Issuer: CapitaLand Mall Trust Management Limited

Security: CapitaLand Mall Trust

Meeting details:
Date: 17 April 2018
Time: 10.00 a.m.
Venue: The Star Gallery, Level 3, The Star Performing Arts Centre, 1 Vista Exchange Green, Singapore 138617

Company Description

CMT is the first real estate investment trust (REIT) listed on Singapore Exchange Securities Trading Limited (SGX-ST) in July 2002. CMT is also the largest retail REIT by market capitalisation, S$7.6 billion (as at 31 December 2017) in Singapore. CMT has been affirmed an 'A2' issuer rating by Moody's Investors Service on 16 July 2015. The 'A2' issuer rating is the highest rating assigned to a Singapore REIT. CMT owns and invests in quality income-producing assets which are used, or predominantly used, for retail purposes primarily in Singapore. As at 31 December 2017, CMT's portfolio comprised a diverse list of about 2,900 leases with local and international retailers and achieved a committed occupancy of 99.2%. CMT's 16 quality shopping malls, which are strategically located in the suburban areas and downtown core of Singapore, comprise Tampines Mall, Junction 8, Funan, IMM Building, Plaza Singapura, Bugis Junction, Sembawang Shopping Centre, JCube, Raffles City Singapore (40.0% interest), Lot One Shoppers' Mall, 90 out of 91 strata lots in Bukit Panjang Plaza, The Atrium@Orchard, Clarke Quay, Bugis+, Westgate (30.0% interest) and Bedok Mall. CMT also owns 122.7 million units in CapitaLand Retail China Trust, the first China shopping mall REIT listed on SGX-ST in December 2006. CMT is managed by an external manager, CapitaLand Mall Trust Management Limited, which is an indirect wholly owned subsidiary of CapitaLand Limited, one of Asia's largest real estate companies headquartered and listed in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C38U)

1. As disclosed in the Message to Unitholders (page 5 of the annual report), the REIT's distributable income held steady, up 0.4% to $395.8 million (an increase of 0.4% year-on-year), despite the challenges facing the retail industry and the closure of Funan in 2016 for redevelopment. While the REIT has achieved a distribution per unit of 11.16 cents in FY2017 (up 0.3%), can the board and/or the REIT manager provide unitholders with better visibility on the following operational matters?

(i) **Gross rental income** (GRI) (page 85): The percentage of GRI derived from Food & Beverage (F&B) tenants has increased to 31.0% in FY2017. In FY2013, the percentage derived from F&B tenants was just 27.7% by GRI and 19.2% by net lettable area. **How does this trend of more F&B outlets change the experience of shoppers and affect the positioning of the REIT's malls?**

(ii) **Occupancy cost** (page 88): The occupancy cost for tenants dipped from 19.0% in FY2016 to 18.7% in FY2017. Shopper traffic decreased 0.3% while tenant sales held steady in the year. It was also disclosed that two largest contributors to CMT's gross rental income, namely F&B and Fashion, registered negative revenue growth of 1.9% and 3.1% in 2017 respectively. Also, another listed REIT reported occupancy costs of 16.6% for tenants in their portfolio of assets. **Can the REIT manager elaborate further on its efforts to help tenants raise their sales (and profitability) so that the current rental rates are made more sustainable?**

(iii) **Rental reversion** (page 82): **With at least 6 properties in the REIT's portfolio reporting negative rental reversion in FY2017, can the REIT manager explain how it can value-add to the assets to grow the property income organically? In addition, what are the possible asset enhancements for its properties?**

(iv) **Weighted average lease expiry** (WALE) (page 83): The portfolio WALE by GRI stood at 1.9 years as at 31 December 2017 (2016: 2.0 years). For new leases in 2017, the WALE based on the date of commencement of the leases was 2.5 years (2016: 2.9 years). **Can the REIT explain if the lower WALE is a deliberate strategy of the REIT or is it a result of shifting market dynamics and competition?**

2. The "Valuation of investment properties and investment properties under development" is highlighted as a key audit matter by the Independent Auditors in their report (page 140). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

The valuation of the properties held by CMT and its subsidiaries (CMT Group) was valued at $8.67 billion as at 31 December 2017, up from $8.42 billion as at 31 December 2016 (page 93). During the same period, the net property income reported by the group was stable ($478.2 million in 2017, compared to $479.7 million in 2016), notwithstanding that Funan was closed for redevelopment from 1 July 2016.

