REAL ESTATE EQUITY RESEARCH

Lippo Malls Indonesia Retail (LMIR) Trust

SGX: D5IU/ LMRT.SI
Reuters: LMRT.SI
Bloomberg: LMRT:SP

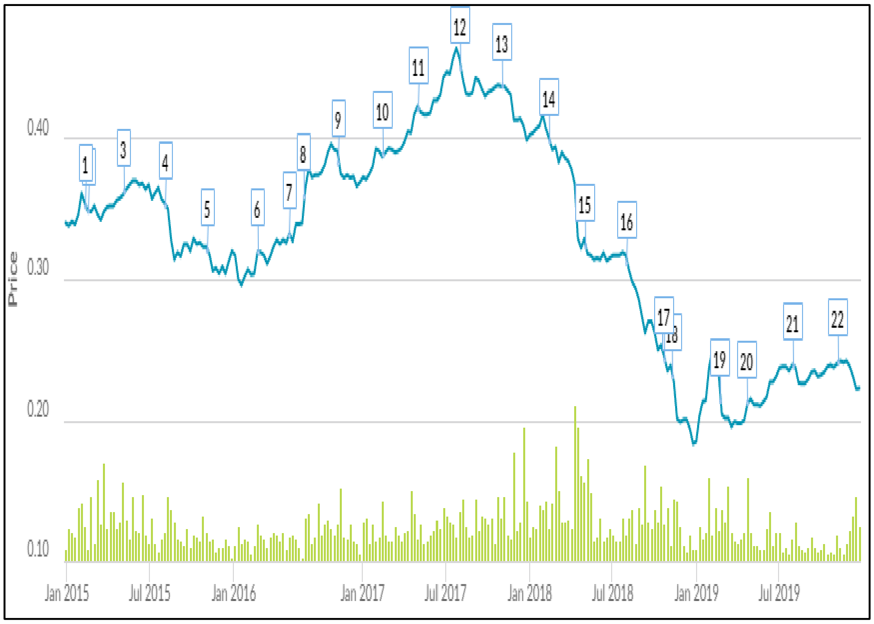
Country: Singapore
Industry: Real estate

3 January 2020
RECOMMENDATION: Outperform

Current Unit Price: S$0.225
Target Unit Price: S$0.379
Potential ex-rights price: S$0.189
Target Unit Price (adjusted for acquisition): S$0.266
Outstanding Units: 2.89 billion
Market Capitalisation: S$651.35 million

2018 High: S$0.417 (29 Jan 19)
52 Week High/Low: S$0.255 - S$0.182

Stock Performance



Source: Singapore Exchange Limited

Company description

Lippo Malls Indonesia Retail (LMIR) Trust is a Singapore-based real estate investment trust (REIT) that invests in quality retail assets in Indonesia. The trust owns 30 properties in key cities across Indonesia.

Summary

LMIR Trust's stock performed poorly in 2018 amid poor credit ratings on the company and its Sponsor, Lippo Karawaci. More importantly, LMIR Trust's unit price fell in 2018 likely due to investigations into Lippo Group. In October 2018, Lippo Group's shares, including shares of the company's flagship real estate developer, Lippo Karawaci, fell after investigations linked to Lippo Group's Meikarta real estate project were made public. LMIR Trust was unfortunately affected due to its connection with Lippo Group. Nevertheless, LMIR Trust's unit price has since risen, and there is much more potential for the stock to outperform, given the company's improving fundamentals.

Recommendation

We adopt a conservative approach to value LMIR Trust at S$0.379 per unit, taking into consideration the announced sale of Pejaten Village and Binjai Supermall on 30 December 2019. Our valuation generates a potential upside of 68.4% from the current unit price of S$0.225. Additionally, factoring in the upcoming catalyst involving a potential acquisition of Lippo Mall Puri in 2020, we value LMIR Trust at S$0.266 per unit which will generate a potential upside of 40.7% from a potential ex-rights price of S$0.189. We are of the view that LMIR Trust's low P/E ratio, coupled with its improving fundamentals, are an indicator that the company is relatively attractive in terms of P/E. Additionally, distribution yield is projected to be potentially higher than the peer average. Thus, we believe that LMIR Trust's attractiveness in terms of P/E and dividend yield justifies a recommendation for a buy.

Key Financials

Full year, ended Dec 31	Gross revenue (S$ million)	EPU (S$)	P/E (x)	DPU (cents)	Distribution yield (%)	Gearing (%)	NAV per unit (cents)
2017 actual	197.4	0.0252	13.38	3.44	8.6	33.7	32.16
2018 actual	230.3	0.0156	15.07	2.05	11.3	34.6	28.66
2019 forecast*	271.3	0.0195	11.54	2.22	9.9	34.7	31.20
2020 forecast	295.8	0.0213	10.56	2.42	10.8	-	-

Forecasts for 2019 and 2020 were computed based on a unit price of S$0.225 as of 3 January 2020

**Gearing and NAV per unit for 2019 are actual values as of 30 September 2019*

Source: Lippo Malls Indonesia Retail Trust, FPA Financial

Contributor: Glendon Hoon
(+65 6323 1788)

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OVERVIEW OF HISTORY AND BUSINESS

Lippo Malls Indonesia Retail (LMIR) Trust is a Singapore-based real estate investment trust (REIT) constituted by a trust deed dated 8 August 2007 between LMIRT Management Limited as the Manager and HSBC Institutional Trust Services (Singapore) Limited as the trustee. LMIR Trust was listed on the Singapore Exchange Securities Trading Limited on 19 November 2007. On 3 January 2018, HSBC Institutional Trust Services (Singapore) Limited retired as trustee of LMIR Trust and Perpetual (Asia) Limited was appointed as the new trustee of LMIR Trust. PT Lippo Karawaci Tbk (Lippo Karawaci), the Sponsor of LMIR Trust, is a major Indonesian property developer that is included in the IDX80 index on the Indonesia Stock Exchange which measures the performance of 80 stocks with large market capitalization, high liquidity, and good corporate fundamentals. The Sponsor plans to develop 38 new retail malls in Indonesia and to increase the number of malls under management to over 80 retail malls by end of 2030, with a focus of developing and managing community malls which are located in cities with dense population.

LMIR Trust was established with the principal investment objective of owning and investing on a long-term basis in a diversified portfolio of income-producing real estate in Indonesia that is primarily used for retail and/or retail-related purposes, and real estate related assets in connection with the foregoing purposes. As at 30 September 2019, LMIR Trust's property portfolio comprised 23 retail malls and 7 retail spaces located within other retail malls (Exhibit 1). The REIT's 30 properties are located in key cities across 4 islands - Bali, Java, Sulawesi and Sumatra - in Indonesia that produce a steady demand for quality retail enclaves (Exhibit 2). Further details of LMIR Trust's properties are available in Appendix I.

Exhibit 1: Property portfolio and valuation since IPO in Nov 2007 (Rp' billion)

Property	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 [1]	%
Bandung Indah Plaza	673.7	796.2	825.0	885.0	910.0	832.0	801.5	801.5	797.8	756.2	764.7	3.9
Cibubur Junction	468.3	491.1	502.0	534.0	546.0	507.0	492.5	485.3	451.2	430.9	375.0	1.9
Lippo Ekalokasari Plaza	289.2	343.5	373.0	367.0	409.0	388.0	409.0	375.8	410.3	396.8	381.7	2.0
Gajah Mada Plaza	612.1	669.2	745.0	762.0	803.0	744.0	752.8	751.4	780.9	799.0	798.9	4.1
Istana Plaza	690.7	642.8	733.0	787.0	809.0	742.0	730.7	737.6	713.0	664.2	644.2	3.3
Mal Lippo Cikarang	397.6	443.5	478.0	490.0	529.0	523.0	565.0	561.3	609.1	643.9	689.1	3.5
The Plaza Semanggi	1,052.9	1,238.5	1,367.0	1,330.0	1,454.0	1,385.0	1,342.2	1,232.2	1,173.7	1,148.8	1,069.0	5.5
Depok Town Square Units	148.9	172.4	180.3	187.0	196.2	204.1	207.1	208.1	169.7	163.0	155.5	0.8
Grand Palladium Units	151.4	162.2	177.9	178.0	187.3	192.8	188.0	173.5	156.6	118.7	99.8	0.5
Java Supermall Units	151.6	175.9	177.5	184.0	193.6	186.1	192.5	193.7	153.6	143.3	148.4	0.8
Malang Town Square Units	148.7	177.1	179.7	186.0	195.4	192.4	207.8	213.5	172.6	162.0	170.0	0.9
Mall WTC Matahari Units	146.0	169.8	176.3	177.0	173.7	175.7	169.7	165.1	146.0	124.0	113.0	0.6
Metropolis Town Square Units	193.8	226.1	237.4	238.0	249.9	271.3	256.6	230.6	186.4	163.7	140.8	0.7
Plaza Madiun Units	194.9	193.4	215.7	222.0	240.5	231.8	242.4	250.7	226.9	199.3	211.5	1.1
Sun Plaza	1,082.9	1,175.2	1,268.0	1,371.0	1,470.0	1,613.0	1,680.4	1,693.7	1,826.1	1,967.1	2,156.6	11.1
Plaza Medan Fair				1,100.4	1,115.3	1,102.0	1,140.6	1,087.1	1,083.2	1,103.0	1,008.2	5.2
Pluit Village				1,668.2	1,537.7	1,405.0	1,305.1	1,146.0	1,026.8	953.0	846.2	4.3
Lippo Plaza Kramat Jati					549.0	565.1	573.7	565.0	573.8	595.3	647.0	3.3
Palembang Square Extension					242.0	236.1	256.1	248.1	258.0	276.3	288.0	1.5
Tamini Square					236.0	247.0	236.3	242.9	243.0	269.7	276.0	1.4
Palembang Square					603.0	627.0	641.4	642.6	649.5	689.5	719.0	3.7
Pejaten Village					866.0	939.2	958.4	970.0	973.7	1,073.4	1,157.0	5.9
Binjai Supermall					253.0	264.0	266.6	263.9	266.9	282.1	302.0	1.5
Lippo Mall Kemang							3,640.6	3,477.9	3,235.0	3,193.0	3,143.1	16.1
Lippo Plaza Batu								272.0	260.7	274.1	251.0	1.3
Palembang Icon								774.7	774.9	770.0	770.0	3.9
Lippo Mall Kuta									805.0	835.7	836.1	4.3
Lippo Plaza Kendari										316.0	354.8	1.8
Lippo Plaza Jogja										599.3	601.3	3.1
Kediri Town Square										363.7	396.2	2.0
Grand Total	**6,402.7**	**7,076.9**	**7,635.8**	**10,666.6**	**13,768.6**	**13,573.7**	**17,257.3**	**17,764.3**	**18,124.4**	**19,475.4**	**19,514.1**	**100.0**

