INTERVIEW WITH THE GROUP CEO

Mr Hiew Yoon Khong
Group CEO

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THIRD FIVE-YEAR PLAN

Key Performance Indicators (KPIs)	Targets by FY23/24	FY22/23 Final Results
Returns		
Average ROIE[1,2]	10% to 15%	12.1%
Average ROE[2,3]	10% to 15%	9.5%
Earnings/Cash Flow		
Average Recurring PATMI[2,4]	S$900 million to S$1 billion	S$743.8 million
Recycled Proceeds[5,6]	>S$20 billion	S$17.8 billion
Capital Management		
Fee Income[5]	>S$2.5 billion	S$1.8 billion
AUM ratio	>3x	3.5x
AUM	S$80 billion to S$90 billion	S$77.4 billion

1. HOW DID MAPLETREE FARE AMID THE CHALLENGING MARKET CONDITIONS IN FINANCIAL YEAR 2022/2023 (FY22/23)?

The Group began the financial year on a cautious note amid geopolitical tensions, rising interest rates and high energy prices that dampened global economic recovery, even as the world emerged from the Covid-19 pandemic.

In FY22/23, the Group reported a profit after tax and minority interests (PATMI)[4] of S$1,220.0 million, a 37.9% decrease from the previous year. Mapletree's PATMI and Recurring PATMI[4] remained stable throughout the Covid-19 pandemic, due to the resilient performance of our core sectors, namely logistics and data centres. However, rapid interest rate hikes impacted the Group's PATMI[4].

The Group's revenue[7] and Recurring PATMI[4] stood at S$2,859.3 million and S$779.7 million, respectively. Excluding the impact from syndications, Mapletree's revenue[7] and Recurring PATMI[4] grew by 8.6% and 4.4%, respectively.

This is attributed to the improved operational performance with continued global recovery from the Covid-19 pandemic, and contributions from a higher stake in one of our real estate investment trusts (REITs).

In addition, the elevated interest rate environment has led to valuation pressures on our commercial portfolio, in particular, the United States (US) and Europe. Our prudent hedging practice has helped to mitigate higher financing costs and our logistics assets continued to see stronger valuations as strong rental growth more than offset cap rate expansions.

By maintaining a prudent approach in executing our business and capital management strategies, we ensure that we have sufficient financial flexibility to weather this period of uncertainty. This includes adopting capital recycling opportunities and capitalising on growth opportunities where appropriate. This year, the Group recorded a gain of almost S$700 million from various capital recycling initiatives.

Mapletree's assets under management (AUM) stood at S$77.4 billion in FY22/23, with third-party AUM growing by 2.9% to S$60.2 billion. Our AUM ratio also improved from 2.9 times to 3.5 times due to syndication efforts of logistics assets in China and office assets in India.

2. WHAT ARE SOME STRATEGIES THAT THE GROUP EMBARKED ON TO WEATHER THIS CHALLENGING PERIOD?

In addition to investing and operating in asset classes with sustainable, long-term returns, we continue to focus on developing high-quality spaces in growing markets. The high asking price for quality portfolios, coupled with the increased cost of funding, has resulted in challenging financial returns for buyers. As such, the Group aims to leverage our development strength to secure assets and portfolios in high-growth sectors.

In the logistics sector, supportive market conditions have contributed to its growth. These include higher e-commerce penetration and the shift from "just-in-time" to "just-in-case" supply chain management following the recent supply chain disruptions caused by the Covid-19 pandemic and ongoing geopolitical tensions. This year, we reaffirmed our focus on this sector with the acquisition and development of new logistics sites in Australia, China, India, Malaysia, South Korea and Vietnam. We completed the development of 14 logistics parks in China and are developing another 40 projects to create a robust pipeline of logistics assets. To that end, the Group's logistics AUM grew to S$30.4 billion as at 31 March 2023, positioning us as one of the top logistics players globally.

We also continue to see value in data centres, with positive rental reversion on average in the markets we operate in. Despite market challenges in the post-Covid-19 environment, this asset class continues to remain resilient, with healthy demand driven by a shift towards artificial intelligence and an increasingly digitalised and cloud-based workforce. Mapletree is currently developing our first data centre development in Hong Kong SAR, which will contribute a gross floor area of 20,140 square metres (sqm) when completed in 2025.

