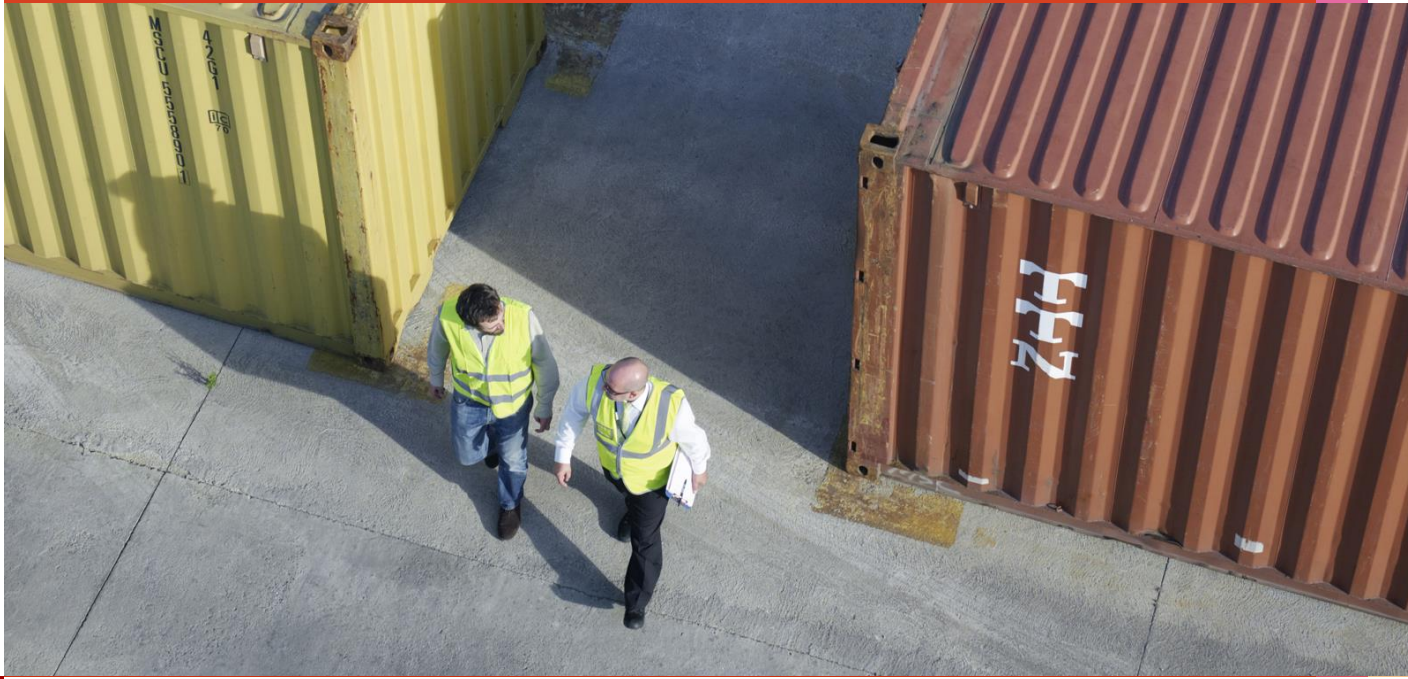


Deals

Logistics in Malaysia

Market overview and M&A trends

October 2018



1. Market overview

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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

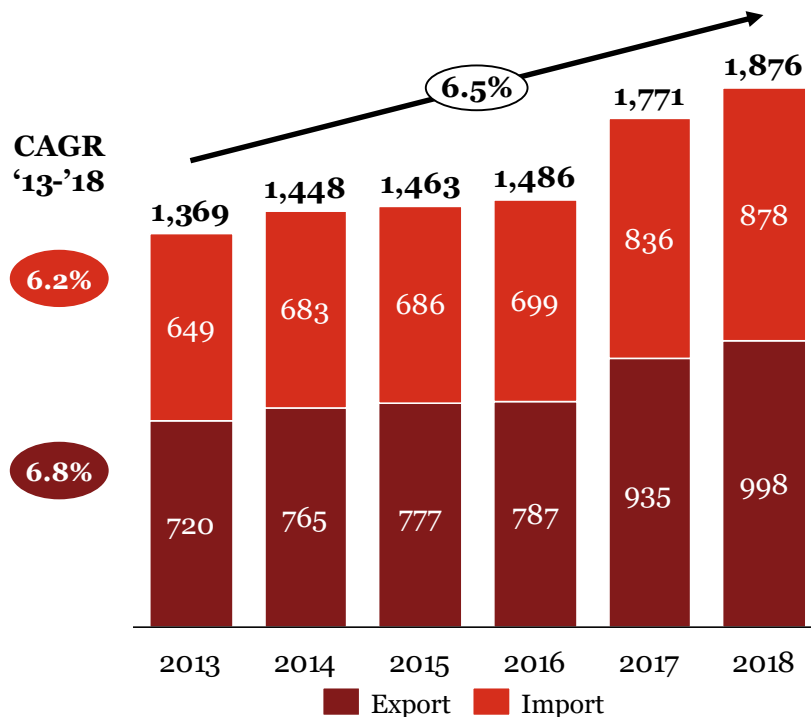
- Recent **wave of consolidation** in the logistics market to achieve greater scale, and capitalise on the e-Commerce wave