Source: Lippo Malls Indonesia Retail Trust

Exhibit 2: Strategic portfolio locations

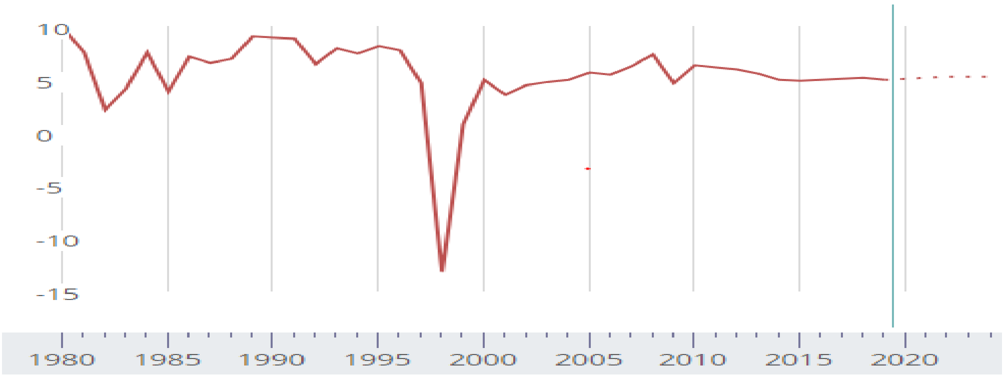
Source: Lippo Malls Indonesia Retail Trust

RETAIL INDUSTRY OVERVIEW

(I) Positive Indonesian economic outlook

According to the International Monetary Fund (IMF), Indonesia's real GDP growth is expected to remain stable at 5.2% in 2019 and 2020 (Exhibit 3), and would rise to a potential level of 5.3% in the medium term, underpinned by robust domestic demand. The IMF's forecasted 5.2% growth in the next two years comes in slightly above the 2018 growth of 5.17%, indicating that economic growth is in a relatively healthy position. Inflation is expected to remain within the government's target rate. In the same vein, the Asian Development Bank (ADB) also expects growth in consumer spending to remain robust in 2019 and 2020, underpinned by rising household incomes, job growth and low inflation. Private spending momentum is likely to be sustained as inflation is projected to remain relatively stable at 3.2% in 2019 and 3.3% in 2020. The healthy Indonesian economic outlook bodes well for the retail market as consumers are more likely to increase spending.

Exhibit 3: Real GDP growth, annual percent change



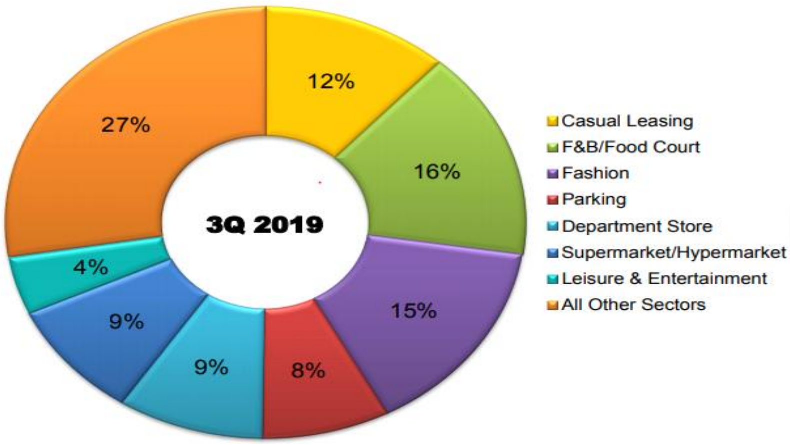
Source: IMF

(II) Robust growth in the Food & Beverages (F&B) industry

Indonesia's Ministry of Industry (Kemenperin) has targeted the growth rate of the F&B industry to stabilise above 9%. To achieve the target, the ministry has been encouraging the availability of raw materials to support production. According to the Director General of Agro Industry, growth of the F&B industry has been good with a figure of 7.72% in the third quarter of 2019. Growth in the sector throughout January-September was 7.9%. Additionally, market forecasts by Statista show that the F&B segment revenue in Indonesia is expected to grow by an annual rate (Compound Annual Growth Rate 2019-2024) of 19.5%.

In light of buoyed growth figures and the Indonesian government's efforts to expand the F&B industry, we adopt an optimistic stance on the growth prospects of Indonesia's F&B industry. More importantly, we expect a growing F&B industry to bode well for LMIR Trust, as the demand for F&B retail spaces is likely to surge in response. Consequently, this signals optimism for LMIR Trust's financial performance, as revenue generated from the F&B sector constitutes the highest individual component of gross revenue at 16% (Exhibit 4).

Exhibit 4: Sector breakdown by gross revenue



Source: Lippo Malls Indonesia Retail Trust

(III) Strong potential in grocery retail

According to the United States Department of Agriculture (USDA) Foreign Agricultural Service, Indonesian grocery retail sales amounted to $108.84 billion in 2018, and was the highest among Southeast Asian countries. Indonesia's grocery retail sales is forecasted to grow by 8.9% in 2019, thus we observe that there is strong growth potential in Indonesia's grocery retail landscape. Supermarkets and hypermarkets are grocery retailing channels that contribute to 9% of gross revenue for LMIR Trust (Exhibit 4). Additionally, we observe that hypermarket tenants such as Hypermart and Carrefour are one of the top tenants based on contributions to gross rental income (Exhibit 5). Thus, we expect the strong growth potential in grocery retailing to translate into stronger sales performance for supermarkets/hypermarkets, and thus revenue for LMIR Trust.

Exhibit 5: Tenant contributions to gross rental income

Tenant	Trade sub-sector	Gross Rental Income for the three months ended March 31, 2019	Percentage of total Gross Rental Income for the three months ended March 31, 2019	Average Remaining Lease Terms as of March 31, 2019
		(S$ thousands)	(%)	
Matahari	Department Store	3,706	9.9	5.6
Hypermart	Hypermart	2,158	5.8	5.6
Carrefour	Hypermart	1,088	2.9	8.8
Cinemaxx	Leisure & Entertainment	337	0.9	2.1
Sport Station	Sport & Fitness	256	0.7	2.8
Solaria	Food & Beverage	252	0.7	3.2
Timezone	Leisure & Entertainment	244	0.7	2.1
Uniqlo	Fashion	237	0.6	6.0
Miniso	Fashion	233	0.6	3.3
Ace Hardware	Home Furnishing	231	0.6	3.5
Top 10 tenants		**8,742**	**23.4**	**5.7**
Other tenants		**28,685**	**76.6**	**2.8**
Total		**37,427**	**100.0**	**4.2**

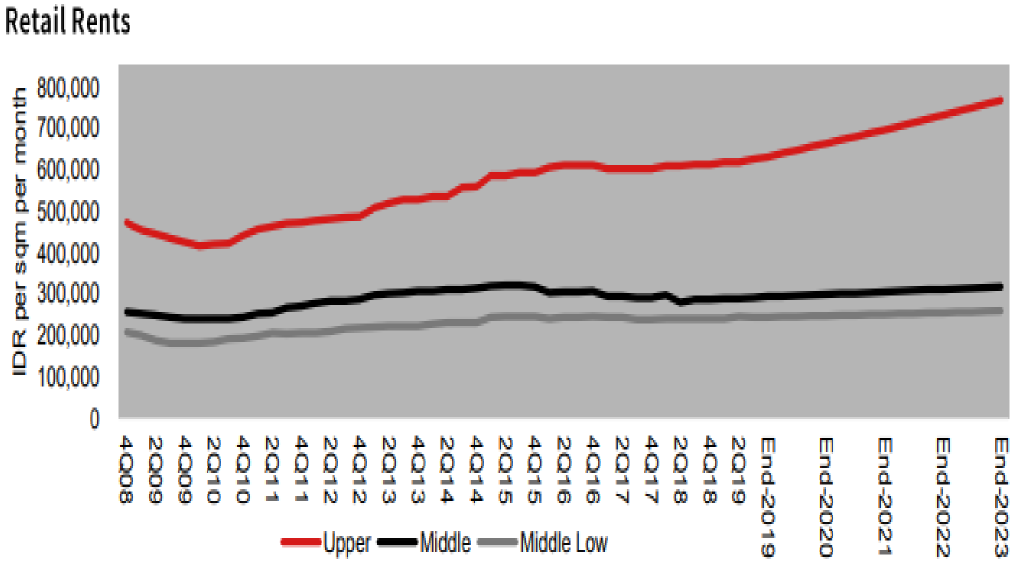
Source: Lippo Malls Indonesia Retail Trust

However, we acknowledge the rise of online grocery retailing which could potentially reduce the market share of grocery retail sales for physical stores such as supermarkets and hypermarkets. According to the Institute of Grocery Distribution (IGD) Asia, online grocery retailing is forecasted to account for 7.6% of total grocery retail sales in Asia by 2023, more than doubling the current market share in 2019. Additionally, IGD Asia expects that Indonesia and Thailand will see some of Asia's most rapid growth in online grocery retailing over the next five years, even though the market share of online grocery is expected to be less than 3% in all Southeast Asian markets (excluding Singapore). Overall, there is a relatively small possibility that online grocery retailing would significantly cannibalise the market share of grocery retail in physical stores. Nonetheless, we expect strong growth in grocery retail sales to benefit supermarkets and hypermarkets.

(IV) Growth in retail rents

According to Jones Lang Lasalle (JLL), retail rents in Jakarta are expected to grow by 3% in 2019, despite being flat in the second quarter. Additionally, price per square metre per month (Rupiah) is projected to rise steadily into 2020-2023 (Exhibit 6). Additionally, the report by JLL notes that the supply of retail malls has remained unchanged in 2019, and landlords have been adjusting tenant mixes in favour of F&B, fast fashion and entertainment tenants. With reference to Exhibit 5, F&B, fashion and entertainment contributes to 40% of total gross revenue. Thus, as tenant mixes shift to constitute more of these sectors, there could be a boost in revenue. LMIR Trust owns several properties in Jakarta, including its highest revenue-generating Lippo Mall Kemang, and the rising trend in retail rents points toward favourable growth in rental revenue for the next few years.

Exhibit 6: Retail rents per square metre per month (Rupiah)



Source: JLL Research

FINANCIAL ANALYSIS

(I) Gross revenue projections

In 2018, gross revenue grew by 16.67% on a year-on-year basis. This was in part due to a change in the arrangement for maintenance services of LMIR Trust's properties. Previously, maintenance services were outsourced to third parties who were entitled to collect service charges and utilities recovery charges from the tenants, but in turn were responsible for all the costs that were directly related to the maintenance and servicing of the malls. However, a new government regulation (Government Regulation Number 34) that came into effect on 2 January 2018, required that all income received or earned from land and/or building leases in Indonesia are subject to income tax at 10% of the gross amount of the value of the land and/or building lease which comprises the total amount that is paid or acknowledged as debt by a tenant in any form whatsoever, including service charges and utilities recovery charges. Previously, property owners were not liable to pay income tax on such charges paid by tenants to a third-party operator appointed by the property owner to manage and maintain the property. However, following the implementation of Government Regulation Number 34, tenants are required to withhold income tax on service charges and utilities recovery charges as well, notwithstanding that these are not paid to the property owner. As such, LMIR Trust incurred higher tax expenses in 2018 resulting from this change. Following the implementation of the regulation, the company terminated all outsourced agreements with third parties, which then lead to direct collection of service charges and utility recovery charges from the tenants. In turn, LMIR Trust was responsible for paying for all maintenance and operating costs of the malls. The collection of service charges and utility recovery charges became an additional source of revenue flow into the gross revenue component (Exhibit 7). Thus, this led to a much higher gross revenue figure, and in turn growth in 2018. However, we do not expect such high revenue growth going forward as the spike in growth was due to the newly imposed procedure of collecting of service charges and utility recovery charges which was not done prior to 2018.

