

Wednesday, 07 April 2021

Non-Rated

## Transportation

### Need for Speed

We had a call with Paxel's management to better understand the dynamics and competitive landscape of the logistics industry in Indonesia. Paxel, a same-day logistics company, asserts that the need for speed is pivotal in the industry. To enable this, an agile business model combined with integrated ecosystem supported by IoT is critical. From this meeting, we conclude that the change in the logistics ecosystem will enable SMEs and retail companies to transfer their goods within a day. This, in turn, will bolster the frequency of delivery, although several challenges such as price wars remain a threat.

**Speed is the key driver in the logistics industry.** Paxel aims to be a logistics company that enables its customers to send items nationwide on the same day as speed is a key differentiator for online retail businesses. This is evident in the historical data where *one of the large logistics companies spent 26 years to reach 1mn parcels per day whereas GoSend reached 500k in 3 years.* With the rapid growth of online retail business and the integration of IoT in SMEs, a faster and affordable service with nationwide coverage is preferable. Thus, Paxel is striving to create an ecosystem to provide a same day service nationwide serving both C2C and B2C ecommerce parcels.

**Agile and integrated operation model.** Paxel designed its distribution ecosystem to be more optimized than the traditional design. This ecosystem integrates a leaner logistics model and other delivery parties such as Garuda Indonesia, Kereta Api, Bluebird and Gojek to pick up and deliver the packages. The leaner business model, compared to the traditional one, enables Paxel to grow rapidly with lower capex. Paxel implements Relay cross-docking which utilizes decentralized smart lockers as hub and spoke relay points instead of building dedicated massive sorting facilities. *Currently there are ~200 Paxel points in 30 cities which enables Paxel to deliver intracity in 6-8 hours and intercity in ~10 hours.*

**Tremendous growth.** Paxel grew its business exponentially as depicted in the total volume growth of 29x from 2018 reaching 5.4mn parcels in FY20 with 16x growth in mobile app accounts in 2020 from its establishment and with the average value per parcel of around IDR 150,000-250,000. The delivery price ranges from IDR 8,000-45,000/parcel in Java and < IDR100,000 for outside Java areas depending on the size. Paxel targets 20-30% gross profit margins for each delivery. Paxel also operates its own marketplace to give merchants more exposure, which should drive delivery numbers.

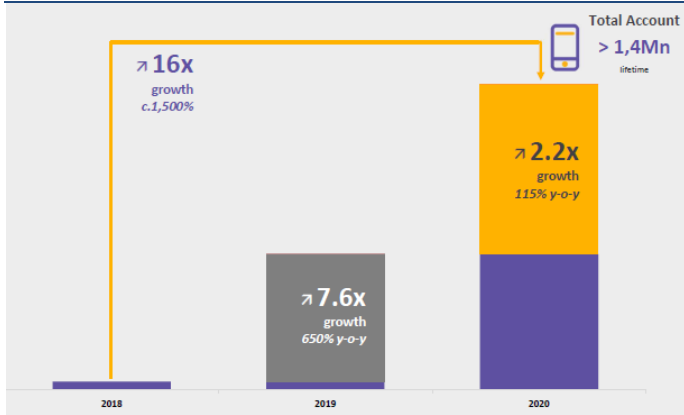
**Still in the high growth industry.** We think that the pandemic accelerated transformation from physical shopping to ecommerce whether in the marketplace or social media. With the recovering market, sellers will have to adapt to the new growing online shopping behavior formed during the pandemic. Paxel claims that non-marketplace parcels account for 70-80% of the total – which are predominantly SMEs. However, we also notice that a price war has broken out in the logistics industry and this may lead to compressed margins for companies that have no competitive edge. We think that the key driver for survival in this business is to maintain the quality of service by improving the ecosystem and IoT with a value proposition focus. We see that Paxel offers a unique value proposition that is difficult for other logistics companies to duplicate.

