

INTERVIEW WITH THE GROUP CEO

Mr Hiew Yoon Khong



1. Mapletree achieved yet another record profit of S\$1,958.6 million in this financial year. Can you tell us how the Group achieved it?

Our successfully completed development projects such as Mapletree Business City II, Mapletree Logistics Hub Tsing Yi (MLHTY) and Mapletree Bay Point have contributed significantly to our net income. In addition, we have also successfully invested in the United States (US) and European markets which have contributed to yet another record profit after tax and minority interests (PATMI)¹ of S\$1,958.6 million in Financial Year 17/18 (FY17/18). The highest since Mapletree's establishment in 2000, this was a 39% increase compared to

the S\$1,413.7 million attained in FY16/17. Of FY17/18's PATMI¹, S\$684.7 million or 35% was contributed by recurring PATMI¹, attesting to the strength and resilience of Mapletree's business model which has served us well all these years.

The Group's focus on delivering consistent and sustainable returns on investments allowed us to achieve a return on equity (ROE)² of 15.7%, higher than the 12.8% recorded in FY16/17. Average return on invested equity (ROIE)³ for the past four years is 11.1%, which is within our target of 10%-15% for the second Five-Year Plan which we embarked on in FY14/15.

To achieve a sustained level of ROIE³, the Group embarked on continuous

capital recycling to improve its returns and strengthen its recurring income. This was achieved through the monetisation of assets and the redeployment of funds into markets and sectors where we see growth potential. In FY16/17, we raised equity of US\$535 million (~S\$701.9 million) through the Mapletree Global Student Accommodation Private Trust (MGSA P-Trust) which provided the capital to grow our student accommodation portfolio and our presence in the respective markets.

In October 2017, Mapletree completed the divestment of its first logistics property developed in Hong Kong SAR – MLHTY for HK\$4.8 billion (~S\$834.8 million) to Mapletree Logistics Trust. In December 2017, the Group also

co-invested with Mapletree Industrial Trust (MIT) in a portfolio of 14 data centres in the US.

Most recently, MJOF, one of Mapletree's six private real estate funds, divested six freehold office assets to Mapletree Greater China Commercial Trust (MGCCT)⁴ for JPY63,304 million (~S\$779 million). The divestment to MGCCT⁴ marks a key milestone for the fund towards delivering returns exceeding its original target to the investors.

In FY17/18, we have monetised almost S\$1.1 billion worth of assets. The success of Mapletree's strategy in capital recycling is shown in our ROE², which is one of the highest amongst local real estate developers. We will continue this disciplined strategy in the recycling of our assets and redeploying capital to seek higher returns.

2. Mapletree is known to track its business performance according to five-year plans. Could you share with us the key highlights of FY17/18 which helped to achieve the targets set for the Group's second Five-Year Plan?

Mapletree's overall business objective is clear – we aim to deliver stable, consistent and high returns to our shareholders and investors on an ongoing basis. This is the overarching

principle which has guided our investment and operating decisions since day one. Essentially, the strategy is to manage capital competently by being efficient in the deployment of funds.

Since we embarked on our first Five-Year Plan in FY09/10, we have nearly quadrupled our assets under management (AUM) from S\$12.9 billion of assets to S\$46.3 billion with a presence in 12 economies worldwide. The creditable figures are results of the Group's deeper penetration into markets and real estate sectors beyond Asia. We have set our sights on the US, the United Kingdom (UK), Europe as well as Australia, and ventured further into sectors such as student accommodation and data centres. Our strategy to invest in these markets has proved fruitful, contributing a total of S\$9.6 billion or 21% to our overall AUM.

Some of the key highlights in these markets were:

i. Student Accommodation

Apart from the US student accommodation assets owned by MGSA P-Trust, in May 2017, we acquired a portfolio of eight student housing assets with 3,611 beds in the US and 140 beds in Canada, as well as four multi-family assets with 1,388 units in the US. The addition was a second acquisition⁵ from the earlier transaction which was completed in 2016. The eight

student housing assets are well located within the immediate vicinity of Tier 1 universities, and currently have strong occupancy above 90%. This was followed by other purchases such as The Maltings, which is a 779-bed student accommodation asset located in Colchester, UK, in July 2017 and evo at Cira Centre South in Philadelphia, Pennsylvania, US, in January 2018.

ii. Data Centres

In December 2017, the Group made its maiden acquisition of a portfolio of 14 data centres in the US via a 60:40 joint venture agreement with MIT for a purchase consideration of approximately US\$750 million (~S\$1,020 million).

iii. Commercial

Mapletree acquired its first US office property with retail space – 50 South Sixth, which is located in the central business district of Minneapolis, Minnesota in December 2017. The Group further expanded its footprint in Australia with the acquisition of two Grade A office buildings in Melbourne and Adelaide – which are our first properties in both cities, in June 2017 and March 2018 respectively.

iv. Logistics

Post FY17/18, the Group acquired a portfolio of over 150 logistics assets in more than 20 US states in April 2018.

