue. The new law for foreign doctors to practise in Indonesia, it will require several years. The new government needs to be set up and implementation law passed.
- Siloam Hospitals TB Simatupang (Figures 3 to 6):** Established in 2013, it is a 26-storey 100 operational bed hospital. Centers of excellence include Cardiology, Neuroscience, and Oncology. It is the largest hospital in South Jakarta. We visited the basement floor used for chemotherapy and oncology. The equipment we saw included a linear acceleration machine (LINAC) by Varian used in the treatment of cancer. High-energy beams are used to destroy cancer cells. It was a general hospital that included many



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25 March 2024

Not Rated

LAST CLOSE PRICE	SGD 0.245
FORECAST DIV	NA
TARGET PRICE	NA
TOTAL RETURN	NA

COMPANY DATA

BLOOMBERG CODE:	FIRT SP
O/S SHARES (MN) :	2,082
MARKET CAP (SGD mn) :	381 / 510
52 - WK HI/LO (SGD) :	0.27 / 0.21
3M Average Daily T/O (mn) :	1.04

MAJOR SHAREHOLDERS (%)

OUE REALTY PTE LTD	32.6%
FIRST REIT MGMT LIMITED	9.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(3.4)	0.4	(3.4)
STTF RETURN	(1.9)	1.7	(1.6)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$m)	FY20	FY21	FY22	FY23
Gross Revenue	79.6	102.3	111.3	108.6
NPI	77.5	100.2	108.6	105.3
Dist. Inc.	33.4	42.1	63.1	65.0
P/NAV (x)	0.49	0.67	0.80	0.81
DPU (cents)	4.15	2.61	2.64	2.48
Dist. Yield (%)	16.9	10.7	10.8	10.1

Source: Company, PSR

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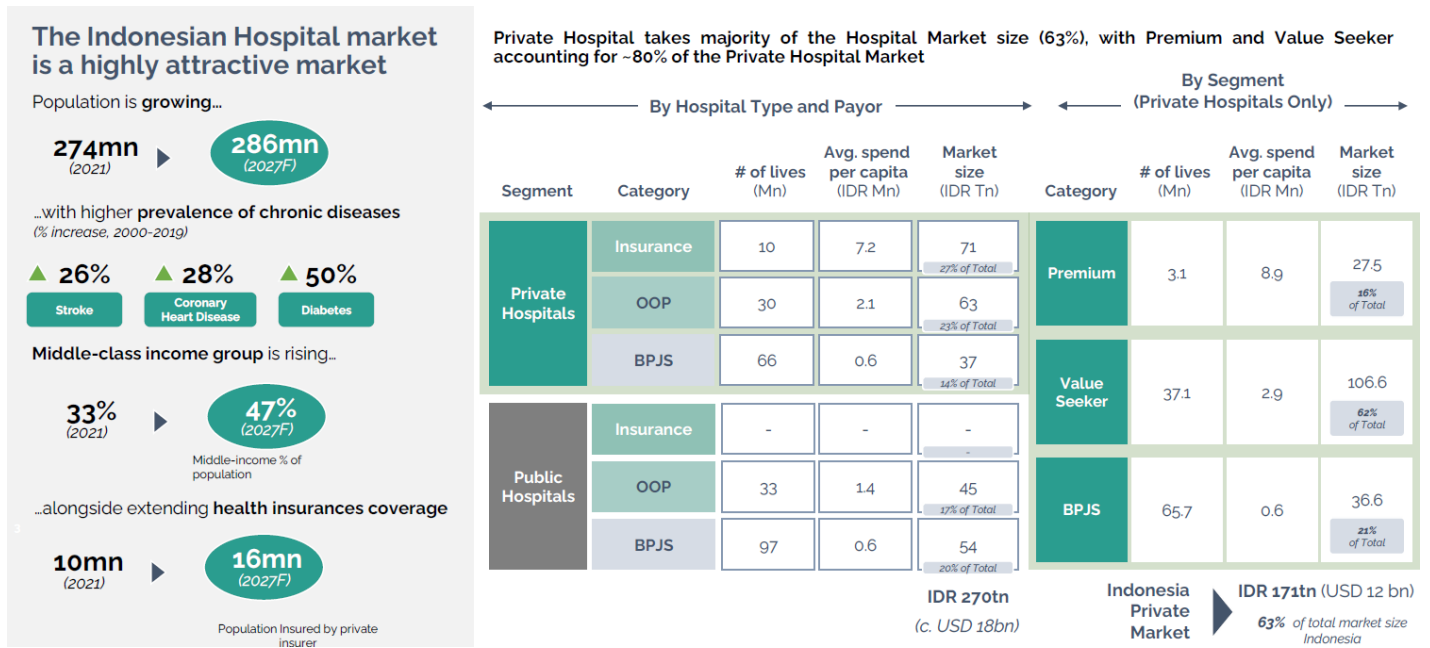
other services including health screening, orthopaedics, paediatrics, pulmonology, dental, psychiatry and emergency.