Exhibit 7: Breakdown of gross revenue

	Year ended December 31			Three months ended March 31	
	2016	2017	2018	2018	2019
	S$ Thousands			S$ Thousands	
Rental revenue	152,878	164,203	155,215	40,279	37,427
Car park revenue	26,439	20,908	19,141	5,137	4,610
Service charge and utilities recovery	-	-	51,623	722	23,195
Income from rental of mechanical, electrical and mall operating equipment	6,789	10,290	1,707	2,596	-
Other rental income	1,960	1,975	2,613	389	680
Total Gross Revenue	**188,066**	**197,376**	**230,299**	**49,123**	**65,912**

Source: Lippo Malls Indonesia Retail Trust

With reference to Exhibit 8, we observe that the proportion of total gross revenue for each quarter has been relatively even and stable from 2015-2019, thus we expect seasonal effects to have less of an impact. We project the gross revenue in Q4 19 to be the average of the first 3 quarters of 2019 at S$67.8 million, given the stable data for the past few years. This will bring the total gross revenue for 2019 to S$271.3 million, and thus achieving a 17.8% growth from S$230.3 million in 2018.

Nevertheless, the relatively strong 2019 growth figure was largely because the gross revenue for Q1 18 and Q2 18 were significantly lower due to lesser amount of service charges and utilities recovery charges that were collected. Hence, we do not expect such a strong growth rate to repeat in 2020. For a more objective projection, we decided to smooth out the gross revenue growth over the years. Thus, we derived the average growth rate from 2011-2019 at 9.0% (Exhibit 9). Using this average growth rate as the expected growth in 2020, we project that gross revenue will be S$295.8 million in 2020.

Exhibit 8: Gross revenue projection for 2019 and 2020

	Gross revenue (S$ million)	Proportion of overall year (%)	Yoy gross revenue growth (%)	Service charges and utility recovery charges (S$ million)
Q1 15 actual	41.9	24.2%		-
Q2 15 actual	42.3	24.5%		-
Q3 15 actual	44.1	25.5%		-
Q4 15 actual	44.6	25.8%		-
Overall 2015 actual	172.9	100.0%	26.3%	-
Q1 16 actual	45.5	24.2%		-
Q2 16 actual	46.8	24.9%		-
Q3 16 actual	47.0	25.0%		-
Q4 16 actual	48.7	25.9%		-
Overall 2016 actual	188.0	100.0%	8.7%	-
Q1 17 actual	48.6	24.6%		-
Q2 17 actual	49.9	25.3%		-
Q3 17 actual	49.6	25.1%		-
Q4 17 actual	49.3	25.0%		-
Overall 2017 actual	197.4	100.0%	5.0%	-
Q1 18 actual	49.1	21.3%		0.7
Q2 18 actual	52.7	22.9%		5.7
Q3 18 actual	64.8	28.1%		22.8
Q4 18 actual	63.7	27.7%		22.4
Overall 2018 actual	230.3	100.0%	16.7%	51.6
Q1 19 actual	65.9	24.3%		23.2
Q2 19 actual	68.3	25.2%		23.7
Q3 19 actual	69.3	25.5%		24.5
Q4 19 forecast*	67.8	25.0%		23.8
Overall 2019 forecast	271.3	100.0%	17.8%	95.2
Overall 2020 forecast	295.8	100.0%	9.0%	-

Source: Lippo Malls Indonesia Retail Trust

Exhibit 9: Gross revenue projection for 2019 and 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019F	2020F
Gross revenue (S$ million)	136.1	150.4	152.6	137.0	173.0	188.0	197.4	230.3	271.3	295.8
Gross revenue growth (%)	5.2%	10.5%	1.4%	-10.2%	26.3%	8.7%	5.0%	16.7%	17.8%	9.0%

Source: Lippo Malls Indonesia Retail Trust, FPA Financial

(II) Market capitalisation recovery

The market capitalisation of the trust fell by 53.92% to S$520.5 million in 2018 from S$1,129.6 in 2018. The decline in market capitalisation for 2018 was largely due to a significant fall in unit price in 2018 (Exhibit 10). Possible reasons for the fall in LMIR Trust's share price include poor credit ratings on the company and its Sponsor, and investigations into Lippo Group. In March 2018, the Business Times reported that Moody's had cut LMIR Trust's credit rating down to "Ba1" junk territory, citing deteriorating credit quality of entities within Lippo Group. The credit rating agency had also rated the company's Sponsor, Lippo Karawaci, "B1" with a negative outlook. In October 2018, the Straits Times reported that Lippo Group's shares, including shares of the company's flagship real estate developer company, Lippo Karawaci, fell after investigations linked to Lippo Group's Meikarta real estate project were made public. LMIR Trust was unfortunately affected due to its connection with Lippo Group, hence accounting for the fall in unit price in 2018.

However, unit price showed signs of recovery in 2019 amid positive credit ratings in June 2019 by Moody's and Fitch Ratings Singapore at "Ba3" and "BB (EXP)" respectively. LMIR Trust's unit price has risen in 2019 thus far, and market capitalisation as at 30 September 2019 has exceeded the figure at the end of 2018 (Exhibit 10).

Exhibit 10: Market capitalization, unit price and units in issue

Year	2019*	2018	2017	2016
Market capitalisation (S$ millions)	665.8	520.5	1129.6	1037.0
Closing unit price for the period (S$)	0.230	0.182	0.400	0.370
Total units in issue (million)	2894.9	2859.9	2823.9	2802.9

**2019 figures are as of 30 Sep 19*

Source: Lippo Malls Indonesia Retail Trust

(III) Rising property operating expenses

With reference to Exhibit 11, total property operating expenses rose sharply to S$65.3 million in 2018 from S$13.1 million in 2017. The increment was largely due to the termination of the outsource agreements and LMIR Trust having to pay for all costs for the maintenance and operation of its malls as mentioned earlier in page 9. As a result, property operating and maintenance expenses increased by S$45.3 million. Additionally, property management fees, which is contributed in part by a 2.0% annum of gross revenue for the relevant retail mall and retail space, increased 15.3% to S$7.7 million in 2018 from S$6.7 million in 2017 as a result of higher gross revenue. Legal and professional fees also rose by 14.0% to S$1.8 million in 2018. Net allowance for impairment loss on trade receivables amounted to S$4.8 million compared to a reversal of S$2.2 million in 2017. The fall in land rental expense and other property operating expenses were insignificant compared to the increase in property operating and maintenance expenses.

To provide a more objective comparison between two periods that have accounted for the termination of outsource agreements, we decided to compare the total property operating expenses for the first 9 months of 2018 and 2019. Total property operating expenses for the first 9 months of 2019 rose by 86.5% to S$74.8 million from S$40.1 million in 2018 (Exhibit 11). The significant increase in property operating expenses between the two periods could be in part due to lower costs incurred in the beginning of 2018 as the termination of outsource agreements applied only to a few malls at that time. Nevertheless, the rising property operating expenses could reduce operational efficiency if expenses grow at a faster rate than revenue, and in turn lead to lower profitability.

Exhibit 11: Property operating expenses

	Year ended December 31			Three months ended March 31	
	2016	2017	2018	2018	2019
	S$ Thousands			S$ Thousands	
Land rental expense	2,054	1,974	1,614	416	380
Property management fees	4,393	6,691	7,714	2,050	1,879
Legal and professional fees	1,266	1,584	1,806	372	468
Depreciation of plant and equipment	1,728	2,457	3,015	585	783
Net allowance/(reversal) for impairment loss on trade receivables	549	(2,029)	4,775	738	1,636
Property operating and maintenance expenses	-	-	45,303	751	19,910
Other property operating expenses	6,216	2,448	1,105	263	343
Property Operating Expenses	**16,206**	**13,125**	**65,332**	**5,175**	**25,399**

Period	Total property operating expenses (S$million)
Q1 18	5.2
Q2 18	9.5
Q3 18	25.4
9 months ended 30 Sep 18	40.1
Q1 19	25.4
Q2 19	24.3
Q3 19	25.1
9 months ended 30 Sep 19	74.8

Source: Lippo Malls Indonesia Retail Trust

(IV) Projections for earnings per unit (EPU) and distribution per unit (EPU)

Following our analysis earlier that quarterly revenue has relatively stable since 2015, we expect seasonal effects such as festive seasons to have a relatively small impact on the proportioning of quarterly earnings, and thus would not significantly affect our projections.

Additionally, the EPU values we extracted from LMIR Trust's financial statements are adjusted to exclude any changes in the fair value of investment properties (Exhibit 12). Based on the quarterly financial statements released by LMIR Trust, we observed that the company does not account for decrease in the fair value of investment properties in the income statement for each quarter, but instead make the adjustments in Q4 at the end of the financial year. Thus, we observe that the unadjusted Q4 EPU from 2015-2017 have been negative due in part to a decrease in fair value of investment properties.

For a fairer basis of comparison across the quarters, we have used the adjusted Q4 EPU values that exclude the decrease in the fair value of investment properties. With reference to Exhibit 12, the adjusted EPU is computed by adding back the decrease in fair value (net of deferred tax) to the total return for the period after tax attributable to unitholders, and dividing the resulting adjusted total return by the weighted average number of units in issue.

Thus, we estimated in Exhibit 13, the proportioning of quarterly EPU after the fair value adjustments have been accounted for.

Exhibit 12: EPU adjustments for decrease in fair value of investment properties

	2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total return for the period after tax (S$ 000)	13,541	17,888	18,352	-23,333	14,537	20,808	16,723	-23,232
Less: total return for the period after tax attributable to perpetual securities holders (S$ 000)	0	0	0	0	0	0	0	2,470
Total return for the period after tax attributable to unitholders (S$ 000)	13,541	17,888	18,352	-23,333	14,537	20,808	16,723	-25,702
Weighted average number of units in issue	2,702,615,107	2,718,408,089	2,762,325,316	2,795,306,338	2,799,464,544	2,802,992,873	2,802,992,873	2,802,992,873
EPU (cents)	0.50	0.66	0.66	-0.83	0.52	0.74	0.60	-0.92
Adjustment for decrease/(increase) in fair value for investment properties net of deferred tax	-	-	-	41,433	-	-	-	40,483
Adjusted total return for the period after tax attributable to unitholders (S$ 000)	-	-	-	18,100	-	-	-	14,781
Adjusted EPU (cents)	-	-	-	0.65	-	-	-	0.53

	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total return for the period after tax (S$ 000)	22,200	23,101	21,063	-3,654	19,769	18,289	13,960	8,914
Less: total return for the period after tax attributable to perpetual securities holders (S$ 000)	2,416	2,704	4,467	4,466	4,369	4,445	4,440	4,466
Total return for the period after tax attributable to unitholders (S$ 000)	19,784	20,397	16,596	-8,120	15,400	13,844	9,520	4,448
Weighted average number of units in issue	2,805,677,186	2,823,987,723	2,823,987,723	2,823,987,723	2,826,033,271	2,836,947,087	2,851,232,116	2,856,756,589
EPU (cents)	0.71	0.72	0.59	-0.29	0.54	0.49	0.33	0.16
Adjustment for decrease/(increase) in fair value for investment properties net of deferred tax	-	-	-	22,102	-	-	-	1,372
Adjusted total return for the period after tax attributable to unitholders (S$ 000)	-	-	-	13,982	-	-	-	5,820
Adjusted EPU (cents)	-	-	-	0.50	-	-	-	0.20

In our estimation of Q4 19 EPU as shown in Exhibit 13, we have assumed that the termination of outsource agreements may have led to the lower proportioning for Q4 18. This should not carry forward into 2019. We then estimated the proportioning for Q4 19 EPU to be the average of the proportioning of Q4 EPU from 2015-2018 at 20%=[(26%+22%+20%+13%)/4]. Consequently, the proportioning for Q1 to Q3 19 would be 80%, and using this proportion, the overall 2019 EPU is estimated to be S$0.0195=[100%/80%]x(S$0.0052+$0.0031+S$0.0073). Thus, the EPU for Q4 19 would be S$0.0039=S$0.0195-(S$0.0052+$0.0031+S$0.0073).