Demand for logistics services in Malaysia expected to continue to grow, underpinned by increasing global trade and consumer spending

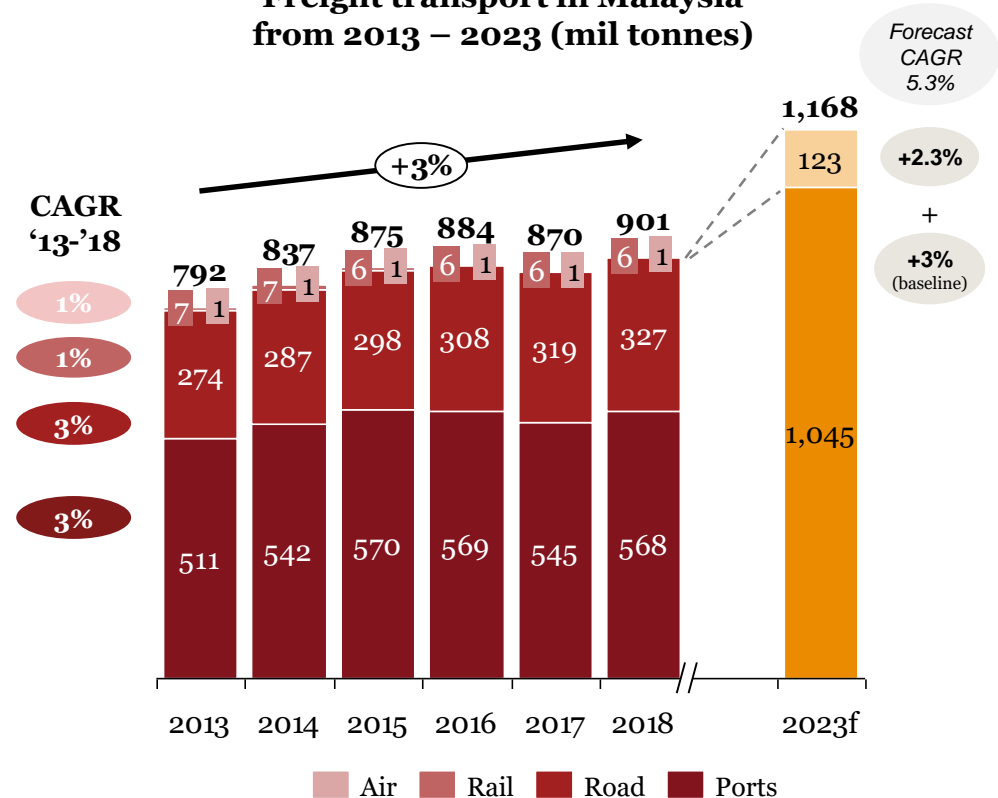
International trade has been a staple of the logistics industry's development

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)



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



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.

