Asia Credit Research

Mapletree Investments Pte Ltd: Special Interest Commentary

Monday, 06 August 2018

- Mapletree Investments Pte Ltd ("MAPL") is a leading real estate company with SGD46.3bn AUM in Asia, UK and US. Singapore listed REITs ("S-REITs") anchor MAPL's credit profile, which we estimate makes up 52% of total AUM and 32% of total PATMI, with the remainder of the AUM accounted for by private funds (~15%) or directly owned (~33%).
- Recurring PATMI of SGD685mn, which grew 6.4% y/y, accounts for ~35% of FY2018's total PATMI. This was driven by acquisitions, completion of development projects and growth in the S-REITs platform.
- EBITDA of SGD1.7bn covers interest expense of SGD372.7mn by more than 4.0x, with SGD286.6mn of cash dividends upstreamed from S-REITs more than sufficient to cover MAPL's standalone interest and perpetual distribution of SGD80.5mn.
- Though credit metrics look manageable with debt to assets at 39% and net debt/EBITDA of 8.8x, we note that MAPL has been focusing on growth and expansion overseas, with capex and acquisitions surging to SGD5.0bn in FY2018.
- MAPL is a 100%-owned subsidiary of Temasek though its book value of shareholder's funds is SGD12.8bn against Temasek's net portfolio value of SGD308bn.We do not consider most assets held by MAPL to be strategic to Temasek and we note that support from Temasek has been untested.

OCBC Credit Research currently does not cover MAPL given that it is a private company that only publishes financials annually. We have presented this paper as a special interest commentary. Based on our credit framework, MAPL's hypothetical issuer profile would be Neutral (3).

Background: MAPL is a leading real estate development, investment and capital management company established in 2000 to hold non-port properties transferred from PSA Corporation to Temasek. MAPL is non-listed though publishes financials annually. In addition to developing mixed-use and built-to-suit developments from greenfield lands and redeveloping underperforming assets and precincts into high-value real estate, MAPL also manages four S-REITs and six Private Real Estate Funds. MAPL operates in eight real estate segments including Commercial (mainly office), Logistics, Retail, Mixed-use, Corporate Housing/Serviced Apartment, Industrial, Residential and Student Accommodation. Corporate Housing/Serviced Apartment and Student Accommodation are new businesses which MAPL entered into in recent years. Despite being a significant real estate company globally, the Residential segment is only a small part of its business. MAPL is directly owned by Fullerton Management Pte Ltd (which in turn is a 100%-owned subsidiary of Temasek).

MAPL is the Sponsor of the four S-REITs it manages, namely Mapletree Logistics Trust ("MLT"), Mapletree Industrial Trust ("MINT"), Mapletree Commercial Trust ("MCT") and Mapletree North Asia Commercial Trust ("MAGIC"). Additionally, MAPL manages and own stakes in six private real estate funds. These are: Mapletree China Opportunity Fund II, Mapletree India China Fund (collectively, the China Funds), Mapletree Japan Office Fund (MJOF), MJLD (collectively, the Japan Funds), CIMB-Mapletree Real Estate Fund 2, and Mapletree Global Student Accommodation Private Trust ("MGSA P-Trust"). MAPL consolidates the S-REITs, even though it only holds an average ~33%-stake in the S-REITs. The SGD bonds are issued by Mapletree Treasury Services Ltd, a wholly-owned subsidiary of MAPL and the guarantor is MAPL.

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Key credit considerations:

- **Strong growth in recurring core income of ~SGD685mn:** Reported recurring profit after tax and minority interest ("Recurring PATMI") grew to SGD684.7mn in the financial year ended March 2018 ("FY2018"), up 6.4% y/y and significantly higher than Recurring PATMI five years back when it was only SGD381.7mn. The increase in Recurring PATMI was driven by successful property acquisitions and completed development projects. Recurring PATMI contributed ~35% to total FY2018 PATMI. MAPL manages four S-REITs and six private funds which provide steady fee income. With the exception of one private fund, MAPL wholly-owns all the asset management entities. The fee income for S-REITs is eliminated at consolidation though taking out the effects of consolidation and adding all other fee income, this was SGD302.1mn in FY2018, which represents ~70% of total fee income. Given the finite life cycle (five to twelve years) and close-end nature of private funds, we expect fee income from the six private funds to tail off. Much like corporations, S-REITs are intended to have perpetual existence, thus providing a long-term and growing platform to generate fee income. We estimate that MAPL makes 0.7% as fees on AUM. Additionally, MAPL is the Sponsor of the listed REITs and continue to hold a 33%-stake on average in the S-REITs, thus also benefiting from the underlying dividends from the S-REITs.

- **Diversification into new developed markets:** MAPL has expanded its portfolio geographically through the acquisition of Oakwood Worldwide ("Oakwood")), a leading company in Corporate Housing/Serviced Apartment, office buildings and high-yielding student accommodation assets in new markets (Australia, North America and Europe) and continues to be an active acquirer. Including assets owned and third party assets managed, MAPL's assets under management ("AUM") from new markets now comprise 21% of MAPL's portfolio as at 31 March 2018. This was only 14% as at 31 March 2017. This follows MAPL's decision to expand beyond Asia into the new markets four years ago. The acquisition of Oakwood in February 2017 led revenue from MAPL's "Australasia, North Asia and Oakwood" segment to SGD1.3bn in FY2018 (more than double from FY2017). In December 2017, MAPL acquired 14 data centres in the US together with its 31%-owned and 100%-managed REIT Mapletree Industrial Trust ("MINT"). During the financial year, MAPL also bought two office properties in Australia for SGD350mn and a portfolio of more than 150 US-based logistics assets in April 2018 (post-FY2018). We expect contributions from these new markets to increase going forward.

- **Existing Asian markets dominated by Singapore and Hong Kong:** We take comfort that MAPL holds a portfolio of monetisable assets, dominated by the developed and liquid markets of Singapore and Hong Kong. Five years ago, MAPL was solely focused in the Asian region, with Singapore making up 53% of AUM while Hong Kong made up 21%. As at 31 March 2018, MAPL's total AUM was SGD46.3bn, and 79% of these were located in Asia. Despite the increased focus on developed markets, Singapore is still dominant, making up 34% of total AUM and 43% of Asian portfolio. The Singapore portfolio consists of six of the eight types of real estate which MAPL is involved in, namely offices, logistics, retail, mixed-used, industrial and residential. Commercial properties (mostly offices) are the largest component at SGD10.1bn of Singapore assets, owned by the listed REIT Mapletree Commercial Trust ("MCT") and those owned directly (eg: HarbourFront Centre, Harbourfront Tower and PSA Vista). Hong Kong assets make up 22% of the Asian portfolio and these are centred on the Logistics segment (including those held by the listed REIT Mapletree Logistics Trust ("MLT") and Commercial. The Mapletree Bay Point in Kwun Tong (completed in March 2018), was developed and owned directly by MAPL. While bulk of the assets in Singapore and Hong Kong are held indirectly via the listed REITs, MAPL still benefits from proceeds from assets sold, should these be distributed to unitholders. China and Japan are also important Asian markets with AUM of SGD5.9bn and SGD4.3bn respectively while the rest are located in Vietnam, Malaysia, South Korea and India.

