Warehousing logistic



Trung Hoang ☎ (84) 989.573.673
✉ trung.ht@shinhan.com



- Overview about logistic industry and warehousing segment
- Warehouse supply and rental outlook
- Key players in warehouse industry

1) Overview about logistic industry in Vietnam

Total logistic cost in Vietnam are estimated at USD39.6 billion in 2017, equivalent to 18% of GDP. Logistic Performance Index (LPI) of Vietnam was ranked at 39th of 160 countries worldwide.

According to Ken Search estimate, Vietnam logistic industry value is expected to reach USD86.7 billion by 2022, representing CAGR of 13.3% during 2016 – 2022.

2) Warehouse industry in Vietnam

Warehousing segment accounted approximately 6% these logistics company revenue. In line with the logistic industry's growth, we forecast warehousing segment will grow at least CAGR 10% in the period 2017-2022.

Growing manufacturing activities in Vietnam, rising domestic consumption and increasing international trade were some of the primary growth drivers of warehousing in Vietnam. Most of these industry had a two-digit growth in period 2011-2016. In line with the GDP growth of Vietnam, we assess that these industry will keep their growth momentum in coming years.

3) Warehouse supply and rental outlook

CBRE forecasts warehouse sector will improve stably its operation performance in the next few years in both rental price and vacancy rate in Vietnam nationwide.

In the Northern area, with the limited level of new supply, rents are expected to increase by 2.0% in 2018 and 1.5% in 2019 and 2020 while the vacancy rate is expected to decrease from 22% in 2018 to 19% in 2020. In the Southern area, CBRE forecast the rental rate increase of 4% in 2018 and 3.5% in 2019 – 2020 while the vacancy rate in area is estimated lower of 20% from 2018 to 2020.

4) Key players in warehouse industry

Foreign-owned companies are the key players in Vietnam warehousing market, followed by local private companies. In generally, foreigned-owned suppliers' competitive advantages are value-added services provided with modern facilities and worldwide services, while domestic companies own prime location and offer lower cost.

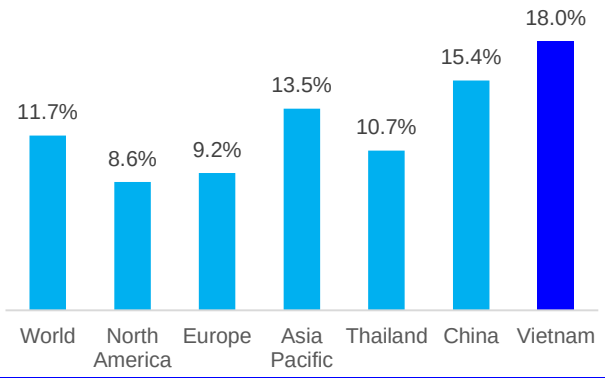
1) Logistic Industry in Vietnam

The logistics industry encompasses with several components such as freight, warehousing, and value added services in Vietnam. The main logistics hubs can be found in the North (Ha Noi – Hai Phong area) and in the South (the wider Ho Chi Minh city area, including Dong Nai province, Binh Duong province and Ba Ria/Vung Tau).

Total logistic cost in Vietnam are estimated at USD39.6 billion in 2017, equivalent to 18% of GDP, higher significant compared to other nations in region. According to World Bank 2016, Logistic Performance Index (LPI) of Vietnam was ranked at 39th of 160 countries worldwide and the 5th in Asean.

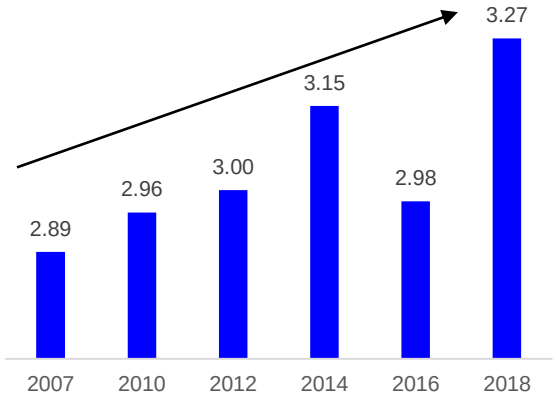
Vietnam logistic is also appreciated for its high Global Competitieness (GCI), to be considered as one of the top 5 countries having the highest speed of connection to global nerwork in the last 6 years (WB).

