Sector Overview

Vietnam Logistics Market 2017

Prepared by StoxPlus for Amcham
Ho Chi Minh City, September 27th, 2017
A wide range of services based on a database aggregating 800+ quoted companies and 1200+ unlisted public companies:

- FiinPro Platform
- Data Feed Services

Date of incorporation: March 11, 2008
Number of staff: 80 (as of Aug 2015) including Data Analysts, Content Editors, Researchers, Product Developers.

StoxPlus Overview

StoxPlus Joint Stock Company
www.stoxplus.com

Financial Information
www.finpro.com

Our Strategic Partner and Shareholders:

NIKKEI
Quick

Business Information
www.biinform.com

A portal-based service built on an aggregated source of more than 800,000 Vietnamese companies for:

- Company Report
- Industry Report
- Customized
- Market Entry Advisory
### Our Differentiators

**Combine data-driven analysis with local and practical market insights**

<table>
<thead>
<tr>
<th>COMPREHENSIVE DATABASE</th>
<th>LOCAL INSIGHTS</th>
<th>GLOBAL EXPERIENCE</th>
<th>FULL SPECTRUM OF SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A full database of key sectors and companies</td>
<td>• On-the-ground study and in-depth knowledge of industries covered</td>
<td>• Seasonal experts and analysts with international experience in the US, UK, and Australia</td>
<td>• The only one-stop-shop for all your information needs, from basic company reports to premium advisory services to execution</td>
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<td>• Validation of data to provide most accurate information</td>
<td>• Partners from industry players to Government agencies (CIC, NFSC, GSO,...)</td>
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<td></td>
<td>• Network with top experts in all sectors</td>
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Our Focused Sectors

Our sector expertise and participation of industry experts ensure information comprehensiveness and in-depth analysis.

- Consumer Finance
- Cement
- PET Packaging
- Healthcare Services
- Banking
- State-owned Enterprises
- Building Materials (Concrete)
- Fertilizer
- Logistics
- Flexible Packaging
- Pharmaceuticals
- Food & Beverage
We have released Vietnam Logistics Market Report 2017 - our second issue on this sector.

Vietnam Logistics Market Report 2017

Vietnam Cold Storage Market Report 2017
We serve mostly foreign companies who are operating in Vietnam or want to expand their businesses in Vietnam market.
Vietnam logistics sector is still in the early development stage, far behind compared to other developed countries

Growth Stage of Global Logistics Sector

Source: StoxPlus
Total logistics costs in Vietnam are estimated at US$41.26bn in 2016, equivalent to 20.8% of GDP.

Logistics Costs as a Percentage of GDP, 2016

<table>
<thead>
<tr>
<th>Region</th>
<th>Logistics Cost as % of GDP</th>
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<tbody>
<tr>
<td>World</td>
<td>11.7%</td>
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<tr>
<td>North America</td>
<td>8.6%</td>
</tr>
<tr>
<td>Europe</td>
<td>9.2%</td>
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<tr>
<td>Asia Pacific</td>
<td>13.5%</td>
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<tr>
<td>Thailand</td>
<td>10.7%</td>
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<tr>
<td>China</td>
<td>15.4%</td>
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<tr>
<td>Vietnam</td>
<td>20.8%</td>
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Revenue of Top 100 Logistics Companies in Vietnam, 2016

- **Total Sales 2016**: US$8.74bn
- **2015-2016 Growth**: 15.6%

There are two main reasons that could explain the high proportion of logistics costs over GDP in 2016.

- Underdeveloped infrastructures (road, seaports) results in traffic jams and low productivity, in turn leading to high logistics cost.
- Delay of transportation/delivery due to traffic jam and clearance time in port for inspection.

Source: Armstrong & Associates

Source: Biinform Database
Logistics companies have posed an improved overall performance, especially with the increasing trend of gross profit margin and EBITDA% over four recent years. The narrowing gap between Gross profit margin and EBITDA margin has indicated the fact that listed logistics companies had better control over their operating costs as well, especially in 2016.