- **Monetising its assets through capital recycling:** In addition to being an asset manager and asset owner, MAPL is also a real estate developer with its' established funds platform including the listed REITs being ready vehicles for asset monetisation. This helps speeds up capital recycling into new projects. The listed REITs are separately managed and any transaction between the listed REITs and their Sponsor above certain regulatory thresholds (eg: 5% of the latest audited net asset value) will need to be put through unitholders vote. As any well-managed Sponsor would, the relationship between MAPL and its REITs and private funds are cordial. This encourages the funds to at least take a look when MAPL wishes to transact on assets. In FY2018, MAPL monetized SGD1.1bn worth of assets. Mainly, Mapletree Logistics Hub Tsing Yi in Hong Kong was sold for SGD0.8bn to MLT in October 2017. Subsequent to FY2018, MLT bought a 50%-stake in 11 property holding companies (owns logistics properties in China) from the Sponsor. As of report date, three listed REITs hold a right of first refusal over specific assets owned by Sponsor and/or assets held in the private funds managed by Sponsor.

- **Assets where it fits best:** The listed REIT vehicles also allow MAPL's private fund investors to realize returns, potentially quicker versus selling to parties beyond the MAPL group. Simultaneously, the listed REITs get access to quality assets which are usually stabilized. In March 2018, six freehold commercial properties in Japan were sold from an MAPL-managed private fund to the listed MAGIC for ~SGD779mn. While MAPL holds a third of the listed REITs and consolidates the financials of REITs, effectively, other minority unitholders at the listed REITs (eg: institutional funds and retail investors) would be partly paying for these assets. MAPL is also able to transfer assets ripe for redevelopment from its listed REITs and private funds back to MAPL's development arm and/or between the listed REITs where it fits best. In August 2017, MLT proposed to sell a small asset back to Sponsor for redevelopment purposes though subsequently this was sold to its sister REIT, MINT instead, who is diversifying into data centres/info communications.

A) Company Overview & Analysis:

- **Development and redevelopment activities:** One of MAPL's core competency is in precinct rejuvenation where it transforms low-yielding and underutilised assets into attractive assets demanded by the market. MAPL generates revenue from the sale of these assets as well as earn rental income from the quality assets under its portfolio. Some of the assets successfully developed by MAPL include

  (i) Refurbishment of the former World Trade Centre into HarbourFront Centre, an office cum retail development.
  (ii) Development of three prime office buildings – HarbourFront Tower One and the build-to-suit Bank of America Merrill Lynch HarbourFront to cater to the surge in demand for office space in fringe CBD areas.
  (iii) Upgrading of Singapore Cable Car Tower into office building HarbourFront Tower Two.

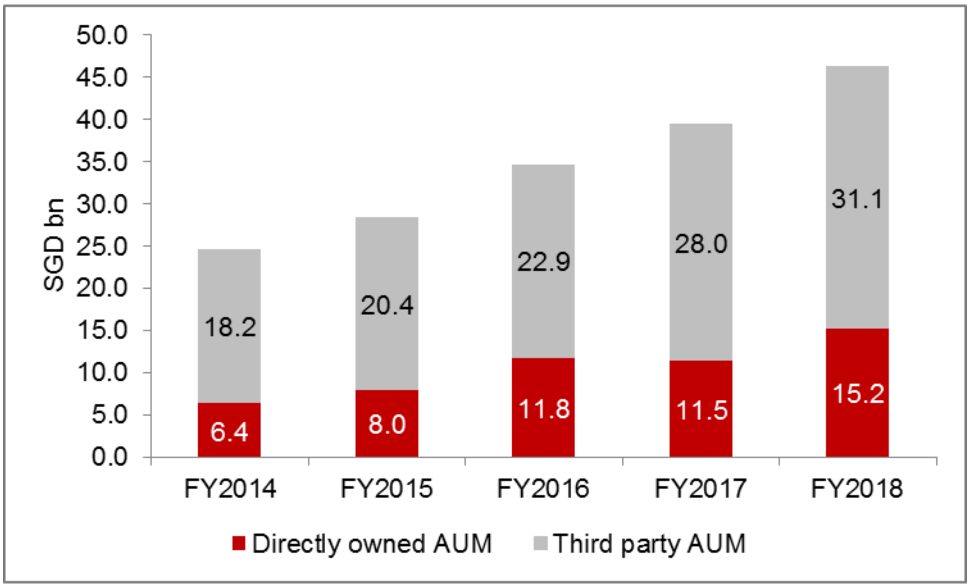
- **Intensifying asset-light strategy:** Back in 2001, MAPL only owned SGD2.6bn of real estate assets which were entirely directly owned and predominantly located in Singapore. This has grown to SGD15.2bn as at 31 March 2018. MAPL has since pursued a more asset-light business model and hence, as of 31 March 2018, of the total SGD46.3bn in AUM, 67% are third-party managed assets (including the S-REITs and private funds), with the remaining 33% of the AUM directly-owned by MAPL. While the AUM is within management target of between SGD40-50bn, the intention is to grow the ratio of managed assets versus directly owned assets to more than 3:1 by FY2019. In FY2018, this was 2:1. AUM though does not equal to total assets consolidated by MAPL. As at 31 March 2018, total assets were SGD42.6bn. We think the difference can be explained by assets that are managed but not considered to be under the control of MAPL and likely this consist of assets held under the private funds.

Table 1: AUM type as at 31 March 2018

Type	AUM	Key assets
Third party managed assets	SGD31.1bn	Four S-REITs Six private funds
Directly-owned assets	SGD15.2bn	Assets directly owned by MAPL
Total	**SGD46.3bn**	

Source: Tabulated from FY2018 financials

Figure 1: Historical growth in AUM



Source: Company FY2018 financials

Table 2: Estimated Breakdown of Third Party AUM

S-REITs and Private Funds	MAPL-stake	AUM (SGDbn)	Asset Class	Key Exposure
MCT (S-REIT)	34%	23.9	Office and VivoCity mall	Singapore
MLT (S-REIT)	34%		Logistics	Singapore, Hong Kong, Japan
MINT (S-REIT)	31%		Industrial and data centres	Singapore, US
MAGIC (S-REIT)	31%		Retail malls and offices	Hong Kong, China, Japan
Mapletree China Opportunity Funds II	36%	2.5	Mixed-use or single-use office, business park, retail, industrial, serviced apartment and residential projects	Tier 1 and 2 cities in China
Mapletree India China Fund	43%		Commercial and mixed used	Tier 1 and 2 cities in China Tier 1 cities in India
MJOF	36%	2.8	Offices	Greater Tokyo and Tokyo CBD
MJLD	38%		Logistics	Japan
MGSA P-Trust	35%	1.9	Student accommodation	UK and US
Total		**31.1**		

Source: Estimated from company's FY2018 financials and website, Bloomberg for stakes in listed S-REITs

Note: (1) Includes debt taken at the underlying S-REITs and private funds

(2) CIMB-Mapletree Real Estate Fund 1 not included (total fund size of SGD0.1bn); this fund is in the divestment phase

(3) OCBC Credit Research attributes divergence of AUM for S-REITs and total assets reported to rounding of decimal points

- **Stakes held in S-REITs contributes to results:** The four listed REITs collectively make up 77% of third party AUM and 52% of total AUM. MLT, its largest S-REIT, was the first S-REIT listed by MAPL in 2005. We estimate that the S-REITs contribute ~60% to MAPL's consolidated net profit before minority interest ("Net Profit"). Nonetheless, MAPL only owns an average 33%-stake in each REIT. Hence, after adjusting out minority interest, the S-REITs only contribute ~33% to MAPL's total PATMI in FY2018. The rest of MAPL's profits come from leasing income and fair value gains/(losses) from MAPL's directly-owned properties (including those within the Oakwood operations), fee income generated from the private funds.