Logistics cost / GDP 2017 – Vietnam have room to improve



Source: Biinpro & Shinhan Investment Corp.

VN's Logistic System Performance



Source: WB & Shinhan Investment Corp.

Traffic jams in Vietnam



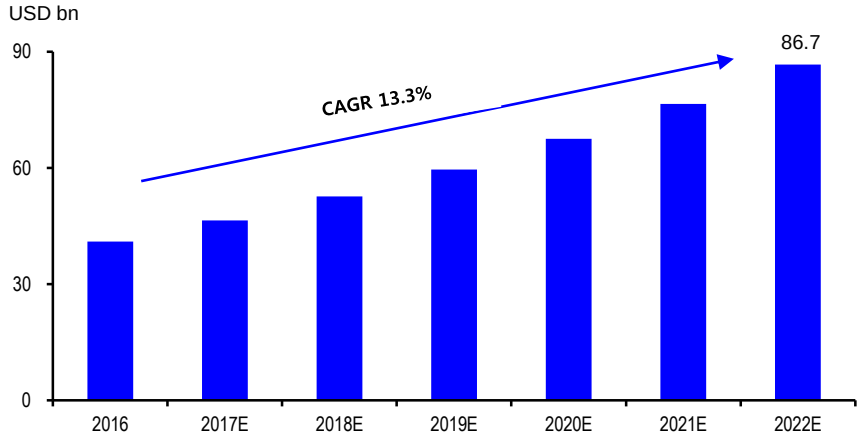
The higher logistic cost has made the lower competitiveness of Vietnam. There are two main reasons that could explain the high proportion of logistics costs over GDP in 2017:

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

Fortunately, Vietnam's government is targeting to widen this bottleneck of the economy. They plan to reduce logistic cost to < 16% GDP and maintain LPI index ranking below 50 in the world untill 2025.

According to Ken Search estimate, Vietnam logistic industry value is expected to reach USD86.7 billion by 2022, representing CAGR of 13.3% during 2016 – 2022. Vietnam's GDP is expected to post strong growth around 6%-7% in next 5 years, creating bright outlook for logistics segment.

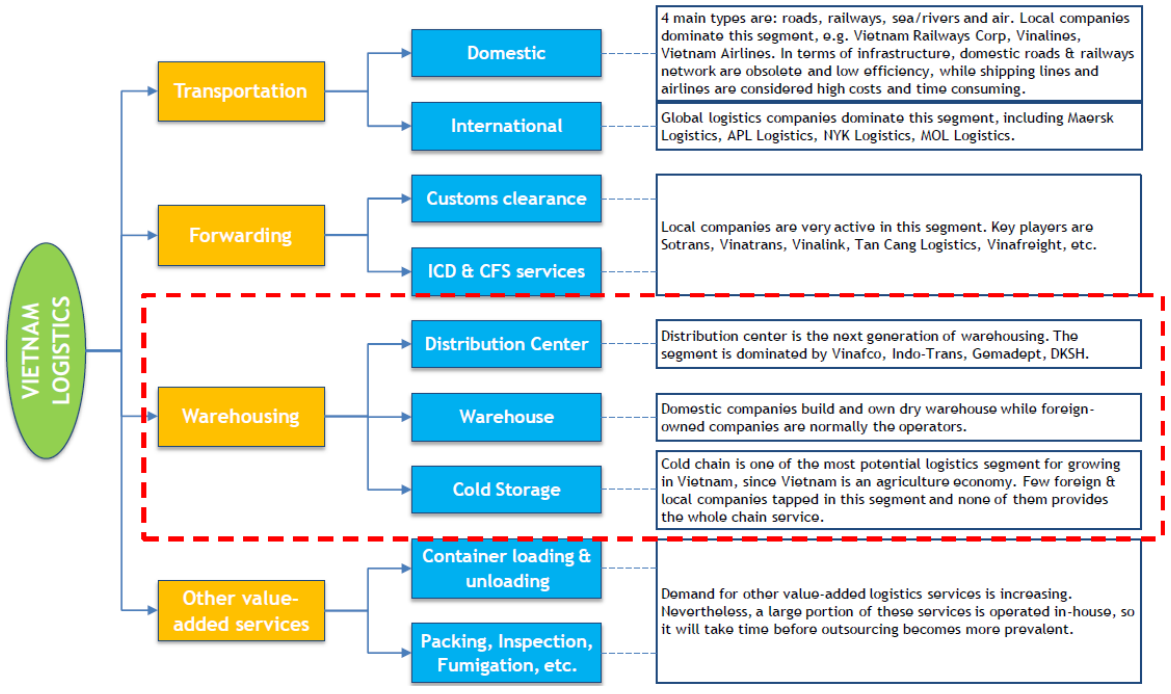
Vietnam logistic industry 2017-2022 – grow significantly



