



Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Email: admin@sias.org.sg
www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y0Y

REIT: Mapletree Industrial Trust
(Manager: Mapletree Industrial Trust Management Ltd.)

Stock code: ME8U

Meeting details:

Date: 19 July 2023

Time: 2.30 p.m.

Venue: 20 Pasir Panjang Road, Mapletree Business City, Town Hall - Auditorium, Singapore 117439

Q1. As noted in the letter to unitholders, in FY22/23, the REIT achieved an important milestone in the portfolio rejuvenation and rebalancing efforts with the completion of Mapletree Hi-Tech Park @ Kallang Way (161, 163, and 165 Kallang Way).

This represents the REIT's largest transformation of flatted factories to date, resulting in the establishment of a new high-tech industrial park with an increased utilised plot ratio of 2.5, up from the previous ratio of 1.5. The redevelopment encompasses two nine-storey buildings and a fully leased seven-storey built-to-suit facility, which is occupied by a global medical device company. The committed occupancy of the Hi-Tech Park stands at approximately 44.1% based on the net lettable area (NLA), which includes the 28.9% commitment (by NLA) from the anchor tenant of the BTS facility.

- (i) **What are the some of the green and sustainability features incorporated into the new Mapletree Hi-Tech Park @ Kallang Way? Does the manager see a premium for green buildings?**
- (ii) It is estimated that the two nine-storey buildings are about 21% leased out. **What is the manager's strategy to lease out the newly completed property? What is the profile of the targeted tenant?**
- (iii) **Are there redevelopment opportunities for the REIT's business park buildings and the remaining flatted factories now that Mapletree Hi-Tech Park @ Kallang Way has been redeveloped?**

Q2. As disclosed in the corporate profile, the REIT's principal investment strategy is to invest in a diversified portfolio of income-producing real estate used primarily for industrial purposes in Singapore and income-producing real estate used primarily as data centres worldwide beyond Singapore, as well as real estate related assets.

Assets under management that are located in Singapore now only account for 49.7% of the total portfolio of \$8.8 billion as at 31 March 2023. This is due to the REIT's investments into data centres in North America which account for all of the REIT's foreign assets (pending the acquisition of a data center in Osaka, Japan).

The REIT completed a major acquisition of 29 data centers from Sila Realty Trust for US\$1.32 billion in July 2021. Within a year of the acquisition, in April 2022, the REIT experienced a default by Sungard which was a tenant contributing approximately 6.7% of gross rental income to the acquired portfolio.

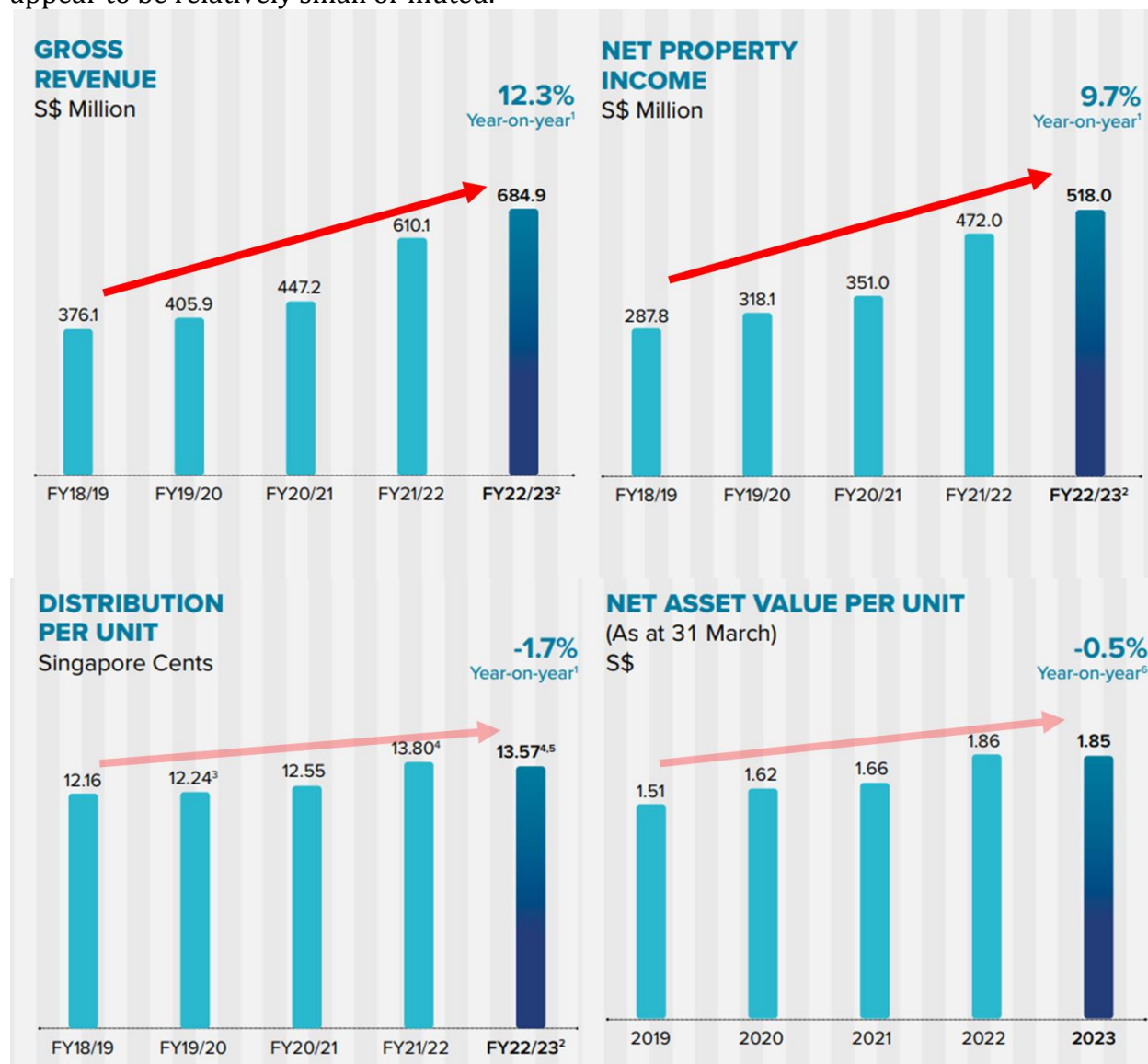
On 6 June 2023, the manager provided an update to unitholders on the "financial status of a MIT tenant¹". It disclosed that, the REIT's third-largest tenant, widely believed to be Cyxtera Technologies, had initiated a pre-arranged court-supervised process under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court. As at 31 March 2023, the tenant accounted for approximately 3.2% of the monthly gross rental income.