Table 3: Estimated Returns and Cash Dividends to MAPL

FY2018 SGDmn	Cash dividends paid	Total return for the year	MAPL's stake	MAPL's share of cash dividend paid	MAPL's share of total return
MCT	259.7	567.6	34%	88.3	193.0
MLT	200.2	472.2	34%	68.1	160.6
MINT	212.1	300.5	31%	65.7	93.2
MAGIC	208.7	574.3	31%	64.7	178.0
Total	**880.7**	**1,914.7**		**286.8**	**624.7**

Source: Estimated from the S-REITs FY2018 financials, Bloomberg for stakes in listed S-REITs
Note: (1) Total return includes fair value gains/(losses) from underlying assets owned by the S-REITs

- **New private funds will continuously be launched:** Private funds make up ~SGD7.2bn (or 15%) of total AUM. AUM under these funds consists of equity from MAPL and equity sourced from clients including sovereign wealth funds, pension funds, insurance companies and private investors. Comparing the larger AUM versus the disclosed committed capital/fund size of SGD5.8bn in aggregate, we think the private funds are levered, which is not unusual for this investment class. Each fund is used to invest in specific property types with a focus in a particular region. Having these funds provides MAPL with the financial flexibility to scale quickly. For instance, MAPL embarked on an aggressive acquisition of student accommodation assets since FY2017 (maiden acquisition in November 2016, 6,000 beds). MGSA P-Trust was formed as the world's first student accommodation-focused fund, with MAPL syndicating and successfully raising USD535mn (~SGD729mn) in capital commitments. At the fund's closing in March 2017, it held SGD1.8bn in student accommodation assets (including assets from the maiden acquisition). MAPL also generates fee income from private funds, amounting to SGD71mn in FY2018. Private funds are held as joint ventures and associates by MAPL. We expect MAPL to continuously launch new private funds using real estate acquired as seed assets. This is more so given that four of its six private funds are in or nearing the divestment (exit) stage.

- **Directly owned real estate assets:** We estimate that MAPL holds SGD15.2bn in directly owned assets. This includes properties developed by MAPL as well as properties which MAPL has invested in. MAPL has a diversified portfolio of assets ranging from mixed-use, office, industrial, residential and retail properties. Directly owned assets was SGD11.5bn in FY2017, the y/y growth was attributable to the acquisition of investment properties in Vietnam, US and Europe, completion of Mapletree Business City II ("MBC II") and 18 Tai Seng in Singapore. As a recap, a significant portion of the REITs net profit ends up flowing to minority interests. Hence, leasing income from its directly owned properties is an important contributor to MAPL. A few of the key directly owned assets include:

Table 4: Certain Directly Owned Assets

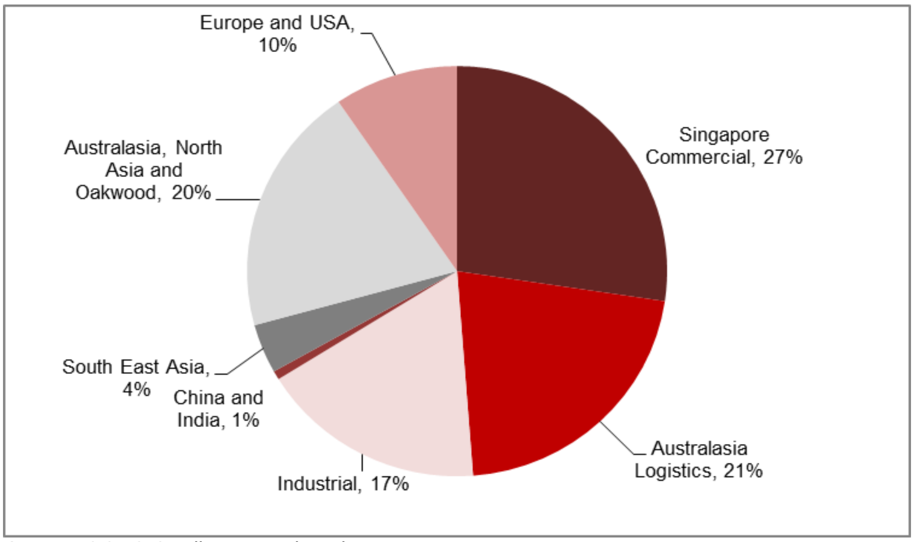
Property	Geography	Property Type	GFA (sqm)
HarbourFront Centre	Singapore	Office	97,700
Arca Building	China	Office	19,695
Mapletree Baoshan Industrial Park	China	Industrial	68,433
18 Tai Seng	Singapore	Mixed-use	41,200
SC VivoCity	Vietnam	Commercial	62,600
Mapletree Bay Point	Hong Kong	Office	61,344
Mapletree Business City II	Singapore	Mixed-use	128,505 (excluding GFA at Mapletree Business City I)

Source: FY2018 company financials, MCT financials

B) Operating segments

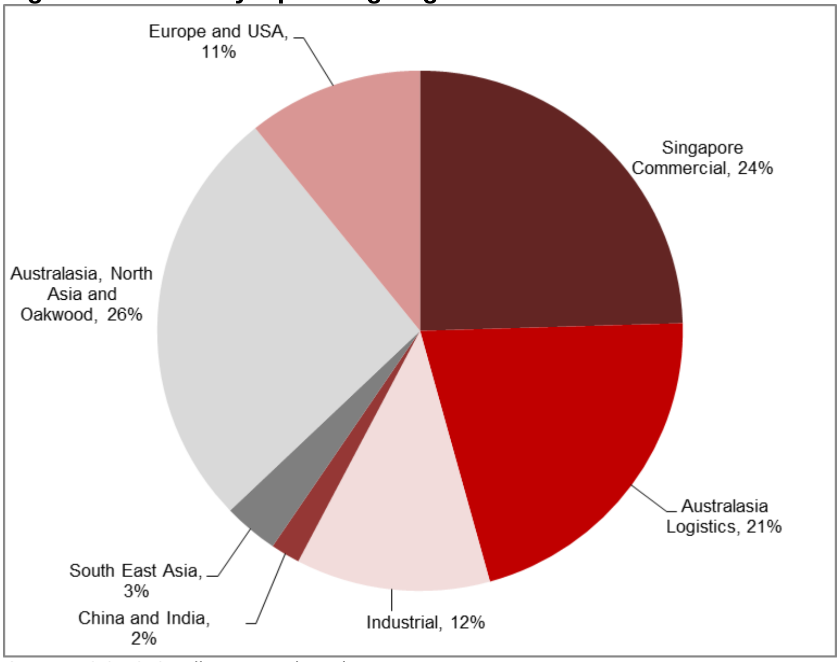
MAPL does not break down financial performance by each real estate type, by geography which allows more in-depth analysis. Instead, as key businesses are multi-jurisdictional (eg: MLT which owns logistics assets across Asia-Pacific), MAPL reports operating segments in seven aggregates. For this report, we have used EBITDA excluding revaluation gains on investment properties and properties under development and excluding share of profit from associates and joint ventures).