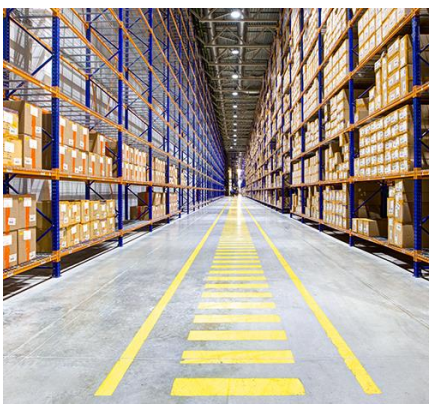
Source: Ken Research, Shinhan Investment Corp.

Logistic sector in Vietnam can be segmented into three main categories namely transportation, forwarding and warehousing as below:

Warehousing market structure in Vietnam



Source: Biinform & Shinhan Investment Corp.

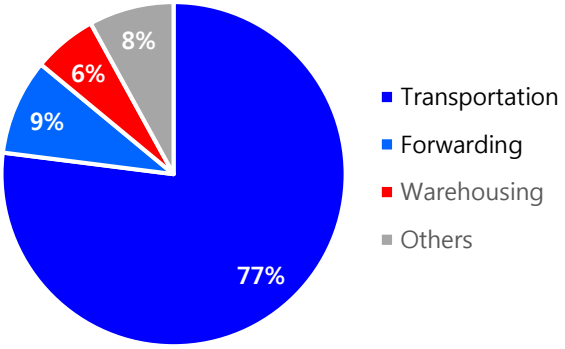


2) Warehouse industry in Vietnam

Overview

According to StoxPlus's survey in 2016, total revenue of top 100 Logistics Companies in Vietnam reporteds USD8.74 billion, growth 15.6% compared to 2015. In which, warehousing segment accounted approximately 6% these logistics company revenue. In line with the logistic industry's growth, we forecast warehousing segment will grow at least CAGR 10% in the period 2017-2022.