Financial performance has been improved significantly during the period 2011 - 2016

Logistics Companies’ Financial Performance - PROFITABILITY, 2016

Source: StoxPlus, Fiinpro

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Vietnam posted strong GDP growth, creating bright outlook for logistics segment

**STRENGTH**
- Vietnam's strong economic growth rate, coupled with its geography - it stretches for thousands of kilometers on a north-south axis - creates a need for long-distance freight haulage. The Vietnamese economy is expected to remain a regional outperformer throughout the next 10 years which will boost freight sector growth over the next years.
- Robust trade activities in Vietnam with total trade value of US$350bn in 2016
- FDI investments (disbursed FDI increased by 9% in 2016) with a numbers of MNCs' investments including Samsung, Intel
- Government direction on improving the sectors including infrastructure development, the restructure of the air freight market by 2020 will see the development of the cargo transport market and increase the role of airfreight, particularly in key economic zones and remote areas.

**WEAKNESS**
- Underdeveloped infrastructure for logistics, overburdening the road network, which increases the risks of delays and accidents.
- Uncompetitive fuel costs increase supply chain costs
- Fragmented with many small companies
Robust economic growth and trading activities are accelerating logistics demand in Vietnam

Vietnam GDP Growth (y-o-y) & Trade Value, 2005 - 1H2017

GDP growth of **over 5%** during the last 05 years

Source: StoxPlus

- Vietnam’s stable economic growth rate and population size of over 90 million people, coupled with rising income levels, provide an attractive backdrop for development of the retail industry, driving the potential for logistics sector. It is noted that retail (FMCG) industry accounted for 90% 3PL service demand in 2015.

- Logistics demand from import & export activities is expected to boost with several free trade agreements (FTAs) including Vietnam-Korean Free Trade Agreement (VKFTA), ASEAN Economic Community (AEC).
Vietnam’s long history of fast growth has led to rapidly increasing levels of transport demand, which have put a strain on limited resources.

As transport demand has grown, its composition has also shifted towards the need to meet increasingly complex (e.g., time-definite) itineraries.

To date, Vietnam’s transport and logistics system has been able to accommodate fast growth despite limited connectivity.

But as complexity rises, its ability to continue to do so will gradually diminish unless service levels increase: this is the most pressing challenge facing Vietnam’s logistics system today.
The commodity composition of Vietnam’s freight flows, heavily concentrated in bulk commodities, has so far allowed the country to maintain high economic growth rates on the back of a transport and logistics sector that competes on price rather than service levels (as bulk commodities are highly sensitive to transport costs).

This picture is quickly changing as Vietnam becomes more manufacturing-intensive and as it trades in and consumes products with higher value-added content; indeed, containerized trade has been growing faster than bulk trade for several years.
Contents

1. SECTION 1: SECTOR OVERVIEW
2. SECTION 2: MARKET POTENTIAL
3. SECTION 3: KEY TRENDS
4. SECTION 4: FOREIGN INVESTMENT
Cold chain, including cold transportation and cold storage, one of the most potential logistics segment for growing in Vietnam

Logistics Sector Structure in Vietnam

- Cold Transportation
  - Domestic transportation
  - International transportation
- Forwarding
  - Customs clearance
  - ICD & CFS services
- Warehousing
  - Bonded warehouse
  - Cold Storage
- Other value-added services
  - Container loading & unloading
  - Packing, Inspection, Fumigation, etc.

- Cold chain is one of the most potential logistics segment in Vietnam.
- Last-mile delivery - key to the development of e-commerce in Vietnam
  - Last-mile delivery is that final segment in the logistics network where finished goods are transferred to the consumer or business that ordered and purchased them.
  - Last-mile delivery has huge potentials for development in Vietnam with increasing retail and e-commerce segment.

Source: StoxPlus
Cold chain is one of the most potential logistics segment for growing in Vietnam. Few foreign & local companies tapped in this segment.

