INTERVIEW WITH THE GROUP CEO

Mr Hiew Yoon Khong

Key Performance Indicators (KPIs)	Targets	FY18/19 Final Results
Returns		
Average ROIE[3]	10% – 15%	11.0%
NAV CAGR[4]	10% – 15%	13.1%
Earnings		
EBIT + SOA[5]	S$1.6 billion – S$2.3 billion	S$2.1 billion
Fee Income[6] (cumulative)	S$350 million – S$500 million (>S$1.5 billion)	S$451 million (S$1.54 billion)
Scale		
AUM	S$40 billion – S$50 billion	S$55.7 billion
AUM Ratio	>3.0x	2.1x

1) Mapletree achieved another year of solid performance with PATMI[1] at S$2,161.1 million in this financial year. What were the key drivers of this performance?

Financial Year 18/19 (FY18/19) was a successful year for Mapletree by every performance measure that we tracked. We executed all the key elements of our business model and realised our business objectives. Coupled with the timely and disciplined recycling of capital and syndication of capital management platforms, the Group attained growing and sustainable income to continue scaling our business.

Our profit after tax and minority interests (PATMI)[1] grew 10.3% year-on-year (y-o-y) to S$2,161.1 million, the highest ever achieved since we commenced our operations in year 2000. The return on equity (ROE)[2] achieved for FY18/19 was 15.3%. The profitability of the Group was underpinned by stronger recurring earnings of S$770.8 million, a y-o-y growth of 11.5% as compared to FY17/18. Supported by strong leasing income from investment properties and fees from our fund management business, the Group's revenue was S$3,948.1 million for FY18/19.

During the year, to lift our recurring and fee income[6], the Group assembled a significant portfolio of high-quality logistics assets in the United States (US) and Europe to syndicate a new private fund, Mapletree US & EU Logistics Private Trust (MUSEL), with S$5.8 billion of the assets in March 2019.

One of the Group's managed private funds, MJOF, which invests in a diverse portfolio of income-producing office spaces in Japan, fully exited its investment and generated for its investors a net internal rate of return (IRR) of 27.1%[7] and achieved more than 1.8 times multiple, significantly above its targeted IRR of 11.0% per annum, attesting to the ability of the Group to deliver good returns to our investors.

In May 2019, Mapletree completed the divestment of Mapletree Bay Point, a Grade A office development in Hong Kong SAR for approximately S$1.6 billion. It was an opportunity to capitalise on the attractive capital value of the building and recycle the proceeds for other growth opportunities.

In February 2019, Mapletree Industrial Trust (MIT) acquired 18 Tai Seng from Mapletree Investments at a transacted price of S$268.3 million.

In November 2018, the Group's managed private funds, Mapletree India China Fund (MIC Fund) and Mapletree China Opportunity Fund II (MCOF II), completed the divestment of Mapletree Business City Shanghai and VivoCity Shanghai, an award-winning mixed-use complex with seven blocks of Grade A office buildings and a five-storey shopping mall in Shanghai, China.

Mapletree made further inroads into the student accommodation sector with the acquisition of a 244-bed property in Norwich, the United Kingdom (UK) in November 2018.

In June 2018, Mapletree Logistics Trust (MLT) co-invested into 11 logistics properties in China, developed by Mapletree Investments for RMB1 billion (~S$202.1 million) via a 50:50 joint venture with the latter.

MJLD, which focuses on developing logistics assets in Japan, successfully divested three assets to third-party purchasers as it approaches the end of the fund's life.

Our recycling initiatives generated gross proceeds of about S$2.3 billion which will be redeployed to fund new developments and acquisitions. The Group delivered to its shareholder a return on invested equity (ROIE)[3] of 10.4% in FY18/19, higher than the 8.7% achieved in FY17/18.

Other key acquisitions included 67 Albert Avenue, a 15-storey office building with Grade A specifications in Chatswood, Sydney, Australia as well as an operational IT office park, Global Infocity Park Chennai, with net lettable area (NLA) totalling 252,403 square metres (sqm) in Chennai, India.

Global Infocity Park Chennai, India

Coupled with the acquisition of the portfolio of logistics and distribution assets in the US and Europe, Mapletree's total owned and managed assets under management (AUM) grew 20.3% y-o-y to S$55.7 billion.

2) You mentioned about growing Mapletree's recurring income while ensuring sustainable growth, how does the Group execute this?

The Group has consistently sought to increase our recurring income sources through integrating our roles as a real estate developer, investor, capital and property manager. From the introduction of our first real estate investment trust (REIT), MLT in 2005, we have since launched three other Singapore-listed REITs – MIT, Mapletree Commercial Trust (MCT) and Mapletree North Asia Commercial Trust (MNACT)[8] – with a combined market capitalisation of S$19.2 billion as at 31 March 2019.

The Group's four Singapore-listed REITs have achieved a consistent annual distribution per unit yield of between 4.8% and 5.8% in FY18/19 and total return since their initial public offering ranged from 14.4% to 26.1% per annum.