Looking at specific properties and their valuations, the valuation capitalisation rate used has dropped by 50 basis points for most of the properties. For instance, the valuation of Tampines Mall increased by $51 million to $1,045 million when the net property income fell from $58.8 million to $58.3 million. The increase in valuation was primarily a result of the valuation capitalisation rate falling from 5.35% to 4.85%.

(i) **Would the audit committee (AC) help unitholders understand the reasons for the lower capitalisation rates? Are the valuations more aggressive given the lower capitalisation rates?**

(ii) **When taken into account the possible interest rate hikes in 2018, can the board justify these valuations and help unitholders reconcile the higher valuations with the operating performance of the underlying assets?**

In addition, the valuer for Junction 8 Shopping Centre, Bugis Junction and Bugis+ was changed from CBRE Pte. Ltd. to Knight Frankt Pte Ltd.. The valuation of Westgate was carried out by Savills Valuation & Professional Services (S) Pte Ltd. instead of Knight Frank Pte Ltd.

(iii) Can the AC help unitholders understand the selection process for the independent property valuers? What were the reasons for the change in the choice of the valuer for individual properties?

3. As noted in the REIT's Corporate Governance report, under Principle 2: Board composition and Guidance (pages 25 and 26), the board comprises 10 Directors, five of whom (including the Chairman) are independent directors. The board has also stated that it:

> *"reviews from time to time the size and composition of the Board, with a view to ensuring that the size of the Board is appropriate in facilitating effective decision making, taking into account the scope and nature of the operations of CMT and its subsidiaries (CMT Group), and that the Board has a strong independent element".*

The REIT, with a market capitalisation of approximately $7.6 billion as at 31 December, owns and invests in quality income-producing assets (16 as at 31 December 2017) which are used, or predominantly used, for retail purposes primarily in Singapore. The REIT is managed by an external manager, CapitaLand Mall Trust Management Limited, which is an indirect wholly owned subsidiary of CapitaLand Limited, one of Asia's largest real estate companies headquartered and listed in Singapore.

CapitaLand Limited, with a market capitalisation of approximately $15 billion, has a board of 12 directors, 11 of whom (including the Chairman) are independent directors. The corporate profile from CapitaLand Limited's corporate website is as follows:

> *"CapitaLand is one of Asia's largest real estate companies. Headquartered and listed in Singapore, it is an owner and manager of a global portfolio worth more than S$88 billion as at 31 December 2017, comprising integrated developments, shopping malls, serviced residences, offices, homes, real estate investment trusts (REITs) and funds."*

(i) Would the board agree that the REIT's business model is relatively straightforward and is significantly less sophisticated than CapitaLand Limited's operations?

(ii) Can the REIT help unitholders understand why the current board size of 10 directors would be appropriate and optimal based on the scope and nature of the operations of the REIT? As compared to CapitaLand Limited, the REIT primarily owns 16 retails malls all located in Singapore.

(iii) Would the REIT consider raising the percentage of independent director on the board to a level near that of CapitaLand Limited?

(iv) The board currently has a broad diversity of skills and knowledge, experience, educational background and ethnicity and each director is elected based on his/her skills, experience, insights and sound judgement that can serve to further the interests of the REIT. **Nevertheless, can unitholders understand the efforts by the REIT to support gender diversity?**

(v) Would the board re-evaluate the benefits of having a nominating committee for the REIT?