We adopted the same proportioning approach based on the EPU projections to project the distribution per unit (DPU) for 2019. With reference to Exhibit 13, we estimated the proportioning for Q4 19 DPU to be the average of the proportioning of Q4 DPU from 2015-2018 at 23%=[(26%+26%+23%+15%)/4]. Consequently, the proportioning for Q1 to Q3 19 would be 77%, and using this proportion, the overall 2019 DPU is estimated as S$0.0222=[100%/77%]x(S$0.0055+S$0.0060+S$0.0056). Thus, the DPU for Q4 19 would be S$0.0051=S$0.0222-(S$0.0055+S$0.0060+S$0.0056).

To project EPU and DPU for 2020, we assume that EPU and DPU would grow at the same rate as gross revenue. Thus, we estimate EPU and DPU growth to be 9.0% in 2020, based on the gross revenue growth as discussed on page 9. We then project the overall 2020 EPU to be S$0.0213 = 1.09 x S$0.0195 and overall 2020 DPU to be S$0.0242 = 1.09 x 0.0222 (Exhibit 13).

Exhibit 13: EPU and DPU projections for 2019 and 2020

Period	EPU (S$)	EPU proportion of overall year	DPU (S$)	DPU proportion of overall year
Q1 15 actual	0.0050	20%	0.0079	25%
Q2 15 actual	0.0066	27%	0.0073	24%
Q3 15 actual	0.0066	27%	0.0077	25%
Q4 15 actual	0.0065	26%	0.0081	26%
Overall 2015 actual	0.0247	100%	0.0310	100%
Q1 16 actual	0.0052	22%	0.0083	24%
Q2 16 actual	0.0074	31%	0.0085	25%
Q3 16 actual	0.0060	25%	0.0086	25%
Q4 16 actual	0.0053	22%	0.0087	26%
Overall 2016 actual	0.0239	100%	0.0341	100%
Q1 17 actual	0.0071	28%	0.0089	26%
Q2 17 actual	0.0072	29%	0.0090	26%
Q3 17 actual	0.0059	23%	0.0086	25%
Q4 17 actual	0.0050	20%	0.0079	23%
Overall 2017 actual	0.0252	100%	0.0344	100%
Q1 18 actual	0.0054	35%	0.0067	33%
Q2 18 actual	0.0049	31%	0.0059	29%
Q3 18 actual	0.0033	21%	0.0049	24%
Q4 18 actual	0.0020	13%	0.0030	15%
Overall 2018 actual	0.0156	100%	0.0205	100%
Q1 19 actual	0.0052	27%	0.0055	25%
Q2 19 actual	0.0031	16%	0.0060	27%
Q3 19 actual	0.0073	37%	0.0056	25%
Q4 19 forecast	0.0039	20%	0.0051	23%
Overall 2019 forecast	0.0195	100%	0.0222	100%
Overall 2020 forecast	0.0213	100%	0.0242	100%

Source: Lippo Malls Indonesia Retail Trust, FPA Financial

ANNOUCED SALE OF PEJATEN VILLAGE AND BINJAI SUPERMALL

On 30 December 2019, LMIRT Management Ltd, the manager of LMIR Trust announced that it had entered into conditional sale and purchase agreements involving Pejaten Village and Binjai Supermall, with NWP Retail, a joint venture between Warburg Pincus and PT City Retail Developments for a total sale consideration of Rp1,280.7 billion (S$124.3 million).

The sale consideration for Pejaten Village was reported to be Rp997.4 billion, representing a 33.3% premium to the original acquisition price of Rp748.0 billion for the Pejaten Property but a 4.1% discount to the Rp1,040.0 billion valuation determined by Savills Valuation and Professional Services (S) Pte Ltd as at 30 June 2019 using a Discounted Cash Flow Analysis.

The sale consideration for Binjai Supermall was reported to be Rp283.3 billion, representing a 19.3% premium to the original acquisition price of Rp.237.5 billion for the Binjai Property but a 8.3% discount to the Rp309.0 billion valuation determined by Savills Valuation and Professional Services (S) Pte Ltd as at 30 June 2019 using a Discounted Cash Flow Analysis.

The net proceeds from the divestments are estimated to be approximately S$120.2 million, after taking into account the income taxes payable, professional fees and other expenses incurred in connection with the divestments. It was stated that the proceeds will enhance LMIR Trust's financial flexibility to fund growth through reinvestments, make distributions to Unitholders or pare down debt. Additionally, the Manager intends to use part of the net proceeds to pay S$622,000 worth of divestment fees payable to the Manager (pursuant to the terms of the trust deed constituting LMIR Trust) in respect of the divestments.

Based on the details of the sales announcement, we will factor in the sale and the sales discount on the two properties in our valuation analysis in the next section. Additionally, we would assume in valuation analysis that the remaining net proceeds, after deducting the S$622,000 intended to pay for divestment fees payable to the Manager, would all be used to pare down debt. Thus, this would imply S$119.60 million worth of the net proceeds to be used for debt repayment. We would also assume that the excess of the total proceeds of S$124.30 million from the sale of the two properties over the net proceeds, accounted for by income taxes payable, professional fees and other expenses incurred in connection with the divestments, would be fully expensed.

VALUATION OF STOCK

We will be using two methods to value LMIR Trust as a whole. The first method will be using a sum-of-the-parts (SOTP) valuation and the second a peer comparison analysis to check the value. Given the announced sale of Pejaten Village and Binjai Supermall, we will consider the transactions in our valuation analysis.

(I) SOTP valuation model

We value LMIR Trust at S$1271.80 million, generating a value per unit of S$0.439 based on our SOTP valuation approach (Exhibit 14).

Given the sale of Pejaten Village and Binjai Supermall, we subtracted the value of the two malls from the total properties' valuation as of 31 December 2018 to derive a total properties' value of Rp18,055.10 billion. Conversion from Rupiah (Rp) to Singapore dollars (SGD) based on a SGD1=Rp10,306.0 exchange rate (as of 3 January 2020) would yield a total properties' value of S$1,751.90 million (Exhibit 14).

We assume that S$119.60 million worth of net proceeds from the sale of properties would be used to pare down debt as mentioned earlier on page 14. Thus, S$119.60 million was deducted from S$641.3 million long term unsecured borrowings as of 30 September 2019, bringing the total debt comprising of short term and long term unsecured borrowings to S$596.40 million. The total debt was subtracted from the total properties' value of S$1,748.90 while total cash (S$116.30 million as of 30 September 2019) comprising of cash and cash equivalents was added to the total properties' value. After the adjustments, the total value amounted to S$1,271.80 million (Exhibit 14). Based on 2,894.9 million units as of 30 September 2019, we estimate a value per unit of S$0.439.

<u>Exhibit 14: SOTP valuation</u>

	Value (Rupiah' billion)	Value (S$' million)
Total(retail malls)	17,016.10	1,651.10
Total (retail spaces)	1,039.00	100.80
Total (all properties)*	18,055.10	1,751.90
Add: Cash		
Cash and cash equivalents		116.30
Total (cash)		116.30
Less: Debt		
Short-term unsecured borrowings		74.70
Long-term unsecured borrowings		521.70
Total (debt)		596.40
Total value		1,271.80
No. of units (million)		2,894.90
Value per unit (S$)		0.439

**Property values in Rupiah are as of 31 Dec 18 and are converted to S$ based on SGD1=Rp10,306.0 rate as of 3 Jan 2020*
Source: Lippo Malls Indonesia Retail Trust, FPA Financial

Our valuation model in Exhibit 14 considers that Indonesia's economic and retail sector outlook remains relatively stable, and that the properties are likely to be sold at the price based on their valuations. However, we have also considered the possibility of valuing the properties at a value that will differ from the initial valuation. Thus, we performed a sensitivity analysis taking into account different scenarios that may create a premium or discount for the total value of the properties (Exhibit 15).

Exhibit 15: Sensitivity analysis

	Discount/Premium (%)	Total (all properties) (S$ million)	Total value (S$ million)	Outstanding units (million)	Value per unit (S$)
Scenario (A)	None	1,751.90	1,271.80	2,894.90	0.439
Scenario (B)	10% discount	1,576.71	1,096.61	2,894.90	0.379
Scenario (C)	20% discount	1,401.52	921.42	2,894.90	0.318
Scenario (D)	10% premium	1,927.09	1,446.99	2,894.90	0.500
Scenario (E)	20% premium	2,102.28	1,622.18	2,894.90	0.560

Source: Lippo Malls Indonesia Retail Trust, FPA Financial

We consider a discount in valuation when there are events that weaken the economy, and in turn leading to weaker retail property values. A premium is factored in the valuation when there is an increase in retail property values attributed to reasons such as a stronger Indonesian economy and higher F&B spending in the retail sector.

With reference to Exhibit 15, we consider a 10% discount in scenario (B), given a possibility that economic growth remains stable, but retail sales may be affected as consumers shift towards online retailing, hence reducing the value for retail malls. A 20% discount in scenario (C) considers a possibility of failed US-China trade talks which causes a further slowdown in the global economy, dragging down Indonesia's economy, and in turn consumer spending and retail sales.

A 10% premium in scenario (D) considers the possibility of successful US-China trade talks and a recovery in the global economy, and in turn a stronger Indonesian economy. A 20% premium in scenario (E) considers the possibility of a successful expansion of the F&B industry and stronger F&B retail spending, which in turn has a more direct impact on the performance of retail malls.

In light of recent progress in the US-China trade talks and an improved outlook on Brexit, we could see a gradual recovery in the global economy, favouring the scenario of a 10% premium. Nevertheless, we opt to remain conservative, given that there are potential risks, such as the threat of natural disasters and terrorism, that could lower the attractiveness and value of retail malls. Furthermore, the benefits of a recovering global economy may take time to permeate into the Indonesian economy. Given the our analysis thus far, we would choose to value the total properties without a premium, and expect the value per unit to be at S$0.439.

