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**BUY**

**Target** RM0.950  
**Previous Price** RM0.830  
**Price** RM0.685

**LOGISTICS**

Freight Management is an integrated logistics provider

**Stock Statistics**

Bloomberg Ticker	FMH MK
Share Capital (m)	121.7
Market Cap (RMm)	83.4
52 week H L Price (RM)	0.90   0.55
3mth Avg Vol ('000)	78.8
YTD Returns	-14.9
Beta (x)	0.67

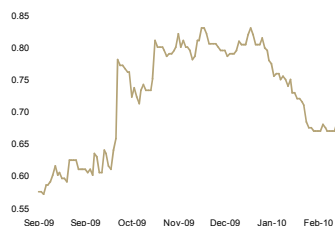
**Major Shareholders (%)**

Chew Chong Keat	44.19
Singapore Enterprise	16.26
Yang Heng Lam	5.74

**Share Performance (%)**

Month	Absolute	Relative
1m	-6.2	-6.5
3m	-13.4	-16.5
6m	19.7	6.2
12m	26.8	-16.2

**6-month Share Price Performance**



**1HFY10 Results Review**

**Freight Management Holdings**

**Sailing the High Seas**

While FMH's 1HFY10 revenue were very much in line our and consensus estimates, its annualized bottom-line exceeded ours and consensus by 13% and 10% respectively. We expect FMH to again post double digit gains at 17.6% y-o-y growth for 2010 in view of the better than expected profit spread for sea-freight and higher margins at its customs brokerage division amid a pick-up in freight volume that exceeded our forecast by 6% when annualized. With our earnings raised by 11% for FY10 and 7%-8% for FY11-12, we upgrade FMH to a BUY at a TP of RM0.95, premised on 7x PE on its 12M EPS.

**Better spreads.** FMH's 2QFY10 revenue and earnings grew 11.6% and 9.6% q-o-q respectively (y-o-y: 8.7% and 26.5%, YTD: -1% and 20%) on the back of an increase in sea-freight volume amid a pick-up in demand as the overall economic landscape improves. Save for land freight trucks to Thailand, volume across all its other segments posted positive growth q-o-q. What surprised us was the better-than-expected spreads fetched as the shipment rates booked were lower than we had expected because many liners had still had excess capacity in their ships. Its new haulage division made significant improvement with a 41% y-o-y jump in revenue as more prime movers are deployed and its geographical coverage extended. The improvement across all its divisions boosted overall EBITDA margin from 12.2% in 1Q to 13.8%. The better-than-expected profit was also attributed to the lower effective tax rate on reinvestment allowance received for the purchase of its prime movers. FMH still has 10 more prime movers to purchase and a tug that it was previously chartering.

**Solid balance sheet.** FMH's balance sheet remains strong although its net gearing increased slightly to 7% from 6% due to the restructuring of its loans for its re-investment allowance application. Nonetheless, we expect the company to be in a net cash position by year-end. We like FMH's strong cash flow, which has been growing steadily over the years. On anticipation of its strong cash position, we expect the company to reward investors with a higher payout ratio of 42% in FY10 (40% for FY09), which gives a gross dividend yield of 8%.

**Venturing into distribution?** Going forward, Management is considering the possibility of venturing into the distribution of pharmaceutical products to hospitals and clinics. No firm decision has been made on the venture but we concur with Management that the expansion into the distribution of pharmaceutical products would be a good diversification in that it should be able to sustain relatively stable growth due to the defensiveness of the healthcare industry.

FYE Jun (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Turnover	222.0	229.4	259.0	296.5	333.0
Core Net Profit	12.2	13.6	16.0	17.2	18.9
% chg y-o-y	25.6	11.5	17.6	7.6	10.1
Consensus			14.7	16.3	17.5
EPS (sen)	10.0	11.1	13.1	14.1	15.5
DPS (sen)	4.5	4.5	5.5	6.0	6.0
Dividend Yield (%)	6.6	6.6	8.0	8.8	8.8
ROE (%)	16.3	16.2	16.8	16.1	15.7
ROA (%)	8.6	9.2	9.6	9.5	9.5
PER (x)	6.9	6.1	5.2	4.9	4.4
NTA Per Share (RM)	0.51	0.58	0.67	0.77	0.88
P/NTA (x)	1.4	1.2	1.0	0.9	0.8
EV/EBITDA (x)	4.7	3.6	3.1	2.6	2.1

