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GDEX LAUNCHES 2.0 INITIATIVES TO TAKE IT TO THE NEXT LEVEL

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Teong: The express delivery business is the reddest in the red ocean in the sense that you have players offering free delivery services to capture market share. (Photo by Zahid Izzani/The Edge)

EXPRESS carrier GDEX Bhd is doubling down on its commitment to the last-mile logistics business by upping investments and increasing its staff strength even as competition in the market is intensifying as more start-ups spring up, putting a drag on incumbents' profits.

The risky bet underscores its dedication to staying ahead of its many start-up rivals and taking its business to the next level of growth, according to its managing director and group CEO Teong Teck Lean. Getting there will mean getting into partnerships and more mergers and acquisitions (M&A).

The process is off to a good start for GDEX, given that its two strategic shareholders — Japan's Yamato Asia Pte Ltd and Singapore Post Ltd (SingPost) — support its plans for GDEX 2.0. Teong is the single largest shareholder of GDEX with a direct and indirect stake of 39.01%, followed by Yamato Asia with a stake of 22.86% and SingPost with 12.1%.

"The landscape has changed dramatically in the last few years. It has become more competitive owing to the entry of various start-up companies. The express delivery business is the reddest in the red ocean in the sense that you have players offering free delivery services to capture market share," Teong, 60, tells The Edge in an interview.

"We just knew we had to do something different. Preparations for a much bigger transformation started a few years ago, with the launch of our corporate philosophy in 2020. The GDEX philosophy involves a change in mindset across the company from frontline workers to the board of directors and strategic shareholders. It is based on five basic pillars — 4P's and 1S, namely people, process, platform, product and speed," he says.

If 2020 was a year of reset, 2022 marks the year of accelerating its inorganic growth strategies and scaling up its capacity to deliver high growth.

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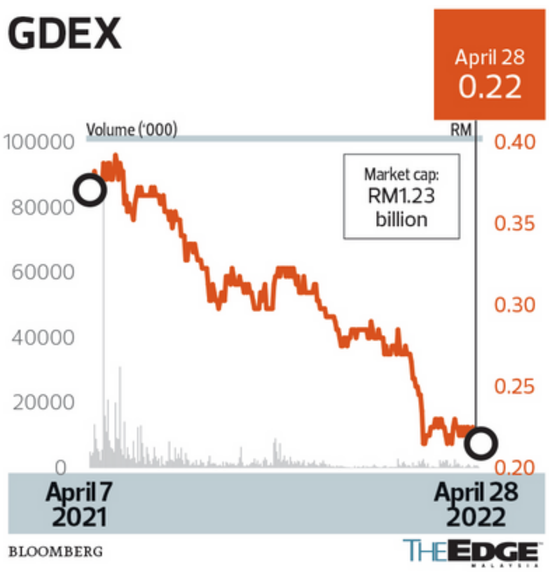


According to Teong, the whole idea of GDEX 2.0 is to build a platform based ecosystem to deliver better customer experience and attract more customers from small-sized companies to large multinationals.

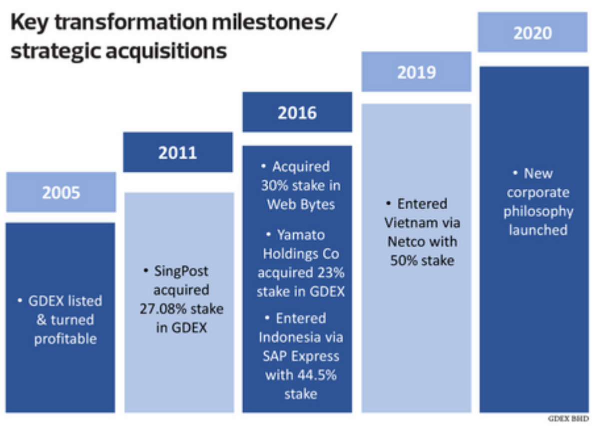
"We have a multi-pronged strategy to achieve our GDEX 2.0 goals. One is through M&A or making investments in start-up companies. Others are partnerships with any companies that would create new synergies for the group and making strategic investments such as SAP Express, Netco and Web Bytes.

