Despite being in an archipelago with underdeveloped transportation networks and persistent traffic in key business regions, the Philippine logistics landscape has managed to thrive. Bounding back from the impact of the global pandemic, the industry is poised for more ambitious growth. This discussion will go over how the industry has been structured, how it has performed, and where it could potentially be headed.

The Philippine logistics landscape is mainly served by integrated logistics providers with 3PLs serving firms looking to outsource certain functions.

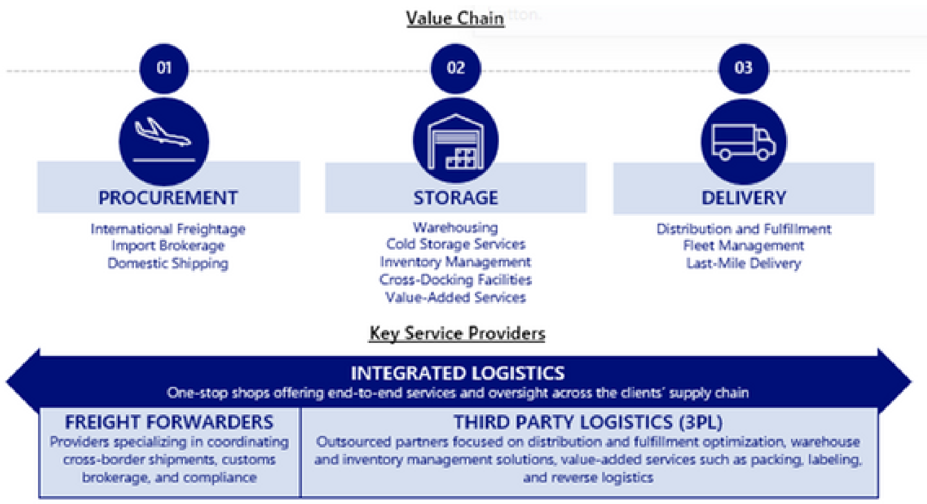

Figure 1. Philippine Logistics Value Chain and Providers

Given the various procedures involved from procurement to delivery, three main types of operators exist in the country: a) freight forwarders, who manage cargo arrangements and coordination; b) third-party logistics (3PL) providers, who specialize in distribution and fulfillment; and c) integrated logistics providers, who deliver comprehensive end-to-end solutions. Although integrated logistics providers may be favored due to its proposition of streamlined operations, others might prefer to only outsource certain functions such as warehousing and distribution to 3PLs.

Persistently high consumption has propelled the industry to continuous expansion despite being highly fragmented.

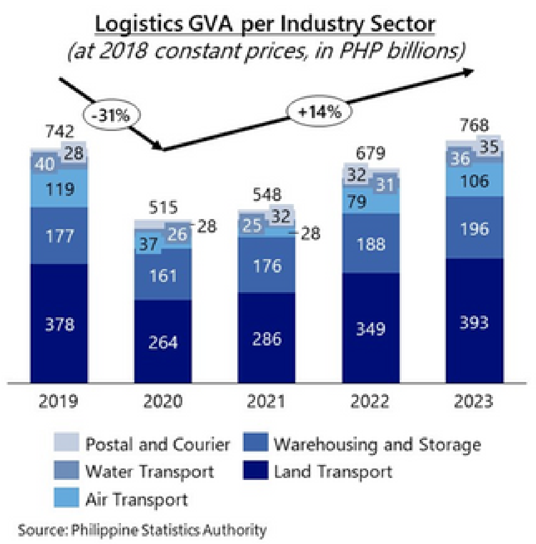

Figure 2. Philippine Logistics Historical Gross Value Added

Despite the challenging environment being further aggravated by mobility restrictions due to the pandemic, the Philippine logistics industry remains a billion-dollar sector and has recovered to pre-pandemic levels with a gross value added (GVA) of PHP 768 billion as of 2023 or roughly around 3.6% of the country's GDP. Since the start of the lockdowns and closure of business in Q1 2020, consumer demand to e-commerce for purchases and providers adapted to point-to-point deliveries for fulfillment.

By 2023, the overall GVA has succeeded its pre-pandemic numbers with warehousing and storage bouncing back as early as 2021 to service consistent demand. The industry's turnaround highlights its ability to adapt to dynamic demands and a constantly changing business environment even within a market characterized by many small and medium-sized 3PL players and large-sized infrastructure developers.

