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REIT: Lippo Malls Indonesia Retail Trust
(Manager: LMIRT Management Ltd)

Stock code:

Meeting details:

Date: 16 June 2020

Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. Since the outbreak of the COVID-19 pandemic in Indonesia, the REIT has updated the market on its mall closures and re-openings as a result of the large-scale social restrictions (“PSBB” - Pembatasan Sosial Berskala Besar) imposed by the Indonesia Health Ministry across various provinces.

The trust will not be collecting rental from its tenants that are not operating during this closure period. The manager has stated that the trust remains in compliance of its debt financial covenants and has adequate financial reserves to fulfil its obligations in the foreseeable future.

- (i) **Can the manager help unitholders understand the level of support given to landlords by the Indonesia/local governments during the closure period?**

In May 2020, it was also reported that the trust would be reviewing the payment of the upcoming distribution to perpetual securities holders payable on 19 June 2020. According to the terms, the trust has the discretion to elect not to pay any distribution for each period.

- (ii) **Would the board elaborate further on its deliberation on the payment of distribution to the perpetual securities holders?**
- (iii) **In the event that distribution to perpetual securities holders are deferred, would the trust clarify if there is a dividend stopper covenant which would prohibit the trust from paying distribution to unitholders in the event of a distribution deferral?**

Q2. In the Letter to unitholders, it was disclosed that the REIT carried out a portfolio optimisation and would be divesting Pejaten Village for Rp997.4 billion and Binjai Supermall for Rp283.3 billion at a premium of 33.3% and 19.3% respectively over their purchase prices back in 2012.

This would be the first divestment for the REIT since its listing in 2007. The chairman and CEO have stated that the divestment would allow the REIT to unlock capital and increase its financial flexibility to fund growth through reinvestments, make distributions to unitholders or pare down debt.

- (i) **Would the manager elaborate further on the ongoing portfolio optimisation strategy?** The manager has stated that these two malls fall short of the criteria that the mall must be (a) part of an integrated development that would prove resilient over the medium to long term; and/or (b) dominant or have market leading positions within the regions/areas the manager plans to operate in.

(ii) **Which are the other malls that would be divested given the right opportunity?**

From 2012 to 2020, the Indonesia economy experienced inflation as high as 8.38%. The following table shows the inflation rate recorded by Bank Indonesia.

Year	Inflation Target	Inflation Actual (% yoy)
2012	4.5±1%	4,30
2013	4.5±1%	8,38
2014	4.5±1%	8,36
2015	4±1%	3,35
2016	4±1%	3,02
2017*	4±1%	3,61
2018*	3,5±1%	3,13
2019*	3,5±1%	2,72
2020*	3±1%	

(Source: adapted from Bank Indonesia; retrieved on 2 June 2020;
<https://www.bi.go.id/en/moneter/inflasi/bi-dan-inflasi/Contents/Penetapan.aspx>)

From the table above, the cumulative effect of inflation from 2012 to 2019 would be 43.1%. As noted in the Letter to unitholders, the REIT will realise premiums of 33.3% and 19.3% over their purchase prices back in 2012.

(iii) **How did the board evaluate the REIT's investment-to-divestment cycle of the two assets given the inflation has outpaced the valuation?**

(iv) **Has the board evaluated the manager to assess how successful the manager has been at capturing long term value for unitholders?**

While the chairman and CEO mentioned that the divestments would be carried out at premium of 33.3% and 19.3% over their respective purchase prices, it was not mentioned that the Pejaten Property would be sold at a 4.1% discount to the Rp. 1,040 billion valuation determined by the Pejaten Valuer as at 30 June 2019. In fact, the last formal valuation of Pejaten Village published by the REIT was Rp. 1,157 billion as announced on 22 February 2019. If so, the sale price is in fact 13.8% below the last published valuation.

Similarly, it was not mentioned in the chairman and CEO letter that the sale of Binjai Supermall was carried out at a 8.3% discount to the “interim” valuation (valuation as announced by the REIT on 30 December 2019) and a 6.2% discount to the last available published valuation of Rp. 302 billion.

- (v) **What are the considerations by the REIT/board in deciding to sell the properties at discounts of between 6%-14% of the valuation?**
- (vi) **Would the manager be forgoing its divestment fees, if any?**
- (vii) **Given that the REIT is divesting two assets at a 6-14% discount to its annual appraised value/carrying value, how can unitholders be assured that the overall valuation/carrying value of the REIT’s portfolio is not overstated?**

In addition, the trust recognised fair value losses in investment properties of S\$65.3 million in FY 2019. Prior to the FY, the last appraised portfolio value was S\$1840.4 million. The manager has attributed it to a fair value loss in Lippo Mall Kemang as a result of the expiry of its master leases coupled with the challenging car park business environment from increasing usage of ride-hailing services. Lippo Mall Kemang was revalued down from \$296.4 million to \$258.6 million, a drop of \$37.8 million.

- (viii) **Would the REIT, under the new leadership team, be evaluating its strategy of acquiring assets with master leases that may lead to short-term support of income but unviable in the long run?**

Q3. As disclosed in the Corporate Governance report, the board is aware that two of its independent directors, namely Mr Lee Soo Hoon Phillip and Mr Goh Tiam Lock, would reach the nine years tenure during the financial year ending 31 December 2020.

The board has since commenced an identification and selection process of the appropriate individual to join the board.

In addition, in FY2019, the REIT also appointed a new independent director and chairman of the board, Mr Murray Dangar Bell, on 1 November 2019.

- (i) **Can the board elaborate further on its search and nominating process for new directors, especially independent directors?**
- (ii) **Can the nominating and remuneration committee help unitholders understand how the current search and nomination process supports the board diversity policy?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer’s website, through “live” webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)