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

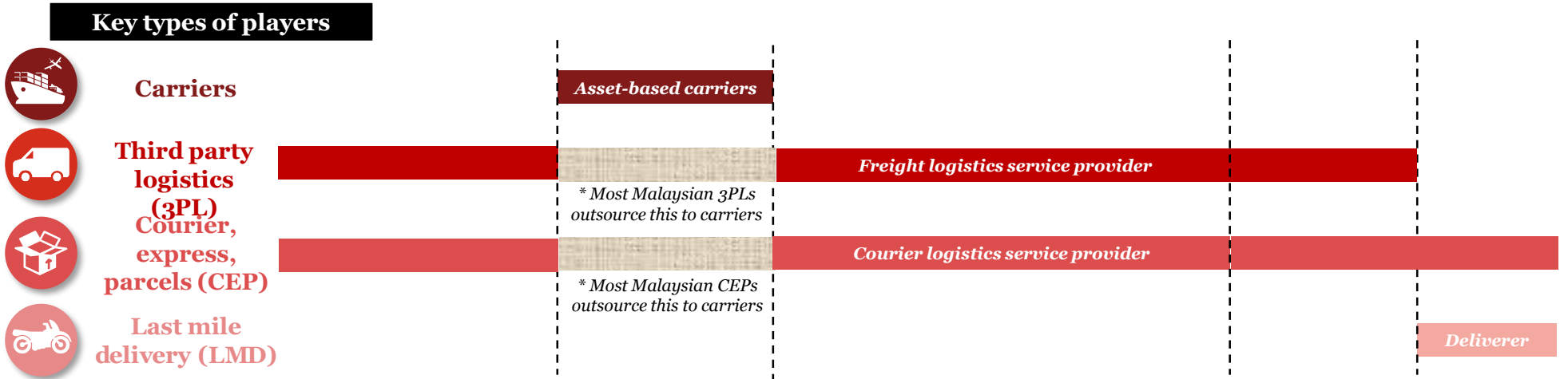
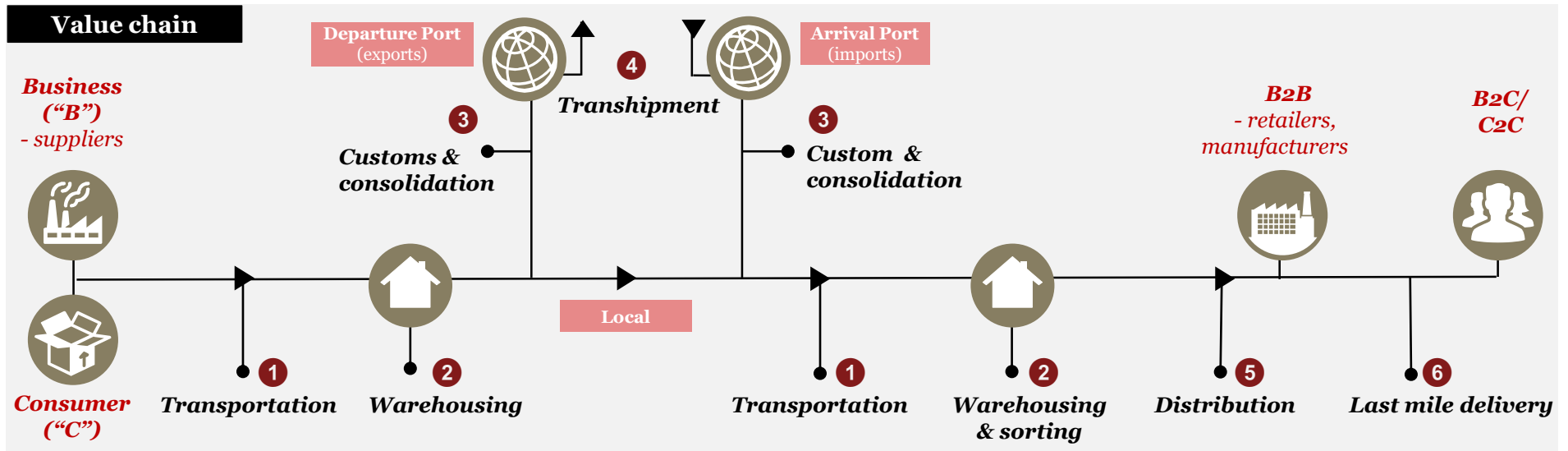


- A **new port-industrial city** on Carey Island – to add 30 mil TEUs
- Port Klang **upgrade** to increase TEUs – 13 mil (2017) to 16 mil (2020)





* TEU = Twenty-foot Equivalent Unit containers

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

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



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

	 Carriers	 3PLs	 CEPs	 LMDs
# of players	~10,000			122
M&As (FY14 – FY17)	2	14	2	<i>(Growing interest from investors)</i>
Description	<ul style="list-style-type: none"> • CAPEX- and asset-heavy, as they manage own fleet of ships, airlines or trucks • Engaged by 3PL and CEPs for transshipment • Dominated by international freight players with extensive global presence 	<ul style="list-style-type: none"> • 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) 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Start-ups that focus only on-demand LMD for B2C and C2C • Few M&As as most start-ups are in their infancy stage • Expected to gain from boost in e-Commerce
Examples (Local players)	MASKargo, MISC, MTT Shipping	Tiong Nam, CLS, Century, TASCO	POS Malaysia, Gdex, Nationwide Express	GoGet, DropIt.my, Neon Runner
(Foreign players)	Maersk, MSC, COSCO Shipping		FedEx, DHL, TNT	Ninja Van, Lalamove

Source: Malaysian Communications and Multimedia Commission, EMI, Capital IQ, PwC analysis

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At a glance... M&A between FY14 – FY17

Scale

Consolidation to gain economies of scale, and the ability to service the **e-Commerce** sector

Niche

3PLs acquiring peers with **niche market** focus to increase service offerings and benefit from attractive margins

Network

Strategic acquisitions by international logistics players to establish a **regional logistics network**

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

What it may look like in 5 years...

