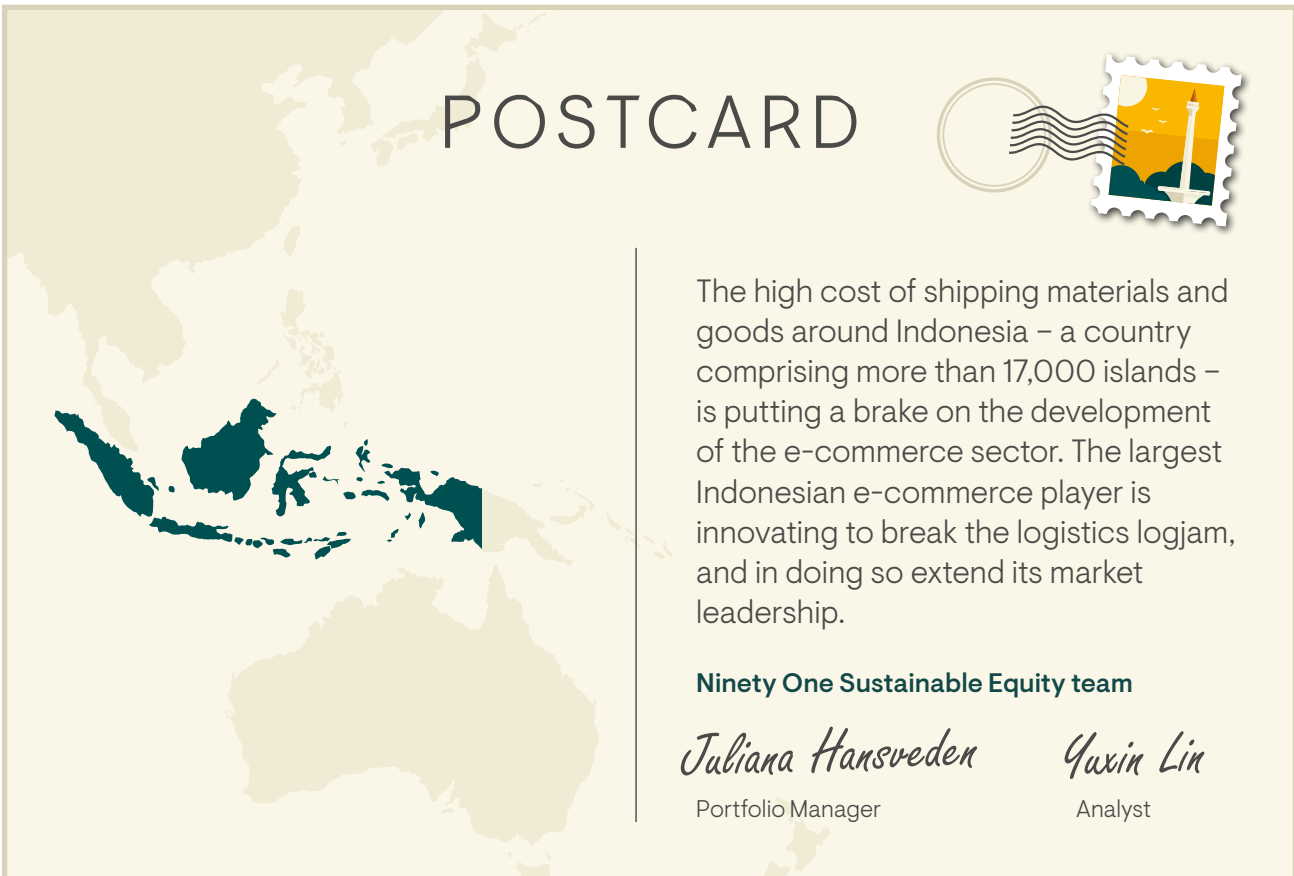




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Investing for a
world of change

Notes from the road: unblocking Indonesia's logistics logjam

A graphic designed to look like a postcard. On the left, there is a map of Southeast Asia with Indonesia highlighted in dark teal. The word "POSTCARD" is written in a large, sans-serif font across the top. To the right of the text is a circular postage stamp with a scalloped edge, depicting a sailboat on the water under a yellow sky. Below the stamp, there is a vertical line separating the text from the map area.

