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## 1QFY10 Results Review

# Freight Management Holdings

### Riding on Strong Currents

FMH's annualized 1QFY10 earnings came in slightly above ours and consensus by some 5%-6.7%, but we consider this much in-line as we expect margin pressure to lessen the earnings momentum ahead. Revenue was down by 10.4% y-o-y against the corresponding quarter due to the lower freight rates fetched despite the increase in volume of 2.8% y-o-y. Margins fetched during the quarter remained higher as the Group was still able to fetch favorable spreads from its sea freight shipments although this has somewhat reduced slightly compared to the previous quarter. With results much in line, we continue to maintain our earnings projections at this juncture but have increased our PE valuation multiple to 7x, thus increasing our TP to RM0.83 with our call downgraded to NEUTRAL given the run up in the share price.

**Business activities recovering.** FMH's revenue for the quarter came in lower by 10.4% y-o-y on the lower freight rates collected despite the overall increase in container volume handled by its sea-freight division which increased by 2.8% y-o-y. Overall, segmental performance was lower against the corresponding quarter in FY09 with the exception of its tug and barge business given the higher number of trips made with the addition of a new fleet of tugs and barges. Despite the lower revenue base y-o-y, on a q-o-q basis, FMH's overall volume improved against Q4FY09; reflecting a revenue increase of 9.3% on the back of a 10% increase in container handling volume for its sea-freight division. Higher activities from customs broking, warehousing, tugs and barges were also recorded.

**Earnings much in-line.** Earnings for 1Q (q-o-q: 9.3%, y-o-y: 13.3%) came in slightly above our estimates and consensus. EBITDA margins fetched remained favorable (Q1FY10: 12.2%, Q4FY09: 13.8%, Q1FY09: 9.9%) although it has somewhat reduced of late as freight rates paid to shipping liners inch higher. Margins fetched continue to remain higher on a y-o-y basis as FMH was still able to fetch a lucrative profit spread on the lower freight rates initially secured from shipping liners as most are still running at an under utilized capacity. Going forward, with the recovery in the economy gaining traction leading to a rise in freight rates, we expect its superior profit margins to diminish slowly.

**Downgrade to NEUTRAL.** We leave our earnings unchanged at this juncture as we expect margin pressure to tone down its earnings going forward. Valuation wise, we have upped our PE multiple to 7x (from 6.5x). This increases our TP to RM0.83 with our call downgraded to NEUTRAL (from BUY) given the run up in its share price. Going forward, management is looking to further expand its haulage division with the addition of 10 prime movers and 70 trailers and may also be looking into the possibility of expanding its tug and barge business to provide container shipments as well.

### NEUTRAL ◯

Target **RM0.830**  
Previous **RM0.770**  
Price **RM0.815**

#### LOGISTICS

Freight Management is an integrated logistics services provider

#### Stock Statistics

Bloomberg Ticker	FMH MK
Share Capital (m)	121.7
Market Cap (RMm)	99.2
52 week H L Price (RM)	0.90  0.53
3mth Avg Vol ('000)	267.5
YTD Returns	46.8
Beta (x)	0.70

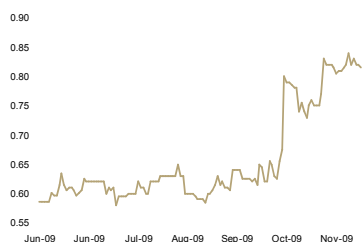
#### Major Shareholders (%)