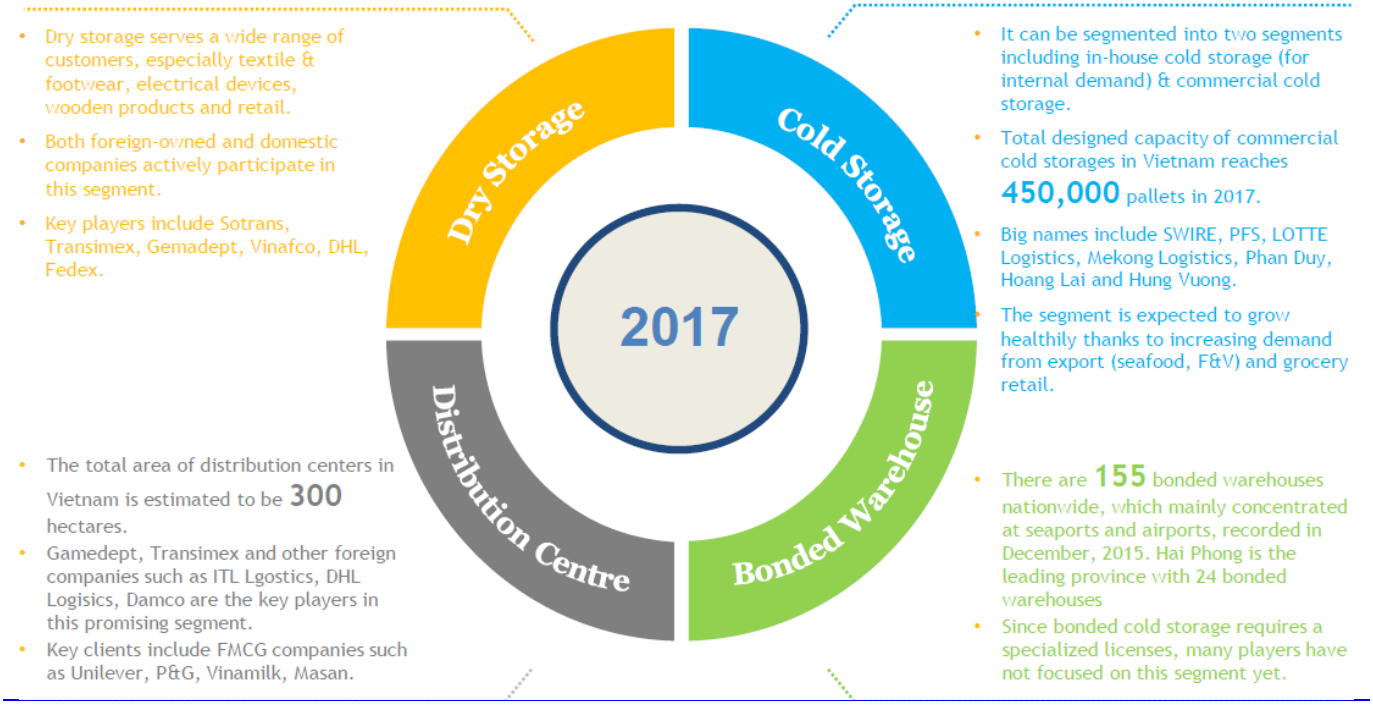
Breakdown revenue of Top 100 Logistics companies in Vietnam, 2016



Source: StoxPlus & Shinhan Investment Corp.

There are 4 main types of warehouse serving different target customers: Dry Storage, Distribution Center, Bonded Warehouse and Cold Storage. In addition, we believe that Distribution Center with its demand-driven activities from Vietnam consumer spending are viewed as the future of warehousing.

Warehousing market segmentation overview



Source: Biinform & Shinhan Investment Corp.

Key demand drivers

According to the General Statistics Office of Vietnam 2018, manufacturing production increased by 15.9% y-o-y. The most notable improvements were recorded in manufacturing of computers, electronics and optical products (11%), textiles (14%), and especially in the manufacturing of metal products (25%). There have been several large-scale developments in computer, electronic and optical production in recent years from global brand names such as Samsung, Foxconn and LG. In 2018, Vinfast, a local automobile manufacturer, has operated a car production line in Hai Phong city and launched their first model in 3Q.2018. This key project will attract vendors and suppliers to Hai Phong city which are pushing sharply the demand for warehouse space.

Vietnam consumer spending is growing and is forecast to continue to increase over the next few years,

especially in terms of e-commerce. Several large Internet retailers from have entered the Vietnam market including Alibaba, JD.com, Tencent and Amazon. Expansion of modern retail outlets from giant international corporations such as Lotte and Aeon and the rise in the number of convenience stores are key drivers for warehousing demand.

According to CBRE enquiries, 3PLs, retail, and manufacturing are key demand drivers for the are house market. The preferred locations are HCMC, Binh Duong, Hanoi, Bac Ninh and Dong Nai. The industrial revolution 4.0 also affect the warehouse market. More quality supply will come to the market in the next three years in the North and the South area. In the regional market, automated storage and logistics robots are recommended in prime logistics space with flat layout, stable power supply and excellent internet connectivity to increase competitiveness.