Figure 2: FY2018 EBITDA by Operating Segment



Source: OCBC Credit Research estimates

Figure 3: Assets by Operating Segment as at 31 March 2018



Source: OCBC Credit Research estimates

Table 5: FY2018 MAPL's EBITDA and Asset Breakdown

SGDmn	EBITDA	Assets	EBITDA-to-Assets
Singapore Commercial	496.5	10,328.8	4.8%
Australasia Logistics	389.4	8,915.5	4.4%
Industrial	315.8	5,035.7	6.3%
China and India	12.6	762.0	1.7%
South East Asia	70.5	1,423.6	5.0%
Australasia, North Asia and Oakwood	357.6	11,092.2	3.2%
Europe and USA	173.4	4,542.2	3.8%
Others	(130.1)	474.9	N.M
Total	**1,685.8**	**42,575.0**	**4.0%**

Source: MAPL FY2018 financials
Note: Exclude revaluation gains on investment properties and properties under development, exclude share of profit from associates and joint ventures

Table 6: FY2017 MAPL's EBITDA and Asset Breakdown

SGDmn	EBITDA	Assets	EBITDA-to-Assets
Singapore Commercial	465.2	9,707.1	4.8%
Australasia Logistics	422.9	7,996.9	5.3%
Industrial	253.3	3,822.6	6.6%
China and India	41.1	749.8	5.5%
South East Asia	45.3	1,319.5	3.4%
Australasia, North Asia and Oakwood	358.3	9,796.8	3.7%
Europe and USA	192.4	2,431.0	7.9%
Others	-167.6	435.4	N.M
Total	**1,611.0**	**36,259.2**	**4.4%**

Source: MAPL FY2018 financials
Note: EBITDA exclude revaluation gains on investment properties and properties under development, also excludes share of profit from associates and joint ventures

(i) Singapore Commercial

Overview
Singapore Commercial comprises primarily commercial properties as well as a number of industrial and business parks in Singapore. Singapore Commercial is the largest contributor to EBITDA at 27% of total EBITDA and makes up 24% of total assets. The segment consists of assets directly-owned by MAPL and assets held under its REIT, MCT.

We estimate that 62% of the segment's consolidated EBITDA is attributable to MCT. MCT's total assets were SGD6.7bn, making up 65% of segmental assets 31 March 2018.

MCT
MCT is a REIT focused on Singapore Commercial properties and adjusting for minority interest, MCT contributes 10% to MAPL PATMI. Since its listing on 27 Apr 2011, MCT has consistently delivered good results to its investors. Revenue is driven by the acquisition of MBC I in Aug 2016 and continued healthy performance of VivoCity (shopping mall), Mapletree Anson and PSA Building ("PSAB"), both office buildings.

VivoCity (contributes 46% to MCT's FY2018 net property income) is the largest shopping mall in Singapore with committed occupancy of 99.9%. MBC I (contributes 31% to MCT's FY2018 net property income) is one of the largest integrated office and business park complexes in Singapore with Grade-A building specifications. It has attracted a strong and diverse tenant base since its completion in 2010. The property has a net lettable area ("NLA") of 1,708,218 sq ft and comprises four blocks of office and business park space.

We maintain MCT's issuer profile at Neutral (3). MCT's credit health remained manageable with a well-distributed debt maturity profile and no more than 20% of debt due for refinancing in any financial year. Out of the SGD264mn debt due in FY2019, SGD120mn has already been refinanced through the issuance of SGD120mn MCTSP 3.28%'24. Balance sheet remained robust though aggregate leverage increased slightly to 34.7% as at 30 June 2018 (4QFY2018: 34.5%). Reported interest coverage ratio is healthy at 4.6x. MCT has no encumbered assets, which provides it with financial flexibility to raise secured debt if need be. MCT's manageable lease expiry gives comfort to Mapletree regarding the stability of rental income generated from the assets. MCT's healthy debt profile level heightens the possibility of MAPL injecting MBC II into its portfolio.

According to URA 2Q2018 statistics, office rental rates have bottomed out, increasing for the fourth consecutive quarter since 2Q2017. Rental price index of office spaces in Central region has increased 1.6% q/q to 170.3. Vacancy rates for office spaces have also fallen to 12.2% from the peak of 13.3% in 3Q2017. Rise in office rental rates is further supported by a decrease in supply of office relative to levels in FY2017. Given the supply glut in the near term, coupled with falling vacancy rates in the office space, contributions from MBC I and MAPL Anson are poised to benefit from the industry-wide recovery in rental prices. Despite the retail sector facing headwinds, we view VivoCity to be a unique asset which should outperform the broader market.

Directly-owned assets
MAPL's directly-owned commercial properties are backed by strong and stable tenant base and are mostly fully leased. In addition to acquiring top quality assets, MAPL is also involved in real estate development and redevelopments. For instance, MAPL has transformed the former Alexandra Distripark into a bustling business centre (ie: MBC, with MBC I subsequently injected into MCT). Asset enhancement works and further refurbishment of amenities in HabourFront Towers were completed by FY2018. This will help attract tenants and further boost the occupancy rates of the assets.

(ii) Australasia Logistics

Overview
This segment comprises of logistic assets located in Asia Pacific region. It includes development projects in China, Hong Kong SAR, Japan, Malaysia and Vietnam which are directly owned by MAPL, as well as assets held under MLT. This segment contributed to 21% of MAPL's total assets as well as EBITDA.

We estimate that 75% of the segment's consolidated EBITDA is attributable to MLT. MLT's total assets were SGD6.7bn, making up 75% of segmental assets as at 31 March 2018.

MLT
MLT is a REIT focused on logistics properties and adjusting for minority interest, MLT contributes 8% to MAPL PATMI. MLT's assets by property value are mainly located in Hong Kong (33%), Singapore (25%), Japan (14%) and the rest are in China, Australia, South Korea, Malaysia and Vietnam. We expect MLT to gear up its balance sheet while it buys assets for portfolio rejuvenation, including buying assets developed by MAPL.

We continue to maintain MLT's issuer profile at Neutral (4). FY2018 gross revenue rose 5.9% y/y to SGD395.2mn due to higher revenue from existing properties and the completion of Mapletree Pioneer Logistic Hub ("MPLH") redevelopment in Singapore. On top of that, MLT completed the acquisition of the remaining 38% at Shatin No. 3 in January 2018. While the redevelopment of Ouluo Logistic Centre ("Ouluo") contributed to the drag in the Singapore portfolio, phase 1 of the Ouluo Logistic Centre is targeted to be completed in 2QFY2019.

