RESULTS – 2QFY10

25 Feb 2010

For period Oct-Dec 2009

Freight Management Holdings		***Market Price:***	*RM0.685*
		Market Capitalisation:	*RM83.4m*
		Board:	*Main Board*
Stock Code/Name:	*7210/FREIGHT*	***FBM Index:***	*Fledgling*
Recommendation:	*BUY*	***Sector:***	*Trading/Services*

Analyst: *Edmund Tham*

Key Stock Statistics	**2011F**
EPS (sen)	14.0
P/E (x)	4.8
Dividend/Share (sen)	4.7
NTA/Share (RM)	0.87
Book Value/Share (RM)	0.89
Issued Capital (mil shares)	121.7
52- weeks share price (RM)	0.55 – 0.895
Major Shareholders:	%
Chew Chong Keat	27.9
Singapore Enterprises Pte Ltd	20.0
Yang Heng Lam	18.5

2Q/ 31 Dec	**2Q10**	**2Q09**	**yoy %**	**1Q10**	**qoq%**
Rev (RMm)	65.6	60.3	8.7	58.8	11.6
EBIT (RMm)	5.4	4.4	20.9	5.1	6.3
NPAT (RMm)	4.2	3.3	26.5	3.8	9.6
EPS (sen)	3.5	2.7	26.5	3.2	9.6

6M/ 31 Dec	**6M10**	**6M09**	**yoy %**
Rev (RMm)	124.4	125.9	(1.2)
EBIT (RMm)	10.4	8.9	17.3
NPAT (RMm)	8.1	6.7	19.8
EPS (sen)	6.6	5.5	19.8

Per Share Data	**2008**	**2009**	**2010E**	**2011F**
Book Value (RM)	0.61	0.69	0.78	0.89
Earnings (sen)	10.0	11.1	12.7	14.0
Dividend (sen)	4.5	4.5	4.6	4.7
Payout Ratio (%)	33.5	30.3	27.2	25.2
PER (x)	6.7	6.0	5.3	4.8
P/Book Value (x)	1.1	1.0	0.9	0.8
Dividend Yield (%)	6.7	6.7	6.9	7.0
ROE (%)	16.4	16.2	16.2	15.8
Net Gearing (cash) (x)	0.18	0.03	0.01	(0.07)

P&L Analysis (RM mil)	**2008**	**2009**	**2010E**	**2011F**
Year end: Jun 30				
Revenue	222.0	229.4	241.3	256.1
Operating Profit	18.2	20.9	22.2	24.8
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	20.7	23.2
Effective Tax Rate (%)	18.9	22.2	17.6	19.6
Net Profit	12.2	13.6	15.4	17.0
Operating Margin (%)	8.2	9.1	9.2	9.7
Pre-tax Margin (%)	7.5	8.4	8.6	9.1
Net Margin (%)	5.5	5.9	6.4	6.6

**50 sen par value*

PERFORMANCE

The just-released Freight's (FMH) 1H/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 2Q/FY10 revenue had grown by 8.7% y-o-y. Compared with 2Q/FY09, all of FMH's business segments registered growth in 2Q/FY10 with the exception of the Railfreight and "Warehouse & Distribution" services segments.

There had not been much improvement in demand for Railfreight services following the problem of train delay due to locomotive shortage. The group however is allocating resources and efforts to develop this service as it is still deemed as a niche service segment for the group. The marginal drop in revenue for Warehouse & Distribution was due to slower demand for warehouse activity during the period and is expected to pick up again in the coming quarters. The increase in demand for both import and export freight services augurs well for FMH's revenues.

The group had achieved profit before tax (PBT) of RM5.4 million in 2Q/FY10, an increase of 19.7% from RM4.5 million in 2Q/FY09. The better PBT was due to the higher revenue and improved gross profit margins.

The group had reported a marginal improvement in its 2Q/FY10 results as compared to the immediate preceding 1Q/FY10. FMH's 2Q/FY10 earnings before interest and tax (EBIT) had improved by 6.3% q-o-q whereas its net profit after tax and minority interest had increased by 9.6% q-o-q.

OUTLOOK/CORP. UPDATES

The logistics sector in Malaysian 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 on the uptrend during the last reported quarter (4Q/2009). FMH's margins were slightly impacted by the increase in freight rates but this was offset by the strong freight volumes.

"Recovery stage"

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 (December 2009) show that IPI (+8.9 y-o-y), and Manufacturing Sales (+16.2% y-o-y) figures are recovering from their earlier lows.

"Regional expansion – on track"

FMH is getting a steady contribution from its rather new subsidiaries in Indonesia and Thailand. During 1H/FY10, about 21.2% 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 grow steadily through the current stage of economic recovery. It also has sufficient capabilities, 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.

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. If FMH sticks to the 30% dividend payout norm, the resultant DPS and dividend yield would be even higher.

With a weak adjusted beta of 0.67 to the KLCI, FMH has underperformed the KLCI (by -16.8% vs. +0.09% YTD). We believe that the recent weakness in FMH's share price is partly due to the overall share market sentiment despite of FMH's strong fundamentals.

"FMH: Substantially undervalued"

Based on our forecast of FMH's FY11 EPS and conservative P/E of 7 times, we set a FY11-end target price (TP) of RM0.98, representing a huge 45.9% upside from its current market price. This TP reflects a P/BV of 1.1 times over its FY11F BV/share. Meanwhile, the average local transportation service sector P/E is 10.1 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