**Results Table (RMm)**

FYE Jun	2Q10	1Q10	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Revenue	65.6	58.8	11.6	124.4	125.9	-1.2	In line. Higher q-o-q revenue due to the pick-up in volume and higher freight rates fetched. YTD numbers were lower due to the drop in rail and warehousing revenue.
EBITDA	9.0	7.2	26.1	16.2	12.6	28.2	Improvement in both q-o-q and y-o-y EBITDA attributed to the lower than expected freight rates fetched and higher margins from customs broking. Customs broking cost is essentially fixed, and due to the pick-up in jobs, margins improved.
EBIT	6.0	5.7	6.0	11.7	10.0	17.0	
Net Interest Expense	-0.6	-0.3	99.4	-0.9	-0.7	34.8	Higher interest expense due to the loan restructuring from HP to a term loan in order to take advantage of ILS2 and MSC tax incentives.
Associates	0.0	0.0	255.6	0.0	0.0	51.9	Associates posted a huge jump in net profit. But overall contribution is rather minimal to the Group's bottom-line.
PBT	5.4	5.4	1.1	10.8	9.3	15.8	
Tax	-0.8	-1.1	-26.2	-1.9	-2.2	-13.7	Lower than expected effective tax rate on investment allowance incentives (ILS2 and MSC). We expect this to continue over the next 3 years.
MI	-0.4	-0.4	-5.9	-0.8	-0.4	110.9	
Net Profit	4.2	3.8	9.6	8.1	6.7	19.8	Better than expected net profit. Exceeding 13% and 10% of our and consensus forecast respectively. We have upped our earnings by 11% for FY10.
EPS (sen)	3.5	3.2	9.6	6.6	5.5	19.8	
DPS (sen)	0.0	0.0		0.0	0.0		
EBITDA Margin (%)	13.8	12.2	1.6	13.0	10.0	3.0	Margin improved on the better profit spreads fetched.
NTA/ Share (RM)	0.65	0.62		0.65	0.56		

**VALUATION & RECOMMENDATION**

**Upgrade to BUY.** We upgrade our earnings forecast by 11% for FY10 and 7-8% for FY11-12 on the back of the better profit spreads from its sea-freight division and on factoring in the lower effective tax rate, which we have trimmed from 23% to 18% as per management guidance. We like FMH's defensive earnings and the fact that it has done relatively well despite the previously ailing economy, chalking up earnings growth of 11.5% last year. Freight can earn lucrative margins during bad times on the higher profit spreads from container shipments with its volume cushioned by a strong clientele network and its shipment exposure predominantly centered on the Asian region. As FMH has retraced by some 16% since our downgrade to NEUTRAL, and given the 39% upside potential together with its attractive dividend yield of 8%, we are upgrading the stock to BUY, pegging our 12M rolling EPS at its mid-cycle valuation of 7x PE.