The acquisition of Mapletree Logistics Hub Tsing Yi, from MAPL, which has 100% committed occupancy, was completed in October 2017. Full year contribution from acquisitions and the larger gross floor area post-redevelopment of MPLH and Ouluo will help drive MLT growth.

On 6 June 2018, MLT completed its acquisition of a 50% economic interest in 11 China-based logistics properties from MAPL and Itochu Corporation at SGD213.9mn. This was funded by private placement. This acquisition will help to increase MLT's exposure to China and allow MLT to tap on the favorable supply-demand dynamics which underpins rental growth of e-commerce logistic assets in China. The top tenants include JD.com and Cainiao Smart Logistics Network.

As of 30 June 2018, MLT's aggregate leverage was 36.4% (lower than the 37.7% as at 31 March 2018). On 5 July 2018, MLT announced the acquisition of five logistics properties in Singapore from CWT Pte Ltd for a total acquisition cost of SGD806mn. The funding structure has yet to firm up though we think MLT will attempt to take a higher proportion of debt and/or perpetuals for fundraising since the equity holders were already tapped SGD220mn in May 2018. MLT envisages to sell ~SGD200mn of assets in Singapore to help recycle capital though in our view, this is likely to be on a piecemeal basis and timing remains uncertain.

Directly-owned assets
Mapletree actively develops logistics parks and facilities across Asia. In FY2018, MAPL completed eight logistic development projects in China and two in Malaysia, with a combined GFA of 1.0mn sqm. MAPL has secured 12 logistics development projects in China and commenced construction of Mapletree Logistics Park Bin Huong Phase 3 (combined GFA 1.1sqm). Upon completion and stabilization, MAPL could divest these assets to MLT and record a gain. Some of the assets injected into MLT by MAPL in the past include Mapletree Logistics Hub Tsing Yi, Binh Duong Phase 2, Shah Alam Logistics Park.

(iii) Industrial

Overview

This segment comprises industrial assets located in Asia Pacific region. From December 2017 onwards, this also includes data centres in the US. Bulk of the segment is made up of MINT. This segment contributed 17% to MAPL's total EBITDA and 12% to total assets.

We estimate that 78% of the Industrial segment's consolidated EBITDA is attributable to MINT. MLT's total assets were SGD4.2bn, making up 82% of segmental assets as at 31 March 2018.

MINT

MINT is a REIT focused on industrial properties and adjusting for minority interest, MINT contributes 5% to MAPL's PATMI in FY2018. Historically, MINT was focused on Singapore industrial-zoned assets though in December 2017, MAPL and MINT formed a joint venture to buy a portfolio of 14 data centres in the US. MINT holds 40%-stake in the joint venture and a right of first refusal to buy the remaining 60% from MAPL. MINT's Singapore assets are mainly made up of stack-up/ramp-up buildings, light industrial buildings, flatted factories, Hi-Tech buildings and business parks.

Gross revenue for FY2018 rose by 6.7% y/y to SGD363.2mn. Growth was driven by contribution from a built-to-suit ("BTS") development carried out by MINT for HP Singapore Ltd and the data centre joint venture contributed SGD3.9mn to bottom line (not including fair value gains). Post quarter end, MINT had also completed Mapletree Sunview, another BTS data centre with a 100% lease commitment by a data centre operator. These would contribute to recurring rental income.

MINT completed its acquisition of 7 Tai Seng Drive on 14 June 2018 from its sister REIT, MLT. Including the upgrading of the property into a high-specification building, total cost is estimated to be SGD95mn. While MINT would need to expend capex, the property has already been fully leased to an established communication technology company.

While there are growth catalysts, the Singapore industrial sector remains at best flat while we estimate 46% of MINT's investment property assets are increasingly out of step with the changes in Singapore's manufacturing sector drivers. We maintain MINT at an issuer profile of Neutral (3). As at 30 June 2018, aggregate leverage at MINT was 35.0%, higher than 2016-2017 levels though EBITDA/Interest coverage remains very healthy at 7.1x.

(iv) China and India

Overview

This segment is comprised of directly owned assets in China and India and the two China Funds, namely the Mapletree India China Fund and the Mapletree China Opportunity Fund II. This excludes assets in China already accounted for in other segments (eg: Logistics and Industrials). As at 31 March 2018, we estimate that this segment contributed 1% to total EBITDA and at SGD762mn, represents 2% of total MAPL assets.

The two private funds are not consolidated into MAPL's balance sheet though accounted for as investments in associated companies. While China continues to be an important part of MAPL, it is likelier that in the next 12 months, it will focus on investing in developed economies. India in our view is still a new and emerging market for MAPL with directly-held investments there largely for diversification purposes.

(v) South East Asia

Overview

This segment is comprised of directly owned assets in South East Asia excluding Singapore. Key geographies include Vietnam and Malaysia. MAPL's exposure to Vietnam includes offices and Corporate Housing/Serviced Apartments. For Malaysia, the presence is smaller, with MAPL only having provided mezzanine financing to three property projects in Malaysia. This segment excludes Vietnam and Malaysia assets accounted for in other segments.

As at 31 March 2018, we estimate that this segment contributed 4% to total EBITDA and at SGD1.4bn, represents 3% of total MAPL assets.

(vi) Australasia, North Asia and Oakwood

Overview

This segment comprises MAGIC, the Oakwood serviced apartment/corporate housing business, Mapletree Bay Point (a newly developed property in Hong Kong), offices in Australia and two Japan-focused private funds namely MJOF and MJLD. These private funds are held as investments in associated companies.

We estimate that 74% of the segment's consolidated EBITDA is attributable to MAGIC. MAGIC's total assets were SGD6.5bn, making up 59% of segmental assets as at 31 March 2018. Given MAGIC's outsized contribution to EBTIDA despite its smaller contribution to assets, we infer that EBITDA from Oakwood and other assets was at best thin in FY2018. Oakwood's FY2018 EBITDA was not provided though it was disclosed that in FY2017, Oakwood contributed a net loss of SGD5.2mn on revenue of SGD54.7mn (~one month contribution). Mapletree Bay Point was newly completed as at 31 March 2018 (50% pre-leasing rate). We expect MAGIC's EBITDA contribution to fall to between 60 – 70% with the recognition of rents from Mapletree Bay Point in FY2019.

MAGIC

MAGIC is a REIT focused on Commercial and Retail properties in North Asia. Adjusting for minority interest, we estimate that MAGIC contributes 9% to MAPL's PATMI. Historically, MAGIC had focused on the Greater China region though in May 2018, it bought six office assets (~98.5%-stake) from MJOF after it expanded its investment mandate to include Japan. The original three key assets have consistently achieved positive rental reversions and near-full occupancy rates and we expect this to continue in the next 12 months. Post-acquisition of the Japan office assets, these three still make up 89% of MAGIC's investment properties by valuation.

- **Festival Walk:** one of the top ten shopping malls in Kowloon Tong, Hong Kong, with an office component located in Hong Kong.
- **Gateway Plaza:** a premier Grade-A office building with a retail podium located in the prime Lufthansa Area in Beijing, China
- **Sandhill Plaza:** a premium quality business park development located in Pudong New Area, Shanghai (acquired on 17 June 2015).