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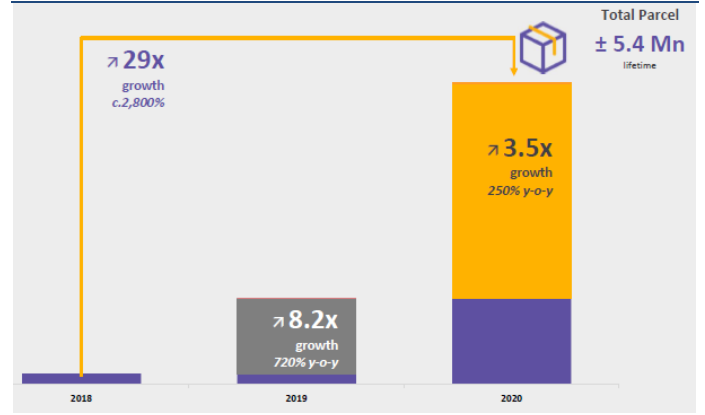
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**Exhibit 1. Mobile App Accounts**



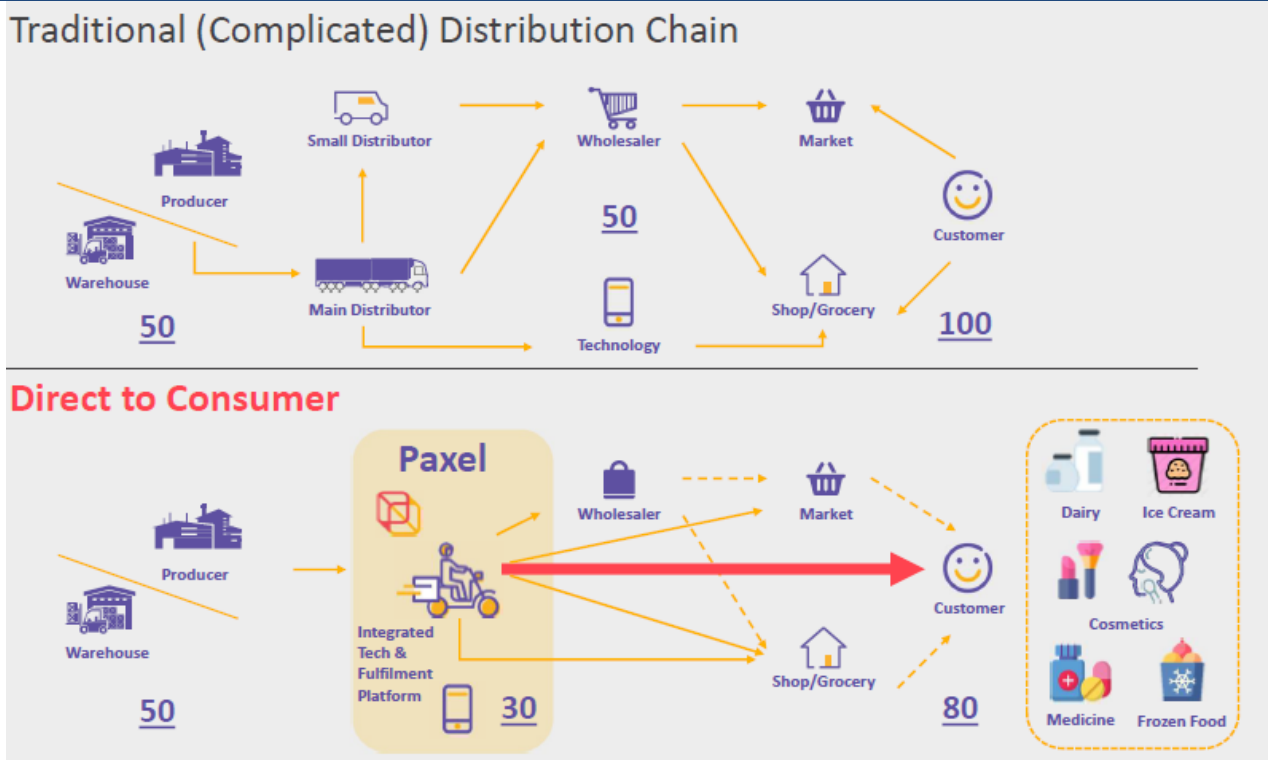
Source: Company, BRI Danareksa Sekuritas

