



### Wary of Chinese e-commerce

Kerry Logistics is taking a more measured approach in driving its expansion in China. While the market is potentially huge, it is wary of attempting to compete head-on with players targeting sectors such as e-commerce. While Chinese e-commerce platforms such as Taobao are growing fast, they are mostly associated with low-value, discounted products. And, they are served by logistics players that emphasise low costs. "Taobao is cut throat competition. We can't do that. They want cheaper storage, transport," Yeo says.

Rather than join the race to the bottom, Kerry Logistics is biding its time and preparing to serve the ranks of more sophisticated customers that will certainly emerge. "If you order a suit, you would want it to arrive looking like a suit and not looking crushed, so you just can't squeeze it into a box and send it to somebody. Or, if you are buying Wagyu beef, and you are paying a premium for it, how does it arrive at your doorstep or restaurant? As middle classes grow and needs become more complicated, more demanding, more exotic, logistics will have to match that," Yeo explains. "There will always be that segment at the bottom that competes on price. Kerry Logistics is not in that segment."

There are, of course, segments of the e-commerce market in China where Kerry Logistics is happy to participate in. For instance, some established brand name companies might choose to distribute their products via an online channel. "If in China today you order one of the branded mobile phones or a computer, we are likely to deliver it to you," Yeo says. The e-commerce sector currently accounts for less than 10% of Kerry Logistics' total revenue in China.

"If product differentiation leads that way, then you find Kerry Logistics moving to the last mile more and more," Yeo adds. "Before the last mile, from vendors to factories, from factories to consolidation centres, before the delivery man comes and takes it to your home, there is a lot of warehouse operation, and we do a lot of that."

Kerry Logistics recently completed logistics centres with total gross floor area of 1.5 million sq ft, located in Chongqing, Wuxi and Xiamen. It is also developing new logistics warehouses in Kunshan, Zhengzhou and Chengdu.

### Hunting for M&A deals

The next phase of growth for Kerry Logistics could be led by M&A deals, Yeo hints. "At any given time, we have M&A underway. Some are preliminary; some are in serious negotiations; some are being absorbed, some divisionalised. We acquire companies to build up our network strength," he says.

Kerry Logistics was listed in Hong Kong in December. Its shares are currently trading about 11% above its IPO price of HK\$10.20. For 2013, the company reported a 71% rise in earnings to HK\$1.83 billion (\$294.9 million), fuelled by revaluation and disposal gains on its warehouses. Excluding the non-recurring items, its core earnings were up 8.7% for the year to HK\$886.4 million.

CIMB is forecasting a 7.2% rise in earnings to HK\$950 million for 2014, and a further 14.9% rise to HK\$1.1 billion for 2015. Shares in the company are trading at 20.6 times and 17.7 times CIMB's forecast earnings for 2014 and 2015 respectively. The research house has a "buy" recommendation on the stock, with a price target of HK\$15.50. ■

# Rewind Networks bets big on 'linear' TV format

BY JOAN NG

Avi Himatsinghani has been in the television business for more than a decade, during which time he watched traditional television networks lose ground to companies such as Netflix, which streams content to viewers whenever they want. As the Internet increasingly becomes the carriage for TV content, the view in the market is that it is only a matter of time before just about all programmes are delivered on-demand, and viewers are freed of the so-called "linear" TV model of having to watch their favourite shows at fixed times of the day. Indeed, shares in Netflix have doubled in the past year, and now trade at 141 times earnings.

So, how has Himatsinghani chosen to position himself in this brave new world? He founded a company called Rewind Networks, which currently delivers reruns of hit TV shows to viewers via StarHub's pay-TV platform. This month, Rewind Networks' appropriately named HITS channel is showing TV classics such as *The Cosby Show*, *Cheers* and *Seinfeld*. The shows are repeated a few times each day at fixed hours to cater for different categories of viewers.

According to Himatsinghani, feedback from StarHub and anecdotal evidence from friends and business associates have "surprised even us", supporting his hunch that reports of the death of traditional pay-TV operators are greatly exaggerated. If he's right, it's not just his Rewind Networks that stands to benefit but also StarHub and Singapore Telecommunications. The two telcos have invested large sums of money in their pay-TV platforms, which they package with their broadband and mobile phone services. These bundled services have proven to be effective in helping the telcos hold on to their customers, and reduce their "churn" rates.

### OTT trend

Yet, Himatsinghani's strategy at Rewind Networks is plainly at odds with the way the whole TV industry is moving. Quite apart from the meteoric rise of Netflix's stock, even heavy-weight entertainment companies are quickly repositioning themselves in anticipation of changing TV viewing patterns.