Chew Chong Keat	27.85
Singapore Enterprise	20.00
Yang Heng Lam	18.45

#### Share Performance (%)

Month	Absolute	Relative
1m	10.8	8.8
3m	36.7	29.1
6m	51.2	13.0
12m	65.3	2.4

#### 6-month Share Price Performance



FYE Jun (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Turnover	222.0	229.4	261.1	299.1	336.3
Core Net Profit	12.2	13.6	14.4	16.0	17.5
% chg y-o-y	25.6	11.5	6.2	11.3	9.2
Consensus			14.7	16.3	17.5
EPS (sen)	10.0	11.1	11.8	13.2	14.4
DPS (sen)	4.5	4.5	5.0	5.0	5.0
Dividend Yield (%)	5.5	5.5	6.1	6.1	6.1
ROE (%)	16.3	16.2	15.4	15.2	14.8
ROA (%)	8.6	9.2	8.8	8.8	8.7
PER (x)	8.2	7.3	6.9	6.2	5.7
NTA Per Share	0.51	0.58	0.66	0.75	0.86
P/NTA (x)	1.6	1.4	1.2	1.1	1.0
EV/EBITDA (x)	5.4	4.2	4.0	3.6	3.2

**Results Table (RMm)**

FYE Jun	1Q10	4Q09	Q-o-Q chg	3M FY10	3M FY09	Y-o-Y chg	Comments
Revenue	58.8	53.8	9.3	58.8	65.6	-10.3	Slightly below; but we consider within as we expect revenue momentum to be higher on the much higher freight rates collected going forward. On a q-o-q and y-o-y basis, volume handled was higher. Sea freight volume grew by 2.8% and 10.1% y-o-y and q-o-q respectively
EBITDA	7.2	7.4	-3.3	7.2	6.5	10.9	Margins were better compared to the preceding year on the higher profit spreads fetched from freight rates charged. But this has somewhat reduced on a q-o-q basis as freight rates charged by shipping liners inch higher
EBIT	5.7	6.0	-4.6	5.7	5.1	10.8	
Net Interest Expense	-0.3	-0.3	9.6	-0.3	-0.3	-4.3	
Associates	0.0	0.0	-200.0	0.0	0.0	-550.0	
PBT	5.4	5.7	-5.0	5.4	4.8	12.1	
Tax	-1.1	-1.2	-10.0	-1.1	-1.1	0.5	
MI	-0.4	-0.4	8.2	-0.4	-0.3	40.1	
Net Profit	3.8	4.0	-4.8	3.8	3.4	13.3	Within estimates but slightly above consensus
EPS (sen)	3.2	3.3	-4.8	3.2	2.8	13.3	
DPS (sen)	0.0	2.5		0.0	0.0		
EBITDA	12.2	13.8	-1.6	12.2	9.9	2.3	
Margin (%)							
NTA/ Share (RM)	0.62	0.58		0.62	0.53		

**EARNINGS FORECAST**

<b>FYE Jun (RMm)</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10f</b>	<b>FY11f</b>	<b>FY12f</b>
Turnover	222.0	229.4	261.1	299.1	336.3
EBITDA	21.8	26.1	28.3	32.1	35.6
Depreciation	-3.9	-5.4	-6.0	-7.1	-7.9
Net Interest Income	-1.3	-1.3	-1.2	-1.4	-1.5
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0
PBT	16.5	19.3	21.1	23.7	26.2
Net Profit	12.2	13.6	14.4	16.0	17.5
EPS (sen)	10.0	11.1	11.8	13.2	14.4
DPS (sen)	4.5	4.5	5.0	5.0	5.0
<b>Margin</b>					
EBITDA	9.8	11.4	10.8	10.7	10.6
PBT	7.4	8.4	8.1	7.9	7.8
Net Profit	5.5	5.9	5.5	5.4	5.2
ROE	16.3	16.2	15.4	15.2	14.8
ROA	8.6	9.2	8.8	8.8	8.7
<b>Balance Sheet</b>					
Fixed Assets	72.6	85.6	95.0	105.0	113.5
Current Assets	68.1	62.5	69.7	77.2	88.4
Total Assets	140.7	148.1	164.6	182.2	201.9
Current Liabilities	36.3	30.6	35.1	38.7	42.3
Net Current Assets	31.8	31.9	34.6	38.5	46.1
LT Liabilities	24.0	25.3	24.8	24.3	23.8
Shareholders Funds	74.5	84.0	93.9	105.4	118.4
Net Gearing (%)	18.0	3.1	3.3	1.3	Net Cash

### OSK Research Guide to Investment Ratings

**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated (NR):** Stock is not within regular research coverage

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