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3 April 2024

GDEX SEES TRANSFORMATION PLAN TAKING OFF THIS YEAR

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IN 2022, GDEX Bhd kicked off its ambitious transformation plan to transition to a new business model in an increasingly overcrowded last-mile delivery market. The goal of GDEX 2.0 was to future-proof its business by transitioning from being a purely last-mile logistics player to a technology-driven one with multiple business streams.

Two years later, managing director and group CEO Teong Teck Lean is confident that progress is being made. He sees the group turning around and reporting a profit for the financial year ending Dec 31, 2024 (FY2024).

GDEX's net loss doubled to RM34.8 million in FY2023 — a second straight year of losses — from RM17.27 million in FY2022 as the group was hit by losses from its Vietnam operations and logistics segment.

In an interview with The Edge, Teong says half of the losses were incurred by its subsidiary in Vietnam, which had undertaken a kitchen-sinking exercise involving the writing off of legacy processes and systems.

"Following the lifting of the Covid-19 restrictions, we sent our team to Vietnam to relook at the way of doing things and decided to write off processes and systems that were out of date. Excluding the write-offs, our Vietnam subsidiary has a positive operating cash flow," he says, adding that the subsidiary is expected to chart a stronger year ahead following the completion of its kitchen-sinking exercise.

LOW YEN YEING/THE EDGE

"A last-mile logistics pure play can no longer survive in Malaysia." — Teong

GDEX owns a 50% stake in Noi Bai Express and Trading Joint Stock Company, which employs 1,000 people.

In addition, the loss of a key customer in Astro Malaysia Holdings Bhd was a drag in FY2023 after the content and entertainment company decided to cease its "Go Shop" home shopping business in October last year due to the challenging economic landscape and a shift in consumer shopping behaviour. GDEX was operating a 100,000 sq ft rented warehouse for Astro's Go Shop.

"It did hit us quite badly as we had to write off the facilities that we used for Astro. It accounted for almost 8% of our turnover, but we have since won quite a number of smaller contracts to offset the drop in volume. We have also returned some [warehouse] space to the landlord," says Teong.

The 62-year-old and his family are currently GDEX's single largest shareholder, with a direct and indirect stake of 39.2%, followed by Japan-based Yamato Holdings Co Ltd with 23.2% and Singapore Post Ltd with 12.3%.

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"In the last two years, when we said that we were doubling down on our business by implementing major changes within the organisation, they included write-offs on old systems and investments in newer systems that are more flexible — cloud- or app-based — and easier to deploy in terms of scalability," says Teong.

"We have also built a bigger platform-based ecosystem to complement our logistics network. For instance, we acquired a 51% stake in Sweetmag Solutions (M) Sdn Bhd, which is the leading e-commerce platform enabler of Adobe Commerce, Magento eCommerce, Shopify and Woocommerce [in 2022].

"We also acquired a 38% stake in Xilnex, whose point-of-sale solutions connect to 30,000 points in 11 countries. With this, it will be easier for a lot of our clients, especially those big clients that are doing retail as well, to have better connectivity with GDEX. Still, there is a lot of integration needed. We have expanded our team in the technology area to do these integrations."

Recognising that generative artificial intelligence (AI) is shaping the future of the industry, GDEX acquired a 60% stake in cybersecurity start-up Anon Security Sdn Bhd in 2022

ANNUAL REPORT 2022/BURSA MALAYSIA

GDEX Bhd's financial highlights

FOR YEAR ENDED DEC 31 (RM MIL)	2019*	2020*	2021	2022	2023
Revenue	313.86	364.01	636.94	383.47	397.18
Net profit/(loss)	32.47	18.53	41.46	(17.27)	(34.80)
Dividend per share (sen)	0.25	0.20	0.20	0.15	0.10

* In July 2021, the company changed its financial year from June 30 to Dec 31

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"In Malaysia, there are already many established companies specialising in cybersecurity. So, there is no point competing in that space. What is important is that we bring in better types of technologies to work with our existing technology providers. By doing that, the partnerships with the existing service providers become much better. The new technologies that we will bring in are more towards AI," he says.

"Likewise, at GDEX, we have a lot of experienced people with domain knowledge, but we are bringing in new technologies and systems to enhance the brick-and-mortar legacy systems. How we bring these young people who are technology-driven to work with those with experience [in the last-mile delivery business] and to enhance the work process — GDEX is about that.

"Change is constant. If you cannot adapt to technological changes, you will lose out. It is not [what] we want, but what the trend is. You have to be ahead of the trend. [By not changing,] you cannot have a better customer experience or you cannot bring down the cost of operations."

The group is showing no signs of stopping its investments in new technologies.

"In terms of hardware, we spent RM25 million to fully automate our headquarters hub in Petaling Jaya, Selangor, last year, tripling our sorting capacity to 350,000 shipments per day from 100,000 per day previously. Capacity utilisation for the hub is now 30% and it should take three to five years before it reaches full capacity utilisation," says Teong.