Since MAGIC's IPO in 2013, Festival Walk has enjoyed 100% occupancy rate for its retail cum office property asset since 1998. Festival Walk is the largest asset in MAGIC's portfolio (64% contribution). Gateway Plaza and Sandhill have also been performing well. MAGIC's high quality assets backed by strong tenant base have provided MAPL with stable inflow of leasing income. Leasing income is expected to increase as rental reversion rates for expiring leases are likely to grow at a moderate pace.

MAGIC's recent acquisition of assets in Japan is likely to be accretive as leases expiring in FY2019 currently under-rented, hence this may offer upside potential with positive rental reversion. MAGIC's venture into Japan would also allow for more income diversification and provides MAPL to tap into Japan's attractive and high yielding commercial real estate market. In addition, there are rental upsides in Japan due to limited supply pipeline in Chiba (73.5% of monthly rental contribution to the Japan offices). Vacancy rate in Japan is forecasted to remain steady while rental rates are expected to inch up on the back of improving macro-economic conditions.

We maintain MAGIC at an Issuer profile (4). Aggregate leverage has increased to 38.8% (4QFY2018: 36.2%), due to increase in onshore JPY debt taken to buy the Japan properties and the q/q weakening of CNY against HKD. MAGIC's debt maturity profile remained well-staggered with no more than 20% of debt due in any year.

Directly-owned assets: Mapletree Bay Point

In March 2018, MAPL completed the development of Mapletree Bay Point, a grade A office building in Kwun Tong (Kowloon East) with a GFA of ~61,316sqm. MAPL is poised to benefit from the rising demand in office buildings in Kowloon East given that the surge in rents in the financial district has shown no signs of abatement. There has been an increasing number of tenants relocating their offices to this second central business district for Hong Kong, where rents are 25% cheaper than those in Central. Indicatively, we think this property may fetch SGD1.6bn or more based on market value of office properties in the Kwun Tong area.

Directly-owned assets: Oakwood
As part of MAPL's strategy to strengthen its Corporate Housing/Serviced Apartment presence, MAPL acquired full ownership of Oakwood, in February 2017. Earlier in April 2014, MAPL had already acquired a 49%-stake in Oakwood Asia Pacific Pte Ltd, Oakwood's Corporate Housing/Serviced Apartment business in Asia. Oakwood offers wide array of accommodation solutions, comprising of a portfolio of 55 Oakwood-branded and managed properties (49 are fee-managed, out of which 12 are owned by MAPL and the rest owned by third parties). Average occupancy rate was at 86% in FY2018. Oakwood continues to expand with four new properties opened in FY2018 and well as another seven new properties slated to open in FY2019.

(vii) Europe and USA

This segment consists of MAPL properties located in Europe and the US though excluding Oakwood. Predominantly, this segment is made up of MAPL's directly-owned student accommodation real estate assets and the MGSA P-Trust which is accounted for as share of associates and joint ventures. We estimate that the "Europe and USA segment" contributed 10% to consolidated EBITDA and with segment assets of SGD4.5bn, contributed 11% to total assets. MGSA P-Trust, which has more than 14,000 beds across the US and UK is not consolidated on MAPL's balance sheet though MAPL's 35%-stake in this private fund would be accounted for under investments in associated companies. Between FY2017 and FY2018, segment assets grew 87% mainly from the acquisition of more student accommodation assets, the SGD1.0bn acquisition of data centres (via the joint venture with MINT) and its first office building in the US for SGD329mn. Student accommodation as real estate assets are seen as high-yield and counter-cyclical as there are still a tendency for people to up-skill in times of recession. The occupancy rates of MAPL's student housing assets are above 90%, bringing in certainty of steady stream of revenue for MAPL. Going forward, MAPL would also explore acquisition opportunities of student accommodation assets in Australia and Europe. With MGSA P-Trust being well received by investors, we expect MAPL will create further funds in the student accommodation space going forward.

C) Financial analysis

- **Increase in revenue due to Oakwood:** In FY2018, MAPL reported consolidated revenue of SGD3.2bn with Oakwood contributing 23% (SGD743.8mn). Oakwood was fully acquired in February 2017, contributing only one month of revenue in FY2017. Going forward, we expect Oakwood to bring in a steady stream of income. Leasing revenue has also increased by 8% y/y to SGD2.4bn. This is due to newly completed development projects, additional income stream from acquisitions in the US, Europe and Australia as well as increased revenue of the four REITs.

- **Record high PATMI on the back of growth in underlying operations and asset revaluations:** MAPL's PATMI for FY2018 grew 39% y/y to SGD2.0bn driven primarily by (1) Strong Recurring PATMI of SGD684.7mn which excludes incentive fees and residential gross profits and (2) Asset revaluation gains of SGD1.1bn (including revaluation gains observed across all four S-REITs). (3) Investment and other gains (corporate restructuring surplus and disposal gains and fair value adjustments) also contributed SGD137.2mn to its FY2018's PATMI. That being said, (3) are one-offs and (2) is highly dependent on compression of cap rates and we do not expect MAPL to continue exhibiting bumper increases in the next 12 months should cap rates expand. MAPL continues to provide income stability with recurring core PATMI making up ~35% of total PATMI in FY2018. Recurring PATMI grew 6% y/y due to solid performance of the REITs, growing rental income from directly owned properties and contributions from new acquisitions. We expect Recurring PATMI to grow steadily along with MAPL's increase in AUM.

- **Manageable credit metrics despite rise in leverage from buying real estate:** We take comfort that MAPL's short term debt of SGD2.2bn as at 31 March 2018 can be met by SGD1.3bn of cash and undrawn banking facilities of SGD8.6bn. EBITDA (based on our calculation) has improved to SGD1.7bn in FY2018 from SGD1.5bn in FY2017. However, interest expense has also inched up to SGD372.7mn from SGD340mn. This was driven by an increase in gross borrowing to SGD16.6bn as at 31 March 2018 from SGD13.1bn a year ago, largely from increased in bank loans (net new borrowings of SGD3.3bn) and new bonds issued. Resulting EBITDA/Interest was slightly higher at 4.7x versus 4.6x. MAPL's operating cash flow after paying interest and tax has been growing healthily, generating more than SGD1.0bn in each of the past three years. However, with the group's focus on growth and expansion overseas, capex and acquisitions have surged to SGD5.0bn in FY2018. Acquisitions were high in FY2018 due to ~SGD3.0bn on acquisition of investment properties and another SGD1.2bn spent on acquiring subsidiaries (which hold investment properties) and investments into joint ventures and associates. The increase in gross debt has led to a weakening in the credit profile though still manageable as book value equity had also risen (largely from increase in retained earnings).

