OSK maintains buy on FMH

Written by Financial Daily
Thursday, 03 September 2009 10:43 - Last Updated Thursday, 03 September 2009 10:44

OSK Research has maintained its buy call on Freight Management Holdings Bhd (FMH) but with a lower target price of 77 sen from 88 sen previously, as the strong earnings recorded this year are unlikely to be sustained.

“While we expect the group to see positive growth for next year, we are concerned that the stellar margins achieved in the financial year ended June 30, 2009 (FY09) are unlikely to be repeated as market freight rates normalise on recovering demand,” the research house said in a report yesterday.

FMH reported revenue and earnings of RM229.4 million and RM11.14 million respectively in FY09, which was in line with analysts’ estimates and consensus. The addition of its new haulage, land freight and project cargo business led to vast improvements in gross profit margins.

Gross profit margins for the full year improved to 24.1%, which was much better compared with 22.1% and 21.23% in FY07 and FY08, while bottom-line earnings for FY09 are being sustained at a double-digit of 11.5% year-on-year.

Correspondingly, revenue for the integrated logistic services provider during the 12-month period registered a growth of 3.3% year-on-year amid the economic downturn.

Freight Management Holdings Bhd

FYE June (RM m)	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
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 (%)	7.6	7.6	8.5	8.5	8.5
ROE (%)	16.3	16.2	15.4	15.2	14.8
ROA (%)	8.6	9.2	8.8	8.8	8.7
PER (x)	5.9	5.3	5.0	4.5	4.1
P/NTA (x)	1.2	1.0	0.9	0.8	0.7
EV/EBITDA (x)	4.2	3.2	3.0	2.7	2.4

Source: OSK Research

“Despite the difficult period during which rates in the freight market shrank sharply by 60%-70%, FMH was able to fetch a higher profit spread in its sea freight business, which boosted its overall bottom-line margins amid a contracting revenue base in the second half,” said the research house.

With its diversified customer base and aggressive sales efforts, FMH recorded higher margins, given the steep reduction in market freight rates. Strong performance was boosted by the 20.8% jump in sea freight revenue from the previous quarter, as volume surged 40% on higher TEU shipments.

Across the broad, all its segments saw a pick-up in business on the back of higher volume except for its tug and barge unit, which was hit by lower shipments made by clients and the influx of tugs and barges from the Middle East venturing to local shores, given the slowing economy there.

“The high spread in earnings from sea freight is unlikely to be repeated this year, given that market rates adjust to improving demand. As such, we have scaled down our profitability assumptions, which effectively see our earnings estimates cut by 10%-16% for FY10-FY11, said OSK Research.

This article appeared in The Edge Financial Daily, September 3, 2009.