Courier and Logistics Services Industry Outlook

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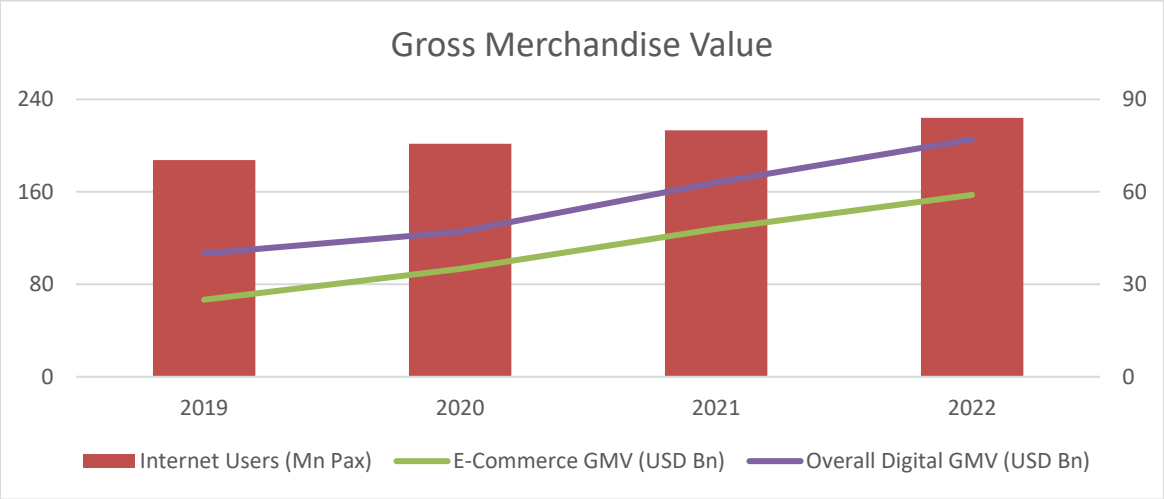
We are of the view that the outlook for the courier and logistics services industry will remain stable in the near to medium term. The current rapid development of the e-commerce and social commerce ecosystem drives the growth of logistics industry, especially courier and freight forwarding services. This is reflected by double digit growth of e-commerce and overall digital gross merchandise value (GMV), which measures total online transactions. In 2022, Indonesia's digital ecosystem GMV grew by 22% year-on-year (YoY) to USD77 billion from USD63 billion in 2021. The growth was driven mainly by e-commerce, which GMV grew by 23% YoY to USD59 billion from USD48 billion in 2021. The ecosystem is expected to continue its double digits growth in the near to medium term in line with the growth in domestic consumption, internet users, and digitalization for MSMEs. In terms of market size and growth, the courier service delivery business has also increased in line with the surge in online shopping transactions in the last few years.

Figure 1. Indonesia's GMV



Source: e-Conomy SEA and statista, processed by PEFINDO

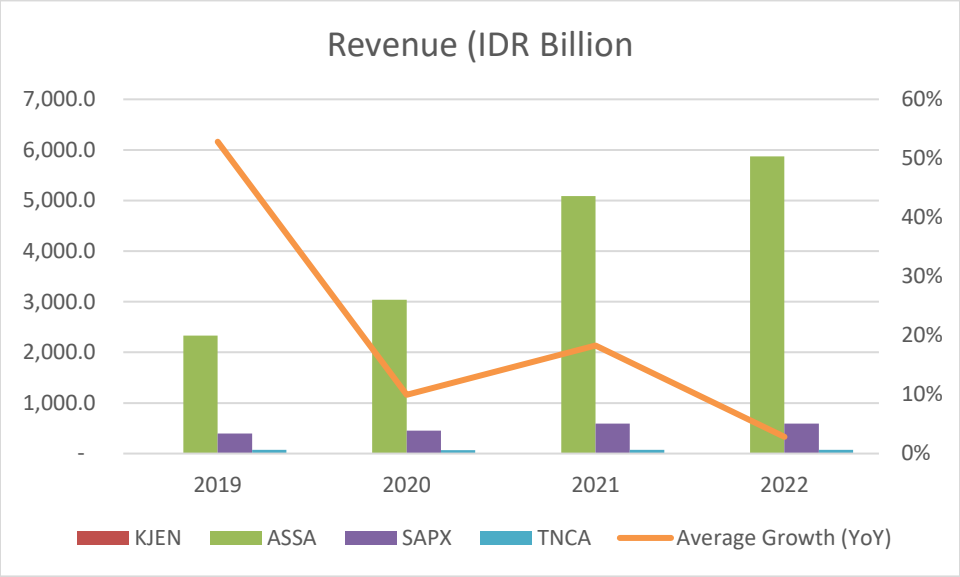
The industry's good prospects are also supported by the country's large population and area. With a population of more than 270 million people (the world's fourth largest) spread across around 17,000 islands, Indonesia relies more than most on the development of its courier and logistics ecosystem specially to distribute packages to remote areas. The need for connectivity has become more important as the government looks to further link its resources, people, and industries to maintain gross domestic product (GDP) growth. Uneven distribution due to undeveloped infrastructure remains to be one of the challenges but also poses as potential growth driver to the courier services industry. Infrastructure has been one of the state budgets focuses especially now that the situation is more conducive. The development of the Trans Sumatra and the relocation of the capital city to Nusantara will also open more opportunities for market growth in Sumatra and Borneo, respectively, considering that most of courier players' network are currently still concentrated in Java.

