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PRICE PRESSURES LOOM FOR LAST-MILEDELIVERY PLAYERS

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DESPITE being seen as beneficiaries of the e-commerce boom, many courier companies, especially local players, are struggling to capitalise on the growing demand for such services, owing to fierce competition and a persistent price war that is drastically eroding margins.

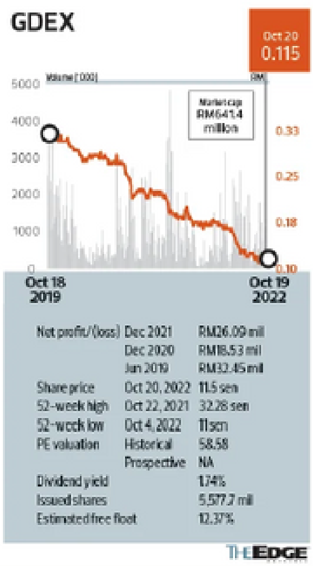
Take the share prices of two listed last-mile delivery companies, namely Pos Malaysia Bhd and GDEX Bhd. Pos Malaysia's share price had declined more than 63% over the last three years to close at 59 sen last Thursday, while GDEX had seen its stock fall by a similar rate,of almost 60%, to 11.5 sen.

The share price performance of the two companies is in sharp contrast to the overall industry's projections. The Malaysian Communications and Multimedia Commission (MCMC), for one,estimates that the e-commerce industry will grow from 14 parcels per capita in 2020 to 30 parcels per capita by 2025.

But with 122 courier licensees, competition is so stiff that industry players know that their survival and success will ultimately depend on volume and efficiency.

Already, some companies have been taken out of the game. About a year ago, CJ Century Logistics Holdings Bhd decided to dispose of its loss-making courier service business for RM7.47 million. The company decided to bite the bullet even though it counted CJ Logistics Corp — the largest courier company in South Korea -as a shareholder.

Analysts paint a sombre outlook for the industry as they expect demand for online activities to slow down following the resumption of economic activities and reopening of physical retail businesses as the country transitions to the endemic phase of Covid-19. They expect competition among last-mile delivery providers to intensify as they vie for shrinking demand, which has led to a destructive price war.



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TRHB Research has revised downwards its earnings forecast for GDEX by 20% to 30% for financial year 2023 (FY2023) and FY2024.

"With the slowing down of online activities, as the broader reopening of the economy and resumption of physical retail businesses take place, we can expect volumes handled by GDEX to continue its downtrend. The stiff price competition among players in the courier landscape — due to new entrants — is likely to persist," it said in a report.

The research house pointed out that GDEX's automated sorting hub, which is supposed to be a silver lining for the company, will not have much impact on its bottom line. The automated sorting hub will more than double the company's parcel and document sorting capacity to 350,000 per day in the second half of this year from 150,000 a day.

Despite the expected increase in volume of parcels handled with the new sorting hub, the competitive business environment is likely to see lower average selling prices (ASPs) for customer-retention purposes (which would also support utilisation rates) — capping growth, in our view," said RHB Research.

The stiff competition has impacted GDEX's bottom line. For the first time in years, the company posted two consecutive quarterly losses — for the first and second quarters of the financial year ending Dec 31, 2022.

The company attributed the losses to a significant increase in operating costs due to the implementation of the minimum wage as well as the business impact of lower delivery volumes from major e-commerce customers. It made a net loss of RM2.72 million in 2Q FY2022, against a net profit of RM6.76 million in the previous corresponding quarter, dragged down mainly by its loss-making courier services segment.

While Pos Malaysia was profitable during the same period, eking out a pre-tax profit of RM172,000 against a loss of RM119.44 million a year earlier, it was its first pre-tax profit in 15 consecutive quarters. Although it recorded a net loss of RM5.25 million for the quarter, it was significantly less than the RM121.84 million loss registered a year earlier.

