Logistics in Malaysia
Market overview and M&A trends

October 2018
1. Market overview

2. M&A trends

3. Get in touch
1 Market overview

Logistics industry in Malaysia – at a glance

1. Positive market outlook with strong growth enablers:
   - Growth in freight volumes
   - Improving logistics infrastructure
   - Structural growth in e-Commerce

2. Growing interest in **niche segments**, in particular cold chain, driven by healthy margins, increasing demand for perishables and lesser competition

3. Recent **wave of consolidation** in the logistics market to achieve greater scale, and capitalise on the e-Commerce wave
Demand for logistics services in Malaysia expected to continue to grow, underpinned by increasing global trade and consumer spending

International trade has been a staple of the logistics industry’s development

Freight volume is expected to grow at a faster pace driven by trade and e-Commerce growth

Import & export in Malaysia from 2013 – 2018 (RM mil)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>649</td>
<td>720</td>
</tr>
<tr>
<td>2014</td>
<td>683</td>
<td>765</td>
</tr>
<tr>
<td>2015</td>
<td>686</td>
<td>777</td>
</tr>
<tr>
<td>2016</td>
<td>699</td>
<td>787</td>
</tr>
<tr>
<td>2017</td>
<td>935</td>
<td>998</td>
</tr>
<tr>
<td>2018</td>
<td>878</td>
<td>1,876</td>
</tr>
</tbody>
</table>

CAGR '13-'18: 6.2% (Export), 6.8% (Import)

Freight transport in Malaysia from 2013 – 2023 (mil tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Air</th>
<th>Rail</th>
<th>Road</th>
<th>Ports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>511</td>
<td>274</td>
<td>511</td>
<td>274</td>
</tr>
<tr>
<td>2014</td>
<td>542</td>
<td>287</td>
<td>542</td>
<td>287</td>
</tr>
<tr>
<td>2015</td>
<td>570</td>
<td>298</td>
<td>570</td>
<td>298</td>
</tr>
<tr>
<td>2016</td>
<td>569</td>
<td>308</td>
<td>569</td>
<td>308</td>
</tr>
<tr>
<td>2017</td>
<td>545</td>
<td>319</td>
<td>545</td>
<td>319</td>
</tr>
<tr>
<td>2018</td>
<td>568</td>
<td>327</td>
<td>568</td>
<td>327</td>
</tr>
<tr>
<td>2023f</td>
<td>1,045</td>
<td>1,168</td>
<td>1,168</td>
<td>1,168</td>
</tr>
</tbody>
</table>

CAGR '13-'18: Rail 1%, Road 3%, Ports 3%

Forecast CAGR 5.3%

Source: DOSM, Ministry of Transport, FitchSolutions, BMI, PwC Research;
Note: Volume for Ports include transshipment
**Government initiatives to position Malaysia as ASEAN’s preferred logistics gateway, presenting growth opportunities for logistics players**

**Logistics and Trade Facilitation Masterplan (2015 – 2020)**

Policies have been introduced to resolve bottlenecks in the logistics sector, strengthen regulation, deploy technologies and human capital, and elevate Malaysia to become a regional player.

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**Debottlenecking by MOT**

- Decongest ports and airports
- Reduce red tape / processes
- Improve road and rail infrastructure

**DFTZ – Alibaba logistics hub**

- Hub to launch by 2019 with centralised customs, warehousing and fulfilment functions
- Boost e-Commerce in SEA

**KLIA Aeropolis**

- Core of KLIA’s air cargo and logistics ecosystem
- Targeting to increase cargo volume from 0.7 mil tonnes to 2.5 – 3 mil tonnes (2017 to 2050)

**Port Klang / Carey Island**

- A new port-industrial city on Carey Island – to add 30 mil TEUs
- Port Klang upgrade to increase TEUs – 13 mil (2017) to 16 mil (2020)

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*TEU = Twenty-foot Equivalent Unit containers

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**Logistics players to benefit from greater ease of doing business, Last-Mile Delivery opportunities, and growing demand for logistics services**

Source: Ministry of Transportation, Channel News Asia, Straits Times, The Star Online

Market overview and M&A trends

October 2018
Majority of logistics players in Malaysia operate across multiple parts of the value chain e.g. 3PLs and CEPs

Market overview and M&A trends

October 2018
In recent years, the fragmented sector has seen logistics players acquiring 3PLs to gain scale, while interest in CEPs and LMDs has been growing.