- **Mochtar Riady Comprehensive Cancer Centre (Figures 7 to 10):** Established in 2010, this hospital in Central Jakarta specialises in Gastroenterology and Oncology. It treats multiple forms of cancer, including liver, pancreatic, breast, stomach, blood, lung, and bone. There are four PET CT scans (imaging tests of organs and tissue) in Indonesia, two of which are located in this hospital.

Day 2 – 19Mar24: Siloam Hospitals Kebon Jeruk / Siloam Hospitals Lippo Village

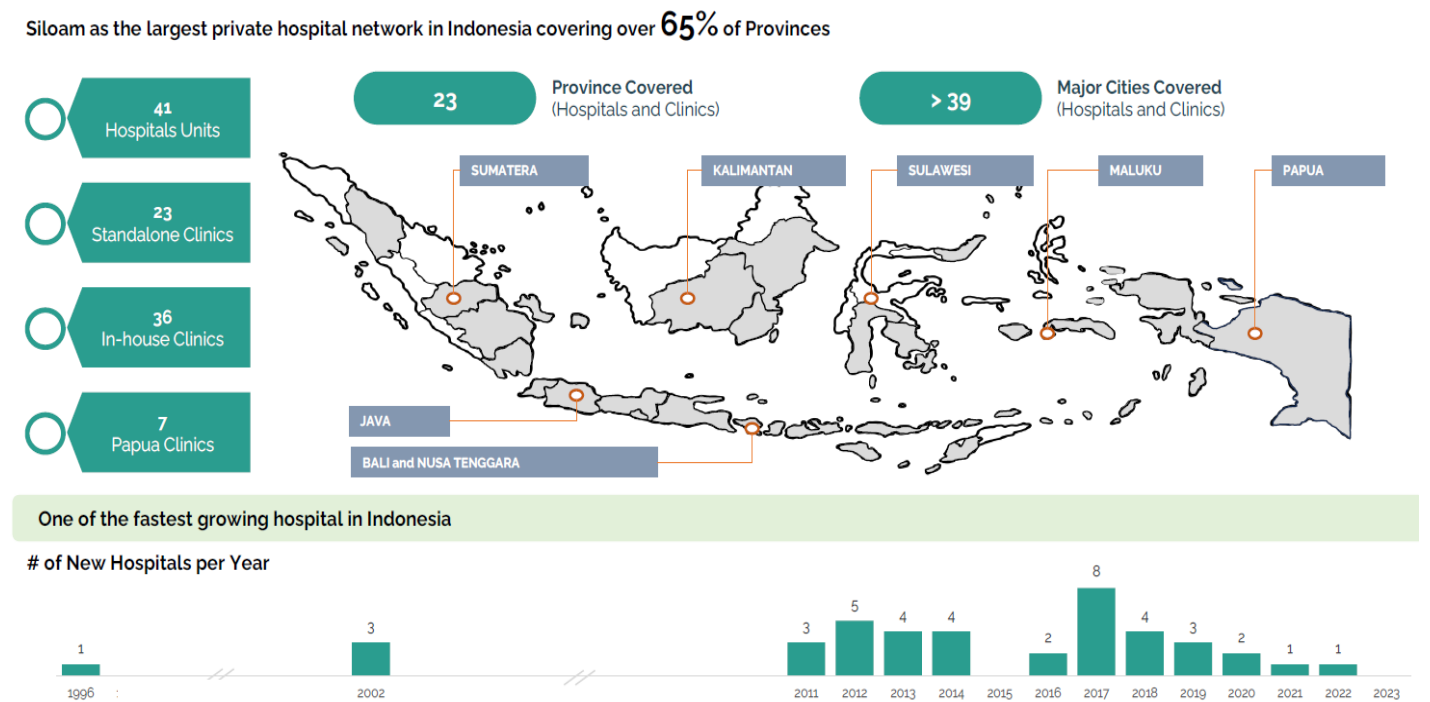
- **Siloam Hospitals Kebon Jeruk (Figures 11 to 14):** Established in 1991, it is the oldest private hospital in West Jakarta and is surrounded by a large residential population. It is the hub in Orthopaedic, Urology, Cardiology and Radiology for the Siloam network of hospitals. There are around 200 specialists and sub-specialists. It no longer takes in National Health Insurance (BPJS) patients since 2020. In our discussion with management, raising prices is not the focus, it is raising the level of complex and advanced treatments and procedures. When the pandemic occurred, and patients could not travel abroad for treatment, it was a “golden period” for Siloam to showcase the quality and sophistication of their services.
- **Siloam Hospitals Lippo Village (Figure 15 to 18):** Established in 1995, it is one of the largest hospitals in the region with a 274-bed capacity. It was the busiest hospital that we visited. There is a waitlist for the hospital beds. The hospital attracts patients outside Jakarta, which can account for 20-30% of advanced cases. The hospital can provide 600 surgeries per month with 1,000 outpatients on weekends. It is housed by around 200 specialists and sub-specialists, of which 30% are visiting specialists. Specialists in Indonesia are allowed to practise in three hospitals. Resident specialists will enjoy higher fees and better premises.