Key Industry Players

#	Services	Company Name	2022		3-yr CAGR	
			Revenue (PHP million)	EBITDA (PHP million)	Revenue	EBITDA
1	Express Delivery	PH Global Jet Express Inc (J&T Express)	28,246	3,309	136%	N/A (Negative to positive)
2	Integrated Logistics	2Go Group Inc	19,268	2,222	-3%	5%
3	Integrated Logistics	Fast Logistics Group	16,086	455	21%	21%
4	Integrated Logistics	LBC Express Inc	10,678	1,365	-3%	-19%
5	Integrated Logistics	DHL Express (Philippines) Corp	9,092	529	22%	17%
6	Integrated Logistics	Schenker Philippines Inc	9,088	1,613	25%	56%
7	Integrated Logistics	Yusen Logistics Philippines Inc	7,953	922	No info available	No info available
8	Freight and Cargo	Kuehne Nagel Inc	6,845	1,052	21%	76%
9	Integrated Logistics	Chelsea Logistics	6,433	959	-4%	-22%
10	Integrated Logistics	Maersk AS/LF Philippines	5,502	681	4%	19%

Source: Company Disclosures, NRI Analysis

Figure 3. Philippine Logistics Key Players (General Warehouse Operators)

The top 10 players in the 3PL sector generated PHP 114 billion in revenues as of 2022 and this only accounts for an estimated 17% of total service revenue, further highlighting the competitive landscape in the industry. These players have also exhibited their capabilities with most displaying growth in both their revenues and EBITDA since 2019. Although mainly comprised of integrated logistics providers, players such as J&T Express still managed to capitalize on the industry's potential by focusing on services that capitalized on the consumer's immediate needs such as express and last-mile delivery especially during the pandemic. Notably, many of these companies are foreign owned, indicating potential opportunities for international investors.

This trend reflects companies' efforts to strengthen their business operations and form strategic partnerships, partly due to corporate legal restrictions on land ownership.

To meet growing demands, Filipino conglomerates have established subsidiaries such as CentralHub by DoubleDragon in 2018, Filinvest Innovation Parks by Filinvest Development Corporation in 2019, and Robinsons Logistix and Industrials by JG Summit Holdings in 2023. These subsidiaries focus on logistics and warehouse development, aiming to expand storage capacity where there is currently a shortage in, enhance operational efficiency, and reduce costs. This approach benefits their other business ventures, especially in the food and beverage and retail sectors.

After being hampered by the effects of the pandemic, the Philippine logistics market is expected to grow faster due to sustained growth in domestic consumption and potential expansion in key industries

Looking ahead, the industry's revenues are expected to see further growth over the next 10 years at a CAGR of 9.3% with the market forecasted to reach almost USD 54 billion.

In particular, the logistics market is expected to expand at a rate of 9% y-o-y while the storage and warehousing market is expected to post faster growth at a rate of 10.7% over the next 10 years to keep up with growing demand.

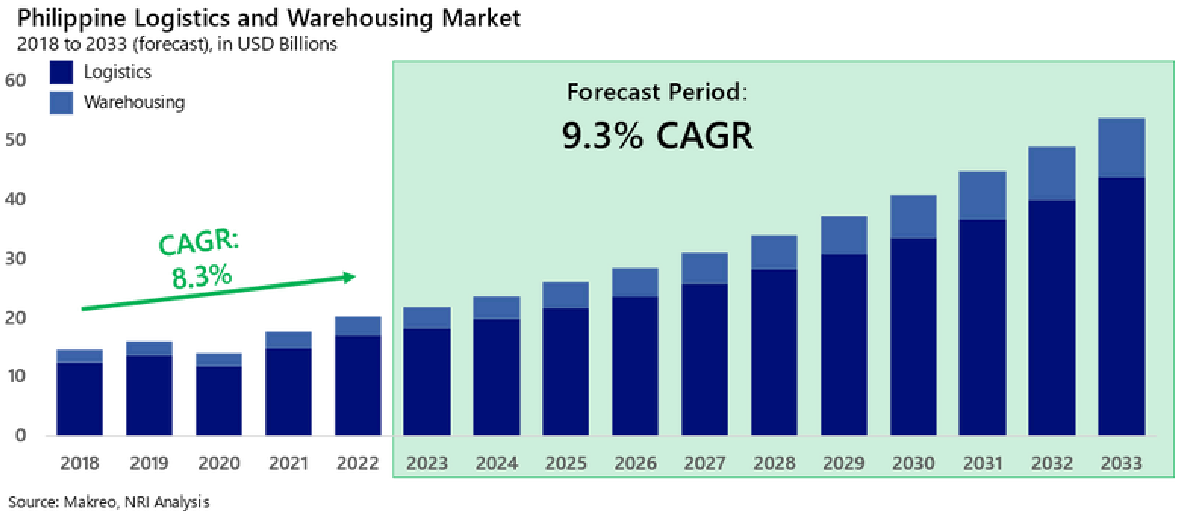

Figure 4. Philippine Logistics Forecast

To identify potential growth drivers, the team evaluated different industries based on the size of its current contribution to GDP, its projected long-term growth, and how it relates with logistics sector's performance.

Moving forward, the industry's growth is expected to be continuously supported by sustained expansion of private consumption as well as new initiatives to bolster the country's manufacturing sector.