<table>
<thead>
<tr>
<th>Carriers</th>
<th>3PLs</th>
<th>CEPs</th>
<th>LMDs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong># of players</strong></td>
<td>~10,000</td>
<td>122</td>
<td>(Growing interest from investors)</td>
</tr>
<tr>
<td><strong>M&amp;As (FY14 – FY17)</strong></td>
<td>2</td>
<td>14</td>
<td>2</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>• CAPEX- and asset-heavy, as they manage own fleet of ships, airlines or trucks • Engaged by 3PL and CEPs for transhipment • Dominated by international freight players with extensive global presence</td>
<td>• Provides outsourcing services of supply chain functions to companies • Differentiating factors include niche logistics (i.e. cold chain) and full supply chain management (inventory to procurement)</td>
<td>• Provides services for B2B and B2C, from forefront (i.e. freight forwarding, transportation and warehousing), to LMD • Highly dependent on volume and scale • Expected to gain from boost in e-Commerce</td>
</tr>
<tr>
<td><strong>Examples</strong></td>
<td>MASKargo, MISC, MTT Shipping</td>
<td>Tiong Nam, CLS, Century, TASCO</td>
<td>POS Malaysia, Gdex, Nationwide Express</td>
</tr>
<tr>
<td><strong>Examples (Local players)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Examples (Foreign players)</strong></td>
<td>Maersk, MSC, COSCO Shipping</td>
<td>Tiong Nam, CLS, Century, TASCO</td>
<td>POS Malaysia, Gdex, Nationwide Express</td>
</tr>
<tr>
<td></td>
<td>FedEx, DHL, TNT</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ninja Van, Lalamove</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Malaysian Communications and Multimedia Commission, EMI, Capital IQ, PwC analysis
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**At a glance... M&A between FY14 – FY17**

<table>
<thead>
<tr>
<th>Scale</th>
<th>Niche</th>
<th>Network</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consolidation</strong> to gain economies of scale, and the ability to service the e-Commerce sector</td>
<td>3PLs acquiring peers with niche market focus to increase service offerings and benefit from attractive margins</td>
<td>Strategic acquisitions by international logistics players to establish a regional logistics network</td>
</tr>
</tbody>
</table>
Expected evolution of the logistics industry in Malaysia

Today...

Current landscape

Fragmented with large number of players across the value chain

Market consolidation

Value of M&A Activity

2016: RM1.3 billion
2017 (YTD March): > RM1 billion

Future landscape

What it may look like in 5 years...

2 broad categories of logistics providers:

- **Large integrated** logistics players that can benefit from scale and reach
- Players focusing on **niche** markets
Industry players are consolidating to capture niche segments with better margins, i.e. cold chain, or to expand into the CEP space/ strengthen CEP network to ride on the e-Commerce wave

### Selected recent transactions (FY14 – FY17)

<table>
<thead>
<tr>
<th>Acquirer</th>
<th>Scale</th>
<th>Niche services</th>
<th>CEP (via acquisition)</th>
<th>CEP (via diversification)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transocean Holdings Bhd</td>
<td>3PL</td>
<td>TASCO Bhd</td>
<td>CJ Korea Express Asia (S) Pte Ltd</td>
<td>Yamato Asia (S) Pte Ltd</td>
</tr>
<tr>
<td>TASCO Bhd</td>
<td>3PL</td>
<td>3PL + CEP</td>
<td>3PL + CEP</td>
<td>3PL</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Gold Cold Transport Sdn Bhd &amp; MILS Cold Chain Logistics Sdn Bhd</td>
<td>Century Logistics Holdings Bhd</td>
<td>GD Express Carrier Bhd</td>
<td>Yiwugou Ecommerce Sdn Bhd</td>
</tr>
<tr>
<td>Taipanco Sdn Bhd</td>
<td>3PL</td>
<td>3PL (going into CEP)</td>
<td>3PL + CEP</td>
<td>E-commerce platform</td>
</tr>
<tr>
<td>Deal size</td>
<td>RM140mil</td>
<td>RM186mil &amp; RM30mil</td>
<td>RM175mil</td>
<td>RM266mil</td>
</tr>
<tr>
<td>Stake</td>
<td>100%</td>
<td>100%</td>
<td>31%</td>
<td>11%</td>
</tr>
</tbody>
</table>

