



E-Commerce Surges in Southeast Asia

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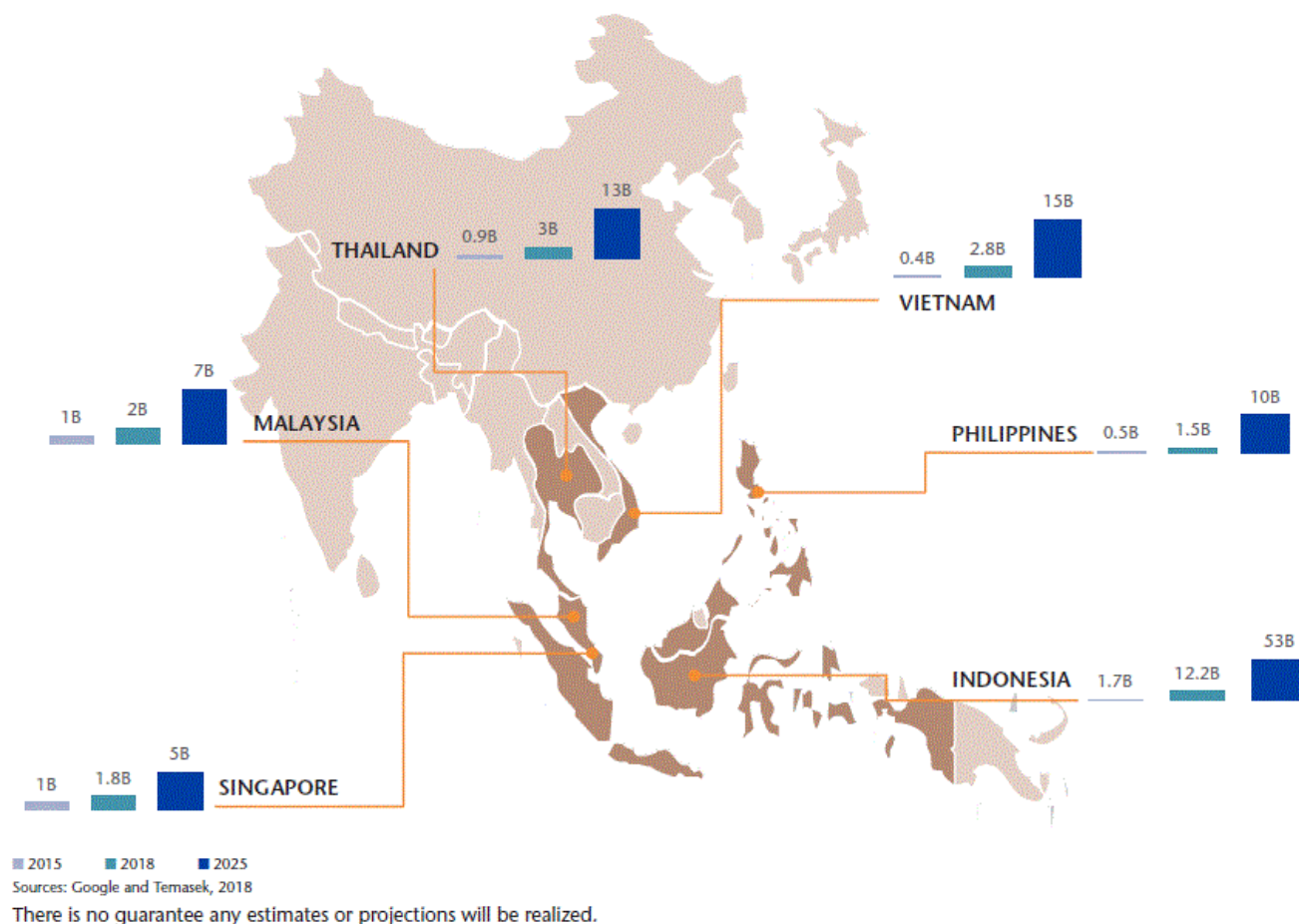
Present growth trends and adoption of e-commerce in Southeast Asia are reminiscent of the United States in 1997. In that year, a young American company called Amazon.com reported sales growth over 800%¹. Two decades on, Amazon's growth story has become well-known and e-commerce has become a significant part of the U.S. retail economy. In Southeast Asia, a collective market of over 650 million urbanizing and upwardly mobile people have seen many companies poised to prosper in the burgeoning e-commerce sector and many have set their sights to scale in Indonesia.

E-commerce was around 2% to 3% of total (retail) sales in Southeast Asia in 2018, compared to 10% in the U.S. and 20% in China². However, gross merchandise value in the region is expected to increase fourfold to US\$102 billion from US\$23 billion over the next seven years, according to a joint study by Google and Singapore's Temasek Holdings in November 2018. Growth is being driven by factors including improved logistics, the proliferation of payment facilities and higher incomes. Greater smartphone penetration is also having a profound impact amid the limited presence of retail stores in regional areas. Recent research by Hootsuite, a social media management platform, found that internet users in Southeast Asia spend over four hours per day on their mobile devices. By comparison, users in the U.K. and the U.S. spend around two hours per day. While e-commerce is experiencing rapid growth across Southeast Asia, Indonesia representing two out of every five people in the region, leads the way and accounts for more than \$1 of every \$2 spent.