Future landscape

2 broad categories of logistics providers:







Large integrated logistics players that can benefit from scale and reach



Players focusing on **niche** markets

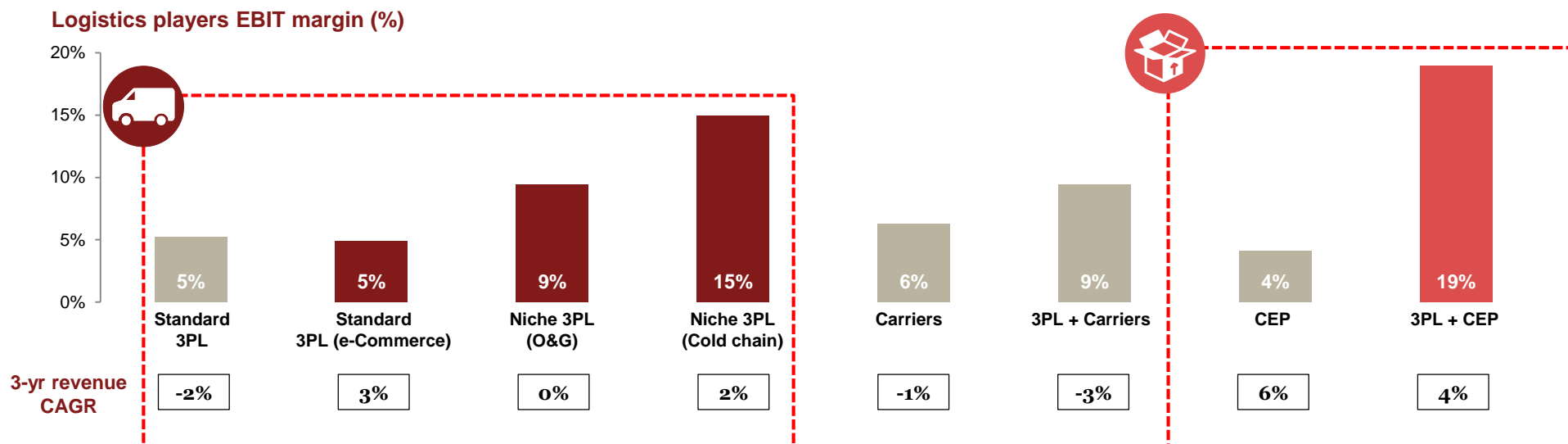
Industry players are consolidating to capture niche segments with better margins, i.e. cold chain, or to expand into the CEP space/ strengthen CEP network to ride on the e-Commerce wave

Selected recent transactions (FY14 – FY17)

	 Scale	 Niche services	 CEP (via acquisition)		 CEP (via diversification)
Acquirer	Transocean Holdings Bhd	TASCO Bhd	CJ Korea Express Asia (S) Pte Ltd	Yamato Asia (S) Pte Ltd	Xin Hwa Holdings Bhd
Type	3PL	3PL	3PL + CEP	3PL + CEP	3PL
HQ	Malaysia	Malaysia	South Korea	Japan	Malaysia
Target	Taipanco Sdn Bhd	Gold Cold Transport Sdn Bhd & MILS Cold Chain Logistics Sdn Bhd	Century Logistics Holdings Bhd	GD Express Carrier Bhd	Yiwugou Ecommerce Sdn Bhd
Type	3PL	3PL	3PL (going into CEP)	3PL + CEP	E-commerce platform
Deal size	RM140mil	RM186mil & RM30mil	RM175mil	RM266mil	RM1mil
Stake	100%	100%	31%	11%	50%
Rationale	<ul style="list-style-type: none"> Leverage on both parties logistics network and expertise To streamline resources and gain synergies from the enlarged group 	<ul style="list-style-type: none"> Capture niche segments to provide end-to-end solution for customers, from transporting to temperature-controlled storage Higher margins with less competition 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Establish cross-border logistics in ASEAN in CEP, especially during rapid growth in e-Commerce demand 	<ul style="list-style-type: none"> 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