On the other hand, the fuel price hike and normalization in e-commerce transactions are affecting margins from logistics operators in 2022. In September 2022 the government raised the price of fuel oil in response to the increasingly uncontrollable world oil prices that would put pressure in the rise in energy subsidy budget. As a consequence, operators face challenges in the form of higher operational costs, weighing negatively on profitability. Due to the fragmented and price sensitive nature of the industry, particularly in the retail segment, operators' ability to pass on the increase in input costs, such as fuel, to customers will remain limited. Before making tariffs adjustment, operators need to consider competitor's price as well as people purchasing power. We expect corporate segment to be more resilient as the contracts usually cover

tariffs adjustments related to fuel price and labor cost, but there will still be a lag as it may take months before the new tariff is applied. Other strategies were imposed as an effort to maintain margins. For example, SiCepat has begun transitioning from an internal combustion engine (ICE) vehicle to an electric vehicle (EV). While JNE and Anteraja choose to anticipate through other variable costs by optimizing its current capacities and capabilities.

E-commerce segment also has seen its revenue normalized following the lifting of all Covid-19 related restrictions, which has driven the economy to be more active and boost people's confidence to shop in person. At the same time, some major marketplaces like Shopee and Tokopedia have increased their service and platform fees while limiting promos or price discounts which we view also contribute to slower growth in 2022.

Figure 2. Revenue of selected listed courier companies



Source: Company's Financial Statement, processed by PEFINDO
Note: KJEN = PT Krida Jaringan Nusantara Tbk, ASSA = PT Adi Sarana Armada Tbk, SAPX = PT Satria Antaran Prima Tbk, TNCA = PT Trimuda Nuansa Citra Tbk

Tight market competition in the near to medium term

We are of the view that the competition in the courier services industry is fragmented and has numerous players due to low barriers to entry and growth potential. The increase in the size and growth of the courier service market has encouraged new players to enter this business. Combined with the low barrier to entry, this resulted in high level of business competition with less than ten companies were estimated to control the majority of the market including Pos Indonesia, JNE, J&T Express, TIKI, Sicepat, Anteraja, and Wahana while other players, currently more than 50 companies, are fighting over less than 30 percent market share. These conditions have caused several courier service companies to experience difficulties in strengthening its position in the industry, especially for new operators who do not have adequate courier service business competence or limited fund for infrastructure development, technology, and business innovation. In addition, operators have limitations in increasing their tariffs to customers which exposes them to lower profitability particularly in the retail and e-commerce segment with many operators offering similar services making consumer preferences changes easily. We view that having a diversified target segment and niche market, such as secure document delivery, is important to maintain business stability in the courier services industry.

We view courier operators' capex policies ranging from moderate to aggressive and will be funded by a combination of external loans and internal sources. Major operators such as JNE, J&T Express, Sicepat, and Anteraja may allocate moderate capex for network expansion and information system as they have

incorporated automatic sortation system in their main hub system while smaller and new player may need to spend more intensive capex to grow their business. Having an established main hub with automatic sortation system is important for courier operators as it allows them to handle more packages daily with shorter processing time. It also minimizes the cost of labor and errors made by humans.

Stable outlook for most of PEFINDO's rated portfolio

Over the next 12 months, we expect the ratings for most of our rated courier and logistics services operators to be stable. We expect revenue growth to continue over the near to medium term, underpinned by the economic recovery and the good growth prospect of e-commerce and social commerce industry. However, the tight competition in the industry will continue to weigh negatively on profit margins. In line with the capex policies, we expect capital structure will be ranging from moderate to aggressive in the near to medium term due to the need of network expansion and development of its logistic and IT infrastructure.

Table 1. Financial profile of courier and logistics services companies

Description	ASSA Dec-2022	POST Sep-2022	SAPX Dec-2022
Total Adjusted Assets [IDR Bn]	7,084.1	9,639.0	249.8
Total Adjusted Debt [IDR Bn]	4,060.7	1,773.5	29.7
Total Adjusted Equity [IDR Bn]	2,286.5	5,543.3	169.3
Total Sales [IDR Bn]	5,870.1	4,786.2	591.9
EBITDA [IDR Bn]	1,076.5	541.3	23.9
Net Income after MI [IDR Bn]	103.0	589.5	0.8
EBITDA Margin [%]	18.3	11.3	4.0
Adjusted Debt/EBITDA [X]	3.8	*3.3	1.2
Adjusted Debt/Adjusted Equity [X]	1.8	0.3	0.2
FFO/Adjusted Debt [%]	19.4	*25.0	69.1
EBITDA/IFCCI [X]	4.1	3.4	8.4
Rating/Outlook	idA/Stable	idBBB+/Stable	idBBB/Stable

Source: PEFINDO database
ASSA: PT Adi Sarana Armada Tbk; POST: PT Pos Indonesia (Persero); SAPX: PT Satria Antaran Prima Tbk
FFO = EBITDA – IFCCI + Interest Income – Current Tax Expense
EBITDA = Operating Profit + Depreciation Expense + Amortization Expense
IFCCI = Gross Interest Expense + Other Financial Charges + Capitalized Interest; (FX Loss not included)
*MI= Minority Interest *= Annualized*