Comparison of selected last-mile delivery players

	LAST PRICE (LOCAL CURRENCY)	MARKET CAP (LOCAL CURRENCY)	MARKET CAPITALISATION (RM)	YTD PERFORMANCE (%)	PER (TIMES)	FORWARD PER (TIMES)
Malaysia (RM)						
Pos Malaysia	0.59	461.8 mil	461.8 mil	-9.90	NA	NA
GDEX	0.115	641.4 mil	641.4 mil	-59.70	58.58	NA
Japan (¥)						
Yamato Holdings	2,174	825.74 bil	25.84 bil	-17.90	18.07	14.89
Japan Post	989.7	3.62 trillion	113.25 bil	16.33	7.99	9.01
South Korea (KRW)						
CJ Logistics	82,300	1.88 trillion	6.17 bil	-34.70	9.99	9.15
Hanjin Transport	19,950	298.21 bil	979.45 mil	-33.70	73.30	6.67
US (US$)						
FedEx Corp	150.4	39.07 bil	185.16 bil	-41.14	7.60	10.40
UPS	160.98	139.84 bil	662.56 bil	-23.10	12.74	12.59
Singapore (S$)						
Singapore Post	0.51	1.15 bil	3.77 bil	-20.70	16.34	20.20
China (RMB)						
SF Holdings	20.7	71.26 bil	163.91 bil	-25.40	40.58	37.68
YTO Express	5.21	250.68 bil	46.60 bil	25.08	17.70	19.61
ZTO Express	157.12	127.22 bil	83.22 bil	-22.37	22.57	19.84

BLOOMBERG

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The industry player points out that other industries such as banking and telecommunications have a level of protection from foreign Players. "The banking sector is governed by Bank Negara Malaysia, and the sector has not seen any new licence issuances for foreign banks."

Unlike Malaysia, in countries such as the US, Japan, South Korea and China, the last-mile delivery segment is mainly dominated by local players. In Japan, for instance, three local players — Yamato Transport, Japan Post and Sagawa Express — dominate almost 95% of the delivery market.

But it is worth noting that Japanese companies have been aggressive in adopting technologies and improving efficiencies to maintain their competitiveness, which in turn makes the market difficult for new players to penetrate. New technologies include delivery robots on roads as well as autonomous sorting solutions.

In the US, a staggering 98% of the delivery market is served by four companies, namely UPS, FedEx Corp, Amazon and the US Postal Service. In South Korea, CJ Korea Express has captured 48% of the market, while Lotte Logistics and Hanjin Logistics control about 13% each.

Overall parcel volume has shrunk 30% post-pandemic on the back of a shift in consumer purchasing trends and waning consumer sentiment.

E-commerce players increasingly in sourcing their logistics operations has also led to a decline in Pos Malaysia's parcel volume, HLIB Research observes. "While Pos Malaysia managed to reach break even in 2Q 2022, we prefer to 'err on the side of caution' and maintain our 'hold' call on Pos Malaysia."

Local players are in talks with the regulators as they attempt to create a more level playing field for all courier service providers.

"Pos Malaysia and other industry players are working with the regulators in the hope of imposing a floor for the price per parcel, to weed out competitors that have been undercutting to gain market share. Separately, regulators are also looking to introduce some check mechanisms to monitor delivery masking, whereby e-commerce platforms [determine] the courier service provider of choice, instead of the shipper or buyer," said HLIB Research.

An industry player points out that many of the delivery companies in Malaysia are not profitable, and that some kind of protection is needed for the survival of local companies, given that 122 courier licensees compete in a 33 million population market. Thailand only has half as many players even though its population of 70 million is more than double Malaysia's.

Pos Malaysia attributed the results to "effective cost management effort to optimise operating cost evidenced in lower transport and delivery cost".

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The 200-year-old postal services company is currently headed by Charles Brewer, who was appointed CEO a year ago. The group has since gone through several transformations, including improving its delivery services to offer seven days a week pick-up and delivery, extending its retail operating hours at more than 120 locations and improving its next-day parcel delivery service to be arguably the best in Malaysia, delivering more than 95% the next day.

Prior to the transformation, Pos Malaysia, which is 54% owned by DRB-Hicom Bhd, was doing about next-day delivery of 50% — below the market average of 65%.

"We will continue to focus on our transformation journey, which of course includes managing our costs closely and developing our growth strategies. The growing e-commerce sector in Malaysia represents a significant opportunity for our parcel business and we will continue to invest in our people, our operation, the customer journey and digitalisation to be the best service provider and to win the trust of our customers," Brewer, the fourth CEO in five years, tells The Edge.

Hong Leong Investment Bank (HLIB) Research expects Pos Malaysia to be profitable in FY2023 and FY2024, but remains cautious about the intense competition.