POSTCARD

The high cost of shipping materials and goods around Indonesia – a country comprising more than 17,000 islands – is putting a brake on the development of the e-commerce sector. The largest Indonesian e-commerce player is innovating to break the logistics logjam, and in doing so extend its market leadership.

Ninety One Sustainable Equity team

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Logistics account for 8-9% of GDP in the US and Europe. In Indonesia, that figure is a startling 23%. In other words, transporting goods and materials to where they need to be accounts for almost one-quarter of Indonesia's economic output.

It is hardly surprising that a nation comprising 17,500 islands and 280 million people faces distribution challenges. But logistics costs are often higher in emerging markets, running at 15% of GDP in Thailand, 14% in China and 13% in Malaysia¹. Partly, this reflects the economic mixes of developing and advanced economies, with services – which have lower logistics costs as a percentage of merchandise value than agriculture and manufacturing – comprising a larger share of the latter.

High-potential market

Despite high shipping costs, Indonesia has developed the largest e-commerce sector in Southeast Asia², worth US\$53 billion a year and forecast to reach US\$87 billion by 2028³. Yet the market's full potential continues to be constrained by inefficient distribution.

For companies that can solve logistical challenges, we think the opportunities are significant, not least because retail growth in Indonesia is outpacing overall economic growth. While Indonesia's GDP per capita has expanded at 3.2% over the past decade, retail sales have grown at 4.2%⁴. We expect e-commerce revenue to grow even faster as consumers increasingly adopt online habits.

1. PwC, [Supply chain: Indonesian Chamber of Commerce & Industry predicts logistics to grow 6%](#), July 2023.

2. Indonesian e-commerce GMV (gross merchandise value) accounted for ~47% of total GMV in Southeast Asia in 2023 - Momentum Works July 2024.

3. [US International Trade Administration, 2024](#).

4. [World Bank data, 2023](#).

For further information on the investment team, please see the Important information section.

Looking for EM leaders: Shopee case study

As an investment team focused on emerging markets, we look for leading businesses in sectors that are growing strongly as a result of long-term structural changes in the economy. On a recent visit to Indonesia – part of a broader research trip that also took in Vietnam – this led us to visit Shopee, the e-commerce arm of Sea Ltd., which we think is well-placed to benefit from the growth of online retail. The largest e-commerce player in the country, Shopee is investing to extend its market leadership through logistics innovation.

Speaking to managers and workers at the Shopee Express sorting centres in Jakarta, we observed a strong focus on improving the cost and quality of delivery services. In fact, these are the two main performance metrics the local leadership team are assessed against. On the cost front, Shopee Express has begun using smarter data analytics to manage the volatility of parcel volumes more efficiently. It also flexes its capacity, partly by working with third-party logistics partners. Automation is also being considered to handle variability in trading flows, though always with an eye on costs and the potential to instead use the lower-tech option of Indonesia's competitive labour market. In terms of quality and efficiency, attention to detail is helping to drive operational improvements, for example by redesigning the sorting line to align better with the height of workers.

No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided.

Stock selected as an example of a company visited during a research trip considered by the investment team to be a market leader.

This is not a buy, sell or hold recommendation for any particular security. To evaluate the outcome of the strategy, see long-term performance.

For further information on specific portfolio names, please see the Important information.