**Rationale**

- Leverage on both parties logistics network and expertise
- To streamline resources and gain synergies from the enlarged group
- Capture niche segments to provide end-to-end solution for customers, from transporting to temperature-controlled storage
- Higher margins with less competition
- Establish logistics network in ASEAN (CJ Korea has affiliate who exports halal food to Malaysia & Singapore)
- Assist Century Logistics in expansion into the CEP in Malaysia
- Establish cross-border logistics in ASEAN in CEP, especially during rapid growth in e-Commerce demand
- Diversify into e-Commerce industry via the online trading platform
- New revenue stream with the expansion to include CEP through the online platform

Source: Capital IQ, company announcements, The Edge Market
**M&A trends are further supported by observations of higher margins and stronger revenue growth within niche 3PL and CEP segments**

### Logistics players EBIT margin (%)

<table>
<thead>
<tr>
<th></th>
<th>0%</th>
<th>5%</th>
<th>10%</th>
<th>15%</th>
<th>20%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standard 3PL</strong></td>
<td>-2%</td>
<td>5%</td>
<td>9%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td><strong>Standard 3PL (e-Commerce)</strong></td>
<td>3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Niche 3PL (O&amp;G)</strong></td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Niche 3PL (Cold chain)</strong></td>
<td>2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Carriers</strong></td>
<td>-1%</td>
<td>6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3PL + Carriers</strong></td>
<td>-3%</td>
<td>9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CEP</strong></td>
<td>6%</td>
<td>4%</td>
<td>19%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3PL + CEP</strong></td>
<td>4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 3-yr revenue CAGR

- **Standard 3PL** -2%
- **Standard 3PL (e-Commerce)** 3%
- **Niche 3PL (O&G)** 0%
- **Niche 3PL (Cold chain)** 2%
- **Carriers** -1%
- **3PL + Carriers** -3%
- **CEP** 6%
- **3PL + CEP** 4%

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**Niche 3PL**

- Focusing on **niche**s (i.e. cold chain¹ and O&G) enables **better margins**
- Involvement in **e-Commerce** also provides **positive revenue growth**²

**CEPs**

- Command **highest growth** due to rise in **e-Commerce**
- **Highest margins** when vertically integrated with 3PL

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¹ Cold chain is temperature-controlled logistics for perishable goods, pharmaceutical goods and halal products
² 3PL player, Freight Management Holdings Bhd, owns an e-Commerce platform (FM Hubwire Sdn Bhd) that helps customers to market, sell and manage products across multiple e-channels.

Note: Less recent M&A focus on Carrier logistics due to O&G uncertainty and high CAPEX requirement.

Source: Capital IQ, PwC analysis
Cold Chain Logistics niche players stand to gain from growing demand for perishable products and less competition

Perishables are growing, while opportunities to provide retailers with cold chain services still abound

<table>
<thead>
<tr>
<th>Industries relying on cold chain logistics</th>
<th>Size FY15</th>
<th>FY15 – FY20 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceutical</td>
<td>$2 bil</td>
<td>10% p.a.</td>
</tr>
<tr>
<td>Agri-business</td>
<td>$28 bil</td>
<td>6% p.a.</td>
</tr>
<tr>
<td>Halal food production</td>
<td>$10 bil</td>
<td>5% p.a.</td>
</tr>
</tbody>
</table>

Higher margins: a result of lesser competition in cold chain segment due to high setup costs

Market size of cold chain logistics >$250k

Only 47% of Malaysian retailers outsource their cold chain logistics functions to 3PLs