"The marketplace today has many start-ups that are backed by funds willing to offer very competitive rates to grab market share. Thus, we have to step up in terms of fast-tracking our growth through M&A. We cannot only rely on organic growth.

"In fact, we have grown our investment team from one to four people and may hire another two, as well as put in stronger investment policies to ensure that our shareholders will support us. The team will be responsible for identifying any potential targets for acquisitions and finding the best fit, be it as a strategic investment or taking a controlling stake in the company," he adds.

Financing the M&A won't be an issue as GDEX has a strong balance sheet and was in a net cash position of RM271.93 million at end-December 2021. It had a cash balance of RM274.2 million and RM2.27 million in borrowings.

GDEX is no stranger to M&A. In 2016, it ventured into the Indonesian market through the subscription of PT SAP Express' five-year convertible bonds of IDR30 billion (RM10.38 million) and now holds a 44.5% stake in the Indonesia-listed company. In 2019, it expanded its footprint in Vietnam through the acquisition of a 50% stake in Noi Bai Express and Trading Joint Stock Co (Netco) for VND76.73 billion (RM13.8 million).



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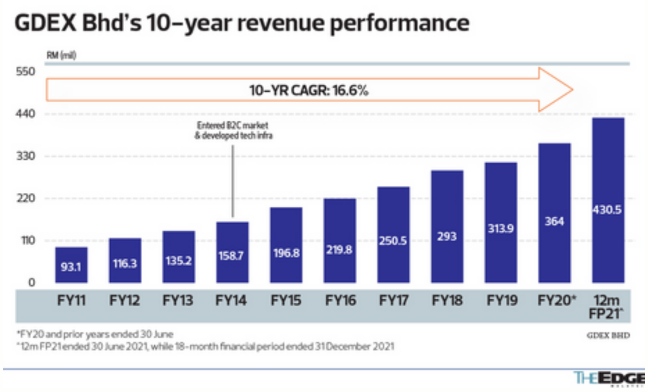

In the same year, the group bought a 30% stake in Web Bytes Sdn Bhd, which provides cloud-based point-of-sale systems and solutions, for RM5.5 million. It now holds a 32.69% stake in Web Bytes.

"The investment in Penang-based Web Bytes has led to a lot of changes within GDEX. We have been able to co-develop with them many innovative business solutions such as the myGDEX online shipping platform and mobile apps for customers to improve our efficiency," says Teong.

Having ventured into several regional markets, including Indonesia, Vietnam and Singapore, it is now targeting expanding to the Philippines and Thailand.

"We are not only looking to Malaysia, but M&A deals elsewhere in Southeast Asia such as the Philippines and Thailand. We are flexible on the markets or sectors of the business as long as they bring synergies to the group," says Teong.

"We haven't launched GDEX 2.0 yet, but some market players are already approaching us to look for business partners. Hopefully, as more people are aware of GDEX 2.0, there will be more leads," he says, adding that he is confident the group will close at least one acquisition in Malaysia this year.

Big capex boost in 2022-2023

Teong says the group is allocating a bigger budget this year and in 2023 for capacity expansion, with additional allocation towards M&A.

"Traditionally, between RM15 million and RM30 million is set aside for capital expenditure (capex) each year. This year, we will spend about RM30 million, the bulk of which will be used to build our first automation hub in Petaling Jaya, Selangor, while the rest will go to launching new offerings such as insurance," he says.

"We have signed a 15-year lease with the landlord to build the automation hub. This project is expected to be completed by the end of this year or 1Q2023 and will double our existing capacity of 170,000 packages per day to 350,000 packages per day. We have allocated RM25 million for this project alone."

In Malaysia, the group currently operates a main hub in Petaling Jaya and four regional hubs in Penang, Johor, Sabah and Sarawak.