Table 7: Credit Metrics

Item	FY2018	FY2017
Unadjusted net debt-to-equity	64%	56%
Debt-to-EBITDA	9.6x	8.5x
Unadjusted debt-to-asset	39%	36%
Adjusted debt-to-asset with 50% of perpetual as debt	41%	39%

Source: OCBC Credit Research
Note: As at 31 March 2018, SGD1.8bn in perpetuals outstanding, representing 4% of total capital

- **Recurring income supports interest servicing:** Recurring PATMI amounting to SGD685mn in FY2018 is more than adequate to service FY2018's interest expense of SGD372.7mn. Going forward, with most of MAPL's assets largely leased out while development properties get completed, recurring income is expected to continue climbing. It is worthy to note that properties under development have fallen from SGD1.7bn in FY2017 to SGD409.8mn in FY2018. Taking into account new developments, MAPL completed SGD1.8bn developments during the year and this was transferred into investment properties.

- **Dividends from S-REITs enough to pay parent interest expense and perpetual distribution:** S-REITs are required to distribute 90% of their taxable income to unitholders in order to enjoy tax exemption, thereby increasing the certainty that MAPL continues to receive dividends from the S-REITs. Out of the SGD341.2mn in cash interest incurred by MAPL on a consolidated basis in FY2018, SGD209.9mn are incurred at the S-REIT level with the remaining SGD131.3mn of cash interest attributable to MAPL (excluding S-REITs). We estimate that MAPL receives SGD286.8mn in cash dividends from its stake in the S-REITs, more than sufficient to pay down MAPL's standalone interest and perpetual distribution of SGD80.5mn (collectively SGD211.8mn).

- **Flexibility to reduce leverage through capital recycling**: MAPL can also look to reduce its debt level through capital recycling. MAPL is able to monetize its assets through injecting them into its S-REITs. It is able to sell its newly developed properties to its S-REITs or previously low-yielding assets which it has successfully unlocked value through its expertise in precinct rejuvenation. While MAPL is unable to book gains in the sale of assets due to the consolidation of the REITs, divestment of assets would help to boost MAPL's cash balance. For instance, the injection of MBC I to MCT in August 2016 helped recycle capital of SGD1.8bn and in February 2017, MAPL divested three logistics centers in Japan to MJLD for SGD541mn. The proceeds would help MAPL pare down debt, redevelop its existing properties and fund inorganic growth opportunities. MAPL is also able to launch new private funds with its existing portfolio as seed assets.

- **S-REITs still have some debt headroom:** As at 30 June 2018, aggregate leverage for the S-REITs was 36% on average. With the respective S-REITs still below the leverage limit of 45%, there is still room for the S-REITs to acquire potential assets to strengthen its portfolio, though we think any sizeable acquisition would require an equity fundraise. Assuming an internal management target of 40%, we estimate that the S-REITs have a collective debt headroom of SGD1.5bn (assuming new assets are fully acquired via debt). As at 31 March 2018, the S-REITs account for SGD24.0bn or ~56% of total assets. By 30 June 2018, S-REIT assets have risen to SGD25.2bn and we expect the proportion to continue increasing as MAPL inject more assets into its S-REITs. For example, it is possible for MAPL to inject MBC II into MCT, with MCT also being a natural buyer for MAPL's other Singapore Commercial assets. While it can be positive to MAPL's debt profile if the acquisitions made by S-REITs are funded by new equity, MAPL's stake in the respective REITs would be diluted if it does not participate in the equity raising. Indeed, we have observed MAPL's stake gradually declining as the S-REITs fund their acquisitions via new equity for portfolio rejuvenation. In our view, there is still good alignment of interest between MAPL and the S-REITs and as such not yet concerned about the dilution.

- **Good access to financing markets:** Indirectly, MAPL is wholly-owned by Temasek, Singapore's sovereign wealth fund. Despite its non-listed nature, MAPL maintains healthy access to fixed income and bank debt markets. As at 31 March 2018, secured debt at MAPL only amount to SGD440.0mn, representing 1% of total assets. Out of the investment properties of SGD37.4bn, only SGD922.4mn has been mortgaged to obtain bank loans, leaving ample financial flexibility for MAPL to raise secured debt if need be. Debtholders at the MAPL level are structurally subordinated to debtholders at the S-REIT, though given the regulatory aggregate leverage cap at the S-REITs, there is sufficient asset buffer for MAPL in a liquidation. Under this unlikely scenario, proceeds from asset sales (after paying debtholders) can be divvyed among the S-REIT unitholders, including MAPL. To generate upfront liquidity, stakes held by MAPL in the S-REIT and private funds can be sold in the secondary market, if necessary. Taking a leaf from Azalea Asset Management (another Temasek owned asset manager), stakes in the private funds can also be repackaged into a collateralised fund obligation.

D) Technical Considerations

Positives

- Lack of new high grade supply (aside from statutory boards) in the SGD market in the past six months
- Household brand name
- Temasek-ownership
- Diversification across real estate class

Negatives

- Privately held entity with limited on-going disclosures; only publishes annual report with annual financials once a year (though S-REIT disclosure partially mitigates).
- Lack of external credit rating
- HoldCo-OpCo subordination with majority of AUM held under SREITs

Relative Value:

Issue	Maturity / 1st call-date	Net debt/ EBITDA	Net gearing	Ask YTW	I-Spread
MAPLSP 2.92% 2019	21-Jan-19	8.8x	0.64x	2.07%	42bps
MAPLSP 2.888% 2021	21-Jun-21	8.8x	0.64x	2.72%	62bps
MAPLSP 2.85% 2025	29-Aug-25	8.8x	0.64x	3.22%	79bps
MAPLSP 3.95% PERP	12-Nov-22	8.8x	0.64x	3.95%	141bps
MAPLSP 4.5% PERP	19-Jan-22	8.8x	0.64x	3.78%	162bps
CAPLSP 4.35% 2019	31-Oct-19	7.6x	0.49x	2.37%	49bps
CAPLSP 4.3% 2020	31-Aug-20	7.6x	0.49x	2.60%	58bps
CAPLSP 3.8% 2024	28-Aug-24	7.6x	0.49x	3.21%	86bps
MCTSP 2.65% 2019	07-Nov-19	7.4x	0.53x	2.44%	58bps
MCTSP 3.2% 2021	12-Apr-21	7.4x	0.53x	2.73%	65bps
MCTSP 3.11% 2026	24-Aug-26	7.4x	0.53x	3.42%	94bps
MINTSP 3.75% 2019	08-Mar-19	4.8x	0.42x	2.01%	32bps
MINTSP 3.65% 2022	07-Sep-22	4.8x	0.42x	2.94%	74bps
MINTSP 3.16% 2024	28-Mar-24	4.8x	0.42x	3.20%	87bps
MLTSP 4.18% PERP	25-Nov-21	8.2x	0.63x	3.56%	141bps
MLTSP 3.65% PERP	28-Mar-23	8.2x	0.63x	3.86%	161bps
STHSP 3.95% PERP	16-Jun-22	1.1x	1.0x	4.07%	154bps

Indicative prices as at 03 August 2018

We think CapitaLand Ltd ("CAPL"), which we rate with Issuer Profile of Neutral (3), is the closest comparable given that both are leading real estate companies with assets across geographies. Both CAPL (Total assets: SGD62.1bn) and MAPL (SGD42.6bn) are also similar in size, with control over listed REITs. We have a slight preference for the CAPLSP curve over the MAPLSP curve, given that the former trades somewhat wider with a healthier credit metrics with a lower net debt/EBITDA and lower net gearing. While we acknowledge that

MAPL is wholly-owned by Temasek while CAPL is only 40.3%-owned, we prefer CAPL as it is publicly-listed. In addition, while MAPL is an important financial investment, we do not think that the assets MAPL hold are strategic to Temasek while support from Temasek has yet to be tested.