However, given the announced sale of Pejaten Village and Binjai Supermall as discussed on page 14, we would adjust our valuation accordingly. The sale consideration for Pejatan Village is Rp 997.4 billion, which would represent a discount of 13.8% on the property's valuation of Rp 1,157.0 billion as of 31 December 2018. The sale consideration for Binjai Supermall is Rp 283.3 billion, which would represent a 6.2% discount on the property's valuation of Rp 302.0 billion as of 31 December 2018. We estimated the weighted discount on the sale of both properties to be at 12.2%.

Overall, considering that the sale of the two properties would be at a weighted discount of 12.2%, we choose to value the total properties in our model at a 10% discount, and expect a value per unit of S$0.379 as in Scenario (B). Thus, this would generate a potential upside of 68.4% from the current unit price (as of 3 January 2020) of S$0.225.

(II) Peer comparison analysis

To check our valuation of LMIR Trust , we performed a peer comparison analysis to analyse how the trust is performing relative to other listed retail mall REITs in Singapore (Exhibit 16).

Exhibit 16: Peer comparison

Company	Ticker	Price (S$) as at 3/1/2020	Market cap (S$ million) as at 3/1/2020	P/E (x) as at 3/1/2020	Yield (%) as at 3/1/2020
Lippo Malls Indonesia Retail Trust	D5IU / LMRT.SI	0.225	651.35	13.143	8.311
Peer comparison:					
CapitaLand Mall Trust	C38U / CMLT.SI	2.450	9,037.57	15.500	3.772
Frasers Centrepoint Trust*	J69U / FCRT.SI	2.810	3,117.85	14.134	4.295
SPH REIT	SK6U / SPHR.SI	1.070	2,947.99	18.487	4.383
Peer average				16.040	4.150

**Analyst calculation for yield based on YTD DPU of S$0.1207 as of 30 Sep 19 and a unit price of S$2.810 as of 3 Jan 20*

Source: Singapore Exchange Limited

We observe that LMIR Trust ’s price-to-earnings (P/E) ratio of 13.143 is relatively lower than the peer average of 16.040 as shown in Exhibit 16. The lower P/E could be due to the fact that LMIR Trust owns properties in Indonesia while its peers own properties in Singapore. Given the differences in the economies of both countries, there could be perceived risks in the Indonesian economy that lead to a lower P/E. Nevertheless, we believe that a lower P/E ratio is attractive, given that the fundamentals of the company are improving and making good recovery. Additionally, LMIR Trust’s unit price has not fully recovered and presents unrealised potential, justifying a higher valuation and larger upside. We also noted that the LMIR Trust’s distribution yield of 8.311% is considerably higher than the peer average of 4.150%. Thus, based on our peer comparison analysis, we believe LMIR Trust is trading relatively attractive to its peers in terms of P/E ratio and distribution yield, which justifies our valuation of S$0.379 per unit.

(III) Valuation summary

We choose to adopt a conservative approach and value LMIR Trust at S$0.379 per unit, factoring in a 10% discount on the total properties’ value following the sales announcement on Pejaten Village and Binjai Supermall. Our valuation generates a potential upside of 68.4% from the current unit price (as of 3 January 2020) of S$0.225. LMIR Trust ’s low P/E ratio, coupled with its improving fundamentals, are an indicator that the company is relatively attractive in terms of its P/E. Additionally, we expect the distribution yield to be potentially higher than the peer average, which reinforces the company’s attractiveness for a buy.

UPCOMING CATALYST

(I) Proposed acquisition of Strata Title Units of Lippo Mall Puri

On 12 March 2019, LMIRT Management Ltd (Manager), in its capacity as manager of Lippo Malls Indonesia Retail Trust (LMIR Trust), announced that LMIR Trust, through its wholly-owned Indonesia-incorporated subsidiary, PT Puri Bintang 1 (Purchaser) , had on 11 March 2019 entered into a conditional sale and purchase agreement with PT Mandiri Cipta Gemilang (Vendor) to acquire strata title units of Lippo Mall Puri (the Property and the acquisition of the Property, the Acquisition). The total consideration for the sale and purchase of the Property was Rp.3,700.0 billion (S$354.7 million) (Purchase Consideration). Additionally, prior to the completion of the acquisition, the Vendor and Purchaser had agreed to enter into an agreement (Vendor Support Agreement) for the Vendor to lease vacant leasable space within the Property which is not occupied by, or which has not been committed in writing to be leased to, a tenant on a quarterly basis for an amount equivalent to the difference between the actual net property income (NPI) from the Property in a relevant quarter and a target NPI (where the actual NPI is less than the target NPI), commencing from the date of completion of the Acquisition to 31 December 2023 (the Vendor Support and the period of the Vendor Support, the Vendor Support Period).

LMIR Trust aims to complete the Acquisition in the second half of 2019. The final decision regarding the timing of the fund raising to finance the Acquisition will be made by LMIR Trust's manager at the appropriate time taking into account the prevailing market conditions and the confirmation of the issuance of the Strata Title Certificates. A circular would be issued to the unitholders of LMIR Trust in due course, together with a notice of extraordinary general meeting (EGM), for the purpose of seeking the approval of unitholders for the Acquisition. However, as of now, the Acquisition has not yet taken place. According to the announcement from LMIR Trust on 2 September 2019, the Purchaser and the Vendor have agreed to extend the deadline for the completion of the segregation process and the long stop date to complete the proposed conditional sales and purchase agreement to no later than 31 March 2020 and June 2020 respectively.

The following sub-sections will provide relevant information regarding the proposed acquisition of strata title units of Lippo Mall Puri, based on the announcement made by LMIR Trust on 12 March 2019.

(a) Purchase Consideration and Valuation

The Purchase Consideration is Rp.3,700.0 billion (S$354.7 million). The independent valuers, Cushman & Wakefield VHS Pte Ltd (Cushman) in collaboration with KJPP Firman Suryantoro Sugeng Suzy Hartomo & Partners and Colliers International Consultancy & Valuation (Singapore) Pte Ltd (Colliers) in collaboration with KJPP Rinaldi Alberth Baroto & Partners, were appointed by the Trustee and the Manager respectively to value the Property. The Purchase Consideration was lower than each of the two independent valuations and represents a discount of 5.13% to Cushman's valuation of Rp.3,900.0 billion (S$373.9 million) with Vendor Support, which is the lower of the two independent valuations of the Property as at 31 December 2018 (Current Valuations).

If the Vendor Support is not taken into account in the appraised values of the Property by Cushman and Colliers, then the respective Current Valuations would be Rp.3,700.0 billion (S$354.7 million) and Rp.3,806.7 billion (S$364.9 million), respectively, and the purchase consideration will represent a discount of 1.42% to Rp.3,753.3 billion (S$359.8 million), being the average of such valuations.

In the event that the independent valuations are required to be updated to a more recent date prior to the issuance of the circular (Updated Valuations), the Purchaser and the Vendor have agreed on two terms. Firstly, if any of the Updated Valuations increases, the Purchase Consideration will be capped at Rp.3,700.0 billion (S$354.7 million). Secondly, if the average of the Updated Valuations is lower than the average of the Current Valuations, subject to applicable laws and regulations, the Purchase Consideration shall be reduced by the same percentage as the difference between the average of the Updated Valuations and the average of the Current Valuations subject to a maximum reduction of 3.0%. If the average of the Updated Valuations is more than 3.0% lower than the average of the Current Valuations, the parties agree to assess and negotiate in good faith to agree on a reasonable adjustment to the Purchase Consideration, subject to applicable laws and regulations.

(b) Estimated acquisition cost

The total acquisition cost (Acquisition Cost) is currently estimated to be approximately S$420.0 million, comprising the following:

(a) the Purchase Consideration of Rp.3,700.0 billion (S$354.7 million)
(b) the Value Added Tax (VAT) of Rp.370.0 billion (S$35.5 million)
(c) the Land and Building Acquisition Tax of Rp.185.0 billion (S$17.7 million)
(d) the professional and other fees and expenses of approximately S$12.1 million to be incurred by LMIR Trust in connection with the Acquisition

(c) Asset enhancement initiatives

Post completion of the Acquisition, the Manager intends to undertake the following asset enhancement initiatives (AEIs) to further enhance the offerings within the Property. These include new outdoor dining concepts to be established on the ground floor of the mall conversion of the P2 Car Park (currently being used as a car park) into additional retail space. The Manager intends to carry out the AEIs within the two year period after the completion of the Acquisition and is exploring various options to increase the variety of food and beverage outlets and/or family-friendly leisure and entertainment facilities to attract greater shopper traffic. The total capital expenditure of the AEIs is currently estimated to be approximately Rp.104.3 billion (S$10.0 million).

(d) Vendor Support

The Property commenced operations in 2014 and a significant proportion of its leases are still in their first lease term which generally will expire between 2019 and 2020. It is also part of St. Moritz development, which is expected to be completed in 2020. Therefore as the Property is still maturing in terms of shopper recognition, tenant performance and passing rents, the Manager has negotiated for the Vendor to lease the Uncommitted Space on a quarterly basis during the Vendor Support Period, for an amount equivalent to the difference between the actual NPI from the Property in a relevant quarter and a target NPI (where the actual NPI is less than the target NPI). Should the actual NPI exceed the target NPI, 50.0% of such excess above the target NPI will be carried forward to the subsequent quarters and used to satisfy any subsequent shortfall between the actual NPI and the target NPI while the remaining 50.0% of such excess shall be retained by the Purchaser. The Purchaser will also be entitled to retain any cumulative surplus of actual NPI over the target NPI following the end of the Vendor Support Period. The Vendor Support is expected to allow the Property to provide a stable level of income in line with comparable retail malls in West Jakarta during the Vendor Support Period. The target NPI for each year over the Vendor Support Period is set out as in Exhibit 17.

Exhibit 17: Target NPI for each year over the Vendor Support Period

Period	Rp. billion
Completion of Acquisition to 31 Dec 2019	348.0
FY2020	350.0
FY2021	352.0
FY2022	354.0
FY2023	356.0

Source: Lippo Malls Indonesia Retail Trust

(e) Acquisition at an attractive price and NPI yield

The Acquisition presents an opportunity for LMIR Trust to acquire a strategically located, iconic retail mall at an attractive price. The Purchase Consideration of Rp.3,700.0 billion (S$354.7 million) represents a 5.13% discount to the valuation of the Property by Cushman at Rp.3,900.0 billion (S$373.9 million), after taking into consideration the Vendor Support. With reference to Exhibit 18, the NPI Yield of the Acquisition based on the Property's NPI for FY2018 including the Vendor Support is 9.41%. This is higher than the NPI Yield of the Existing Portfolio at 8.94 % as of 31 December 2018. With the Acquisition, the NPI Yield of the Existing Portfolio and the Property (together the Enlarged Portfolio) would be 9.02% on a pro forma basis as of 31 December 2018.

Exhibit 18: NPI, valuation and NPI yield

	Existing Portfolio	Property	Enlarged Portfolio
NPI (Rp. billion)	1,744.8	348.0[(1)]	2,092.8
Valuation / Purchase Price (Rp. billion)	19,514.1	3,700.0	23,214.1
NPI Yield (%)	8.94	9.41	9.02

Notes:
(1) On a Pro Forma basis, the minimum Property NPI is guaranteed at Rp.348.0 billion for the first year.