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The group reported a net profit of RM42.71 million in the 18 months ended Dec 31, 2021 (FPE2021). Revenue during the period was RM638.05 million. There is no year-on-year comparison as the group had changed its financial year end from June 30 to Dec 31 to align with its Vietnam subsidiary. For perspective, over the last five years, GDEX's revenue grew 65.6% to RM364.01 million for the financial year ended June 30, 2020 (FY2020), from RM219.76 million for FY2016. However, net profit fell 46.2% to RM18.53 million from RM34.44 million over the period.

On a quarterly basis, net profit fell by 23.1% to RM7.28 million in the three months ended Dec 31, 2021, compared with RM9.46 million in the quarter ended Sept 30, 2021, due to lower contribution from the logistics services segment because of lower demand and the impact from the massive floods in December last year. However, revenue rose by a marginal 1.8% to RM104.69 million from RM102.86 million during that period, mainly contributed by the increase in revenue of its Vietnam subsidiary.

"Business is slowly returning. 1Q2022 was still a bit tough due to the lockdown in China. The disruption in logistics is also a result of the war in Ukraine. For example, the shortage of car parts has slowed down the market," says Teong.

The group's revenue has been growing at a compound annual growth rate of 16.6% for the last 10 years through organic expansions and strategic acquisitions. But this may be a thing of the past as the group sets the stage for the next lift-off.

"The growth won't be like 5% to 10% anymore. It would be much higher. But how quickly we achieve this would depend on how fast everyone at GDEX catches up. So far, the reception (for GDEX 2.0) has been positive," says Teong.

Still, he does not expect the steep lift-off to happen until next year at the earliest as the group is only starting to shift into a higher gear.

Using a track and field analogy, Teong likened it to preparing for the long jump. "This year, I don't think we will see high growth because like the long jump, you may go back a little before taking off for the jump to make sure everybody is aligned on a similar path. We expect much higher growth from the second year onwards."

In the near term, the Malaysia market will continue to drive the group's revenue, followed by Indonesia. "Eventually the regional market will be much bigger than Malaysia because Malaysia is a small country. But it is too early to say when," he says.

Express delivery market still a sunrise sector

The past few years have been especially hard on traditional express carriers such as GDEX, Pos Malaysia Bhd and Nationwide Express Holdings Bhd, which have to contend with much lower rates as well as an influx of technology-savvy last-mile players such as Ninja Van, Lalamove and J&T Express.

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A casualty of the intense price competition was Nationwide Express,which had been raking up losses since its financial year ended March 31, 2013. It was classified as a Practice Note 17 company in February 2020 after its shareholders' equity as at Dec 31, 2019, fell to less than 50% of its paid-up share capital. It was delisted on April 5 after Bursa Securities dismissed its appeal for an extension of time to submit its regularisation plan for approval.

Despite the casualties, Teong believes the express delivery market is a sunrise sector. "The size of the business is so big that even if you see many companies go out of business, there will be new entrants because if you win [in the game], you will become an important asset in the country. There is a lot of motivation to make sure you win this war. You don't see that in most other businesses but in this business,if you win, you will become an infrastructure. Like in Japan, Yamato is one. FedEx is a major player in the package delivery market in the US.

"But you are going to need more and more investments [to become a dominant player]. A lot of people ask me why don't I just sell [my stake] and walk off? I tell them that I am not going to give up because I know this business is a sunrise business."

Another challenge facing express delivery businesses like GDEX i show to keep the best talent within the company.

"It is difficult to recruit people, especially with competition coming not only from Malaysia but neighbouring countries such as Singapore that can pay three to five times more. The way we counter that is we make ourselves a regional player and make the operations hub here.Hopefully, we can pay better with more businesses. To retain your customers, you have to size up your business. That's one of the main things of GDEX 2.0. We want to accelerate our growth to be able to bring in talent," he adds.

GDEX shares have fallen 21.43% year to date to close at 22 sen last Thursday, giving the group a market capitalisation of RM1.23 billion.