Last month, for instance, US-based satellite TV company DISH Network Corp announced a deal with Walt Disney to carry the Disney Channel, ABC and ESPN online. This is the first time a content owner has allowed a pay-TV operator to sell its shows outside of a traditional subscription. On March 24, Disney also announced the acquisition of YouTube-based video supplier, Maker Studios, for US\$500 million (\$629 million) with an additional US\$450 million in performance-linked earn-out. And, in February, the company announced a Disney Movies Anywhere app, through which it will sell more than 400 Disney, Pixar and Marvel movies directly to consumers.

Other OTT players are piling on the on-demand entertainment bandwagon. Latest among them is e-retailer Amazon.com, which has launched its own Fire TV. The device streams video from providers such as Netflix as well as from its own on-demand video platform, Amazon Instant Video. More services are likely to appear. Players such as Netflix and Amazon are called OTT players, short for over-the-top, because their services are carried over an existing broadband network.



Himatsinghani: People have habits. On-demand satisfies one of them. Linear satisfies a desire to lean back and relax.

In a report late last year, Citigroup highlights that the barriers to entry for the TV business are falling. "Six decades ago, you needed to own scarce TV spectrum to broadcast TV signals to homes. Four decades ago, you needed vast sums of capital and franchise rights to pass every home with coaxial cable. Twenty-five years ago, you needed a direct-to-home or direct-broadcast satellite orbital slot and a geosynchronous satellite. Today, to sell video services, you need a web server," the bank says.

### Catering to the mass market

Himatsinghani does not doubt that broadcasting technology is advancing. However, he believes that the vast majority of TV viewers simply prefer to turn on their TV and watch whatever is on. "They want a simplified experience. People have habits. On-demand satisfies one of them. Linear satisfies a desire to lean back and relax." In fact, the Internet might actually be helping to fuel demand for linear programming of popular TV series, he adds. "Thanks to social media, people want to be the first to watch something together and share that experience. There's been a huge spike in viewership for premieres or the first episode of a new season."

So, Himatsinghani figures there is a significant market for the HITS channel to tap via the linear format of the traditional pay-TV platform. "I am a very big believer in linear. We talk about our well-developed world, and our friends and peers who have high broadband speeds. But in Indonesia, pay-TV penetration is less than 10%. There [is a market there] to take penetration higher. In Malaysia it is about 55% to 60%. In Thailand it is again under 10%. There is a lot of room for growth for pay-TV," he says.

Meanwhile, the economic proposition of 70 to 200 channels for a fixed fee that is not going to break the bank is one that is going to grow aggressively, Himatsinghani adds. "In most markets, it probably costs less than a family of four going out for a movie once a month and you get documentaries, breaking news, Hollywood content and ethnic content."

It is for this reason that Himatsinghani refuses to allow pay-TV operators to charge their subscribers a premium for HITS. "We call ourselves Asia's newest basic channel

service." On StarHub's platform, for instance, HITS is bundled as part of the basic Entertainment tier. In doing so, Himatsinghani says HITS helps to combat piracy. "We're making our content easily available." He also sees HITS as a channel that pay-TV operators can use to enhance the attractiveness of their offerings and fend off competition from new on-demand players.

### Content is costly

Among local viewers, there has recently been a backlash against pay-TV operators StarHub and SingTel for bundling too many channels. Some subscribers have been asking the two companies to unbundle channels and sell them on an à la carte basis.

However, Himatsinghani explains that the economics of the pay-TV industry would not support that. Today, content owners typically sell content in a bundle, not à la carte. They do this to spread out their costs. "Great creativity, great story telling costs money. And for every success, there are failures. Their business model is such that there are a lot of failures," Himatsinghani says. A subscription to a single, popular channel would likely cost too much for one consumer to afford.

Also, by bundling content, the pay-TV operators can spread their costs out over a larger audience, because different consumers are interested in different types of content at different times. While some subscribers may therefore end up subsidising the viewing of others in the short term, over the long run, all subscribers pay less.

Nevertheless, Himatsinghani knows that Rewind Networks cannot stand still. "If the eco-system continues to stay the way it is, then the world of broadband, the world of high Internet speeds, and the type of digital offerings that are out there, the multi-screens that are now available, these will all become disruptive forces," he says. To ensure that he is at the forefront of what technology can offer, he launched HITS Replay last month, a catch-up channel that is available online.

Himatsinghani also thinks that the local pay-TV industry can do a lot more to improve on what it offers to its subscribers. Meanwhile, he says, having HITS on offer is a good start. ■