Special Report: Rocky road ahead for logistics operators amid pandemic

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THIS was supposed to be a good year for DHL Express (Malaysia) Sdn Bhd. Volumes were growing at a healthy clip of 6% year on year and it had just invested RM25 million in a new, larger facility in Johor. Then the Covid-19 pandemic broke out and changed everything.

"We started off very well. Our volume and revenue were growing. We were ready to take off when the pandemic hit us," recalls Derek Tully, vice-president of operations of DHL Express.

The country's largest international express delivery operator with a 55% market share saw its cargo volumes plummet 35% y-o-y in the first week of the Movement Control Order (MCO) when factories deemed non-essential were required to shut down in mid-March.

Since then, however, DHL Express has made an impressive recovery following the easing of restrictions on most economic sectors from May 4.

"Our volumes are back to pre-pandemic levels. But the situation is evolving all the time. Is it going to stay that way? I don't know," Tully tells The Edge in a recent interview.

Tully attributes the company's swift rebound in part to how quickly it reacted to the crisis. When the gravity of Covid-19 became clear, the management and operations teams immediately got together to brainstorm ways to deal with the crisis.

"After three full days of brainstorming, we agreed on a plan. The biggest question then was, what do we do if we have a case [of Covid-19]? DHL Express has 26 facilities across the country. If there is a case at a facility, we would have to close it temporarily for cleaning and sanitisation and we can't do that with the same group of employees [working] because they would have to stay at home until their test results are received. That would be a big call to make, especially if it involves one of our bigger facilities," he says.

The company did not have to wait long to put its contingency plan to work. It had to close its major facility in Subang, Selangor, for three days after one suspected case emerged, which later turned out to be negative. "The incident clearly tested our contingency plan and proved that it worked well. Operations were back up in 72 hours, with minimal impact on customer deliveries," Tully says.

He also credits the company’s quick recovery to how well it communicated with its employees. It had made it its mission to have daily communication from the top to those in the lower ranks in order to avoid confusion.

“In the early days of the pandemic, we would get calls from the senior management team here and the regional office every day. The idea was to get the communication constantly going. Guidelines to follow were changing every day. For example, everyone was initially told to wear masks. Then they were told masks weren’t necessary and later they were told they should go back to wearing masks. As you are communicating all these changes, people are getting confused,” he says.

During that time, DHL Express began requiring some employees to work from home. About 340 of its 1,250 employees are now working from home.

Although transport and logistics operators continued to function throughout the MCO period, their overall businesses have been affected as manufacturing facilities deemed as non-essential were ordered to suspend operations in the earlier stages of the partial lockdown.

Total logistics service provider Tasco Bhd’s deputy group CEO Tan Kim Yong says its ocean freight business was badly hit by the MCO since it is mostly involved in handling non-essential cargo. "Our contract logistics activities such as haulage and warehouse handling activities reduced quite significantly."

However, Tasco's warehousing services saw a spike in demand as cargo movement came to a standstill during the partial lockdown, resulting in companies seeking storage for their inventory. This helped mitigate the drop in handling revenue, says Tan.

The total logistics solutions provider saw its air freight forwarding division being negatively impacted as airlines began suspending flights. "Our air freight supply capacity dropped tremendously as most airplanes were grounded," Tan points out.

Tasco announced last Thursday that it swung to a net loss of RM377,000 in its fourth financial quarter ended March 31, 2020, from a RM2.14 million net profit a year ago, while revenue rose 3.8% y-o-y to RM186.24 million. The weaker quarterly earnings dragged the group's net profit for the full financial year ended March 31, 2020 (FY2020) down 31.9% y-o-y to RM8.89 million. Despite the weaker earnings, it declared an interim dividend of two sen per share, amounting to RM4 million, for FY2020, payable on July 27.

A severe shortage in cargo capacity owing to the lack of available belly cargo capacity on passenger aircraft has also resulted in skyrocketing air freight rates. In April, DHL Express introduced a temporary Emergency Situation Surcharge to cover the cost of arranging additional planes and special flights, including to Nepal and Sri Lanka, as well as changing the route of a number of flights due to travel bans.

Tan points out that Tasco had no choice but to pass on the increase to customers, with rates raised three to five times, depending on the routes. "Hence, although overall airfreight volume was impacted significantly, in terms of revenue, the impact was mitigated by the price increase.

"Fortunately, logistics is considered an essential service, so we are not as badly affected as other industries. We are also fortunate that many of our customers (in particular cold-chain logistics customers) are involved in the food and grocery business, where business volume expanded during the MCO lockdown," he says.

Tan notes that more proactive cost control and cost-cutting measures also partly mitigated the overall decline in revenue.

"As a result, until today, we have not deemed it necessary yet to retrench staff or implement salary cuts. Nevertheless, it depends on the situation in the next few months, whether we have already passed the worst," he says. Tasco employs about 2,000 people.

As the country eases restrictions and allows more businesses to reopen, Tan sees volumes recovering gradually. “The recovery process will take time (unless a vaccine or credible cure is discovered quickly) but for the logistics industry, we expect to recover much faster than many other types of industries. The optimism is because most of the badly affected industries, such as airlines, hotels, tourism, cruise and theme parks, are not our main customers in logistics.”

The restrictions on flights and border access have also impacted Pos Malaysia Bhd, which had to suspend its international mail and parcel services to most of its destinations during the MCO because of the cancellation of flights and airport closures.