Warehousing Market Segmentation Analysis

COLD CHAIN IN VIETNAM

• **Cold container segment** is dominated by some giant logistics companies such as Vinafco and Gemadept.

• **Cold trucking segment** in Vietnam is relative fragmented in comparison to other logistics segment but it has a high potential to grow in the coming future. ABA cooltrans and Quang Minh are pioneers in the market.

COLD TRANSPORTATION

• It can be segmented into two segments including in-house cold storage (for internal demand) & commercial cold storage.

• Total designed capacity of commercial cold storages in Vietnam reaches **450,000 pallets** in 2017.

• The segment is expected to grow healthily thanks to increasing demand from export (seafood, F&V) and grocery retail.
For cold storage segment, foreign-owned companies are dominating the market with high quality services

Key groups of players in Vietnam commercial cold storage

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<tr>
<th>FOREIGN-OWNED</th>
<th>LOCAL</th>
<th>OTHER LOGISTICS COMPANIES</th>
<th>OTHERS</th>
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<tr>
<td>• Foreign cold storage such as Swire, PFS, and Lotte are the market leaders.</td>
<td>• Local cold storage providers such as Hoang Lai, Phan Duy, and Hung Vuong are considered the second tier.</td>
<td>• Some forwarders are getting into the cold storage market to provide a suite of services for their logistics clients.</td>
<td>• There are many other small independent cold and cool storage providers. Their facilities are usually no more than a few hundred square meters. Some do not even have racks, but they put the inventory on the ground.</td>
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<td>• They have high quality facilities and a professional management team.</td>
<td>• Their facilities are very simple in design, and they do not have professional team to manage the stores.</td>
<td>• Konoike Group is currently owns two cold storages, one of which they bought from Anpha AG. ICD Long Dinh is partnering with a forwarder from Germany to build cold storages.</td>
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<td>• PFS, for example, uses 100% robots in their storage.</td>
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<td>• Both PFS and Swire use barcode as an IT system to manage inventory in the store.</td>
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Source: StoxPlus
Cold storage is being encouraged by the Government with various incentives

In response to the “Project against loss after harvesting until 2020” (issued and submitted by MARD), the Government issued Decision 63/2010/QD-TTg, a policy providing support to reduce loss after harvesting. Pursuant to Decision 63, enterprises investing in cold storage can receive the following preferential treatment:

**01 LOAN**

May borrow up to 100% of machinery purchase value;

**02 INTEREST**

The State Budget offers 100% subsidy on the interest expense (i.e. interest rate 0%) in the first 2 years and 50% interest expense in 3rd year

**03 LAND RENTAL**

Exemption from land rental fees

**04 FEE & TAXES**

May be eligible for a 20% subsidy of clearance fees and a 30% subsidy of outside-the-fence technical infrastructure completion cost. Support is supplemented with corporate tax exemptions for the first three years of commencement and a reduced 50% tax exemption in the following 2 years.
Foreign investors mostly focus on sizeable companies with net sales over US$100 mn

Note:
- **Bubble size is the foreign capital of public companies by net sales in US$ million** (highlighted in blue)
- **Average foreign ownership is calculated as:**
  \[ \frac{\sum (\% \text{ foreign ownership} \times \text{the Company's owner's equity})}{\sum \text{Total owner's equity of public companies}} \]

- Most listed logistics companies have foreign ownership under 35%, which accounted for over 95% of total companies. Total foreign capital stays at US$ 448.65, of which companies with foreign ownership under 35% reaches US$ 256.67 mn.

Source: StoxPlus
Despite strong interest from foreign investors, Vietnam logistics sector recorded a relatively small number of M&A deals compared to other sectors, which could be explained by three main reasons:

- Legal constraint
- Fragmented market
- Local investors' high expectation in term of valuation

M&A in logistics is driven by Vietnam domiciled enterprises

ONLY 4 & 5 INBOUND M&A DEALS IN 2016 & 2017

VALUATION: 10-15x EBITDA

Foreign ownership limit constrains inbound M&A transactions in Vietnam logistics sector
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