Across Asia, the office sector has seen better relative recovery as companies encourage their employees to return to the office. In the long run, demand for office space is expected to grow in tandem with economic recovery in this region. Outside of Asia, the long weighted average lease expiry terms of our assets and their strong tenant base have helped tide us through this period of uncertainty. Across the portfolio, Mapletree's property and asset management capabilities have resulted in higher occupancy rates to offset higher operational costs.

The Group divested the operating platform, Oakwood, to focus on specific subsectors in the accommodation sector, namely student housing, where we have more scale and market leadership. The sector has proved resilient with much growth potential in the current inflationary environment.

With the resumption of travel, in-person lessons and increased demand for higher education, especially in the US and the United Kingdom (UK), student housing remains an attractive asset class. The Group will continue to deepen its presence in these markets while exploring new markets. In its existing assets, Mapletree strives to improve the residents' experience through asset enhancement initiatives to ensure competitiveness against newer offerings. Preleasing in both the US and UK portfolios remains strong, primarily due to the return of international students following the easing of travel restrictions.

Looking towards the near future, the Group will continue to focus more on Asia, which benefits from better macroeconomic fundamentals and is where we have home ground advantage with our full development platform.

3. WILL CAPITAL MANAGEMENT PLATFORMS CONTINUE TO BE A FOCUS OF THE BUSINESS?

Mapletree's capital management platforms have established a strong reputation beyond the Singapore REIT market. With the operation and syndication of private real estate funds, capital management continues to be an integral pillar of the Group's business strategy.

Following the merger of Mapletree Commercial Trust (MCT) and Mapletree North Asia Commercial Trust (MNACT) in July 2022, MNACT was delisted from the Singapore Exchange Securities Limited and MCT renamed Mapletree Pan Asia Commercial Trust (MPACT) in August 2022. In FY22/23, MPACT's maiden full-year results saw year-on-year growth of 65.4% and 62.6% in gross revenue and net property income (NPI) to S$826.2 million and S$631.9 million, respectively. This performance was driven by contributions from properties acquired after the merger, as well as higher earnings from its core assets, Mapletree Business City and VivoCity in Singapore. The better performance by the core assets cushioned higher utility and financing costs. Together, they continued to anchor MPACT's stability by accounting for approximately 53% and 54% of the total contribution to revenue and NPI, respectively. Notably, VivoCity achieved a new milestone with tenant sales surpassing S$1 billion – the highest recorded in its history.

In FY22/23, VivoCity, Singapore achieved record tenant sales surpassing S$1 billion.

INTERVIEW WITH THE GROUP CEO

In March 2023, Mapletree Logistics Trust (MLT) accelerated its portfolio rejuvenation with the announcement of the proposed acquisition of eight modern logistics assets in Japan, Australia and South Korea for a total sum of S$904.4 million. In conjunction with the acquisition of the various assets, MLT raised S$200 million through a private placement which was oversubscribed.

In the same month, Mapletree Industrial Trust (MIT) completed its largest redevelopment of flatted factories into a new high-tech industrial park, Mapletree Hi-Tech Park @ Kallang Way. To finance the progressive funding needs of the redevelopment project, MIT raised total proceeds of about S$184 million through its distribution reinvestment plan for distributions from Q3 FY21/22 to Q3 FY22/23.

We successfully closed our first open-ended fund, Mapletree China Logistics Investment Private Fund (MCLIP), in December 2022. With a "build-to-core" strategy and focus on logistics development assets in China, MCLIP attracted strong interest from a pool of high-quality institutional investors. With an initial portfolio of US$1.8 billion comprising 43 Grade A logistics properties, MCLIP aims to deliver on sustained profitability as well as stable and growing distribution yields. This aligns with the Group's overall strategy of pivoting back towards Asia and leveraging our development capabilities in large domestic markets which are underserved for institutional grade warehouses.

In addition, Mapletree and Ivanhoé Cambridge launched a new India private fund to develop, own and operate technology-sector-focused workplaces in India with an investment capacity of over S$2.5 billion. It will focus on both the development of and stabilised Class A workplace assets in economic hubs in India, which are benefitting from growth created by technology-led innovation activities in the region.

Recognising the importance of maintaining transparency and ensuring investor confidence, especially in these challenging times, Mapletree conducts regular investor engagements to keep both existing and new investors apprised of the performance and business developments of the Group and our capital management platforms.