Source: Lippo Malls Indonesia Retail Trust

(f) Significant growth in asset under management (AUM) and net lettable area (NLA)

The Acquisition will increase LMIR Trust's assets under management ("AUM") by 18.96% to Rp.23,214.1 billion (from Rp.19,514.1 billion in FY2018). The NLA of LMIR Trust's portfolio will also increase by 12.69% to 1,026,349 sq m (from 910,749 sq m as at 31 December 2018). This enlarges LMIR Trust's footprint within Indonesia's retail landscape, and positions LMIR Trust favourably to benefit from the supportive macro and attractive Indonesia retail outlook.

(g) Method of financing

A total of S$430 million, made up of the S$420 million Acquisition Cost and S$10 million AEI cost is intended by the Manager to be funded using a combination of debt and equity financing. Based on the pro forma financial effects of the acquisition presented by LMIR Trust, there are two funding cases. The first case involves a 58.1% to 41.9% debt to equity funding ratio, where a total of S$430.0 million is raised by approximately S$250.0 million debt and the issuing of 1.5 billion new units to raise net proceeds of S$180.0 million. The second case involves a 34.9% to 65.1% debt to equity funding ratio, where a total of S$430.0 million is raised by approximately S$150.0 million debt and the issuing of 2.4 billion units to raise net proceeds of S$280.0 million.

Based on the announcement report by LMIR Trust, the pro forma financial effects of the acquisition on LMIR Trust's DPU for FY2018 as if the Acquisition was completed on 1 January 2018 and LMIR Trust held and operated Property in FY2018 can be segmented into 4 scenarios:

Scenario (1): 58.1% to 41.9% debt to equity funding ratio with Vendor Support

Scenario (2): 34.9% to 65.1% debt to equity funding ratio with Vendor Support

Scenario (3): 58.1% to 41.9% debt to equity funding ratio without Vendor Support

Scenario (4): 34.9% to 65.1% debt to equity funding ratio without Vendor Support

Before the Acquisition, distributable income was S$58.4 million, units in issue and to be issued was 2,859.9 million and DPU was 2.05 cents.

Under Scenario (1), distributable income would increase to S$69.7 million, units in issue and to be issued would increase to 4,334.9 million and DPU would decrease to 1.61 cents after the Acquisition.

Under Scenario (2), distributable income would increase to S$75.3 million, units in issue and to be issued would increase to 5,307.3 million and DPU would decrease to 1.42 cents after the Acquisition.

Under Scenario (3), distributable income would increase to S$59.4 million, units in issue and to be issued would increase to 4,332.2 million and DPU would decrease to 1.37 cents after the Acquisition.

Under Scenario (4), distributable income would increase to S$65.1 million, units in issue and to be issued would increase to 5,304.6 million and DPU would decrease to 1.23 cents after the Acquisition.

VALUATION OF STOCK (ADJUSTED FOR ACQUISTION)

In this section, we incorporated the potential impact of the acquisition of Lippo Mall Puri into our valuation analysis on page 14, contingent on the following assumptions:

(1) The acquisition of Lippo Mall Puri would be completed in June 2020 as stated in the announcement on 2 September 2019 by LMIR Trust

(2) Vendor support would be provided and we would only base our analysis on Scenario (1) and Scenario (2) as discussed in page 21

(3) The excess of the S$430 million funding over the Purchase Consideration of S$358.2 million would be fully expensed due to the Value Added Tax, Land and Building Acquisition Tax and professional fees as mentioned on page 19

(4) The equity financing portion of the acquisition would be done through a rights issue

(I) SOTP valuation model with acquisition based on Scenario (1)

Based on Scenario (1), we value LMIR Trust at S$1,380.80 million, generating a value per unit of S$0.314 based on our SOTP valuation approach (Exhibit 19). The total properties' value after factoring in the acquisition of Lippo Mall Puri would be Rp21,755.10 billion = Rp18,055.10 billion + Rp3700.0 billion. Conversion from Rupiah (Rp) to Singapore dollars (SGD) based on a SGD1=Rp10,306.0 exchange rate (as of 3 January 2020) would yield a total properties' value of S$2,110.90 million (Exhibit 19).

To account for the 58.1% debt financing for Lippo Mall Puri, we performed an addition of S$250 million to S$521.7 million long term unsecured borrowings This would bring the long term unsecured borrowings to a total of S$771.70 million, and thus the total debt comprising of short term and long term unsecured borrowings to S$846.40 million. The total debt was subtracted from the total properties' value of while total cash (S$116.30 million) comprising of cash and cash equivalents was added to the total properties' value. After the adjustments, the total valuation of the company was S$1,380.80 million (Exhibit 19). Further, 1,500 million units to be issued as part of the 41.9% equity financing were added to 2,894.9 million units as of 30 September 2019, to derive at a total of 4,394.9 million units. This would generate a value per unit of S$0.314.

The potential issue price of each unit from the equity funding is estimated to be S$0.120 = S$180 million/1,500 million units. With reference to Exhibit 20, an ex-rights price of S$0.189 per unit was derived by adding the SS$180 million funding from equity financing to the market capitalization (S$651.4 million as of 3 January 2020) and dividing the summed total of S$831.4 by 4,394.9 million units. Thereafter, using the value per unit of S$0.314 derived from our valuation, we estimate an upside of 66.1% from the ex-rights price (Exhibit 20).

Exhibit 19: SOTP valuation with acquisition based on Scenario (1)

	Value (Rupiah' billion)	Value (S$' million)
Total (retail malls)	20,716.10	2,010.10
Total (retail spaces)	1,039.00	100.80
Total (all properties)*	21,755.10	2,110.90
Add: Cash		
Cash and cash equivalents		116.30
Total (cash)		116.30
Less: Debt		
Short-term unsecured borrowings		74.70
Long-term unsecured borrowings		771.70
Total (debt)		846.40
Total value		1,380.80
No. of units (million)		4,394.90
Value per unit (S$)		0.314

**Property values in Rupiah are as of 31 Dec 18 and are converted to S$ based on SGD1=Rp10,306.0 rate as of 3 Jan 2020*

Source: Lippo Malls Indonesia Retail Trust, FPA Financial

Exhibit 20: Ex-rights price per unit and upside based on Scenario (1)

	S$ million
Market capitalisation	651.4
Equity funding	180.0
Total value	831.4
Outstanding units (million)	4,394.9
Ex-rights price per unit (S$)	0.189
Value per unit (S$)	0.314
Upside	66.1%

Source: FPA Financial

(II) SOTP valuation model with acquisition based on Scenario (2)

Based on Scenario (2), we value LMIR Trust at S$1,480.80 million, generating a value per unit of S$0.280 based on our SOTP valuation approach (Exhibit 21). The total properties' value after factoring in the acquisition of Lippo Mall Puri would be Rp21,755.10 billion = Rp18,055.10 billion + Rp3700.0 billion. Conversion from Rupiah (Rp) to Singapore dollars (SGD) based on a SGD1=Rp10,306.0 exchange rate (as of 3 January 2020) would yield a total properties' value of S$2,110.90 million (Exhibit 21).

To account for the 34.9% debt financing for Lippo Mall Puri, we performed an addition of S$150 million to S$521.70 million long term unsecured borrowings. This would bring the long term unsecured borrowings to a total of S$671.70 million, and thus the total debt comprising of short term and long term unsecured borrowings to S$746.40 million. The total debt was subtracted from the total properties' value of while total cash (S$116.30 million) comprising of cash and cash equivalents was added to the total properties' value. After the adjustments, the total valuation of the company was S$1,480.80 million (Exhibit 21). Further, 2,400 million units to be issued as part of the 65.1% equity financing were added to 2,894.9 million units as of 30 September 2019, to derive at a total of 5,294.9 million units. This would generate a value per unit of S$0.280.

The potential issue price of each unit from the equity funding is estimated to be S$0.116 = S$280 million/2,400 million units. With reference to Exhibit 22, an ex-rights price of S$0.176 per unit was derived by adding the SS$280 million funding from equity financing to the market capitalization (S$651.4 million as of 3 January 2020) and dividing the summed total of S$931.4 by 5,294.9 million units. Thereafter, using the value per unit of S$0.280 derived from our valuation, we estimate an upside of 59.1% from the ex-rights price (Exhibit 22).

Exhibit 21: SOTP valuation based on Scenario (2)

	Value (Rupiah' billion)	Value (S$' million)
Total (retail malls)	20,716.10	2,010.10
Total (retail spaces)	1,039.00	100.80
Total (all properties)*	21,755.10	2,110.90
Add: Cash		
Cash and cash equivalents		116.30
Total (cash)		116.30
Less: Debt		
Short-term unsecured borrowings		74.70
Long-term unsecured borrowings		671.70
Total (debt)		746.40
Total value		1,480.80
No. of units (million)		5,294.90
Value per unit (S$)		0.280

**Property values in Rupiah are as of 31 Dec 18 and are converted to S$ based on SGD1=Rp10,306.0 rate as of 3 Jan 2020*

Source: Lippo Malls Indonesia Retail Trust, FPA Financial

Exhibit 22: Ex-rights price per unit and upside based on Scenario (2)

	S$ million
Market capitalisation	651.4
Equity funding	280.0
Total value	931.4
Outstanding units (million)	5,294.9
Ex-rights price per unit (S$)	0.176
Value per unit (S$)	0.280
Upside	59.1%

Source: FPA Financial

Comparing both scenarios, the higher debt and lower equity financing approach in Scenario (1) would be more favourable due to the higher value per unit and upside. Additionally, given that LMIR Trust has a relatively healthy gearing ratio of 34.7% (as of 30 September 2019), the company has room to accommodate more debt financing. Thus, we believe that the company is likely to proceed with the acquisition based on Scenario (1). Consequently, we will further develop our valuation analysis based on Scenario (1).

We also conducted a sensitivity analysis for the case with acquisition based on Scenario (1) as shown in Exhibit 23.

Exhibit 23: Sensitivity analysis with acquisition based on Scenario (1)

	Discount/Premium (%)	Total (all properties) (S$ million)	Total value (S$ million)	Outstanding units (million)	Value per unit (S$)
Scenario (A)	None	2,110.90	1,380.80	4,394.90	0.314
Scenario (B)	10% discount	1,899.81	1,169.71	4,394.90	0.266
Scenario (C)	20% discount	1,688.72	958.62	4,394.90	0.218
Scenario (D)	10% premium	2,321.99	1,591.89	4,394.90	0.362
Scenario (E)	20% premium	2,533.08	1,802.98	4,394.90	0.410

Source: Lippo Malls Indonesia Retail Trust, FPA Financial

Following our analysis on page 16 regarding a total weighted discount of 12.2% on the sale of both Pejaten Village and Binjai Supermall, we adopt the same view in this section and value the total properties at a 10% discount, thus estimating a value per unit of S$0.266. This would generate a potential upside of 40.7% from the ex-rights price of S$0.189 as shown in Exhibit 20 on page 24.

SWOT AND COMPETITIVE ANALYSIS

Further, we undertake a SWOT analysis in Exhibit 24 to evaluate the various components of the analysis thus far.