FYE Jun (RMm)	FY08	FY09	FY10f	FY11f	FY12f	FYE Jun (RMm)	FY08	FY09	FY10f	FY11f	FY12f
<b>Volume</b>						<b>Balance Sheet (RM'm)</b>					
Sea Freight (TEU)	54,488	54,688	61,797	71,067	80,306	PPE	59.4	71.8	74.1	73.8	73.5
Rail Freight (TEU)	14,983	9,840	7,000	6,500	5,500	Prepaid	11.3	11.8	11.7	11.5	11.4
Air Freight (kg '000)	5,129	4,616	4,985	5,484	6,197	Others	1.9	2.0	2.0	2.1	2.2
Land Freight	0	546	800	872	968	Total Fixed Assets	72.6	85.6	87.8	87.5	87.1
<b>Income Statement (RM'm)</b>						Receivables	43.1	34.8	44.0	50.4	56.6
Revenue	222.0	229.4	259.0	296.5	333.0	Others	6.7	0.5	0.5	0.6	0.6
EBITDA	21.8	26.1	29.4	31.7	34.8	Cash	18.4	27.3	33.4	42.4	55.3
Amortization	-0.1	-0.1	-0.1	-0.1	-0.1	Total Current Assets	68.1	62.5	77.9	93.4	112.5
Depreciation	-3.7	-5.3	-6.3	-6.8	-7.0	Total Assets	140.7	148.1	165.7	180.8	199.6
EBIT	17.9	20.6	23.0	24.7	27.7	LT Borrowings	21.0	21.7	23.2	22.2	21.2
Finance Cost	-1.6	-1.6	-2.1	-2.1	-2.1	Others	3.0	3.6	3.6	3.6	3.6
Interest Income	0.2	0.3	0.5	0.7	0.8	Total LT Liabilities	24.0	25.3	26.8	25.8	24.8
Associate	0.0	0.0	0.1	0.1	0.1	Payables	23.1	20.1	22.1	25.2	28.4
EI	0.0	0.0	0.0	0.0	0.0	ST Borrowings	10.8	8.2	8.5	6.8	6.7
PBT	16.5	19.3	21.5	23.3	26.5	Others	2.4	2.3	2.8	2.8	2.8
Taxation	-3.1	-4.3	-3.9	-4.2	-5.3	Total ST Liabilities	36.3	30.6	33.4	34.9	37.9
MI	-1.2	-1.5	-1.7	-2.0	-2.3	Total Liabilities	60.3	55.9	60.2	60.7	62.7
Net Profit	12.2	13.6	16.0	17.2	18.9	Total Shareholder's Equity	80.4	92.2	105.5	120.2	136.9
Core Net Profit	12.2	13.6	16.0	17.2	18.9	<b>Cash Flow (RM'm)</b>					
<b>Margin (%)</b>						PBT	16.5	19.3	21.5	23.3	26.5
EBITDA	9.8	11.4	11.4	10.7	10.4	Non Cash items	4.4	6.9	7.7	8.3	8.3
EBIT	8.1	9.0	8.9	8.3	8.3	Net Chg in Working Capital	-4.8	6.6	-7.2	-3.2	-3.0
PBT	7.4	8.4	8.3	7.9	7.9	Others	-3.1	-3.0	-3.9	-4.0	-4.8
Net Profit	5.5	5.9	6.2	5.8	5.7	CF from Operations	13.1	29.8	18.1	24.5	26.9
Core Net Profit	5.5	5.9	6.2	5.8	5.7	Net Capex	-4.7	-3.1	-9.3	-6.2	-6.1
Effective Tax Rate (%)	18.9	22.2	18.0	18.0	20.0	Others	-0.4	1.0	0.3	0.6	1.0
<b>Y-o-Y % change</b>						CF from Investing	-5.1	-2.1	-9.0	-5.6	-5.1
Revenue	18.0	3.3	12.9	14.5	12.3	Dividends Paid	-3.2	-4.1	-4.6	-5.0	-5.5
EBITDA	24.4	19.8	12.9	7.8	9.8	Net Change in Borrowings	-1.8	-12.5	0.0	-4.6	-3.0
EBIT	22.1	15.3	11.6	7.5	11.8	CF From Financing	-5.0	-16.6	-4.6	-9.6	-8.5
PBT	20.6	17.0	11.4	8.4	13.4	Net Cash Inflow (Outflow)	2.9	11.2	4.6	9.3	13.3
Net Profit	25.6	11.5	17.6	7.6	10.1	Beg Cash	8.9	11.9	23.0	27.6	36.8
Core Net Profit	25.6	11.5	17.6	7.6	10.1	Ending Cash	11.8	23.0	27.6	36.8	50.1
<b>Per Share Data</b>						Other Restricted Cash	6.6	4.3	5.8	5.5	5.2
Sales / Share (RM)	1.82	1.88	2.13	2.44	2.74	Total Cash in Balance Sheet	18.4	27.3	33.4	42.4	55.3
Core EPS (sen)	10.00	11.14	13.11	14.11	15.53	FCFF	9.5	27.9	10.4	19.9	22.3
BV/ Share (RM)	0.61	0.69	0.78	0.88	0.99	FCFE	6.6	14.2	8.8	13.7	17.8
NTA/ Share (RM)	0.51	0.58	0.67	0.77	0.88	Net Cash / (Net Debt)	-13.4	-2.6	1.7	13.4	27.4
Dividend/ Share (sen)	4.5	4.5	5.5	6.0	6.0	<b>Other Ratios</b>					
FCFF/ Share (sen)	7.84	22.90	8.52	16.31	18.36	Cash Conversion Cycle (days)	20.3	16.7	22.0	22.0	22.0
FCFE/ Share (sen)	5.40	11.66	7.25	11.25	14.60	ROE (%)	16.3	16.2	16.8	16.1	15.7
<b>Valuations</b>						ROA (%)	8.6	9.2	9.6	9.5	9.5
P/ Sales (x)	0.38	0.36	0.32	0.28	0.25	Net Gearing	18.0	3.1	Net	Net	Net
P/ Earnings (x)	6.85	6.15	5.23	4.85	4.41	Cash			Cash	Cash	Cash
P/ Book (x)	1.12	0.99	0.88	0.78	0.69	Interest Coverage	11.3	12.8	11.2	11.6	13.1
P/ NTA (x)	1.36	1.18	1.02	0.89	0.78	Dividend Payout Ratio	45.0	40.4	42.0	42.5	38.6
Dividend Yield (%)	6.57	6.57	8.03	8.76	8.76						
P/ FCFF	8.74	2.99	8.04	4.20	3.73						
P/ FCFF	12.68	5.88	9.45	6.09	4.69						

**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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