Key Performance Indicators (KPIs)	FY17/18	Target by FY18/19
Returns		
Five-year NAV CAGR ⁶ (from FY13/14)	12.4%	10% – 15%
Average five-year ROIE ³ (from FY13/14)	10.2%	10% – 15%
Earnings		
EBIT + SOA ⁷	S\$1,579.4 million	S\$1.6 billion – S\$2.3 billion
Fee Income ⁸	S\$302.1 million	S\$350 million – S\$500 million (Five-year cumulative: >S\$1.5 billion)
Scale		
Assets Under Management (AUM)	S\$46.3 billion	S\$40 billion – S\$50 billion
AUM ratio (managed vs owned assets)	2:1	>3:1

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3. Moving forward, what are some of the Group's plans in these new markets?

Mapletree is optimistic about future investments in the US – supported by fairly strong economic growth, we remain committed to scaling up all sectors including student accommodation, data centre and logistics portfolios. In view of the growing university enrolment rates, and hence, an increasing demand for student housing, Mapletree will continue to build up its portfolio in this defensive and resilient asset class. Likewise, data centres continue to enjoy robust growth as the pace of digitalisation increases. Concurrently, taking into consideration the rapid growth of e-commerce and rising domestic consumption, we will also review opportunities to acquire and/or develop modern and high-quality logistics assets that are within close proximity to key transportation nodes and city centres.

In Europe, following the successful acquisition of Green Park, a 79-hectare business park in Reading, the UK, in 2016, and student accommodation portfolio, the Group will continue to build up our presence in these two sectors as well as explore other asset classes. To diversify our income base, the Group will also look into acquiring logistics assets in the UK. Similarly, in Europe, we will continue to assess opportunities within the logistics and business parks space. With the addition of two office properties in Australia in FY17/18, the Group now owns eight quality office assets in its portfolio. The strong demand-supply fundamentals, coupled with the stable Australian economy and financial sector, makes Australia a viable market, and Mapletree will continue to strengthen its commercial presence there.

4. Evidently, the Group has expanded greatly in these new markets. What about Asia?

While the Group has taken steps to venture beyond Asia to diversify our earnings and reap good returns for our investors, this region is still, and will remain our core market.

China and Hong Kong SAR combined, with a total AUM of S\$14 billion, was the second largest contributor to Mapletree's AUM after Singapore. Some of our key achievements in FY17/18 include the launch of Mapletree's flagship brand "VivoCity" in Shanghai in May 2017, the completion of eight new logistics assets in China with a total gross floor area of approximately 664,000 sqm with more than half securing close to 100% occupancy, as well as a steady pipeline of logistics land for development. The Group also completed our first office development in Hong Kong SAR – Mapletree Bay Point, near Kwun Tong, in end-March 2018 and leasing is progressing very well.



The Group completed its first office development in Hong Kong SAR, Mapletree Bay Point, located near Kwun Tong in March 2018

In Vietnam, Mapletree rebranded Kumho Asiana Plaza in Ho Chi Minh City (HCMC) to mPlaza Saigon in August 2017, as part of the Group's plan to rejuvenate the property since our acquisition in 2016. Thereafter, Mapletree completed Oakwood Residence Saigon, a 237-unit serviced apartment, and RichLane Residences, a residential tower with 243 units in the affluent District 7 of HCMC in November 2017.

Back home, we embarked on several asset enhancement initiatives (AEIs) at HarbourFront Towers One and Two to improve the overall experience for tenants and visitors. At 18 Tai Seng, works to the underground link were completed, enhancing the connectivity to Tai Seng MRT train station. At VivoCity, AEIs were done to improve the shopping experience

and to convert existing areas into higher-yield space.

5. Could you share your views and plans for the company moving forward in Asia?

Mapletree holds a long-term view of our investments in China and it will continue to be one of our core markets. However, with the moderating China economy, coupled with the ongoing structural reforms and government efforts to deleverage the financial sector, we are cognizant of the need to be even more selective in our investment decisions.

Looking ahead, rather than venturing into new asset classes, we will focus our efforts on building up our existing expertise in the areas of logistics, office as well as residential properties.