Figure 1: Healthcare demand is driven by increasing population, rising chronic diseases, expanding middle income and spread of health insurance.



Source: Siloam

Figure 2: Large network of hospitals, with the first in 1996



Source: Siloam

Figure 9: Dutch MRI machine



Source: Siloam, PSR

Figure 10: One-stop centre for Breast Cancer



Source: Siloam, PSR

Figure 11: German MRI machine



Source: Siloam, PSR

Figure 12: Outpatients rooms and patients



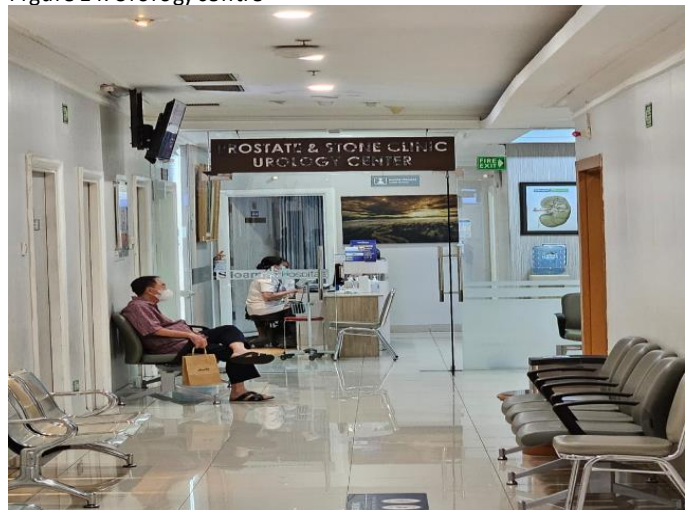
Source: Siloam, PSR

Figure 13: New centre for gastropathy



Source: Siloam, PSR

Figure 14: Urology centre



Source: Siloam, PSR

Figure 15: There were crowds everywhere



Source: Siloam, PSR

Figure 16: Reminder it is owned by First REIT



Source: Siloam, PSR

Figure 17: New fertility centre



Source: Siloam, PSR

Figure 18: 13 neurologist and 7 neuro surgeons



Source: Siloam, PSR

Financials

Income statement

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22	FY23
Gross revenue	115,297	79,619	102,346	111,275	108,568
Property expenses	(2,403)	(2,154)	(2,130)	(2,716)	(3,234)
Net property income	112,894	77,465	100,216	108,559	105,334
Net Finance (Expense)/Inc and Other Fees	(30,859)	(31,919)	(28,554)	(31,629)	(34,106)
Net Income before tax and FV changes	82,035	45,546	71,662	76,930	71,228
FV changes	(6,647)	(403,778)	4,148	(22,651)	10,834
Tax expense and FX	(26,472)	5,822	(12,697)	(20,694)	(18,723)
Net income after Tax and FV changes	48,916	(352,410)	63,113	33,585	63,339
Distribution adjustments	19,547	385,823	(20,993)	29,497	1,703
Income available for distribution	68,463	33,413	42,120	63,082	65,042

Per unit data

Y/E Dec	FY19	FY20	FY21	FY22	FY23
NAV (S\$)	99.64	49.94	36.65	30.70	30.18
DPU (cents)	8.60	4.15	2.61	2.64	2.48

Cash Flow

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22	FY23
CFO					
Net income before tax	75,388	(352,410)	63,113	33,585	63,339
Interest expense	17,493	14,713	11,819	14,073	18,023
Management fee settled in units	4,878	2,750	4,465	4,712	4,470