- (i) Could the board offer more information regarding the extent of due diligence conducted by the manager and directors, particularly in relation to the acquisitions of the data centers?**
- (ii) How does the manager quantify and assess the counterparty risks and credit risks, especially when the customer/potential customer does not have an investment-grade rating?**
- (iii) Does the manager believe that the REIT possesses a competitive advantage in the data center segment, both in the USA and other key markets? How does it compete against well-established incumbents, and what is the REIT's ability to provide value-add and generate long-term value for unitholders?**
- (iv) Furthermore, could the manager provide their perspective on the data center sector in light of the current global economic conditions, significant layoffs in the technology sector, and the growing interest in regenerative artificial intelligence (AI)?**

¹

https://links.sgx.com/FileOpen/20230606_Update%20on%20Financial%20Status%20of%20a%20MIT%20Tenant.ashx?App=Announcement&FileID=761647

Q3. The key highlights of the REIT can be found on pages 8 and 9 of the annual report. At the portfolio level, there have been substantial increases in gross revenue, net property income, and assets under management (AUM), primarily driven by acquisitions. However, when considering a per unit basis, which is more pertinent to minority unitholders, the increases appear to be relatively small or muted.



(Adapted from annual report 2022/2023)

In April 2023, the CEO was reported saying that the manager is targeting two-thirds of its portfolio to be made up of data centres within the next two years – with the “possibility” of increasing it to 75 per cent further in the future².

² <https://www.businesstimes.com.sg/companies-markets/reits-property/data-centres-could-soon-make-75-mits-portfolio-dont-call-it-data>

- (i) Can the manager provide insight to unitholders regarding the future growth plans of the REIT and whether it will continue to pursue acquisitions at a similar fast pace? In addition, what is the manager's perspective on the trend of interest rates, and how does the current high interest rate environment impact the REIT's acquisition strategy?
- (ii) In light of the high interest rate environment, how have the investment criteria changed for the REIT?
- (iii) Will the acquisitions made in the past, during a period of low interest rates, still be capable of generating long-term value for unitholders?
- (iv) Does the REIT have the capability to develop greenfield data centers or repurpose properties into data centers?

In fact, the REIT's total returns have been negative in the past year (as interest rates rose) and relatively muted in the past three years which coincided with the large acquisitions of data centers in the US.

KEY INFORMATION

S\$ Million

As at 31 March	2019	2020	2021	2022	2023
Total assets	4,607.1	5,187.9	6,391.6	8,480.0	8,546.8
Total borrowings outstanding	1,398.2	1,434.1	2,245.2	2,904.1	2,848.4
Unitholders' funds	3,047.5	3,560.1	3,895.0	4,977.1	5,074.1
Assets under management (including interests in joint ventures)	4,771.0	5,920.5	6,789.9	8,761.2	8,766.1

RETURN ON INVESTMENT

	Since Listing From 21 October 2010	5-Year From 1 April 2018	3-Year From 1 April 2020	1-Year From 1 April 2022
Total return (%) as at 31 March 2023	305.4 ²	48.4 ³	13.9 ³	-6.9 ³
Capital appreciation (%)	154.8	16.7	-2.5	-11.9
Distribution yield (%)	150.6	31.7	16.4	5.0
Closing unit price on the last trading day prior to the commencement of the period (S\$)	0.930 ⁴	2.030	2.430	2.690

(Compiled from annual report 2022/2023)

From 2019 to 2023, total assets increased by nearly \$4 billion (or 86%), from \$4.6 billion to \$8.6 billion but distribution per unit rose by 12.16 cents to 13.57 cents or 11.6%. In a way, the REIT was able to generate 12.16 cents in DPU from the first \$4.6 billion of asset while it only generated 1.41 cents in DPU from the latter \$4 billion of assets.

- (v) **Can the manager help unitholders understand how it has created long-term sustainable value with its expansion into data centers outside Singapore in the past 3-5 years? Please help shareholders understand why the increase in total assets has not been followed by comparable increases in DPU.**

In FY2018/2019, the manager received \$30.9 million in management fees. In FY2022/2023, the fees have increased to \$59.0 million, an increase of 91%, more or less in tandem with the increase in total assets.

- (vi) **Has the REIT manager evaluated if unitholders have benefitted equally from the acquisitions given that DPU increased by 2.8% only per annum when total assets and management fees increased by 16.7% and 17.6% per annum respectively?**

Despite almost doubling in size, total operating expenses to net asset value increased from 4.0% (FY2018/2019) to 4.36% FY2022/2023.

- (vii) **Has the manager observed increased operational efficiency as the trust has grown in size? What are the manager's priorities for FY2023/24 in terms of cost management and efficiency improvement?**

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

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