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NOT LETTING FEAR GET IN THE WAY

The rise of tech delivery start-ups like Lalamove, Ninja Van and J&T Global Express that are backed by private equity funds is reshaping last-mile logistics in Malaysia.

Teong, who was president of the Association of Malaysian Express Carriers until early this year, describes courier rates as "dire". "Ten years ago, a document [weighing less than 2kg] cost RM10 to RM12 within Peninsular Malaysia. Today, the same document sent through some of the platforms will cost less than RM5 because there are too many players. In fact, the minimum price set by the Malaysian Communications and Multimedia Commission for courier services on documents below 500g is a sum not less than RM5."

He notes that while the volume of packages has grown in recent years with the rise of e-commerce, incumbent players such as GDEX do not enjoy the benefits as most of the e-commerce platforms such as Shopee and Lazada have their own shipping units such as Shopee Express and Lazada Express.

"Merchants are not given a chance to choose us because they cannot connect to our application programming interfaces (APIs). When that happens, it also impacts our business. This is an area that we hope the regulator can sort out for us," he says.

While the ongoing price war in the courier market paints a bleak future for last-mile logistics players, GDEX will not let external events sway its focus, says Teong.

"It has to come to a point where for GDEX, we cannot think about this anymore. Because if you start worrying about everybody, you end up not doing anything," he stresses.

Indeed, couriers like Nationwide Express Holdings Bhd and Pgeon have ceased operations due to a lack of profitability.

"There will be a lot of dropouts, but there are also a lot of new start-ups, in the thousands. How many are actually able to make it? Not many," says Teong. "On our part, we have to think that GDEX is a super start-up and venture out more to satisfy clients and win our market. We have a huge advantage in terms of having a lot of businesses [and] brands that are already with us.

"Overseas, our concept is to work with like-minded local partners and expand the network together. We think it is very intrusive to go into any country and try to dominate alone," he says of GDEX, which has operations in Singapore, Indonesia and Vietnam. It holds a 44.5% stake in Indonesian logistics firm PT Satria Antaran Prima Express.

SEEKING DIVERSIFICATION INTO TECHNOLOGY,CROSS-BORDER LOGISTICS

"For GDEX, we have evolved from a last-mile logistics provider to become a technology, logistics supply chain provider. A last-mile logistics pure play cannot survive in Malaysia. Period," says Teong.

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"Our IT segment is growing very fast now. We provide smart retail solutions, cybersecurity software distribution and e-commerce enabling. With this concept, we are not just competing on price, but a whole range of solutions to attract customers. Because of this strategy, we will be able to have sustainable growth from now on. We have changed our whole DNA.

"Today, the IT segment makes up nearly 10% [of group revenue]. We may eventually seek approval from shareholders to diversify our business to include technology."

Still, he points out that the courier services segment will continue to be the biggest contributor to the group's revenue. Nevertheless, the sector will not be as lucrative as before.

"The last-mile logistics business will never be as profitable as those days like seven years ago, when you did not have start-ups like Lazada Express, Shopee Express and Ninja Van. These start-ups are now going after business-to business segment as well. The only way for us [to survive] is to change our business model. So hopefully, our last-mile delivery segment will become more efficient and our margins will improve slightly and not make a loss. And the other business segments [IT and logistics] will grow," he adds.

The group is seeking to focus more on cross-border logistics as many of its customers are also expanding to other countries.

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"Rather than doing everything ourselves, we have strengthened our partnership programme with a more diverse group of global service providers to enhance our reach in the last two years. For one, we have entered into collaborations with logistics companies such as Japan-based Mitsui, Tasco Bhd, DHL, FedEx, as well as local haulage companies. This also keeps us asset-light," says Teong.

GDEX's net cash position stood at RM186.92 million at end-December 2023. It had a cash balance of RM193.73 million and borrowings of RM6.8 million, including hire-purchase payables.

Asked whether the group remains on the hunt for acquisitions, Teong says: "We will only carry out mergers and acquisitions if these will help drive the group in terms of certain needs. We won't acquire just for the sake of acquiring, but more on how these acquisitions can leverage our expertise and vice versa.

"I do not want [to take a] 100% [stake in these IT companies] because these businesses are driven by a young and energetic group of people. If we take 100% [of them], they will become like employees. I would rather take a controlling stake and make them my partners.

"Going forward, I am optimistic that each of our business segments will start to contribute, thereby increasing our war chest. You have to grow your cash faster than your reinvestment. Otherwise, your company will have to keep borrowing money. I don't want to be in that situation."

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It is worth noting that despite making losses in FY2022 and FY2023, GDEX continues to reward its shareholders with dividends. The group declared dividends of 0.15 sen and 0.1 sen per share in FY2022 and FY2023 respectively.

"The most important thing for me is to take care of our stakeholders. We have been sharing with all our major shareholders the steps we have taken to reach where we are today. From now on, the results should start to show," he says.