Growing manufacturing activities in Vietnam, rising domestic consumption and increasing international trade were some of the primary growth drivers of warehousing in Vietnam. Particularly, Demand for warehousing comes from retail sectors and exported products such as electronic devices, textile & footwear, seafood, or wooden products. Most of these industry had a two-digit growth in period 2011-2016. In line with the GDP growth of Vietnam, we assess that these industry will keep their growth momentum in coming years.

Warehousing demand source in Vietnam – huge potential

END-USE SECTOR	MARKET SIZE 2016 (US$bn)	CAGR 2011-2016	MARKET MOVEMENT	IMPLICATION
RETAIL	127.8	13.1%	➢ Modern grocery retailing is increasing tremendously with lots of investment plans from giant international corporations (LOTTE, AEON). ➢ CVSs are expected to boom in the future (Vinmart+, Circle K, Family Mart)	Modern trade posts the needs of distribution centers, which could be warehousing's key driver
ELECTRONIC DEVICES	52.8	36.7%	➢ FDI in manufacturing in Vietnam is increasing thanks to low labor cost and tax benefit (ITA), with approx. US$10bn from big names including Samsung, Foxconn, LG, Panasonic, Intel, Electronics, Nokia.	Key clients include giant MNCs including Samsung, Foxcom, LG, Electronux
TEXTILE & FOOTWEAR	37.0	12.4%	➢ Free trade agreements such as EVFTA is expected to push the development of this industry. Export value from textiles & footwear is estimated to increase by 13-14% in 2017.	The increasing export value suggests a surge of bonded warehouse demand
WOODEN PRODUCTS	7.0	12.0%	➢ Increasing global furniture demand, especially for products from Vietnam is expected to boost wooden product export	
SEAFOOD	7.1	7.6%	➢ Increasing seafood re-processing & export from Vietnam. Seafood companies tend to build in-house cold storage.	Big impact on small cold storage providers , yet tapping the demand for exporting seafood is very potential

Source: Biinform & Shinhan Investment Corp.

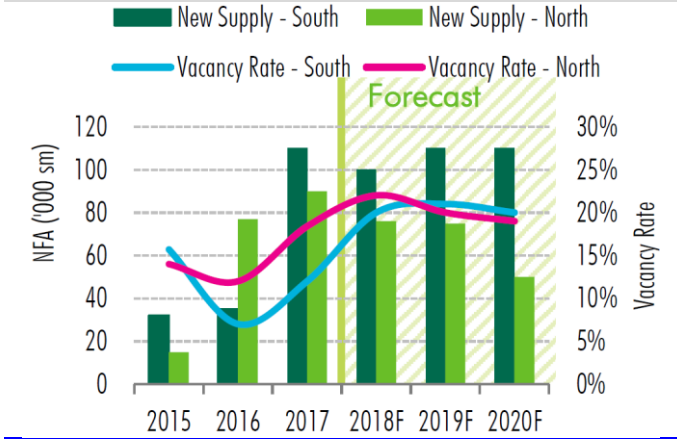
3) Warehouse supply and rental outlook

CBRE forecasts warehouse sector will improve significantly its operation performance in the next few years in both rental price and vacancy rate in Vietnam nationwide.

The Northern region is centralized around the capital, Hanoi, and the coastal provinces including Hai Phong. These are the most populated areas of the region, providing potential consumers and a labourmarket. Moreover, access to sea ports in the coastal provinces is crucial for industrial development. The Northern region is welcoming more interested foreign players in Industrial Park developments. In the Northern area, with the limited level of new supply, rents are expected to increase by 2.0% in 2018 and 1.5% in 2019 and 2020 while the vacancy rate is expected to decrease from 22% in 2018 to 19% in 2020.