Cashflow from ops	100,076	50,400	66,204	93,080	69,955
CFI					
Cashflow from investments	1,162	1,020	5,615	8,118	(4,623)
CFF					
Proceeds from share issuance	-	-	157,702	-	-
Distribution to unitholders	(68,285)	(43,773)	(38,168)	(49,489)	(52,136)
Net increase in borrowings	(10,000)	-	(145,557)	(2,263)	6,143
Cashflow from financing	(96,016)	(65,108)	(40,077)	(102,651)	(69,260)
Net change in cash	5,222	(13,688)	31,742	(1,453)	(3,928)
Ending cash	32,980	19,292	51,203	46,103	40,266

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22	FY23
ASSETS					
Investment properties	1,340,780	939,670	962,447	1,145,343	1,139,468
Others	1,522	41	28	1,262	1
Total non-current assets	1,342,302	939,711	962,475	1,146,605	1,139,469
Trade receivables	48,833	45,028	32,488	5,027	6,249
Cash	32,980	19,292	51,203	46,103	40,266
Others	3,021	877	3,369	890	1,347
Total current assets	84,834	65,197	87,060	52,020	47,862
Total Assets	1,427,136	1,004,908	1,049,535	1,198,625	1,187,331

LIABILITIES

Total current liabilities	44,056	223,444	127,161	21,191	17,691
Total Interest bearing borrowings	486,410	489,005	349,211	451,066	448,926
Total non-current liabilities	527,366	317,494	270,554	512,072	509,474
Total Liabilities	571,422	540,938	397,715	533,263	527,165

Net assets 855,714 463,970 651,820 665,362 660,166

Represented by:

Unitholders' funds	794,836	403,092	591,145	632,080	632,080
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Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22	FY23
P/NAV (x)	0.25	0.49	0.67	0.80	0.81
Distribution Yield (%)	35.1	16.9	10.7	10.8	10.1
NPI yield (%)	8.4	6.8	10.5	10.3	9.2

Growth & Margins

Growth					
Revenue	-0.8%	-30.9%	28.5%	8.7%	-2.4%
Net property income (NPI)	-1.3%	-31.4%	29.4%	8.3%	-3.0%
Distributable income	1.2%	-51.2%	26.1%	49.8%	3.1%
DPU	0.0%	-51.7%	-37.1%	1.1%	-6.1%

Margins

NPI margin	97.9%	97.3%	97.9%	97.6%	97.0%
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Key Ratios

Gearing	36.3%	52.0%	36.3%	39.4%	39.4%
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