We think that the credit profile of MAPL is stronger than two of its REITs, which include MLT and MAGIC which we rate with an Issuer Profile of Neutral (4). We consider MAPL's credit profile to be more similar though slightly stronger than MCT and MINT which we rate with Issuer Profiles of Neutral (3). Overall, we think the MAPL curve trades fair against its listed REITs.

Between MAPLSP 3.95% PERP and MAPLSP 4.5% PERP, we prefer the latter as we see higher call risks for the former. The former has a lower headline coupon (3.95%) and lower reset spread (2.52%), compared to the latter with 4.5% coupon and 2.865% reset spread.

E) Conclusion and Recommendation

Overall, we are comfortable with MAPL, backed by hard assets, manageable credit metrics, recurring income and cashflows which more than cover its interest expense. MAPL is also well-diversified geographically and by real estate types including office, logistics, retail, serviced apartment, industrial, residential and student accommodation. MAPL's sponsorship and control of REITs is also a significant credit positive, which facilitates the recycling of capital.

While we like MAPL's credit profile and its curve is trading wider than the curves of Temasek and other very high grade names, we think this is fair as Temasek's support for MAPL remains untested and we do not think that MAPL assets are strategic. We slightly prefer the CAPLSP curve in general as it trades somewhat wider with a stronger credit metrics.

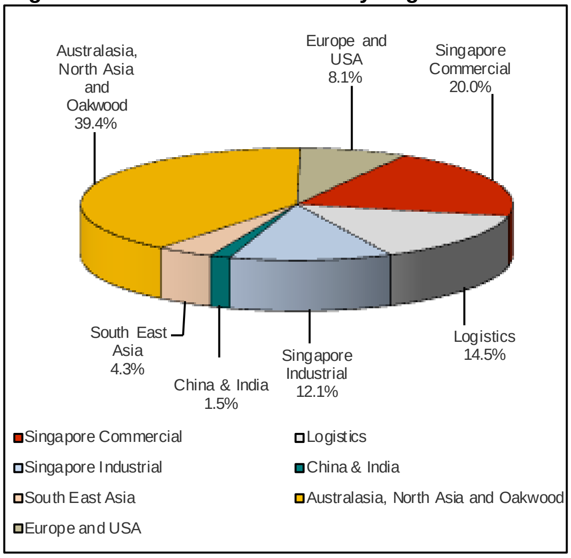
Mapletree Investments Pte Ltd

Table 1: Summary Financials

Year Ended 31st March	FY2016	FY2017	FY2018
Income Statement (SGD'mn)			
Revenue	1,878.9	2,328.8	3,194.4
EBITDA	1,417.3	1,548.7	1,737.1
EBIT	1,411.0	1,537.0	1,715.7
Gross interest expense	268.9	360.8	396.0
Profit Before Tax	1,895.5	2,366.8	3,489.0
Net profit	1,741.1	2,168.0	3,189.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	1,027.0	1,179.8	1,267.6
Total assets	32,958.0	36,259.2	42,575.0
Short term debt	2,260.2	1,125.4	2,162.3
Gross debt	13,219.3	13,095.5	16,623.5
Net debt	12,192.4	11,915.7	15,355.9
Shareholders' equity	18,062.7	21,223.8	23,917.0
Cash Flow (SGD'mn)			
CFO	1,280.4	1,438.4	1,498.6
Capex	578.7	672.3	765.5
Acquisitions	3,345.1	2,534.0	4,217.0
Disposals	70.8	280.8	369.7
Dividends	615.6	716.9	1,811.6
Interest paid	233.1	359.9	352.0
Free Cash Flow (FCF)	701.7	766.1	733.1
Key Ratios			
EBITDA margin (%)	75.4	66.5	54.4
Net margin (%)	92.7	93.1	99.8
Gross debt to EBITDA (x)	9.3	8.5	9.6
Net debt to EBITDA (x)	8.6	7.7	8.8
Gross Debt to Equity (x)	0.73	0.62	0.70
Net Debt to Equity (x)	0.68	0.56	0.64
Gross debt/total asset (x)	0.4	0.4	0.4
Net debt/total asset (x)	0.4	0.3	0.4
Cash/current borrowings (x)	0.5	1.0	0.6
EBITDA/Total Interest (x)	5.3	4.3	4.4

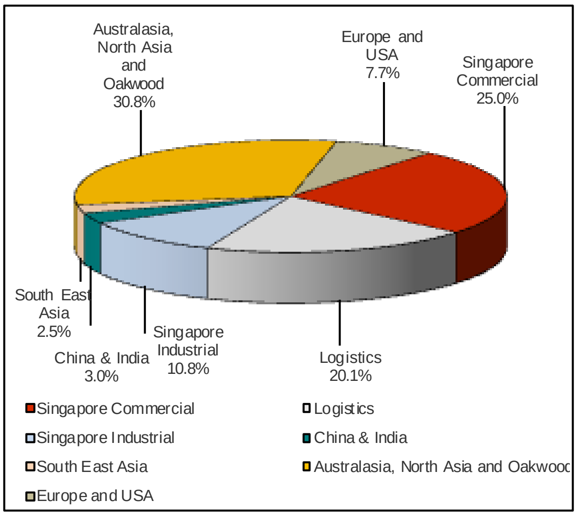
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Segment - FY2018



Source: Company | others made losses

Figure 2: EBIT breakdown by Segment - FY2018



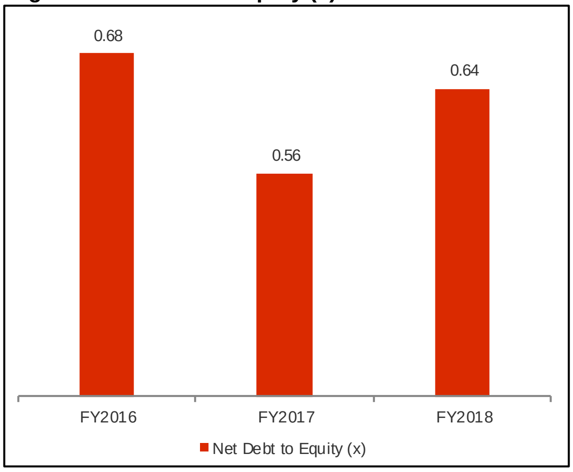
Source: Company

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 31/03/2018	% of debt
Amount repayable in one year or less, or on demand		
Secured	4.2	0.0%
Unsecured	2,158.1	13.0%
	2,162.3	**13.0%**
Amount repayable after a year		
Secured	435.4	2.6%
Unsecured	14,025.7	84.4%
	14,461.1	**87.0%**
Total	**16,623.5**	**100.0%**

Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

The credit research team would like to acknowledge and give due credit to the contributions of Soh Jia Xuan

Analyst Declaration
The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

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