Niche 3PL

- Focusing on **niches** (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

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

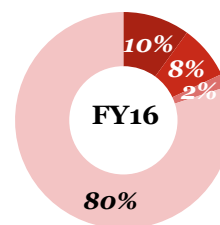
Cold Chain Logistics niche players stand to gain from growing demand for perishable products and less competition

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

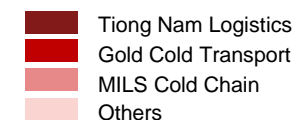
Higher margins: a result of lesser competition in cold chain segment due to high setup costs

Industries relying on cold chain logistics	Size FY15	FY15 – FY20 CAGR
Pharmaceutical	\$2 bil	↑ 10% p.a.
Agri-business	\$28 bil	↑ 6% p.a.
Halal food production	\$10 bil	↑ 5% p.a.

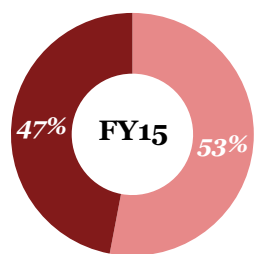
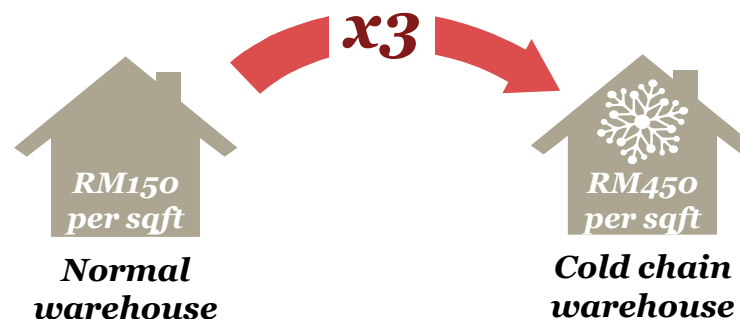
Market size of cold chain logistics >\$250k



100% acquired by TASC0 Bhd to **expand scale** in cold chain



A temperature-controlled storage facility costs **3x** more



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

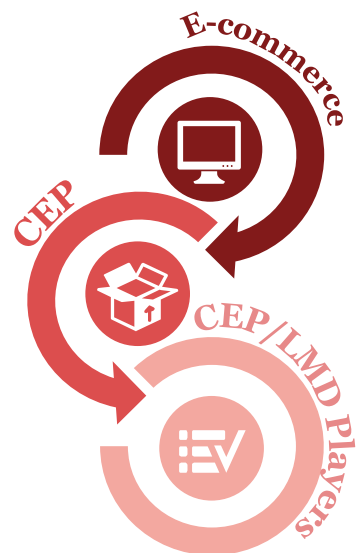


Note: Assumed USD/MYR rate of 4
Source: International Trade Association, The Edge Markets, PwC analysis

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

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



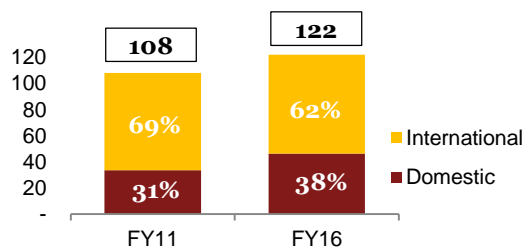
Market FY17	FY15 – FY20 CAGR
\$1 bil	↑ 11% p.a.
80 mil deliveries	↑ 15% p.a.
122 players	??

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	
<p>Regional e-Fulfillment Hub</p> <p>Phase 1: Collaboration between Lazada and Pos Malaysia</p> <p>Phase 2: JV between MAHB and Cainiao</p>	<p>E-Services Platform</p> <p>Provides market access, online trade facilitation process and end-to-end business support for cross-border trade (e.g. financing, insurance, marketing, etc.)</p>

- CEP market has grown **14% CAGR** since FY11
FY11: ~RM1.9 bil
FY16: ~FM3.6 bil
- Increasing **no. of CEP players** with **domestic players** growing faster

Number of CEP players in Malaysia



- 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

Source: Malaysian Communications and Multimedia Commission, Nomura Global Markets Research, CLSA, The Star Online, The Borneo Post, Statista 2017 and PwC analysis

Expected market and deal trends within the e-Commerce logistics sector



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



Consolidation & Integration

Integration, both horizontally and vertically, among the logistics players to gain scale and network



Infrastructure Investment

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

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

Expansion into courier services to ride on the growth in the e-Commerce industry

Vertical: GDex

GDex planned to acquire MBE Malaysia to venture into retail postal; however, deal was aborted

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

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
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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