

**RESULTS – 1QFY10**

30 Nov 2009

For period Jul-Sep 2009

Freight Management Holdings		Market Price:	RM0.815
		Market Capitalisation:	RM99.2m
		Board:	Main Board
		FBM Index:	Fledgling
Stock Code/Name:	7210/FREIGHT	Sector:	Trading/Services
Recommendation:	BUY		

Analyst: Edmund Tham

Key Stock Statistics	2011F
EPS (sen)	12.9
P/E (x)	6.3
Dividend/Share (sen)	4.7
NTA/Share (RM)	0.86
Book Value/Share (RM)	0.87
Issued Capital (mil shares)	121.7
52-weeks share price (RM)	0.53 – 0.895
Major Shareholders:	%
Chew Chong Keat	27.9
Singapore Enterprises Pte Ltd	20.0
Yang Heng Lam	18.5

Per Share Data	2008	2009	2010E	2011F
Book Value (RM)	0.61	0.69	0.78	0.87
Earnings (sen)	10.0	11.1	12.1	12.9
Dividend (sen)	4.5	4.5	4.6	4.7
Payout Ratio (%)	33.5	30.3	28.5	27.4
PER (x)	8.1	7.3	6.7	6.3
P/Book Value (x)	1.3	1.2	1.0	0.9
Dividend Yield (%)	5.5	5.5	5.6	5.8
ROE (%)	16.4	16.2	15.6	14.8
Net Gearing (cash) (x)	0.18	0.03	(0.04)	(0.10)

P&L Analysis (RM mil)	2008	2009	2010E	2011F
Year end: Jun 30				
Revenue	222.0	229.4	237.5	248.6
Operating Profit	18.2	20.9	22.4	24.0
Depreciation	(3.9)	(5.4)	(6.3)	(6.8)
Interest Expenses	(1.6)	(1.6)	(1.6)	(1.6)
Pre-tax Profit	16.5	19.3	20.8	22.4
Effective Tax Rate (%)	18.9	22.2	20.8	21.5
Net Profit	12.2	13.6	14.7	15.7
Operating Margin (%)	8.2	9.1	9.4	9.7
Pre-tax Margin (%)	7.5	8.4	8.8	9.0
Net Margin (%)	5.5	5.9	6.2	6.3

*50 sen par value

1Q/ 30 Sep	1Q10	1Q09	yoy %	4Q09	qoq%
Rev (RMm)	58.8	65.6	(10.3)	53.8	9.3
EBIT (RMm)	5.1	4.4	13.8	5.6	(10.4)
NPAT (RMm)	3.8	3.4	13.3	4.0	(4.8)
EPS (sen)	3.2	2.8	13.3	3.3	(4.8)

PERFORMANCE

The just-released Freight's (FMH) 1Q/FY10 results, revealed annualized steady revenues and profits that were well **within our earlier expectations** for full year FY10.

“Results in-line with expectations”

FMH's 1Q/FY10 revenue had declined by 10.3% y-o-y versus 1Q/FY09. With the exception of “Tug & Barge” and Haulage segments, the freight services of the group registered a slight y-o-y dip in revenue. This was expected as 1Q/FY09 was a strong quarter prior to the global financial crisis. The y-o-y decline in Seafreight revenue was mainly due to the drop in freight rates offered by the vendors.

Nevertheless, given that the group does not own or operate any vessels, the impact is minimal on its profitability. Seafreight volume (in TEU) for the quarter had actually grown by 2.8% y-o-y. Seafreight contributed 55.6% of FMH's 1Q/FY10 revenue (1Q/FY09: 58.8%). This drop in %-contribution was partly due to better performance from other segments.

FMH achieved profit before tax (PBT) of RM5.4 million in 1Q/FY10, an increase of 12.1% y-o-y. The group's net profit after tax and minority interests (NPATMI) was higher by 13.3% y-o-y. Group revenue during 1Q/FY10 had expanded by 9.3% compared to 4Q/FY09. The q-o-q growth in revenue was mostly derived from the Seafreight segment (+RM3.1 million), Airfreight (+RM0.6 million), Custom Brokerage (+RM1.0 million) and “Tug and Barge” (+RM0.4 million). The group's profit before tax (PBT) had registered a marginal decline of RM0.3 million or 4.8% q-o-q versus 4Q/FY09.

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OUTLOOK

The logistics sector in Malaysia had recorded lower volumes due to the **global economic crisis**, which had the most impact during the first half of the year 2009. Nevertheless, freight (sea and air) volumes are slowly recovering while freight rates appear to be stabilising and normalizing during the last reported quarter (3Q/2009). Normalizing of rates typically occurs during a stage of initial demand recovery and transport capacity reductions. During recent quarters, FMH's customers have been trading down from FCL (Full Container Load) charters to LCL ones instead. However, the better LCL volumes have recently been partially offset by normalizing market freight rates.