**Exhibit 2. Parcel Volume Delivered**



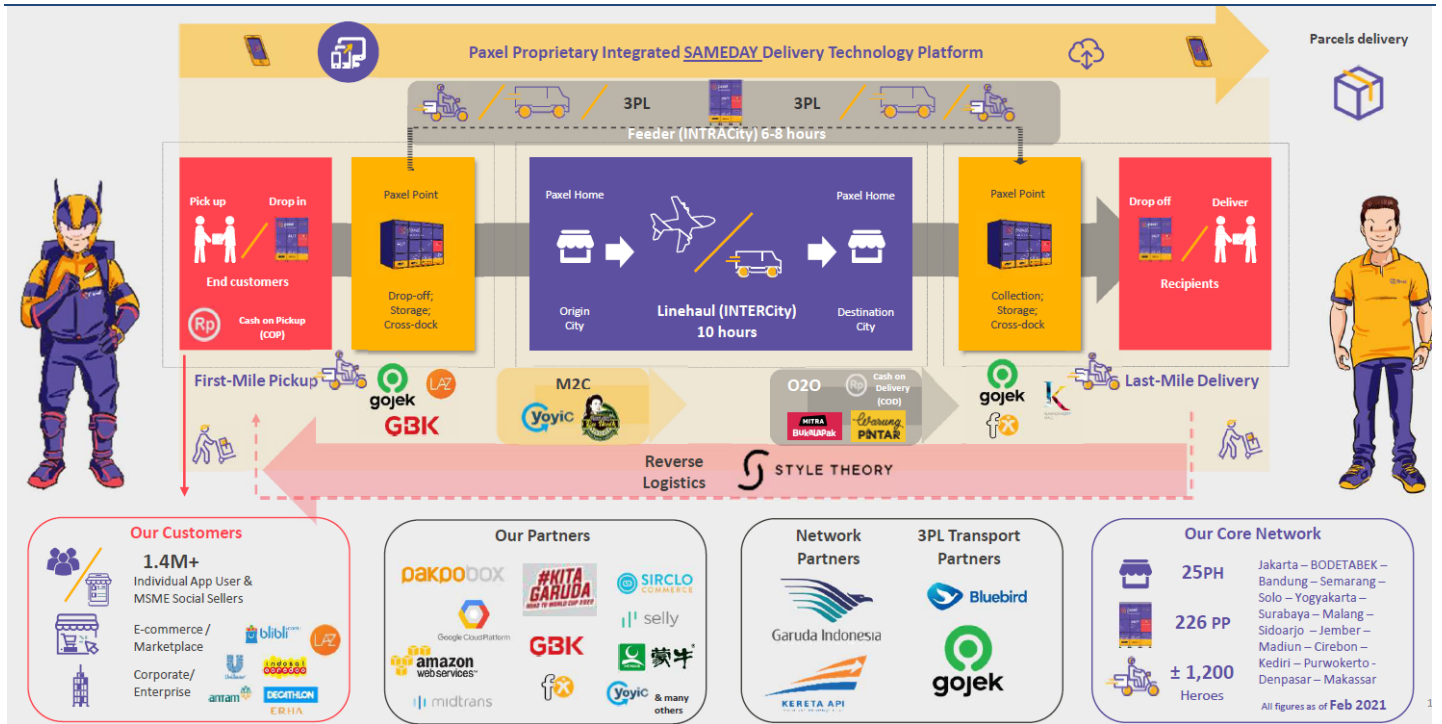
Source: Company, BRI Danareksa Sekuritas

**Exhibit 3. Traditional vs Paxel's logistic chain**



Source: Company, BRI Danareksa Sekuritas

**Exhibit 4. Traditional vs Paxel's logistic chain**



Source: Company, BRI Danareksa Sekuritas