Exhibit 24: SWOT analysis

SWOT analysis

Strengths	Weaknesses
• Expected increase in revenue growth • Improving market capitalization • Strong leadership in Lippo Group	• Rising operating expenses
Opportunities	**Threats**
• Unrealised potential in unit price • Recovery of the global economy • Expansion in the F&B industry • Increased tourist flows	• Rise of ride-hailing services • Rise of online retailing • Risk of terrorism and natural disasters

(I) Strengths

The performance of Lippo Group has made significant improvements since its current director, John Riady, took over the family enterprise. Under his leadership, Lippo Group has gradually recovered, with cash flows becoming positive and share prices climbing up. He has also chartered a new course of growth for the Group, focusing on property development and healthcare, which he believes are businesses that are relatively shielded from the digital revolution. Additionally, as the demand for housing rises in Indonesia, John Riady has also made plans for Lippo to tap into the growing market. These growth initiatives set forth indicate potential growth which cast an optimistic outlook of Lippo Group's future performance.

(II) Weaknesses

LMIR Trust's rising operating expenses could lead to a fall in operational efficiency if the rate of increase in operating expenses exceeds the rate of revenue growth, thus leading to lower profitability. A moderation in property portfolio expansion or lowering the cost of maintenance of existing properties may need to be considered to keep operating expenses within control.

(III) Opportunities

Amid the possibility of a recovery in the global economy, tourism has the potential to boost the Indonesian retail sector. Increased tourist flows into the country are likely to generate larger customer volume in retail malls, and in turn have the potential to boost retail sales performance. This would increase the attractiveness of retail malls, and thus increase their values. Additionally, higher tourist flows would also contribute to a stronger performance in the F&B industry.

(IV) Threats

There are some potential threats that need to be considered in the analysis. Firstly, with the growing influence of ride-hailing services, shoppers are increasingly making use of ride-hailing services to commute to retail malls. This has contributed to lower carpark rental income. LMIR Trust has acknowledged the challenges of a rise in ride-hailing services and have taken measures to address the situation. To increase space utilization, the company has converted carpark lots (up to regulatory limits) in its retail malls into spaces for rental generating tenants. Secondly, the rise of online retailing has changed consumer purchasing behavior, reducing the need for retail spaces. Thirdly, natural disasters and terrorism pose as unpredictable events that may weaken retail spending.

INVESTMENT RECOMMENDATION

Given the above analysis, we value LMIR Trust at S$0.379 per unit currently, after factoring in a 10% discount on the total properties' value following the sales announcement on Pejaten Village and Binjai Supermall. Our valuation model generates a potential upside of 68.4% from the current unit price (as of 3 January 2020) of S$0.225. LMIR Trust's P/E ratio is lower than its peers which we believe indicates that the company is attractive, given its improving fundamentals and share price. We are of the view that the stock has the potential to appreciate given its fundamentals, and there are favourable growth conditions in the retail industry that can boost the performance and attractiveness of retail malls. On the general economy, recent developments in US, China and UK have created optimism over the outlook of the global economy, boding well for Indonesia's economy as well. We reiterate our conservative approach to estimate a target price of S$0.379 per unit and recommend a buy on the company's share.

In addition, given the upcoming acquisition of Lippo Mall Puri, we have incorporated the potential impact of the acquisition into our valuation analysis, contingent on a few assumptions as discussed on page 23. With the potential of generating a higher value per unit and upside, we are of the view that LMIR Trust would likely proceed with the acquisition based on a 58.1% debt and 41.9% equity financing approach (Scenario 1). Considering a 10% discount on the total properties' value following the sales announcement on Pejaten Village and Binjai Supermall, we adopt a conservative approach to value LMIR Trust at S$0.266 per unit, assuming that the acquisition of Lippo Mall Puri would be completed in June 2020. This would generate a potential upside of 40.7% from the ex-rights price of S$0.189.

Nonetheless, there are risks to our valuation which we will highlight in the next section.

RISKS TO THE TARGET PRICE

We highlight a few potential scenarios that may pose as risks to our target price.

(i) Risk of the Indonesian economy failing to meet projections

Despite the IMF's projection of stable growth in Indonesia and the potential of the retail sector to scale with the expansion of the food and beverages industry, there are threats to the economy that could hinder the process of achieving these forecasts. The US-China trade war has resulted in a slowdown in global growth and the persistent trade uncertainty that lingers has the potential to undermine the stable growth of the Indonesian economy. Indonesia's exports to the US and China constitute a significant proportion of its total exports, and weaker growth in the two economic powerhouses could see a reduction of Indonesian exports. This could have negative implications on net exports, and in turn Indonesia's economic growth.

(ii) Risk of currency fluctuation

The risk of exchange rate fluctuations can have negative effects for dividend distribution, as the revenue collected from the properties that LMIR Trust owns in Indonesia is denominated in Rupiah (Rp), and needs to be converted to Singapore dollars (S$). The weakening of the Rp against the S$ will potentially lead to lesser revenue after conversion to S$, hence resulting in a lower DPU. Since the start of 2019, the Rp has generally appreciated against the S$, boding well for LMIR Trust . Nevertheless, the risk of currency fluctuation still exists.

(iii) Risk of natural disasters

Indonesia's geographical location has left it vulnerable to natural disasters like earthquakes and tsunamis. Since the catastrophic natural disaster in Aceh in 2004, Indonesia has experienced many natural disasters relating to earthquakes and tsunamis. Prominently, two major natural disasters occurred in Lombok and Central Sulawesi in 2018. Natural disasters have occurred in parts of Indonesia where LMIR Trust owns properties, such as Sumatra and Sulawesi, which can have a negative impact on revenue.

(iv) Risk of terrorism

A suicide bombing took place on 13 Nov at the police headquarters in Medan, injuring 6 people in the process. The Jakarta Post reported that the group of suspected terrorists allegedly behind the bombing were part of the Islamic State (IS) group-linked homegrown terror network Jamaah Ansharut Daulah (JAD), according to the police. Such terrorist activity undermines the nation's security, potentially reducing tourist inflows. Furthermore, LMIR Trust has properties in Medan, such as the Sun Plaza and Plaza Medan Fair, and the recent bombing could have a potential negative impact on businesses in the retail malls.

SUSTAINABILITY INFORMATION

LMIR Trust has provided sustainability information with the aim of creating and delivering long-term sustainable values for its stakeholders. To manage sustainability, LMIR Trust's Manager established a Sustainability Committee (SC), chaired by the Chief Executive Officer (CEO)/Deputy CEO and reporting directly to the Board. The SC comprises representatives from the departments of Asset Management & Business Development, Investor Relations, Legal & Compliance, Human Resource & Facility Management, covering the various scope of the ESG factors. Details of the structure of the SC are available in Appendix II.

The main purpose of the SC is to provide strategic direction for managing sustainability-related risks and opportunities. It also guides the development and improvement of frameworks, policies, guidelines and processes to ensure that sustainability issues are effectively managed. Sustainability efforts originate from the Manager and the Property Manager in Indonesia, integrating both business and sustainability priorities.

The responsibilities of the SC as per the company's 2018 annual report are as follows:

1) The Committee shall oversee and provide input to management on LMIR Trust's policies, strategies and programs related to matters of sustainability and corporate social responsibility. This includes environment, local community, employment practices, labour rights, health and safety, corporate accountability, public affairs and philanthropy

2) Performance Goals: The Committee shall set and review the goals established for its performance with respect to matters of sustainability and corporate social responsibility and monitor LMIR Trust's progress against those goals

3) The Committee shall receive periodic feedback from the Manager's management regarding relationships with key external stakeholders that may have a significant impact on LMIR Trust's business activities and performance

LMIR Trust adopts a materiality assessment framework to manage the risks and opportunities in a rapidly changing economic and political landscape. Reviews on the materiality assessment framework are conducted to assess changes in the priorities of its stakeholders. The company continues to look at material sustainability matters with significant Environmental, Social and Governance (ESG) impact, which will influence the decision-making process of stakeholders and affect the achievement of its goals.

The findings from the materiality assessment framework has helped LMIR Trust to prioritise the important topics and provide an opportunity for it to understand and address its stakeholders' concerns. Appendix III shows the findings which have been plotted in the materiality matrix based on the impact to LMIR Trust, and against their importance to the stakeholders. More details regarding the individual topics of the material assessment are available in Appendix IV.

APPENDIX

(I) PROPERTY OVERVIEW

RETAIL MALLS

	Bandung Indah Plaza	Cibubur Junction	Ekalokasari Plaza	Gajah Mada Plaza
				
Valuation	Rp 764.7 billion	Rp 375.0 billion	Rp 381.7 billion	Rp 798.9 billion
Location	Jalan Merdeka, Bandung, West Java	Jalan Jambore, Cibubur, East Jakarta	Jalan Siliwangi 123, Bogor, West Java	Jalan Gajah Mada, Central Jakarta
GFA	75,868 sqm	66,071 sqm	58,859 sqm	66,160 sqm
NLA	30,288 sqm	34,100 sqm	28,212 sqm	36,535 sqm
Occupancy rate	98.3%	98.0%	91.5%	73.8%
Number of Tenants	245	155	98	158

Source: Lippo Malls Indonesia Retail Trust

	Istana Plaza	Mal Lippo Cikarang	The Plaza Semanggi	Sun Plaza
				
Valuation	Rp 644.2 billion	Rp 689.1 billion	Rp 1,069.0 billion	Rp 2,156.6 billion
Location	Jalan Pasir Kaliki, Bandung, West Java	Jalan MH Thamrin, Lippo Cikarang, West Java	Jalan Jenderal Sudirman, South Jakarta	Jalan Haji Zainul Arifin Medan, North Sumatera
GFA	46,809 sqm	39,293 sqm	155,122 sqm	107,373 sqm
NLA	27,471 sqm	29,926 sqm	60,084 sqm	69,541 sqm
Occupancy rate	93.0%	94.9%	81.5%	96.8%
Number of Tenants	181	125	419	379

Source: Lippo Malls Indonesia Retail Trust

RETAIL MALLS

	Plaza Medan Fair	Pluit Village	Lippo Plaza Kramat Jati	Palembang Square Extension
				
Valuation	Rp 1,008.2 billion	Rp 846.2 billion	Rp 647.0 billion	Rp 288.0 billion
Location	Jalan Jenderal Gatot Subroto No.30, Medan Petisah, Medan, North Sumatera	Jalan Pluit Indah Raya, Penjaringan, North Jakarta	Jalan Raya Bogor Km 19, Kramat Jati, East Jakarta	Jalan Angkatan 45/POM IX, Palembang, South Sumatera
GFA	138,767 sqm	134,576 sqm	67,285 sqm	22,527 sqm
NLA	67,258 sqm	87,394 sqm	32,908 sqm	18,093 sqm
Occupancy rate	99.3%	94.4%	96.1%	96.0%
Number of Tenants	469	273	112	32

Source: Lippo Malls Indonesia Retail Trust

	Tamini Square	Palembang Square	Pejaten Village	Binjai Supermall
				
Valuation	Rp 276.0 billion	Rp 719.0 billion	Rp 1,157.0 billion	Rp 302.0 billion
Location	Jalan Raya Taman Mini, East Jakarta	Jalan Angkatan 45/POM IX, Palembang, South Sumatera	Jalan Warung Jati Barat, South Jakarta	Jalan Soekamo, Hatta No.14, Binjai, North Sumatra
GFA	18,963 sqm	46,546 sqm	89,157 sqm	28,760 sqm
NLA	17,475 sqm	30,513 sqm	42,184 sqm	23,430 sqm
Occupancy rate	97.8%	97.2%	99.9%	98.8%
Number of Tenants	12	131	160	117