Looking at the **economic data** from various markets, it appears that many of the economies are bottoming out and some are already on the upswing to recovery. With the gradual recovery of Malaysia's IPI (Industrial Production Index) and Manufacturing Sales numbers in the coming quarters – this would augur well for FMH's freight volumes and hence FY10-FY11 results. The latest available Malaysian economic data (September versus August 2009) show that IPI (-6.0% vs. -7.0% y-o-y), and Manufacturing Sales (-20.4% vs. -20.5% y-o-y) figures are slowly recovering from their earlier lows.

“Improvement in Non-freight revenue streams”

Despite of the decrease in sea and air freight volumes during its FY09, FMH has done well by improving its income from its non-freight business segments. FMH's domestic and land transportation services segment (“Warehouse & Distribution”, Custom Brokerage and Haulage) which catered mainly to the domestic sector, registered a positive growth of about 12%. With its asset-light business strategy, FMH was not hit by huge idle capacities unlike shipping companies and cargo airlines.

We are expecting all of FMH's business segments to record better y-o-y revenue in FY11, except for the rail segment (which is affected by externalities). Meanwhile in FY10, we expect that FMH's Air Freight and “Warehouse & Distribution” segments may face weak revenue growth levels.

FMH is exploring various business opportunities for its “Tug & Barge” segment and is currently contemplating whether to add new capacity. FMH has also applied for more primer mover and container trailer permits to cater for its Haulage segment.

The group is expanding its domestic and cross-border (to Thailand) land transportation services. FMH's rather new Land Freight and Project Cargo business segments (which commenced in 2Q/FY09) are still small but already profitable.

“Regional expansion – on track”

FMH also expects a steady contribution from its rather new subsidiaries in Indonesia and Thailand. During 1Q/FY10, about 22.3% of FMH's revenue was derived from overseas i.e. Singapore, Australia, Thailand and Indonesia. FMH's management is also exploring JV opportunities in other **ASEAN countries**. FMH's low-entry-cost and asset light business model has proven to be successful in its maiden year in Indonesia.

To grow organically, FMH also continually seeks to expand its customer and agent base and to explore new destinations. Additionally, FMH has intensive marketing programmes to meet customers' demands and also continue to provide value-added services to them. FMH's management closely monitors its business volumes, receivables collection, industry trends and economic conditions. With a strong management team and a multimodal, asset-light, tight cost-control, operationally efficient and low-gearing business model, FMH seems well-set to coast through the current economic weakness. It also has sufficient cash reserves and flexibility to expand and to explore new JV and M&A opportunities.

FMH is committed towards good **corporate social responsibility** (CSR) practices in the community, workplace and environment. The company has contributed for the betterment of community (donations to the underprivileged), workplace (medical benefits, recognition awards, sports clubs, trips, training) and environment (pollution minimization, recycling, and energy savings).

VALUATION

During the recent times of economic weakness, FMH's business model has proven to be solid and resilient. We like FMH due to its business model, growth strategy, attractive value (low P/E and P/BV) and strong ROE.

Results Coverage

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We note that in recent years, FMH's management has committed to maintain a dividend payout ratio of around 30% of its net earnings, which can be considered attractive for a company within the logistics sector. We have forecasted for **slightly better dividends per share (DPS)** in FMH's FY10 and FY11. This would be in tandem with the steady earnings growth that we expect.

FMH's proposed final gross dividend of 2.5 sen per share less tax in respect of FY09 ended 30th June 2009 had just been approved by the shareholders at its Annual General Meeting (AGM) on 30th November 2009. The final dividend will be payable on 20th January 2010 to entitled shareholders that are in the Record of Depositors as at day-end of 31st December 2009.

“FMH – attractive value”

With a weak adjusted beta of 0.70 to the KLCI, FMH has outperformed the KLCI marginally (by +46.9% vs. +44.3% YTD). We believe that the recent uptrend in FMH's share price is due to both its strong fundamentals and the overall improved share market sentiment.

Based on our forecast of FMH's FY11 EPS and P/E of 8 times, we set a FY11-end target price (TP) of RM1.03, representing a 26.4% upside from its current market price. This TP reflects a P/BV of 1.18 times over its FY11F BV/share. Meanwhile, the average local transportation service sector P/E is 25.2 times and the average P/BV is 1.1 times. We believe that with FMH's solid fundamentals and steady earnings growth, there would be further share price upside. Hence we **reiterate our Buy Call** on FMH.

Freight: 6-month Share Price



Source: NextView

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