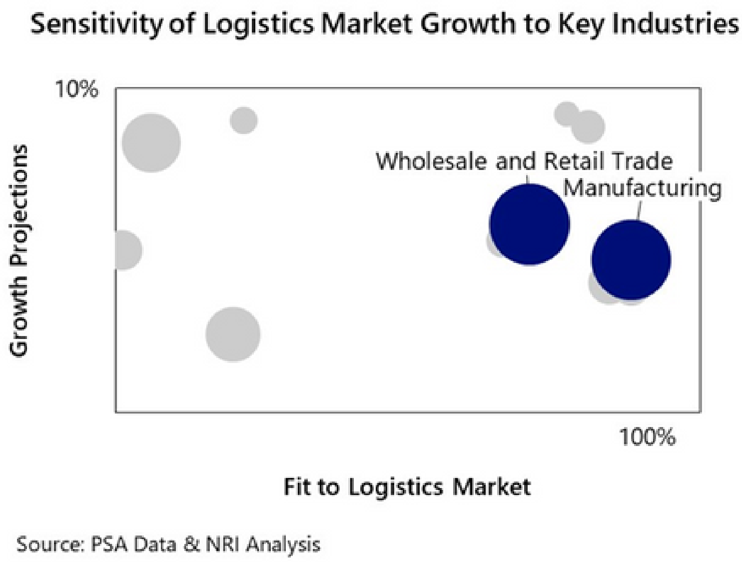

Figure 5. Key Industries

Wholesale and Retail Trade

The wholesale and retail trade sector, which currently stands at a size of PHP 3.9 trillion, is one of the main industries benefitting from strong domestic consumption and requiring logistics services. Despite the pandemic, changes in consumer behavior kept the sector robust and poised to grow at a rate of 6% over the long-term. Long after retailers and consumers scrambled to take their transactions online due to the mobility restrictions, online shopping is expected to stay with e-commerce contributing almost PHP 290 billion to GDP as of 2023. In addition to this, Filipinos have also started shifting to higher value food products, particularly frozen and chilled dairy and processed meat products with sales of frozen and chilled food products growing at a CAGR of 9% over the last 5 years and reaching PHP 295 billion in 2023. The government's recognition of the need for infrastructure improvements in agriculture, logistics, and food security is reflected in the Strategic Investment Priority Plan under the CREATE Law. This plan designates these areas as priority activities eligible for tax incentives. Additionally, several government projects are underway to enhance public-private partnerships and attract direct investments through tax exemptions, subsidies, and other financial support:

1. Proposed Food Security Cold Storage Facilities Act: Aims to establish cold storage facilities in every province.
2. Masagana Agri-Food Infrastructure Modernization Program: Seeks to upgrade post-harvest facilities and logistics to reduce food wastage and lower produce costs.
3. Food Terminal Development Project: Mandates the construction of the country’s largest food trading hub.

Aside from shifting consumer preferences, steps have been taken by the government to further incentivize foreign investments in the retail space. Under the amended Retail Trade Liberalization Act[MT1] that was signed into law in 2021, new foreign retailers or retailers with more than 40% foreign ownership, can enjoy lower capital requirements and only need to provide minimum paid-up capital of PHP 25 million (from USD 2.5 million. Such initiatives are expected to translate into more foreign brands entering the country with Nitori, a Japanese furniture retailer, being the first to key foreign investment under the recent amendments.

Manufacturing

Philippine manufacturing, which currently contributes PHP 3.8 trillion, has strong potential to further increase demand in the Philippine logistics space. Aside from food production driven by strong domestic demand, electronics manufacturing could see significant growth especially with recent shifts in the global landscape. With the USA looking to diversify its sources for semiconductors, the country announced that it will be providing support to the Philippines, one of seven target partners, in developing its semiconductor manufacturing capabilities. Support provided by the USA’s Chips and Science Act, which was passed into law in 2022, will include R&D as well as manufacturing and workforce development that is expected to produce 128,000 Filipino technicians and engineers by 2028. With such incentives expected to bring in more American firms into the Philippines, other global firms have started making their moves to enter and expand into the country:

1. May 2023: Semiconductor firm Analog Devices Inc announced plans to develop an additional USD 200 million facility in Cavite
2. August 2023: Microprocessors manufacturer Texas Instruments announced that it plans to invest up to USD 1 billion to expand its facilities in Clark and Baguio City to increase its production capacity while in May
3. May 2024: Local firm EMS Group announced that it obtained USD 800 million in investments from two global firms looking to transfer their production from China with an additional USD 800 million deal with a European firm expected in the latter half of the year

Final thoughts

Philippine logistics is primed for further growth. Domestic consumption is expected to stay robust with other key industries, such as manufacturing, displaying potential to further complement this growth. On the supply side, with the market continuously being served by various providers with no key functions being controlled by big players. In addition, the government has also taken steps to liberalize foreign investments through recent legislative amendments. Overall, Philippine logistics is conducive to entry for players looking to engage in healthy competition and see out the industry's growth potential. However, despite the promising outlook, investors must also consider whether the established infrastructure can sustain the growth trajectory of the industry and whether commitments from key industries such as semiconductor manufacturing translate into developments and eventual demand.

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