4. APART FROM THE BUSINESS STRATEGIES MENTIONED, IS SUSTAINABILITY A FACTOR IN THE SUCCESS OF THE BUSINESS IN THE UPCOMING YEAR?

Underpinned by the Group's commitment to achieve consistent and high returns for our stakeholders, we strive to create long-term value by incorporating sustainability into our core capabilities in real estate investment, development and property management. We are mindful of the industry's impact on the environment and work towards reducing our overall carbon footprint to help mitigate the effects of climate change. Sustainability is also fundamental to the longevity of the business, as it has become an increasing priority among investors and tenants.

As such, we aim to integrate environmental, social and governance (ESG) principles across all aspects of our business decisions.

Since announcing our "net zero by 2050" roadmap last year, we have seen encouraging headway in our sustainability journey. Across our assets globally, we increased solar generating capacity by about 100%, with the aim of powering all new developments and existing assets where possible with renewable energy. The Group has also secured more than 140 green building certificates across the portfolio.

At a milestone tree planting event in April 2023, we further reinforced our ESG commitment with a target to plant 100,000 trees in all our assets and the communities we operate in by 2030.

Solar panels installed at Mapletree Nanjing Jiangning Modern Logistics Park, located in Nanjing, China.

We are implementing a new environmental data management system to track consumption and emissions-related data across our properties to roll out programmes and initiatives to meet the targets set out in our net zero journey.

To pledge our support to incorporate sustainable practices across the business, we became a signatory to the United Nations-supported Principles for Responsible Investment (UN PRI) in September 2022. The Group also embarked on our inaugural 2022 GRESB Real Estate Assessment and attained 3 out of 5 stars, while the three REITs have already been on GRESB since 2021, with improved scores. This benchmarks the Group's ESG performance with other real estate players and contributes to the refinement of our sustainability strategies.

We recognise the importance of educating various stakeholder groups on our ESG goals and inculcating an environmentally conscious mindset. In addition to conducting sustainability-related workshops for employees, we encourage them to lead their own activities under the Staff Green Initiative. We have also begun reaching out to tenants on this topic and introducing green leases where practicable.

On the social front of ESG, the Group focuses on providing a supportive environment for our employees to succeed. These include organising virtual and in-person training sessions as well as offering access to various learning platforms for employees to upskill. We continue to deepen our commitment to our Corporate Social Responsibility programmes by setting aside S$1 million for every S$500 million of PATMI[4] generated. In FY22/23, Mapletree committed approximately S$5.5 million to such causes.

5. WHAT IS THE GROUP'S FOCUS IN THE COMING YEAR?

Given the current headwinds and uncertainty in the market, Mapletree will continue to invest prudently in resilient markets and asset classes while capitalising on our development capabilities to generate better financial returns. We will focus on opportunities in Asia where economic growth is expected to be relatively stronger, and where we believe risk-reward ratios are more favourable. Where possible, we aim to scale up our capital management business in growth sectors and markets, alongside the launch of more private equity funds in the coming year with a continued focus on development activity to ensure greater returns in the long-term.

We expect to see significant adjustments to the value of real estate across sectors and markets as the high interest rate environment persists into the medium-term. As such, we will remain prudent in maintaining a healthy gearing ratio while adopting conservative financing strategies. Prioritising sufficient cashflow and a strong balance sheet will also position the Group to capitalise on growth opportunities in the broader real estate market and achieve stability as we navigate this period of uncertainty.

1 ROIE is computed based on adjusted* PATMI over the Group's equity held at original invested cost (OIC).
2 From FY19/20 to FY22/23.
3 ROE denotes return on equity and is computed based on PATMI attributable to Equity Holder of the Company over shareholder's funds.
4 PATMI denotes net profit after tax and non-controlling interests attributable to Perpetual Securities Holders and Equity Holder of the Company.
5 KPIs measured on a five-year cumulative basis.
6 Measured on Mapletree Investments' balance sheet perspective (excluding REITs and private funds).
7 Revenue is adjusted to exclude incentive fee income and residential revenue. They are not deemed to be the core business activities for the Group.

* Adjusted to exclude non-cash and non-operating items such as unrealised revaluations gains or losses, mark-to-market fair value adjustments, gains and losses on foreign exchange, negative goodwill and dilution gains and losses and include OIC gains from any gains and losses on disposal and corporate restructuring surplus or deficit.