Mapletree's six private funds – MUSEL, Mapletree Global Student Accommodation Private Trust (MGSA), MJLD, MCOF II, MIC Fund, CIMB-Mapletree Real Estate Fund 1 (CMREF1) had an AUM of S$10.3 billion. Combined with the four listed REITs, the total third-party AUM was S$37.7 billion. Since FY14/15, Mapletree has increased its third-party AUM by S$17.2 billion.

3) The Group made significant acquisitions in the logistics space this year. Could you share the impetus behind this decision?

Mapletree entered into the logistics market in the US and Europe due to the countries' strong macroeconomic fundamentals and higher consumer spending. These markets are considered to be one of the world's largest e-commerce sectors. The rapid expansion of e-commerce has resulted in an increased demand for logistics warehouse space. On the back of these compelling growth drivers, this has resulted in a surge in demand by institutional investors, moving this asset class to become a core investable real estate asset class.

In the US, more than 70% (in terms of NLA) of Mapletree's logistics portfolio are located in the top five US states in terms of gross domestic product and population, such as California, Texas and Florida. In Europe, the majority of the properties are located in Poland, which is the largest logistics market in Central and Eastern Europe. Furthermore, the properties are strategically located in established distribution centres within major logistics markets and enjoy excellent access to key transportation nodes including major highways, ports and airports.

We are also optimistic about the China logistics market. Home to the world's largest population and e-commerce market, e-commerce retail sales in China are projected to reach RMB10 trillion (~S$2 trillion) by 2020. In FY18/19, the Group continued expanding its logistics development footprint in China, by signing 25 investment agreements with a total value of S$1,547 million and acquired 18 development sites for S$976 million.

Today, Mapletree has an established global logistics footprint amounting to 31% of AUM. Moving forward, the Group will continue its momentum developing more logistics assets in China while acquiring more of such assets across the rest of the world.

4) FY18/19 also marked the completion of Mapletree's second Five-Year Plan. Can you provide an overview of the key milestones and events of Mapletree's growth over the past five years?

Diversification into New Markets

In 2014, we embarked on our second Five-Year Plan with the strategy to venture beyond Asia into new markets such as Australia, Europe and the US as well as into new real estate sectors. These markets present attractive investment opportunities for us as they are scalable, regulated and transparent.

The Group acquired its first Grade A office building, 144 Montague Road, in South Brisbane, Australia for A$93 million (~S$89.2 million) in November 2014. Since then, Mapletree has grown the number of commercial assets to nine in key cities including Adelaide, Brisbane, Melbourne, Perth and Sydney with AUM of more than A$1 billion (~S$1 billion).

In May 2015, we made our maiden investment with the acquisition of an office building in West London. We have since grown our portfolio with acquisitions in other core UK regional cities such as Manchester, Bristol and Aberdeen, as well as a 79-hectare business park, Green Park, which is located in Reading.

Capitalising on the relatively recession-proof and anti-cyclical nature of the student accommodation sector, in 2016, the Group marked its foray with the acquisition of two portfolios in the UK and the US. To date, Mapletree's total student accommodation portfolio (including those held under MGSA and Mapletree's balance sheet) has 48 assets with nearly 21,000 beds located across 33 cities in the UK, the US and Canada.

Thereafter, Mapletree further expanded its presence in the US with the acquisition of a portfolio of 14 data centres at a purchase consideration of US$750 million (~S$1,017 million) with MIT in December 2017. The portfolio is anchored by long leases with high-quality tenants from a diverse range of industries. In FY18/19, the Group assembled a portfolio of 283 logistics buildings through a series of acquisitions from three vendors, out of which S$5.8 billion of these assets were syndicated into MUSEL in March 2019. Despite the competitive fundraising environment, the trust attracted strong investor support from a diversified group of investors.

These new markets – Australia, Europe and the US, now comprise 29% of Mapletree's total AUM of S$16.1 billion as at 31 March 2019. To ensure that we continue growing our fee income[6], the Group will explore forming new capital management platforms with these acquired assets.

Capital management activities

Apart from our geographical expansion, our business strategy focused on maximising efficiencies through capital management and redeployment of funds to ensure high recurring income and mitigate earnings volatility.

As at 31 March 2019, Mapletree's AUM stood at S$55.7 billion, of which 67.7% were third-party managed assets. In line with our business objective to deliver consistent and high returns, Mapletree constantly seeks new opportunities to launch new capital management platforms and focuses on building lasting relationships with its capital partners by leveraging its strong pipeline and performance of real estate assets and structuring appropriate products for its investors and partners. In tandem with this, the Group's fee income[6] increased to S$451 million in FY18/19 from S$241 million in FY14/15 at the start of our second Five-Year Plan.

Private funds that were syndicated in the last five years included two Japan-focused private funds, MJOF and MJLD, with a total fund commitment of JPY116 billion (~S$1.41 billion).

