

MACRO TRENDS SHAPING OUR BUSINESS

The Manager's ability to deliver sustainable and growing returns to Unitholders is underpinned by a deep understanding of the macro factors influencing MLT's business. This enables the Manager to anticipate emerging market trends and capitalise on opportunities, while staying nimble and responsive in navigating challenges.

OPPORTUNITIES

ASIA TO FUEL GLOBAL CONSUMPTION

Asian consumers are expected to account for half of global consumption growth as three billion people, or 70% of Asia's total population become part of the consuming class by 2030¹. This growth is expected to be driven by a doubling of disposable incomes in Asia Pacific from 2021 to 2040². With this trend, Asia is expected to account for 50% of upper-middle-income households, and half of global consumer transactions by 2030¹.

What it means for MLT

MLT has a portfolio of 185 quality properties spread across Singapore, Australia, China, Hong Kong SAR, India, Japan, Malaysia, South Korea and Vietnam. These markets are characterised by increasing urbanisation and a fast growing middle-income class which continue to drive consumption and demand for warehouse space through economic cycles. MLT remains well positioned to benefit from the potential growth opportunities in the logistics and e-commerce sectors in Asia.



CONTINUED RISE OF E-COMMERCE

Global e-commerce remains strong despite a marginal regression from the growth experienced during the Covid-19 pandemic. While in-store shopping has rebounded, long term e-commerce structural growth trends remain intact³. Global retail e-commerce penetration is expected to increase from 57.2% in 2023 to 66.6% by 2027, driving global e-commerce revenue to US\$6.3 trillion by 2027⁴. This is expected to underpin demand for well-located, quality warehousing spaces.

What it means for MLT

E-commerce remains an important contributor to MLT's business as more than 75% of the Trust's customers serve consumer-related sectors, which are seeing higher e-commerce penetration. Located across major logistics markets in Asia Pacific in close proximity to city centres and large population areas, MLT's portfolio of modern and high-quality properties benefit from healthy demand for quality spaces by 3PL and e-commerce customers.



SUPPLY CHAIN SECURITY

Multiple disruptions to the global supply chain in recent years have underscored the importance of supply chain security⁵. Businesses have transitioned from 'just-in-time' to 'just-in-case' manufacturing models for greater agility and resilience, elevating their onshoring needs and inventory levels across their respective markets. This trend has assured the continued demand for well-located, efficient and modern warehousing spaces.

What it means for MLT

With more than 7.9 million sqm of modern, high-quality warehousing spaces across nine geographic markets, MLT remains relevant to the evolving needs of customers and the long term growth of the industry. The Manager will continue to rejuvenate MLT's portfolio with quality assets to ensure the resilience and future readiness of its portfolio.



FOCUS ON SUSTAINABLE BUILDINGS

Sustainability continues to take centre stage in the real estate industry as owners and occupiers increasingly demand green properties to reduce their carbon footprint and meet industry decarbonisation targets. With energy prices at elevated levels, tenants are also looking for ways to reduce their operational costs. Green buildings, which are designed to be more energy-efficient and environmentally friendly, are gaining popularity as they help lower utility costs and achieve cost savings over the long term.

What it means for MLT

The Manager continues to focus on greening MLT's portfolio, primarily through expanding the portfolio's solar generating capacity and increasing green certified space. With 1.7 million sqm of green certified space and a target to increase this to cover more than 80% of its portfolio GFA by 2030, MLT is set to attract a larger number of sustainability-focused tenants going forward. Additionally, the adoption of TCFD recommendations will improve MLT's climate related financial disclosures and enable investors and lenders to better assess the Trust's climate related risks and opportunities.



CHALLENGES

MACROECONOMIC UNCERTAINTY

With the risks of recession looming across major economies, the global macroeconomic landscape is facing a high level of uncertainty⁶. Ongoing risks such as inflationary pressures, tightening financial conditions, the Russia-Ukraine war and worsening China-US relations have compounded economic challenges and contributed to the uncertain outlook for the global economy. A global economic slowdown may have a potential impact on demand for warehousing space.

What it means for MLT

MLT's diversified portfolio of assets across geographic markets and tenant base is one of its key strengths, enabling the Trust to remain relatively resilient through market cycles. MLT's properties are mainly ambient warehouses, which are easily adapted to suit the needs of a wide range of users from different industries. In addition, most of MLT's tenants have businesses related to consumption, which have proven to be largely resilient during market downturns.



ELEVATED INFLATION

Inflation continues to be a threat for businesses and supply chains across the world. While inflation is expected to ease to 6.9% in 2023 from 9.9% in 2022⁷, it remains above pre-pandemic levels of about 3.5%. High inflation will continue to dampen business and consumer sentiments, and weigh on corporate profit margins.

What it means for MLT

Over 70% of MLT's revenue base have built-in rental escalations that will help mitigate rising costs. In addition, a large part of MLT's utility costs from operations are recoverable from tenants. To buffer against cost pressure and reduce MLT's carbon footprint, the manager will continue to focus on reducing the energy intensity of its operations through the use of solar energy and the installation of energy efficient fittings.



HIGH INTEREST RATES

In response to persistent inflation, policy makers are likely to keep interest rates at elevated levels until inflation moves closer to target. In May 2023, the US Federal Reserve approved its 10th interest rate hike in just over a year, effectively raising the federal funds rate to 5.00%-5.25%, the highest level since August 2007. Most major central banks in Asia Pacific have also hiked interest rates aggressively in tandem with the US Federal Reserve.

What it means for MLT

An environment of high interest rates will increase MLT's financing costs, potentially weighing on MLT's distributions to Unitholders. To address this, the Manager continues to adopt a prudent interest rate hedging approach to manage the impact of interest rate volatility on MLT's distributions. As at 31 March 2023, 84% of MLT's total debt has been hedged or drawn at fixed interest rates, with a long debt duration of 3.8 years and an adjusted interest cover ratio of 3.5 times.



DEPRECIATING REGIONAL CURRENCIES

The Singapore Dollar was resilient compared to its regional peers in 2022, notably strengthening against the Chinese Yuan, Japanese Yen, South Korean Won and Australian Dollar. The depreciation of these regional currencies continues to have an adverse impact on MLT's distributable income given that over 70% of its gross revenues are contributed by regional markets.

What it means for MLT

The Manager adopts a proactive foreign exchange risk management strategy to mitigate the impact of currency volatility on MLT's distributions. As at 31 March 2023, approximately 77% of MLT's income stream in the next 12 months has been hedged into or will be derived directly in Singapore Dollar. The Manager will remain vigilant and continue to manage MLT's foreign currency hedging in a prudent and disciplined manner.



1 "Beyond income: Redrawing Asia's consumer map", McKinsey, 2021.

2 "Consumption in Asia from a new perspective", Nikko Asset Management, 10 April 2023.

3 Global Consumer Insights Pulse Survey, PwC, 16 February 2023.

4 Digital Market Insights, Statista, February 2023.

5 "Balancing just-in-time with just-in-case: Profitable redundancy in supply chains", PwC, March 2023.

6 "Risk of Global Recession in 2023 Rises Amid Simultaneous Rate Hikes", The World Bank, September 2022.

7 "Trade in Transition 2023", Economist Impact, March 2023.