

Macro Trends Shaping Our Business

MLT's business continues to be shaped by a combination of cyclical shifts and structural forces. While the challenging macroeconomic landscape poses headwinds to near-term performance, MLT remains poised to capitalise on long-term secular trends such as demographic shifts, supply chain resilience, and a growing focus on sustainability, which will drive the growth of the Asia Pacific logistics market.

CATALYSTS FOR GROWTH

ASIAN CONSUMER POWERHOUSE

In 2023, Asia Pacific contributed over 45% of the global GDP and approximately 66% of the world's economic growth¹, even as China experienced one of its lowest economic growth rates in decades. In the next decade, Asia is expected to account for half of global consumption growth², driving demand for logistics and e-commerce in the region.

Implications for MLT

With its network of 187 quality properties strategically located across Asia's major consumption hubs, MLT is poised to benefit from the growth in consumption and demand for logistics space. Developed Asia, accounting for approximately 70% of MLT's portfolio, provides stability to its revenue streams, while the 30% exposure to developing Asia positions the Trust to capitalise on the region's growth potential.



PRIORITISING SUPPLY CHAIN RESILIENCE

Reshaped by the ongoing impact of the US-China trade war, pandemic disruptions and rising geopolitical conflicts, global supply chain diversification is set to continue. Businesses will continue to prioritise security and resilience, ensuring the continued demand for modern, high-quality and efficient logistics assets across a diversified geographic base.

Implications for MLT

MLT is well-positioned to meet the needs of customers looking to fortify the resilience of their supply chain. In particular, Malaysia, Vietnam and India have been key beneficiaries of this structural shift, which augurs well for MLT's growing presence in these markets.



E-COMMERCE REMAINS A GROWTH ENGINE

Despite more cautious spending decisions, the e-commerce gross market value in Asia Pacific is estimated to reach US\$3.5 trillion by 2025, up from US\$2.6 trillion in 2022³, on the back of rising mobile internet adoption and a growing middle class. This in turn is expected to drive demand for modern, well-located logistics space in key consumption hubs.

Implications for MLT

With over 70% of MLT's tenants serving consumer-related sectors, e-commerce continues to be a notable contributor to the Trust's business. MLT's extensive network of strategically located assets across Asia Pacific positions it well to meet the growing demand from 3PL and e-commerce customers.



ACCELERATING ADOPTION OF GREEN BUILDINGS

Sustainability remains a key focus in the real estate sector. Growing demand for green buildings from owners and occupiers has been driven by the need to meet industry decarbonisation targets such as net zero emissions by 2050. With energy prices expected to stay elevated, tenants and landlords continue to prioritise sustainable properties for their energy efficiency and eco-conscious design.

Implications for MLT

MLT is committed to attaining carbon neutrality for Scope 1 and Scope 2 emissions by 2030, and reaching net zero emissions by 2050. The Manager continues to drive efforts to improve the sustainability performance of its portfolio, having increased MLT's green certified space to 39% of portfolio GFA and expanded total solar generating capacity to 59.8 MWp in FY23/24.



CHALLENGES



MACROECONOMIC UNCERTAINTY PERSISTS

While the global macroeconomic landscape is improving, elevated interest rates, relatively high inflation, and ongoing geopolitical tensions remain headwinds. The heightened volatility and uncertainty in the outlook could dampen business sentiment and potentially impact demand for logistics space as tenants remain cautious on expansion plans.

Implications for MLT

The Manager remains laser-focused on delivering consistent and stable returns for unitholders over the long term. MLT's geographically well-diversified portfolio and broad tenant base reduce its concentration risk, ensuring its resilience across market cycles. In line with its portfolio rejuvenation strategy, the Manager continues to evaluate opportunities to divest properties with older specifications, redeploying capital into acquisitions of modern assets with higher growth potential.



INTEREST RATES REMAIN ELEVATED

While global headline inflation is expected to ease from 6.8% in 2023 to 5.8% in 2024⁴, its slower-than-expected decline continues to weigh on consumer and business sentiment. In a continued bid to bring inflation to target levels, the US Federal Reserve left its benchmark rate at a 23-year high in May 2024, raising expectations that interest rates will remain higher for longer.

Implications for MLT

In a high interest rate environment, the Manager continues to adopt a prudent interest rate hedging approach to manage the impact of higher borrowing costs on distributions. At the end of FY23/24, 84% of MLT's total debt has been hedged or drawn at fixed interest rates, with a healthy debt duration of 3.8 years and interest cover ratio of 3.7 times.



CONTINUED WEAKENING OF REGIONAL CURRENCIES

The Singapore Dollar ended 2023 as the top-performing Asian currency, and is expected to perform well in 2024 on the back of the central bank's tight monetary policy and a weaker US Dollar⁵. The Singapore Dollar's continued strength against regional currencies will have an adverse impact on the financial performance of S-REITs with regional exposure.

Implications for MLT

The Manager continues to adopt a proactive foreign exchange risk management strategy to mitigate the impact of currency volatility on MLT's distributions. At the end of FY23/24, approximately 78% of MLT's projected 12-month income stream has been hedged into or will be derived directly in Singapore Dollar. The Manager will continue to monitor and prudently manage MLT's foreign currency hedging.



CHINA'S RECOVERY REMAINS FRAGILE

Although China's economy grew 5.3% in 1Q2024, its recovery remains uncertain and affected by the downturn in its property sector. While the government has pledged to maintain loose fiscal policy to spur the economy, domestic demand has yet to show a solid rebound. Muted business and consumer sentiment is likely to weigh on China's logistics sector and affect warehouse demand.

Implications for MLT

The Manager expects China's leasing environment to remain challenging in view of the subdued economic outlook and high supply of warehouse space. Negative rental reversions are expected to persist over the next few quarters. Weaker performance in China continues to be mitigated by stable operational performance across MLT's eight other markets, supported by steady demand for the Trust's portfolio of modern, high-specification properties.

1 "Creating value with M&A in Asia's diverse marketplace", McKinsey & Company, February 2024.

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

3 "The State of Logistics Asia-Pacific Focus Report 2023", Knight Frank, April 2023.

4 "World Economic Outlook Update", IMF, January 2024.

5 "Singdollar should remain strong in 2024 on tight monetary policy, weaker US dollar", The Business Times, 5 January 2024.