Indonesia's Competitive Players

In Indonesia, structural economic developments have improved its digital and physical highways, facilitating internet transactions and their fulfilment. The cost of mobile data has collapsed by roughly 80% over the past five years, boosting online commerce. In a complementary development, Indonesia has seen its toll road network more than double in length over a similar period, allowing a better flow of goods across the country. These developments attracted large capital investments in the e-commerce sector. Indonesia's e-commerce has grown to 4.7% of total retail sales in 2018, up from 1.3% in 2014, according to CLSA and Euromonitor. During that period, offline retailers struggled and strong Indonesian retail franchises in 2017 reported their lowest sales growth in a decade. Share price performance of these retailers was weak as profitability stalled.

FIGURE 1. SOUTHEAST ASIA E-COMMERCE MARKET SIZE (GMV, US\$B)

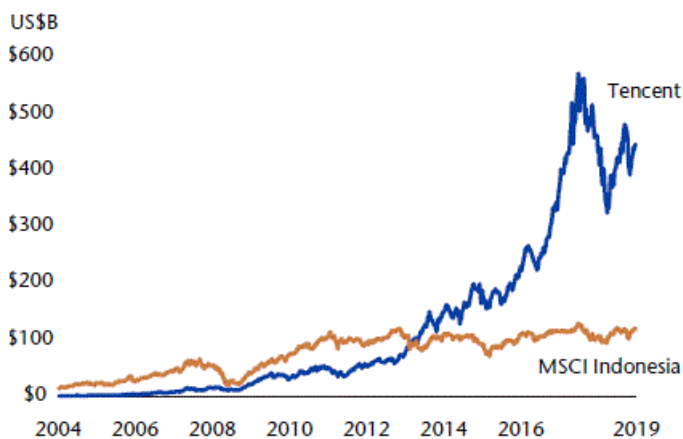


In this environment, a few unicorns (privately held startup companies valued at US\$1 billion or more) have emerged but profits are still elusive in this fiercely competitive market. This has been a product of well-funded leaders spending heavily as the market has shifted from the informal e-commerce channels on Facebook or Instagram—think influencers selling products on their pages—to formal e-commerce platforms, dominated by few startups, with business models broadly similar to Alibaba's Taobao in China. These companies cater to the millions of micro and small-to-midsize enterprise sellers across the country and each have their own advantage. Tokopedia's advantage is reach. It delivers to 93% of Indonesia³ and offers same day or one-day shipping for the majority of the products sold on the platform—no easy feat in a country spread across 17,000 islands. Shopee is the most popular and is favored for features such as in-app messaging and free-delivery promotions. Bukalapak enlists more than 400,000 kiosk owners to offer its range of services and turn them into gateways for online shopping, helping to tap areas of the retail market that are not yet on e-commerce platforms.

Market Attracts Funding

Indonesia's huge addressable market has attracted a disproportionate amount of funding into the online sector, accounting for more than two-thirds of the capital invested in Southeast Asia. In 2018, over US\$11 billion was invested into digital-related sectors, almost double the amount invested in 2017 and up from US\$462 million in 2013. Chinese tech giants, such as Tencent and Alibaba, have been major investors. Competitive pressures are likely to remain, fueling growth of the Indonesian marketplace at the expense of margins. This is an area, however, in which the deep-pocketed Chinese tech giants are likely and able to play the long game. Tencent's market capitalization as of July 24, 2019, for example, is almost four times that of the main Indonesian stock index!

FIGURE 2. MARKET CAP: TENCENT & INDONESIA (US\$B)



Sources: MSCI; Matthews Asia

What does this all mean for Indonesian stocks? In the past, Indonesia's equity market was held back in part by a narrower group of market participants. Only a handful of listed stocks have a market capitalization of over US\$5 billion and banks dominate the market. The ongoing addition of large e-commerce companies to the equity market affords access to the country's demographically-fueled growth story, encouraging greater investor participation and adding scale to the local stock market. The growth of e-commerce in Indonesia and in Southeast Asia presents interesting opportunities and we look forward to watching for the future market leaders.

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As of July 31, 2019, accounts managed by Matthews Asia portfolios held positions in Tencent Holdings Ltd. and Alibaba Group Holding Ltd. As of July 31, 2019, accounts managed by Matthews Asia did not hold positions in Amazon.com Inc.

The MSCI Indonesia Index is designed to measure the performance of the large and mid cap segments of the Indonesian market. With 27 constituents, the index covers about 85% of the Indonesian equity universe.

¹Source: Amazon SEC filings, 30 March 1998

²Source: KrASIA, 30 January 2019

³Business Wire, 11 December 2018

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