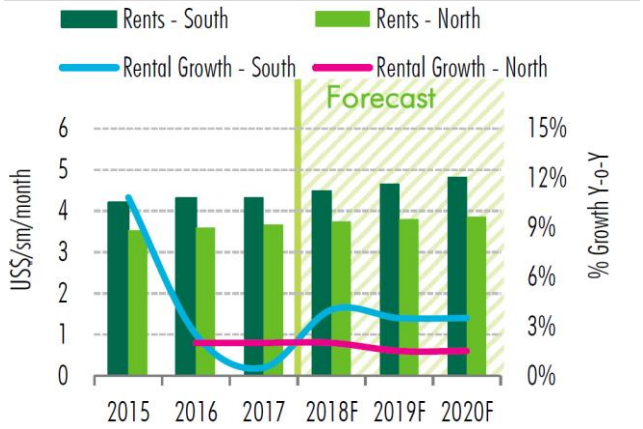
The Southern region is located in the area surrounding HCMC, which large port, both sea and inland as well as international airports and a system of well developed highway connecting other provinces. Thank to its strategic location closer to regional logistic hubs such as Hong Kong, the Southern region has long been the leading cluster industrial sector in Vietnam. In the Southern area, CBRE forecast the rental rate increase of 4% in 2018 and 3.5% in 2019 – 2020. This area is expected to achieve higher rental growth thanks to strong demand from retailers, 3PLs and manufacturers as well as supplies like Gemadept, Saigon Newport and Saigon Depot. In additional, the vacancy rate in area is estimated lower of 20% from 2018 to 2020.

New supply and Vacancy rate performance - grow stably



Source: CBRE & Shinhan Investment Corp.

Rental outlook – grow stably

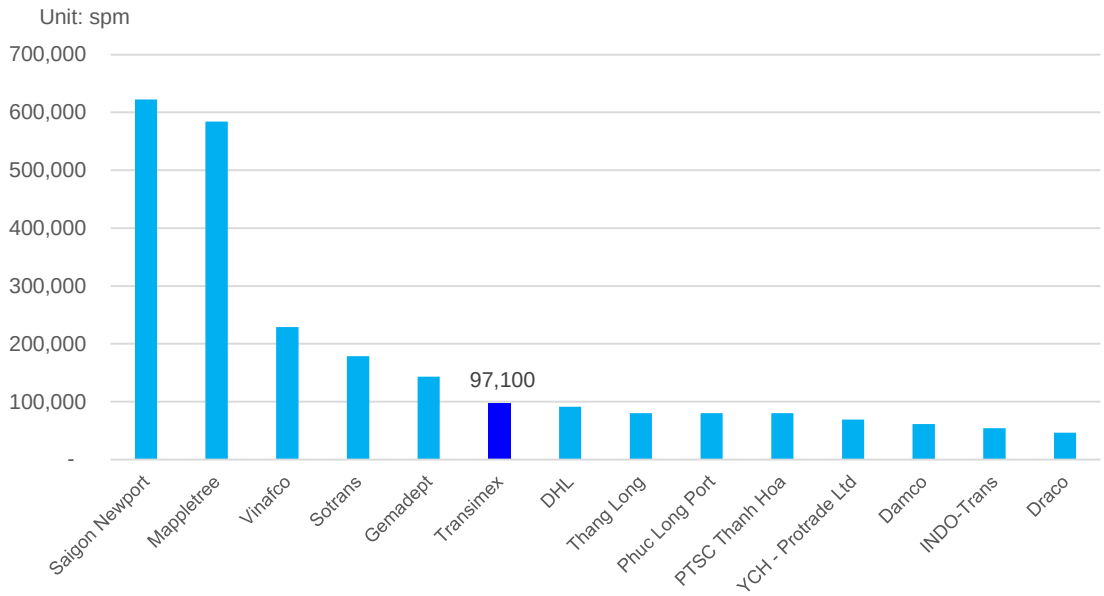


Source: CBRE & Shinhan Investment Corp.

4) Key players in warehouse industry

Foreign-owned companies such as Fedex, ITL, DHL, Damco have been playing as the key players in Vietnam warehousing market, followed by local private companies as Gemadept, Sotrans, Transimex or state-owned companies as Saigon New Port, Vinafco, Hai Phong Port. In generally, foreigned-owned suppliers' competitive advantages are value-added services provided with modern facilities and worldwide services, while domestic companies own prime location warehouse and offer lower cost.

Top key player in warehouse suppliers in Vietnam



Source: StoxPlus & Shinhan Investment Corp.