Source: Lippo Malls Indonesia Retail Trust

RETAIL MALLS

	Lippo Mall Kemang	Lippo Plaza Batu	Palembang Icon	Lippo Mall Kuta
				
Valuation	Rp 3,143.1 billion	Rp 251.0 billion	Rp 770.0 billion	Rp 836.1 billion
Location	Jalan Kemang VI, South Jakarta	Jalan Diponegoro No. RT 07RW05, Batu City, East Java	Jalan POM IX, Palembang, South Sumatera	Jalan Kartika Plaza, District of Kuta, Badung, Bali
GFA	150,932 sqm	34,586 sqm	42,361 sqm	36,312 sqm
NLA	58,490 sqm	17,673 sqm	36,348 sqm	20,350 sqm
Occupancy rate	93.6%	91.3%	96.2%	93.2%
Number of Tenants	186	48	170	64

Source: Lippo Malls Indonesia Retail Trust

	Lippo Plaza Kendari	Lippo Plaza Jogja	Kediri Town Square
			
Valuation	Rp 354.8 billion	Rp 601.3 billion	Rp 396.2 billion
Location	Jalan MT Haryono No.61-63, Kendari, South East Sulawesi	Jalan Laksda Adi Sucipto No. 32 – 34, Yogyakarta	Jalan Hasanudin No. 2, RT/22 RW/06, Balowerti Subdistrict, Kediri, East Java
GFA	34,831 sqm	66,098 sqm	28,688 sqm
NLA	20,184 sqm	21,452 sqm	16,848 sqm
Occupancy rate	99.4%	98.2%	99.3%
Number of Tenants	38	39	53

Source: Lippo Malls Indonesia Retail Trust

RETAIL SPACES

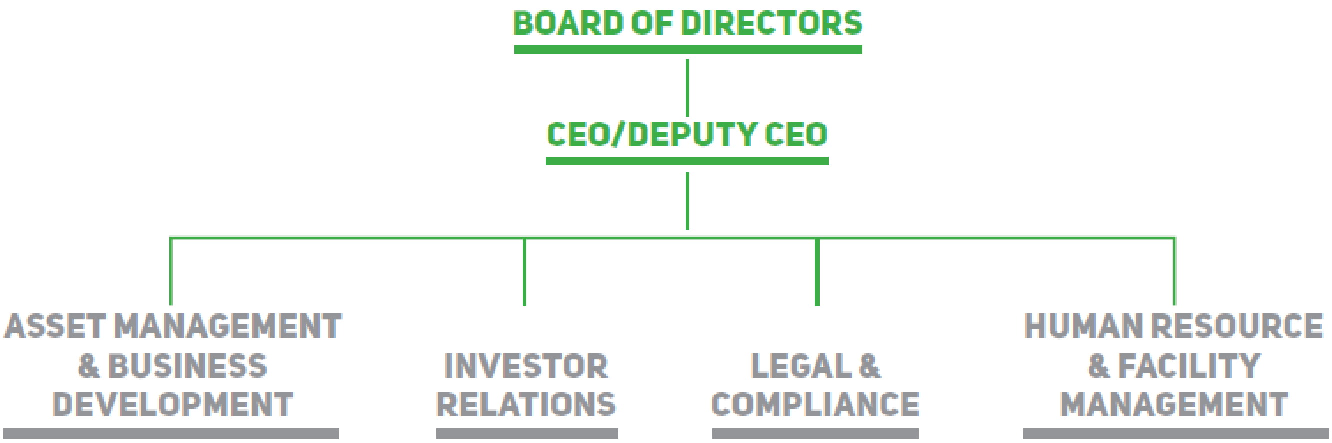
	Depok Town Square	Grand Palladium	Java Supermall	Malang Town Square
				
Valuation	Rp 155.5 billion	Rp 99.8 billion	Rp 148.4 billion	Rp 170.0 billion
Location	Jalan Margonda Raya, Depok, West Java	Jalan Kapt, Maulana Lubis, Medan, North Sumatera	Jalan MT Haryono, Semarang, Central Java	Jalan Veteran, Malang, East Java
GFA	13,045 sqm	13,417 sqm	11,082 sqm	11,065 sqm
NLA	12,490 sqm	12,305 sqm	11,082 sqm	11,065 sqm
Occupancy rate	100.0%	4.3%	100.0%	100.0%
Number of Tenants	4	1	2	3

Source: Lippo Malls Indonesia Retail Trust

	Mall WTC Matahari	Metropolis Town Square	Plaza Madiun
			
Valuation	Rp 113.0 billion	Rp 140.8 billion	Rp 211.5 billion
Location	Jalan Raya Serpong, Tangerang, Banten Greater Jakarta	Jalan Hartono Raya, Tangerang, Banten Great Jakarta	Jalan Pahlawan, Madiun, East Java
GFA	11,184 sqm	15,248 sqm	19,029 sqm
NLA	10,753 sqm	14,861 sqm	11,436 sqm
Occupancy rate	100.0%	66.2%	99.1%
Number of Tenants	3	3	17

Source: Lippo Malls Indonesia Retail Trust

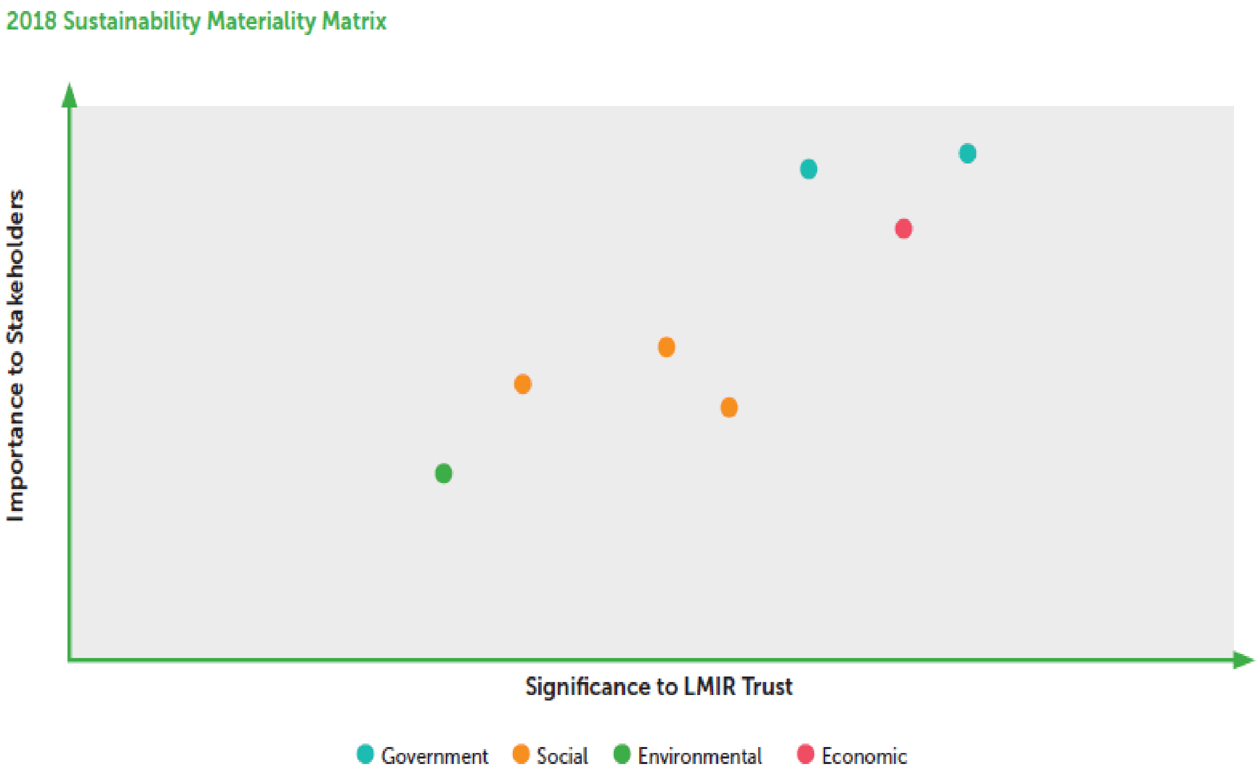
(II) SUSTAINABILITY COMMITTEE STRUCTURE



Sustainability Committee structure as at 31 December 2018

Source: Lippo Malls Indonesia Retail Trust

(III) SUSTAINABILITY MATERIALITY MATRIX



Source: Lippo Malls Indonesia Retail Trust

(IV) MATERIALITY ASSESSMENT FRAMEWORK

Material Topics	Relevance	How are we addressing issue
Economic Dimensions		
Economic Performance	Committed to delivering regular and stable distributions to Unitholders, we are responsible for the optimisation of the portfolio's value through strategic acquisitions and proactive asset management.	We seek to maintain investment discipline at all times, providing regular distributions to Unitholders and strive to achieve long-term growth in Net Asset Value per unit to maximise Unitholders' return.
Social Dimensions		
Diverse and Equal Opportunity	We believe in fair employment practices, ensuring that everyone is given fair opportunities regardless of ethnicity, gender and age.	Our employment practices are aligned with the Tripartite Alliance for Fair Employment guidelines, allowing no discrimination and prejudice against any ethnic group, nationality or gender in our hiring process.
Employee Training and Development	Our people are critical assets to implementing organisational strategies and creating value for our stakeholders.	We send our employees for training programmes to upgrade and improve their skillsets. Some of the training courses include Real Estate Investment and Valuation, Enterprise Risk Management, Legal & Practical Considerations in REIT Structures and Taxation.
Enriching Communities	The community's continued patronage and the loyalty of our customers are critical to the long-term viability and prosperity of LMIR Trust.	We strive to be a socially conscious business by giving back to the local community on an ongoing basis. Some of the activities that we supported include Asian Games 2018 and lending out spaces for fund-raising activities for the victims of the Lombok Earthquake and the Palu Tsunami.
Governance Dimensions		
Corporate Governance	As a listed entity accountable to our Unitholders and the wider community, we must have strong corporate governance with zero tolerance towards any unethical practices.	We are committed to good corporate governance and transparency in its endeavours, ensuring that its corporate code of conduct is abided by all employees. Additionally, monthly reports are prepared and submitted to the trustee for review.
Regulatory Compliance	We are committed to conduct and manage our business and assets in compliance with applicable laws and regulations, which is essential for the long-term sustainability of the business.	We have put in place internal controls and procedures to embed compliance into our day-to-day operations, while proactively identifying and responding to applicable new rules and regulations.
Environmental Dimensions		
Conservation of Energy and Water	Responsible use of resources such as electricity and water would reduce the environmental impact on the local ecology and make us a more cost-effective organisation.	In an effort to reduce the environmental footprint of LMIR Trust, initiatives have been launched to improve our environmental performance. An example is the partnership with Philips on changing our light bulbs to LED lightbulbs for higher savings in electricity.

Source: Lippo Malls Indonesia Retail Trust

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