“The closure of the country’s critical commercial sector, that is, automotive, during the pandemic affected our business and limited our logistics operations,” says Che Akhma Ismail, CEO of the group’s logistics arm Pos Logistics Bhd.

Even before the pandemic, Pos Malaysia had been operating at a loss since the quarter ended Sept 30, 2018, dragged by continuous decline in traditional mail volume largely owing to digital substitution.

As at March 31, 2020, Pos Malaysia had outstanding debt of RM605.61 million and RM207.45 million in cash, bringing its net debt position to RM398.16 million. Last month, the group said that it was undergoing a transformation process to turn the business around.

For Freight Management
Holdings Bhd, which provides warehousing and freight services on an international basis, the impact on the performance of its subsidiaries and associates differs from country to country.

"The impact on the group stems from the actions of the respective governments in countries where Freight Management has its offices. For example, in Malaysia and India, non-essential industries were ordered to suspend operations while Vietnam and Thailand in general allowed all industries to continue operating," says its group managing director Chew Chong Keat.

Volume is back — but things have changed

According to Teong Teck Lean, managing director and group CEO of courier company GD Express Carrier Bhd (GDex), the pandemic has hastened the transition to e-commerce as more people began purchasing items online. In the past, many companies did not favour going online as they had invested heavily in offline distribution channels such as physical retail stores and wanted more time to make the digital transition.

"But what has happened is that these offline stores had to be closed during the MCO and, as a result, companies have been pushed to embrace digital channels to keep customers spending. In fact, some retailers had had to enable online buying for the first time," he tells The Edge.

Even as stores re-open, Teong believes only a fraction of customers will return because many are still worried about being infected by the virus. "Whether or not people will go back to the traditional shopping experience remains a big question after experiencing the convenience and cost effectiveness of online shopping," he adds.

GDex saw a 96% y-o-y drop in net profit for the third quarter ended March 31, 2020 (3QFY2020) to RM210,000, which it attributed to its customers' non-essential business operations being affected by the MCO, the disruption of the supply chain at ports and airports, and the impact of the MFRS 16 accounting treatment on leases.

However, Teong says volumes rebounded in 4QFY2020 to a position even stronger than before the pandemic, helped by a huge resurgence in demand for hygiene products and health supplements. This was enough to offset the drop in volume of some segments such as cinemas and hotels that had been affected by the MCO.

Still, GDex's net profit in the current financial year ending June 30, 2020 (FY2020) is expected to fall short of FY2019's RM32.47 million, owing to the pandemic.

Like Tasco, GDex does not have its own fleet and is dependent on air cargo carriers. To cover the additional operating costs, GDex has also raised its delivery rates, especially for its low-yield customers. But for most of its customers, it is absorbing the additional costs, given the increased volume.

DHL Express also saw a moderate increase in business-to-consumer deliveries as people confined to their homes during the MCO began buying things such as iPhones online.

According to Tully, DHL Express' cargo mix has changed, with personal protective equipment (PPE) such as face masks, protective clothing and gloves as well as hand sanitisers accounting for 20% of its volume. The PPE is destined for Europe and the US markets.

For Pos Logistics, the silver lining to the Covid-19 crisis is the opportunity to undergo a process refresh, says Che Akhma.

"Interestingly, the pandemic period provided us with the right platform for this transformation. We used this opportunity to streamline internal processes, control systems and internal communication in order to enhance efficiency, while introducing extra precautionary steps based on the guidelines provided by the Ministry of Health."

Che Akhma predicts that many of the changes are likely to be temporary, but some may be permanent as the pandemic has caused massive disruptions to the supply chain worldwide and changed the way consumers acquire products and services.

Normalisation in late 2021

While logistics operators have seen freight volumes recover over the last two months, they are uncertain whether this trend will last. Most believe a return to normal could take 18 months.

In a May 14 report, AmBank Research downgraded its call on the transport and logistics sector to "underweight" from "neutral", noting that the damage inflicted by the pandemic on the sector is no mere dent but destruction of varying degrees in different segments.

"Nobody knows, although I believe the pandemic will be here for the next 18 months, probably till the end of 2021. Until then, the way we are currently operating looks set to continue," says DHL Express' Tully.

This means that demand for PPE is likely to continue to help make up for some of the slowdowns in other sectors as long as coronavirus cases continue to rise in the US and Europe. "Unfortunately, some businesses may be forced to shut down because they are unable to generate sufficient cash," Tully adds.

"Eventually, businesses will go back to normal but the recovery process is a question," says Tasco's Tan. "In the absence of a vaccine or credible cure, certain businesses, such as the airline industry, cruise industry or theme parks, will take more time to recover. Also, many business entities will not be able to recover and have to be closed permanently.

"But overall, most businesses and industries will eventually recover. Moreover, it is expected that the prospect of a vaccine within, say, two years should be good. Regardless, eventually the Covid-19 threat will pass."

Freight Management's Chew sees not just a supply disruption but a change or potential drop in demand from buyers owing to the financial and economic impact of the pandemic in the medium term. "The shift may be for a far longer period than just a few months. However, the fiscal support and injection of funds into the economy by most governments may reduce the negative impact on the global economy and may spur a quicker recovery. Hence, the trend may be temporary rather than permanent."