In China, as a country with the world's largest population, the sizeable domestic consumption has fuelled the growth of the online retail sector and driven demand for more logistics facilities. In addition, the development of new transportation networks, coupled with the limited supply of high-quality and modern logistics facilities have also resulted in rental stability. In view of these trends, Mapletree has further ramped up the development of several logistics properties across Tier 1 and 2 cities as well as fast-growing Tier 3 cities with growing middle-class demographics and excellent connectivity. Likewise in Hong Kong SAR, while we are keen to grow our presence in the logistics market, we will continue to evaluate the feasibility of doing so, in view of the high land prices.

The overall leasing demand for offices in China remained strong. In part, this is the result of the opening up of new business districts, as well as the recent trend of an influx of co-working operators entering the Chinese markets and occupying more Grade A buildings. As part of our China strategy, Mapletree will continue to increase its exposure in the office market in Tier 1 cities such as Shanghai, Beijing and Guangzhou. In terms of residential developments, while price controls

and tightened mortgage restrictions are still widely in place, the burgeoning middle class as well as improvements in transportation and amenities will increase the demand for residential properties in Tier 2 and 3 cities.

Mapletree has identified Vietnam as another key growth market with good long-term potential. Supported by rapid urbanisation and improving macroeconomic stability, it is one of the fastest-growing economies within South East Asia. Our current projects such as Mapletree Business Centre, a Grade A office tower in HCMC, has secured a committed occupancy of over 95% since it opened in March 2017. Moving forward, the Group will continue to expand our presence in the office and residential sectors.

Last but not least, in Singapore, despite limited land availability for developments, Mapletree remains positive on the Singapore market and will look to grow its portfolio and ensure a steady recurring income stream.

6. Aside to growing the assets under management, could you share how Mapletree's capital management platforms have contributed to Mapletree's business growth?

The Group has built a strong reputation as an industry leader in the Singapore real estate investment trust (REIT) market and private fund management business with origination, structuring and fundraising capabilities. Mapletree's public-listed REITs and fund management business expands and diversifies its income sources. As at 31 March 2018, Mapletree manages four Singapore-listed REITs and six private funds with a combined AUM of over S\$31 billion. In tandem with this, the Group's fee income⁸ increased by 9% since FY16/17 to S\$302.1 million.

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.

To continue expanding and recycling our assets, the Group will be launching new fund platforms in Australia and for our current portfolio of logistics assets in the US and Europe. We also aim to grow our presence in India and Indonesia, two of the world's largest economies, in the area of logistics.

In line with our aspirations to grow the student accommodation sector, following the success of MGSA P-Trust in FY16/17, the Group will look into the possibility of launching Mapletree Global Student Accommodation Trust II.

7. What is Mapletree's plan in the last mile of its second Five-Year Plan?

With just one more financial year to go before we round up our second Five-Year Plan, I am pleased to say that Mapletree has grown from strength to strength and we are on-track to deliver on the targets we have set. In the next phase of our growth, it is no longer business as usual. To continue thriving in this increasingly volatile and competitive landscape with shorter property cycles, Mapletree will need to refine its business model and set new targets to ensure that we are ready to face the headwinds and challenges that come our way. This includes a greater focus on our capital recycling and management business to generate higher returns. While our AUM achieved for FY17/18 is within the target range of S\$40 billion to S\$50 billion, I am confident that the Group has the potential to exceed these targets by the end of our second Five-Year Plan in FY18/19, by remaining focused on our strategy and being disciplined in our approach of underwriting. More importantly, in terms of returns, both our five-year average ROE² and ROIE³ have stayed on target.

As we work towards the end of our second Five-Year Plan this year, the management team will develop a third Five-Year Plan, to guide our business

over the next few years. Broadly, we are aspiring to position the Group to be one of the top five real estate companies in Asia in terms of our profitability as well as consistency in returns.

As Mapletree continues to grow, we recognise that a strong organisational core becomes even more crucial in ensuring our continued success. Hence, the Group will place greater emphasis in nurturing and strengthening our management bench as well as ensuring that we recruit the right talent to position the Group to take on the challenges ahead and propel our business forward successfully.

- 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 is 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 Upon completion of the Proposed Acquisition of six Japan office assets on 25 May 2018, Mapletree Greater China Commercial Trust (MGCCT) was renamed Mapletree North Asia Commercial Trust (MNACT) and Mapletree Greater China Commercial Trust Management Ltd, the Manager, was renamed Mapletree North Asia Commercial Trust Management Ltd.
- 5 Mapletree made its maiden acquisition of student accommodation in the US in November 2016.
- 6 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 2013 as starting base.
- 7 Earnings before interest and tax (EBIT) plus share of operating profit or loss of associated companies and joint ventures (SOA), measures recurring earnings and cash flow, and includes earnings of REITs.
- 8 Including REIT management fees.