Note: Assumed USD/MYR rate of 4
Source: International Trade Association, The Edge Markets, PwC analysis
4.5 M&A trends - e-Commerce logistics

A booming e-Commerce sector, supported by the establishment of DFTZ, will drive activities in the e-Commerce logistics space

**e-Commerce is projected to grow significantly, with CEP volume growing in tandem**

<table>
<thead>
<tr>
<th>Market FY17</th>
<th>FY15–FY20 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1 bil</td>
<td>11% p.a.</td>
</tr>
<tr>
<td>80 mil deliveries</td>
<td>15% p.a.</td>
</tr>
</tbody>
</table>

**DFTZ is expected to facilitate the movement of USD 65 billion worth of goods by 2025**

A holistic ecosystem to facilitate e-Commerce activities by connecting SMEs to eMarketplaces, government agencies, cross border logistics providers and cross border payment providers

**DFTZ Ecosystem**

- **Regional e-Fulfillment Hub**
  - **Phase 1**: Collaboration between Lazada and Pos Malaysia
  - **Phase 2**: JV between MAHB and Cainiao

- **E-Services Platform**
  - Provides market access, online trade facilitation process and end-to-end business support for cross-border trade (e.g. financing, insurance, marketing, etc.)

- Establishment of DFTZ will help position Malaysia as a regional logistics hub for e-Commerce players
- Alibaba’s investment in DFTZ expected to significantly boost cross-border e-Commerce trade, particularly between Malaysia and China

**Number of CEP players in Malaysia**

- **FY11**: 120 players
  - International: 69 players (58%)
  - Domestic: 51 players (42%)
- **FY16**: 122 players
  - International: 76 players (62%)
  - Domestic: 46 players (38%)

**CEP market has grown 14% CAGR since FY11**
- FY11: ~RM1.9 bil
- FY16: ~RM3.6 bil

**Increasing number of CEP players with domestic players growing faster**

Activities within the e-Commerce logistics sector will be premised on gaining breadth of network and scale, to cater to the needs of the growing e-Commerce industry in the region.

**Strategic Alliances**
Partnerships between e-Commerce players and other players along the supply chain, to leverage on their expertise and network.

- **Malaysia: GDEX- AirAsia Red Cargo (Teleport)**
  - Access to RedCargo’s extensive network and GDEX’s last-mile delivery services

- **SEA: Ninja van - Lazada/Zalora/Qoo10**
  - E-commerce players partnering with LMD providers

**Consolidation & Integration**
Integration, both horizontally and vertically, among the logistics players to gain scale and network.

- **Horizontal: CJ Century**
  - Expansion into courier services to ride on the growth in the e-Commerce industry

- **Vertical: GDX**
  - GDX planned to acquire MBE Malaysia to venture into retail postal; however, deal was aborted

**Infrastructure Investment**
Investment in e-Commerce logistics infrastructure, i.e. technology (robotics, AI) and warehousing facilities.

- **Zalora**
  - Invested USD 4.2mil on regional e-fulfilment hub in Shah Alam

- **DHL Express**
  - Investing RM11mil to construct a logistics hub in Johor to cater for e-commerce shipments

Examples of deals/ indication of interests

- **Malaysia: GDEX- AirAsia Red Cargo (Teleport)**
  - Access to RedCargo’s extensive network and GDEX’s last-mile delivery services

- **SEA: Ninja van - Lazada/Zalora/Qoo10**
  - E-commerce players partnering with LMD providers

- **Horizontal: CJ Century**
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In summary...

**E-Commerce to drive growth in logistics**

The e-Commerce market is expected to grow at a CAGR of 11%, supported by the development of DFTZ. The CEP market is projected to grow in tandem at a CAGR of 15%.

**Expected consolidation and integration**

Vertical and horizontal consolidation to gain scale and network, both amongst logistics players and e-commerce players, particularly in the CEP/LMD segments.

**Investments into smart warehouses/distribution centres**

Increased demand for strategically located smart warehouses and technology to cater for the quick turnaround required for e-Commerce activities.

**A focus on niche markets**

Niche markets such as cold chain logistics segment given the higher margins, and growing demand for perishable products and less competition.
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