Competitive advantages

As investors, we put a lot of focus on a company's competitive advantages, because these are crucial for sustaining a leading position as a market grows. We think logistics is a clear advantage for Shopee, built in our view on three hard-to-replicate characteristics:

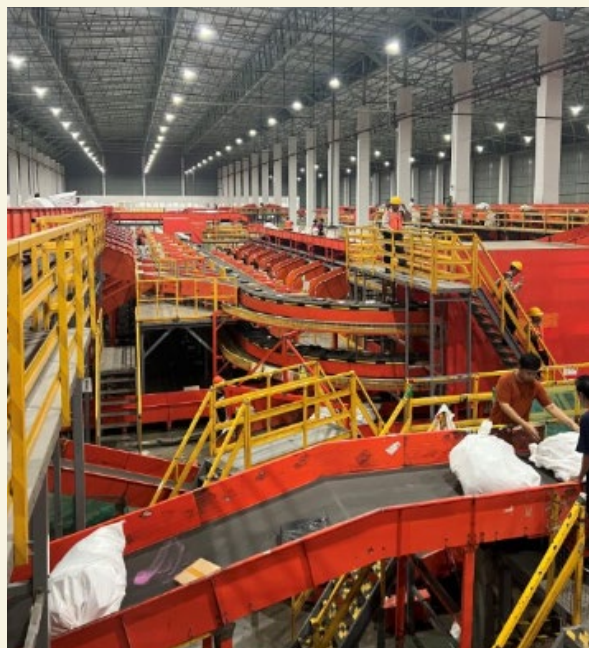
The first is scale, which leads to a cost advantage over smaller competitors, since higher order volumes mean higher utilisation of warehouses and delivery networks. Scale also creates potential for higher investment in efficiency innovations.

The second is Shopee's ability to share distribution cost savings with customers, by offering lower delivery fees or even free shipping. This helps to attract and retain more customers, reinforcing the scale advantage.

Finally, having an in-house logistics capability, rather than just working through third parties, enables Shopee to drive service improvements. For workers, the company can implement incentives that directly motivate service quality. For customers, Shopee can offer options such as immediate return if they are dissatisfied with an item, even before paying cash on delivery, which was difficult to implement with external logistics providers.

General risks. All investments carry the risk of capital loss. The value of investments, and any income generated from them, can fall as well as rise and will be affected by changes in interest rates, currency fluctuations, general market conditions and other political, social and economic developments, as well as by specific matters relating to the assets in which the investment strategy invests. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations. Past performance is not a reliable indicator of future results. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

Shopee distribution centre, Jakarta



Source: Ninety One, November 2024.

Leaders extending their lead

Market dynamics suggest an evolution in favour of the leading e-commerce players in Indonesia, with Shopee gaining 4 percentage points of additional market-share in 2023⁵.

We think Shopee is becoming the clear leader in the sector. But it isn't the only beneficiary of its logistics innovation. By enabling the growth of e-commerce in Indonesia, Shopee is extending new opportunities to the country's 66 million micro, small and mid-sized enterprises, which together contribute nearly two-thirds of GDP and employ 97% of the national workforce⁶. In turn, that has the potential to drive economic growth and development.

We met with about a dozen other companies during our research trip. While they were very different businesses, what they had in common was the potential to maintain and extend market leadership. In the fast-growing and rapidly changing economies of the developing world, that's a particularly interesting characteristic for a potential investment.

Specific risks. **Currency exchange:** Changes in the relative values of different currencies may adversely affect the value of investments and any related income. **Derivatives:** The use of derivatives is not intended to increase the overall level of risk. However, the use of derivatives may still lead to large changes in value and includes the potential for large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. **Equity investment:** The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. **Concentrated portfolio:** The portfolio invests in a relatively small number of individual holdings. This may mean wider fluctuations in value than more broadly invested portfolios. **Sustainable Strategies:** Sustainable, impact or other sustainability-focused portfolios consider specific factors related to their strategies in assessing and selecting investments. As a result, they will exclude certain industries and companies that do not meet their criteria. This may result in their portfolios being substantially different from broader benchmarks or investment universes, which could in turn result in relative investment performance deviating significantly from the performance of the broader market. **Emerging and Frontier market (inc. China):** These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

5. Momentum Works, 2024.

6. [Kadin Indonesia](#) (Indonesian Chamber of Commerce and Industry).

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