In addition, we syndicated MGSA with a total AUM of S$2 billion spread across the UK and the US. MIC Fund, which was syndicated in August 2008, has two remaining assets in its portfolio which will be divested in 2019.

Aside from the assets that we recycled in the last financial year, MCT also acquired the office and business park components of Mapletree Business City I from Mapletree Investments in August 2016 for S$1.78 billion. In October 2017, MLT acquired the logistics property developed in Hong Kong SAR, Mapletree Logistics Hub Tsing Yi, from Mapletree Investments for HK$4.8 billion (~S$829.2 million). In the last five years, we monetised S$10 billion[9] worth of assets allowing us to fuel further expansion as required by our business model. These transactions allowed our managed REITs to invest in high quality properties developed by the Group.

These strategies have proven effective as the Group achieved five out of six targets set. We had aimed for an AUM ratio (Managed vs Owned) to be more than three times, however, due to a spike in active investment activities over the last two years, we closed the financial year with a ratio of 2.1 times. The Group will look into syndication of more funds to improve this ratio in the third Five-Year Plan.

Development projects

Some notable development projects included the completion of our flagship product, Mapletree Business City II, in April 2016. The property has now reached 99% committed occupancy as at 31 March 2019.

Oakwood Residence Saigon in HCMC, Vietnam

In Vietnam, the Group developed Saigon South Place, a 4.4-hectare mixed-use development in District 7 of Ho Chi Minh City (HCMC). This project comprises Mapletree Business Centre, SC VivoCity, Oakwood Residence Saigon, RichLane Residences as well as the upcoming V Plaza, which will be completed in 2023.

In China, we also developed a total of 26 logistics properties in major cities such as Shanghai, Hangzhou and Chongqing.

5) Could you share more about the new initiatives in Mapletree's third Five-Year Plan?

Our third Five-Year Plan will be focused on proactive, disciplined asset and capital management. The Group will execute the key elements of our business model well to ensure a continued sustainable stream of income and high profitability.

For investments, we will look into acquiring assets to seed new private equity funds in the lodging and commercial sectors in Australia. In addition, we will continue to acquire student housing assets in the UK, the US and explore Australia, which may be packaged with MGSA. We will also deepen our expansion in sectors such as multi-family assets in the US.

Concurrently, we will continue to invest in existing markets within Asia, including China, Hong Kong SAR, India and Japan. For those funds which we have executed well and achieved high returns for our investors, we will continue to work on syndicating a second edition of these funds. For example, in the commercial and logistics sectors in Japan.

We will continue to sponsor REITs and funds investment vehicles to cater to different investors' investment preferences and risk appetites such as launching private funds in the commercial and logistics sectors.

In the areas of development, the Group will maintain its momentum in the development of China logistics and will look to add more than 30 properties to our portfolio in the next two years. Japan remains a very attractive market for logistics development due to strong market absorption and favourable market fundamentals. In addition, we have several pockets of land banks in our logistics portfolio in the US and Europe, which we will further develop to extract value. In the UK, we have substantial developable land in Green Park, which we will build out over the next few years.

We have since embarked on the development of two student accommodation properties in the UK and the US which will be completed in Q4 2019 and in Q2 2020 respectively, producing a total of 965 beds. We will look for more development opportunities for student housing.

Through these initiatives, we aim to sustain the Group's returns by achieving 10% to 15% average ROE[2] and ROIE[3], double the cash flows, and increase our AUM target to between S$80 billion and S$90 billion.

We are optimistic that with the good execution of key elements of our business model, coupled with the diversity of our onshore talents, we are in good stead to be one of the top five real estate companies in Asia in terms of profitability.

We believe that our business model has evolved to a point where we are able to deliver sustained and elevated level of profits in the next few years.

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1 PATMI denotes net profit (after tax and non-controlling interests) attributable to Perpetual Securities Holders and Equity Holder of the Company.

2 ROE denotes return on equity and is computed based on PATMI attributable to equity holders of the Company over shareholder's funds.

3 ROIE computed based on Operational PATMI (less profit attributable to perpetual securities) over the Group's equity from shareholder adjusted for unrealised revaluation gains or losses and such other non-cash flow and non-operating items including mark-to-market fair value adjustments and negative goodwill.

4 NAV CAGR is adjusted for dividends distributed to shareholder and calculated excluding non-controlling interests and perpetual securities and with NAV as at 31 March 2014 as starting base.

5 Earnings before interest and tax (EBIT) plus share of operating profit or loss of associated companies and joint ventures (SOA), excluding revaluation gains or losses, divestment gains or losses, foreign exchange and derivatives gains or losses.

6 Includes REIT management fees.

7 After expenses, taxes and base fee but before carried interest. Returns subject to post-closing reconciliation adjustments in July 2019.

8 Formerly known as Mapletree Greater China Commercial Trust (MGCCT). Please refer to MNACT's SGX-ST Announcement dated 25 May 2018 titled "Change of Name of Mapletree Greater China Commercial Trust and the Manager".

9 Measured on Mapletree Investment's balance sheet perspective (excluding REITs and private funds).